

ANNUAL
REPORT



20
14

TABLE OF CONTENTS

6	INTRODUCTION
12	STRENGTHENING COOPERATION WITH NEIGHBOURING COUNTRIES AND DEVELOPING ALTERNATIVE FIELDS OF OPERATIONS
18	AIMING AT FINANCIAL STABILITY AND ENSURING THE COMPETITIVENESS OF THE RAILWAY INFRASTRUCTURE
24	AIMING AT THE DEVELOPMENT OF THE RAILWAY INFRASTRUCTURE AND PEOPLE'S SAFETY ON RAIL TRACKS
30	LEGAL INITIATIVES AND THE LATEST TECHNOLOGIES FOR INCREASING EFFICIENCY
36	FINANCIAL STATEMENTS OF SJSC LATVIJAS DZELZCEĻŠ
42	<i>LDZ CARGO</i> LLC
50	FINANCIAL STATEMENTS OF <i>LDZ CARGO</i> LLC
54	FINANCIAL STATEMENTS OF <i>LDZ CARGO LOĢISTIKA</i> LLC
58	<i>LDZ RITOŠĀ SASTĀVA SERVISS</i> LLC
64	FINANCIAL STATEMENTS OF <i>LDZ RITOŠĀ SASTĀVA SERVISS</i> LLC
68	<i>LDZ INFRASTRUKTŪRA</i> LLC
72	FINANCIAL STATEMENTS OF <i>LDZ INFRASTRUKTŪRA</i> LLC
76	<i>LDZ APSARDZE</i> LLC
80	FINANCIAL STATEMENTS OF <i>LDZ APSARDZE</i> LLC
84	JSC <i>LATRILNET</i>
86	FINANCIAL STATEMENTS OF JSC <i>LATRILNET</i>
92	CONSOLIDATED INCOME STATEMENT
94	CONSOLIDATED STATEMENT OF THE FINANCIAL POSITION
98	CORPORATE SOCIAL RESPONSIBILITY





The annual report of *Latvijas dzelzceļš* presents summarised information on the business performance of VAS (state joint stock company) *Latvijas dzelzceļš* and the subsidiaries thereof – SIA (limited liability company) *LDZ infrastruktūra*, SIA *LDZ ritošā sastāva serviss*, SIA *LDZ apsardze*, SIA *LDZ Cargo* and its subsidiary – SIA *LDZ Cargo Loģistika*, and AS (joint stock company) *LatRailNet* – in 2014. The annual report includes the condensed financial statements of *LDz* and its subsidiaries, as well as the condensed financial statements that provide a comprehensive and objective view of the operations and performance of VAS *Latvijas dzelzceļš*.

General description

VAS *Latvijas dzelzceļš* (hereinafter referred to as *Latvijas dzelzceļš*, *LