

VAS (SJSC) "Latvijas dzelzceļš"

# SUSTAINABILITY AND ANNUAL REPORT **2017**

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## EDVĪNS BĒRZIŅŠ

Chairman of the Board and President  
of VAS (SJSC) "Latvijas dzelzceļš"

Considering the essential role of transport and logistics industry in the national economy of Latvia, as well as the socioeconomic influence of VAS "Latvijas dzelzceļš" (hereinafter referred to as - LDz, Latvijas dzelzceļš, company), for the last years, the company has purposefully worked to improve the culture of social responsibility and sustainable thinking, to perfect the management processes and to make them more efficient, as well as to establish balanced cooperation with the stakeholders.

In 2017, the first sustainability report was published that was drawn up according to the internationally recognised Global Reporting Initiative (GRI) G4 guidelines. It was a significant step to demonstrate our understanding of values of sustainable operation for the community of Latvia and internationally. Furthermore, it is significant that LDz was the first company of this industry in the Baltic States that commenced implementation of such a non-financial reporting practice. We hope that other companies will also implement such a practice.

A lot of progress has been achieved in 2017, LDz and the Group companies managed by LDz have started the process of changes that will deliver results in the coming years, however, these changes in the area of strategic management and company's corporate governance, human resources, technological development, and international partnerships are based

on the fundamental principles of sustainable development.

Sustainability Report of LDz outlines majority of this process and provides opportunity to become familiar with the information, which characterises the company in a more detailed manner than the performance results.

Looking back to 2017 both in the local and international market, LDz and entire Latvian transport and logistics industry continued to face challenges and aggravation of competition on the international level. However, despite those challenges, a great deal of work has been contributed this year to improve step by step the company's international recognisability, to strengthen positions in the international arena, as well as to promote opportunities for the industry development in Latvia.

Last summer, LDz and the largest ports of Latvia represented transport and logistics industry of our country at the international trade fair "EXPO Astana 2017" in Kazakhstan. It was not only participation in a remarkable international trade fair along with the leaders of the global economics, the trade fair meant also an opportunity to establish new contacts with potential cooperation partners. It led also to a practical result - on 16 October, the first container train running on the route Urumchi-Altinkola-Riga-Rotterdam was welcomed



in Riga. Organisation of this train can be certainly mentioned as a practical result of the negotiations with the cooperation partners at Kazakhstan railway and its group companies held during the trade fair.

Whereas, from the viewpoint of the environmental technologies, "EXPO Astana 2017", we introduced our guests with the developed prototype of the hydrogen locomotive and the potential of this solution that drew attention of the attendants of the trade fair, including industry professionals.

The fact of identification of LDz in the international market and marking of its routes in the global transit map is confirmed by the cooperation contract concluded with one of the globally most influential logistics companies, "DHL Global Forwarding". Thus, LDz became one of the company's partners by participating in the achievement of globally set objective – to reach the volume of one million containers in the freight traffic from China to Europe before 2020. Along with the development of the Chinese market, in 2017, LDz actively participated by establishing new contacts in India and Iran.

Development of cooperation with far countries requires very close relations with the nearest neighbours. We continue cooperation both with Russian and Belarusian colleagues on daily basis. For the purposes of strengthening relations and establishment of new cooperation, we opened permanent representation of LDz in Minsk in January 2017. It was a strategically important step related not only with the development of the current partnerships, but also with the fact that the development of the industrial park "The Great Stone" established jointly by Belarus and China is in progress in the vicinity of Minsk. Implementation of this project is in the interests of both LDz, and the state of Latvia, because provision of freight traffic stimulates growth of national economy. To provide predictability in organisation of carriage, agreement on the establishment of freight express train "Minsk-Riga" between LDz and Belarusian railway was concluded in October.

Provision of competitive carriage solutions and infrastructure are preconditions for further international development. This will be promoted in the long term by the electrification of the Latvian railway network providing essential competitive advantages for the organisation of large volume freight traffic. In January 2017, the Cabinet of Ministers accepted the proposal of the Ministry of Transport and LDz to electrify the railway line between Daugavpils and Rēzekne towards direction of Riga in the first stage of the project. Calculations made by the experts showed that the project will have a positive impact not only after its completion, when organisation of carriage using electric traction will be cheaper than the existing diesel traction but also that it will promote development of local economics in the course of implementation of the project by expanding indirect impact of railway industry on the national economy of Latvia.

Railway has already become the most environmentally-friendly mode of transport, but, after completion of the electrification, environmental impact will further decrease, and harmful emissions and risks of pollution related to diesel traction will be minimised.

Although indirectly, LDz is related to one of the most extensive cooperation projects among the Baltic States – establishment of the railway line "Rail Baltica", and LDz may play an important role in the development of Latvia as a regional logistics centre of excellence. LDz is treating this project with hope, since it will provide opportunity to establish connection of two various gauges in Latvia, thus enabling handling of higher freight volume from various regions of the world, as well as establishment of efficient cooperation with the partners in Western Europe.

Implementation of large projects and provision of daily operation are opportunities only due to the company's employees who are the main value of LDz. Taking into account, how complicated the year 2017 was, we would like to thank all employees of the company and



the Group companies that have not only understood the situation, but also have actively engaged in the development of new solutions - by participating in the development of the company's strategic positioning in future and by establishing initiatives related thereto, and also by participating in the daily improvements using "LDz bank of ideas".

LDz is a Latvian company, and we are especially proud of the word "Latvia" in our name, at the same time feeling highly responsible. Although the company's growth and development is based on successful international cooperation, we believe, that internal market must be developed, too; we paid special attention thereto in 2017, and results are obvious in the data of the Annual Report. The amount of domestic carriage has grown by 10% in a year. Close cooperation was established with grain companies, for the needs of which a special seasonal arched-type route was established for the transportation of grain cargoes from Zemgale to the port of Riga. Thus, through the cooperation among the industry companies, freight operators and ports, we ascertained that internal market contains still unused

potential, which is worth to be developed in future.

In the long term, we see opportunities for the development of domestic passenger transport in cooperation with the AS "Pasažieru vilciens" providing opportunity to use railway infrastructure for the planning of effective social mobility.

Returning to the sustainability and governance - we are satisfied that, despite the industry challenges and complications, experts have recognised the performance of LDz in 2017. According to the annual list of the most valuable companies of Latvia, compiled by "Prudentia" and "NASDAQ Rīga", the value of LDz has grown 3.8 times since 2007, and the company has been recognised as the fourth most valuable company in Latvia. We have received a golden category evaluation in the Sustainability Index, and our subsidiaries SIA (LLC) "LDz Cargo" and SIA "LDz Ritošā sastāva serviss" - silver and bronze awards. This evaluation provides confidence that, in the long term, we will be able to overcome any short-term challenges.

**“ Experience of 2017 shows - we must have courage to head for the achievement of new and ambitions goals. We are working in the industry, where we ascertain on daily basis that nothing is too far either geographically or in terms of development, and we will dedicate this year for new strategical initiatives and works, which are to approve it. In 2018, everyone will be able to ascertain that “Latvijas dzelzceļš” is changing by implementing step by step improvements in the daily processes and, at the same time - setting new and far-reaching goals to achieve excellence in the area of logistics, technological development, industry education and other.**



LDZ-1



## AIVARS STRAKŠAS

Chairman of the Board and Vice-President  
of VAS "Latvijas dzelzceļš"

2017 was a complicated year for the industry and for the company, however, performance indicators show that, under the circumstances of comparatively high decrease in carriage, we have maintained financial balance.

**“ Task of Latvijas dzelzceļš is maintenance of good quality, competitive infrastructure regardless of the traffic volumes and income related thereto.**

2017 was a complicated year for the industry and for the company, however, performance indicators show that, under the circumstances of comparatively high decrease in carriage, we have maintained financial balance.

It is true that, in the end of the year, traffic volumes started grow slightly, and this tendency continues also in the first three months of 2018. This is a sign of the market stabilisation and certain predictability.

Although the company's turnover decreased last year, the drop is lower than the drop of the traffic volumes, and it proves efficiency of the performed optimisation of business processes.

The company's principal activity has delivered positive results, while the growth of profit reflected in the Annual Report can be explained by the inclusion of the deferred tax

into the profit indicators, as a result of the tax policy reform. Thus, equity has increased, which is important for commencement of work on large scale investment projects – including the electrification of railway network that requires a significant co-funding.

At the same time, despite the complicated situation, in 2017, the company was able to achieve a 3% increase of the average wage, thereby promoting retention of qualified specialists.

Last year, preparation work was performed, as well as discussions with the social partners and participants of the industry were conducted, so the Cabinet of Ministers was able to adopt the Indicative Railway Infrastructure Development Plan for five years that has been stipulated in the Railway Law and that is important for the industry, and the Ministry of Transport and LDz were able to conclude a several-year contract on the basis thereon. These documents, as well as the Medium-term operational strategy of LDz, currently in the process of final coordination, will determine further operation of the company and mechanism for the provision of financial balance of the infrastructure manager, if traffic volumes and revenue related thereto will not cover the costs required for the infrastructure maintenance.





## ĒRIKS ŠMUKSTS

Board Member and Vice-President  
of the VAS "Latvijas dzelzceļš"

Along with new challenges in the industry, in the end of 2017, LDz started working on the rearrangement of structural units related directly with the provision of technical management and organisation of traffic.

“*Last year, the amount of traffic was lower, however, solutions had to be found both for the development of new operational directions and for more efficient handling of the current volume, at the same time retaining qualified specialists in the Group companies.*

The most significant changes have been introduced in the operating districts of Riga and Daugavpils, unifying them in one structural unit - Transport management division. Whereas, wagon maintenance distance, which has wider business development perspectives outside LDz Group companies, was separated. Perspectives of the specialists of wagon establishment and benefits created by this decision will be evaluable in 2018, however, it should create new stimuli for the business development.

In view of the interests of the employees and ability to provide uninterrupted load, a decision was made to assign to the structural unit of LDz - Ceļu distance - not only daily infrastructure maintenance works, but also performance of repair works, which was so far the responsibility of the LDz subsidiary SIA "LDz infrastruktūra". Such a decision was made, considering that large volumes of capital repairs are not expected in the upcoming years, however, work must be provided for those, who are qualified to perform such works. So far, the character of work has been seasonal, because works related to the preparation, daily up-keeping and maintenance of

infrastructure should be performed mostly in winter, while repairs - in summer.

Combining these duties in a single structural unit and transferring employees, all the employees involved in the track maintenance may be employed uninterrupted, thus retaining the staff with the required specialisation and experience.

Last year, the amount of transported freight from Russia continued to decrease, therefore, the company had to be more active in developing new markets and strengthening cooperation in the neighbouring countries. Although the results are not expected in the short term, last year, several container trains both from China and in the opposite direction were already organised, and work was commenced on the involvement of the development of Northern - Southern corridor.

These corridors are established through the cooperation between Latvia and several CIS countries, therefore, LDz continues active participation in the Commonwealth Member State Rail Transport Council unifying railway administrations of 18 Commonwealth Member States and engaging in solution of practical cooperation matters. In October 2017, LDz organised in Riga a sitting of the Railway Transport Council bringing together heads of railway companies of Russia, Belarus, Kazakhstan, Central Asia and Caucasus, Baltic States and even the faraway Iran. Every country has its own legal and technological system; however, such format provides an opportunity to jointly agree on solution of matters essential for the industry. This meeting confirmed that, despite the different political and international processes, we are ready to work, handle matters and cooperate both now and in future.





## AINIS STŪRMANIS

Board Member and Vice-President  
of VAS "Latvijas dzelzceļš"

Looking back to the results achieved in the area of the development of railway infrastructure and technological solutions in 2017, three essential directions of activities must be emphasised.

First, the definition of the company's vision and strategy, as well as implementation of projects of strategic importance.

In 2017, LDZ developed a medium-term operational strategy 2017–2022, in regard to which an opinion issued by the Cross-industry Coordination Centre was received on the basis of which a proposal on application of 0% profit dividend for the validity period of the strategy for the direction in the Cabinet of Ministers was prepared in the beginning of 2018.

Significant work was performed in the area of preparation and implementation of railway infrastructure development projects. Last year, decisions on approval of the modernisation projects of Riga and Daugavpils railway hubs were received from the Central Finance and Contracting Agency, and designing and construction procurements were announced.

A lot work was contributed to the development of the design of railway network electrification project. Technology development led to successful reduction of the total costs in the first stage of the project (Daugavpils – Krust-

pils; Rēzekne–Krustpils – Riga) from 519 million euros to 441 million euros, thus allowing the company for attraction of the required co-funding independently, without the state contribution. On 5 December 2017, the Cabinet of Ministers approved further direction of the first stage of the project. This is important step towards the strengthening of growth and competitiveness of national economy and industries of transport and transit of Latvia under changing market conditions, when competition becomes fierce especially quickly both globally and between the neighbouring regions and countries.

The year 2018 is decisive for commencement of implementation of the railway network electrification project – upon receipt of decisions on approval of the project adopted by the Central Finance and Contracting Agency and the European Commission and decisions on attraction of credit resources for the implementation of the project adopted by the international lenders. At the same time, work on the attraction of the remaining funds after 2020 for further stages of electrification of the railway network in the directions of the port of Ventspils, reconstruction of the current electrified lines has been performed and continued, furthermore, matters on the electrification of the railway district Daugavpils – Indra – Border of Belarus are handled in close cooperation with the Belarusian railway. Significant work



has been commenced with the colleagues of “Rail Baltica” jointly working on the technical solutions related to the reconstruction of the Central railway station and planning 1,435 mm gauge track infrastructure.

Second, application of innovations and the latest technological solutions for the purposes of improvement of efficiency of working processes – preparation works were completed in 2017 for the implementation of the project of Uniform transport control centre, which will promote uniform approach for the organisation of the railway traffic in the entire territory of Latvia.

Transport control is closely related to application of modern information technologies, and essential improvements in the international railway traffic have been implemented last year also in this area. “Latvijas dzelzceļš” introduced e-invoice for the exchange of information on freight traffic with Belarusian, Russian, Estonian and, in the beginning of 2018 – also with Lithuanian colleagues. Provision of exchange of information promotes our competitiveness – also in the context of the European Union, where modern digital solutions in many parts are not yet as widespread as here.

Furthermore, electronic payment system, gradually introduced in the organisation of freight traffic by the SIA “LDz Cargo” was developed by offering the freight owners to organise traffic without leaving the office. This enables improvements of client service and loyalty for the provider of the particular service.

Furthermore, introduction of solution of seemingly smaller scale, however, efficient in terms of costs and resources was performed last year, for example, optimisation of printing

equipment, which will be fully implemented in 2018. Experience of other companies shows that this may lead to savings of up to 20-30% of expenses related to the printing of documents, and, under the conditions, when provision of the company’s efficiency is essential, this is a lot.

Third, careful management and respect for the environment has been practised.

Last year, attention was paid to further identification of objects polluting and degrading the environment and development of action plan.

Furthermore, we continue solution of the matter on improvement of the public use railway infrastructure, including – by improvement of safety of the railway crossings and environmental accessibility.

On 3 March 2017, VAS “Latvijas dzelzceļš” received approval certificate on successful introduction of energy management system according to the requirements of the standard LV EN ISO 50001:2012 in the area “Management of the services provided by the manager of the public railway infrastructure and of the real estate of the VAS “Latvijas dzelzceļš”.

Maintaining energy management system according to the requirements of the standard, monitoring of the use of energy resources is provided by the company, as well as internal audits are conducted and employees are trained, resulting in more efficient use of energy resources and reduction of expenses for the electricity and heat supply.

Work on all the above-mentioned directions will be continued also in 2018, step by step promoting the growth of “Latvijas dzelzceļš” as a technologically developed group of transport of logistics companies.

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***In 2017, LDz developed a new definition of company’s vision and strategy and implementation of strategic projects, and direction towards innovations and introduction of the latest technological solutions in daily work. The year 2018 will be decisive for the commencement of implementation of the railway network electrification project.***





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## INFORMATION ON THE REPORT

The first sustainability report of VAS “Latvijas dzelzceļš” (LDz) in accordance with the core requirements of the internationally recognised Global Reporting Initiative (GRI) G4 guidelines was prepared for the company’s operation in 2016. Core requirements of GRI include publication of information on the company’s social, economic and environmental impact, as well as governance practice. View of the company’s stakeholders on areas, where the company’s influence is the greatest or most important within a wider context plays important role in the preparation of the report. This is the second report, which has been prepared on the basis of GRI guidelines and includes the company’s operation in 2017.

### Reporting period

**1 January – 31 December 2017**

### Periodicity

The first report of VAS “Latvijas dzelzceļš” according to the internationally recognised GRI G4 guidelines was prepared for 2016. It was followed by the report for 2017, which is based on GRI G4 guidelines. Further preparation of GRI reports is planned on annual basis considering the opportunity to apply the newest GRI standards, as well as providing for the opportunity to draw up GRI sustainability report of all the “Latvijas dzelzceļš” Group companies.

### Date of publication

15 May 2018 (in Latvian). The report is available at the website [parskati.ldz.lv](http://parskati.ldz.lv) in Latvian, English and Russian, as well as submitted for the publication to the GRI database [database.globalreporting.org](http://database.globalreporting.org) (in English).

### Previous reports

In the period from 2014 to 2016, VAS “Latvijas dzelzceļš” has published its annual Corporate Social Responsibility Report, the drawing up of which was not subject to certain standards. Upon improvement of non-financial reporting practice, the first sustainability report of LDz contained the company’s operation in 2016.

### Principles for the drawing up of the report

Upon preparation of the sustainability report for 2016, VAS “Latvijas dzelzceļš” performed a detailed identification of opinions of the stakeholders, including representatives of public institutions, non-governmental sector, clients, partners, and interests of employees, and other areas and finding out their view on the areas, where VAS “Latvijas dzelzceļš” has the greatest influence or where there are the highest risks of influence with essential sustainability aspects. Matrix of the essential aspects was developed, which was the base for the first GRI report, as well as used for the preparation of report for 2017. On the basis of this research and matrix, VAS “Latvijas dzelzceļš” has fully reflected in the sustainability report the general standard information (General Standard Disclosures – 43 indicators) on the operation of VAS “Latvijas dzelzceļš”, as well as provided information on 39 essential aspects. The company has included in the report also the information on activities, which are related in its opinion with sustainable operation thereof, contribution to the society or identification and reduction of certain risks, but which were not accentuated as the essential aspects in the research of the stakeholders or are not included in GRI G4 guidelines. GRI G4 guideline indicators or the company-defined essential aspects market with indicator LDz-x were noted in the sustainability report by the relevant sections.



<b>Data extraction methods</b>	Information provided by the structures and structural units of VAS “Latvijas dzelzceļš”, as well as data on the company’s operation and on the essential reporting aspects has been used for the preparation of the report. Only verified and justified data were used for the preparation of the report, as well as it was indicated, if certain data on essential area of influence of the company are not accumulated and analysed.
<b>Auditor’s certification</b>	Verification of the sustainability report of VAS “Latvijas dzelzceļš” in accordance with the International Standard on Assurance Engagements (ISAE) 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” issued by the International Federation of Accountants was conducted by the auditing company “PricewaterhouseCoopers”. Auditor was selected on the basis of the fact that the “PricewaterhouseCoopers” was also the auditor of the Financial Statements of VAS “Latvijas dzelzceļš”.
<b>Contacts</b>	Contact information in case of questions or comments on the sustainability report of VAS “Latvijas dzelzceļš” for 2017: <a href="mailto:ella.petermane@ldz.lv">ella.petermane@ldz.lv</a>

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Decision on the development of the sustainability report of LDz according to the internationally recognised GRI guidelines was adopted for the first time in the end of 2013 by establishing the Commission for the Corporate Social Responsibility of the “Latvijas dzelzceļš” Group companies on the basis of decision of the LDz Council of Presidents and commencing systematic work on the planning of the activities of social responsibility of the Group companies, including research of the guidelines of sustainability reports, selection of the particular standard and development of plan.

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The Commission for the Corporate Social Responsibility is a structure led by the President of LDz who supervises the company’s operation in the area of the corporate social responsibility and sustainability and is planning further steps in the area of economic influence, environmental and social aspects through the cooperation with representatives of various company’s structure. The commission adopts recommending decisions examined by the involved company’s structures and, if necessary, further direction thereof is approved by the LDz Council of Presidents.

Representatives of LDz top management, Development Directorate, Technical Management Directorate, Financial Directorate, Directorate for Legal and Administrative Affairs, Human Resources Directorate, Real Estate Directorate, Directorate for Communication and International Relations, Security Directorate, as well as Technical Inspection and Procurement Office, who are involved also in the development of the sustainability report and approval of content, work at the Commission for the Corporate Social Responsibility. Furthermore, delegated representatives of LDz subsidiaries, whose responsibility is introduction of the policies and activities defined on the level of the Group companies into the operation of companies, work at the Commission.

Until 2016, Corporate Social Responsibility Reports were developed under the leadership of the Commission on annual basis including the activities implemented by the company during the calendar year, but these reports were not drawn up according to certain standards or guidelines. The first LDz GRI sustainability report was prepared for 2016, and it was followed by report for 2017.



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		<b>G4-21</b>	54	<b>G4-32</b>	10		
		<b>G4-22</b>	10	<b>G4-33</b>	10		
		<b>G4-23</b>	10				
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<b>G4-DMA</b>	77	<b>G4-EN3</b>	76	<b>G4-PR2</b>	88	<b>G4-SO11</b>	94
<b>G4-DMA</b>	86	<b>G4-EN4</b>	76				
<b>G4-DMA</b>	91	<b>G4-EN6</b>	76				
		<b>G4-EN8</b>	76				
		<b>G4-EN10</b>	76				
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Economic impact		Social impact		Land use right		Company specific indicators	
<b>G4-EC1</b>	60	<b>G4-LA1</b>	78	<b>MM6</b>	95	<b>LDz-1</b>	6
<b>G4-EC4</b>	61	<b>G4-LA4</b>	79			<b>LDz-2</b>	29
<b>G4-EC7</b>	65	<b>G4-LA5</b>	81			<b>LDz-3</b>	30
<b>G4-EC8</b>	65	<b>G4-LA6</b>	83			<b>LDz-4</b>	67
<b>G4-EC8</b>	66	<b>G4-LA7</b>	81			<b>LDz-5</b>	93
		<b>G4-LA8</b>	81			<b>LDz-6</b>	93
		<b>G4-LA10</b>	84			<b>LDz-7</b>	96
		<b>G4-LA12</b>	77				

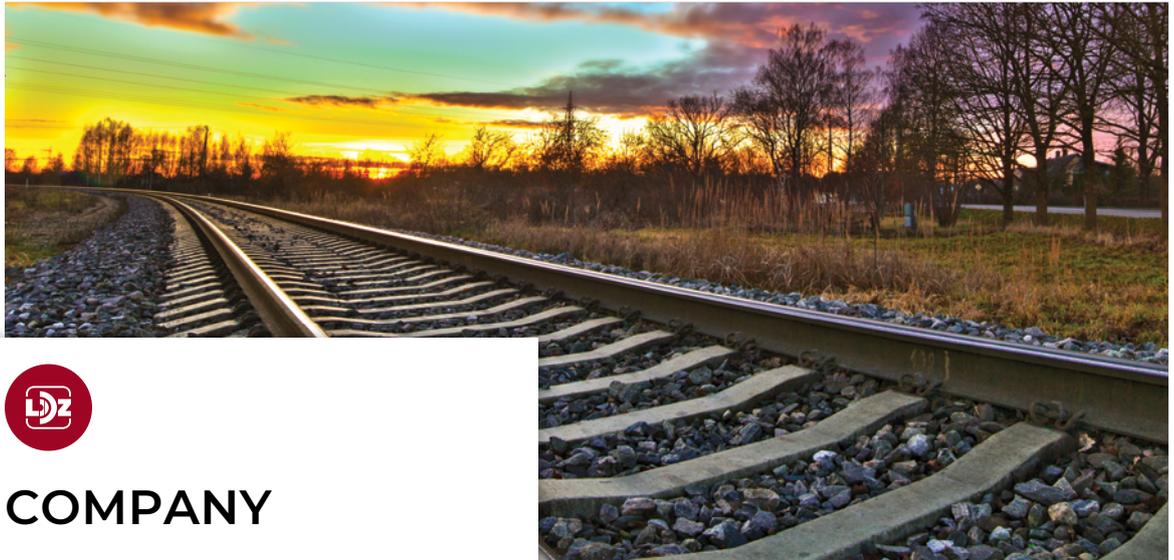


G4-3

G4-4

G4-5

G4-6



## COMPANY PROFILE

VAS “Latvijas dzelzceļš” is a State Joint-Stock Company, and 100% of its capital shares are owned by the state. Holder of the capital shares is the Ministry of Transport of the Republic of Latvia. LDz manages, maintains and develops the public railway infrastructure in Latvia in the interests of the national economy. LDz provides services of use of the public use railway infrastructure services, freight wagon stock handling, wagon technical maintenance and inspection, electricity distribution and sale, rental, information technology, electronic communication, as well as principal services.

Legal address of LDz is: Riga, Gogoļa Street 3, LV-1050, however, structural units of the company are located also in other places of Riga and Latvia (including Jelgava, Liepāja, Daugavpils, Krustpils, Rēzekne, Ventspils, etc.). Latgale region, where a significant number of LDz staff is employed, is especially important for successful operation of the company. Majority of the operational volumes of LDz consists of handling of transit freight, which are mainly imported in Latvia through the eastern state border. Primary handling, distribution and planning of further train traffic is performed in Latgale region. Especially high number of employees is in Daugavpils, the second largest city of Latvia, furthermore, significant part of employees are employed in Rēzekne and Krustpils, which are essential freight handling hubs before delivery to any of the leading ports of Latvia.

LDz is the governing company of the LDz Group companies, and the Group companies includes six subsidiaries operating in the area of provision of freight traffic, rolling stock modernisation and maintenance, logistics solutions, freight and infrastructure security and other services.

In 2017, the average number of employees of LDz Group companies was 11'192, including those, who were absent due to work incapacity and on parental leave. The average number of active employees was 10'395 in 2017. 6497 of them were employees of the governing company VAS “Latvijas dzelzceļš”. LDz Group is the largest employer, as well as one of the largest taxpayers nationwide. Amount of the taxes paid in state and municipal budgets by LDz in 2017 was 123.8 million euro on the level of the Group companies, including 70.2 million euro – contributions of VAS “Latvijas dzelzceļš” to the state and municipal budgets. The amount paid into the state and municipal budgets by the LDz Group companies during the last 10 years exceeds one billion euro.

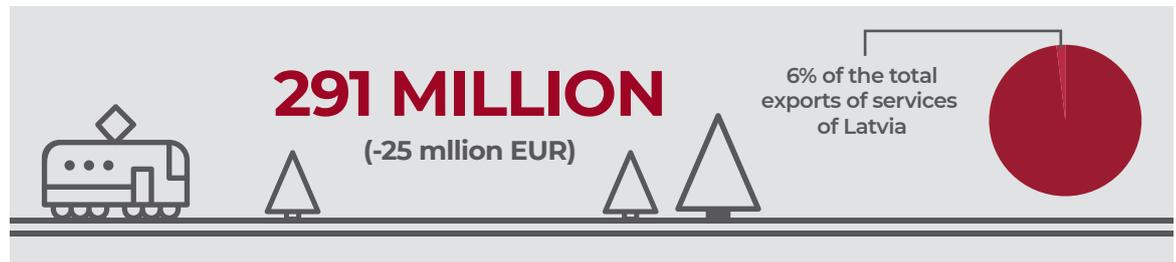
LDz is the only company managing the public railway infrastructure in Latvia. Majority of the revenue consists of the fee for the use of infrastructure paid by the operators and determined by AS “LatRailNet” in accordance with the methodology approved by the Public Utilities Commission.



In 2017, revenue from the infrastructure fee accounted for 124.6 million euro or 69.2% of the total LDz net turnover. 69.5% or 86.5 million euro were generated from the freight traffic, 30.4% or 37.9 million euro – from the passenger transport (including 28.7% or 35.8 million euro from the independent, state-owned Joint-Stock Company “Pasažieru vilciens”). The remaining 0.1% was contributed by other merchants operating economic activity by using LDz infrastructure.

The above-mentioned share of freight traffic and passenger transport makes Latvia different

from majority of the Member States of the European Union, where public railway infrastructure is basically used for passenger transport. In Latvia, majority of the volume is contributed by the international freight traffic or export of transport services. In accordance with the information summarised by the Bank of Latvia, in 2017, it contributed 291 million euro of the total exports of services of Latvia. However, this represents 25 million euro below the indicator of 2016, resulting from the economic situation and geopolitical factors in the freight traffic market. Overall, exports of railway traffic services accounts for 6% of the total export services of Latvia.



Advantages of Latvia allowing for attraction of freight transit include the favourable geographical situation – access to the Baltic Sea and three ice-free ports, as well as 1520 mm gauge tracks effectively connecting Latvia with the CIS countries, which, in their turn, are connected with further countries of the Asian region – for example, China, as well as opportunity to deliver cargo by sea from Latvia to any Scandinavian port within 24 hours.

During the recent years, under the influence of the external economic circumstances, total freight volume has decreased, however, railway is still the most competitive mode of transport in terms of costs and time. Therefore, LDz is increasing cooperation with the international partners to retain the current freight flows and find new cooperation opportunities. Traditionally, international cooperation between the railway companies plays essential role in the development of the processes of transport and logistics, and direction of the development of this industry by the companies of state capital is especially expected in the eastern partnering countries.

Russia and Belarus, as well as countries of Central Asia are still the most significant target markets for LDz and the transport and logistics industry of Latvia. Upon continuation of diver-

sification of freight groups and segments, as well as under the conditions of decrease of freight volume from the traditional target markets, during the recent years, active work is in progress for the establishment and strengthening of cooperation with China, India and Iran, which are interested in the use of the situation of Latvia for the delivery of their products to Scandinavia and wider region of Northern Europe. LDz has commenced active cooperation with partners in China, organising the sending of freight train-sets from China and in the opposite direction, as well as engaged in the development of the newly-established Northern-Southern transport corridor including connections with South Asia (especially India and Iran).

The company's basic task is maintenance of competitive infrastructure regardless of fluctuations of traffic volume and of the speed and success of the development of operation in the new markets. Necessity to provide foreseeable development and maintenance of railway infrastructure is determined by the Railway Law, which, in accordance with the laws of the European Union provides for the development of the Indicative Railway Infrastructure Development Plan and conclusion of related multi-annual contract between the Ministry of Transport and the manager of the public



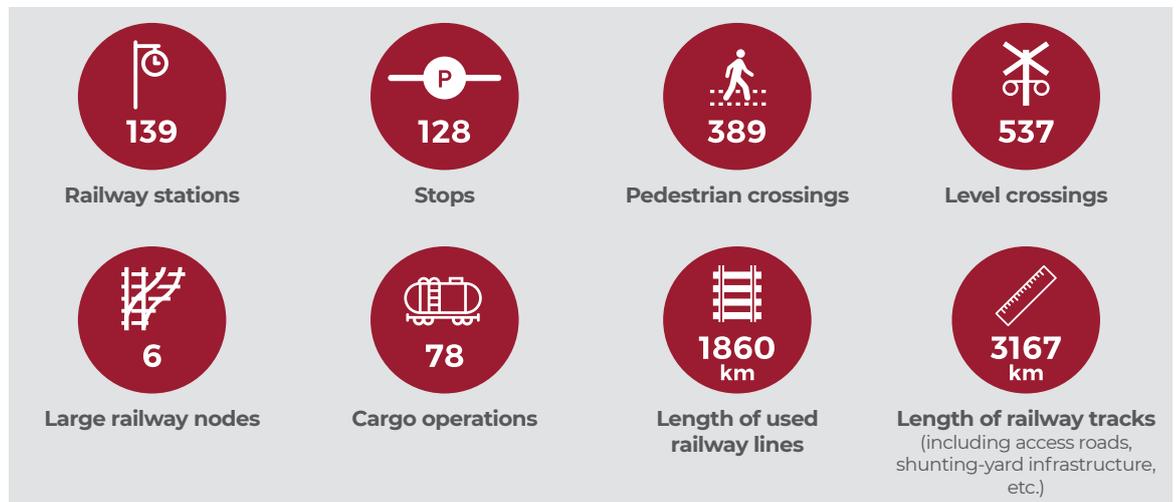
railway infrastructure (LDz). These documents will determine the requirements set by the state to the manager of the infrastructure, as well as - mechanism, by which financial balance of the manager of the infrastructure will be provided, if revenue from traffic will not result in achievement of the set goals. In 2017, active work on the development of these documents for 2018-2022 was performed.

LDz medium-term strategy for identical period was developed, which was accepted by the Council of LDz, but the final acceptance of which is related to adoption of decisions by the Cabinet of Ministers determining that, during the validity period of the strategy, the amount of dividends to be paid annually to the state by LDz is 0%. Adoption of such decision is expected during the first half of 2018.

## G4-8

G4-8

Infrastructure managed by LDz includes not only railway tracks, railway stations and stops, but also other elements crucial for the daily operation and traffic safety of railway - alarm, centralisation and locking systems, telecommunication infrastructure, and various engineering technical structures.



Railway infrastructure established, developed and modernised by LDz guarantees provision of good quality services in the area of passenger transport and freight traffic. LDz provides services in the direction to and from the largest cities of Latvia, regional centres, as well as from the eastern state border, providing connections with three largest ports of Latvia - Riga, Ventspils and Liepāja. Freight traffic is provided by three operators by using the railway infrastructure of Latvia - SIA "LDz Cargo", which is a part of the LDz Group companies, and two private operators - AS "Baltijas Tranzīta serviss" and AS "Baltijas Ekspresis".

Along with the freight traffic, the railway infrastructure is used for the organisation of passenger transport, the volume of which has been growing within recent years, providing main network of routes to all regions of the state (transport is provided by an independent, state-owned Joint-Stock Company "Pasažieru

vilciens"), as well as enabling to implement international passenger transport to Russia and Belarus (provided by SIA "LDz Cargo" and Belarusian railway). In the end of 2017, permit of the State Railway Technical Inspection for the provision of international passenger transport between Latvia and Lithuania was received by Lithuanian railway, which commenced passenger transport in the section between the border of Lithuania and Daugavpils in 2018. While the Road Transport Administration is planning organisation of public transport for the upcoming 10 years, LDz and AS "Pasažieru vilciens" have updated matter on possibility of development of the domestic passenger transport by using the current lines, which are not used at the moment for passenger transport or are used at minimum intensity. This matter is being handled in 2018, with the LDz summarising information on the possibilities to increase the train speed and other solutions.



## COMPANY'S MANAGEMENT AND STRUCTURE

G4-7

LDz is a state capital company, and 100% of its shares are owned by the state. Manager of the capital shares of the state is the Ministry of Transport.

G4-34

G4-13

In accordance with the decision of the Cabinet of Ministers, the Council of LDz was established in 2016. It is subordinated to the shareholders' meeting, whereas, the Board of LDz is subordinated to the Council.

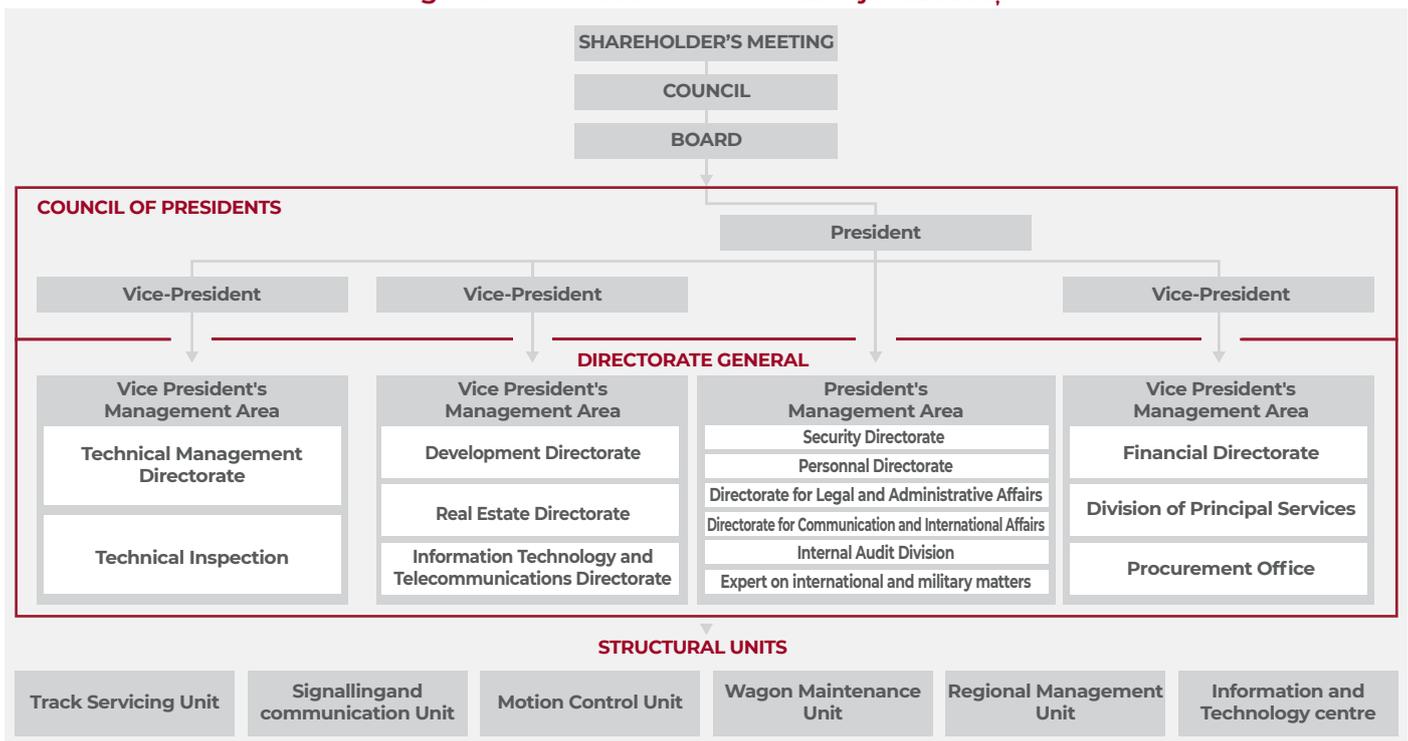
Management of the company's operational matters is ensured by the Council of Presidents consisting of the President and three Vice-Presidents of LDz, and every one of them is responsible for certain areas of the company's activity (general management, technical matters, financial matters and development of infrastructure).

The company's daily operation is ensured by the General Directorate of LDz and the nine Directorates therein, and five structures providing the execution of internal audit, procurements, principal services and other functions. Another six structural units located in Riga, Daugavpils, and elsewhere in Latvia, perform daily works on tracks, in stations and at the stops, as well as provide efficient performance of the company's information system.

In 2017, restructuring of the companies was commenced with the goal to review the business processes and improvement of the operational efficiency of LDz through the changes required therein. On the basis of the restructuring plan and the completed preparation works, two new structural units of LDz - Traffic control district and Wagon maintenance district - have commenced operation on 1 January 2018, replacing the previous operating districts of Riga and Daugavpils. In accordance with the recommendations of the supervising institution, the State Railway Administration, changes have been introduced also in the organisation of shunting in the end stations of freight traffic - if previously these works were provided by SIA "LDz Cargo", subsidiary of LDz, since 1 January 2018, shunting works are organised by LDz, providing provision of equal shunting services to all operators. New duties have been transferred after restructuring to "Ceļu distance", which will provide not only maintenance works, but also repair works of railway tracks, which were previously within the competence of SIA "LDz Infrastruktūra".

All the above changes provide transparent division of the company's functions and improve efficiency of certain work.

### Organisational structure of VAS "Latvijas dzelzceļš"



## COUNCIL OF LDZ

G4-7

G4-13

In 2016, in accordance with the recommendations of the Cross-industry Coordination Centre and decision of the Cabinet of Ministers, Council of LDz was established, and the operation thereof is regulated by the Rules of Procedure of the Council of LDz. During 2017, composition of the Council of LDz has changed – Ansis Zelčiņš, previous head of the Council left the office in the end of the summer, and Aigars Laizāns, independent Council Member was appointed as Chairman of the Council. Furthermore, Rodžers Jānis Grigulis also left the office of the Council Member. To make the Council

entitled to adopt decisions and to provide quorum required for the adoption of decisions, Andris Maldups, Director of the Department of Transit Policy of the Ministry of Transport, was approved in the office of the Council Member.

On 2 February 2018, the Ministry of Transport approved the Council of LDz in new composition approving Jānis Lange, Chairman of the Board of VAS “Latvijas Valsts ceļi” as the chairman thereof, retaining offices of the members of the Council for Aigars Laizāns and Andris Maldups.



**AIGARS LAIZĀNS**

Chairman of the Council of LDz  
(August 2017 – February 2018)

Independent Council Member  
of LDz since July 2016

Graduated from the Latvia University of Agriculture with PhD in Engineering and obtained Master’s Degree in Business Administration (MBA) at Riga Business School of RTU. Served as the first Vice President and Commercial Director of AS “Preses nams”, worked on the implementation of the INTERREG IV A cross-border co-operation projects with a specialisation in science, environmental protection, and promotion of commercialisation since 2009. Vice-Rector of Studies of the Latvia University of Agriculture, Member of the Senate and Convent, Professor at the Technical Faculty, Institute of Energy.

*The year 2017 was not easy for the transit and logistics industry, it was complicated, because, under the influence of various circumstances, fluctuations of railway freight traffic were observed, causing new challenges for the company. However, it also gave opportunity for more careful assessment of the elements requiring for the settlement at the company itself, especially – looking from the viewpoint of sustainability.*

*Coordinated interaction between the Council and the Board was the main result of the first year of work of the Council. Combination of knowledge, competences and experience of the members of the Council, as well as team work allowed for provision of professional approach and positive contribution to the improvement of the company’s governance processes. Regular and systematic supervision of transactions can be mentioned as one of examples. Namely, independent view of the members of the Council additionally to the assessment of the company’s employees increased quality of the adopted decisions and allowed for exclusion of subjective, one-sided adoption of decisions. Cooperation resulted in settlement and improvement of internal company’s processes and procedures.*

*During the year 2017, the Council followed carefully the company’s plans related to improvement of efficiency, as well as provided its own view providing control over the retention and development of the key value of the company – employees. Optimization of operation, which may cause changes in the number of employees, must be provided with care under complicated market conditions to maintain and strengthen the company’s competences. This is done in a close cooperation with the trade union at the company, and the Council is involved therein.*



*In the middle of the year, LDz Medium-term strategy for 2017-2020 was approved, which focuses on sustainable activity, addressing the economic aspects, human resources, and environmental factors. Involvement of the employees and the entire society in provision of sustainability of LDz affecting environmental settlement and reduction of the company's impact on the eco-system is part of the daily work of LDz.*

*In the view of the Council, both the railway network electrification project, supported by the government of Latvia and the European structural units responsible for transport and logistics, and the idea of creation of hydrogen-powered shunting locomotive, previously presented by LDz at the trade fair "Expo Astana 2017" in Astana, the capital of Kazakhstan, should be highly appreciated. These solutions are aimed at introduction of environmentally friendly technologies and promotion of energy independence - so, to sustainable future for the logistics systems in Latvia and Europe.*



**ANDRIS MALDUPS**

Council Member of LDz  
since November 2017

Ministry of Transport Director of the  
Department of Transit Policy

Graduated from Latvia University of Agriculture obtaining Master's Degree in Engineering, obtained Master's Degree in Business Administration (MBA) at Riga Business School of RTU, and obtained speciality of head of international relations at the Institute of International Relations of the University of Latvia.

*Employed in the area of development of transit industry in the Ministry of Transport since 1997. In recent years, the main focus has been on the development of value-added services in the logistics industry, in particular on the increase of container cargo volume, on Eurasian transportation, development of port and warehousing services, as well as on the promotion of industrial projects in the Latvian free ports and Special Economic Zones.*



## BOARD OF LDZ

The Board of LDz consists of the Chairman and three Board Members. At the same time, all four representatives of the Company's Board make up the Council of Presidents of LDz, deciding on the company's operation. Each Council of Presidents Member supervises areas of responsibility important for the operation of the company and the Group companies.



**EDVĪNS BĒRZIŅŠ**

Chairman of the Board,  
President

### AREA OF RESPONSIBILITY – CORPORATE GOVERNANCE

E. Bērziņš was appointed the Chairman of the Board of LDz in 2016, but has worked as a Board Member of LDz since 2011. He has Master's Degree in Law and Professional Master's Degree in business and institutional administration (MBA) of the Norwegian-Latvian master's programme "Innovations and Entrepreneurship" (RTU). Previously he worked as the Head of International Relations Department at the Police Academy of Latvia, Legal Advisor at "Lattelecom", Head of the Legal Department and Board Member of AS "Latvijas kuģniecība". E. Bērziņš is the Vice-President of the Employers' Confederation of Latvia, Presidium Member and Council Member at the Latvian Chamber of Commerce and Industry, Member of RTU Advisory Board, Chairman of Latvia-Belarus and Latvia-Kazakhstan Councils of Business Cooperation, as well as Member of the Councillors at the Convent and Council Member of the Faculty of Law at Turība University. In December 2017, E. Bērziņš was approved as a Member of the Management Committees of the International Union of Railways and the Community of European Railway and Infrastructure Companies (CER).



**AIVARS STRAKŠAS**

Board Member and  
Vice-President of LDz

### AREA OF RESPONSIBILITY – FINANCIAL MATTERS

The Board Member of LDz since 2005. In 2017, the Ministry of Transport repeatedly approved A. Strakšas in the office of the Board Member of LDz.

He holds Master's Degree in economics (LUA). Previously he has worked as an advisor to the Minister for Agriculture of the Republic of Latvia, Council Member of AS "Hipotēku un zemes banka", Council Member of AS "Latvijas Pasts", Chairman of the Council of the Lotteries and Gambling Supervision Inspection and advisor to the Minister of Finance of the Republic of Latvia.




**ĒRIKS ŠMUKSTS**

Board Member  
and Vice-President

### AREA OF RESPONSIBILITY – TECHNICAL MANAGEMENT MATTERS

He commenced his work at LDz in 1993 as the person of duty of the switch point, since 2008 – a Board Member of LDz. In 2017, the Ministry of Transport repeatedly approved Ē. Šmuksts in the office of the Board Member of LDz.

He has acquired education at Leningrad Institute of Railway Transport Engineers. Earlier on, he has graduated Daugavpils Railway Transport Technical School. Previously he was in charge of the Freight Traffic Department of VAS “Latvijas dzelzceļš”, from 2007 until 2008 – the Chairman of the Board of the subsidiary of LDz “LDz Cargo”. In 2017, he received the top award of LDz “For personal contribution to the industry of railway transport”.


**AINIS STŪRMĀNS**

Board Member  
and Vice-President

### AREA OF RESPONSIBILITY – DEVELOPMENT, INFORMATION TECHNOLOGIES

He has been working for the LDz Group since 2005, appointed to the Board of LDz in 2016. From 2007 until 2011 – the Chairman of the Board of the subsidiary of “Latvijas dzelzceļš”, SIA “LDz infrastruktūra”, after that – the Head of the subsidiary of “Latvijas dzelzceļš”, AS “LatRailNet” operating in the field of setting of infrastructure fee and division of capacity of railway infrastructure.

He holds Bachelor’s Degree in engineering sciences in economics acquired at RTU International Relations and Customs Institute, as well as a qualification of the economist specialising in the customs management. He has studied at RTU Management Quality Institute under the master’s programme of General Quality Management. Previously he has managed the State Revenue Service Kurzeme Regional Tax Control Department, Ventspils Tax Inspectorate, as well as other structural units.



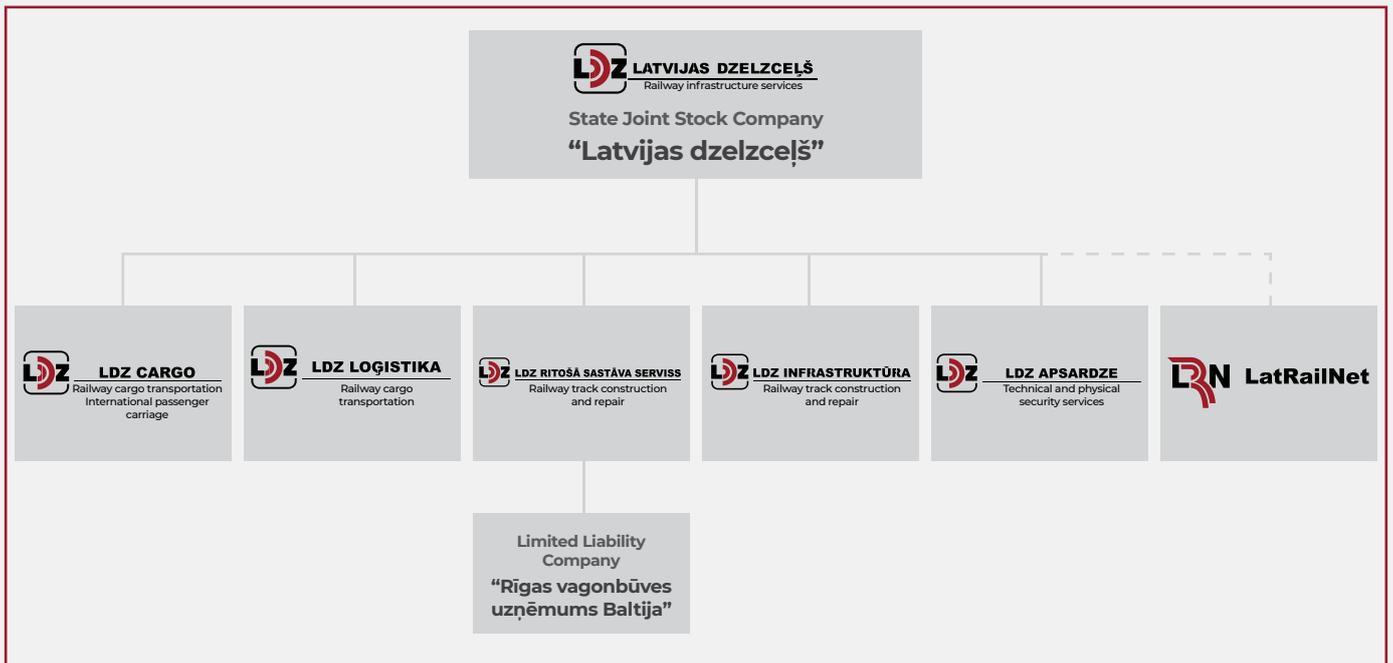
## SUBSIDIARIES OF LDZ AND THEIR PERFORMANCE RESULTS IN 2017

**LDz is the governing company of the LDz Group companies and consists of six subsidiaries**

G4-7

G4-13

Structure of the Group companies was established in 2007 in accordance with the laws and regulations of the European Union providing for market liberalisation in the area of railway traffic. Establishment of structure of the Group companies provided separation of the functions of services of transportation companies from the functions related to maintenance and development of railway infrastructure, thus separating financial flows and excluding the risk of cross-subsidies.





## LDZ CARGO

Railway cargo transportation  
International passenger carriage

### SVETLANA BERGA

Chairwoman of the Board

### ALEKSANDRS KAZAČKOVŠ

Board Member

Operates in the field of domestic and international freight traffic, as well as international passenger transport to Moscow and St. Petersburg.

SIA "LDz Cargo" is one of the leading freight operators in the Baltic States, as well as one of the leading companies of service export in Latvia.

In 2017, implementing efficiency processes at the company, changes were made in the management of SIA "LDz Cargo" decreasing the number of the Board Members from four to two. Svetlana Berga retained the office of the Chairwoman of the Board, but Aleksandrs Kazačkovš is the Board Member. Previous Board Members Vladimirs Grjaznovš and Andris Reķis continued working at the company in other positions.

In 2017, traffic volume of SIA "LDz Cargo" decreased under the impact of the general processes in the industry, however, the company focused on the development of domestic traffic (for example, by developing together with SIA "LDz Loģistika" a new and efficient solution for the provision of grain traffic in the territory of Latvia), as well as switched to introduction of paper-free technologies in the freight traffic cycle in the second half of 2017 offering the clients to use the advantages provided by e-invoice.




**LDZ LOGISTIKA**

Railway cargo transportation

### VERNERS LŪSIS

Chairman of the Board (2017)

### GUNDARS ĀBOLS

Chairman of the Board (since 15.02.2018)

### EDUARDS ČERŅAVSKIS

Board Member

Provides freight forwarding and logistics services, including the provision of the unified inter-modal service covering the use of various modes of transport and infrastructure, providing “one-stop agency” logistics services for domestic and international carriage.

The company is the official agent of the leading Russian intermodal container operator PAS “TransContainer” and the operator of container trains ZUBR and BALTIKA-TRANZIT in Latvia. SIA “LDz Loģistika” provides organisation of international, export, import and transit railway traffic in the Baltic States and the CIS countries. The company works in close cooperation with the operators, ports, terminals, as well as other companies providing transportation services both in Latvia and abroad. In 2017, Chairman of the company’s Board was Verners Lūsis.

In 2017, in cooperation with the partners in the Asian region, the company developed new transit routes for the clients for the forwarding of freight from China to Europe through the ports of Latvia. Several cooperation memoranda and contracts with the industry companies worldwide have been concluded, including the German logistics company “RTSB” and “Belintertrans Germany”, branch of the subsidiary of Belarusian railway, as well as with the subsidiary of the Iran railway operating in the area of logistics. SIA “LDz Loģistika” developed cooperation concluded by LDz with one of the world’s leading companies in the area of logistics “DHL Global Forwarding”.

The company has organised traffic of two container trains from the port of Riga to Kashgar in China in May 2017, as well as container train from Urumqi in China through Kazakhstan in October the same year.

In the autumn of 2017, cooperation memorandum on establishment of freight express train Minsk-Riga was concluded between LDz and Belarusian railway, and the first traffic was organised by SIA “LDz Loģistika” in February 2018.





**LDZ RITOŠĀ SASTĀVA SERVISS**  
Railway track construction and repair

**EDGARS ABRAMS**  
Chairman of the Board

**SANDIS VĒTRA**  
Board Member (since 15.02.2018)

**SERGEJS KARPAČOVŠ**  
Board Member

Provides repair, modernisation, maintenance works and equipment of the railway rolling stock, lease and modernisation of the main line and marshalling locomotives, as well as storage and sale of fuel to railway operators and other clients, as well as provides chemical engineering and measurement laboratory services. Company's structural units include Daugavpils locomotive repair hub with workshop in Rēzekne, Riga locomotive repair hub with workshops in Jelgava and Liepāja, Daugavpils wagon repair hub, Chemical Engineering and Measurement Laboratory in Riga with inspection group in Daugavpils. Joint venture SIA "Rīgas Vagonbūves uzņēmums "Baltija", 100% owned by SIA "LDz ritošā sastāva serviss" operates since 2012. The company was established with the aim to develop wagon works in Latvia.

In the beginning of 2017, SIA "LDz ritošā sastāva serviss" put the first double-section main diesel locomotive 2M62UM modernised in cooperation with the Czech company "ČZ LOKO", into service, and, by the end of the year, freight traffic was provided in Latvia by seven such locomotives, which have significantly justified the expectations - initially, the monthly run of 10'000 kilometres was planned for locomotive, while the actual run reached 13'000 kilometres. New record was set in December - run of one of the locomotives exceeded 16'000 kilometres.

During 2017, the company focused on the required certifications to be able to provide the wagon maintenance and repair for the international partners - Russian company "United wagon company" and one of the global leaders in the area of the rolling stock - "Amsted Rail". The company has also commenced work on the research of the newest technologies, including - by identifying the application of 3D printing options in the transport industry.





## JĀNIS CEICĀNS

Chairman of the Board

## VALDEMARS DAĻECKIS

Board Member

Specialises in construction and renovation of railway tracks. Operation of the company is aimed at the provision of repair services of railway track, railway switches and railway machinery and mechanisms. Duties of SIA “LDz Infrastruktūra” include repair of railway tracks, replacement of railway switches, repair of railway track machinery and non-standard equipment, as well as welding of rails and transport of continuously-welded rails.

In 2017, changes to the company’s operational organisation were introduced. The company will continue provision of welding works and rent out the machinery required for the railway repair works. After review of the business processes, repair works of the infrastructure in future will be provided by Ceļu distance, structural unit of VAS “Latvijas dzelzceļš”. Due to decrease of capital repairs during the recent years, furthermore, such works may be performed only in summer season, such a restructuring will allow for employment of the qualified track masters all year around by involving them in the track maintenance in between the repair works.



**LDZ APSARDZE**

Technical and physical security services

**ARNIS MACULĒVIČS**

Chairman of the Board

**LINDA BALTIŅA**

Board Member

One of the leading Latvian security companies. The company operates in nearly the entire territory of Latvia – security teams are located in Riga, Rēzekne, Daugavpils, Jēkabpils, Jelgava, Liepāja, and Ventspils. Employees of the company provide security of the railway objects, furthermore, they help in provision of order at Riga International Bus Station.

Subsidiary of LDz provides railway freight security services in the route from the Baltic States to Kazakhstan in cooperation with the Kazakhstan company “Samai”.

In 2017, the company continued expansion of operations, offering services to companies and private individuals in addition to the railway freight security services. For this purpose, new security units were established in regions. Several new contracts on supervision of large-scale objects outside the railway were concluded, for example, “LDz apsardze” provides security services to Riga International Bus Station.





## JUSTĪNA HUDENKO

Chairperson of the Board

## GUNTARS LAPIŅŠ

Board Member

Independent Joint-Stock Company, which executes the essential functions of the public railway infrastructure manager – adopts decisions on division of capacity, train path allocation, including determination and assessment of access. AS “LatRailNet” adopts decisions on the amount of fee for the use of public railway infrastructure in accordance with the methodology approved by the Public Utilities Commission.

In 2017, AS “LatRailNet” adopted decision on change of fee for the use of railway infrastructure for 2018 in accordance with the methodology approved nationwide. From 1 January 2018, infrastructure fee per train kilometre for freight trains has been determined 11.08 euro (excluding value added tax), for electric passenger trains – 7.27 euro, for diesel passenger trains – 6.10 euro, for passenger trains with locomotive – 6.94 euro, whereas, for narrow gauge trains – 2.52 euro per train kilometre\*.

\*Train kilometre is a measuring unit used for the calculation and collection of fees, and it characterises the number of kilometres covered by the train – regardless of the weight of the train. Other measuring unit – ton kilometres – show the distance of transportation of each ton of freight in kilometres and allows for identification of not only the distance, but also of impact of freight on the depreciation of infrastructure. The heavier is weight of freight and the longer is the transportation distance, the heavier is the impact on the condition of the railway infrastructure.

In 2018, AS “LatRailNet” will continue work on the development of the infrastructure fee to become effective in 2019 and to include essential changes in relation to the previous procedures for the calculation of fee – as provided for by the laws and regulations of the European Commission and the Railway Law. Regular discussions on the new scheme for the calculation and collection of fees were commenced with the representatives of the industry back in 2017; potential impact thereof was taken into account in the draft Indicative Railway Infrastructure Development Plan developed by the Ministry of Transport.

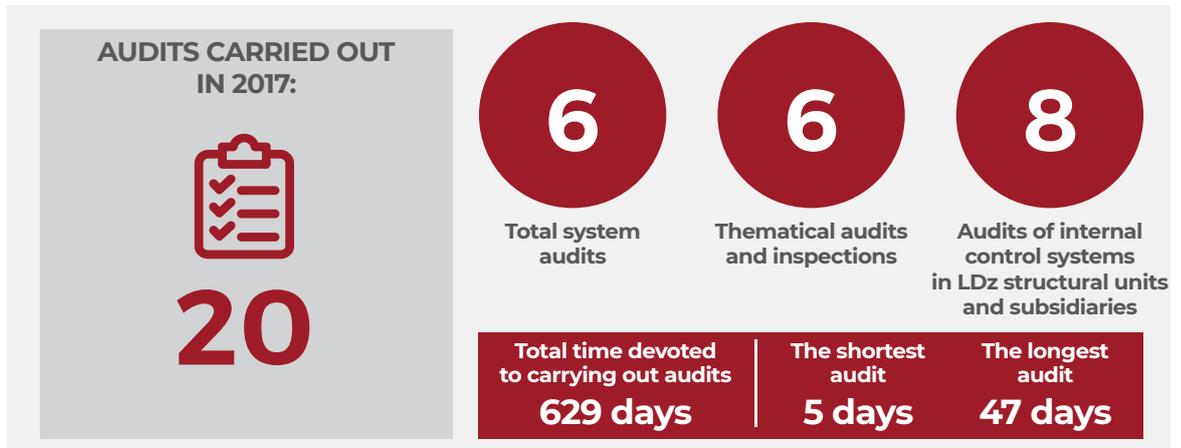


## CONTROL OF INTERNAL PROCESSES OF LDZ

LDZ-2

Internal processes of the company and the efficiency of the current control mechanisms is assessed by LDz Internal Audit Division on regular basis. It works under direct supervision of the President of LDz and is independent of the remaining structural units of the company and is not involved in the performance of direct functions and tasks of LDz. Internal Audit Division provides independent supervision of the internal control system and assesses efficiency of the operation thereof, which, in its turn, helps the Council of Presidents of LDz, directorates, structures and structural units, as well as the members of the boards of the Group companies to perform their functions more efficiently.

Proposals of the audit reports depending on the significance of the implementation thereof are divided into three categories of importance - high, medium and low.



After the audits conducted in 2017, proposals of medium or low category of importance were provided, which means that the identified aspects to be improved do not affect the company's strategy, finances and information quality, as well as its ability to operate within the limits set by the law.

When improving the performance of the functions of internal audit, the possibility to transfer LDz Internal Audit Division under the supervision of the Council of LDz in future is assessed, thus providing full independence thereof from the performance of the company's daily functions and other structural units.



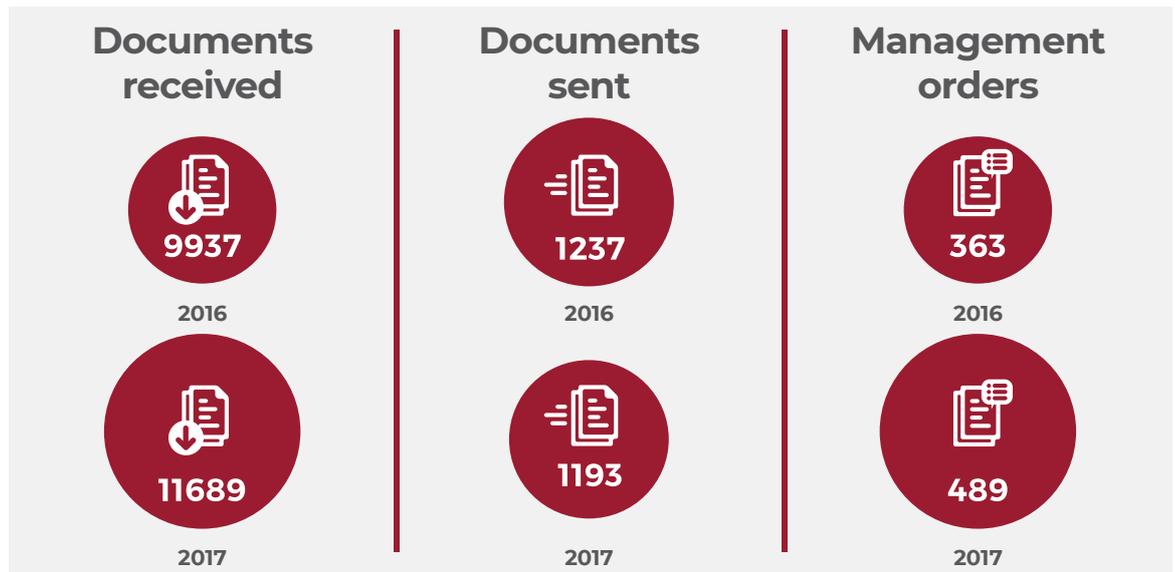
## PROVISION OF LAWFULNESS OF THE OPERATION OF LDZ

LDZ-3

Lawfulness of the operation of LDz is provided by the Directorate for Legal and Administrative Affairs, the task of which are - to prepare legal opinions, to represent the lawful interests of LDz and subsidiaries thereof, to draw up contracts, as well as to provide legal analysis of the draft orders and draft

laws and regulations prepared by the structures of LDz.

The number of documents handled and registered in the Directorate for Legal and Administrative Affairs has grown in 2017 in comparison with 2016.



In 2017, two lawyers of LDz took active participation in the composition of cooperation work groups of LDz and SIA “Eiropas dzelzceļa līnijas” providing legal support on matters related to alienation, rebuilding and joint use of the real estate of LDz, which are planned within the framework of “Rail Baltica” project and which are to affect the operation of LDz in the upcoming years. This especially applies to the operation of Riga Passenger Station both during the implementation of “Rail Baltica” project and to the operation of the station for the shared needs of the LDz and the newly-established railway infrastructure.

Representatives of the Directorate for Legal and Administrative Affairs have participated also in preparation of various inter-governmental agreements in the area of railway transport with the Russian and Belarusian institutions. Furthermore, documents have been prepared for the opening of the permanent establishment of LDz and the commencement of operation thereof in Minsk, Belarus.

A lot of effort has been contributed to the drawing up of collective labour contract of the LDz Group companies, which entered into effect on 1 February 2017, whereas, during the

following year, amendments were prepared, which entered into effect on 1 January 2018.

Work on the development of the multi-annual contract between the Ministry of transport and LDz was continued during the year.

Lawyers have participated also in the development of the fundamental principles of the business ethics of the cooperation partners of the LDz Group companies, but voluminous research was conducted in relation to the internal control system for the compliance with the requirements set in Law on the Prevention of Money Laundering and Terrorism Financing.

Introduction of secure electronic signature in LDz, the use of which will improve efficiency of daily operating processes, is planned in the nearest future with the help of the Directorate.

Furthermore, in 2018, LDz will pay great attention for the preparation and introduction of the requirements of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data to become effective in 25 May 2018.



## PERFORMANCE RESULTS

G4-9

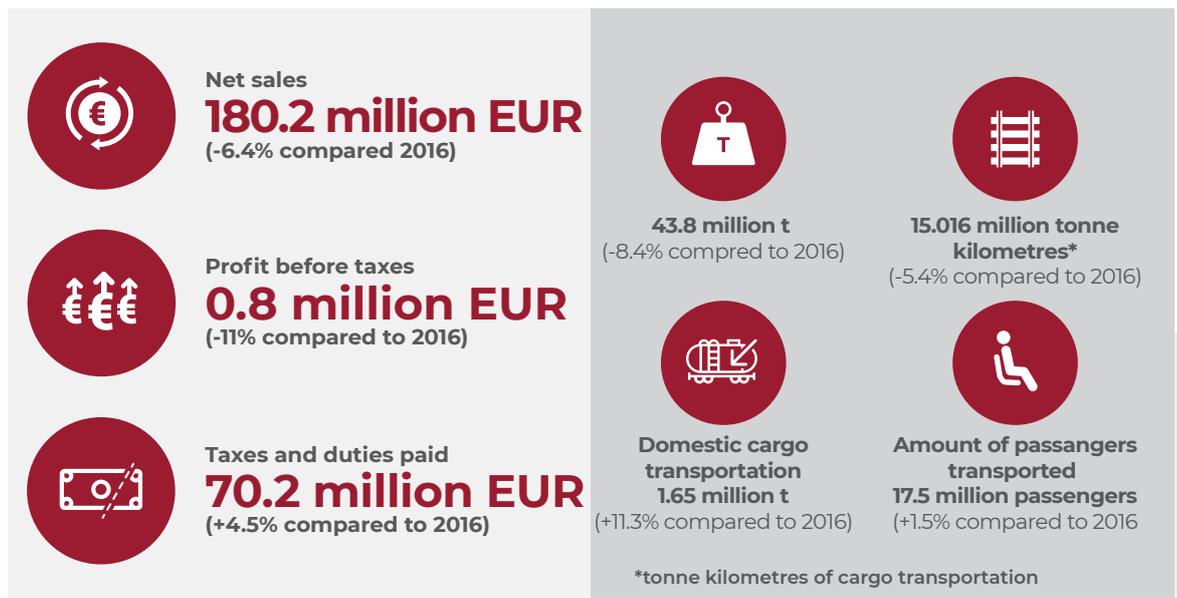
LDz as the manager of the public railway infrastructure operates in the territory of Latvia, however, users of the infrastructure (operators) provide services mostly to the clients located abroad, therefore economic performance results are affected by global economic processes. In 2017, the performance results and development opportunities of the transport and logistics industry or Latvia, including LDz, were essentially affected by Russia's focus on the development of its ports, which resulted in drop of freight in the transit corridor of Latvia. Although attention on entry into new markets was paid during the year 2017, as well as effort was made for the retention of the current freight flows, quick compensation of this decrease by rapid growth of freight of different origin is not possible.

To promote cooperation with the current partners and find new cooperation opportuni-

ties, in 2017, LDz established permanent establishment of LDz in Minsk, as well as actively engaged in the work of Latvian-Russian Inter-governmental commission, where cooperation in the transport and logistics industry played decisive role.

In 2017, the priority of LDz and the Group companies was expansion of the geographical operational area both by establishing new partnerships in China and Central Asia, and commencing work on the entry into the markets of South Asia - India and Iran.

Results of the commenced processes will be measurable also in the following years, however, the year 2017 showed that, despite the overall decrease of the traffic volume, LDz has managed to retain financial stability.

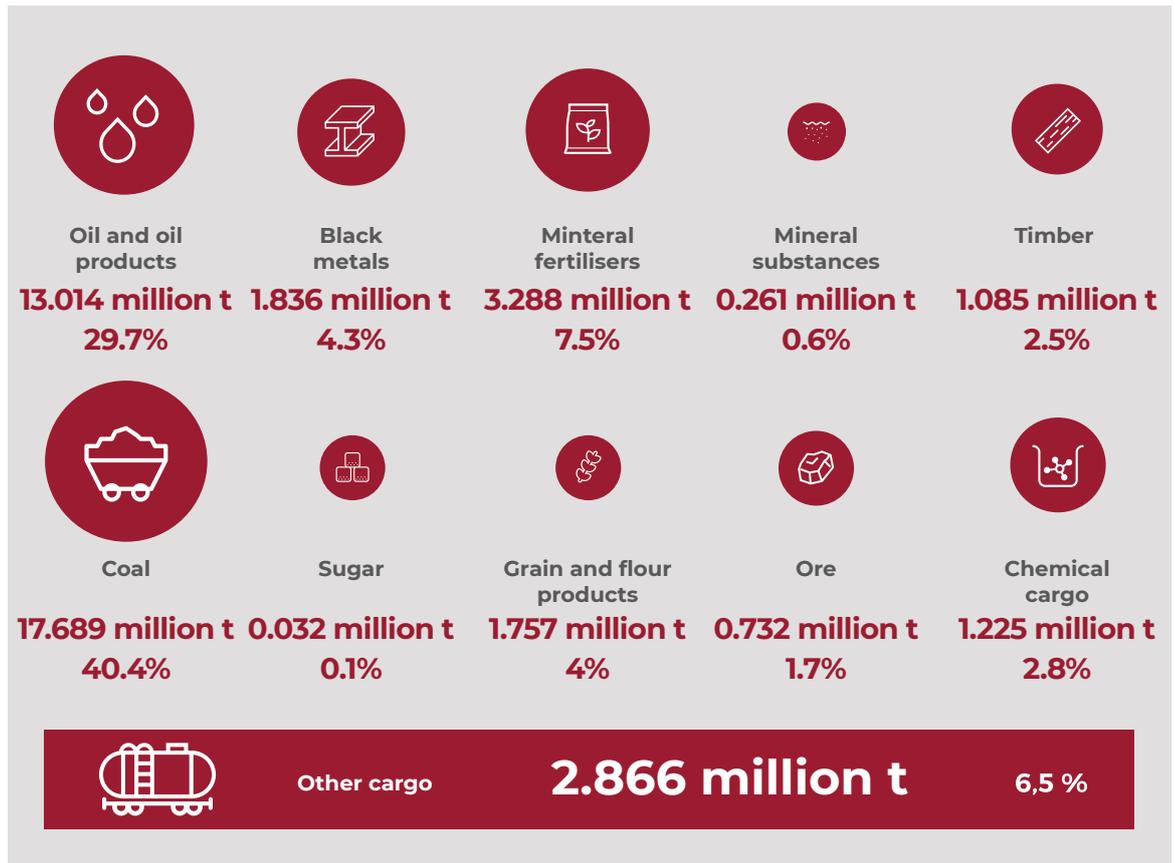


Majority of the turnover of LDz consists of revenue from the fee for the use of infrastructure, and, under the conditions of decrease of overall traffic volume financial indicators have also dropped. However, the drop-in turnover is lower than the decrease of the traffic volume in the area of freight traffic (which affects revenue of the fee for the use of infrastructure the most), thus proving the efficiency of the performed optimisation. Furthermore, it should be stressed that, in the area of freight traffic, differences may be observed between

the decrease in the overall freight volume in tons and decrease in ton kilometres, and the latest indicator shows - although the volume of transported freight has decreased, distances have grown. This is confirmed also by the growth in the freight volumes in the ports of Ventspils and Liepāja in 2017.

Coal, oil and oil products, and mineral fertilizers are the products traditionally transported by means of infrastructure of LDz in the highest volumes.





In the area of freight traffic, freights of Russian origin are still the dominating ones accounting for the share of 73.7%. Percentage of countries of freight origination in the volume of transported freight: Belarus - 19.3%, Lithuania - 4.7%, Ukraine - 0.8%, Kazakhstan - 0.3%, Estonia - 0.6%, Uzbekistan - 0.3%, other countries of freight origin - 0.3%.

Additional revenue is generated by the rent and lease of the real estate owned by LDz and not necessary for the company's principal activity, both to dependant companies and external clients (legal entities and natural persons) complying with the laws and regulations of the Republic of Latvia and the internal regulations by concluding contracts on lease of non-residential premises or land, or contracts on rent of residential premises.

In total, 212 contracts on rent, lending and restriction of the right of use, as well as amendments to the contracts were concluded

in 2017. Real Estate Directorate of LDz implements also transfer of property in use to the third parties through the lending contracts. For example, premises for the arrangement of polling stations in the railway station buildings, locations for local governments for the establishment of memorials for politically persecuted persons and arrangement of public toilets are provided like that. Besides, premises have been transferred for use to the Provision State Agency - for the provision of functions of the state border guard, to the State Blood Donor centre - for reception of donors, as well as for other socially significant functions. Eight lending contracts were concluded in 2017.

In case, if a property owned by LDz is not necessary for the principal activity of LDz, decision on sale thereof may be adopted. Four contracts on selling of property owned by LDz were concluded in 2017. Total amount of transactions was 56'834 euro.



**Immovable property directorate concluded:**

**212 contracts**



Leases



Lending



Limiting rights of use

**Revenues from the lease and land lease**

**3 million EUR**



Lease of premises

**2.8 million EUR**



Lease of land

**0.16 million EUR**

Additional revenue is generated for LDz by selling of electricity to external clients - in November 2017, the Public Utilities Commission prolonged LDz license for the distribution of electricity until 11 November 2037. LDz provides services to the electricity consumers in accordance with the Electricity Market Law, Law On Regulators of Public Utilities, Energy Law and the Regulations of the Cabinet of

Ministers No. 50 "Regulations Regarding the Trade and Use of Electricity". Consumers purchase electricity from LDz mainly at the places without infrastructure of other electricity suppliers - for example, in less densely populated areas in the vicinity of railway lines - and where, in accordance with the issued license LDz is permitted to provide the electricity distribution service.

**LDz supplies electricity to:**

**4,867**

private individuals

**340**

legal entities



**Revenues from sales of electricity: 6.8 million EUR**

LDz electricity license covers the territory of Latvia in the area of 155 square kilometres providing electricity distribution and trade services to 4'867 natural persons and 340 legal entities, as well as subsidiaries of LDz. Electricity is supplied also for the provision of electric traction of passenger trains operated by AS "Pasažieru vilciens".



## EMPLOYEES

G4-10

G4-11

LDz is one of the largest employers in Latvia providing permanent employment opportunities in entire territory of Latvia, furthermore, majority of employees are employed in Latgale region. In 2017, LDz had legal employment relations with 11'192 persons, including those, who were absent due to work incapacity and on parental leave. The average number of employees of VAS "Latvijas dzelzceļš" was 6497 in 2017.\* This represents a decrease of 311 people as compared to the year before. Furthermore, during the previous year, labour

relations with many employees have been terminated (including 211 employees who retired), and new specialists also have been hired - furthermore, the number of newly hired specialists has grown in 2017 (in 2017, LDz has commenced labour relations with 663 people, a year ago - with 556 people). Thus, the company, in the operation of which development of technologies plays gradually more important role, promotes attraction of the new specialists, at the same time providing efficient transfer of seniors' experience to the new colleagues.

*\*Average number of employees working for the company is calculated as the number of employees on the last day of each month, divided by the number of months of the year. This calculation includes all the employees, with whom the company has valid employment relations at the particular time, including the employees absent due to work incapacity, and on parental leave.*

### The number of employees as at 31.12.2017

**6264**

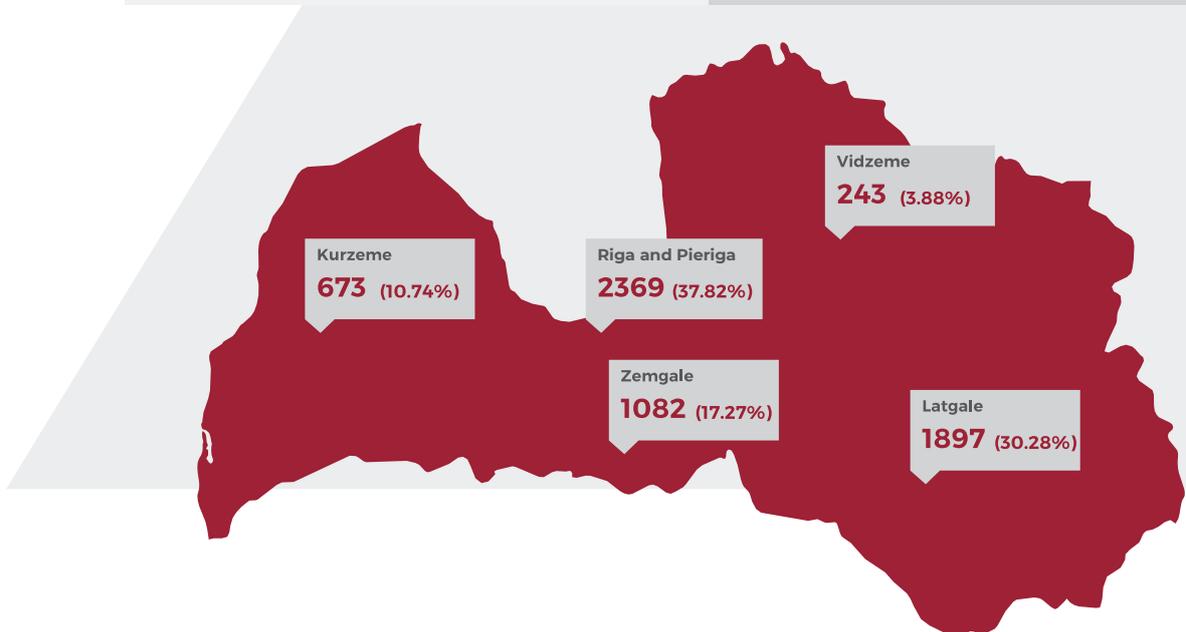
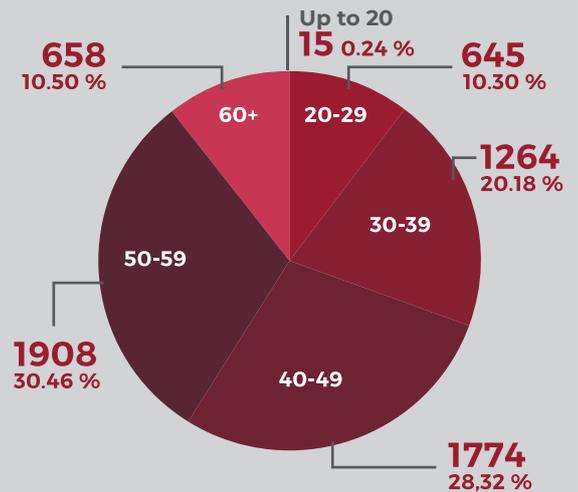


Female



Male

### Age categories:



LDz does not apply any policy of gender quotas; employees of all levels, including top and middle level management, are employed according to their professional knowledge, skills, and experience. Furthermore, LDz has introduced a uniform remuneration system, based on fair and objective criteria - all positions are classified according to uniform methodology, and the amount of wage is determined in line with the volume, intensity, and complexity of the work to be done, as well as the level of responsibility set for the particular

position. Remuneration is determined depending on the professional duties to be performed, and not the employee's gender or location.

To promote the interest of prospective specialists in railway, LDz provides jobs for pupils in summer, providing an opportunity to familiarise oneself with the working environment, to gain work experience and, possibly, receive the first salary for job. In 2017, in total 274 pupils were employed at the LDz Group companies.

## LDZ SOCIAL RESPONSIBILITY

G4-43

G4-45

G4-47

Corporate Social Responsibility (CSR) policy of the "Latvijas dzelzceļš" Group companies has been effective at the LDz Group companies since 2013. The policy was developed by the Commission for the Corporate Social Responsibility run by the President of LDz, and it defines four key areas of influence of the company. It is important that these areas are in line also with the internationally accepted sustainability areas.

### Key areas of the corporate social responsibility



LDz is one of the largest employers in Latvia providing permanent employment opportunities in entire territory of Latvia, furthermore, majority of employees are employed in Latgale region. In 2017, LD.



## In 2017, several essential initiatives have been implemented in the area of CSR.

**In the area of business environment**, continuing the processes commenced in 2016, a number of measures related to the Fraud Prevention Policy were introduced, including the development, publishing of the fundamental principles of the business ethics of the cooperation partners and integration thereof into the contracts, anonymous form of reporting was published and work on risk assessment was continued.

In the effort of care for the development of the business environment not only at the company's sector of activity, LDz continued active work in the leadership of the leading business organisations – Employers' Confederation of Latvia and the Latvian Chamber of Commerce and Industry – in 2017, as well as in various international cooperation formats.

The company engaged in both the work of the Institute of Corporate Sustainability and Responsibility and of the Baltic Institute of Corporate Governance with the aim to promote introduction of good, sustainable governance practice at the company and promotion thereof in Latvia in general.

**In the dimension of employees**, settlement of internal processes, as well as restructuring for the improvement of the company's operation continued in 2017. It is important that management of all structural units was involved in this process thus providing adoption of decisions, which were weighted, balanced, clearly discussed and in the company's interests.

One of the most important initiatives in 2017 was introduction of LDz bank of ideas enabling every employee of the company to submit his/her proposals and ideas for the improvement of the company's operation.

The company's management team worked on the development of the company's long-term strategic positioning, gradually involving a wider range of managers of the structural units and representatives of subsidiaries, jointly creating a foundation for the company's future development and initiatives. It is important that more and more specialists of various levels representing areas of engineering, client service, innovation development, environmental management, administrative and supporting function, and others are involved in implementation of initiatives.

**In the area of environmental protection**, LDz took essential step towards the increase of the company's efficiency and decrease of negative environmental impact in 2017 by conducting energy audit and introducing energy management system.

Approval of the Cabinet of Ministers for the implementation of the electrification project of the network of Latvijas dzelzceļš up to 2023 should be considered as important long-term decision. Electrification of the railway lines will provide significant reduction of emissions in the atmosphere usually caused by diesel engine powered locomotives. Furthermore, volume of the environmental pollution will also decrease. Calculation show that volume of CO<sub>2</sub> emissions after the implementation of the first stage of electrification will decrease by 45-46 tons annually, whereas emissions of nitrogen oxides (NOX) will decrease by 409-417 tons annually. So far, mere 14% of railway lines have been electrified in Latvia, while the average indicator in Europe is 55%.

**In the dimension of society**, one of the most voluminous projects commenced in 2017 is the intention on development of the territory of the Latvian Railway History Museum. Procurement was announced to select the best architectural solution, and, in the end of the year, in cooperation with the winner of the procurement – architecture office NRJA – work on the planning of the project was commenced. Upon implementation of the development of the territory, the museum will both fit better in today's dynamic cultural environment and city life and become more accessible and more open to every resident.

At the same time, LDz continues cooperation with long term partners, including organizers of the Big Clean-up (Lielā talka) and other public organisations, as well as cooperate with the educational institutions in the field of education of new specialists.

To improve the public awareness and remind of safety in the vicinity of railway, information campaigns were organised also in 2017, this time drawing attention to the use of mobile technologies near the railway tracks as a significant risk factor.



## Employees

In the first half of 2017, **LDz Bank of ideas** was established at the initiative of Edvīns Bērziņš, President of LDz enabling every employee of the Group companies to submit proposals for the improvement of the company’s operation. Graduates of LDz Academy of Managers (middle level managers) and experts, who verified implementability of the idea, were involved in the assessment of ideas.

In 2017, 30 ideas in total were received; three of them have already been implemented, another 10 will be gradually introduced in 2018. Among other things, provision of climate at the LDz sites, replacement of printed logbooks by electronic ones, and renewal of relay testing stands have been established. Several ideas from the employees have been received in relation to the commenced improvements in the operation of LDz, for example, regarding improvements of lighting of stations or improvements at Daugavpils marshalling yard, where the relevant works are taking place within the framework of the EU funding.



Every year, LDz provides participation of its employees in the most popular people’s sports activities nationwide - “Lattelecom” Riga marathon, Latvian Cyclists Unity Ride and Women’s Run, where the staff of the Group companies is traditionally one of the most represented Latvian companies. Whereas, in the framework of the Group companies and in cooperation with the Latvian Railway and

Transport Workers Union (LDzSA), games are organised, where employees of LDz have opportunity to compete also with the participants of the railway companies of the neighbouring countries. Employees are provided opportunity to manage their physical condition on daily basis by attending basketball, volley-ball and hockey practice or by using favourable offers in various sports centres.



The number of employees at the largest sports events:



Latvian cyclists  
Unity Ride

**300+**



Lattecom Riga  
marathon

**302**



Women's  
run

**74**

LDz sports games

**15 TEAMS ~225 PARTICIPANTS + FANS**

To promote the employees' loyalty to the company, as well as to develop creativity on daily basis, LDz has been organising photo competition for several years calling to submit self-made railway photos. Employees determine the best photograph by vote on the intranet, and author of the respective photo is awarded.

In 2017, the photograph taken by Aleksandrs Ivanovs, resident of Daugavpils and the person of duty of the wagon park, was recognised as the best one. Twelve best photographs have been included also in LDz wall calendars for 2018, but, in the beginning of this year, users of social networks were given opportunity to vote and select their favourite.



Photo by: Dmitrijs Joņica

The fact that LDz has employees with photograph talent, is supported also by the success of Dmitrijs Joņica, train dispatcher of LDz – his photograph was recognised among the 12 best ones in the photo Community of European

Railway and Infrastructure Companies (CER). Photographs taken by him and railway workers of another 11 European countries were exhibited at the "European Railway Award" event in Brussels in the end of February 2018.





To emphasise the professionalism of employees and strengthen the feeling of belonging to the company, LDz organises various competitions every year to find out the best specialists in certain professional groups, as well as to honour the best employees. In the end of November, the best masters of railway tracks were honoured, conferring the qualification “Class 1 Masters of Railway Tracks” on 16 participants of the competition.

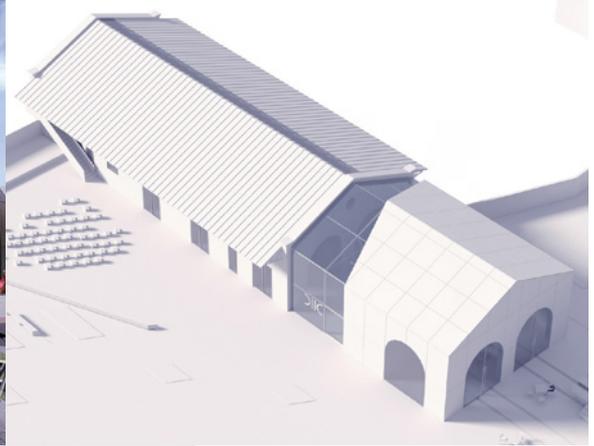
The best employees of various categories are honoured in the annual events, and, in 2017, Ēriks Šmuksts, Vice-President of LDz, who has over 30 years’ professional experience in LDz, among others was presented the top award of LDz – Golden Locomotive for personal contribution to the industry of railway transport. Only three Golden Locomotives have been presented to LDz employees during the company’s history.

## Society

In our effort to educate the society and preservation of industrial heritage, as well as taking into account the growing number of visitors, negotiation procedure on the **development of the territory of the Latvian Railway History Museum** was announced in the summer of 2017. The goal of the project was to select a solution, which would fit better in today’s dynamic cultural environment and enable the museum to become more accessible and more open to every resident, thus developing as active centre of education and culture in the nearby Pārdaugava. Six tenders were submitted to the competition, however, three of them failed to comply with the set requirements, therefore they were excluded from further

participation in the procurement procedure. Third prize of the competition went to the association of persons SIA “12 LĪNIJAS” and Ilze Mekša, second prize went to the office SIA “2727”, while the architecture office NRJA was recognised as a winner, which obtained right to implement its idea. Solution offered by the architecture office NRJA is based on the visual extension of the historical depot building located in the territory of the museum by integrating it with other objects in the territory of the museum using roof of the same architectonic structure as for the historical building and promoting uniform development of the common territory.





**Latvian Railway History Museum**

**Number of visitors**  
2017  
**50 175 (+199)**

2016  
**49 976**

**Events**  
2017  
**45 (+10)**

2016  
**35**

**Revenues**  
2017  
**121 798 EUR**  
(+15 283 EUR)

2016  
**106 515 EUR**

**Activities**

**435**

Excursions  
(7,129 pupils  
in groups)

**45**

Safety  
lessons

**20**

Lessons  
"Trip  
to the past"

**68**

Rides  
in the trolley

One of the most essential areas of influence of LDZ corporate social responsibility is promotion of public security in the vicinity of railway. **The goal of the safety campaign of 2017 "Discard the phone and live!"** was to reduce the number of accidents on the railway caused due to inattention or use of mobile devices during the crossing of railway track or in the vicinity thereof. Use of mobile devices was the last year's leading motive across the globe, accentuating safety in the vicinity of railway.

The campaign was organised in three stages – shortly before the beginning of summer holidays, upon the beginning of the new school year, as well as upon the beginning of the dark season and winter, when visibility is deteriorated due to weather changes. It is important that, in the middle of the campaign, wider society was involved in the formulation of messages, calling everyone to submit original warning text on the platform atmettelefonu.lv. Five most popular warning texts were recorded and played as social advertisement on the radio.



**274**  
warning  
messages

**2857**  
votes

**Winner with 447 VOTES**

**"Your telephone can wait, but you might not get home."**



### Business environment

On 14 September, **annual international conference “Global Transport Development Challenges”, organised by LDZ**, took place in Riga, bringing together industry leaders from China, India, Germany, Russia, Belarus, Switzerland, Finland and Latvia, who met and discussed the future development. Gathering of industry experts of such level in Latvia is especially important, because it shows that Latvia is considered as beneficial logistics hub, which receives and directs cargoes to all directions. Latvia serves as a connection of the

Baltic Sea and the Black Sea, it is a part of the international North – South transport corridor and gate to the East (Central Asia and China, which provides huge potential of development in the area of freight logistics by land) for Scandinavia and other countries of Northern Europe. Along with the conference, meeting of high level logistics experts (“DHL Global Forwarding”, “Duisport AG”, “RTSB”, “Trans-Container”, etc.) on the development of Eurasian transport corridors took place.



**400**  
participants

**34**  
countries

#### Employees' opinion:

**90%**

versatile topics

**92,67%**

useful knowledge

#### Guest lecturer with the highest valuation:



**Gerd Leonhard,**  
Switzerland, Futurist, Humanist,  
"The Futures Agency" Executive Director

#### The most significant speeches for the industry :



**Lars Nennhaus,**  
Duisburger  
Hafen AG



**Zafer Engin,**  
DHL Global  
Forwarding



During the year 2017, LDz took active participation in the activities of the leading business organisations - Employers' Confederation of Latvia and the Latvian Chamber of Commerce and Industry (LCCI), related to the improvement of the business environment of Latvia, development of tax policy and cooperation of business organisations in external markets. LDz was author of the idea and one of the leading partners of the LCCI in the **establishment and operation of the national pavilion of**

**Latvia at the international trade fair "Astana EXPO 2017" in the capital of Kazakhstan.** Kazakhstan is one of the most important Asian partners of Latvia in the transport and logistics industry, therefore participation in this event was especially important and resulted in closed cooperation at international level by welcoming in Riga in the autumn of 2017 the first container train from Urumqi in China, which ran to Latvia through Kazakhstan.



The number of visitors of Latvian pavilion

**264,784**



The average number of visitors per day

**2,847**



**4**

Transport and logistics industry events organised by Latvia



## Environment

For the purposes of efficient solution of the environmental matters, in 2017, LDz introduced the Environmental and Energy Management Programme, aimed at reduction of the negative impact of economic activity of LDz on the environment, including prevention or reduction of the volume of polluting substances being released into the environment, reducing the noise levels and consumption of energy resources.

The following have been identified as essential consumers of energy resources: fuel consumption of shunting locomotives, consumption of thermal energy for the heating of buildings, consumption of electricity for the heating of railway switches and external lighting. Key measures for the improvement of energy efficiency – modernisation of the fleet of shunting locomotives and optimisation of heat supply systems (closing of small, ineffective boiler houses, change of fuel for more environment-friendly, reconstruction and modernisation of heating units, use of centralised heat supply, heat insulation of buildings, modernisation of the external lighting systems of station parks and platforms) enabling not

only the saving of fuel and electricity by reducing the specific consumption of fuel, thermal energy and electricity, but also reduction of greenhouse gas emissions.

Every year, LDz responds to the call to take care of the cleanliness of the environment, therefore it actively participates in the Big Clean-up by organising clean-up with the participation of the employees a day before. Hundreds of employees of the Group company engage in the event by cleaning up the territories under the management of LDz, as well as by assisting their friends and helping in refurbishing of the Parents' house of the Children's Clinical University Hospital, territory of Rauda Primary Boarding School, as well as helping in putting in order of the places of residence of the retired railway workers in Jelgava, Daugavpils, Tukums, Ventspils and Riga. In recent years, special attention is paid during the Big Clean-up to the greening of the territories in the vicinity of railway and the daily working environment of railway workers. However, waste must be collected at separate places, especially along the railway tracks.

**In 2017, 243 employees engaged in clean-up works.**





## ETHICS

G4-56

**Three essential tools** promoting ethical action both within the framework of the Group companies, and when contacting with cooperation partners have been introduced at the LDz Group companies.

G4-57

G4-58

Since 2 December 2014, every employee of LDz and subsidiaries thereof is obliged to comply in the daily work with the **Code of Ethics**, which determines the fundamental principles of the best practice and professional ethics and behaviour of the Group companies. Principles included in the code must be complied with, when performing professional duties, during mutual interaction, as well as during relations with the shareholder, public, municipal and non-governmental institutions, clients, suppliers and other third parties.

Any violations of the Code of Ethics must be reported to the Commission for the Corporate Social Responsibility, which is obliged to examine the possible violation and decide on further actions.

The Code of Ethics is published and available to public at the website of LDz.

To prevent possible cases of fraud, corruption and conflict of interests, **Fraud Prevention Policy** of the “Latvijas dzelzceļš” Group companies was approved on 4 March 2016. Goal of this policy is to establish the environment of internal control, which would provide identification of the possible cases of fraud, determine the levels of responsibility for the assessment of control measures and investigation of the possible cases of fraud. Fraud Prevention Policy is closely related to the Code of Ethics, and supervision thereof and

conducting of control in the Group companies is the responsibility of the Head of the Fraud Prevention of the Group companies – Director of the Security Directorate. In 2017, the Fraud Prevention Division operating under his supervision received 24 reports, and seven of them resulted in reports to the company’s management (see page 94 for more detailed description of the policy and instruments thereof).

Reports to the Fraud Prevention Division may be submitted by using the website of LDz – intranet anonymous reporting form as well as on-site, by the phone or e-mail.

On 6 April 2017, fundamental principles of the business ethics of the cooperation partners of the “Latvijas dzelzceļš” Group companies were approved. They must be complied with by every cooperation partner of the Group companies, and these fundamental principles apply to both the partners selected through the procurement procedures, and other contractual parties supplying goods or services to LDz. **Fundamental principles of the business ethics of the cooperation partners** apply to the working environment, taxes and permits of commercial activity, fair commercial practice and good governance. Before commencement of cooperation with LDz or any subsidiaries thereof, business partners are obliged to become familiar with these principles and confirm compliance therewith providing guarantees that these principles will be complied with the involved employees.

Fundamental principles of the business ethics of the cooperation partners are public and publicly available at the website of LDz.



## SUPPLY CHAINS, PARTNERS

G4-12

LDz as one of the leading transport, logistics and infrastructure companies in Latvia and the Baltic States operates in connection with other market participants and cooperation partners, therefore, upon the development of the first GRI sustainability report, the range of the company's stakeholders was identified in 2016. This provides clarity and vision to LDz for more successful operation in the industry and promotion of the economic growth of both its own and the state. Upon the preparation of the first report based on the GRI guidelines, LDz identified stakeholders – suppliers, clients and other partners, ascertained their view on the topical areas of operation of LDz and established a “radar” of stakeholders, clarifying the mechanism of relations with each stakeholder.

LDz is 100% state-owned company, and the operation thereof is supervised by the Ministry of Transport. Relations between both parties are governed by the laws of the Republic of Latvia – Law On Governance of Capital Shares of a Public Person and Capital Companies, as well as the Regulations of the Cabinet of Ministers, however, daily cooperation with the ministry, as well as the institution supervising the industry is also very close.

LDz cooperates also with other participants establishing the common development of the industry – industry associations, port authorities and other organisations.

The Latvian Railway and Transport Workers Union (LDzSA) is a significant stakeholder, as LDz is one of the largest employers nationwide, furthermore, the company has strong social dialogue traditions. Multi-annual contract governing mutual relations has been concluded with the LDzSA, furthermore,

collective agreement or agreement between the employer and trade union for the guaranteeing of the employees' rights is effective. The collective agreement provides for fringe benefits and advantages for every employee of the LDz Group companies depending on the length of service, marital status, work load, involvement in the training of new specialists and other factors. Employee is not obliged to be a member of the LDzSA to receive the fringe benefits.

Furthermore, relations with clients, which, in the case of LDz are freight and passenger operators, are also important within the industry. Mutual cooperation with clients is governed by the methodology for the determination of infrastructure fee, which defines financial liabilities of both parties. Upon planning of projects for infrastructure modernisation and development, LDz takes into account industry needs and interests by timely involvement of all parties into discussion on the planned development projects.

Relations with the suppliers are governed by the Law On the Procurement of Public Service Providers, because LDz is 100% state capital company. Suppliers of goods and services selected through the procurement procedures and otherwise are subjects to the Fundamental principles of the business ethics of the cooperation partners developed by LDz.

LDz has several partners in the non-governmental sector, and cooperation with these stakeholders is implemented with the participation in the management structures thereof, involvement in particular activities and projects, as well as on the level of mutual consultations.



## RESPONSIBILITY TO EXTERNAL INITIATIVES

G4-14

LDz is one of the largest companies in Latvia with significant number of employees and amount of taxes paid to the state and municipal budgets, therefore it is important for the company to establish and maintain good relations with the external stakeholders and to treat their initiatives responsibly. In 2017, LDz continued participation in various external initiatives, thus promoting responsible commercial practice and striving for better corporate governance.

G4-15

For the second year, the company's effort in the area of sustainability **received Golden category evaluation in the Sustainability Index organised by the Institute of Corporate Sustainability and Responsibility**. The company received such evaluation for the first time in

2016 after several years of reception of Silver category. LDz subsidiary

SIA "LDz Cargo" entered the Silver category in 2017, while debut of SIA "LDz ritošā sastāva serviss" was awarded Bronze category. LDz is planning participation at the Sustainability index also in 2018, by improving performance of the already involved subsidiaries.

In 2017, LDz participated in the **"Responsible Business Week"**, organised by the Institute of Corporate Sustainability and Responsibility, and shared its experience on introduction of LDz bank of ideas as a tool for the promotion of employees' motivation, loyalty and active involvement in the company's development.



In 2017, LDz engaged in the **pilot project on the assessment of the companies' corporate governance organised by the Baltic Institute of Corporate Governance**, which is organised simultaneously in all three Baltic States and the results of which will be available in 2018.

Along with the self-organised business events, LDz participates on regular basis in conferences and seminars organised also by other partners, engages in discussions regarding matters, which are important for the industry and national economy. In 2017, significant part of the time was contributed to the exami-

nation of various matters related to transport and logistics industry and discussion thereon both with the representatives of the industry associations and public institutions. Discussions on several matters related to the railway infrastructure were especially important, furthermore, LDz has provided information to the Saeima (Parliament), Cabinet of Ministers and industry discussions of various formats, and introduced with its position in matters related to electrification of railway network, Indicative Railway Infrastructure Development Plan, multi-annual contract and fee for the use of railway infrastructure.



The company also actively engages in the work of business organisations to solve more comprehensive matters, including – by submitting its opinion and sharing its experience in matters of tax policy, education corresponding to the labour market, development of international economic relations, and other. Considering the international nature of railway industry and perspectives of the cross-border development, LDz has actively engaged in the work of both the organisations of the railway industry of the European Union, and industry organisations of the CIS countries. Furthermore, in 2017, Edvīns Bērziņš, President of the company, was approved as a Member of the Management Committees of the International Union of Railways European Region, where he serves as the only representative of the Baltic States.

## ACTIVITIES IN INDUSTRY AND PUBLIC ORGANISATIONS

G4-16

LDz as one of the largest employers and taxpayers is aware of its role in the promotion of the economic growth of the state and has engaged in establishment of transparent and responsible business environment, which is based on mutual cooperation. To implement this, listening to the opinions and proposals of the cooperation partners, active discussion and protection of the own opinion and interests is important. It is possible by co-participation in various non-governmental organisations, which are directly or indirectly related to the railway industry and promotion of the best practice in the business environment.

LDz acts in the member status and protects its interests in several national level non-governmental organisations, including Latvian Transit Business Association (LTBA), Employers' Confederation of Latvia (ECL), Latvian

Chamber of Commerce and Industry (LCCI), Latvia-China Business Council, the Baltic Institute of Corporate Governance and the Institute of Corporate Sustainability and Responsibility.

LDz is represented in the management of several organisations, among other – Edvīns Bērziņš, President of LDz, is also Vice-President of the ECL and Co-chairman of the Latvian part of Latvia-Belarus and Latvia-Kazakhstan Councils of Business Cooperation. E. Bērziņš is also the Presidium Member and Council Member of the LCCI and Board Member of the leading industry organisation LTBA. Ainis Stūrmanis, Vice-President of LDz, is the Chairman of the LCCI Transport Infrastructure Committee, while Aivars Strakšas, Vice-President of LDz, co-participates in the LCCI National Strategy Council.



### LATVIAN TRANSIT BUSINESS ASSOCIATION (LTBA)

LDz is a member of this organization, and Edvīns Bērziņš, Chairman of the Board of LDz, is a Board Member of LTBA since 2016. The association unites the industry participants (infrastructure managers, operators, port companies, logistics companies, etc.), jointly resolving matters crucial for industry development. In 2017, discussions on several essential matters related to the development and maintenance of railway infrastructure, including the Latvian railway network electrification project, development of the Indicative Railway Infrastructure Development Plan and matters to be included therein, procedures for the calculation of fee for the use of public railway infrastructure and the amount thereof, as well as possibilities to enter new markets of transport and logistics industry and the development of logistics offers, were held in the sittings of association.





## EMPLOYERS' CONFEDERATION OF LATVIA (ECL)

LDz has been a member of the ECL since 1996, and E. Bērziņš, the Chairman of the Board of LDz, has been the Vice-President of the ECL since 2016, thus being also a member of the National Tripartite Cooperation Council. E. Bērziņš is also a Co-Chairman of the cooperation formats established by the ECL: Latvia-Belarus and Latvia-Kazakhstan Councils of Business Cooperation and the Tripartite Cooperation Council of Transport and Communication Industry. In 2017, LDz has participated in the state tax policy discussions within the ECL, consulted with the ECL about the implementation of railway electrification project, as well as promoted international cooperation with the companies from countries of Eastern Europe and Central Asia, participated in mutual meetings of international organisations and discussed on shared goals of the development of national economy.



## LATVIAN CHAMBER OF COMMERCE AND INDUSTRY (LCCI)

LDz has been a member of the LCCI since 2014, and E. Bērziņš, the Chairman of the Board of LDz, has been the Council Member and the Presidium Member of the LCCI since 2015. In 2016, the company initiated the establishment of the Transport Infrastructure Committee at the LCCI, thus promoting the establishment of the industry discussion platform and, as part of it, also examining matters crucial for industry development and developing the Guidelines for Transport and Logistics Infrastructure Management approved by the Presidium of the LCCI. In 2017, LDz participated in discussion of laws and regulations affecting and regulating both the transport and logistics industry and various other laws and regulations affecting the environment of the commercial activity, including participation in the examination and discussion on the new tax policy guidelines and related draft laws within the framework of the LCCI National Strategy Council.

Participation of the Latvian entrepreneurs at "Astana EXPO 2017" in the capital of Kazakhstan organised by the LCCI should be considered as the most crucial cooperation project of 2017. LDz was one of the leading participants of the Latvian pavilion, as well as organizer of the Transport and Logistics Week taking place during the trade fair in July 2017.



## LATVIA-CHINA BUSINESS COUNCIL

LDz has been a member of the organisation since 2015 and uses contacts and negotiation mechanisms established by the organisation within the framework thereof for the promotion of cooperation with the market of China, which is essential for the transport and logistics industry of Latvia and participants thereof. In 2017, exchange of information on the most crucial internal processes of China, which affects cooperation in the economic aspects, took place.



## INSTITUTE OF CORPORATE SUSTAINABILITY AND RESPONSIBILITY

LDz has been the corporate member of the institute since 2016 and becomes involved in the operation thereof by participating in the assessment of the annual sustainability index and improving its own performance therein on annual basis, as well as participates in the good practice exchange events organised by the institute (seminars, training, Responsible Business Week). In 2017, the company's specialists shared their experience related to the establishment of the LDz bank of ideas both during the Responsible Business Week and in the seminars for the employers organised jointly by the institute and the State Labour Inspectorate.





## BALTIC INSTITUTE OF CORPORATE GOVERNANCE

LDz has been the corporate development member of the institute since 2016 and participates in the good practice exchange events organised by the institute in Latvia and abroad, in top management training, public seminars and conferences. In 2017, the company applied for participation in the assessment of corporate governance, which is established by the institute and takes place simultaneously in 15 companies in the Baltic States. Assessment will be closed in the middle of 2018, when there will be a chance to become familiar with the results, recommendations and comparative analysis thereof.



## RAILWAYMEN ASSOCIATION OF LATVIA (LDzB)

LDz has been the legal member of the association since 2003. The association unites more than 1'000 railway industry professionals in Latvia, and involvement of LDz therein is quite logical, taking into account the high number of industry participants represented therein. The company engages in activities for railway engineers organised by the association, as well as in various public activities aimed at strengthening the railwaymen community. In 2017, Engineering Technical Society of LDzB organised Days of Railway Engineers by involving the members of the association in the development of ideas for the LDz bank of ideas. The bank of ideas received five practical and technically implementable ideas, the implementation of which is assessed.

## PARTICIPATION IN INTERNATIONAL ORGANISATIONS

LDz has engaged in the leading railway organisations of the European Union - Community of European Railways and Infrastructure Managers (CER), International Union of Railways (UIC), International Rail Transport Committee (CIT) and Collaboration of Railway Police and Security Services (COLPOFER). Furthermore, active cooperation is implement-

ed with the organisations of the CIS countries, because major part of freight traffic provided by LDz is related to the countries of this region, furthermore, cooperation with the countries of Asian region is also strengthened.

Promotion of international cooperation was one of the main focuses of the activity of LDz in 2017.



## The International Union of Railways (UIC)

Coordinates cooperation in topical matters between railways at global level, thereby promoting a coordinated operation of railway systems. The organisation unites 194 members from across the globe. The UIC develops standards and promotes development of innovations in railway industry. Members of the organisation are regularly informed on the main processes, documentation and new regulations allowing for the forecasting of legal and technical changes in the industry. Participation in the organisation provides an opportunity for timely planning of these innovations and integration thereof in the business management processes. LDz is currently engaged in work groups dealing with matters of security, statistics and documentation, as well as in the

development of the railway data exchange RailTopoModel, which would be especially important in the harmonisation of network reports. Twice a year, LDz participates in the UIC General Assembly and Security Congress.

**Approval of E. Bērziņš, President of LDz in the office of a Member of the UIC Management Committee in December 2017 is a remarkable achievement for Latvia.** Work in the Management Committee provides opportunity for LDz to promote recognisability of Latvian and Baltic region by cooperating with the largest European railways, to express position of LDz according to the interests of the transport industry of Latvia and find new development opportunities.



Key matters of the UIC work programme are – development of the corridors of the European railway network, development of the European – Asian transport corridor, funding for the infrastructure development, digitalisation of railways and convenient, connected mobility. Work continues on the development of uniform standards, and on the research and sustainable development programmes, as well as security matters. In 2017, project manage-

ment manual was finished, and it is freely available to the members of the UIC, furthermore, pilot project of the quality management system QMS (Quality Management System) in the European Region was finished. 11 organisations – members of the UIC – participated in the pilot project. During the following two years, QMS will be introduced also in the UIC organisation itself and among other member organisations.



## Community of European Railway and Infrastructure Managers (CER)

Unites companies of European railway infrastructure, as well as operators. CER represents the interests of their members in making of the EU policy, mainly to support and promote more efficient business and legal environment in the industry. At the moment, the organisation unites more than 70 members and partners. LDz works in the CER assistant work groups, environmental and infrastructure, customs, legal, passenger and freight traffic, application TAF TSI development (application provides standardised information exchange in real time among railway companies involved in traffic process, for example, regarding delays, cancelled journeys and missed connections) and human resources director work groups.

**In the end of 2017, Edvīns Bērziņš, President of LDz, was simultaneously approved in the Management Committees of both UIC, and CER, thus gaining opportunity for active involvement in discussion of the railway industry policy of the European Union.**

Main priorities of CER and railway industry are – introduction of the Technical Pillar of the Fourth Railway Package, cooperation of the European railways in the area of ticket system and data exchange, development of innovation and digitalisation, including the area of alarm systems and automatically controlled trains, as well as the development of new freight corridors and improvement of conditions of inter-modality.

In the end of 2017, decision was adopted for LDz to engage also in the operation of the platform PRIME of the infrastructure managers

and performers of essential functions, established by the European Commission. Participation in PRIME is binding on all European infrastructure managers, and one must join it by the end of 2018, at the very latest.

PRIME commenced its activity in 2013 with the aim to establish uniform cross-border cooperation platform of infrastructure managers for the development of the European railway network. It includes cooperation in the establishment of corridors of the basic network, corridors of the railway freight traffic and implementation of the introduction plan of the European Railway Traffic Management System (ERTMS), as well as experience and good practice exchange. The European Commission also engages in the operation of PRIME to communicate directly with railway companies and identify the industry problems by jointly working on solutions.

Plenary sessions are organised twice a year, as well as operation in several sub-groups on the expert level (in the areas of digitalisation, financial matters, determination of uniform performance indicators or industry KPI, legal framework, security, fee collection, cooperation with the regulatory institution, etc.) takes place within the framework of PRIME. LDz has an opportunity to participate in work groups, provide its view and express its position on matters important thereto, thus – to participate in the making of the European Union railway policy. Participation in the new transport corridors is very crucial for LDz, and development of transport corridors is one of the key matters of the PRIME agenda.





International Rail Transport Committee  
Comité international des transports ferroviaires  
Internationales Eisenbahnttransportkomitee

## International Rail Transport Committee (CIT)

Helps the railways to introduce laws of international rail transport. Develops and maintains information on publications and documents of legal content related to international railway traffic, standardises contractual relations between clients, operators and infrastructure managers, as well as represents interests of the operators in negotiations with legislators. European Union Agency for Railways (EURA) handles matters on introduction of the European Union directives and laws. From 2019, the

agency will be an institution authorised by Europe, which will issue uniform EU safety certificates to the operators and permits for operation in more than one country. Representatives of the LDz subsidiary SIA “LDz Cargo” have engaged in this organisation by participating in the CIT/OSJD (CIT/ Railway cooperation organisation) work group on CIM/SMGS consignment note, as well as by participating in the General Assembly.



## Collaboration of Railway Police and Security Services (COLPOFER)

Unites the forces of railway companies and railway police to create a common approach for security in the European railway system. A common task of the organisation is protection of humans, properties and assets in the railway territory from destruction thereof and criminal activities. Experts of LDz participate in this organisation in the work groups “Protection against terrorist activities” and “Cyber Security”, where matters on action in case of terrorist act or threats are handled, as well as experience exchange on the best multilateral assistance with the representatives of power and other railway companies, as well as matters related to IT security. Major conferences with the participation of the representatives of LDz take place twice a year.

Major conferences with the participation of the representatives of LDz take place twice a year.



## European Agency for Railways (now – European Union Agency for Railways; EURA).

Upon coming into effect of the Technical Pillar of the Fourth Railway Package, cooperation of the European railways, the European Agency for Railways is replaced by the European Union Agency for Railways. The Agency handles the matters related to the introduction of the European Union directives and laws.

From 2019, the agency will be an institution authorised by Europe, which will issue uniform EU safety certificates to the operators and permits for operation in more than one country, and conduct pre-verification of ERTMS infrastructure grants.



## OSJD (Organisation for Co-Operation between Railways, ОСЖД)

Organisation for Co-Operation between Railways develops cooperation in the area of railway transport, working on creation of a uniform railway area in the Eurasian region and increasing competitiveness of the transcontinental traffic. OSJD has 28 Member States, seven railways in the observer status and 40 companies in the status of joined (associated) companies. Structure of the organisation consists of five commissions and two work groups, and experts of LDz participate in the meetings of works groups and commissions

organised by the committee on regular basis, as well as in the annual Conference of General Directors and in the session of the meeting of Ministers. LDz organises also meetings of the committee in Latvia according to the principle of rotation, and, in 2017, ETT (uniform transit tariff) and SMGS Annex 2 meeting on the regulations for freight fastening took place in Latvia. These events brought together railway experts from several Member States of the OSJD for the work with the documents and exchange of expert opinions in the topic of updated cooperation.





### Rail Transport Council (CSŽT/ЦСЖТ)

Coordinates the work of 1520 mm gauge track railway administration. There are currently 18 Member States in the organisation. Members of the organisation mutually resolve both operative matters and matters on future cooperation. CSŽT consists of nine commissions, 15 work groups and five expert groups in various areas. During the operation CSŽT has prepared more than 260 agreements, regulations, instructions and other regulatory documents aimed at the development and technological unity of rail freight and passenger transport.

In the autumn of 2017, 67th meeting of the Railway Transport Council took place in Riga after seven-year break. Meeting of the Council is the most important event of CSŽT, which takes place twice a year and where managers of the railways of all member states jointly adopt decisions related to solutions in the area of railway operation and tariffs for the use of freight wagons. Approximately two hundred participants took place in the two-day event, which took place in Riga - including managers of railways from Russia, Belarus, countries of Central Asia, Iran and other member states of the organisation.



### Coordination Committee for Trans-Siberian freight carriages (KSTP/КСТП)

The main goal of action is to increase freight volumes on the Trans-Siberian major line and development of freight traffic on the route Asia - Europe by using railway infrastructure. Developing the traffic in the transit corridor of Latvia, in 2017, LDz in cooperation with partners organised test train Yiwu - Riga, which came to Riga via Trans-Siberian major line. KSTP pays great attention to the develop-

ment of container trains every year organising meetings of experts and discussing the current situation and development plans in relation with the container trains "Baltika Tranzīts" and "Zubr" organised by the LDz subsidiaries. KSTP unites railway companies, ports, shipping companies, public institutions, operators and forwarders.

### LDz is also a member of the following organisations:

- Latvian-Belarusian Economic Relations Promotion Association
- Latvian Rail Employer organization
- Latvian Human Resources Management Associations
- Latvian Telecommunication Association
- International Council of Museums
- Latvian Museum Association



## IDENTIFICATION OF ESSENTIAL ASPECTS, INVOLVEMENT OF STAKEHOLDERS

G4-18

G4-19

G4-24

G4-25

G4-26

During the development of the Sustainability Report 2017 in accordance with GRI guidelines, LDz relied both on its own view on essential sustainability aspects and the assessment of the stakeholders which was conducted with the help of more than 10 individual and group interviews, when preparing the report for 2016.

For this purpose, an LDz supply value chain was established – identifying both the suppliers, clients and other partners with the highest mutual influence with LDz. Applying the study

matrix of stakeholders and determining the essential interested parties in the creation of added value from the viewpoint of the supply chain, both internal and external interested parties were identified. On the basis of this study, Radar of stakeholders was established and the essential representatives of each stakeholder were determined, whose opinions were identified in the process of preparation of GRI report. Obtained opinions were used also for the preparation of the sustainability report 2017.



### 1. Identification of interested parties

*Determination of the organisations and companies with the highest importance in the process of creation of LDz added value*



### 2. Identification of potentially essential aspects

*Identification of the aspects specified in GRI G4 guideline materials and selection of the aspects potentially important for the operation of LDz*



### 3. Identification of truly essential aspects

*Assessment of potentially essential aspects, determining the most significant ones both for LDz and the identified stakeholders during interviews*



### 4. Determination of material aspects

*Identification of the content of the report and determination of boundaries for the essential material aspects*



### 5. Reporting on the essential aspects in the sustainability report for the year



For the purposes of determination of the most essential economic, social and environmental aspects related to the operation of LDz, LDz conducted research and interviews with the identified and selected stakeholders, furthermore, view on the LDz sustainability aspects was ascertained. Stakeholders were interviewed regarding aspects related to aspect related to the operation of LDz: economic influence, social aspects and aspects related to public security, environmental impact, corporate governance, working environment and other areas.

G4-20

G4-21

G4-27

**Radar of stakeholders**



On the basis of the Radar of stakeholders, the most important representatives of each stakeholder were identified, whose opinions were identified in the process of preparation of GRI report (inclusion of wider circle of stakeholders is planned during the process of preparation of the future reports).

External stakeholders	Internal stakeholders
<p><b>CLIENTS</b> AS "Pasažieru vilciens", SIA "Baltijas Tranzīta serviss", SIA "LDz Cargo"</p>	<p><b>SHAREHOLDER</b> Ministry of Transport</p>
<p><b>SUPPLIERS</b> (providers of operational resources) AS "Swedbank"</p>	<p>Council of VAS "Latvijas dzelzceļš"</p>
<p><b>COOPERATION PARTNERS</b> Association of Disabled Persons and Their Friends "Apeirons"</p>	<p>Development Directorate</p>
<p><b>EDUCATIONAL INSTITUTIONS</b> Riga Technical University</p>	<p>Trade union of LDzSA</p>
<p><b>ENVIRONMENTAL ORGANISATIONS</b> Latvijas Zaļais punkts</p>	<p>Board of VAS "Latvijas dzelzceļš"</p>
<p><b>ASSOCIATIONS</b> Latvian Association of Large Cities, Employers' Confederation of Latvia</p>	

When preparing the first report based on GRI guidelines, LDz conducted research and interviews with all the above mentioned internal and external stakeholders. During the interviews, essential economic, social and environmental aspects related to the operation of LDz were assessed. Furthermore, their view on sustainability aspects applied by GRI G4 to the companies of all industries was identified during the interviews. At the same time, GRI guidelines stipulate that road transport (highways and railways) have 25 additional aspects, the assessment or inclusion of information of which into the sustainability report is recommended, since they are internationally recognised as essential for various stakeholders – especially in the railway industry. These may be considered as a recommendation or proposal of the stakeholders regarding areas the supervision of which or reporting of which is essential to the company.

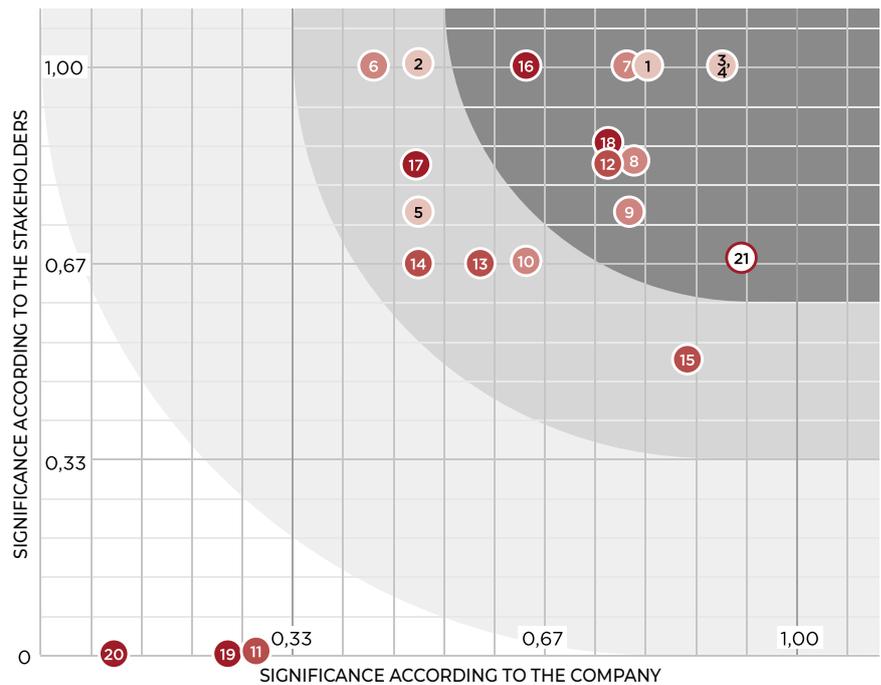
After assessment of the operation of LDz and studying of the interested parties, four of the mentioned 25 aspects laid down in GRI industry guidelines were brought forward and included in the interviews with the stakeholders and in the essentiality matrix.



Sustainability category	Topics
Environmental dimension	Sounds and vibration
Social dimension	Land use right Environmental accessibility for disabled persons
Other	Corporate governance (gender equality in management positions)

A Materiality Matrix of aspects was created according to the assessment of internal and external interested parties on materiality of aspects in essentiality dimensions. This matrix shows that both internal and external stakeholders consider indicators of the economic impact of LDz and a few environmental impact indicators as the most essential aspects, while several indicators related to the society and working environment were indicated as less essential.

At the same time, it should be noted that the summary of interviews shows there are no essential differences in the assessment of internal and external stakeholders, with the exceptions of matters related to very specific areas or internal company’s environment, which did not seem essential to the external stakeholders.



**ECONOMIC RESPONSIBILITY**

- 1. Company’s performance in the national economy
- 2. Created and divided value of the company
- 3. Financial support received
- 4. Indirect economic influence
- 5. Procurement practice



**ENVIRONMENT**

- 6. Consumption of resources
- 7. Energy consumption and **energy efficiency**
- 8. Emissions, waste waters, waste, **soil pollution**
- 9. **Noise and vibrations**
- 10. Environmental impact of service



**EMPLOYEES AND WORKING ENVIRONMENT**

- 16. Long-term strategy to attract employees
- 17. **Labour safety**
- 18. Employee growth
- 19. Discrimination of employees
- 20. **Corporate management** of company (in the context of gender equality)



**PRODUCT LIABILITY**

- 21. Client safety



**COMMUNITY**

- 11. **Land use rights**
- 12. **Environmental access for people with disabilities**
- 13. Anti-corruption measures
- 14. **Political accountability**
- 15. Measures to restrict competition





## ECONOMIC IMPACT

### MANAGEMENT APPROACH

G4-DMA

According to the public data, LDz is among the most valuable companies of Latvia, furthermore, during the last decade, the company has managed to improve significantly these positions. List of the most valued companies of Latvia compiled by “Prudentia” and “NASDAQ Rīga” shows that value of LDz has grown 3.8 times or has become nearly four times higher since 2007. During the ten years since the implementation of the reorganisation by separating railway traffic from the holder of infrastructure and establishing clear structure and operational model of the Group companies, the company has managed to climb from the 17th position in the list of the most valued companies of Latvia to the fourth position.

Besides, the company was among the largest employers and taxpayers nationwide in 2017, which means that it has significant influence in the development of national economy. Essential role in the economics was stressed as the most crucial area of influence also by all representatives of the stakeholders identified by the company in 2016.

To clarify the scope and volume of influence, in 2017, LDz has commenced development of detailed research of macroeconomic impact of transport and logistics, which will allow for more efficient planning of the development of

both the Group companies and the company, and to provide weighted and justified proposals for the decision makers for the preparation of development planning documents for the following periods.

In 2017, LDz continued active co-participation in the non-governmental organisations, which the company considers as an essential area of operation for the strengthening of the economic impact of its own and the state, for the promotion of protection of its interests, as well as for taking care for the employees’ interests. LDz is an active member or partner in the government social partners – large non-governmental organisations protecting the interests of employers, employees, as well as merchants at the top level (Employers’ Confederation of Latvia, Latvian Chamber of Commerce and Industry and Free Trade Union Confederation of Latvia), thus engaging in the discussions of macroeconomic processes at the top level.

LDz as the maintainer of the public use railway infrastructure is obliged to take care of good quality and compliance thereof with both national and international requirements. For this purpose, LDz uses the opportunity to attract funding of the European Union, when implementing projects related to the modernisation of the railway infrastructure.



At the company's level, LDz improves internal control and supervision processes to provide as clear governance and management of all Group companies as possible. At the same time, being aware of the actual situation

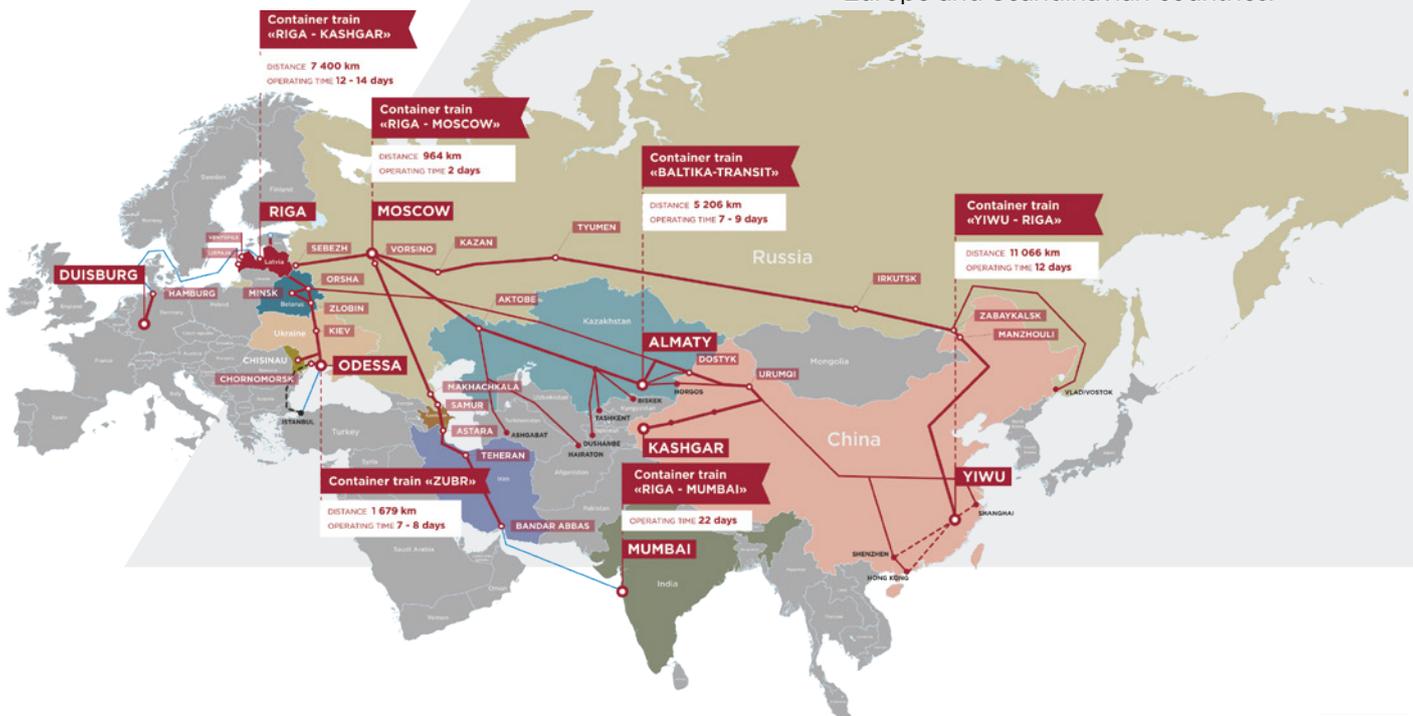
in the industry, internal organisation of processes and division of functions is reviewed conducting restructuring, which allows for reduction of the overlap of functions and provision of the economy of resources.

## ESSENTIAL EVENTS IN 2017



Transport and logistics industry continued undergoing changes in 2017, and, to preserve the international competitiveness and retain stability in the varying situation, LDz was supposed to react consistently to changes and adapt thereto. With Russia concentrating more attention to the development of its own ports, freight flow from this country kept decreasing.

Lithuania tried to become more active in the logistics industry by promoting the opportunities provided by the port of Klaipeda. Under the influence of these conditions, LDz in cooperation with other participants of the industry (especially the large ports of Latvia) actively engaged in the development and offering of new routes of logistics from the Asian region to the ports of Latvia and further - to the Western Europe and Scandinavian countries.



The potential of Latvia as a crucial transit hub was confirmed by the agreement signed by LDz with the leading air, maritime and road freight operator “DHL Global Forwarding” in the end of June 2017. Memorandum of cooperation provides for the cooperation between both organisations for the creation of multi-modal connections between China and Latvia, including – by the establishment of connections of freight traffic, and consolidation of services by creating the centre in Riga. In the beginning of November, “DHL Global Forwarding” visited Riga and became familiar with the offer and opportunities of the transport and logistics industry of Latvia.

Kazakhstan has also identified a huge cooperation potential and selected Latvia as its main hub of freight logistics in the Baltic States. On 29 September, during the visit of Askar Mamin, Vice-Prime Minister of Kazakhstan, E. Bērziņš, President of LDz, and Sanzhar Yelubayev, Vice-President of Kazakhstan railway, signed a memorandum on cooperation in the development of transit routes, including joint effort in the development of emerging logistics centre of the port of Khor-gas located on the border of Kazakhstan and China and provision of new transit flow. A few weeks later, the first container train from Urumqi in China, which ran to Latvia through Kazakhstan, was welcomed in the port of Riga.

Belarus is one of the long-standing partners of LDz, therefore, for the purposes of promotion of cooperation, in January 2017, permanent establishment of LDz was opened in Minsk, whereas, on 3 October, LDz and Belarusian railway signed an agreement providing for offer the clients faster and more beneficial freight traffic between

Riga and Minsk, as well as the development of a new offer – freight express “Minsk-Riga”, which, upon the client’s request, could be dispatched from Minsk to Riga or in the opposite direction within 28 hours. The first run of this express train in the beginning of 2018 reached Minsk even faster – slightly over 20 hours.

On 2 August, Latvia-Russia railway work group met in Riga for the first time in four years. During the meeting, an agreement was reached to continue mutual cooperation to increase volumes of freight of the Eurasian countries, including India and China, within the framework of the transport corridor North-South using the railway infrastructure of LDz and Russia. Within the involvement in the creation of Northern-Southern corridor, in 2017, LDz both participated in the meeting of the Business club of this transport corridor in Moscow, and met partners from India and Iran interested in the establishment of this transport corridor and provision of consistent freight flow.

To increase awareness of the potential partners and freight attraction to the transit corridor of Latvia, as well as to maintain relations with the current partners, in 2017, LDz together with the leading Latvian ports participated in international trade fairs: international transport trade fair “Logistics 2017” (India), international transport and logistics trade fair “TransRussia 2017” (Russia), trade fair “Transport Logistic 2017” (Germany), transport and logistics trade fair “Rail Expo 2017” (Iran), trade fair “CILF 2017” (China), trade fair “TransUzbekistan 2017” (Uzbekistan), trade fair “Trans-Kazakhstan” (Kazakhstan) and “China International Transportation & Logistic Expo” (CITLE; China).



Management of LDz has participated in international forums and conferences both in Europe and Asia - in the 27th international road machinery trade fair in Germany, XII international business forum “Strategic partnership 1520” in Russia, events of the Transit and logistics week in the trade fair “Astana EXPO 2017”

in Kazakhstan, the event called VI International Fair of Railway Equipment and Technologies “EXPO 1520” in Russia, meeting of KSTP General Assembly in China, international transport and logistics forum in Iran, as well as in the meeting of UIC 91. General Assembly in France.

## CREATED ECONOMIC VALUE

G4-EC1

Economic value created by LDz is characterised by the company’s financial indicators. Although the year 2017 may not be called a period of growth due to external economic circumstances, the company has been stable, maintained financial balance, increased the average remuneration by 3% and is still among the largest taxpayers to the state and municipal budgets.



Economic value created

**213.3 million EUR**



Revenue from primary activities

**180.2 million EUR**



Cost of services provided

**191.2 million EUR**



Remuneration paid

**69.2 million EUR**

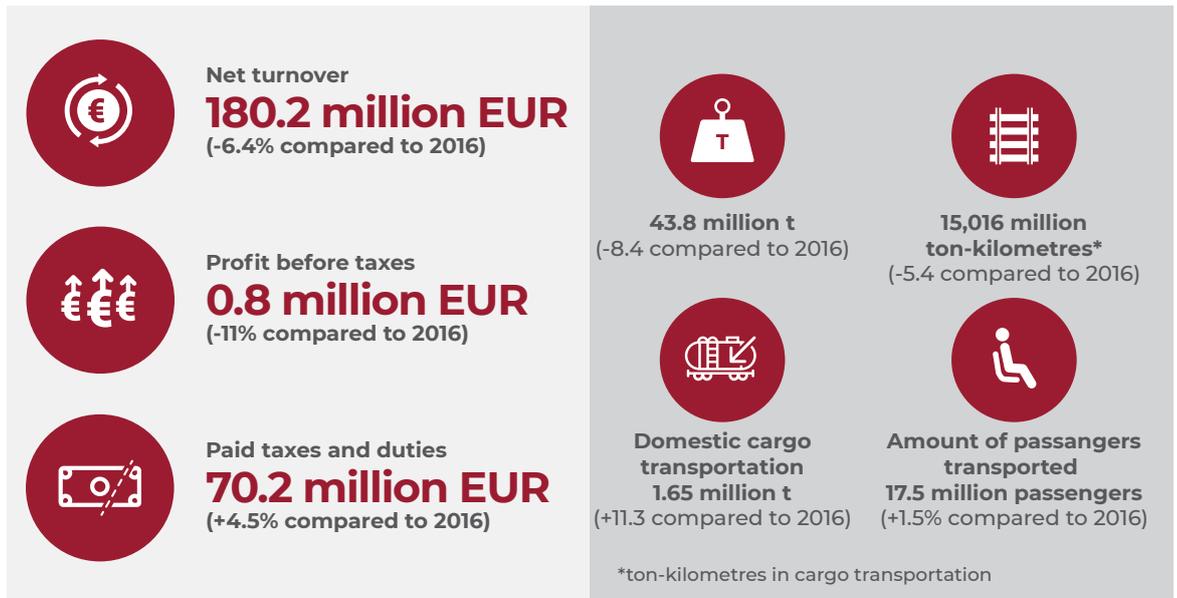


Administrative expenses

**15.1 million EUR**

In 2017, the company’s profit before taxes was 768 thousand euro, and this indicator also points at the ability of LDz to provide financial balance under less favourable market conditions. At the same time, the new Corporate Tax Law has entered into effect in January 2018, and the tax accumulated during the previous years and deferred may not be recognised any longer, while the previous accumulated amount of audit must be included in the company’s profit or loss statement. This factor has increased the profit of 2017 after taxes by 22.4 million euro. So far, the deferred tax was calculated taking into account the investments of LDz made on annual basis in the maintenance and modernisation of infrastructure.





## USE OF THE FINANCING OF THE EU FUNDS

G4-EC4

**Implementation of several large-scale railway infrastructure projects has been commenced in the EU funds 2014-2020 programming period**

### ELECTRIFICATION OF LATVIAN RAILWAY NETWORK

To improve efficiency of traffic, promote use of environment-friendly technologies and improve international competitiveness of the transit corridor of Latvian railway, LDZ is planning to implement full electrification of the main railway network (main railway tracks) with 25 kV alternate current technology, including reconstruction of the current electrified railway network, replacing 3.3 kV system with 25 kV system. Since the project is financially capacious, implementation thereof has been divided into several stages.

During the European Union funds and Cohesion Fund 2014-2020 programming period, implementation of the stage 1 of the project “Electrification of Latvian Railway Network” – electrification of Latvian railway network in the span Daugavpils–Krustpils, Rēzekne–Krustpils, Krustpils–Rīga (Šķīrotava) is planned within the framework of the measure 6.2.1.1 “Electrification of Latvian Railway Network” of the specific support goal 6.2.1 “Provision of Competitive and Environment-friendly TEN-T Railway Network Promoting Safety, Quality and Capacity Thereof” of the action programme “Growth

and Employment” by attracting the funding of Cohesion Fund in the amount of 347 million euro.

The project will allow the freight operators to reduce the costs of the operation of rolling stock and energy by nearly 2.5 times, furthermore, electric traction is especially efficient in case of heavyweight freight trains, thus improving international competitiveness of Latvian transit corridor.

The project is an essential contribution to regional development, since implementation of the project mainly affects residential territories located outside Riga – especially in Latgale region, creating new jobs during the implementation of the project, as well as decreasing the unemployment rate in the region.

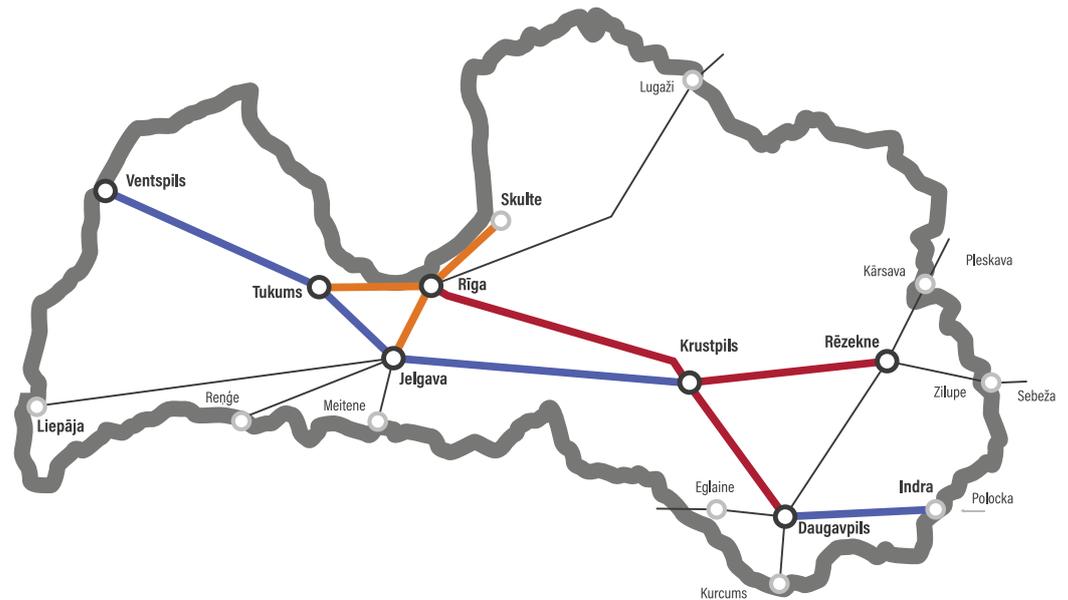
Simultaneously with the benefits for the national economy, the project provides essential contribution to reduction of CO<sub>2</sub> un NOX emissions, as well as contribution to the achievement of the national goals in the area of energy efficiency.



**Stage 1**  
314 km / until 2012  
(ESI Funds 2014 – 2020)

**Stage 2**  
376 km / until 2027  
(ESI Funds after 2020)

**Stage 3**  
Restoration of Pierīga electrical network / until 2030  
(transition from 3.3 kV to 25 kV)  
(ESI Fund after 2027)



**Proportion of electrification**



**14%**

(electrification to Riga – 30%)



**55%**

On average in Europe

Saved energy and labour costs during project implementation  
**358 million EUR**

Rolling stock operating savings  
**147 million EUR**

Influence on the state GDP  
**120 million EUR**

Investments in Latgale  
**250 million EUR**

Influence from reduction of CO<sub>2</sub> emissions  
**90 million EUR**

Influence from reduction of NO<sub>x</sub> emissions  
**132 million EUR**

Total costs of the first stage of the project account for 441 million euro, and no state funding will be attracted for the implementation thereof, providing co-funding of LDz instead.

Implementation of the first stage of the project is planned to be completed before the end of 2023, by announcing procurement procedure in 2018 for the contract on designing and construction works to be commenced in 2019.

**OTHER PROJECTS**

Work on the actions to be supported within the action programme “Growth and Employment”, priority axis “Sustainable Transport System”, specific support goal 6.2.1 “Provision of Competitive and Environment-friendly TEN-T Railway Network Promoting Safety, Quality and Capacity Thereof”, measure 6.2.1.2 “Modernisation and Construction of Railway Infrastructure” continued in 2017:

- Modernisation of Riga railway hub, span Sarkandaugava-Mangaļi-Ziemeļblāzma;
- Development of Daugavpils Marshalling Yard;
- Development of Daugavpils Reception Park and access roads;
- Introduction of uniform train traffic planning and management systems;
- Modernisation of railway passenger service infrastructure.



## Modernisation of Riga railway hub, span Sarkandaugava-Mangaļi-Ziemeļblāzma

The necessity of modernisation has been identified in the span Mangaļi-Ziemeļblāzma, which is a single-track span, although the line Rīga-Skulte, in which it is located, is a double-track span. Thus, district Mangaļi-Ziemeļblāzma is one of the problem points of the railway line Rīga-Skulte. Construction of the second rail track in the above-mentioned span, as well as modernisation of the centralisation of micro-processors aimed at the improvement of the processing capacity of Riga railway hub, significant reduction of the narrow

points of the hub and improvement of efficiency are the tasks to be accomplished as part of the modernisation project of Riga railway hub, span Sarkandaugava-Mangaļi-Ziemeļblāzma. Total foreseeable costs of the modernisation of Riga railway hub account for 25.0 million euro. Co-funding of the EU Cohesion Fund (85%) has been attracted for the implementation of the project.

**It is planned to complete the project by the end of 2022.**

## Development of Daugavpils Marshalling Yard

Under the circumstances of the current technological process of the operation of Daugavpils railway hub, it is complicated to provide consecutive and regular preparation and dispatch of freights, furthermore, the current automatic devices for the organisation of train traffic are technically and morally outdated due to their extensive period of exploitation.

Along with the development of Daugavpils railway hub infrastructure, the problem points identified therein will be significantly improved, as well as safety will be improved providing compliance of the railway infrastructure for train reception and dispatch with

market requirements, introducing an automatic and safe marshalling process of freight wagons, eliminating unsafe points of cut traffic, as well as taking care of the employees directly involved in the processes, thus significantly reducing the danger caused by the working environment.

Total foreseeable costs of the development of Daugavpils Marshalling Yard account for 36.62 million euro. Co-funding of the EU Cohesion Fund (85%) has been attracted for the implementation of the project.

**It is planned to complete the project by the end of 2022.**

## Development of Daugavpils Reception Park and access roads

By building a new reception park, the efficiency of railway infrastructure for the reception and dispatch of train-sets will be increased, including long train-sets outside Daugavpils City providing optimum process of reception, marshalling and dispatching of trains and eliminating mutual crossing of train routes and idle standing of trains, reducing the amount of marshalling traffic, level of emissions and relieving internal railway network of Daugavpils City, thus providing a safer traffic thereof on the extra-urban connecting railway

tracks, as well as improving the life environment of the city residents.

Total foreseeable costs of the development of Daugavpils Reception Park and access roads account for 43.53 million euro. Co-funding of the EU Cohesion Fund (85%) has been attracted for the implementation of the project.

**It is planned to complete the project by the end of 2022.**



### Introduction of uniform train traffic planning and management systems

Currently, organisation of train traffic is not automated, and the process is ensured by several separate systems, but data exchange between these systems is restricted. The process is largely exposed to subjective decision-making causing safety risks. Planning of operative changes in the traffic schedule is currently provided by requests via faxes or telegrams.

Efficient management of train traffic requires integration between the alarm and communication systems, traffic planning and control systems, which are to provide operative deci-

sion-making in relation to train traffic organisation, as well as to allow for more rational train traffic planning.

The estimated amount of investments required to introduce uniform train traffic planning and management system accounts for 21.3 million euro. The prepared project was submitted to the Central Finance and Contracting Agency in the end of 2017.

**It is planned to complete the project by the end of 2023.**

### Modernisation of railway passenger service infrastructure

Continuing the commenced programme “Modernisation of railway passenger service infrastructure”, opportunities for the improvement of quality and efficiency of railway passenger services providing convenient and safe railway services for passengers are sought also in this programming period, paying attention inter alia to the needs of persons with reduced mobility.

As part of the project, it is planned to carry out modernisation of infrastructure at 21

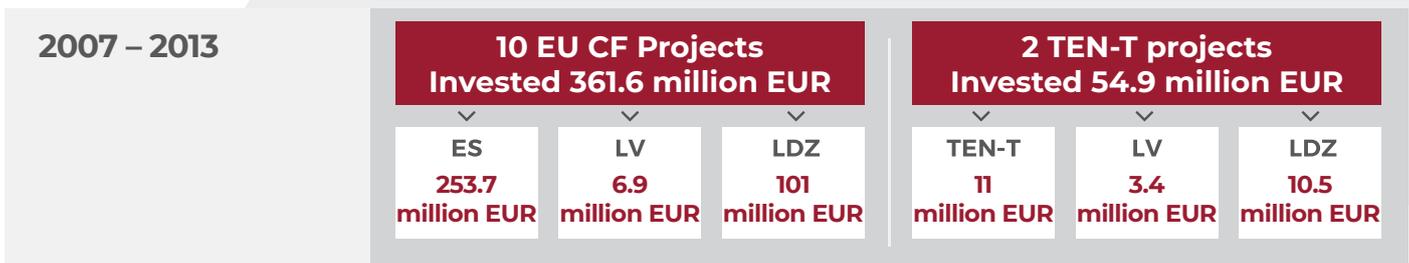
stations, inter alia - by constructing elevated passenger platforms, arranging a passenger information and video surveillance system, as well as developing the infrastructure related to passenger service - pedestrian crossings and safety barriers.

Indicative costs of the project account for 24.2 million euro, and, at the same time, implementation of the project depends on availability of public financing in the EU fund 2016-2020 programming period.

### Previous infrastructure development projects

During the previous EU fund programming period (2007-2013), LDz implemented 10 projects co-financed by the EU Cohesion Fund investing in the modernisation and development of railway infrastructure 361.6 million euro. LDz implemented also two projects co-financed by TEN-T investing in the modernisation and development of railway infrastructure 54.9 million euro. Within these projects,

passenger infrastructure was modernised, second railway track was built in the district Krustpils-Skrīveri, Liepāja station was modernised, major data network was built, Šķīrotava was modernised and other significant projects were implemented. More detailed information on the implemented projects is available on: <http://parskati2015.ldz.lv/lv/istenotie-projekti/>

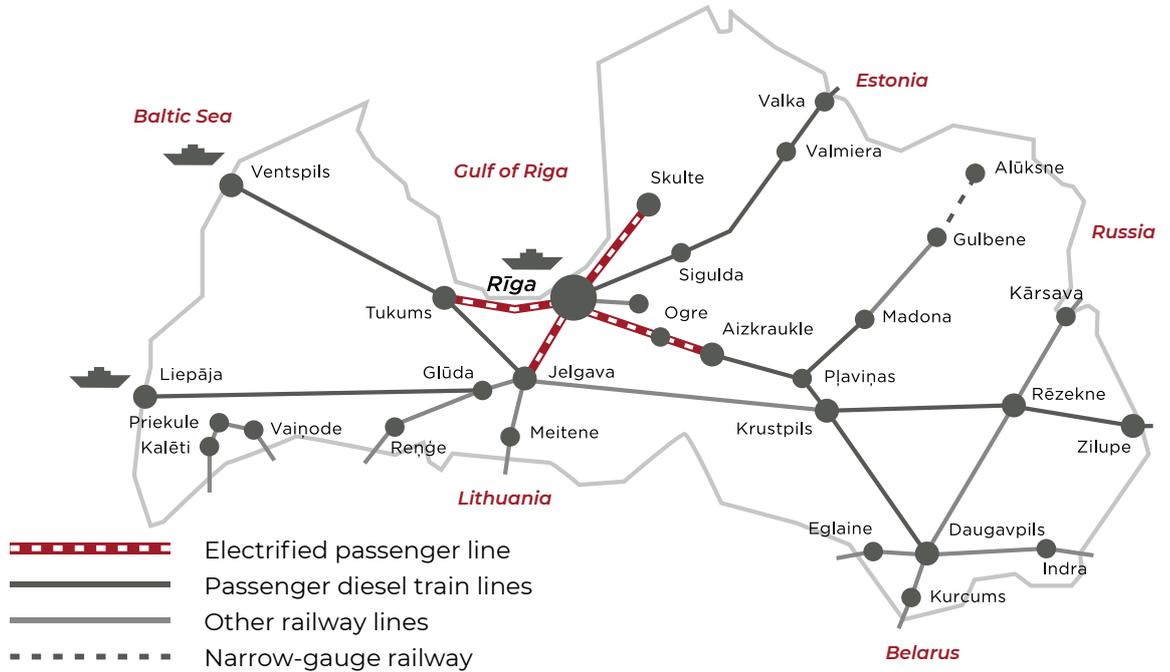


## INFLUENCE OF THE DEVELOPMENT OF INFRASTRUCTURE

G4-EC7

G4-EC8

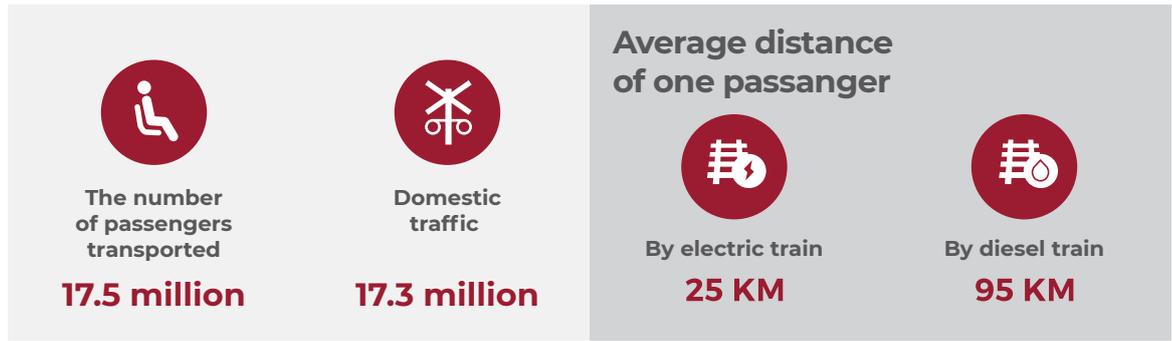
Infrastructure managed by LDz includes railway tracks, railway stations and stops, as well as engineering structures, power supply systems, signalling, centralisation and blocking systems and telecommunication infrastructure.



The railway infrastructure covering majority of cities and regional centres of Latvia provides opportunity for convenient access to the three largest ports of Latvia and creation of international connections between the Eastern Europe, Asia and the Western and Northern part of Europe. Mostly, these transport corridors are used for various freight traffic, furthermore, in 2017, traditional bulk and liquid bulk cargoes were added by container freight transported from Asia to Europe and in the opposite direction.

Along with the freight traffic, infrastructure of the railway of Latvia is widely used for domestic passenger transport and international passenger transport to Russia and Belarus.





The current coverage of LDz infrastructure should be considered as optimal for the provision of both freight and passenger transport. At the same time, it should be taken into account that new technological solutions are gradually developed, needs of clients are growing, and the infrastructure must be developed accordingly. Thus, the development projects to be implemented during the following years will allow for the increase of the overall competitiveness of the transit corridor of Latvia in the provision of freight traffic, while more efficient passenger transport requires coordinated cooperation among the Ministry of Transport, LDz and AS “Pasažieru vilciens”. It is essential that wider use of railway infrastructure for the passenger transport would improve the overall social mobility, and thus – employment, educational and other opportunities.

## INDIRECT ECONOMIC IMPACT

G4-EC8

Railway infrastructure and the use thereof provides not only the industry development in Latvia, but also provides indirect contribution to the development of other industries and national economy of the entire national economy.

Significant impact of LDz on the overall growth of national economy is confirmed not only by the taxes in the amount of several tens of millions of euro paid into the state budget on annual basis, but also the information on data of external trade collected by the Bank of Latvia. In 2017, the role of LDz in the provision of export of services was in the amount of 291 million euro, including 243 million euro in the segment of freight traffic.

In addition to the direct economic impact caused by the labour force taxes paid into the state budget, LDz is one of the greatest employers nationwide employing several thousand of people in the largest cities and regional centres of Latvia. Salary of employees, used to satisfy daily needs causes secondary impact and provides economic activity in a wider range of industries. By providing railway infrastructure between the largest cities and regions of Latvia, LDz in cooperation with AS “Pasažieru vilciens” promotes mobility of the

residents and helps avoid being attached to a certain city and region in terms of employment. Data for 2017 show that, on average, each passenger rode 25 kilometres by electric train and 95 kilometres by diesel train daily. Thus, people have opportunities to acquire education or find a suitable job within the radius of up to 100 kilometres around their places of residence.

In the area of freight traffic, operation of LDz affects also the operation of other industry service providers, for example, ports and terminals, which process freights for further forwarding by land and by sea.

Regarding the infrastructure development, the projects of infrastructure modernisation and creation of new infrastructure implemented by LDz enable attraction of experts of other industries thus promoting growth thereof and causing favourable impact on the state economics. It is expected that economic activity will be especially important during the implementation of the railway network electrification project, and it is planned that approximately 38% of investments will be used locally, using local labour force, materials and technologies.



## ORGANISATION OF PROCUREMENTS

LDZ-4

G4-EN2

The year 2017 was intensive for the employees of the LDz Procurement Bureau, who organised complicated procurements, explained application of internal regulations to the employees of the Group companies, expressed proposals to the management regarding improvement of the efficiency of the procurement procedures at LDz.

Employees of the structural unit engaged in the development of the draft law “Law On the Procurement of Public Service Providers” providing comments, view, recommendations, explanations and actively participating in the work group for the development of the draft law, thus providing essential contribution to the improvement and perfection of the legal framework also at national scale.

LDz complies with the legal framework of the Republic of Latvia in the procurement procedures, including - in relation with the procedures of Green Procurement. LDz complies

with the Cabinet Regulations No. 353 “Requirements of Green Public Procurement and Procedures for the Application Thereof” in the area of procurement policy, as well as the guidelines for the application of the Green public procurement developed by the Ministry of Environmental Protection and Regional Development.

In 2017, the LDz Procurement Bureau organised 215 procurement procedures, including more than 70 procedures, where electronic procurement system (EPS) was used. The bureau has completely implemented 148 procedures concluding 250 procurement contracts. LDz has also used the opportunity to apply fee to the possible tenderers of the procurement procedures for the reception of procurement regulations and participation in the procurement procedure in case of preparation of especially complicated procedural documents, thus generating additional income for the company in the amount of 26,403 euro.

### Implemented in 2017



**215**

procurement procedures



**250**

contracts concluded



**2.5 million EUR**

funds of the Group have been saved

Along with the organization of procurement procedures and conclusion of contracts, employees of the LDz Procurement Bureau have worked also on the improvement of procurement process, setting reduction of bureaucratic burden, efficient coordination of the tasks to be performed in the procurement processes as the main goal, optimizing administrative and time resources for reasonable and useful utilisation thereof at the company’s interests, as well as improvement of the competence of employees.





## ENVIRONMENTAL IMPACT

### MANAGEMENT APPROACH

G4-DMA

Railway is one of the most environment-friendly modes of transport, however, the economic activity of the company affects the environment to a certain extent – emissions caused by diesel locomotives deteriorate the air quality, whereas noise level caused by railway may cause inconvenience for the people in the vicinity.

Responsible action in relation to the environment is one of the basic values of the action of LDz, and the company cares for the improvement and maintenance of the environmental quality for the future generations. 20 years ago, the first Environmental Policy was developed and approved in the Group companies, and, during the following years, LDz has uninterruptedly taken care of reduction and prevention of the negative impact of the company's economic activity on the environment focusing both on the reduction of the historical pollution, and introduction of new and more environment-friendly solutions to the railway industry, preventing unfavourable environmental effect at the very moment of emergence thereof.

Measures for the reduction of GHG (greenhouse gas) emissions are especially important in the transport industry in Latvia, because transport, especially road transport, accounts for 26% of the total volume of GHG emissions in Latvia. Railway transport creates approximately 8% of the emission volume, however, it is crucially also for the railway to reduce GHG emissions within the limits. Major air polluting emissions are created by the diesel locomotives owned by LDz. They create carbon dioxide (CO<sub>2</sub>), carbon monoxide (CO), nitrogen oxide (NO<sub>x</sub>), sulphur dioxide (SO<sub>2</sub>), solid particle (PM) and various hydrocar-

bon (CH) emissions. The company takes care of maximum possible modernisation of locomotives and reduction of the volume of emissions; however, railway electrification will play crucial role in future and result in reduced necessity to use diesel locomotives for freight and passenger transport.

LDz introduces environment-friendly actions also in the daily processes by handing over hazardous waste for recycling, as well as improving energy efficiency of the buildings. In March 2017, LDz received certificate of energy management, which attests the compliance of the company with the requirements set by the standard LVS EN ISO 50 001:2012, thus performing the duties regarding implementation of measures for energy efficiency set for the large companies in the Energy Efficiency Law.

In 2017, according to the requirements of the law "On Pollution" and the Cabinet Regulations No. 16 of 7 January 2014 "Procedures for the Assessment and Management of Noise", the company developed strategic noise maps for the railway lines with the transport intensity exceeding 30'000 trains annually. The developed noise maps were published at the website of LDz [www.ldz.lv](http://www.ldz.lv) section About us (<https://www.ldz.lv/lv/troksnis>)

In the summer of 2017, LDz presented the completed measures to the colleagues of the countries of cooperation by organising a discussion on solutions of green economics in the transport industry during the international trade fair "AstanaEXPO 2017".



## CARE FOR THE ENVIRONMENT

G4-EN15

G4-EN16

G4-EN23

G4-EN24

G4-EN27

G4-EN29

G4-EN34

On 23 February 2017, the Council of Presidents of LDz approved VAS “Latvijas dzelzceļš” Environmental and Energy Management Programme 2020, aimed at efficient resolution of environmental and energy management matters. The document is based on the planning and legal and regulatory documents of Latvia and the EU in the area of the environmental protection. With the imple-

mentation of this programme, negative impact of the economic activity of LDz will be reduced by prevention or reduction of emissions of the polluting substances, reduction of the level of noises and vibrations caused by the railway operation, as well as reduction of consumption of energy resources and promotion of the image of LDz as environment-friendly company.

## WASTE MANAGEMENT

LDz tries to act in an environment-friendly manner in its daily operations not only in the area of its principal activity – maintenance of infrastructure and organisation of transport – but also in waste management, as well as encourages every employee to think about this matter. Separate collection of paper/waste paper has been introduced at LDz, and collection of scrap metal is also provided separately.

permits required for the management of the particular type of waste.

One of the ways for the reduction of volume of hazardous waste is reduction of the number of computer equipment units, which is provided within limits, for example, by optimising the number of printers required to LDz and other units of common-use office equipment.

Furthermore, LDz ensures management of the waste of environmentally hazardous goods (used oil, oil filters, tyres, electric and electronic devices) in accordance with the laws and regulations regulating the environmental protection. Waste of this type is collected and handed over to the companies with the

In 2017, 711 system blocks, monitors, printers, UPS and scanners were registered as hazardous waste. Reduction of the number of printing devices, as well as maximum possible reduction of the number of computers for the users with more than one computer is planned also for 2018.

Amount of created and purified waste-waters in 2016

**105 259 m<sup>3</sup>**



Amount of created and purified waste-waters in 2017

**103 121 m<sup>3</sup>**

Type	Unit of measurement	2015	2016	2017
Absorbers, filter materials, wiping materials and protective clothing	kg	630	540	45



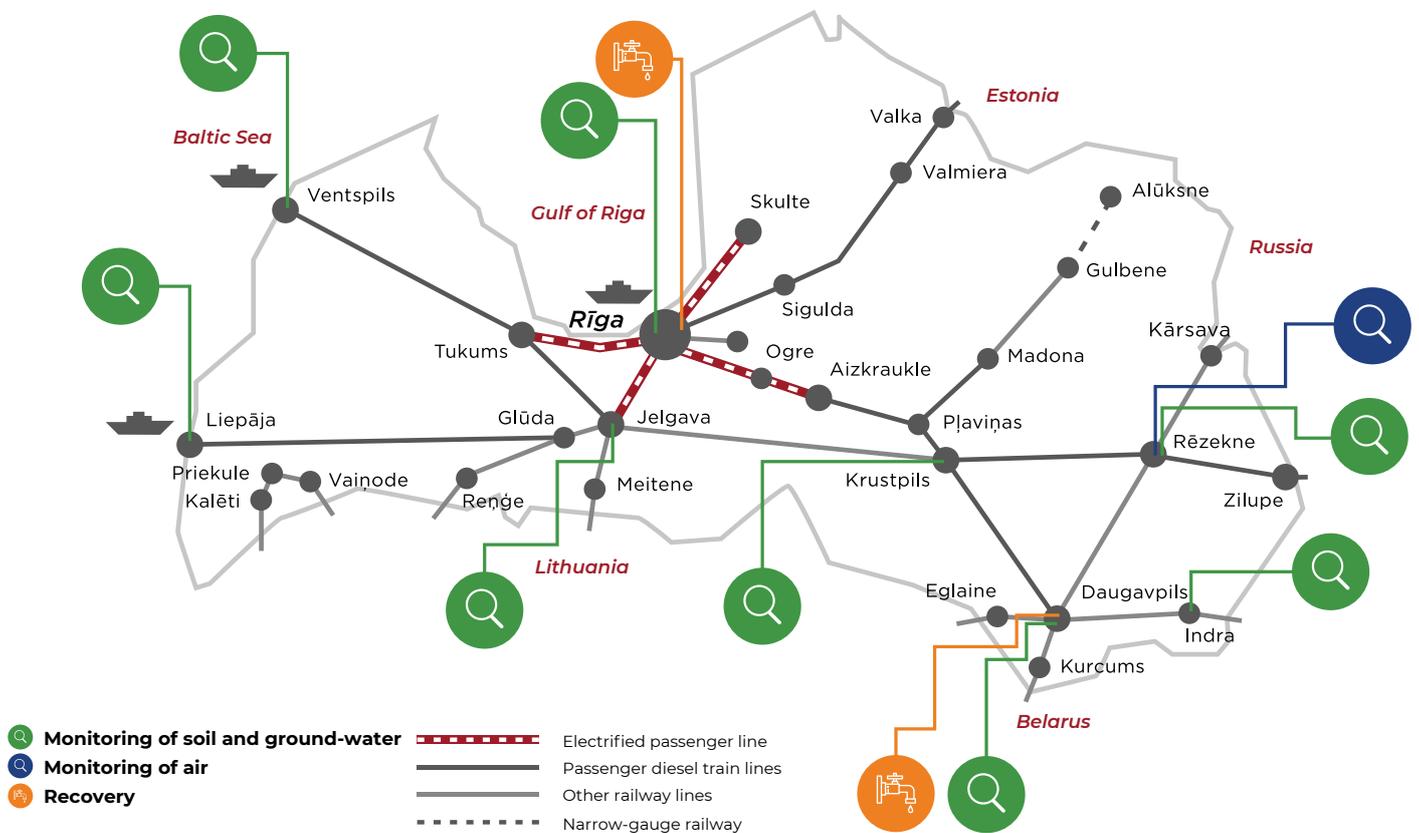
## REDUCTION OF POLLUTION OF AIR AND GROUNDWATERS

Ground and groundwater quality study and monitoring has been provided at the LDz Group companies since 1995. Ground and groundwater pollution was studied and network of boreholes (wells) in Riga, Daugavpils, Ventspils, Rēzekne, Krustpils, Liepāja and Jelgava was arranged for the annual quality monitoring of underground waters before 2017.

Ground pollution with oil products in the economic activity of LDz is the so-called historical pollution, which is topical at certain places - the current and former fuel bases, locomotive equipment points, wagon technical inspection points, as well as parking areas of diesel locomotives and motor wagons of diesel trains. The main reason for this pollution is the constant minor leakages of oil products from the rolling stock.

LDz has identified 165 parking areas of locomotives exposed to the risk of pollution, including 143 areas of high risk that cause a threat to the environment. To assess the pollution of these territories and danger caused thereby to the environment ground and groundwater monitoring has been provided in the largest railway stations - Ventspils, Riga, Jelgava, Daugavpils, Krustpils and Rēzekne since 1995, furthermore, monitoring wells have been arranged at the station Indra in the borderland of Russia, and at the place of accident in 2012 - "Krauža", where remediation works are in progress. Project application "Equipment of the Places Exposed to the Pollution Risk With Ground Protection Facilities" for the inclusion thereof into the LDz Investment plan is planned for 2018.

## ENVIRONMENTAL QUALITY MONITORING STATIONS IN LATVIA



LDz implements ground protection measures including installation of ground protection facilities (fibreglass gutters, and oil product absorbing mat) at the places of locomotive stop.

- Fibreglass gutters have been installed at the border station Indra, at the places of locomotive stops at both ends of the station, and at the station Rēzekne, where equipment of locomotives take place.
- Fibreglass gutters have been installed in Rēzekne and Riga (Šķīrotava), intended for the parking of wagons damaged in case of accident and for the pumping of hazardous cargo.
- Railway track at the station Šķīrotava, where locomotive stop is intended (110 metres in total), has been equipped with oil product absorbing mats, which absorb oil products and prevent penetration thereof into the soil.

Fibreglass gutters are inspected by SIA “Ūdensnesējs”, mats depending on the absorption capacity (usually on annual basis) are replaced by LDz Ceļu distance.

LDz pays attention to the introduction of solutions aimed at reduction of the harmful impact caused by the economic activities of the dependant companies of the Group in their daily operations. For example, SIA “LDZ ritošā sastāva serviss” has been modernising for several years double-section diesel loco-

motives 2M62UM, which are much more environment-friendly than the old type diesel locomotives 2M62U. Modernisation has not only increased the operational efficiency of these locomotives, but also reduced air polluting emissions.



LOCOMOTIVE ENGINE 2M62UM

<p><b>Speed</b> 100 km/h</p>	<p><b>Weight</b> 2 x 138 t</p>	<p><b>Capacity</b> 2 x 2200 kW (22950 ZS) +50%</p>
<p><b>Oil consumption</b> <b>0.5% of fuel consumption</b> Emission: EUR IIIA</p>	<p><b>40%</b> cheper than the new locomotive engine</p>	

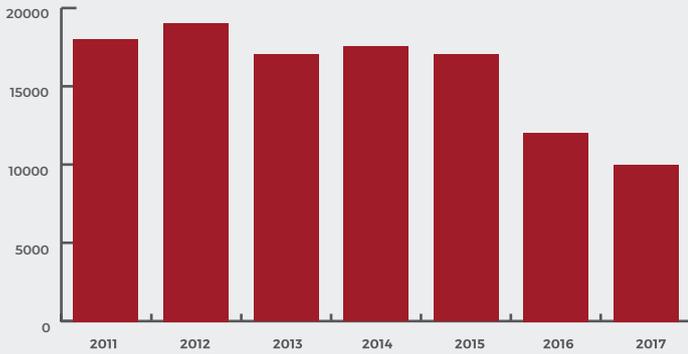
CONTROL CABIN

<p>Modern diagnostic devices</p>	<p>Control and dynamic braking devices</p>	<p>Movement safety devices and train control system</p>
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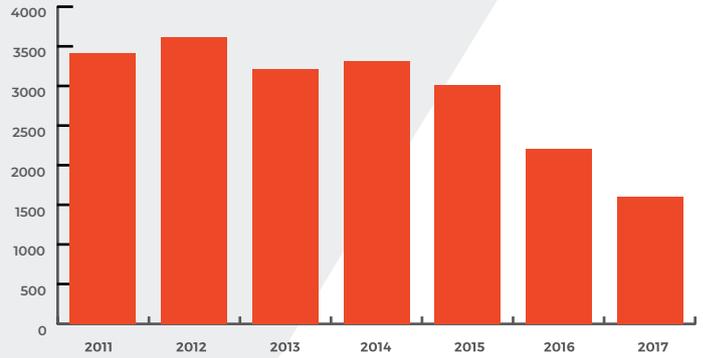
Improved locomotive crew working conditions



CO<sub>2</sub> emission in diesel trains (international passenger and freight) in motion, tons



NO<sub>x</sub> emission in diesel trains (international passenger and freight) in motion, tons



## NOISES AND VIBRATIONS

Vibration and noise caused by railway are closely related, because noise is not only spread by air, but also by land as vibrations, and it may harm both the buildings located in the vicinity of the railway and the railway itself. However, anti-vibration measures require large amount of funding, and such measures are not always implementable. Reduction of vibration may be provided by laying of the heavy railway tracks, laying of increased number of sleepers per kilometre of railway track, as well as by using flexible railway fastenings at the sleepers, and by using flexible rail fastenings to the sleepers and welding of rails in spans of 800 metres or more.

In accordance with the law “On Pollution”, in 2017, LDz as the manager of the public use railway infrastructure has developed the strategic noise maps (<https://www.ldz.lv/lv/troksnis>) for the spans of railway lines, where annual train traffic intensity exceeded 30’000 train-sets in 2016. Total length of the railway lines with annual traffic intensity exceeding 30’000 train-sets in 2016 is 70’92 kilometres. Railway lines cross the agglomerations of Riga, as well as the territories of Stopiņi, Ikšķīle, Ogre, Ķegums and Lielvārde districts.

Ministry of Environmental Protection and Regional Development coordinated the developed maps without any objections. Maps were developed by SIA “Estonian, Latvian & Lithuanian Environment”.

Strategic noise maps for the spans of railway lines, where annual traffic intensity exceeded 30’000 train-sets in 2016, were developed according to requirements of the Cabinet Regulations No. 16 of 7 January 2014 “Procedures for the Assessment and Management of Noise”.

Noise caused by the railway transport has been assessed according to the calculation method “RMR” developed in the Netherlands (published in “Rekenen Meetvoorschrift Railverkeerslawaaï ‘96, Ministerie Volkshuisvesting, Ruimtelijke Ordening en Milieubeheer, 20 November 1996”). The assessment of the number of residents exposed to certain noise level was based on the information on all houses located nearby all railway lines and the residents declared therein, furthermore, type of use of the territories located by the railway lines is also taken into account (low-rise building, mixed building, industrial territories and such), as well as information, which is to be included in the noise calculation method.



The following noise indicators were applied to the assessment and mapping of noise caused by the railway transport:

- **L<sub>day</sub>** characterising discomfort during the day;
- **L<sub>evening</sub>** characterising discomfort caused in the evening;
- **L<sub>night</sub>** characterising sleep disturbances caused by the noise;
- **L<sub>dvn</sub>** characterising the overall discomfort caused by the noise.

In accordance with the Cabinet Regulation No. 16 of 7 January 2014, noise thresholds for the territories depending on functions and use thereof (detached houses, multi-storey apartment houses, territories of public building, quiet districts) have been determined from 40 to 65 decibels, taking into account the time if the day and night, when the particular noise level is allowed.

During the period from 2012 to 2017, the number of received complaints regarding

the noise caused by the railway has grown – while ten complaints regarding noise and two complaints regarding vibrations were received from 2008 to 2012, 35 complaints regarding noise and five complaints regarding vibrations were received from 2012 to 2017. However, LDz draws attention also to the fact that planning of the development of the territories nearby railway is required taking into account the developed strategic noise maps.

**The number of residents (rounded to hundreds), residing in housings, exposed to certain noise level nearby the railway lines with annual train traffic intensity exceeding 30'000 train-sets in 2016**

Noise indicator	45-49dB	50-54dB	55-59dB	60-64dB	65-69dB	70-74dB	>75 dB
L <sub>day</sub>	22 700	13 600	5 400	2 100	400	100	0
L <sub>evening</sub>	26 100	16 700	550	1 600	500	100	0
L <sub>night</sub>	20 000	9 800	2 600	900	300	0	-
L <sub>dvn</sub>	31 000	23 600	15 300	5 300	1 300	400	100

\*Territories without residents



**Area of the territories, where the noise thresholds are exceeded, nearby the railway lines with annual train traffic intensity exceeding 30'000 train-sets in 2016**

Territory use function	Area (km <sup>2</sup> ), where exceeded noise thresholds	Area (km <sup>2</sup> ), where exceeded noise thresholds	Area (km <sup>2</sup> ), where exceeded noise thresholds
	Day	Evening	Night
1. Individual (detached houses, low-rise or farmsteads) residential houses, children's institutions, medical, healthcare and social care institutions building territory	0.65	2.16	3.29
2. Multi-storey building territory	-	0.0036	0.012
3. Public building territory (public and administration object territory, including cultural institutions, educational and scientific institutions, public and municipal administration institutions and hotel territory) (with residential building)	0.014	0.043	0.027
4. Mixed building territory including territory of trade and service structures (with residential building)	0.0003	0.006	0.38

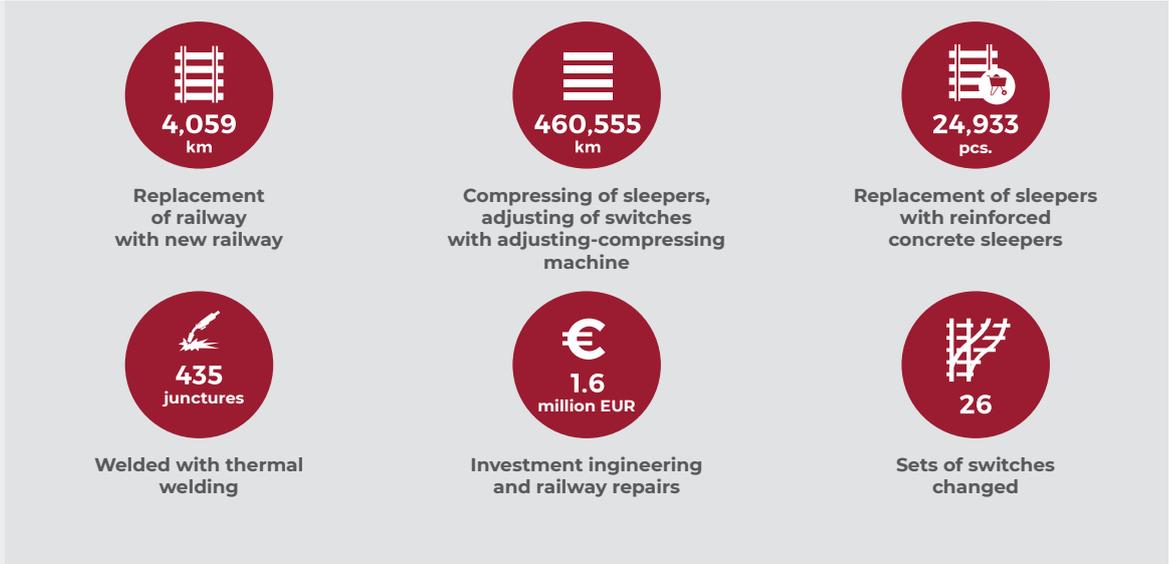
Noise caused by railway is a problem, the solutions of which are sought not only in Latvia, but also elsewhere in the world, including Europe, being aware that noise levels may be reduced by complex solutions, through the cooperation between the rolling stock and infrastructure companies, as well as local governments.

In Latvia, many measures simultaneously improving rail track quality and safety of train transport, as well as renovation and repairs of railway tracks, capital repairs of level crossings, replacement of rail and railway sleepers, and compression of ballast bed, replacement

of railway switches, welding of rail joints, grinding of rails and grinding of railway switches are implemented by LDz for the reduction of environmental noise.

In 2018, LDz will develop action plan for the reduction of the environmental noise caused by the operation of railway, and it will be based on the strategic noise maps developed in 2017. During the development of the action plan, areas of acoustic discomfort will be identified, and the most optimum solutions for the reduction of noise level therein will be assessed.





### Environmental cleaning



LDz has traditions of clean-up of the environment going back decades, commenced during the first independent state of Latvia, when employees of the railway actively participated in the improvement works of the stations and the vicinity. “Latvijas dzelzceļš” even allegedly had a special Horticultural section, which provided greening of the stations. Continuing these traditions, every year, LDz engages also in the Big Clean-up putting in order the vicinities of railway lines and other territories of the company.

During the clean-up, railway workers provide practical assistance with spring works to the retired railway workers and help their friends – Children’s hospital, participating in the cleaning of the Parents’ house and to Raudas Primary Boarding School in the cleaning of territory thereof.

Environmental clean-up works are provided across the entire territory of Latvia, and employees of all structural units of LDz are involved. Furthermore, clean-up works take place during the Month of Cleanliness, with each structural unit determining the day for implementation of such works.



## ENERGY EFFICIENCY

G4-EN3

G4-EN4

G4-EN6

In the end of February 2017, certification of LDz energy management system according to ISO 50 001:2012 completed, and it included assessment of the largest energy consumers, including power supply, heat supply and use of fuel for the shunting locomotives. In March 2017, the company received certificate, which attests the compliance of the company with the requirements set by the standard LVS EN ISO 50 001:2012, thus performing the duties regarding implementation of measures for energy efficiency set for the large companies in the Energy Efficiency Law. During the audit, LDz received high score for the effort, furthermore, during the certification, not a single non-compliance with the requirements of the standard was found.

Introduction of the energy management system allows for more precise identification of the consumption of energy resources and improvement of data recording system by assessing opportunities to save energy resources and provide reduction of the environmental impact caused by railway transport, which is environment-friendly anyway. The key measures for the improvement of energy efficiency within the energy management systems are - modernisation of the fleet of shunting locomotives and optimisation of heat supply systems (closing of small, ineffective boiler houses, change of fuel for more environment-friendly, reconstruction and modernisation of heating units, use of centralised heat supply, and heat insulation of buildings), enabling not only the saving of fuel by reducing the specific consumption of fuel and thermal energy, but also reduction of GHG emissions.

## MATERIAL USE

G4-EN1

LDz uses sand-gravel and broken stones for the repair works of railway tracks. Volume of the used materials differs every year depending on the volume of the repair works. Along with the decrease of the volume of construction and repair works of railway tracks, volume of these fossils was reduced.

### Materials used for railway track repairs

#### Investments

**12.2 million EUR**  
(11.8 million EUR in 2017)



Sand and gravel  
(15,000 in 2017)



Splinter  
(103,000 in 2017)



Wooden sleeper  
(11,500 in 2017)



Reinforced concrete  
(44,000 in 2017)

## WATER SUPPLY

G4-EN8

G4-EN10

LDz uses water supplied by several merchants, acquired from centralised water supply system provided by municipal companies. LDz has concluded 34 contracts on supply of water and discharge of sewerage waters with municipal utilities companies located in the entire territory of Latvia. Boreholes and wells located in the property of LDz itself are also used for the extraction of water.



### Amount of water obtained and used

In 2015

**114 750 m<sup>3</sup>**

In 2016

**103 779 m<sup>3</sup>**

In 2017

**103 178 m<sup>3</sup>**





## SOCIAL IMPACT

### MANAGEMENT APPROACH

G4-DMA

Along with the development of technologies, various work processes become automated, and this process is inevitable also in the area of railway. However, efficient operation of automatic systems also requires specialists with appropriate education. Therefore, during the recent years, more and more attention is paid to the further education, growth and wider inclusion of specialists in the processes related to the planning of the company's development and operational improvements.

Under the circumstances of rapidly changing business environment and competition in the freight traffic industry getting fiercer, as well as along with the intensified introduction of more environment-friendly solutions, guaranteed freight flow may no longer be relied on. Whereas, maintenance of the current freight flow and attraction of new freight flows, as well as maintenance of the provision of infrastructure modernisation requires more complicated and more innovative solutions. Therefore, LDz needs motivated, professional and loyal employees. The company continuously cares for their professional growth, at the same time supporting their leisure activities, which is equally important to gain the employee's loyalty to the place of work.

In 2017, LDz repeatedly received the assessment "Family Friendly Merchant" of the Ministry

of Welfare of the Republic of Latvia, which confirms that the company cares in the daily activities for the strengthening of family values in the society and promotes formation of life and working environment, which is suitable for family.

The number of railway workers is high in Latvia, therefore dialogue between the employer and employees is essential. Common interests of the employees are protected by the Latvian Railway and Transport Workers Union (LDzSA) uniting more than 11,000 members. Management of LDz listens to and takes into account the trade union's opinion on matters affecting the welfare and rights of the employees. The agreement concluded between LDz and the trade union, as well as the collective agreement provides the employees with various social guarantees and fringe benefits, excluded from the Labour Law. Collective agreement applies to all employees of LDz, including non-members of the trade union.

Furthermore, the company actively invests in the growth of the middle level managers in recent years, it has provided its employees with opportunity to submit their proposals to the LDz bank of ideas, as well as involved gradually wider range of specialists in the planning of the company's future development and in the preparation of the strategic initiatives and goals.



## EMPLOYEES

G4-LA1

In 2017, the average number of the company's employees has slightly decreased in comparison with 2016, which is 6'497 at the moment.\* This represents a decrease of 311 people compared to the year before. However, during the previous year, labour relations with many employees have been terminated (including 211 employees, who retired), and new specialists have been hired as well -

furthermore, the number of newly hired specialists has grown in 2017. Thus, the company, in the operation of which development of technologies plays gradually more important role, promotes attraction of the new specialists, at the same time providing efficient transfer of experience by the way of training of the new employee by the senior for certain period of time.

The average number  
of employees

**6497**  
(-311)



New employees

**663**  
(+107)

\* The average number of employees working for the company is calculated as the number of employees on the last day of each month, divided by the number of months of the year. This calculation includes all the employees, with whom the company has valid labour relations at the particular time, including the employees absent due to work incapacity, and on parental leave.

G4-LA12

Every employee is important for LDz, therefore, no gender or age quotas are introduced at the company, and employees of all levels are employed according to their professional knowledge, skills and experience, thus, no listing of age groups depending on the position category is practised at the company. Furthermore, LDz has introduced uniform remuneration system, based on fair and objective criteria - all positions are classified according to uniform methodology, but the amount of wage is determined according to the volume, intensity and complexity of the work to be done, as well as the level of responsibility set for the particular position. Fundamental principle of remuneration is - equal wage for the same work or work of the same value both in the same company of LDz Group companies, and in the entire Group companies in general.

In accordance with the collective agreement, additionally to the monthly wage, the employees are provided with remuneration for the work on public holidays, after hours, as well as for work in weather conditions adversely affecting human health - harsh frost or enormous heat. Along with the annual leave, employees of LDz are entitled for additional days of leave depending on their length of service as soon as the length reaches five years.

As a family-friendly company, LDz considers that the employees must be together with their loved ones on the days, which are most important in their lives, therefore, additional days off are granted in relation to significant events in the personal lives of employees retaining the average wages:



**significant anniversaries (50 and 60 years);**



**graduation from educational institution and reception of diploma;**



**first day of school for the parents of children attending elementary school;**



**employees with at least two children aged up to 12 years.**



Furthermore, LDz has introduced the benefit and compensation system – such payments are made in relation to the birth of children, in relation to severe illness or death of close relatives and other important events or accidents. Every year, life and sever illnesses of

employees are insured. Every year, employees are insured against accidents at the place of work, as well as they can improve their health in a number of medical institutions using the advantages provided by insurance.

## RELATIONS BETWEEN THE EMPLOYEES AND MANAGEMENT

G4-LA4

Timely circulation of information and proactive relations between the management and employees play very crucial role in the implementation process of the fundamental functions of LDz, and such relations are promoted both by online solutions (company’s intranet) and daily communication.

Representatives of the trade union are provided opportunity to participate in adoption of various decisions affecting the daily provision of employees. LDzSA was involved in the implementation of changes in LDz work organisations and structure.

The Latvian Railway and Transport Workers Union (LDzSA) plays irreplaceable role as intermediary for the employees to affect processes within the company, while the management is able to listen directly to the position of employees on particular matters. Mutual relations are governed by the collective agreement concluded between LDz and the trade union guaranteeing social protection to the employees in various situations.

In 2017, LDz bank of ideas was introduced, and it serves as communication tool between the employees and the management. Every employee can use the bank of ideas for the submission of proposal for the improvement of the operation or daily actions of the company. First, all proposals reach the President of LDz, afterwards, they are assessed by dedicated commission and involved experts.



Furthermore, in 2017, active work on the planning of the company’s future was commenced involving all structures of the company and management of top and middle level,

and wider range of the company’s employees was also involved in the gradually developed strategic initiatives.

## INTERNAL COMMUNICATION

Employees are notified of the ongoing processes within the company and the Group companies in general, as well as of leisure activities by various information channels used by LDz – both official documents, when informing on the direct professional duties, and magazine “Latvijas Dzelzceļnieks” /Latvian Railwayman/, and internal website or intranet. Both information channels are equally important for the information of employees on the

expected or introduced changes to the company’s operation, as well as other significant topicalities.

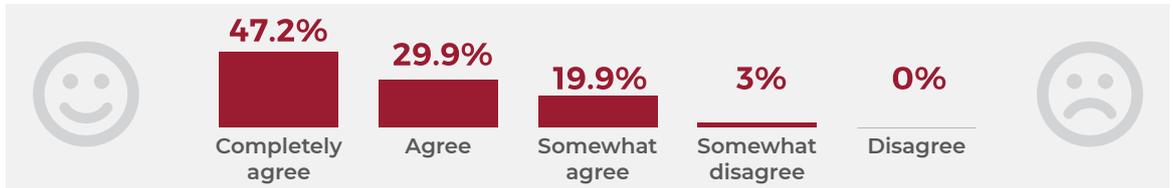
In the beginning of 2018, using the company’s internal website, poll of the employees was conducted to find out the level of the employees’ satisfaction with the employment at LDz and opinion on the company’s communication channels. 271 employees participated in the poll.



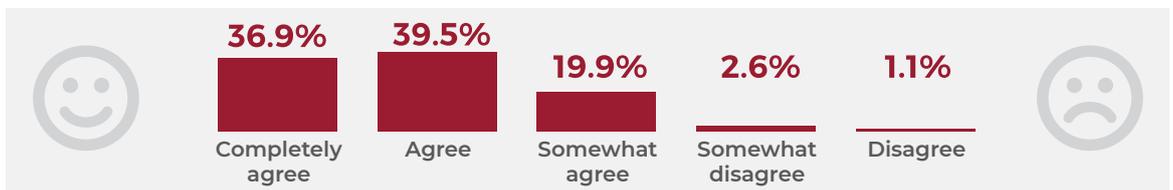
Results of the poll show that respondents are proud of being employed by LDz, they consider the company has good reputation and would recommend it as an employer to their friends, relatives and acquaintances.

Furthermore, majority of employees are convinced that the company draws attention to their personal and professional development, and they are satisfied with their professional duties.

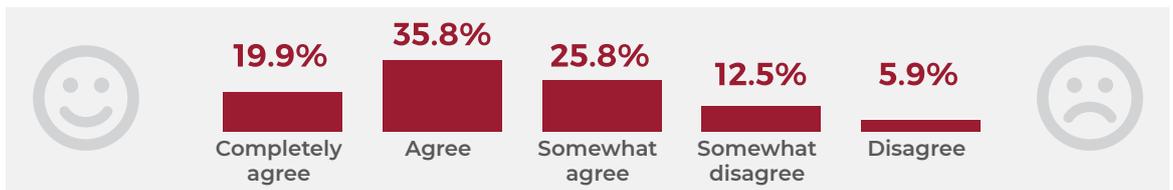
**I am proud of being an employee of LDz:**



**LDz has good reputation:**

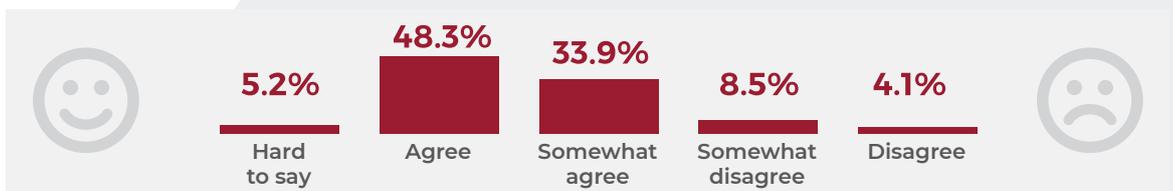


**LDz draws attention to the personal and professional development of the employees:**

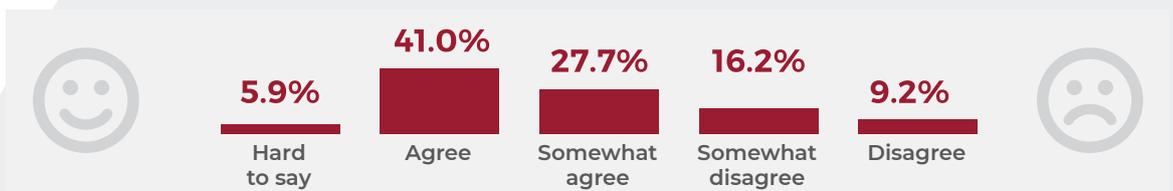


**Motivation to work at LDz is affected by:**

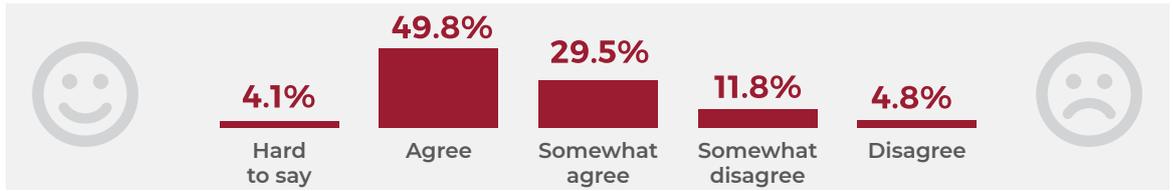
**Prestige of the employer**



**Career opportunities**



Training opportunities



I would recommend LDz as an employer to my friends and acquaintances:



From the middle of 2017, the magazine “Latvijas Dzelzceļnieks” is published once in two weeks (previously – once a week), and reflects printed information both for the most crucial processes at the company and events on various leisure activities. Circulation of the magazine is 1’350 copies, and it is available in the structural units of the company and the Group companies in the entire territory of Latvia.

Interactive communication is provided by the internal website. In the turn of 2016 and 2017, LDz received high appreciation from the USA company “Nielsen Norman Group” – intranet of LDz was recognised as one of annual Top10 intranet solutions worldwide. LDz intranet is available to every employee at the direct place of work, furthermore, backup portal thereof has been established to provide access to information when being

absent from the place of work, for example, from home or by using mobile smart devices.

Circulation of information is provided by using also informal channels of information – mutual contacts between the employees, activities of the LDzSA, etc. Exchange of the daily operational information takes place formally or informally, sitting of the Management Committee of LDz takes place on weekly basis, where the company’s top management and heads of the subsidiaries exchange information on current events.

Every year, on 5 August, professional festivity of railwaymen is celebrated across Latvia, solemn events are organised on the holidays of national importance, leisure and sports events take place on regular basis providing opportunity to bring together the company’s employees from all places of Latvia.

LABOUR SAFETY

Safe and organised working environment is one of the operational priorities of LDz, because railway is the territory of enhanced danger, therefore especially high attention must be paid to the safety of employees. Matters of labour protection are governed in the LDz Group companies by the Labour Protection Policy, which has been developed to provide working environment, which is as safe and harmless to the life and health of the

employees of the LDz group companies as possible. Labour Protection Policy serves as the base for the Labour Protection Systems at LDz and its subsidiaries. Task of the Labour Protection System of LDz is prevention or maximum reduction of the risks caused by the working environment to the employees. Activities thereof are aimed at as early identification, assessment and prevention of the risks of the working environment as possible.

G4-LA5

G4-LA7

G4-LA8

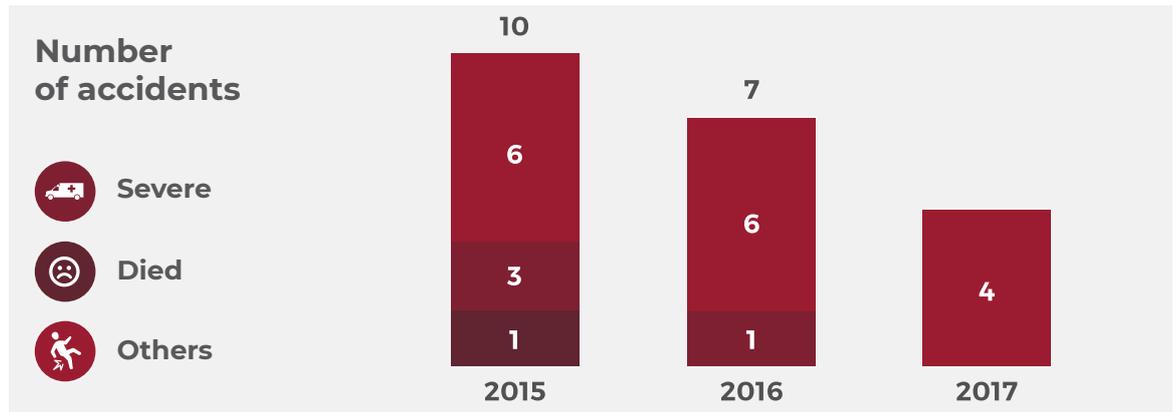


Railway industry is related to several hazardous and harmful factors in the working environment, which may potentially cause serious risks, as well as accidents. Work in the territory of enhanced danger is performed by the employees of LDz, who work in the area of railway tracks, since they can be exposed to the impact of the rolling stock – running over or catching. To avoid risks to the health and life, when working in the area of railway tracks, it is important to adhere strictly to the procedure for safe performance of work, follow the movement of the rolling stock, use of high visibility protective clothing, obey the railway road signs, indicators and designations.

LDz ensures compliance with the labour safety according to the laws of the Republic of Latvia. The employees are obliged to comply with the requirements of both law and the internal regulatory documents in relation to labour safety.

Labour Protection Training System is operated at LDz, and according thereto, every new employee is trained and instructed regarding requirements of labour safety requirements upon commencement of labour relations with LDz and confirms commitment to adhere thereto by his/her signature. Furthermore, employees, who need to acquire railway profession, undergo theoretical and practical training at the place of work in the relevant profession and are tested in labour protection and knowledge of regulations of technical railway operation before the commencement of independent work.

The number of work-related injuries at LDz in three years has dropped from 10 to four. Injuries were suffered mainly by men aged between 31 and 40.



Reasons of accidents in		2015	2016	2017
<b>Main reasons of accidents</b>	negligence of employee	6	4	2
	road traffic accident	0	0	1
	failure to follow instructions	3	3	1
	risk of infection	1	0	0

Traumatizing factors of accidents	2015	2016	2017
stumbling, falling	6	4	2
impact of falling, moving object	0	0	1
failure to follow instructions	3	3	1
risk of infection	1	0	0



G4-LA6

Continuous supervision and control are very crucial for timely identification of the possible risks, which may become a reason of an accident, and for the assessment of risk of the working environment. This function falls within the LDz Technical Inspectorate Labour Protection Unit.

Inspections of working environment are conducted regularly at the company to promote application of safe working techniques, furthermore, unscheduled and sudden inspections take place right at the place of performance of works. During these inspections, factors of the working environment, which cause or may cause risk to the life and health of employees, are identified and assessed.

In accordance with the Labour Protection System of LDz, labour protection specialist of the structural unit, trusted person and employees working at the particular places of work are involved in the inspection, thus involving them in the improvement of the working environment and working conditions. Trusted person is a person elected by the employees and representing the interests of employees in the labour protection.

At the initiative of Latvian Railway and Transport Workers Union, 69 trusted persons have been elected in the structural units of LDz at the moment:



To make the working environment safer and reduce the share of physically hard manual work, not only the heavy railway machinery, but also small units, for example, remote control lawn mowers, electric railway work tools, motorised mobile leaf blowers and snow removers are gradually purchased. In our effort to take care for the occupational health of the company's employees, whose work is related to special conditions or whose working environment contains harmful

factors, mandatory health checks are organised.

In relation to the occupational diseases found at LDz, it is planned to organise internal information campaign for the promotion of the occupational health of the employees. Most frequently, railway repairmen, traction unit drivers, as well as wagon inspectors suffer from occupational diseases in the railway industry.



## RAINING AND EDUCATIONAL OPPORTUNITIES

G4-LA10

Along with the growing necessity for well educated, motivated and flexible specialists, LDz pays great attention to the educating of the employees. Training centre has been established at LDz since 2 October 1997, initially aimed primarily at the training of the company’s employees. On 24 January 2014, the Training centre acquired the Certificate of Registration of Educational Institution issued by the State Education Quality Service of the Republic of Latvia and became an Institution of Vocational Further Education “LDZ Mācību centrs”.

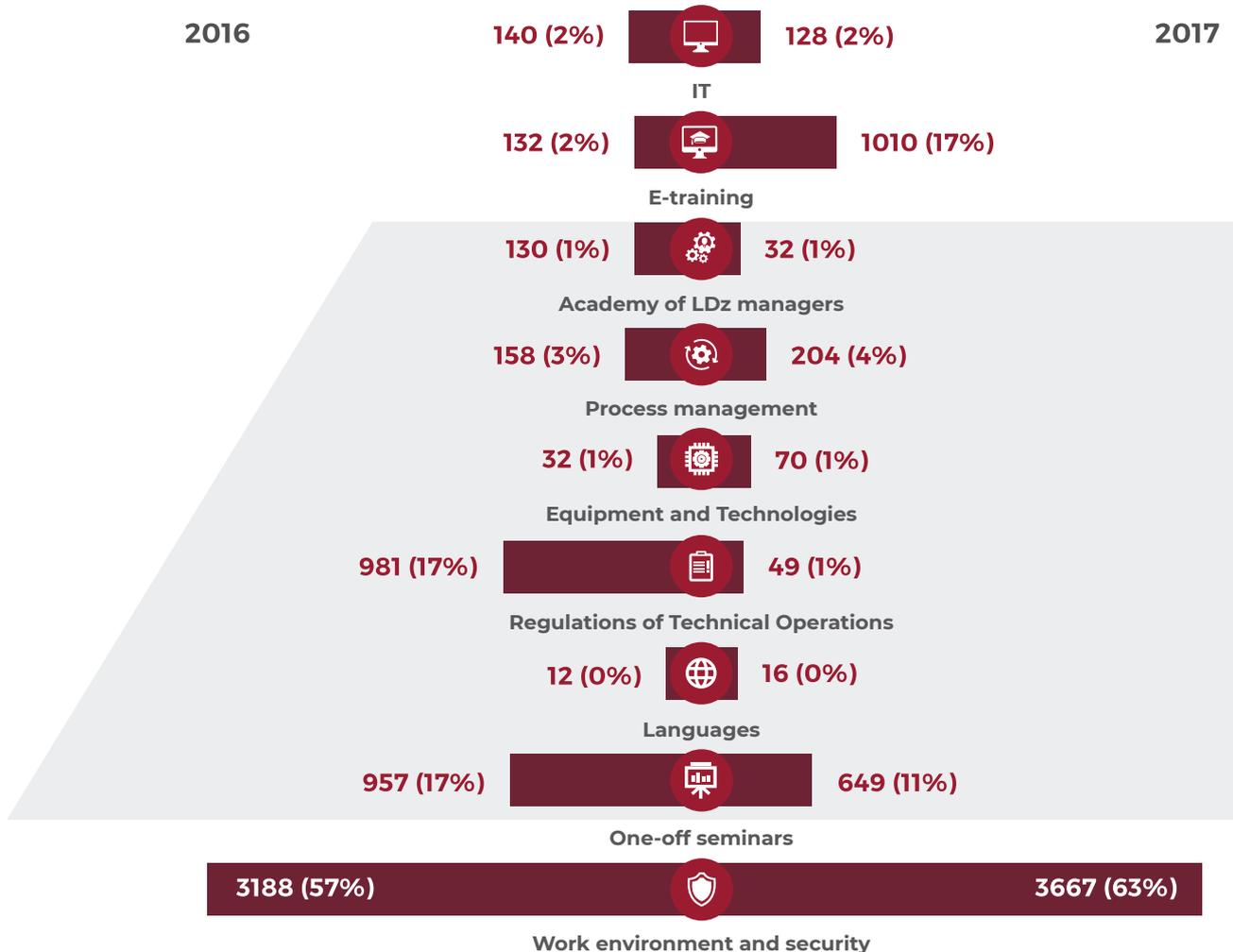
During these years, the Institution of Vocational Further Education “LDZ Mācību centrs” has grown from the basis - training of the company’s employees - to become a provider of training services to other companies of the LDz Group, railway industry companies and cooperation partners.

The Training centre pays special attention to the development of such educational

programmes, which are aimed at the creation of safe and healthy working environment. Programmes “Working Environment and Safety”, “Machinery and Technologies”, and “Regulation of Railway Technical Operation” have been developed for the needs of the employees, and during the training according to these programmes, employees acquire the technical supervision of the hazardous equipment, safe performance of work at height, as well as education on electricity security, fire safety and provision of first aid.

In 2017, range of the educational programmes of “LDZ Mācību centrs” was added, for example, educational programmes “Labour Protection at the Company”, “Person Responsible for the Provision of Instructions”, “Trusted Person in Data Protection” were developed and implemented, as well as training programmes improving the knowledge of railway specialists in the area of railway technologies, thus improving the overall level of labour safety at the company.

Division of the trained employees by the areas of training in 2016 and 2017



Professional and competent employees form one of the cornerstones for the promotion of the economic growth of the company. To provide that the knowledge and skills of employees correspond to the actual situation in the industry, and to promote their loyalty to the company, LDz actively invest resources in the professional growth of employees. LDz cooperates with Riga Technical University, institutions of vocational education in Riga and Daugavpils and other educational institutions providing the employees with opportunities to acquire knowledge required in the railway industry. In 2017, 659 employees of LDz have attended the training courses organised by the educational institutions.

Basic task of LDz is the management of public railway infrastructure providing maintenance and modernisation thereof. The most essential project in the near future will be electrification of railway network, the implementation of which will require professional railway workers – engineers, who would be able to serve the contact line system and the related equipment and machines also after completion

of the project. Therefore, changes in the vocational higher education programme of bachelor studies have been introduced in cooperation with Riga Technical University by adding new subjects to the programme in the area of energy, specialising in the railway electrification. Furthermore, in 2017, 21 employees of LDz continued, but 13 employees commenced studies in this programme of studies.

At the same time, LDz wants to attract new employees, therefore, various events are organised during the year providing opportunity for everybody to find out more on the work in the railway industry. 27 pupils participated in the annual Shadow Day organised by the organisation “Junior Achievement Latvija”, while 163 pupils of various educational institutions attended the Open-Door Day last year. LDz traditionally takes part also in the Open-Door Day organised by the public administration providing everyone with opportunity to find out about career opportunities in railway industry. In 2017, this event was attended by 100 youngsters of various educational institutions.



In 2017, LDz continued implementation of the project “LDz Academy of Managers – Programme of Middle Level Managers”, which was introduced in 2016 and which provides for improvement of competencies of the company’s middle level managers. This programme was introduced to provide the current and potential new managers with knowledge and understanding on the structure of LDz, information flow and importance of communication in the organisation, as well as understanding on the company’s goals, role of the managers and areas of responsibility. Upon graduation of the programme, managers have learned to understand the necessity of time planning, to classify tasks by priorities and to understand difference between management, supervision

and operational work. In 2017, 32 middle level managers of LDz in total participated in the spring and autumn groups under this programme.

It is essential that the Senior programme introduced by LDz in 2015 with the aim to provide succession and good quality and timely replacement of generations in the railway industry continued successful operation in 2017. For the purposes of promotion of this process, employees are materially stimulated to participate actively in the provision of succession. Last year, 17 employees retired within the framework of this programme providing efficient transfer of experience to the young specialists before the retirement.





## PRODUCT LIABILITY DIMENSION

### MANAGEMENT APPROACH

G4-DMA

LDz is the manager of public use railway infrastructure, and it includes the highest number of critical infrastructure objects in Latvia. This means that continuous attention must be paid on daily basis both to the safety near the railway tracks, and protection of the infrastructure itself against various external threats.

Furthermore, LDz must take care of the prevention of risk situations to ensure that neither users of infrastructure, nor employees of LDz, the daily work of majority of whom is related to complicated, occasionally high-risk working conditions, suffer.

To prevent potential threats, LDz develops and implements new security solutions and takes care of maintenance and modernisation of infrastructure to make sure it is safe for the users and the company's employees.

LDz ensures regular and efficient provision of information to internal and external clients on the operative situation in the railway infrastructure (which is especially important in cases of emergency or problem situations), as well as introduces information technology solutions of higher quality, which allow for timely identification and solution of problems, as well as provision of efficient daily operational process in the areas of traffic control, staff communication of all levels and other.

G4-PRI

Railway infrastructure is one of the objects of the critical infrastructure nationwide, and special attention must be paid to the safety thereof. On 18 February 2011, the Council of Presidents of LDz adopted decision on establishment of Security Directorate to provide more efficient management of safety processes within the company. One of the tasks of the structural unit is maintenance of safety of the LDz infrastructure at appropriate level. In 2017, 358'645 euro were invested in the project of infrastructure renovation programme "Protection and Security of LDZ Objects" equipping 37

objects with security systems or modernising them. The major investments are related to video surveillance and access systems, as well as fire safety systems. 360'000 is the amount, which is planned to grant for the technical protection of the critical infrastructure of LDz and objects of LDz in 2018. These funds will be used to modernize several guarded railway bridges in the territory of Latvia and connect them to the centralised video surveillance system. Modernisation of video surveillance systems is provided for also in several other objects in Riga and Ventspils.



Taking care of the professionalism of employees, Security Directorate is planning also funds for the improvement of qualification of security guards by organising training once a year. Funds are invested also in the technical improvement and establishment of security systems.

Every day, attention is paid to security at various objects to prevent potential infringements of law or threat to the objects. For exam-

ple, in 2017, 506 persons were detained for unauthorised presence at the objects of LDZ.

One of the tasks of the Security Directorate is supervision of safety of internal information systems against various threats. For this purpose, development of new IT security policy was commenced in 2017 paying attention also to various aspects, where development of technologies causes new security risks.

## ROLE OF INFORMATION TECHNOLOGIES

Management of railway infrastructure, as well as provision of services require modern information technologies, which would fit the needs and wishes of both the users and clients. Information technologies have become integral part of the railway traffic control, mutual communication, as well as maintenance of security.

Structural unit - Information Technology Centre (ITC; before March 2017 - Informative Computing Centre) has been established at LDz and provides 82 various services in total. Majority of these services is provided within the Group companies, while separate services are intended for external clients (operators, freight receivers, forwarders, owners of wagons).

In recent years, ITC conducts polls of the service users after reception of the service to identify the level of clients' satisfaction in relation of the resolution of the particular problem and the necessary improvements. Timeliness indicator of the execution of applications by service users was 90% in 2017.

ITC has established the quality management system according to the international standard ISO 9001 "Quality Management Systems", complying with the requirements governing the information technology sector and good management practice. Structural unit continuously follows the newest tendencies in the IT development, as well as introduces improvements in the operation of processes on regular basis, increasing the efficiency thereof and improving the level of service provision, as well as promotes improvement of the competence level of employees of the ITC - training is

organised on regular basis, furthermore, experience exchange is provided outside the ITC.

The ITC plays crucial role in facilitation of various processes in the operation of LDz and in cooperation with the industry partners both in Latvia and abroad. For example, in 2017, within the framework of the tripartite agreement among LDz, Belarusian railway and Lithuanian railway, electronic exchange of warnings was introduced between Latvian and Belarusian railway, joining to which is planned also by Lithuania. Task of such warning issuance system is registration and issuance of information to the engine-drivers on speed limits applicable to the route due to infrastructure limitations and repair works. The concluded agreement provides for transfer of the warnings applicable to certain route to the neighbouring railway information systems for preventive transferring thereof for inclusion in the list of warnings of the neighbouring railway engine-driver.

Furthermore, various improvements in the provision of LDz daily processes have been introduced, for example, improvements in the internal correspondence and document circulation system, electronic contract coordination process, improved electronic staff servicing opportunities. Crucial improvement is introduction of the telegram solutions by abandonment from the use of classic telegraph infrastructure and service. At the moment, classic telegraph has been preserved for the purposes of cross-border exchange needs, since it is still frequently used by the railway administrations of the neighbouring countries and main target markets.



## ACCIDENTS ON RAILWAY TRACKS

G4-PR2

Every year, accidents on railway tracks involving humans are registered in Latvia. Although the recent years showed decreasing trend of the number of accidents, slight increase of this indicator was observed in 2017. Majority of accidents took place at the railway stations, however, separate accidents happened also at the spans. In total, 14 people lost their lives and 11 got injured on the railway last year, except suicides and attempts thereof. A year before, 15 people died and 3 got injured in accidents.

Reasons of the accidents have not changed – basically, the main reason of accidents is still the negligence and hurry without making sure of safe crossing of the railway, failure to react to the prohibiting signals, as well as drunkenness. Use of mobile smart devices is also a frequent reason of accidents, because it decreases the human attention during the crossing of railway and may result in tragedy. The goal of the safety campaign “Discard the phone and live!” implemented by LDz last year was to pay the public attention to the danger of use of mobile smart devices during the crossing of railway.

There are still individuals, who want to take their own lives by rushing under the train wheels (seven people died and one was severely injured in 2017).

Analysis of the percentage of victims of the accidents in 2014-2017 by gender leads to conclusion that 74% of the victims are males. 52% of the accidents resulted in death due to the suffered injuries, while this indicator among females was 74%.

In the division by age groups, the largest number of victims represent the group above 51 years, and young people (under the age of 30) have also become victims of accidents comparatively frequently. Although the public attention is paid to being especially watchful in the evening and night, the summarised data show that part of the day and night has no significant impact on the dynamics of the number of accidents – analysis of the number of accidents between 2014 and 2017 led to conclusion that the number of accidents in various periods of the day and night is proportionally equal. Approximately 50% of accidents happen during the daylight hours, with the same share left for the darkness hours.

For purposes of prevention of accidents, engine-drivers of the rolling stock apply sudden braking option, when they see an obstacle, including individual, on the railway. In 2017, locomotive crews were forced to apply sudden braking 66 times, thus preventing accidents.



**Keep  
in mind!**



**250 t**

Weight of two-section locomotive engine



**3000 - 6000 t**

Weight of train



**200 m > 600 m**

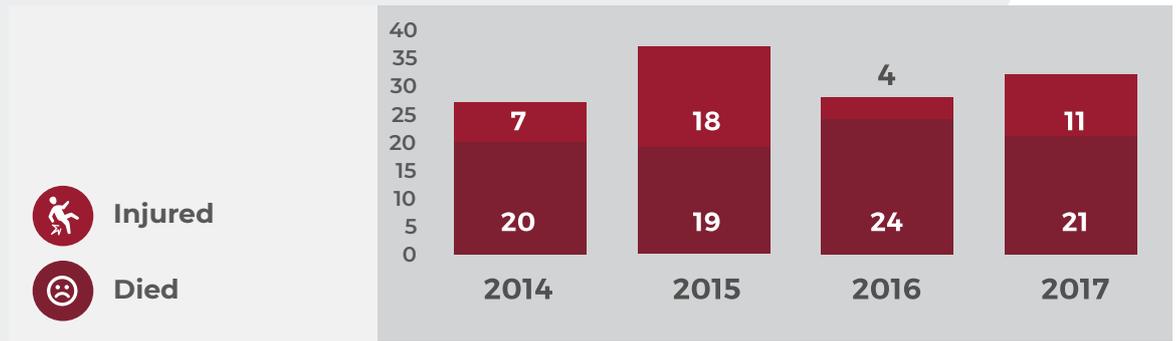
Braking distance of train depending on the weight and speed of train

Potentially dangerous situations may be caused also by reckless actions of humans by standing, sitting or lying on the superstructure of the train wagons during the ride.

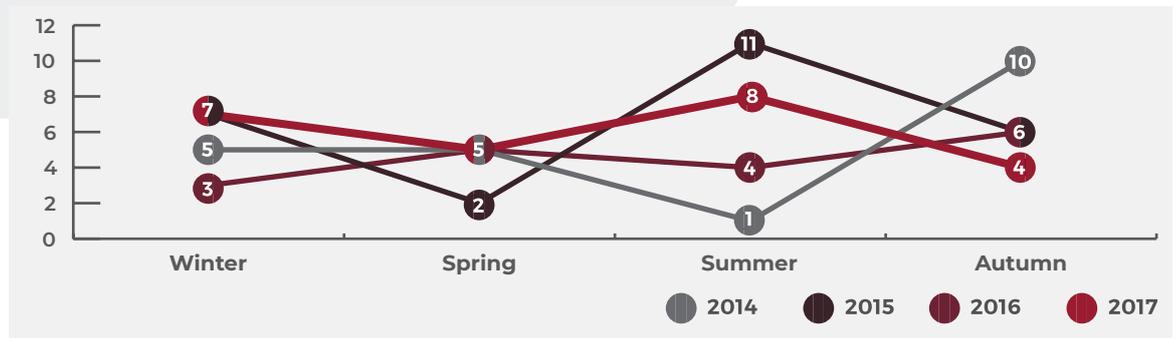
34 such cases were registered in 2017. All violations, which mostly involve reckless young people, have been reported to the State Police.



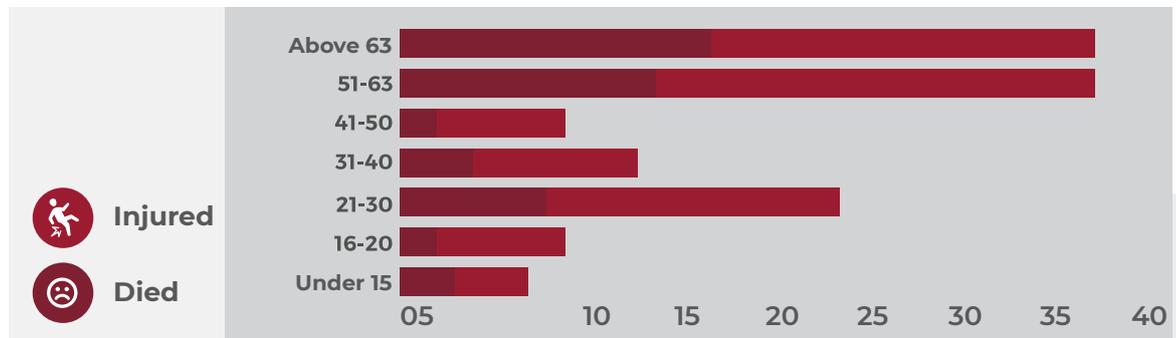
### The number of casualties/fatalities of accidents 2014-2017



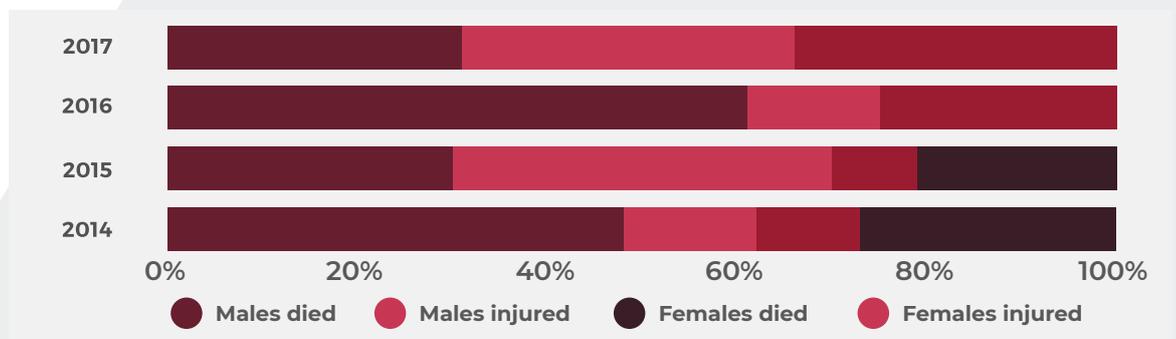
### The number of casualties of accidents depending on season



### Dynamics of casualties and fatalities of accidents by age groups



### Statistics of casualties and fatalities by gender



## PUBLIC SECURITY

G4-PR1

For the purposes of improvement of the safety of residents by the railway tracks, LDz introduces also new solutions, especially at the crossing points and stations. In 2017, LDz arranged new crossings and safety “labyrinths”, as well as put in order platforms, pedestrian crossings and pedestrian paths for the improvement of passenger infrastructure.

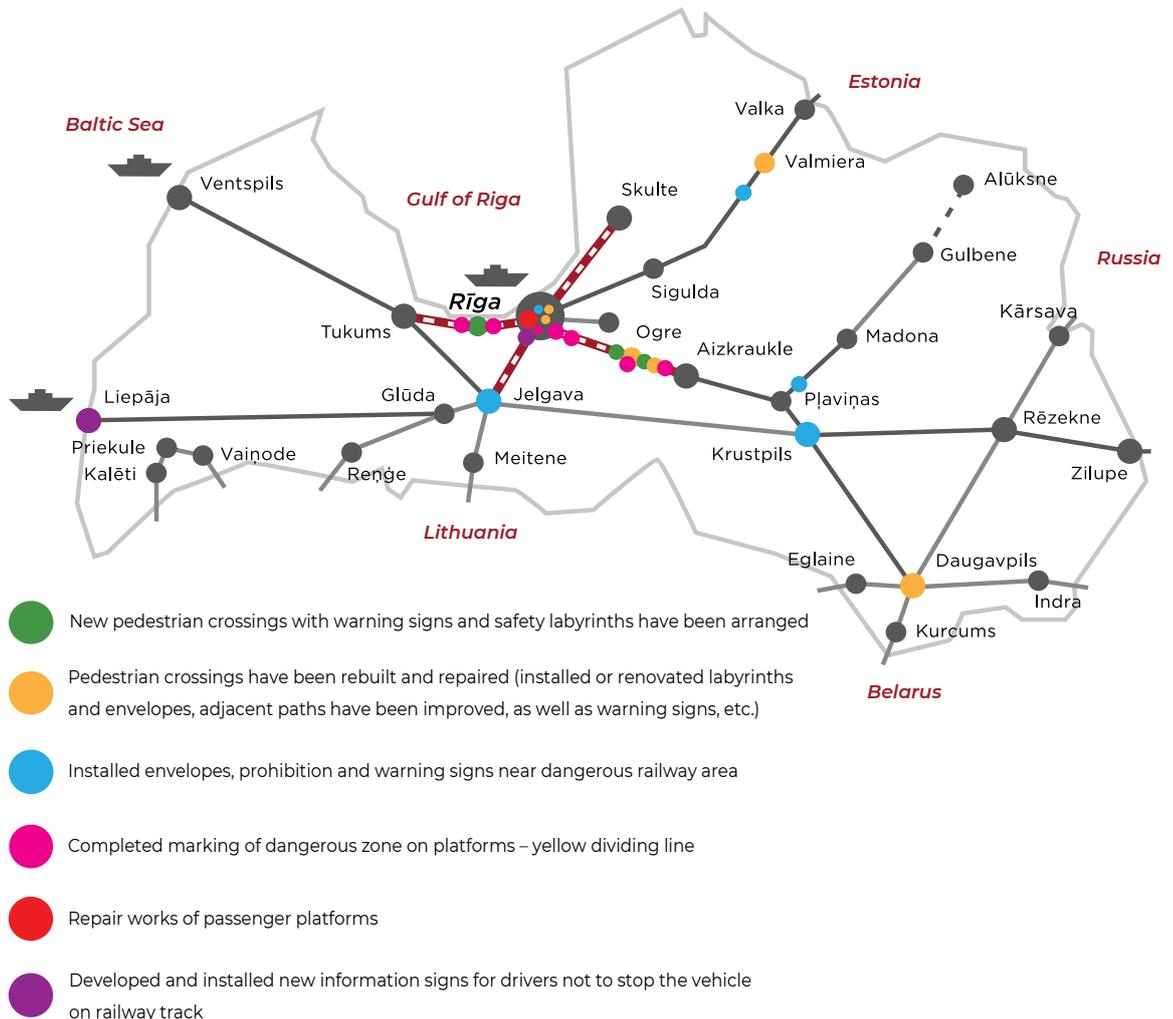
In the autumn 2017, rebuilding of Skrīveri railway station was commenced by building elevated isle platform, as well as by changing location of passenger platform and moving it to the location, where trains run at lower speed. After the modernisation, the platform will be more easily accessible for disabled persons, furthermore, it will become safer and more convenient. Modernisation works are continued in 2018.

In 2016, LDz concluded cooperation contract with Ogre District local government on cooperation in the development of new railway crossing. In November 2017, meeting of public discussion regarding building of a tunnel under

the railway at Kalna prospekts took place at Ogre District municipality, in December, procurement procedure – “Building of Railway Public Infrastructure (Motor Vehicle Tunnel and Pedestrian Tunnel)” – was commenced. Building of pedestrian tunnel under the railway will allow for absolutely safe crossing of railway in the nearest future.

Place between Čiekurkalns stop and Krustabaznīcas Street level crossing is a popular railway crossing point in Riga, Čiekurkalns. In cooperation with the municipality of Riga, the local government has organised a pedestrian path as a replacement of the former heating main, but LDz rebuilt the pedestrian crossing across the railway providing more convenient and safer crossing of railway.

Every year, LDz as the manager of public use railway infrastructure organises commissions for the railway level crossing inspection involving all the parties related to the resolution of matters of maintenance and safety. 538 level crossings were inspected in 2017.





## PUBLIC DIMENSION

### MANAGEMENT APPROACH

G4-DMA

The obligations of LDz include not only development of the railway infrastructure in Latvia, but also taking care of the preservation of historical heritage for the future generations and education of the community both on the history of railway and safe behaviour near the railway.

To educate residents on safety near the railway and during the crossing thereof, every year, LDz organises information campaigns in three stages – spring, the end of summer and before the winter – when the darkness hours exceed daylight hours. On 2 June 2017, LDz opened the campaign “Discard the phone and live!”. This corresponded with the topic of the (International Level Crossing Awareness Day – use of smart devices near the railway. The goal of the last year’s campaign was to inform the residents on danger posed by mobile smart devices, if they are used during the crossing of railway. During the preparation of the campaign, LDz in cooperation with the study centre SKDS conducted poll of residents finding out their habits during the crossing of railway tracks. The poll showed that 86% of the residents of Latvia consider simultaneous crossing of railway and talking on the phone as risky. At the same time, nearly one third of the residents had frequently observed such action by “other” people.

When closing the safety campaign of 2017, LDz in cooperation with the media agency PHD conducted poll to find out the residents’ opinion on the implemented campaign. Overall, 45% of respondents had noticed the cam-

paign, mostly on the internet – 32%. Special attention was paid to the stage two of the campaign (noticed by 67% of respondents), which was expanded on the social networks on the widest scale.

Assessing the creative material of the campaign, 79% of the respondents admitted that it made them thinking of safety rules, when using smart devices near the railway or during the crossing thereof. Furthermore, the respondents admitted that the campaign was educational, instructive and convincing.



Have thought about safety rules in regard to use of smart devices in the vicinity of railway or when crossing railway





Children form the part of society, which perceive the presented information on safety matters with high sense of responsibility and serve also as a channel of information to pass this information to adults. Therefore, LDz has been organising Safety Lessons at the schools of Latvia for over 10 years. Educational institutions are very responsive and frequently want to welcome LDz safety experts repeatedly. Safety Lessons are organised not only at schools and pre-school educational institutions, but also at the Latvian Railway History Museum and the branch thereof in Jelgava. Furthermore, LDz has created a website dedicated to the security [www.dzirdiredzidzivo.lv](http://www.dzirdiredzidzivo.lv), containing the latest information on the implemented safety campaigns, statistical data, as

well as informative material on safe behaviour near the railway.

In the autumn of 2017, LDz visited several schools together with Kaspars Ozoliņš, the fitness instructor popular among youngsters and who is the host of pupils' TV programme "Smart, smarter" /"Gudrs, vēl gudrāks"/. He told pupils about safe crossing of railway getting pupils attracted to the topic.

As the days shorten, LDz invites people to remember that adverse weather conditions and darkness deteriorates opportunity to notice an approaching train fast enough, therefore one must be especially alert near the railway.



**Safety training at educational establishments**

**131**

Number of participants

**7,504**



**Safety training at the Latvian Railway History Museum in Riga and Jelgava**

**45**

Number of participants

**1,017**

LDz participates also in other events related to safety - at the exhibition "Children's World" /"Bērnu pasaule"/, furthermore, one may find out about safe behaviour near railway tracks in interactive manner at the LDz stand in Vērmanes Garden, the event of informal

education Safety Island, organised by Riga municipality. Furthermore, in the beginning of school year, experts of LDz visit events dedicated to safety and taking place in Ogre and Salaspils, where safe crossing of railway is especially important topic.



LDZ-5

## DEVELOPMENT OF CULTURALLY EDUCATED SOCIETY

The Latvian Railway History Museum, which may be proud of the largest collection of broad-gauge vehicles in the Baltic States, plays crucial role in the education of society on the industrial legacy of railway. The museum organises thematic exhibitions and events usually bringing together a high number of visitors on regular basis. To expand the museum's role in the education of society, negotiations procedure was announced in 2017, calling

architects to submit their visions for the development of the territory of the museum including renovation of the depot building located in the territory of the museum and unused for lengthy period and inclusion thereof in the museum complex. The highest score in the competition was granted and right to implement the project was obtained by the architecture office NRJA (read more on the project on page 39).



## GIFTS AND DONATIONS POLICY

LDZ-6

LDz has developed and approved the Gifts (donations) policy, the implementation of which is supervised by the Commission of Marketing Communication Projects. In accordance with this policy, every year, LDz provides support by this policy to various organisations in the areas of education, health, environmental protection, science, culture, art and sports. Gifts (donations) policy does not provide for support for political and religious organisations, organisations with unclear reputation, as well as projects of individual natural persons. LDz both support various projects and provides financial support to various organisa-

tions, which help people, who facing hard times. In 2017, financial support was provided to the foundation "Latvijas Bērnu fonds", society "Latvijas SOS bērnu ciematu asociācija" /"SOS Children's Villages Latvia"/, foundation "Nedzirdīgo invalīdu atbalsta fonds "Klusums"" /"Hearing impaired persons support foundation "Silence""/, Latvian society of foster families, society "Cerību spārni" /"Wings of Hope"/, as well as other organisations. Long time projects include also the Unity Ride, Riga "Dinamo" team and Latvian Railway Cup, the Big Clean-up, "Pride of Latvia" /"Latvijas lepnums"/ and other projects.



Information on the supported projects in each area is available at the website of LDz (<https://www.ldz.lv>). In recent years, due to the decrease of freight volumes and revenue, donations made by LDz and cooperation projects have also decreased, focusing on purposeful cooperation projects.

In the beginning of 2018, in compliance with the Law On Prevention of Squandering of the Financial Resources and Property of a Public Person certain amendments to the Gifts (donations) policy were made, and, in accordance with these amendments, LDz will provide

support to the education and science, health protection, social aid, as well as environmental protection promotion projects in future. Definition of the organisations, which are not supported, has also been expanded. They are – organisations with unclear reputation, as well as such potential partners, the total amount of tax debt of which exceeds 150 euro at the moment of examination of the project. Furthermore, the Gifts (donations) policy does not apply to the organisations, which have not properly complied with the liabilities of the previous projects supported by LDz.

G4-SO4

Fraud Prevention Policy of the “Latvijas dzelzceļš” Group companies has been effective at LDz since 2016, and, in this regard, Guidelines for Fraud Risk Assessment have been adopted.

On 6 April 2017, fundamental principles of the business ethics of the cooperation partners of the “Latvijas dzelzceļš” Group companies were approved by the Council of Presidents. The document stipulates certain principles of cooperation, which need to be met by the cooperation partners of the company, which conclude contracts with LDz. Fundamental principles provide for certain activity in relation to the working environment, taxes and permits for commercial activity, and implementation of fair commercial practice and good governance. Information on the ethics of cooperation partners is available both on the external website of LDz, and on the intranet, and reference to the compliance with this document is included in all contracts concluded by LDz with the company’s partners.

## COMPLAINT MECHANISMS

G4-SO11

There exist several mechanisms at LDz for the society, cooperation partners and employees to report on issues they are worried about. Assessment of possible cases of fraud, corruption or conflict of interests is the responsibility of the Head of LDZ Fraud Prevention, who is also the Director of the Security Directorate. Acceptance of domestic complaints or claims in relation to the operational area of the company falls within the competence of LDz Client Relations Unit.

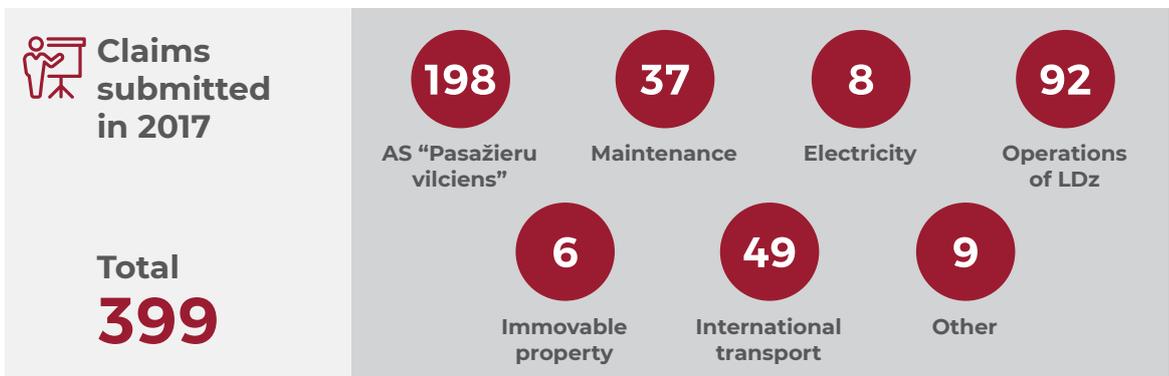
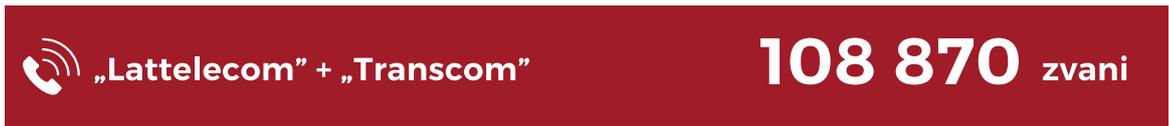
Complaints or letters in official form may be addressed also to a particular LDz Directorate or structural unit.

LDz Client Relations Unit accepts applications of two kinds – consultations and claims. Claims related to problems of lighting, uncleared platforms, as well as condition of the

railway crossings are most frequent ones. Client Relations Unit receives also claims regarding passenger transport and problems related to the organisation thereof. Such complaints are transferred for examination to AS “Pasažieru vilciens”, which provides domestic passenger transport, or to SIA “LDz Cargo”, which provides international passenger transport.

Daily information, for example, on matters related to passenger transport (purchase of tickets, train schedule, conditions of luggage transportation, etc.) is provided to the clients via external service. In 2017, such services were provided on the basis of procurement by the companies “Lattelecom” and “Transcom WorldWide Latvia”, which have served 108’870 phone calls altogether in one year.





**POLITICAL RESPONSIBILITY**

G4-SO6

100% of the capital shares of LDz are owned by the state, and they are managed by the Ministry of Transport. The company's shares may be neither privatised or alienated - this has been provided for in the Law On Conclusion of Privatisation of State and Municipal Property and Use of Privatisation Certificates. Decisions affecting the company's operation and finances are coordinated with the Council of LDz and the shareholder - Ministry of Transport according to the law. Council of LDz has been appointed in 2016, and renewal of such institution reduces possibility of political influence on adoption of decisions within the company.

LDz has prepared Medium-term operational strategy, which will be coordinated with the responsible institutions in 2018. At the same time, the Ministry of Transport in accordance with the requirements of the Railway Law develops the Indicative Railway Infrastructure Development Plan, which is to serve as a base for the multi-annual contract between the Ministry of Transport and LDz in the perspective of five years, providing for conditions for the maintenance and development of railway infrastructure and provision of the financial balance of LDz. As soon as these documents are effective, risks of political influence and other kind of influence will be further minimised.

**LAND USE RIGHT**

MM6

Infrastructure owned by LDz is located on the land owned by the company's shareholder (state). When building new infrastructure, state provides land alienation procedure, if necessary. State as the land owner is aware of

use thereof for the needs of railway infrastructure, therefore, it may not be considered that LDz infrastructure could cause any burden to the land owner for the use of its own land.



## ENVIRONMENTAL ACCESSIBILITY

LDZ-7

Railway infrastructure is used inter alia by persons with reduced mobility – disabled persons. This encourages LDz to think about solutions for the facilitation of movement in stations, on platforms, as well as getting in and out of the train.

Persons with reduced mobility have opportunity to apply for the mobile elevator service to access rolling stock, as well as a wheelchair, if necessary to get from the platform into the station. The service is available at nine stations: Riga, Daugavpils, Rēzekne II, Jelgava, Krustpils, Dubulti, Saulkrasti, Sigulda and Vaivari.

The number of applications submitted by persons with reduced mobility has a growing trend, furthermore, record number of applications – 226 – was received in 2017, including 201 applications for the domestic train traffic,

but 25 applications – for the international train traffic. One of the explanations for the increase of the number of applications is increase of the employment among disabled persons, and the railway infrastructure is used to get to work and home.

Overall, the number of applications has grown by 38% in comparison with 2016, and the average number of received applications monthly was 18 in 2017. The highest number of applications was received regarding the use of elevator at Riga Passenger Station (199), while 87 applications were received at Dubulti, 34 – at Vaivari. In total, the service was used by 56 clients in a year. In 2017, proposals were also received to provide the service for persons with reduced mobility at the stations, where it is currently not provided.



Significant improvements have been implemented during the previous years at Riga Passenger Station, where two lifts and three escalators have been equipped according to the needs of persons with reduced mobility, and three stairs to access platforms are equipped with diagonal elevators. Toilet facilities are available, and one ticket counter has been equipped with inductive loop system as a hearing assistant. Riga passenger station has been equipped with audio-visual information system facilitating reception of topical information to persons with visual and hearing

impairments. In cooperation with the organisations representing persons with reduced mobility, LDz renews and improves the warning and information signs at the station on regular basis.

To facilitate movement for persons with reduced mobility, improvements are introduced also at other railway stations and stops. One of the most significant projects in 2017 was the rebuilding of platform at Skrīveri station by building elevated platform, as well as providing access for disabled persons.



### The number of services applied for by persons with reduced mobility

Domestic		International	
Rīga – passenger	199	Rīga – passenger	22
Dubulti	87	Moscow	16
Vaivari	34	Saint Petersburg	8
Krustpils	29	Minsk	4
Jelgava	18	Daugavpils	3
Daugavpils	17		
Saulkrasti	6		
Rēzekne II	5		
Sigulda	1		
Other stations	8		

Year	2011	2012	2013	2014	2015	2016	2017
Domestic	45	179	50	68	164	141	201
International	8	10	17	32	24	23	25
Total:	53	189	67	100	188	164	226

LDz has been consulting with the Association of Disabled Persons and Their Friends “Apeiņoni” for several years regarding the environmental accessibility, and the association has helped to implement improvements at several stations. The organisation has created an application “Mapeiņoni” posting public objects,

which have been recognised as available to persons with reduced mobility, as well as to parents with baby carriages. 10 railway stations recognised as compliant with the environmental requirements have been posted on this application.



# INDEPENDENT AUDITOR'S REPORT

Translation from Latvian original\*



## **INDEPENDENT LIMITED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT 2017 OF VAS LATVIJAS DZELZCEĻŠ**

### **To the Management of VAS Latvijas Dzelzceļš**

We have been engaged by the Management of VAS Latvijas Dzelzceļš to perform an independent limited assurance engagement in respect of the selected Identified Sustainability Information included in VAS Latvijas Dzelzceļš ("the Company") Sustainability report for the year ended 31 December 2017 (the "Sustainability report 2017").

#### *Management's Responsibility*

The Management of the company is responsible for the preparation and presentation of the Identified Sustainability Information, as incorporated in the Sustainability report 2017, in accordance with the requirements of the Core level application of Global Reporting Initiative Guidelines ("GRI Guidelines"), issued by Global Reporting Initiative, a network-based non-profit organization with secretariat based in Amsterdam, the Netherlands. The Management of the Company is also responsible for maintaining adequate records and internal controls that are designed to support the reporting process.

#### *Identification of the Criteria and Description of the Subject Matter*

The Management of the Company prepared the Sustainability report on the basis of GRI Guidelines (the "Reporting criteria"). The following Identified Sustainability Information was selected for an expression of limited assurance:

- Company profile – *Company's management and structure, Council of LDz, Board of LDz, Subsidiaries of LDz and their activities, Results of 2017, Control of internal processes, Provision of lawfulness of LDz activity, Performance results, Employees, LDz social responsibility*
- Ethics – *Supply chains, partners, Responsibility to external initiatives, Activity in industry and public organisation, Activity in international organisations*
- Economic impact – *Management approach, Essential events in 2017, Created economic value, Use of the financing of the EU funds, Influence of the development of infrastructure, Indirect economic impact, Organisation of procurements*
- Environmental impact – *Management approach, Care for the environment, Waste management, Reduction of pollution or air and ground-waters, Noises and vibrations, Environmental cleaning, Energy efficiency, Material use, Water supply*
- Social impact – *Management approach, Employees, Relations between the employees and management, Internal communication, Labour safety, Training and educational opportunities*
- Product liability dimension – *Management approach, Role of information technologies, Accidents on tracks, Public security*
- Public dimension – *Management approach, Development of culturally educated society, Gifts and donations policy, Complaint mechanisms, Political responsibility, Land use right, Environmental accessibility*

Our responsibilities extend only to the information contained in the signed Sustainability report 2017.

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# INDEPENDENT AUDITOR'S REPORT

Translation from Latvian original\*



## *Our responsibility*

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the Identified Sustainability Information contained in the Sustainability report 2017 is not stated, in all material respects, in accordance with the reporting criteria.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, 'Assurance engagements other than audits or reviews of historical financial information', issued by the International Auditing and Assurance Standards Board. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain assurance on the Identified Sustainability Information as per the terms of our engagement.

This report, including the conclusion, has been prepared solely for the Management of the Company, to assist the Management in reporting on the Company's sustainability performance and activities. We permit the disclosure of this report within the Sustainability report 2017.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of the Company, and the Company for our work or this report. The maintenance and integrity of the Company's website is the responsibility of the management; the work carried out by the assurance provider does not involve consideration of these matters and, accordingly, the assurance provider accepts no responsibility for any differences between the sustainability report 2017 on which the assurance report was issued or the assurance report that was issued and the information presented on the website.

## *Summary of the work performed*

Our procedures included examination, on a test basis, of evidence relevant to the Identified Sustainability Information. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the Identified Sustainability Information. GRI guidelines were applied for evaluating the Identified Sustainability Information.

Our work consisted of:

- Interviewing the management and senior executives to evaluate the application of the GRI guidelines and to obtain an understanding of the control environment related to sustainability reporting;
- Obtaining an understanding of the relevant processes for collecting, processing and depicting data included in Sustainability report 2017;
- Verifying the information included in Sustainability report 2017 through inquires to the relevant management of the Company;
- Testing data included in the Sustainability report 2017 on a selective basis;
- Inspecting documentation to corroborate statements of management and senior executives in our interviews.
- Comparing the financial data to the 2017 financial statement of VAS Latvijas Dzelzceļš; and
- Evaluating the overall format of the Sustainability report 2017, taking into account the compliance of the disclosed information with the applicable criteria.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.



# INDEPENDENT AUDITOR'S REPORT

Translation from Latvian original\*



## *Independence and Quality Control*

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## *Inherent limitations*

Non-financial data is subject to more inherent limitations than financial data, given both the nature and the methods used for determining, calculating, sampling or estimating such data.

Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgments.

We have not carried out any work on data reported for prior reporting periods nor in respect of future projections and targets.

We have not conducted any work outside of the agreed scope and therefore restrict our opinion to the Identified Sustainability Information.

## *Limited assurance Conclusion*

Based on our work performed, nothing has come to our attention that causes us to believe that the Identified Sustainability Information is not stated, in all material respects, in accordance with the Reporting Criteria.

## *Restriction of Use and Distribution*

This report has been prepared by PricewaterhouseCoopers SIA ("PwC") for VAS Latvijas Dzelzceļš under the terms of the contract between the VAS Latvijas Dzelzceļš and PwC, dated 15 January 2018.

This assurance report is intended solely for use of the management of VAS Latvijas Dzelzceļš in respect only to the 2017 Sustainability Report. It should not be used for any other purpose.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

Ilandra Lejiņa  
Member of the Board

Riga, Latvia  
15 May 2018

3 of 3

Terēze Labzova-Ceicāne  
Certified auditor in charge  
Certificate No.184





# State Joint-Stock Company “LATVIJAS DZELZCEĻŠ” ANNUAL REPORT 2017



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## MANAGEMENT REPORT

### on economic activity of the State Joint-Stock Company “Latvijas dzelzceļš” in 2017

#### 1. CHARACTERIZATION OF THE STATE JOINT-STOCK COMPANY “LATVIJAS DZELZCEĻŠ”

State Joint-Stock Company “Latvijas dzelzceļš” (hereinafter referred to as – *Latvijas dzelzceļš* or *the Company*) is one of the largest companies in Latvia contributing significantly by its economic activity to the national economy via providing use of the railway infrastructure for freight traffic and passenger transport. In 2017, export of freight traffic accounts for 64.5% of revenue from fee for the use of railway infrastructure by market segments.

Main type of economic activity of *Latvijas dzelzceļš* is management of the public railway infrastructure. *The Company* manages, maintains and develops public railway infrastructure in Latvia. *Latvijas dzelzceļš* as the manager of public railway infrastructure currently owns a network of railway tracks of the extended length 3,167 km, including the technologically related station tracks and access tracks, as well as other infrastructure objects.

*The Company* is the leading enterprise of “*Latvijas dzelzceļš*” Group (hereinafter referred to as – *the Group*). The Group consists of the leading enterprise and seven dependent companies (the leading enterprise has direct decisive influence in six companies, indirect decisive influence – in one company), and they all together provide clients with various railway industry services.

*Latvijas dzelzceļš* provides public railway infrastructure services, handling services of freight wagon formations and wagon technical maintenance and inspection services, electricity distribution and trade services, lease services, information technology services, electronic communication services, as well as principal services. LLC (SIA) “LDZ CARGO” operates local and international railway freight traffic, provides traction services, freight wagon use services, as well as organizes international passenger transportations. LLC (SIA) “LDZ infrastruktūra” provides construction and overhaul of railway tracks. LLC (SIA) “LDZ

ritošā sastāva serviss” provides repair of locomotives and wagons, equipment and modernization of locomotives. LLC (SIA) “LDZ apsardze” provides physical and technical security services to the *Group’s* companies and other enterprises, as well as natural persons. JSC (AS) “LatRailNet” is the manager of essential railway infrastructure function. This company approves fee for the services of public railway infrastructure, distributes the capacity of railway infrastructure, as well as adopts decisions on assignment of trains of specific operator. LLC (SIA) “LDZ Loģistika” provides freight forwarding and logistics services, as well as attracts new freight flows and promotes railway freight traffic between the European and Asian countries. LLC (SIA) “Rīgas Vagonbūves uzņēmums “Baltija””, a subsidiary company of the LLC (SIA) “LDZ ritošā sastāva serviss”, was established with the purpose to develop manufacturing of wagons in Latvia.

Main task of the *Company* is provision of the management of the state public railway infrastructure and safe high quality and effective railway and logistics services in the interests of the *Group*, the State of Latvia and national economy.

Main task of *Latvijas dzelzceļš* in the area of the *Group’s* management is provision of the development and competitiveness of the *Group’s* business directions achieving better results than it would be possible for each business direction, if operating separately.

For the purpose of improvement of good corporate governance and development of the awareness of social responsibility both in the *Company* and the entire *Group*, as well as to strengthen sustainable and simultaneously innovative approach to the railway industry, *Latvijas dzelzceļš* has been preparing the sustainability report according with the internationally recognized Global Reporting Initiative (GRI) G4 guidelines since 2016.



In 2017, average number of employees was 6,494, and this number has decreased by 314 in comparison with 2016.

## 2. ECONOMIC PERFORMANCE RESULTS

In 2017, public infrastructure of *Latvijas dzelzceļš* was used to transport 43,785 thousand tons of freight by travelling 8,844 thousand train km and to carry 17,494 thousand passengers by travelling 6,075 thousand train km (including the LLC (SIA) "GulbenesAlūksnes bānītis" - 49 thousand train km). In comparison with the previous year, the freight traffic volume in tons has decreased by 8.4%, while the volume of transported passengers has retained at the level of previous year. Revenue of *Latvijas dzelzceļš* was significantly affected also by the travelled ton-kilometres: 15,016 mln tkm. In comparison with the previous year, this number has decreased by 5.4%.

Net turnover for the reporting year is 180,162 thousand euro (hereinafter referred to as - EUR) representing 12,410 thousand euro or 6.4% below the indicator of 2016. Most significant decrease in net turnover can be observed in relation to the revenue related to freight traffic volume. Main source of income of *Latvijas dzelzceļš* as the manager of public railway infrastructure is the fee paid by the operators for the use of public railway infrastructure (accounting for 69.2% of the annual net turnover in 2017).

In 2017, the Company's profit before taxes was 768 thousand euro. On 1 January 2018, the new Corporate Income Tax entered into effect providing for exclusion of differences in financial and tax depreciation, as well as changes in provisions from the taxable amount. Discontinuation of recognition of the deferred tax obligations and inclusion thereof in the income statement increased net profit by 22,416 thousand euro. Net profit is 23,184 thousand euro.

When assessing the financial indicators, it should be taken into account that the co-funding received from the European Community funds and the state for investment projects is

indicated in the balance sheet liabilities item "Next period income" and written off according to the corresponding portions of the write-offs of the related assets created using applying to the received financial support and presented in the income statement item "Other operating income", but depreciation of objects (in 2017 - 20,377 thousand euro) is included in the item "Production costs of goods sold". Taking into account the fact that the above mentioned depreciation was not included in the supporting costs of infrastructure use, in 2016 and 2017 resulted gross losses. Such accounting is substantiated by the Regulations of the Cabinet of Ministers No. 775 of 22.12.2015 "Regulations On Application of the Law On Annual Financial Statements and Consolidated Financial Statements" enforced in 2017.

*The Company* operates prudent liquidity risk management, providing availability of corresponding credit resources for timely meeting of the obligations. In 2017, *the Company's* current liabilities exceeded its current assets by 61'929 thousand euro. Current liabilities include next period income in the amount of 20'388 thousand euro, which is related to investments of the EU projects and state budget funds in public railway infrastructure and is gradually written-off in revenue, thus creating low risk that funds will be required for the coverage of these liabilities. Total liquidity indicator, excluding next period income from the current liabilities, is 0.5. Liquidity indicator is decreased also by inclusion of provisions and accrued unused annual leave liabilities as part of current liabilities. *The Company's* cash flows from the operational activities are positive. Furthermore, *the Company* has available credit line with the JSC (AS) Luminor Bank for the meeting of current liabilities. As a result of the above mentioned circumstances, we believe that the going concern assumption is applicable for the preparation of this financial statement.



Amount of the equity of *Latvijas dzelzceļš* on 31 December 2017 is 315,244 thousand euro. In comparison with the end of the previous year, this amount has increased by 23,184 thousand euro. *Company's* equity comprises 34.8% of the total assets.

Total amount of the *Company's* capital investments completed in 2017 reached 26,273 thousand euro. Most significant projects include:

- In renovation of railway tracks, works were carried out in the amount of 19,303 thousand euro. "A" type overhaul was carried out in the distance of 22.5 km, while "B" type overhaul - in the distance of 24.97 km;
- In the modernization of information technologies, works in the amount of 1,317 thousand euro were carried out during the reporting period. In the project Optimization of the electronization of freight traffic infrastructure circulation, improvement of the functionality in accounting of dangerous freights was improved. The following development works were performed for the improvement of the Uniform data storage of *Latvijas dzelzceļš*. Dispatcher and management reports were created in the rail freight indicator information system, software was updated in the Document management system, and Telegram solution has been introduced, besides, innovative improvements for the system functionality improvement have been developed in the new system version;
- In the area of real estate management, modernization of heating systems was carried out in the buildings of *Latvijas dzelzceļš*. In accordance with the annual plan, overhauls of technological and station buildings, change of the type of heating and replacement of external engineering networks, connection to district sewerage and other construction works were carried out. During the reporting period, works have been carried out in the amount of 1,344 thousand euro.

### 3. GOALS AND FURTHER DEVELOPMENT

In relation to changes in the regulation of railway industry in the European Union (EU), particularly, the Directive establishing a single European railway area (2012/34/EU), on 25 February 2016, amendments were made to the Railway Law, and Cabinet Regulations were issued on the basis thereof. These amendments provide for changes in relation to the provision of services and methodology for the calculation of the service price. Regulation (ES) 2015/909 for the calculation of the cost that is directly incurred as a result of operating the train service has been adopted, and it will change the methodology for the calculation of price for the sale of railway capacity. New methodology is to be applied from 1 January 2019. According to the Railway Law, the Ministry of Transport has prepared the indicative draft railway infrastructure development strategy (plan). Draft plan must be approved by the Cabinet of Ministers. On the basis of the indicative draft railway infrastructure development strategy (plan), manager of the public railway infrastructure will develop the Plan for the economic activity including therein investment and financial programme, and providing a link between the provisions of contractual agreement and the plan of commercial activity. According to the amendments

to the Railway Law, multi-annual contract must be entered into between the manager of the infrastructure and the Ministry of Transport. Conclusion of the contract is very crucial to provide financial balance, because it will determine the indicators of the infrastructure volume and quality, furthermore, the contract must provide for appropriate funds. Efficiency of infrastructure services will be one of the decisive factors in the global competition for the railway freight traffic. Projects providing direct improvement of the efficiency and safety of services, promotion of the growth of freight volume and improvement of the competitiveness of the transport sector in Latvia in general will be priorities of *Latvijas dzelzceļš*.

Under the influence of geopolitical events, there is a decrease in the freight traffic volume of *Latvijas dzelzceļš* since April 2017 (freight traffic volume in 2016 was 47,819 thousand t, while in 2017 - 43,785 thousand t, representing 8.4% below that indicator), but, being aware of the further market development tendencies, *Latvijas dzelzceļš* retains unchanged strategic direction by developing modern, efficient and environment-friendly group of infrastructure and logistics companies thus providing management of



the railway infrastructure and logistics services in the interests of the entire community and national economy of Latvia.

In order to increase the volumes and efficiency of freight traffic, promote use of environment-friendly technologies, and increase the international competitiveness of the transit corridor of *Latvijas dzelzceļš*, the Company is planning gradual electrification of the main railway network (main tracks) by using 25 kV alternate current technology.

Taking into account the fact that implementation of the large project is planned within the framework of the specific support goal 6.2.1, measure 6.2.1.1 “Electrification of Latvian railway network” of the priority direction “Sustainable transport system” of the action programme “Growth and employment” for the planning period 2014–2020 of the EU funds and Cohesion Policy Funds (Cohesion Policy (CF) financing available for the measure is 346,639 thousand euro), and the implementation must be provided by 2023, completion of the electrification of the span Daugavpils–Rēzekne–Krustpils–Rīga is planned by the end of 2023. Electrification spans of railway network, which may qualify for the goal of the measure 6.2.1.1, includes electrification of the spans of railway network, which are most intensively used for freight traffic and the electrification of which would result in significant reduction of the

amount of CO<sub>2</sub> emissions created in Latvia by railway traffic.

Implementation of several significant projects is planned within the framework of the specific support goal “Provision of competitive and environment-friendly TEN-T railway network promoting its safety, quality and capacity”, measure 6.2.1.2 “Modernization and construction of railway infrastructure”, of the priority direction “Sustainable transport system” of the action programme “Growth and employment” of the EU Funds and Cohesion Policy Funds, for the planning period 2014–2020 (available Cohesion Fund co-funding is 107,288 thousand euro).

Reconstruction and renovation of the most significant railway hubs will provide increase in handling capacity of railway districts, thus promoting timely and regular freight flow, simultaneously improving problematic spans of railway infrastructure and stabilizing the operation thereof, thus improving safety. Following projects are at the stage of implementation at the moment: “Modernization of Riga railway hub, span Sarkandaugava–Mangali–Ziemeļblāzma”, total costs 25 million EUR, including CF co-funding (85%), “Development of Daugavpils marshalling yard”, total costs 36.6 million EUR, including CF co-funding (85%), and “Development of Daugavpils acceptance park and access roads”, total costs 43.5 million EUR, including CF co-funding (85%).

Besides the previously mentioned projects, preparation of the following projects is planned:

- “Introduction of uniform train traffic planning and control information system” providing for unification of several currently separately functioning control systems.
- “Modernization of railway passenger service infrastructure”, within the framework of which, improvement of the comfort level for railway passengers and availability and safety of railway transport, as well as provision of availability of railway traffic services for persons with reduced mobility is planned.

The Company will keep increasing the productivity of railway personnel and responsibility thereof for the duties to be performed and organize the required training, as well as provide implementation of the environmental protection policy and traffic safety.

Significant risk, which may affect performance results of *Latvijas dzelzceļš* and the entire Group as a whole, is the changing political and economic environment in the market of the Eastern region, as well

as the development of Russian ports resulting in possible diversion of freights away from Latvian ports.

In order to reduce risk related to dependence on transit freight traffic in Eastern–Western directions, *Latvijas dzelzceļš* is planning to strengthen cooperation with the partners of the neighbouring countries, as well as to develop alternative directions of operation, including combined traffic and Northern–Southern direction. *Latvijas dzelzceļš*



will continue its participation in the initiatives related to the area of transport by setting creation of sustainable railway infrastructure financing model as a priority.

The main risks the *Group* might face in the next period of activity are: the risk of decrease of the volume of the transported freights, and risk of fluctuation in the prices of oil, metal and electricity.

#### 4. RESEARCH AND DEVELOPMENT MEASURES

*Latvijas dzelzceļš* will continue creation and maintenance of the image of *Latvijas dzelzceļš* by taking active position in the topical matters related to the development of the transport system and national economy.

In order to retain and promote in long-term the strengthening of the *Company's* competitiveness in such a significant transit corridor as East-West, the Board of *Latvijas dzelzceļš* uses and introduces in the *Company's* operation achievements of science and engineering technique, including new production technologies, electronic devices and programmes, information and communication systems, as well as optimizes the *Company's* organizational structure.

Furthermore, in order to decrease significantly the greenhouse-gas emission sources in Latvia and promote transition to alternative energy sources, as well as to create preconditions for the development of new services and market, the *Group* in cooperation with partners from Czech Republic and Canada has commenced work on the development of hydrogen marshalling locomotive model. On 7 February 2017, application of the project "Applying hydrogen in multi-modal Advanced Zero Emission transport (AMAZE)" for the Connecting Europe Facility was submitted to the European Commission's Innovation and Networks Executive Agency (hereinafter referred to as - INEA). However, due to the very fierce competition in the project competition (152 projects were approved out of the applied 349); the project was not supported because of lack of funds despite the very good assessment of experts. However, regardless of that, the *Group* continues active research work in relation to the

development of the project and searches for alternative sources of public funding for the implementation of the project.

On 28 February 2017, second phase of the certification audit of the energy management system of *Latvijas dzelzceļš* was successfully completed, and *Latvijas dzelzceļš* has already received a certificate of conformity to the requirements of the standard concordance LVS EN ISO 50 001:2012 and has performed the duties set in the Energy Efficiency Law for large companies.

Research project has been commenced in cooperation with Riga Technical University, within the framework of which recommendations regarding repair of cracks in railway sleepers, separation and other defects and the materials to be used will be developed. Analysis of the defects of reinforced concrete sleepers and manufacturing and testing of reinforced concrete prototype will be provided within the framework of the project.

The environmental management specialists of *Latvijas dzelzceļš* have been actively involved in the work groups of the Ministry of Environmental Protection and Regional Development and Riga City Council searching for solutions to reduce the noise caused by transport and to improve situation related to acoustic noises in the urban and rural environment.

Work on maintenance of ground and groundwater monitoring network and monitoring of results in Jelgava, Daugavpils, Rēzekne, Krustpils and Riga is ongoing, allowing for early identification of the pollution level of ground and ground waters and remediation, when necessary.

#### 5. BRANCHES AND REPRESENTATIVE OFFICES ABROAD

In 2012, the *Company's* representative office was established in Moscow, the capital of Russia. Representative office promotes sales and performs marketing activities in the area of traffic.

On 24 January 2017, representative office of *Latvijas dzelzceļš* was opened in Minsk, the capital of Belarus.

*The Company* has no foreign branches.



## 6. EVENTS AFTER THE END OF 2017

In compliance with the decision No. 1.5.-6/1 adopted by the State Railway Administration on 18.08.2017 regarding the provision of the marshalling works in Ventspils railway hub, as well as the Recommendation issued by the Director of the State Railway Administration to separate from the liability of the LLC (SIA) "LDZ CARGO" carrying out of marshalling dispatchers' function in railway hubs before 29 December 2017, from 1 January 2018, organization of marshalling in the stations by the ports: Ventspils, Liepāja, Mangaļi and Rīga-Krasta is provided by the resources of *Latvijas dzelzceļš*.

On 17 October 2017, according to the Decision No. PP-29/322 "Regarding changes in the organisational structure in the SJSC "Latvijas dzelzceļš"" issued by the Council of Presidents, it was decided to commence carrying out of marshalling works. For the purpose of commencement of the new functions in *Latvijas dzelzceļš*, changes in the technological processes in stations, and possible impact of division of the liability of technological processes on the movement security in the station in case of several participants was assessed.

Along with the expansion of the functions of maintenance places by carrying of marshalling

functions in railway hubs, additional 108 employees were required for *Latvijas dzelzceļš* (marshalling dispatchers, train compilers and other employees), as well as marshalling resources for the preparation, placing, removal, loading or unloading of wagons and formation of trains of unloaded or loaded wagons.

Thus, provision of marshalling function in the railway hubs, expanded resources of *Latvijas dzelzceļš* needed for carrying out of new functions, and range of recipients of services was defined. Services are offered to such recipients of services, which require handling of wagons, as well as access to the places of maintenance has been provided on equal principles both to operators and performers of technical functions, freight recipients or dispatchers.

Continuing the work on improvement of economic efficiency, decision was adopted that, from 1 January 2018, "Ceļu distance", structural unit of *Latvijas dzelzceļš*, will perform capital construction works previously performed by the LLC (SIA) "LDZ infrastruktūra", resulting in decrease of costs of works in the Group "*Latvijas dzelzceļš*".

## 7. PROPOSED DISTRIBUTION OF THE COMPANY'S PROFIT

On the basis of Section 94, Paragraph 1, Clause 2, Section 56, Paragraph 1, Section 28, Paragraph 1 and Paragraph 2 of the Law On Governance of Capital Shares of a Public Person and Capital Companies and Paragraph 5 of the Cabinet Regulations No. 806 of 22.12.2015 "Procedures, by Which State Capital Companies and Public Private Capital Companies, Where the State Is a Shareholder, Forecast and Determine the Share of Profit to Be Paid In Dividends and Make Payments In the State Budget For the Use of State Capital", in order to provide retention

of competitiveness, sustainable development and implementation of investment projects of the State Joint-Stock Company "Latvijas dzelzceļš", the *Company's* management proposes to determine different rate of the share of profit to be paid in dividends in the amount of 0%, including in the *Company's* medium term operational strategy permit based on the order issued by the Cabinet of Ministers to determine different foreseeable share of profit to be paid in dividends in the medium term strategy of the SJSC "Latvijas dzelzceļš".

Rīga, on 3 April 2018

Chairman of the Board

Member of the Board

Member of the Board

Member of the Board

E. Bērziņš

A. Strakšas

Ē. Šmuksts

A. Stūrmanis



## STATEMENT ON THE RESPONSIBILITY OF THE BOARD

The *Company's* Board (hereinafter referred to as - the *Management*) is responsible for the preparation of the *Company's* financial statement.

Financial statement of the SJSC (VAS) "Latvijas dzelzceļš" from page 14 to page 62 has been prepared on the basis of the accounting entries and supporting documents and provides fair view on the *Company's* financial position as at 31 December 2017, performance results and cash flows in 2017.

Previously mentioned financial statement has been prepared in accordance with the International

Financial Reporting Standards (IFRS) approved by the EU, on the going concern basis. Decisions adopted and conclusions made by the *Management* during the preparation of the *Company's* financial statement have been prudent and reasonable.

*The Company's Management* is responsible for provision of appropriate accounting system, preservation of the *Company's* assets, as well as for detection and prevention of fraud and other violations committed in the *Company*. *The Management* is responsible for the compliance with the requirements of the laws of the Republic of Latvia.

Riga, on 3 April 2018

Chairman of the Board

Member of the Board

Member of the Board

Member of the Board

E. Bērziņš

A. Strakšas

Ē. Šmuksts

A. Stūrmanis



## INDEPENDENT AUDITOR'S REPORT



Translation from Latvian original\*

### INDEPENDENT AUDITOR'S REPORT

**To the Shareholder of VAS "Latvijas Dzelzceļš"**

#### **Our Opinion**

In our opinion, the accompanying financial statements set out on pages 14 to 62 of the accompanying annual report give a true and fair view of the financial position of VAS "Latvijas Dzelzceļš" (the Company) as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

#### ***What we have audited***

The financial statements comprise:

- the statement of financial position as at December 31, 2017,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements and auditor's independence rules that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

#### **Reporting on Other Information**

Management is responsible for the other information. The other information comprises

- the Management Report, as set out on pages 3 to 9 of the accompanying annual report,
- the Statement on Management Responsibility, as set out on page 10 of the accompanying annual report,

but does not include the financial statements and our auditor's report thereon.

*PricewaterhouseCoopers SIA, Kr. Valdemāra iela 21-21, Rīga, LV-1010, Latvia, LV40003142793  
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv*



## INDEPENDENT AUDITOR'S REPORT



Translation from Latvian original\*

Our opinion on the financial statements does not cover the other information included in the annual report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

In addition, in accordance with the Law on Audit Services with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

Based solely on the work required to be undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



## INDEPENDENT AUDITOR'S REPORT

Translation from Latvian original\*



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers SIA  
 Certified audit company  
 Licence No. 5

Ilandra Lejiņa  
 Member of the Board

Riga, Latvia  
 3 April 2018

Terēze Labzova-Ceicāne  
 Certified auditor in charge  
 Certificate No.184



## FINANCIAL STATEMENT STATEMENT OF COMPREHENSIVE INCOME

2017

(EUR)

	NOTE	2017	2016
Income	4	180,161,702	192,572,239
Production cost of goods sold	5	(191,174,607)	(198,593,999)
<b>Gross losses</b>		<b>(11,012,905)</b>	<b>(6,021,760)</b>
Administrative expenses	6	(15,136,835)	(14,746,007)
Other operating income	7	30,051,607	27,785,002
Other operating expenses	8	(4,058,146)	(3,122,662)
Revenue from investments:		2,517,608	4,306,590
In subsidiaries	9	2,207,058	4,057,000
In other companies	10	310,550	249,590
Financial income	11	578,638	277,196
Financial expenses	11	(2,171,373)	(2,187,457)
<b>Profit before corporate income tax</b>		<b>768,594</b>	<b>6,290,902</b>
Corporate income tax	12	22,415,773	(5,409,904)
<b>Profit for the reporting year</b>		<b>23,184,367</b>	<b>880,998</b>
<b>Profit for the reporting year and the comprehensive income related to the shareholders</b>		<b>23,184,367</b>	<b>880,998</b>

Notes on pages 119 through 161 form integral part of this financial statement.  
Riga, on 3 April 2018

Chairman of the Board

E. Bērziņš

Member of the Board

A. Strakšas

Member of the Board

Ē. Šmuksts

Member of the Board

A. Stūrmanis

Annual Report has been prepared by the Finance Directorate  
of the SJSC (VAS) "Latvijas dzelzceļš":  
Deputy Financial Director, Head of Financial Unit

S. Gasjūna



## STATEMENT OF THE FINANCIAL POSITION

On 31 December 2017

(EUR)

Assets	NOTE	31.12.2017.	31.12.2016.
<b>LONG-TERM INVESTMENTS</b>			
Fixed assets	13	689,561,879	714,782,578
Intangible assets	14	1,282,412	1,488,572
Prepayments for fixed assets		745,231	749,520
Investments in subsidiaries	15	126,339,736	126,339,736
Loans to related companies	16	44,510,858	29,158,575
Other securities and investments	17	494,227	494,227
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>862,934,343</b>	<b>873,013,208</b>
<b>CURRENT ASSETS</b>			
Inventories	18	6,699,158	9,763,744
Trade receivables and other receivables	19	6,282,560	9,836,683
Receivables from related companies	37	9,545,760	14,081,642
Cash and cash equivalents	20	19,701,435	7,103,593
<b>TOTAL CURRENT ASSETS</b>		<b>42,228,913</b>	<b>40,785,662</b>
<b>TOTAL ASSETS</b>		<b>905,163,256</b>	<b>913,798,870</b>

(continued on the next page)



## STATEMENT OF THE FINANCIAL POSITION

On 31 December 2017 (continued)

(EUR)

Liabilities	NOTE	31.12.2017.	31.12.2016.
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	21	256,720,375	256,720,375
Reserves	22	11,725,503	10,844,505
Retained earnings of the previous years		23,613,416	23,613,416
Profit or loss of the reporting year		23,184,367	880,998
<b>TOTAL EQUITY</b>		<b>315,243,661</b>	<b>292,059,294</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Deferred income tax liability	12	-	22,415,773
Provisions	23	177,426	178,176
Borrowings from credit institutions	24	175,139,053	173,752,632
Other borrowings	25	2,320,571	2,437,574
Accounts payable to suppliers and contractors		486,263	486,263
Next period income	26	307,638,803	329,670,887
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>485,762,116</b>	<b>528,941,305</b>
<b>CURRENT LIABILITIES</b>			
Borrowings from credit institutions	24	33,109,177	31,187,797
Other borrowings	25	117,004	117,004
Provisions	23	6,921,703	13,844,292
Accounts payable to suppliers and contractors, and other creditors		29,833,978	16,744,921
Debts to affiliated companies	37	4,393,161	2,967,099
Taxes and state compulsory social insurance contributions	27	9,394,029	8,728,973
Next period income	26	20,388,427	19,208,185
<b>TOTAL CURRENT LIABILITIES</b>		<b>104,157,479</b>	<b>92,798,271</b>
<b>TOTAL LIABILITIES</b>		<b>589,919,595</b>	<b>621,739,576</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>905,163,256</b>	<b>913,798,870</b>

Notes on pages 119 through 161 form integral part of this financial statement.

Riga, on 3 April 2018

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Deputy Financial Director, Head of Financial Unit

S. Gasjūna



**STATEMENT OF CHANGES IN EQUITY**

(EUR)

	Share capital	Reserves	Retained earnings of the previous years	Retained profit/ losses of the reporting year	Total equity
<b>2016</b>					
<b>As at 01.01.2016</b>	<b>256,720,375</b>	<b>8,777,315</b>	<b>27,006,699</b>	<b>(1,326,093)</b>	<b>291,178,296</b>
Losses of 2015 transferred to the retained earnings of the previous years	-	-	(1,326,093)	1,326,093	-
Earnings of the previous years transferred to reserves		2,067,190	(2,067,190)	-	-
Profit for the reporting year	-	-	-	880,998	880,998
<b>31.12.2016.</b>	<b>256,720,375</b>	<b>10,844,505</b>	<b>23,613,416</b>	<b>880,998</b>	<b>292,059,294</b>
<b>2017</b>					
<b>31.12.2016.</b>	<b>256,720,375</b>	<b>10,844,505</b>	<b>23,613,416</b>	<b>880,998</b>	<b>292,059,294</b>
Profit of 2016 transferred to the retained earnings of the previous years	-	-	880,998	(880,998)	-
Earnings transferred to the reserves	-	880,998	(880,998)	-	-
Profit for the reporting year	-	-	-	23 184 367	23 184 367
<b>31.12.2017.</b>	<b>256,720,375</b>	<b>11,725,503</b>	<b>23,613,416</b>	<b>23,184,367</b>	<b>315,243,661</b>

Notes on pages 119 to 161 form integral part of this financial statements.

Riga, on 3 April 2018

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Annual Report has been prepared by the Finance Directorate of the SJSC (VAS) "Latvijas dzelzceļš":

Deputy Financial Director, Head of Financial Unit

S. Gasjūna



## CASH FLOW STATEMENT

### 2017 (using the indirect method)

(EUR)

	NOTE	2017	2016
<b>Operating cash flow</b>			
<b>Profit before corporate income tax</b>		<b>768,594</b>	<b>6,290,902</b>
<b>Adjustments:</b>			
Depreciation of fixed assets and other impairment adjustments		29,575,257	32,793,986
Amortisation of intangible assets and other impairment adjustments	14	562,451	588,371
Creation of provisions	23	(6,923,339)	(7,826,436)
Foreign currency exchange rate profit or loss	7, 8	(321,866)	80,695
Income from investments in affiliated and other companies	9, 10	(2,517,608)	(4,306,590)
Other interest and similar income	11	(578,638)	(277,196)
Interest and similar expenses	11	2,171,373	2,187,457
<b>Profit before adjustments for changes in current assets and current liabilities</b>		<b>22,736,224</b>	<b>29,531,189</b>
(Decrease) / increase of the next period expenses and receivables		4,681,460	(4,156,630)
Decrease of inventories		2,508,271	244,832
Increase/ (decrease) of accounts payable to suppliers, contractors and other creditors		13,052,363	(5,628,190)
<b>Gross cash flow from operating activities</b>		<b>42,978,318</b>	<b>19,991,201</b>
Interest expenses		(2,176,118)	(2,244,867)
<b>Net cash flows from operating activities</b>		<b>40,802,200</b>	<b>17,746,334</b>
<b>Investment activity cash flow</b>			
Purchase of investments in related companies, subsidiaries or other companies		-	(638,000)
Acquisition of fixed and intangible assets		(23,490,712)	(30,240,453)
Revenue from disposal of fixed and intangible assets		72,210	42,882
Subsidies, grants, gifts, or donations received		-	32,794,112
Loans issued		(18,100,000)	(34,832,656)
Revenue from repaid loans		5,124,286	-
Received interest		546,833	240,123
Dividends received		3,582,896	3,397,602
<b>Net cash flows from investing activity</b>		<b>(32,264,487)</b>	<b>(29,236,390)</b>

(continued on the next page)



## CASH FLOW STATEMENT

2017 (continued)

(EUR)

	NOTE	2017	2016
<b>Financing activity cash flow</b>			
Borrowings received		34,657,780	43,377,183
Subsidies, grants, gifts, or donations received		590,003	-
Repayment of borrowings		(31,187,796)	(24,833,690)
<b>Net cash flows from financing activity</b>		<b>4,059,987</b>	<b>18,543,493</b>
<b>Result of fluctuations in the foreign exchange rates</b>		<b>142</b>	<b>1,499</b>
<b>Increase of cash and cash equivalents during the reporting year</b>		<b>12,597,842</b>	<b>7,054,936</b>
Cash and cash equivalents at the beginning of the year		7,103,593	48,657
<b>Cash and cash equivalents at the end of the year</b>	<b>20</b>	<b>19,701,435</b>	<b>7,103,593</b>

Notes on pages 119 through 161 form integral part of this financial statement.

Riga, on 3 April 2018

Chairman of the Board

E. Bērziņš

Member of the Board

A. Strakšas

Member of the Board

Ē. Šmuksts

Member of the Board

A. Stūrmanis

Annual Report has been prepared by the Finance Directorate of the SJSC (VAS) "Latvijas dzelzceļš":

Deputy Financial Director, Head of Financial Unit

S. Gasjūna



## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION ABOUT THE COMPANY

Name of the Company	<b>LATVIJAS DZELZCEĻŠ</b>
Legal status of the Company	State Joint-Stock Company
Address	Gogoļa Street 3, Riga, LV-1050
Uniform Registration Number	40003032065
Date of registration in the Register of Enterprises	01.10.1991
Date of registration in the Commercial Register	10.09.2004
Place of registration	Riga
Date of issue of the Merchant's Certificate of Registration	10.09.2004
Line of business (NACE 2nd vers.)	42.12 Construction of railways and underground railways 52.21 Service activities incidental to land transportation
Shareholder	Republic of Latvia (100%)
Holder of capital shares	Ministry of Transport of the Republic Of Latvia Gogoļa Street 3, Riga, LV-1743
Supervisory institution	Company's Council
Council	Jānis LANGE, Chairman of the Council from 02.02.2018  Ansis ZELTIŅŠ, Chairman of the Council from 22.07.2016 till 27.08.2017  Aigars LAIZĀNS, Member of the Council from 22.07.2016 till 28.08.2017, Chairman of the Council from 29.08.2017 till 01.02.2018, Member of the Council from 02.02.2018  Rodžers Jānis GRIGULIS, Member of the Council from 22.07.2016 till 05.11.2017  Andris MALDUPS, Member of the Council from 06.11.2017 till 01.02.2018, Member of the Council from 02.02.2018



**Board**

Edvīns BĒRZIŅŠ Chairman of the Board from 25.02.2016

Aivars STRAKŠAS - Member of the Board (appointed for a new term of office from 28.08.2017),

Ēriks ŠMUKSTS - Member of the Board (appointed for a new term of office from 02.12.2017)

Ainis STŪRMANIS - Member of the Board from 18.07.2016

**Auditor's name and address  
and Certified Auditor  
in charge**

LLC (SIA)

"PricewaterhouseCoopers"

Uniform Reg. No. 40003142793

Commercial Audit Company's License No. 5 issued by  
Latvian Association of Certified Auditors

Kr.Valdemāra Street 2121

Rīga, LV-1010

Latvia

Certified Auditor in charge Terēze Labzova-Ceicāne,  
Certificate No. 184

**Reporting year**

1 January 2017 - 31 December 2017



## 2. ACCOUNTING AND MEASUREMENT PRINCIPLES

Financial statement reflects the financial position of *Latvijas dzelzceļš* as a separate company. Financial position of the *Group* (State Joint-Stock Company “*Latvijas dzelzceļš*” and subsidiary companies thereof) has been reflected in the consolidated financial statements.

Financial statement covers the period from 1 January 2017 till 31 December 2017. This financial statement has been approved for publication by the *Company's Board* on 3 April 2018. Financial statement is approved by the meeting of shareholders convened by the Board of *Latvijas dzelzceļš* after receipt of auditor's opinion and the Council's report.

### 2.1. Accounting and measurement principles

This financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the EU. Taking into consideration the EU approval procedure, this Annex reflects also the standards and interpretations, which have not been approved for application in the EU, because these standards and interpretations may affect the *Company's* financial statements in the next periods, if approved.

Financial statement has been prepared under the original cost accounting method.

Financial report has been prepared on the going concern basis.

The Company has closed the year of 2017 with profit after taxes of 23,184 thousand euro. On 31 December 2017, the Company's current liabilities exceeded its current assets by 61,929 thousand euro. Current liabilities include next period income in the amount of 20'388 thousand euro, related to the investments of the EU project and state budget funds in the railway public infrastructure, therefore no funds should be planned for the coverage of these liabilities. Total liquidity indicator is 0.4, but, with the exclusion of next period income from the

current liabilities, this indicator is 0.5. Whereas, after exclusion of current provisions non-related to cash flow, liquidity indicator is 0.6. The Company's cash flows from the operating activity are positive. Furthermore, the Company has available credit line with the JSC (AS) Luminor Bank for the meeting of current liabilities. Considering all the previously mentioned circumstances, we conclude that the Company has managed to maintain financial balance in 2017 despite the decrease in the freight volume.

In order to prepare the financial report in accordance with the IFRS, the *Management* bases its action on certain estimates and assumptions affecting the balances reflected in separate reports, as well as the possible amount of liabilities. Future events may affect assumptions on the basis of which respective estimates have been made. Any effect of estimate changes is reflected in the financial statements at the moment of determination thereof. Although these estimates have been prepared on the basis of comprehensive information on current events and actions, which is at the disposal of the *Management*, actual results may be different. Essential assumptions and judgements are described in Note 3.

Such new and amended IFRS and interpretations have come into effect in 2017 and they have no impact on the *Company's* operation and these financial statements:

- Amendments to IAS 12 “Income Taxes – Recognition of a deferred tax for unrealised losses” (applicable to reporting periods beginning on or after 1 January 2017);
- Amendments to IAS 7 “Cash flow statement” – regarding Information Disclosure Initiative (applicable to reporting periods beginning on or after 1 January 2017).



Several new standards and interpretations have been published, and they enter into effect in the financial periods beginning on or after 1 January 2018, or these are not approved for application in the EU and apply to the *Company's* operation:

- IFRS 9 “Financial Instruments” (applicable to reporting periods beginning on or after 1 January 2018). Main provisions of the new standard are as follows:
  - Financial assets are classified in three assessment categories: those valued at amortised cost; those valued at fair value with revaluation in other income (PVPI); and those valued at fair value with revaluation in the income statement (PVPZA). Majority of the requirements of IAS 39 applicable to the classification and assessment of financial liabilities remained unchanged also in IFRS 9. The *Company's* management has carried out assessment of the introduction of IFRS 9 leading to conclusion that the classification and measurement of the *Company's* financial assets and liabilities will not be changed.
  - IFRS 9 introduces a new model for the recognition of impairment – expected credit loss (ECL) model. The model has three-stage approach based on changes in the credit quality of the financial asset in comparison with the initial recognition. In practice, the new requirements will mean that, at the moment of recognition of the *Company's* financial asset, immediate losses equal to 12-months ECL will have to be recognized also in case, if financial assets will have no indications of impairment (trade receivables will have to recognize their lifetime ECL). In case of significant increase of credit risk, decrease in value will be measured by using the asset's lifetime ECL instead of 12-months ECL. Model includes operational ok for leasing and trade receivables. After assessment of the ECL estimate by the *Company's* management, it was concluded that the provisions additionally required as at 1 January 2018 are not material within the context of the *Company's* financial statements.
  - Hedge accounting requirements were added to align the accounting with risk management. Since the *Company* does not use hedge accounting, these requirements do not apply.
- IFRS 15 “Revenue from contracts with customers” (applicable to reporting periods beginning on or after 1 January 2018). New standard introduces recognition of income along with the transfer of goods or services to the customer according to the price of the transaction. If separate goods and services are combined in packages, sale of each separate good or service should be recognized as a separate transaction, and any contractual discounts are usually applicable to each transaction element. For the transactions with variable remuneration, minimum amount, which is not exposed to significant cancellation risk, must be recognized. Costs related to the conclusion of client contracts should be capitalized and depreciated during the period of the contract. The *Company's* management has carried out assessment of the introduction of IFRS 15 leading to conclusion that introduction of the standard in 2018 will not have a significant impact on the *Company's* financial statements.
- IFRS 16 “Lease” (applicable to reporting periods beginning on or after 1 January 2019, not yet adopted in the EU). New standard determines principles for the recognition and assessment of lease contracts and disclosure of information. All lease contracts provide the lessee with right to use the asset, and, if lease payments are made over the period of time, financing component is also included. Accordingly, IFRS 16 excludes possibility to classify lease contracts as operative or financial lease according to IAS 17. IFRS 16 introduces a uniform accounting model instead. The lessee recognizes in its accounting the following: (a) assets and liabilities on all lease contracts with the lease term in excess of 12 months, except for the



contracts on lease of low-value assets; and (b) depreciation costs of leased assets separately from costs of lease liabilities interest. Accounting of lessors in accordance with IFRS 16 is largely similar to the requirements of IAS 17. Accordingly, lessors continue classification of lease contracts as operating or financial leases, furthermore, different accounting treatment depending on the classification remains. Currently, the *Company's* management carries out assessment of the impact of introduction of the new standard. Although no precise impact has been determined, it is foreseen that the *Company's* assets and liabilities will increase under the influence of IFRS 16.

- Amendments to IFRS 15 “Revenue from contracts with purchasers” (applicable to reporting periods beginning on or after 1 January 2018);
- Annual IFRS improvements 2016. These amendments include changes in 3 standards:
  - IFRS 12 “Disclosure on participation in other companies” (applicable to reporting periods beginning on or after 1 January 2018, not yet adopted in the EU);
  - IFRS 1 “First-time Adoption of International Financial Reporting Standards” (applicable to reporting periods beginning on or after 1 January 2018, not yet adopted in the EU);
  - IAS 28 “Associated companies and joint ventures” (applicable to reporting periods beginning on or after 1 January 2018, not yet adopted in the EU).
- IFRIC 22 “ Foreign Currency Transactions and Advance Consideration” (applicable to reporting periods commencing on 1 January 2018 or later, not yet adopted in the EU);
- IFRIC 23 “Uncertainty over Income Tax Treatments” (applicable to reporting periods beginning on or after 1 January 2019, not yet adopted in the EU);
- Amendments to IAS 40 “Investment Property” – Investment Property Reclassification (applicable to reporting periods beginning on or after 1 January 2018, not yet adopted in the EU);
- Amendments to IFRS 9 “Financial Instruments” – Prepayment Instruments with Negative Reimbursement (applicable to reporting periods beginning on or after 1 January 2019, not yet adopted in the EU);
- Annual IFRS improvements 2017 (applicable to reporting periods beginning on or after 1 January 2019, not yet adopted in the EU). These amendments include changes in 4 standards:
  - IFRS 3 – “Business Combination”;
  - IFRS 11 – “Joint arrangements”;
  - IAS 12 – “Income Tax”;
  - IAS 23 – “Borrowing Costs”.

The *Company's* management has adopted a decision not to apply new standards and interpretation before the date of entry thereof into effect. The *Company's* management believes that introduction of new standards, amendments and interpretations does not have significant impact on the *Company's* financial statements in the year of introduction, except as mentioned above.



## 2.2. Foreign currency revaluation

### Functional and reporting currency

Items of financial reports are accounted in the currency of the economic environment of the *Company's operation (functional currency)*. Items

of financial reports are presented in the official currency of the Republic of Latvia: euro (EUR), which is the *Company's reporting currency*.

### Transactions and balances in foreign currencies

All transactions in foreign currency are recalculated in euro according to the euro reference rate published by the European Central Bank at the beginning of the day of transaction. Monetary assets and liabilities in foreign currency on the last day of the reporting year are recalculated in *euro* applying the foreign currency exchange rate published by the European Central

Bank at the end of the last day of the reporting year.

Differences of the foreign currency exchange rate arising from transactions in foreign currency payments are recognized in the income statement.

### Foreign currency exchange rates

FOREIGN CURRENCY	EUR 31.12.2017	EUR 31.12.2016
USD	1.1993	1.05410
CHF	1.17020	1.07390
RUB	69.39200	64.30000

## 2.3. Intangible assets

Intangible assets mostly consist of software licences. Initially, these assets are recognized at acquisition costs. Intangible assets are subject to determined and limited time of use. Subsequently intangible assets are presented at acquisition cost, less accumulated depreciation and impairment losses.

Further expenses are capitalized by increasing the value of the existing intangible asset or recognized as separate intangible asset only in

case, if the Company expects future economic benefits and these expenses can be reliably determined. Other expenses are written-off in income statement as they are incurred.

Depreciation of intangible assets is calculated applying linear method in order to write off the acquisition value during the useful life, and it is included in the income statement of the respective period. Intangible assets are depreciated over the period of 5 years.

## 2.4. Fixed assets

Fixed assets are recognized applying the acquisition cost method, as described below less the accumulated depreciation and any impairment losses, if necessary.

Costs directly attributable to the acquisition of fixed asset are included in the acquisition costs. Value of self-made fixed assets consists of material price and

direct labour costs, as well as any other costs directly attributable to provision of fixed asset in operational condition for the intended purpose and dismantling and removal costs of fixed assets, and restoration of the place of location of the fixed asset. Acquisition costs of such software, which is directly related to functionality of equipment and may not be separated, are capitalized as part of this equipment.



The *Company* capitalises fixed assets, the value of which exceeds 300 euro and the lifetime whereof exceeds one year. Investments in the leased fixed assets are capitalized and reflected as fixed assets.

In case of different lifetimes of separate components of fixed assets, they are accounted as separate parts of fixed assets. Estimated residual values and lifetimes of fixed assets are reviewed and, if necessary, adjusted at every balance sheet data.

Further costs are included in the balance-sheet value of fixed asset or recognized as a separate fixed asset only in case, when there is a high possibility that the future economic benefits

related to this item will flow into the *Company* and expenses of this item can be reliably determined. Other current repair and maintenance costs of fixed assets are included in the income statement of the period when incurred.

Profit or loss from disposal of fixed assets is calculated as difference between the balance-sheet value of fixed asset and revenue gained from sale and included in the income statement as incurred.

In cases, when the balance-sheet value of any fixed asset is higher than its recoverable value, fixed asset is immediately written down to its recoverable value (see Note 3).

### Depreciation

Depreciation of fixed assets is calculated under the linear method, and depreciation charge is included in the income statement.

Investments in the leased fixed assets are depreciated over the shortest of lease period or lifetime of a similar fixed asset according to

rates applied to the category of similar fixed assets. Land is not depreciated.

Depreciation amount for the *Company's* fixed assets in the reporting period is calculated from the residual value of each fixed asset applying the useful life determined for the relevant fixed asset.

Fixed assets	Useful life
Buildings and structures	10-130 years
Perennial plantings	40 years
Railway rolling stock – wagons for technological needs	22-40 years
Railway rolling stock – locomotives, diesel trains and technological equipment	5-40 years
Railway track machines	30 years
Computing devices, means of communication, photocopiers and equipment thereof	3-10 years
Other fixed assets	5-28 years



### Construction work in progress

Assets, which are not ready for the intended use or are in the installation process at the moment of acquisition, are classified as “Costs of unfinished building objects” Initial value of unfinished building objects is increased during the period by borrowing costs and other direct costs related to the respective object until putting thereof into service. Initial value of the relevant fixed asset is not increased by borrowing costs in the periods, when no active develop-

ment works of the unfinished building objects are carried out.

At the moment, when unfinished building objects are ready for the intended use, they are re-classified into fixed assets, and calculation of depreciation is commenced. Unfinished building objects are regular by assessed for impairment indicators.

### 2.5. Impairment of tangible and intangible assets

Useful life has been set to all the *Company's* tangible and intangible assets (except for land and museum inventories). Value of the assets subject to depreciation is reviewed, when events and circumstances indicate possible impairment of their balance-sheet value.

Impairment losses are recognized in the value, which is equal to the difference between the asset's balance-sheet value and its recoverable value. Recoverable value is the highest of the fair value of the relevant asset, less costs to sell, and its value in use. In order to determine impairment, assets are grouped on the basis of the lowest level, for which cash flow (cash generat-

ing units) may be identified. Impairment losses from are recognized in the income statement.

Impairment losses of assets recognized in the previous periods are reviewed on every balance sheet date to check for any evidence on decrease or non-existence of losses. Impairment losses are reversed if estimates used for the determination of the recoverable amount change. Impairment losses are reversed only to the extent, for which balance-sheet value of the relevant asset does not exceed the balance-sheet value less depreciation, which would be determined, if impairment losses would not be recognized.

### 2.6. Financial instruments

The *Company's* financial instruments consist of financial assets (available for sale investments, loans, receivables and cash and cash

equivalents) and financial liabilities (borrowings, accounts payable to suppliers and other creditors).

#### Financial Assets

Investments in other companies, receivables, cash and cash equivalents and loans granted are presented as financial assets. Classification depends on the purpose of acquisition of a financial asset. The *Company* determines classification of financial assets at the moment of the initial recognition and reviews the classification on every balance sheet date.

Recognition of financial assets is discontinued at the moment when the *Company's* contractual rights to the cash flows arising from the financial assets cease or if the *Company* transfers financial asset to other party, by transferring substantive all risks and rewards related to the asset. Acquisition and sale of financial assets is accounted on trade date, i.e., on the date, when the *Company* decides to purchase or sell the asset.



All the *Company's* financial assets are non-derivative financial assets not quoted on active market. They are included in the current assets, except for assets with the repayment period ex-

ceeding 12 months from the end of the reporting period. These are classified as long-term investments.

**Available for sale investments**

Available for sale investments are non-derivative financial instruments, which may not be classified in any other category. These investments are presented as long-term assets, unless the investment falls due or the *Management* is planning sale thereof within 12 months from the balance sheet day. Unquoted equity instru-

ments the fair value of which cannot be readily determined, are valued at acquisition costs less impairment. Dividends from investments are recognized in the income statement at the moment, when the *Company* has the right to receive those.

**Loans and receivables**

Loans and receivables are non-derivative financial instruments with fixed or determinable payment schedule, not quoted on active market and not held for trade. Loans and receivables include accounts receivable from customers and other debtors. Short-term receivables are not discounted.

failure to meet the payment liabilities or other violations are indicators that value of receivables has decreased. Provision for impairment is the difference between the asset's balance-sheet value and the present value of the future estimated cash flows discounted with the initial effective interest rate. Provision for impairment is included in separate provisions account, and losses are recognized in income statement.

Loans and receivables are initially recognized at fair value and further presented at amortised cost applying the effective interest rate method, less provision for impairment. Provision for impairment is raised, when there is objective evidence that the *Company* will not be able to receive debts according to initially set repayment schedule. Significant financial difficulties of debtor, possibility of initiation of bankruptcy proceedings or reorganization, as well as

If amount of losses decreases in the next period after recognition of impairment and this decrease may be objectively related to event after the recognition of impairment (for example, due to improved debtor's credit rating), reversal of the previously recognized losses from impairment is recognized in the income statement.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, current account balances and short-term deposits with the initial maturity less than 90 days, and highly liquid short-term investments,

which may be easily converted to cash in case of necessity and which are not exposed to significant impairment risk.

**Financial liabilities**

Borrowings, accounts payable to suppliers and other creditors are presented as financial liabilities.

**Creditors**

Accounts payable to creditors are initially recognized at fair value. Subsequently, accounts payable to creditors are presented at amortised cost by applying effective interest rate. Creditors

are classified as current liabilities, if the payment term is one year or less. If the payment term exceeds one year, creditors are presented as non-current liabilities.



## Borrowings

Initially, borrowings are recognized at fair value, less related acquisition costs. In the further periods, borrowings are presented at amortised cost applying effective interest rate method.

Difference between the received amount of funds, less the costs related to receipt of borrowings and the settlement value of borrowings, is gradually included in the income statement by applying effective interest rate method. This difference is recognized as part of financial expenses.

Borrowings are classified as short-term liabilities, except when the *Company* has an irrevocable right to postpone the settlement of liabilities for at least 12 months after the date of the balance sheet.

Recognition of financial liabilities is discontinued, when the duty the liability is based on is revoked, cancelled or expires.

## 2.7. Inventories

Inventories are accounted at the lowest of cost and net selling price. Net selling price consists of the sales price of inventories at the normal course of *Company's* activities, less costs to complete and sell. Cost is determined using the weighed average method for fuel and FIFO (first in – first out) method for the remaining components of inventories.

In case of necessity, provisions for impairment of outdated, slow moving or damaged inventories are raised. Amount of provisions is included in the income statement.

## 2.8. Share capital and payments for the use of state capital (dividends)

The *Company's* share capital consists of the ordinary registered shares. All the *Company's* shares are dematerialized shares. Nominal value of each share is one euro.

Dividends payable to the *Company's* shareholder or payments for the use of state capital are reflected as liabilities in the financial statement in the period, when the *Company's* shareholder approves amount of dividends.

## 2.9. Other reserves

Every year, following the approval of annual report, the meeting of shareholders decide on distribution of profit. Part of the *Company's* net profit may be transferred into the reserve capital on the basis of the *Company's* meeting of

shareholders. "Other reserves" position within the equity is used for this purpose. Use and distribution of the remaining reserves is within the competence of the meeting of shareholders.

## 2.10. Accrued unused annual leave expenses

Accrued unused annual leave expenses are calculated by multiplying the number of days of unused annual leave at the end of the reporting

year by the daily average remuneration for the last six months.



## 2.11. Provisions

Provisions are recognized, when there is a legal or constructive obligation arising from the past events, and it is expected that meeting of this obligation will require outflow of economic benefits from the *Company*, and when the amount of liabilities can be reliably estimated.

If the *Company* predicts that expenses related to provisions will be partly or fully repaid, the repayment of these expenses is recognised as a separate asset solely, when it is virtually certain that these expenses will actually be repaid. Expenses related to any provisions are reflected in the income statement deducting any recovered amounts.

## 2.12. Corporate income tax for the reporting year and deferred corporate income tax

Income tax consists of the tax calculated for the reporting year and deferred income tax. Income tax is presented in the income statement.

Corporate income tax is calculated in accordance with the tax law applicable at the end of the reporting period. Current law provides for 15 per cent tax rate.

Before 31 December 2016, deferred corporate income tax was calculated under the liability method in relation to all temporary differences between the values of assets and liabilities in financial reports and value thereof for tax purposes. Temporary differences arised mainly from the application of different depreciation rates of fixed assets, accrued liabilities deductible from the taxable income in the next taxation periods, as well as due to tax losses transferred to the next taxation periods.

On 28 July 2017, new Corporate Income Tax Law was adopted providing that, from 1 January 2018, profit generated after 2017 shall be subject to corporate income tax, when it is distributed. The new Corporate Income Tax Law does not contain norms creating temporary differences between the balance-sheet values of assets and liabilities in financial accounting and the tax basis thereof. Transition Provisions of the Law provide for that the taxpayers

will be entitled to use the tax losses accrued and unused before 31 December 2017 within the next 5 taxation years by decreasing the tax payable for the distributed profit in the amount not exceeding 50% every year, as well as to use for the purpose of decreasing the taxable profit the provisions created before 31 December 2017 by the amount of decrease for which the taxable income is increased in the relevant taxation periods. Such amounts, if any, do not result in deferred tax assets on 31 December 2017 and further, because in the situation of various tax rates applicable to the distributed and retained profit, deferred tax is calculated according to the tax rate applicable to the retained profit, i.e., 0%. Under the influence of the above mentioned circumstances, on 31 December 2017, there are no grounds for the existence of the deferred tax asset or liabilities, therefore the *Company's* deferred tax liabilities recognised as at 31 December 2016 were decreased to zero including decrease of these liabilities as revenue in the income statement for 2017.

From the taxation year 2018, corporate income tax will be calculated for the distributed profit (20/80 of the net amount payable to the shareholder). Corporate income tax for the distributed profit will be recognized at the moment, when the *Company's* shareholder adopts decision on distribution of profit.

## 2.13. Revenue recognition

Revenue is the total value of services provided during the year, less granted discounts and value added tax. Revenue is measured at the fair value of the remuneration received or to be received. The *Company* recognizes revenue,

when the amount thereof may be credibly estimated, when inflow of economic benefits into the *Company* is credible as well as by complying with specific criteria applied to each of the *Company's* actions described below.



## The Company provides the following services:

**Services related to use of public railway infrastructure** – provided access to railway infrastructure by the infrastructure manager to all operators without discrimination. In 2017, revenue from use of public railway infrastructure was calculated according to the actual train kilometres and recognized in the reporting period of train movement by applying the fee for the use of a traffic train kilometre of public railway infrastructure approved by the executor of the essential functions of the manager of public railway infrastructure JSC (AS) “LatRailNet”, which according to the decisions of the JSC (AS) “LatRailNet” of 5 November 2014 was valid for the payment period after 31 December 2014 and was set in accordance with the provisions of the “Methodology for the calculation of fee for the use of public railway infrastructure for traffic” approved by the Decision No. 1/21 adopted by the Council of Public Utilities Commission on 21 September 2011.

**Additional services of the infrastructure manager** – handling of freight wagons with and without formation of trains, technical maintenance and inspection of wagons. Revenue is recognized in the period of the provision of services.

**Lease services** – the *Company* leases out the buildings, structures, land and other fixed assets, which are not necessary for the basic activity, first – to operators and other business companies and institutions related to operation of railway system. Only vacant areas and sites, which are not necessary for the *Company's* basic activity, are offered on the free market. Leasing out of the unused areas located at the railway infrastructure sites to external clients decreases prime cost of the basic service. This results in increase of competitiveness of the basic service, furthermore, efficiency of the use of sites improves. Revenue is recognized in the period of the provision of services.

**Electricity sales services** – provision of electricity distribution and trade services for natural persons, legal entities, dependant subsidiary companies and electricity procurement for the electric

traction of passenger trains. Costs of distribution of electricity (traction sub-stations and contact networks) for the needs of traction of passenger trains are included in the fee for the use of traffic by public railway infrastructure and are excluded from this service. *Latvijas dzelzceļš* provides electricity sales services for electricity consumers by meeting the obligations provided for by the “*Electricity Market Law*”, “*Law On Regulators of Public Utilities*” and the Regulations of the Cabinet of Ministers No. 50 “*Regulations Regarding the Trade and Use of Electricity*”. *Latvijas dzelzceļš* operates as the principal service provider, thus revenue and costs are recognized in gross value. Revenue is calculated by multiplying the tariff by the number of consumer kilowatt-hours and recognized in the period of consumption.

**Principal services** include submission of the entry summary declaration, drawing up of custom procedure transit, and temporary storage. Revenue is recognized in the period of the provision of services.

**Electronic communication services** – data and electronic message transmission services, leased line services, services related to access to electronic communications network infrastructure, public fixed electronic communications network voice telephony services and interconnection services. Revenue is recognized by the actual network use in the relevant reporting period.

**Information technology services** – include services related to information systems of freight and passenger traffic, train traffic, as well as business support, control and management information systems. Revenue is recognized in the period of the provision of services.

**Other services** – These services include management services for the dependent companies, sale of self-produced thermal energy, management services and various other small-scale services for legal entities and natural persons. Revenue is recognized in the period of the provision of services.



**Interest income**

Interest income is recognized on accruals basis by applying the effective interest rate. Interest revenue from cash and cash equivalents is classified as financial income.

**Income from penalties**

According to the prudence principle, contractual penalties, including late payment interest for delayed payments, are recognized in revenue only after receipt thereof.

**Income from dividends**

Income from dividends is recognized, when legal right thereto arise.

**2.14. Lease agreements**

**Operating lease**

Lease transactions according to which the lessor retains significant part of the risk and rewards related to ownership are classified as operating lease.

**The Company is the lessor**

Assets leased out in the operating lease are presented as fixed assets at their purchase price, less depreciation. Depreciation is calculated under the linear method. Lease revenue from operating lease and the prepayments received from clients are included in the income statement of the relevant lease period under the linear method.

The *Company* leases out the buildings, structures, land and other fixed assets, which are not

necessary for the basic activity. Insignificant part of buildings and land is leased out; therefore these fixed assets are not re-classified into investment properties.

There are no significant non-cancellable lease payments or income of operating lease arising from transactions, where the *Company* is the lessor.

**The Company is the lessee**

Payments made in accordance with the operating lease contract are presented in the income statement in the period of the relevant lease contract under the linear method.

**Financial lease – the Company is the lessee**

Financial lease transactions, within which all risks and rewards related to the ownership are transferred to the *Company*, are recognized in the balance-sheet as fixed assets for the amount, which corresponds to the fair value of the leased property at the beginning of lease, or, if such value is lower, with the current value of the minimum lease payments with the relevant split into short-term and long-term liabilities. Payments for financial lease are split between financial expenses and decrease of liabilities so that constant interest rate is applied on liabilities

at each balance sheet date. Financial expenses are included in the income statement.

If there are sufficient grounds to believe that the respective lease object will pass to the lessee at the end of the lease period, useful life of the relevant asset is determined as the expected time of use. In all the other cases, depreciation of capitalized leased assets is calculated under the linear method in the estimated useful life of the assets or in the lease period, whichever is shorter.



## 2.15. State co-funding and the EU funds

State co-funding and the EU funds are recognized in their fair value at the moment, when there is certainty about their receipt and it may be credibly ascertained that the *Company* will be able to fulfil all the provisions related to receipt of these funds.

State co-funding attributable to assets (fixed assets) and the EU funds are presented in the balance-sheet item "Next period income" and periodically recognized in the income statement in proportion with the depreciation of the relevant assets (fixed assets) during their useful life.

## 2.16. Related parties

State, members of the *Company's* Council and Board, their close relatives and the companies, in which the above mentioned persons have control or significant influence, are considered as related parties.

## 2.17. Events after balance sheet date

Financial report reflects such events after the end of the reporting year, which provide additional information about the *Company's* financial position at the date of preparation of the balance sheet (adjusting events). If events after the end of the reporting year are not adjusting, they are reflected in the notes to the financial statement only if they are significant.

## 2.18. Employee benefits

### Social insurance and pension contributions

The *Company* makes social insurance contributions for the state pension insurance in the state funded pension scheme in accordance with the Latvian law. State funded pension scheme is a fixed-payment pension plan, in accordance with which the *Company* is obliged to make payments in the amount defined in law. The *Company* does not face additional legal or constructive obligations to make additional payments, if the state funded pension scheme is not able to meet its liabilities in relation to the employees. Social

insurance contributions are recognized as costs on accruals basis and included in staff costs. In accordance with the Regulations of the Cabinet of Ministers of the Republic of Latvia No. 759 of 06.12.2016 "Regulations Regarding Distribution of the Rate of State Social Insurance Contributions by the Kinds of the State Social Insurance", in 2017, 71.99% (in 2016: 69.99%) of the compulsory state social insurance contributions are paid to finance the pension system maintained by the state.

## 2.19. Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are accounted at acquisition cost, less impairment loss.

The *Company* recognizes the income only in case, if it receives a share of profit from its subsidiary or associated company generated after the acquisition date. Received amounts exceeding this profit are considered as recovery of investments and recognised as decrease of the investment's acquisition cost.

In case of objective evidence of impairment in the balance-sheet value of the investment in subsidiary or associated company, losses caused by such impairment are calculated as difference between the investment balance-sheet value and its recoverable amount. Recoverable amount is determined as the highest of two – fair value of investment, less costs to sell, and the value in use. Impairment losses may be reversed, if estimates used for the determination of impairment have changed since the last recognition of impairment.



### 3. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS

In order to prepare financial statements in accordance with the IFRS, significant assumptions must be made. Besides, during the preparation of reports, the *Management* must make assumptions and judgements applying the accounting policy selected by the *Company*.

Preparation of financial statements in accordance with IFRS requires use of estimates and assumptions affecting the values of assets and

liabilities presented in financial statements and the information provided in notes at the date of financial statements, as well as the revenue and expenses recognized during the reporting period. Actual results may differ from these estimates. Areas, which may be potentially most affected by assumptions, are related *Management's* assumptions and calculations made in assessing the recoverable value of assets and amount of provisions as described below.

#### Useful life of fixed assets

At the end of each reporting period, the *Company* assesses the remaining useful life of fixed assets. According to the latest evaluations carried out by the *Company's* Financial Directorate, the current useful life corresponds to the period of actual use of the *Company's* fixed assets.

#### Provisions

When evaluating the amount of provisions, the *Management* relies on estimates regarding the possible amount of liabilities, as well as the term of the possible realization of the liabilities. If these events do not realise or realise in different way, amount of actual costs may differ from the estimated amount. More detailed information on assumptions in relation to provisions is provided in Note 23.

### 4. REVENUE

Types of activity	(EUR)	
	2017	2016
Fee for the use of public railway infrastructure	124,602,446	131,982,449
Additional services of the infrastructure manager	29,558,602	32,170,614
Lease services	6,574,923	7,341,028
Electricity sales services	6,754,454	7,146,882
Information technology services	4,547,896	4,572,460
Principal services	1,835,387	3,292,696
Specific services related to servicing and repair of infrastructure	604,291	569,330
Electronic communication services	647,168	682,426
Other services	5,036,535	4,814,354
<b>Total</b>	<b>180,161,702</b>	<b>192,572,239</b>



## 5. PRODUCTION COSTS OF THE GOODS SOLD

	(EUR)	
Elements of the production costs of the goods sold	2017	2016
Salary	69,159,212	71,131,072
State compulsory social insurance contributions	16,217,830	16,625,806
Materials and fuel	10,053,691	10,451,150
Electricity	9,833,482	10,720,741
Depreciation of fixed assets and intangible assets	48,423,370 <sup>*1)</sup>	50,624,535
Other costs	37,487,022 <sup>*2)</sup>	39,040,695 <sup>*2)</sup>
<b>Total</b>	<b>191,174,607</b>	<b>198,593,999</b>

*\*1) Depreciation of fixed assets and intangible assets includes depreciation of the objects created for the co-funding received from the EU funds and the state (EUR 20,377,184).*

*\*2) Other costs include payment for the services provided by the Commercial Company of Certified Auditors LLC (SIA) "PricewaterhouseCoopers".*

	(EUR)	
	2017	2016
Audit of the financial statements	54,000	63,703
On carrying out of other expert tasks	25,625	84,460

## 6. ADMINISTRATIVE EXPENSES

	(EUR)	
	2017	2016
Salary	10,180,373	9,998,281
State compulsory social insurance contributions	2,379,393	2,316,421
Materials, fuel and electricity	180,169	173,596
Depreciation of fixed assets and intangible assets	470,286	405,821
Other costs	1,926,614	1,851,888
<b>Total</b>	<b>15,136,835</b>	<b>14,746,007</b>
including remuneration to the Company's Members of the Board and the Council*	567,146	393,277
including salary	458,893	318,211
state compulsory social insurance contributions (employer's contributions)	108,253	75,066



## 7. OTHER OPERATING INCOME

	(EUR)	
	2017	2016
Profit from sale of inventories	1,506,683	118,533
Profit from sale of fixed assets	63,085	436,594
Fluctuations of currency exchange rates	321,866	-
Penalty and late payment interest	151,676	189,097
Revenue from social infrastructure	285	285
Gradual recognition of next period income	20,377,184	19,146,442
Adjustment of provisions for doubtful receivables	1,338	-
Adjustment of provisions for materials unused for longer than a year	-	16,034
Adjustment of other provisions (see Note 23)	6,923,339	7,351,846
State budget subsidy for the reimbursement of losses	229,682	-
Other income	476,469	526,171
<b>Total</b>	<b>30,051,607</b>	<b>27,785,002</b>

## 8. OTHER OPERATING EXPENSES

	(EUR)	
	2017	2016
Losses from liquidation of fixed assets and exclusion of construction work in progress	1,825,742	1,988,529
Fluctuations of currency exchange rates	-	80,695
Currency exchange	3,262	5,013
Penalty and late payment interest	12,508	6,182
Social infrastructure maintenance costs	6,424	24,489
Expenses not directly related to economic activity <sup>*1)</sup>	682,235	806,076
Adjustment of provisions for doubtful receivables	-	86,748
Adjustment of provisions for materials unused for longer than a year (see Note 18)	910,149	-
Accrued liabilities for unused annual leave	53,633	-
Adjustment of other provisions	-	10,691
Other expenses	564,193	114,239
<b>Total</b>	<b>4,058,146</b>	<b>3,122,662</b>

*\*1) including:*

	(EUR)	
Type of costs	2017	2016
Donations	7,700	106,500



## 9. REVENUE FROM INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

(EUR)

	2017	2016
Dividends received from the subsidiary companies of Latvijas dzelzceļš	2,207,058 <sup>*1)</sup>	4,057,000

<sup>\*1)</sup> Dividends received in 2017 for the previous reporting year from:

• LLC (SIA) "LDZ CARGO"	1,996,786 EUR
• LLC (SIA) "LDZ ritošā sastāva serviss"	127,874 EUR
• LLC (SIA) "LDZ Loģistika"	63,477 EUR
• JSC (AS) "LatRailNet"	11,439 EUR
• LLC (SIA) "LDZ apsardze"	7,482 EUR

## 10. INCOME FROM INVESTMENT IN OTHER COMPANIES

(EUR)

	2017	2016
Income from dividends (LLC (SIA) "STREK")	310,550	249,590

## 11. FINANCIAL EXPENSES, NET

(EUR)

	2017	2016
<b>Financial income</b>	<b>578,638</b>	<b>277,196</b>
Bank interest	846	266
<i>Other interest income</i>	577,792	276,930
<b>Financial expenses</b>	<b>(2,171,373)</b>	<b>(2,187,457)</b>
<i>Bank interest</i>	(2,171,373)	(2,143,419)
<i>Other interest expenses</i>	-	(44,038)
<b>Financial expenses, net</b>	<b>(1,592,735)</b>	<b>(1,910,261)</b>

## 12. CORPORATE INCOME TAX

### Corporate income tax overpayment for the reporting year

(EUR)

	2017	2016
Overpayment on 1 January	-	485,535
Offset for other taxes	-	(485,535)
Overpayment on 31 December	-	-

Derecognition of the deferred tax due to change in the tax regulatory framework is included in the income statement as income from the decrease in the deferred income tax liabilities.



### Corporate income tax income and expenses

	(EUR)	
	2017	2016
Increase/ (decrease) in the deferred corporate income tax liabilities	(22,415,773)	5,409,904
<b>Total</b>	<b>(22,415,773)</b>	<b>5,409,904</b>

Corporate income tax differs from the theoretical tax amount, which would arise, if the enacted tax rate would be applied to the *Company's* profit before taxes:

	(EUR)	
	2017	2016
Profit before corporate income tax	768,594	6,290,902
Theoretically calculated corporate income tax, 15%	115,289	943,635
Permanent differences, 15%	(115,289)	4,466,269
Income from derecognition of the deferred tax liabilities	(22,415,773)	-
<b>Corporate income tax expenses for the reporting year</b>	<b>(22,415,773)</b>	<b>5,409,904</b>

### Deferred corporate income tax

#### Movement of deferred tax:

	(EUR)		
	Depreciation of fixed assets	Other accrued expenses	Total
<b>01.01.2016</b>	17,202,069	(196,200)	<b>17,005,869</b>
Expenses/(income) in the income statement	5,409,102	802	5,409,904
<b>31.12.2016</b>	22,611,171	(195,398)	<b>22,415,773</b>
Expenses/(income) in the income statement	(22,611,171)	195,398	(22,415,773)
<b>31.12.2017</b>	-	-	-

### Net deferred tax liabilities

	(EUR)	
	31.12.2017	31.12.2016
Net deferred tax assets to be settled within 12 months	-	(195,398)
Net deferred tax liabilities to be settled within more than 12 months	-	22,611,171
<b>Total net deferred tax liabilities</b>	<b>-</b>	<b>22,415,773</b>



### 13. FIXED ASSETS

	Land	Buildings, structures and perennial plantings	Railway tracks	Long-term leasehold improvements	Equipment and machinery	Computing devices and equipment, means of communication, photocopiers and related equipment	Other fixed assets	Unfinished construction	Total (EUR)
<b>Cost 01.01.2016</b>	830,252	176,637,435	794,885,875	2,513,144	302,784,153	32,674,859	28,250,221	79,068,063	1,417,644,002
Acquisition and completion of fixed	-	21,146,961	21,897,555	-	54,258,679	3,054,275	1,726,943	(74,793,473)	27,290,940
Re-classified	-	35,750	(9,493)	25,400	(1,200,757)	1,123,533	25,567	-	-
Write-off of fixed assets	-	(333,693)	(5,690,570)	-	(9,770,052)	(619,049)	(433,710)	-	(16,847,074)
<b>Cost 31.12.2016</b>	830,252	197,486,453	811,083,367	2,538,544	346,072,023	36,233,618	29,569,021	4,274,590	1,428,087,868
<b>Accrued depreciation 01.01.2016</b>	-	103,282,101	375,720,337	495,895	151,709,175	24,393,044	21,144,403	-	676,744,955
Calculated depreciation	-	3,749,378	29,614,598	75,785	13,429,788	2,479,585	1,093,633	-	50,442,767
Re-classified	-	71,743	(5,219)	8,663	(117,534)	28,088	14,259	-	-
Write-off of depreciation	-	(300,328)	(3,537,252)	-	(9,068,323)	(554,155)	(422,374)	-	(13,882,432)
<b>Accrued depreciation 31.12.2016</b>	-	106,802,894	401,792,464	580,343	155,953,106	26,346,562	21,829,921	-	713,305,290
<b>Impairment 01.01.2016</b>	-	9,762	228,863	-	28,607	-	-	-	267,232
Recognized (impairment)/ impairment reversal	-	(9,762)	(228,863)	-	(28,607)	-	-	-	(267,232)
<b>Residual value 01.01.2016</b>	830,252	73,345,572	418,936,675	2,017,249	151,046,371	8,281,815	7,105,818	79,068,063	740,631,815
<b>Residual value 31.12.2016</b>	830,252	90,683,559	409,290,903	1,958,201	190,118,917	9,887,056	7,739,100	4,274,590	714,782,578



	Land	Buildings, structures and perennial plantings	Railway tracks	Long-term leasehold improvements	Equipment and machinery	Computing devices and equipment, means of communication, photocopiers and related equipment	Other fixed assets	Unfinished construction	Total (EUR)
<b>Cost 01.01.2017</b>	830,252	197,486,453	811,083,367	2,538,544	346,072,023	36,233,618	29,569,021	4,274,590	1,428,087,868
Acquisition and completion of fixed	-	623,474	18,699,074	-	2,883,676	2,541,973	1,119,663	57,396	25,925,256
Re-classified	-	(234,191)	-	-	234,191	-	-	-	-
Write-off of fixed assets	-	(164,780)	(3,722,769)	-	(1,292,036)	(417,241)	(468,767)	(1,916,372)	(7,981,965)
<b>Cost 31.12.2017</b>	830,252	197,710,956	826,059,672	2,538,544	347,897,854	38,358,350	30,219,917	2,415,614	1,446,031,159
<b>Accrued depreciation 01.01.2017</b>	-	106,802,894	401,792,464	580,343	155,953,106	26,346,562	21,829,921	-	713,305,290
Calculated depreciation	-	3,656,198	29,091,593	75,913	11,777,041	2,620,218	1,116,223	-	48,337,186
Re-classified	-	(11,013)	-	-	11,013	-	-	-	-
Write-off of depreciation	-	(143,600)	(3,104,576)	-	(1,068,955)	(400,987)	(455,078)	-	(5,173,196)
<b>Accrued depreciation 31.12.2017</b>	-	110,304,479	427,779,481	656,256	166,672,205	28,565,793	22,491,066	-	756,469,280
<b>Residual value 01.01.2017</b>	830,252	90,683,559	409,290,903	1,958,201	190,118,917	9,887,056	7,739,100	4,274,590	714,782,578
<b>Residual value 31.12.2017</b>	830,252	87,406,477	398,280,191	1,882,288	181,225,649	9,792,557	7,728,851	2,415,614	689,561,879



Throughout the reporting period and in the comparative periods, land registered in the name of the Ministry of Transport in the area of 15,027 hectares (mostly railway partition zone, which is element of public railway infrastructure and intended for the ok of railway infrastructure objects to provide the development and safe operation of railway infrastructure) was transferred to the *Company* for use.

In 2017, the *Company* has not purchased any fixed assets on finance lease terms. See also Note 25.

Capitalized salaries are included in the fixed assets acquisition costs in the amount of EUR 58,583 in 2017 (in 2016 – EUR 47,512). Amount of funds used for renovation, modernization and acquisition of fixed assets, intangible investments, as well as construction of new objects in 2017: EUR 23,490,712 (in 2016 – EUR 30,240,453).

#### 14. INTANGIBLE ASSETS

(EUR)

	Licenses and rights	
	2017	2016
<b>Cost at the beginning of the year</b>	<b>8,045,819</b>	<b>7,514,942</b>
Purchased	356,291	486,333
Re-classified	-	60,966
Disposed	-	(16,422)
<b>Cost at the end of the year</b>	<b>8,402,110</b>	<b>8,045,819</b>
<b>Accrued depreciation at the beginning of the year</b>	<b>6,557,247</b>	<b>5,985,298</b>
Calculated depreciation	562,451	588,371
Disposed	-	(16,422)
<b>Accrued depreciation at the end of the year</b>	<b>7,119,698</b>	<b>6,557,247</b>
<b>Residual value at the beginning of the year</b>	<b>1,488,572</b>	<b>1,529,644</b>
<b>Residual value at the end of the year</b>	<b>1,282,412</b>	<b>1,488,572</b>

#### 15. INVESTMENTS IN SUBSIDIARIES

##### *Subsidiary companies*

##### LLC (SIA) "LDZ CARGO"

Uniform Registration Number	40003788421
Address	Dzirnavu Street 147, k-1, Riga, LV-1050
Share of ownership, %	Owner of 100% shares SJSC (VAS) "Latvijas dzelzceļš"
Reporting year	01.01.2017 – 31.12.2017

##### LLC (SIA) "LDZ ritošā sastāva serviss"

Uniform Registration Number	40003788351
Address	Gogoļa Street 3, Rīga, LV-1050
Share of ownership, %	Owner of 100% shares SJSC (VAS) "Latvijas dzelzceļš"
Reporting year	01.01.2017 – 31.12.2017



LLC (SIA) "LDZ infrastruktūra"	
Uniform Registration Number	40003788351
Address	Gogoļa Street 3, Rīga, LV-1050
Share of ownership, %	Owner of 100% shares SJSC (VAS) "Latvijas dzelzceļš"
Reporting year	01.01.2017 – 31.12.2017
LLC (SIA) "LDZ apsardze"	
Uniform Registration Number	40003620112
Address	Zasas Street 5-3, Rīga, LV-1057
Share of ownership, %	Owner of 100% shares SJSC (VAS) "Latvijas dzelzceļš"
Reporting year	01.01.2017 – 31.12.2017
JSC (AS) "LatRailNet"	
Uniform Registration Number	40103361063
Address	Dzirnavu Street 16, Rīga, LV-1019
Share of ownership, %	Owner of 100% shares SJSC (VAS) "Latvijas dzelzceļš"
Reporting year	01.01.2017 – 31.12.2017
LLC (SIA) "LDZ Loģistika"	
Uniform Registration Number	40003988480
Address	Dzirnavu Street 147, k-2, Rīga, LV-1050
Share of ownership, %	Owner of 100% shares SJSC (VAS) "Latvijas dzelzceļš"
Reporting year	01.01.2017 – 31.12.2017
Subsidiary company of the LLC (SIA) "LDZ ritošā sastāva serviss" – LLC (SIA) "Rīgas Vagonbūves uzņēmums "Baltija""	
Uniform Registration Number	40103419565
Address	Turģeņeva Street 21, Rīga, LV-1050
Share of ownership, %	Owner of 100% shares LLC (SIA) "LDZ ritošā sastāva serviss"
Reporting year	01.01.2017 – 31.12.2017



## Participation share in the capital of affiliated companies

(EUR)

Subsidiary company	LDz shares, %	31.12.2017	31.12.2016
LLC (SIA) "LDZ CARGO"	100	80,492,369	80,492,369
LLC (SIA) "LDZ ritošā sastāva serviss" *)	100	29,351,905	29,351,905
LLC (SIA) "LDZ infrastruktūra"	100	15,523,088	15,523,088
LLC (SIA) "LDZ apsardze"	100	298,803	298,803
JSC (AS) "LatRailNet"	100	35,571	35,571
LLC (SIA) "LDZ Loģistika"	100	638,000	638,000
<b>Total</b>	<b>x</b>	<b>126,339 736</b>	<b>126,339,736</b>

\*) LLC (SIA) "LDZ ritošā sastāva serviss" is holder of 100% shares in the LLC (SIA) "Rīgas Vagonbūves Uzņēmums "Baltija"".

## Results of subsidiary companies in 2017

(EUR)

Subsidiary company	LDz shares, %	Profit for 2017	Profit/(losses) 2016	Equity 31.12.2017	Equity 31.12.2016
LLC (SIA) "LDZ CARGO"	100	12,585,475	3,993,571	136,568,183	125,979,494
LLC (SIA) "LDZ ritošā sastāva serviss"	100	1,529,946	255,747	42,464,227	41,062,155
LLC (SIA) "LDZ infrastruktūra"	100	775,238	(131,771)	18,226,585	17,451,347
LLC (SIA) "LDZ apsardze"	100	31,710	14,963	616,027	591,799
JSC (AS) "LatRailNet"	100	4,659	22,877	81,878	88,658
LLC (SIA) "LDZ Loģistika"	100	163,795	126,954	866,859	766,541
<b>Total</b>	<b>x</b>	<b>15,090,823</b>	<b>4,282 341</b>	<b>198,823,759</b>	<b>185,939,994</b>

"Latvijas dzelzceļš" Group (hereinafter referred to as – the *Group*) manages public railway infrastructure, provides railway transport services and services related thereto.

Composition of the *Group*: Parent company of the *Group* – State Joint-Stock Company "Latvijas dzelzceļš", LLC (SIA) "LDZ CARGO", LLC (SIA) "LDZ ritošā sastāva serviss", LLC (SIA) "LDZ infrastruktūra", LLC (SIA) "LDZ apsardze", JSC (AS) "LatRailNet", LLC (SIA) "LDZ Loģistika", as well as subsidiary company of the LLC (SIA) "LDZ ritošā sastāva serviss" – LLC (SIA) "Rīgas Vagonbūves Uzņēmums "Baltija"".

Main task of *Latvijas dzelzceļš* in the area of the *Group's* management is provision of the development and competitiveness of the *Group's* business directions achieving better results than it would be possible for each business direction, if operating separately. In order to implement this

task, uniform *Group's* strategy and goals have been developed providing optimum division of production and investment resources among the business directions and the *Group's* companies, coordination of decision making and efficient control of implementation thereof. *Latvijas dzelzceļš* represents the *Group's* interests at international level.

*Latvijas dzelzceļš* provides services of public railway infrastructure use, freight wagon handling services, wagon technical maintenance and inspection services, telecommunication and information technology services, electronic communication services, electricity distribution and trade services, as well as principal services.

LLC (SIA) "LDZ CARGO" operates local and international railway freight traffic, provides traction services and wagon lease, as well as organizes international passenger transport.



LLC (SIA) "LDZ ritošā sastāva serviss" provides repair, modernization, technical service and maintenance of locomotives and wagons, as well as fuel sale and equipment services.

LLC (SIA) "LDZ infrastruktūra" provides construction and overhauling of railway tracks, as well as replacement of railway switches.

LLC (SIA) "LDZ apsardze" provides physical and technical security services to the Group's companies and other companies, as well as natural persons.

JSC (AS) "LatRailNet" sets the fee for the use of public railway infrastructure and distributes ca-

capacity of railway infrastructure, as well as adopts decisions on appointment of trains of particular operator.

LLC (SIA) "LDZ Loģistika" provides freight forwarding and logistics services, attraction of new freight flows and promotes railway freight traffic between European and Asian countries.

LLC (SIA) "Rīgas Vagonbūves Uzņēmums "Baltija"" - subsidiary company of the LLC (SIA) "LDZ ritošā sastāva serviss" - was established with the purpose to develop manufacturing of wagons in Latvia.

## 16. LOANS TO RELATED COMPANIES

In 2016 and 2017, *Latvijas dzelzceļš* has granted to the LLC (SIA) "LDZ ritošā sastāva serviss" a long-term loan in the amount of EUR 44,510,858 for the financing of modernization of fourteen double-section 2M62U series diesel locomotives.

## 17. OTHER LONG-TERM FINANCIAL INVESTMENTS

(EUR)

Name of the Company	Shares, %	Gross book value	
		31.12.2017	31.12.2016
Belarus - Latvian joint venture "MIRIGO"	3.0	420,245	420,245
SIA "STREK"	5.84	73,982	73,982
<b>Total:</b>	<b>x</b>	<b>494,227</b>	<b>494,227</b>

Accurate determination of fair value of long-term financial investments is not possible; therefore they are measured at their acquisition cost. Estimates carried out by the *Management* indicate that the fair value of these investments does not significantly differ from their book value.

## 18. INVENTORIES

(EUR)

	31.12.2017	31.12.2016
Road surface materials	6,212,534	8,523,728
Spare parts	299,274	397,312
Other materials	1,838,944	1,561,813
Fuel and combustibles	146,620	163,704
Other inventories and work in progress	235,526	240,778
<b>Gross book value</b>	<b>8,732,898</b>	<b>10,887,335</b>
Provisions for materials unused for longer than a year	(2,033,740)	(1,123,591)
<b>Balance sheet value</b>	<b>6,699 158</b>	<b>9,763,744</b>



## 19. TRADE RECEIVABLES AND OTHER RECEIVABLES

(EUR)

	31.12.2017	31.12.2016
Trade receivables	4,841,989	8,473,457
Doubtful receivables	473,698	489,812
Other liabilities	1,440,571	1,363,226
<b>Gross book value</b>	<b>6,756,258</b>	<b>10,326,495</b>
Provisions for doubtful receivables	(473,698)	(489,812)
<b>Balance sheet value</b>	<b>6,282,560</b>	<b>9,836,683</b>

### Movement of provisions for doubtful receivables:

(EUR)

	2017	2016
Provisions for doubtful receivables at the beginning of the year	489,812	428,014
Decrease of provisions due to recovery of debts	(47,999)	(32,368)
Decrease of provisions due to write-off of debts	(14,776)	(24,950)
Additional provisions created	46,661	119,116
<b>Provisions for doubtful receivables at the end of the year</b>	<b>473,698</b>	<b>489,812</b>

## 20. CASH AND CASH EQUIVALENTS

(EUR)

	31.12.2017	31.12.2016
Cash in the bank	19,700,264	7,102,986
Cash on hand	781	593
Cash in transit	390	14
<b>Total</b>	<b>19,701,435</b>	<b>7,103,593</b>

## 21. SHARE CAPITAL

### The *Company's* registered and paid in share capital

Share capital of *Latvijas dzelzceļš* is EUR 256,720,375 consisting of two hundred and fifty-six million seven hundred and twenty thousand three hundred and seventy-five shares of the nominal value EUR 1.00 (one euro) per each.

Owner of all the shares is the Republic of Latvia, and these shares are fully paid. Holder of the state capital shares in the Joint-Stock Company is the Ministry of Transport. All the *Company's* shares are of equal right to receive dividends, liquidation quota and voting right at the meeting of shareholders.



## Payments for the use of state capital (dividends)

The *Company* is obliged to calculate the share of profit to be paid in dividends for the reporting year and to set it in the amount of certain percentage from net profit in accordance with Section 94, Paragraph 1, Clause 2, Section 56, Paragraph 1 and Section 28, Paragraph 1 and Paragraph 2 of the Law On Governance of Capital Shares of a Public Person and Capital Companies and Paragraph 5 of the Regulations of the Cabinet of Ministers No. 806 of 22.12.2015 "Procedures, by Which State Capital Companies and Public Private Capital Companies, Where the State Is a Shareholder, Forecast and Determine

*the Share of Profit to Be Paid In Dividends and Make Payments In the State Budget For the Use of State Capital*".

In accordance with the Order No. 445 issued by the Cabinet of Ministers on 21.08.2017 "Regarding Different Share of Profit of the State Joint-Stock Company "Latvijas dzelzceļš" to be paid in dividends for 2016", the *Company* was not required to make payments to the state budget for the use of state capital from the net profit for 2016.

## 22. OTHER RESERVES AND RETAINED EARNINGS

Reserves consist of profit brought forward, which, in accordance with the owner's decision, has been transferred to other reserves to ensure the *Company's* further development. The procedures for the use of *Company's* reserves and retained profit of the previous years are defined by the *Company's* meeting of shareholders.

## 23. PROVISIONS

(EUR)

	31.12.2017	31.12.2016
Other provisions	177,426	178,176
<b>Total long-term part</b>	<b>177,426</b>	<b>178,176</b>
Provisions for public railway infrastructure services	6,921,703	13,843,405
Other provisions	-	887
<b>Total short term part</b>	<b>6,921,703</b>	<b>13,844,292</b>
<b>Total</b>	<b>7,099,129</b>	<b>14,022,468</b>

## Movement of provisions by type of provision in 2017

(EUR)

	01.01.2017	Increase of provisions	Use of provisions	31.12.2017
Provisions for public railway infrastructure services	13,843,405	6,921,703	(13,843,405)	6,921,703
Other provisions	179,063		(1,637)	177,426
<b>Total</b>	<b>14,022,468</b>	<b>6,921,703</b>	<b>(13,845,042)</b>	<b>7,099,129</b>



**Movement of provisions by type of provision in 2016**

(EUR)

	01.01.2016	Increase of provisions	Use of provisions	31.12.2016
Provisions for public railway infrastructure services	20,765,107	13,843,405	(20,765,107)	13,843,405
Provisions for possible losses from litigation	915,425		(915,425)	-
Other provisions	168,372	10,691	-	179,063
<b>Total</b>	<b>21,848,904</b>	<b>13,854,096</b>	<b>(21,680,532)</b>	<b>14,022,468</b>

In 2017, the provisions raised for the funding of public railway infrastructure were decreased by EUR 13,843,405 net, retaining provisions in the amount of EUR 6,921,702. Provisions were decreased taking into account the amendments in the Railway Law, effective from 10 March 2016, and the planned amendments to the related regulatory documents, according to which, norms of the European Parliament and Council Directive 2012/34/EU of 21.11.2012 are taken over to national law.

Provisions for costs related to industrial injury were raised in accordance with the Regulations of the Cabinet of Ministers No. 378 of 23.08.2001 "Procedures for the Calculation, Funding and Payment of Compensation for the Damage Caused Within Employment". Provisions are calculated according to the actual annual payments of compensations for damage assuming that such payments are to be provided for three years. Calculated provisions for the payments for industrial injuries have decreased by EUR 750.

**24. BORROWINGS FROM CREDIT INSTITUTIONS**

(EUR)

	31.12.2017	31.12.2016
Long-term borrowings from credit institutions	175,139,053	173,752,632
Short-term borrowings from credit institutions	33,109,177	31,187,797
<b>Total borrowings from credit institutions</b>	<b>208,248,230</b>	<b>204,940,429</b>

Borrowings have been made from the JSC (AS) "Swedbank", Nordea Bank AB, JSC (AS) "Luminor Bank", JSC (AS) "SEB banka", JSC (AS) "Danske Bank" Latvian Branch, European Investment Bank, Northern Investment Bank, OP Corporate Bank plc and OP Corporate Bank plc Latvian Branch. Funds in the total amount of EUR 34,703,328 were borrowed and funds in the total amount of EUR 31'187'796 were repaid in the reporting period.

Latvijas dzelzceļš and its subsidiary companies have concluded with the JSC (AS) "Luminor Bank" a Group account contract and overdraft contract with the available limit of 60,000 thousand EUR and actual limit of 40,000 thousand euro. Overdraft contract expires in 2019.

Latvijas dzelzceļš has not pledged any of the properties upon receipt of the borrowings.



Following state guarantees for the *Company's* borrowings are in the records of the Treasury (creditor: European Investment Bank):

- guaranteed contractual amount – EUR 7,003,827, credit balance on 31.12.2017: EUR 466,922;
- guaranteed contractual amount – USD 27,128,982, credit balance on 31.12.2017: USD 1,808,599.

### Amount of borrowings and interest rates on 31 December 2017:

(EUR)

Loan currency	Loan, EUR	Interest rate
	30,472,716	1M EURIBOR + 1.089% to 1.33%
EUR	123,376,998	3M EURIBOR + 0.13% to 1.61%
	52,890,471	6M EURIBOR + 1.05% to 1.8%
USD	914,865	5.55%
	593,180	3M USD LIBOR + 0.13%
<b>Total</b>	<b>208,248,230</b>	

### Amount of borrowings and interest rates on 31 December 2016:

(EUR)

Loan currency	Loan, EUR	Interest rate
	228,044	Daily EUR LIBOR + 1.65%
EUR	40,760,136	1M EURIBOR + 1.089% to 1.45%
	116,907,041	3M EURIBOR + 0.13% to 1.61%
	43,613,658	6M EURIBOR + 1.05% to 1.8%
USD	2,081,772	5.55%
	1,349,778	3M USD LIBOR + 0.13%
<b>Total</b>	<b>204,940,429</b>	

### Impact of fluctuations of currency exchange rates on borrowings denominated in foreign currency

(EUR)

Loan currency	Loan balance on 31.12.2016	Paid in the reporting period	Fluctuations of currency exchange	Loan balance on 31.12.2017
USD	3,431,550	(1,715,774)	(207,731)	1,508,045
<b>Total</b>	<b>3,431,550</b>	<b>(1,715,774)</b>	<b>(207,731)</b>	<b>1,508,045</b>



## 25. OTHER BORROWINGS

(EUR)

	31.12.2017	31.12.2016
Settlements for the property rights in accordance with the contract on construction (expansion) of the optic telecommunication network at Liepāja – Jelgava – Riga – Valka railway districts <sup>*)</sup> , including: long-term part	2,320,571	2,437,574
<i>incl. debts repayable after more than five years after the end of the reporting period</i>	1,852,555	1,969,558
<i>debts repayable within more than one year, but not later than five years after the end of the reporting period</i>	468,016	468,016
short-term part	117,004	117,004
<b>Total</b>	<b>2,437,575</b>	<b>2,554,578</b>

<sup>\*)</sup> Contract was entered into in 2013 for the total amount of EUR 2,925,089 until 2038.

## 26. NEXT PERIOD INCOME

(EUR)

	31.12.2017	31.12.2016
Long-term part of the next period income (EU funds and state budget funds)	307,638,803	329,670,887
<b>Total long-term part</b>	<b>307,638,803</b>	<b>329,670,887</b>
Short-term part of the next period income (EU funds and state budget funds)	19,859,585	19,208,171
Other next period income*	528,842	14
<b>Total short-term part</b>	<b>20,388,427</b>	<b>19,208,185</b>
<b>Total next period income</b>	<b>328,027,230</b>	<b>348,879,072</b>

Next period income mostly consists of the EU funds and state budget funds received for the development of railway infrastructure.

\* EUR 590,003 are funds received from the state budget for the reimbursement of losses caused to the railway infrastructure by the rainstorms and flood in August 2017 on the basis of the "Law On Budget 2017" and the Order No. 569 issued by the Cabinet of Ministers on 11 October 2017 "Regarding Granting of Funds From the State Budget Programme "Funds For Unforeseen Events"".

## Movement of the EU and state budget project funds in 2017

(EUR)

Next period income	Balance on 01.01.2017	Reclassified (moved)	Adjustment	Decrease in the amount of depreciation of fixed assets	Balance as at 31.12.2017
Long-term part	329,670,887	(21,028,598)	(1,003,486)	-	307,638,803
Short-term part	19,208,171	21,028,598	-	(20,377,184)	19,859,585
<b>Total</b>	<b>348,879,058</b>	<b>-</b>	<b>(1,003,486)</b>	<b>(20,377,184)</b>	<b>327,498,388</b>

No funds for the projects were received from the EU funds and state budget in 2017.



**Movement of the EU and state budget project funds in 2016**

(EUR)

Next period income	Balance on 01.01.2016	Received in the reporting year			Adjustment	Decrease in the amount of depreciation of fixed assets	Balance as at 31.12.2016
		EU funds	State budget funds	Reclassified (moved)			
Long-term part	318,618,331	28,767,054	4,027,058	(21,695,367)	(46,189)	-	<b>307,638,803</b>
Short-term part	16,659,246	-	-	21,695,367	-	(19,146,442)	<b>19,208,171</b>
<b>Total</b>	<b>335,277,577</b>	<b>28,767,054</b>	<b>4,027,058</b>	<b>-</b>	<b>(46,189)</b>	<b>(19,146,442)</b>	<b>348,879,058</b>

**The EU funds and the state budget funds received for the projects in 2016**

(EUR)

Title of the project	EU funds	State budget funds
Project 3DP/3.3.2.1.0/13/IPIA/SM/002 Modernization of passenger railway infrastructure	5,429,932	-
Project CCI2009LV161PR001 Construction of second railway track Skrīveri-Krustpils	4,717,082	-
Project 3DP/3.3.1.2.0/13/IPIA/SM/003 Modernization of centralization of Šķīrotava	3,342,549	-
Project 3DP/3.3.1.2.0/10/IPIA/SM/002 Construction of station Bolderāja 2 with the connecting road to the terminals of Krievu sala	2,988,024	-
Project 3DP/3.3.1.2.0/10/IPIA/SM/001 Reconstruction of hump at Šķīrotava Station	2,370,000	685,578
Project 2007-LV-27060-P Reconstruction of railway track in Rail Baltica corridor in Latvia	2,234,673	3,341,480
Project 3DP/3.3.1.2.0/14/IPIA/SM/001 Reconstruction of railway tracks	2,156,435	-
Project 3DP/3.3.1.2.0/13/IPIA/SM/005 Modernization of signalling system and reconstruction of railway track at Liepāja station	1,940,075	-
Project 3DP/3.3.1.2.0/13/IPIA/SM/001 Replacement of railway switches – delivery	1,349,659	-
Project 3DP/3.3.1.2.0/10/IPIA/SM/003 Modernization of signalling, telecommunication and power supply systems in the district Bolderāja 1-Zasulauks	1,135,500	-
Project 3DP/3.3.1.2.0/13/IPIA/SM/004 Modernization of main data transmission	883,531	-
Project 2011-LV-93133-S Development of LDZ network electrification sketch design	219,594	-
<b>Total</b>	<b>28,767,054</b>	<b>4,027,058</b>



**27. TAXES AND STATE COMPULSORY SOCIAL INSURANCE CONTRIBUTIONS**

(EUR)

Type of tax	Overpaid taxes(-) liabilities (+) on 31.12.2016	Calculated	Paid	Overpaid taxes(-) liabilities (+) on 31.12.2017
Corporate income tax from non-residents	-	1,540	(1,540)	-
State compulsory social insurance contributions	3,962,762	27,821,798	(28,485,692)	3,298,868
Personal income tax	2,255,230	14,782,797	(15,181,533)	1,856,494
Property tax	-	593,294	(593,446)	(152)
Natural resources tax	2,577	14,863	(14,279)	3,161
Value added tax	2,502,828	27,509,795	(25,779,922)	4,232,701
Import duty	-	869	(869)	-
Car usage tax	-	48,846	(48,471)	375
Company car tax	3,178	32,403	(35,431)	150
State duty of business risk	2,398	28,239	(28,357)	2,280
<b>Total</b>	<b>8,728,973</b>	<b>70,834,444</b>	<b>(70,169,540)</b>	<b>9,393,877</b>
<b>Overpaid taxes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(152)</b>
<b>Tax liabilities</b>	<b>8,728,973</b>	<b>-</b>	<b>-</b>	<b>9,394,029</b>

Tax liabilities arose in December 2017. *Latvijas dzelzceļš* has no delayed payments in the budget on 31.12.2017.

**28. FINANCIAL RISK MANAGEMENT**

*Company's* most significant financial instruments are borrowings from the banks, ok borrowings, cash and deposits in the banks, as well as receivables and payables. Main purpose of these financial instruments is to ensure funding for the *Company's* economic activities. Besides, the *Company* has several other financial assets and liabilities, for example, trade receivables and trade payables arising directly from its economic activities.

The *Company* is exposed to market, credit and liquidity risks in relation to its financial instruments.

Financial risk management is ok by the Financial Directorate and Financial Committee of *Latvijas dzelzceļš*.



The *Company's* financial instruments are divided in the following categories:

(EUR)

	31.12.2017	31.12.2016
<b>Loans and receivables</b>		
Trade receivables and other debtors, except for advance payments	58,898,607	51,713,674
Cash and cash equivalents	19,701,435	7,103,593
<b>Available for sale investments</b>		
Long-term financial investments	494,227	494,227
<b>Total financial assets</b>	<b>79,094,269</b>	<b>59,311,494</b>
<b>Other financial liabilities at amortised cost</b>		
Borrowings from credit institutions	208,248,230	204,940,429
Other borrowings	2,437,575	2,554,578
Trade payables and other creditors, except for advance payments (including long-term part)	22,437,905	19,666,075
<b>Total financial liabilities</b>	<b>233,123,710</b>	<b>227,161,082</b>

### Market risk

Market risk is a risk that changes in market factors, for example, changes in foreign currency exchange rate, interest rates and prices of goods will affect the *Company's* revenue or value of financial instruments owned thereby. Market risk includes currency risk and interest rate risk.

### Interest rate risk

Interest rate risk is a risk to suffer losses in relation to the changes in interest rates of the *Company's* assets and liabilities. The *Company* is exposed to risk of changes in market interest rates in relation to its long-term liabilities with variable interest rates.

All the *Company's* borrowings are with variable interest rates, except for one loan taken in the end of the 90-ties with fixed interest rate. See Note 24 for detailed description of the interest rates on borrowings. The *Company* manages risk of changes in interest rates by regular evaluation of the loan interest rates available on the market. If lower interest rates than the current ones are available, the *Company* evaluates financial benefit of refinancing.

The *Company's* management has decided not to use derivative financial instruments for the management of interest rate risks.

### Sensitivity of interest rates

The table below reflects the sensitivity of the *Company's* gross profit to the reasonably possible changes in interest rates at the end of each specified reporting period, if all the remaining variable amounts remain unchanged. The *Company's* equity is not affected, except for the result for the reporting year.



(EUR)

	2017		2016	
	Increase / decrease of base rate (base points)	Impact on gross profit (EUR)	Increase / decrease of base rate (base points)	Impact on gross profit (EUR)
EURIBOR	(+100)	(2,067,402)	(+100)	(2,015,089)
	(-100)	2,067,402	(-100)	2,015,089
LIBOR	(+50)	(7,540)	(+50)	(17,158)
	(-50)	7,540	(-50)	17,158

### Currency risk

Currency risk is a risk to suffer losses due to unfavourable changes in currency exchange rates in relation to assets and liabilities denominated in foreign currencies. Currency risk the *Company* is exposed to mainly arises from its economic activities - revenue and expenses are denominated in currencies different from borrowings in foreign currencies. The *Company's* trade receivables are mainly in euro, while bank loans are expressed in euro and US dollars. Detailed distribution of financial instruments by foreign currencies is provided in Note 31.

The main instrument for the currency risk management used by the *Company* is identification and use of funds in foreign currency for meeting the liabilities in foreign currencies.

The *Company's* management has decided not to use derivative financial instruments for the management of currency risks.

### Currency sensitivity

The table below reflects the sensitivity of the *Company's* gross revenue to the reasonably possible changes in currency exchange rates in relation to its monetary position, if all the remaining

variable amounts remain unchanged. The *Company's* equity is not affected, except for the result for the reporting year.

	2017		2016	
	Changes in currency exchange	Impact on gross profit (EUR)	Changes in currency exchange	Impact on gross profit (EUR)
US dollar	(+5%)	63,497	(+5%)	164,000
	(-5%)	63,497	(-5%)	164,000

### Credit risk

Credit risk is a risk that the business partner might fail to meet its liabilities to the *Company*, causing significant financial losses. The *Company* is exposed to credit risk arising directly from

its economic activities - mainly from trade receivables, and credit risk in relation to the *Company's* financing activities - mainly cash deposits in banks.



### Trade receivables

The *Company* manages credit risk of trade receivables in accordance with the *Group's* policies. Solvency of purchasers and clients is evaluated before conclusion of contracts. The *Company* secures itself against credit risk by receiving prepayment from the clients.

The *Company* constantly monitors the balances of receivables to decrease the possibility of irrecoverable debts. The possible decrease in value of trade receivables is constantly analysed.

The *Company* has not received pledges as security of trade receivables.

On 31 December 2017, the *Company* had 3 clients (in 2016: 4 clients), each owing to the *Company* amount exceeding 700 thousand euro and accounting for approximately 84.0% (in 2016: 94.3%) of the total amount of receivables. Excluding the debts of the subsidiary companies with due date after 31 December 2017, one client had debts exceeding 700 thousand euro and accounting for 19.4% of the total amount of receivables.

The *Company* has not developed internal credit rating system for the evaluation of receivables.

### Cash deposits

Credit risk arising from the *Company's* cash deposits in banks is managed by the *Group's* Financial Committee in accordance with the *Group's* Financial management policy. In accordance with this policy, the *Company's* available resources are allowed to be invested only in deposits or money market funds. Before placement of funds

in the banks (deposits or current accounts), the *Group's* Financial Committee evaluates the credit ratings of banks and the offered interest rates.

The *Company's* cash balances in the banks according to the bank credit ratings assigned by Moody's:

	(EUR)	
Credit rating	31.12.2017	31.12.2016
Aa2	-	2,183,775
Aa3	19,689,583	4,914,476
A1	10,723	-
A2	-	4,617
A3	1,129	118
<b>Total</b>	<b>19,701,435</b>	<b>7,102,986</b>

The *Company* is exposed to credit risk, as reflected in the table below:

	(EUR)	
	31.12.2017	31.12.2016
Cash and cash equivalents	19,701,435	7,103,593
Trade receivables and other receivables (gross total), except for advance payments and prepayments	59,372,305	52,203,486
<b>Total</b>	<b>79,073,740</b>	<b>59,307,079</b>



Following information is additionally disclosed in relation to credit risk:

(EUR)

	31.12.2017	31.12.2016
<b>Financial assets not past due and not provided for</b>		
Debts, which are not past due, including	78,462,323	55,176,266
Cash and cash equivalents	19,701,435	7,103,593
Trade receivables	58,760,888	48,072,673
<b>Analysis of age structure of financial assets past due and not provided for</b>		
Up to 3 months	118,525	3,638,711
From 3 to 12 months	19,194	2,290
<b>Total financial assets without provisions for impairment</b>	<b>78,600,042</b>	<b>58,817,267</b>
<b>Financial assets with provision for impairment (gross amounts)</b>	<b>473,698</b>	<b>489,812</b>
<b>Total</b>	<b>79,073,740</b>	<b>59,307,079</b>

### Liquidity risk

Liquidity risk is a risk that the *Company* will not be able to meet its financial liabilities when due.

The *Group's* Financial Committee manages liquidity risk by maintaining corresponding cash reserves and providing sufficient financing by using the granted borrowings, credit lines, financial leasing etc., as well as constantly monitoring the projected and actual cash flows and coordinating maturity structure of financial assets and liabilities.

The *Company* prepares long-term cash flow forecast for a year and operative cash flow forecast for one week to ensure sufficient amount of funds at the *Company's* disposal for the financing of the expected operating costs, meeting financial liabilities and provision of necessary investments.

In 2017, the *Company's* performance is profit after taxes – 23,184 thousand euro. On 31 December 2017, the *Company's* current liabilities exceeded its current assets by 61,929 thousand euro. Current liabilities include next period income in the

amount of 20'388 thousand euro, related to the investments of the EU project and state budget funds in the railway public infrastructure, therefore no funds should be planned for the coverage of these liabilities. Total liquidity indicator is 0.4, but, with the exclusion of next period income from the current liabilities, this indicator is 0.5. Whereas, with the exclusion of current provisions non-related to cash flow, liquidity indicator is 0.6. The *Company's* cash flows from operating activities are positive. Furthermore, the *Company* has available credit line with the JSC (AS) Luminor Bank for the meeting of current liabilities. In view of the previously mentioned circumstances, we believe that, despite the decrease of freight volume, the *Company* has managed to provide financial balance in 2017; therefore, the *Company* will be able to cover its current liabilities and retain financial stability.

The following tables include analysis of the *Company's* financial liabilities by the due dates on the basis of the non-discounted cash flows related to financial liabilities set in contracts, including interest payments:



(EUR)

31 December 2017	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings from credit institutions	8,520,828	26,767,997	127,573,203	54,996,445	217,858,473
Other liabilities (including other borrowings, trade payables and other creditors)	16,840,778	5,227,868	954,279	1,852,555	24,875,480
<b>Total</b>	<b>25,361,606</b>	<b>31,995,865</b>	<b>128,527,482</b>	<b>56,849,000</b>	<b>242,733,953</b>

(EUR)

On 31 December 2016	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings from credit institutions	7,358,449	25,963,826	119,185,232	61,015,053	213,522,560
Other liabilities (including other borrowings, trade payables and other creditors)	14,122,581	5,174,235	954,279	1,969,558	22,220,653
<b>Kopā</b>	<b>21,481,030</b>	<b>31,138,061</b>	<b>120,139,511</b>	<b>62,984,611</b>	<b>235,743,213</b>

## 29. FAIR VALUE CONSIDERATIONS

IFRS 13 provides for the hierarchy of valuation techniques on the basis of whether observable market data are used in the valuation technique or market data are not observable. Observable market data are acquired from independent sources. If market data are not observable, valuation technique reflects the *Company's* assumptions on market situation.

This hierarchy provides for that observable market data must be used, if available. During the revaluation, the *Company* takes into account corresponding observable market prices, if possible.

Fair value – amount receivable in case of sale of the asset or payable in case of meeting of liabilities in a ordinary transaction between market participants on the date of valuation of asset or liabilities.

Purpose of the determination of fair value, even if the market is not active, is determination of the transaction price, at which the market participants would agree to sell the asset or undertake

liabilities on the particular valuation date under the current market conditions.

Several methods are applied to determine the fair value of financial instrument: quoted prices or valuation technique including observable market data and based on internal models. On the basis of hierarchy of fair value, all valuation techniques are split in 1st level, 2nd level and 3rd level.

Fair value hierarchy level of financial instrument must be determined as the lowest level, if significant part of the value thereof consists of the lowest level data.

Classification of financial instrument in fair value hierarchy has two phases:

1. Classification of data of each level to determine fair value hierarchy;
2. Classification of the financial instrument itself on the basis of the lowest level, if significant part of its value consists of lower level data.

### Quoted market prices – 1st level

Valuation technique at 1st level includes use of unadjusted quoted prices available on active market for identical assets or liabilities, when quotations are easily available and price represents the actual market situation for transactions under the circumstances of fair competition.

### Valuation technique involving the use of market data – 2nd level

In the models used in valuation technique at 2nd level, all the most significant data are directly or indirectly observable from the side of assets or liabilities. Model includes use of market data other than the quoted prices included in the 1st level – directly observable market data (i.e., price), or indirectly observable market data (i.e., acquired from price).

### Valuation technique involving the use of market data, which are not based on observable market data – 3rd level

Valuation technique, when market data not based on observable market data (unobservable market data) are used, is classified as 3rd level. Data, which are not easily accessible on the active market, are considered unobservable market data due to complexity of non-liquid market or financial instrument. 3rd level data are usually determined on the basis of observable market data of similar character, historical observations or through analytic approaches.

Such financial assets and liabilities are included in 3rd level:

- Assets: Cash and cash equivalents: EUR 19,701,435; Loans to affiliated companies: EUR 44,510,858, Other securities and investments: EUR 494,227, Net trade receivables: 4,841,989; Net receivables from affiliated companies: EUR 9,545,760.
- Liabilities: Borrowings from credit institutions: EUR 208,248,230; Trade payables: EUR 18,044,744; Payables to affiliated companies: EUR 4,393,161; Other liabilities: EUR 2,437,575.

### Assets and liabilities with presented fair value

Book value of liquid and short-term (maturity period not exceeding three months) financial instruments, for example, cash and cash equivalents, short-term deposits, short-term trade receivables and trade payables approximately corresponds to their fair value.

Fair value of borrowings from credit institutions, financial lease liabilities and other non-current liabilities is assessed by discounting future cash

flows at market interest rates. Since the interest rates applied to the borrowings from credit institutions, financial lease liabilities and other non-current liabilities are mostly variable and do not differ significantly from market interest rates, as well as the risk premium applicable to the *Company* has not significantly changed, fair value of non-current liabilities approximately correspond to their fair value.

## 30. CAPITAL MANAGEMENT

The Republic of Latvia owns 100% shares in the SJSC (VAS) “Latvijas dzelzceļš”.

The *Company's* goals in relation to capital management are: to provide the *Company's* capability to continue operation and provide the return

on capital set by the meeting of shareholders. The state of Latvia as the only owner of the *Company's* capital is entitled to adopt decisions related to increase and decrease of the *Company's* capital, payment of dividends or direction thereof for the *Company's* development.



Within the context of the capital management, the *Company* evaluate relation of the borrowed capital to the total capital. The *Company's* financial risk management policy does not provide for the minimum or maximum amount of this indicator. Credit contracts concluded with banks provide for financial indicator the *Company* is obliged to comply with during the validity period of the contract, if the indicators are not met,

during the preparation of the annual report, letters are received from the banks that the creditor will not demand early repayment of funds. When drawing up short-term and long-term financial plan and budget, the *Company* takes into account the financial conditions set by the banks on the proportion of the borrowed capital to the total capital.

	(EUR)	
	31.12.2017	31.12.2016
Borrowings from credit institutions and other borrowings	210,685,805	207,495,007
Payables (including taxes)	44,107,431	28,927,256
Other liabilities	335,126,359	385,317,313
<b>Total liabilities</b>	<b>589,919,595</b>	<b>621,739,576</b>
Equity	315,243,661	292,059,294
<b>Total liabilities and equity</b>	<b>905,163,256</b>	<b>913,798,870</b>
Proportion of the borrowed capital to the total capital	65%	68%
Proportion of the equity to the total liabilities	53%	47%

### 31. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY CURRENCIES

The table below reflects the *Company's* financial instruments by currencies on 31 December 2017:

	EUR	USD EUR	Other currencies EUR	Total EUR
Trade receivables and other debtors, except for advance	58,898,604	3	-	58,898,607
Cash and cash equivalents	19,698,374	3,040	21	19,701,435
<b>Total financial assets</b>	<b>78,596,978</b>	<b>3,043</b>	<b>21</b>	<b>78,600,042</b>
Borrowings from credit institutions	206,740,185	1,508,045	-	208,248,230
Other borrowings	2,437,575	-	-	2,437,575
Debts payable to suppliers and contractors, and other creditors, except for advance payments	22,412,147	14,999	10,759	22,437,905
<b>Total financial liabilities</b>	<b>231,589,907</b>	<b>1,523,044</b>	<b>10,759</b>	<b>233,123,710</b>



The table below reflects the Company's financial instruments by currencies on 31 December 2016:

	EUR	USD EUR	Other currencies EUR	Total EUR
Trade receivables and other debtors, except for advance payments	51,713,673	1	-	51,713,674
Cash and cash equivalents	7,103,050	521	22	7,103,593
<b>Total financial assets</b>	<b>58,816,723</b>	<b>522</b>	<b>22</b>	<b>58,817,267</b>
Borrowings from credit institutions	201,508,879	3,431,550	-	204,940,429
Other borrowings	2,554,578	-	-	2,554,578
Debts payable to suppliers and contractors, and other creditors, except for advance payments	19,605,706	29,721	30,648	19,666,075
<b>Total financial liabilities</b>	<b>223,669,163</b>	<b>3,461,271</b>	<b>30,648</b>	<b>227,161,082</b>

### 32. CAPITAL COMMITMENTS

The *Company* is planning for capital investments in fixed assets and intangible assets also for the next reporting year, including:

most significant concluded, but yet not fulfilled contracts:

Name of business partner, subject of contract	Contract date	Term for the fulfilment of contract	Contract amount, EUR
LLC (SIA) "LDZ infrastruktūra" Construction of elevated island platform at Skrīveri station	18.08.2017	01.08.2018	450,495
LLC (SIA) "KATISS" Construction of optical cable line at the district Rīga-Skulte	04.08.2017	30.09.2018	417,754
LLC (SIA) "LVS Building" Replacement of roof surface and constructions of the building located at Brīvības Street 103A, Liepāja	06.10.2017	02.12.2018	300,000
LLC (SIA) "KATISS" Reconstruction of contact networks at Ogre station and Šķīrotava station	31.10.2017	29.06.2018	274,644

most significant approved transactions, where contracts are not yet concluded in the reporting year:

Name of business partner, subject of contract	Type of procurement procedure, date	Term for the fulfilment of contract	Tender amount, EUR
LLC (SIA) "KATISS" Construction of optical cable line at the district Pļaviņas-Madona	Negotiation procedure on 10.10.2017	30.09.2018	834,782



## Creation of fixed assets and construction in progress

(EUR)

Name of unfinished construction objects	Balance of unfinished construction objects on 31.12.2017	Costs planned in 2018	Planned date of putting into service
Improvement of traffic control and centralization (additionally to KIGAS) for the project	786,668	287,460	2018
Electronization and optimization of the circulation of freight traffic information – freight movement management IS	473,566	439,520	2018
Expansion of loading area at Garkalne station	359,290	-	2018
Construction of elevated island platform at Skrīveri station	221,310	229,185	2018
Establishment of uniform LDZ Data storage	163,712	215,350	2018
Overhaul of external engineering network	78,047	370,000	2018
Lighting of station level crossings and modernization of power supply equipment	77,364	20,000	2018
Renovation of sub-stations and main distribution pointsna	78,275	190,000	2018
Overhaul of railway technical buildings and station buildings, and passenger platforms	73,009	1,100,000	2018
Overhaul of engineering technical structures	52,442	198,600	2018
Construction of optical networks	22,300	1,230,236	2018
Other unfinished building objects	29,631	-	2018
<b>Total</b>	<b>2,415,614</b>	<b>4,280,351</b>	<b>x</b>

### 33. POSSIBLE TAX LIABILITIES

Tax institutions can carry out accounting audit at any time in three years after the tax year and calculate additional tax liabilities and penalties. The *Company's* management is not aware of any circumstances, which may cause possible significant tax liabilities in the future.

### 34. FUTURE LEASE PAYMENTS

In 2017, the *Company's* expenses in relation to the concluded operating lease contracts are EUR 3,511,484, in 2016 – EUR 3,511,824. It is planned that expenses for 2018 will remain at the same level as in 2017.

Early termination of operating lease contracts cannot significantly affect the *Company's* financial position and performance results.

### 35. FUTURE LEASE INCOME

Operating lease income in 2017 was EUR 5,360,973. During the period of 1-5 years, lease income at the level of 2017 is planned.



### 36. NUMBER OF EMPLOYEES

Average number of employees in the Company in 2017 – 6,494 (6,808 in 2016).

### 37. TRANSACTIONS WITH RELATED PARTIES

The *Company* is involved in transactions with the Ministry of Transport (holder of 100% of the *Company's shares*) and other commercial companies the shares of which are owned by the state. Largest transactions are with the JSC (AS) "Pasažieru vilciens" (fee for the use of public railway infrastructure for inland passenger transport, purchase of subscriber tickets) for the amount of EUR 48,492,457 (in 2016 – EUR 48,778,535) and the SJSC (VAS) "Latvenergo" (purchase of electricity) for the amount of EUR 11'884'524 (in 2016 – EUR 12,955,449). These transactions are related to basic operating activities of the relevant parties.

#### Transactions with subsidiary companies:

Business partner	2017 Goods/services		2016 Goods/services	
	Sold/ provided	Purchased/ received	Sold/ provided	Purchased/ received
LLC (SIA) "LDZ CARGO"	94,606,923	7,024,609	111,658,481	9,660,083
LLC (SIA) "LDZ ritošā sastāva serviss"	3,209,387	2,738,891	2,646,969	3,571,960
LLC (SIA) "LDZ infrastruktūra"	1,429,064	12,660,363	1,367,501	11,773,330
LLC (SIA) "LDZ apsardze"	404,452	4,747,407	330,113	4,464,846
JSC (AS) "LatRailNet"	74,375	1,198,524	70,425	1,198,395
LLC (SIA) "LDZ apsardze"	137,781	-	64,616	-
LLC (SIA) "Rīgas Vagonbūves uzņēmums "Baltija""	1,750	-	-	-

#### Receivables from affiliated companies:

(EUR)

Subsidiary company	31.12.2017	31.12.2016
<b>Current debts</b>		
LLC (SIA) "LDZ CARGO"	3,009,757	4,260,227
LLC (SIA) "LDZ ritošā sastāva serviss"	6,284,797	9,654,088
LLC (SIA) "LDZ infrastruktūra"	187,906	117,421
LLC (SIA) "LDZ apsardze"	38,888	36,380
JSC (AS) "LatRailNet"	11,446	7,515
LLC (SIA) "LDZ Loģistika"	12,664	6,011
LLC (SIA) "Rīgas Vagonbūves uzņēmums "Baltija""	302	-
Total	9,545,760	14,081,642
including debts arisen in December of the reporting year	6,798,043	14,081,642
<b>Non-current loans</b>		
LLC (SIA) "LDZ ritošā sastāva serviss"*	44,510,858	29,158,575



*\*In 2016 and 2017, Latvijas dzelzceļš has granted a non-current loan in the total amount of EUR 47,258,575 to the LLC (SIA) "LDZ ritošā sastāva serviss" for the financing of modernization of fourteen double-section 2M62U series diesel locomotives.*

### Debts to affiliated companies:

	(EUR)	
Subsidiary company	31.12.2017	31.12.2016
LLC (SIA) "LDZ CARGO"	492,249	829,008
LLC (SIA) "LDZ ritošā sastāva serviss"	221,701	235,274
LLC (SIA) "LDZ infrastruktūra"	3,198,281	1,383,875
LLC (SIA) "LDZ apsardze"	480,930	518,942
Total	4,393,161	2,967,099
including debts arisen in December of the reporting year	4,392,734	2,966,140

### 38. EVENTS AFTER THE END OF THE REPORTING YEAR

During the period since the last day of the reporting year, there have been no events, which would significantly affect the *Company's* financial position on 31 December 2017.

### 39. PROPOSALS ON THE COMPANY'S PROFIT DISTRIBUTION

On the basis of Section 94, Paragraph 1, Clause 2, Section 56, Paragraph 1 and Section 28, Paragraphs 1 and 2 of the Law On Governance of Capital Shares of a Public Person and Capital Companies and Paragraph 5 of the Regulations of the Cabinet of Ministers No. 806 of 22.12.2015 "*Procedures, by Which State Capital Companies and Public Private Capital Companies, Where the State Is a Shareholder, Forecast and Determine the Share of Profit to Be Paid In Dividends and Make Payments In the State Budget For the Use of State Capital*", in order to provide retention of competitiveness, sustainable development and implementation of investment projects of the State Joint-Stock Company "Latvijas dzelzceļš", the *Company's* management proposes to determine different rate of the share of profit to be paid in dividends in the amount of 0%, including it in the *Company's* medium term operational strategy according to the Order issued by the Cabinet of Ministers regarding the permit to determine in the medium term strategy of the SJSC "Latvijas dzelzceļš" different foreseeable share of profit to be paid in dividends.

Riga, 3 April 2018

Chairman of the Board

E. Bērziņš

Member of the Board

A. Strakšas

Member of the Board

Ē. Šmuksts

Member of the Board

A. Stūrmanis

Annual Report has been prepared by the Finance Directorate of the SJSC (VAS) "Latvijas dzelzceļš":

S. Gasjūna

Deputy Financial Director, Head of Financial Unit



# “LATVIJAS DZELZCEĻŠ” CONDENSED CONSOLIDATED ANNUAL REPORT 2017

## Annex

Fundamental guidelines for preparation of the condensed consolidated financial statements.

This condensed consolidated financial statement, consisting of a consolidated statement on the financial position as at 31 December 2017, a consolidated profit or loss statement and the consolidated statement of comprehensive income for the year until 31 December 2017, has been prepared based on the relevant information of the audited consolidated financial statement 2017 of VAS “Latvijas dzelzceļš”. The audited consolidated financial statement is available in the administration of VAS “Latvijas dzelzceļš”. Accordingly, this condensed consolidated financial statement corresponds to the consolidated financial statement.



## CONSOLIDATED FINANCIAL STATEMENTS CONSOLIDATED STATEMENT OF PROFIT OR LOSS

2017

(EUR'000)

	Note	2017	2016
Revenue	4	318,638	351,121
Cost of sales	5	(320,571)	(340,409)
<b>Gross profit or loss</b>		<b>(1,933)</b>	<b>10,712</b>
Administrative expenses	6	(24,616)	(24,461)
Other operating income	7	33,628	37,015
Other operating expenses	8	(6,277)	(13,914)
Income from long-term investments	13	311	250
Financial income	9	2	1
Financial expenses	9	(2,272)	(2,295)
<b>Profit or loss before corporate income tax</b>		<b>(1,157)</b>	<b>7,308</b>
Corporate income tax for the reporting year	10	32,334	(6,253)
<b>Net profit for the year</b>		<b>31,177</b>	<b>1,055</b>

Notes on pages 124 to 158 form an integral part of these financial statements.

Riga, 3 April 2018

Chairman of the Board

Member of the Board

Member of the Board

Member of the Board

Annual Report has been prepared by the Finance Directorate of the SJSC (VAS) "Latvijas dzelzceļš":  
Deputy Financial Director, Head of Financial Unit

E. Bērziņš

A. Strakšas

Ē. Šmuksts

A. Stūrmanis

S. Gasjūna



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED

31 December 2017

(EUR'000)

	Note	2017	2016
<b>Net profit for the year</b>		<b>31,177</b>	<b>1,055</b>
Other comprehensive income:			
Items that will not be reclassified to profit or loss:		4,377	(9,371)
<i>Disposals of revalued of property, plant and equipment</i>	18	-	(11,024)
<i>Deferred income tax on revalued property, plant and equipment recorded directly in other comprehensive income</i>	18	4,377	1,653
<b>Other comprehensive income / (loss) for the year</b>		<b>4,377</b>	<b>(9,371)</b>
<b>Total comprehensive income / (loss) for the year</b>		<b>35,554</b>	<b>(8,316)</b>
<b>Total net profit and comprehensive income / (loss) for the year attributable to the shareholders of the parent company</b>		<b>35,554</b>	<b>(8,316)</b>

Notes on pages 124 to 158 form an integral part of these financial statements.

Riga, 3 April 2018

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Deputy Financial Director, Head of Financial Unit

S. Gasjūna



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

(EUR'000)

ASSETS	Notes	31.12.2017	31.12.2016
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	895,784	908,066
Intangible assets	11	1,360	1,559
Advance payments for property, plant and equipment		745	756
Long-term financial investments	13	494	494
<b>TOTAL NON-CURRENT ASSETS</b>		<b>898,383</b>	<b>910,875</b>
<b>CURRENT ASSETS</b>			
Inventories	14	24,244	34,355
Trade and other receivables	15	14,779	18,180
Corporate income tax	10	446	1,875
Cash and cash equivalents	16	72,883	61,084
<b>TOTAL CURRENT ASSETS</b>		<b>112,352</b>	<b>115,494</b>
<b>TOTAL ASSETS</b>		<b>1,010,735</b>	<b>1,026,369</b>

(continued on the next page)

Notes on pages 124 to 158 form an integral part of these financial statements.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017 (continued)

(EUR'000)

LIABILITIES	Notes	31.12.2017	31.12.2016
<b>LIABILITIES AND EQUITY</b>			
<b>EQUITY</b>			
Attributable to the shareholders of the Parent:			
Share capital	17	256,720	256,720
Long-term investments revaluation reserve	18	51,350	46,973
Reserves and previous years' retained earnings	18	53,327	52,272
Current year's comprehensive income		31,177	1,055
<b>TOTAL EQUITY</b>		<b>392,574</b>	<b>357,020</b>
<b>LIABILITIES</b>			
<b>LONG-TERM LIABILITIES</b>			
Deferred income tax liabilities	10	-	36,752
Provisions	19	177	178
Loans from credit institutions	20	176,527	177,334
Other borrowings	21	2,321	2,438
Trade creditors		486	491
Deferred income	23	307,639	329,671
<b>TOTAL LONG-TERM LIABILITIES</b>		<b>487,150</b>	<b>546,864</b>
<b>SHORT-TERM LIABILITIES</b>			
Loans from credit institutions	20	35,114	33,399
Other borrowings	21	117	117
Provisions	19	8,486	15,187
Trade and other payables		52,096	38,738
Corporate income tax	10	2	-
Taxes and the State compulsory social insurance contributions	22	14,808	15,836
Deferred income	23	20,388	19,208
<b>TOTAL SHORT-TERM LIABILITIES</b>		<b>131,011</b>	<b>122,485</b>
<b>TOTAL LIABILITIES</b>		<b>618,161</b>	<b>669,349</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,010,735</b>	<b>1,026,369</b>

Notes on pages 124 to 158 form an integral part of these financial statements.  
Riga, 3 April 2018

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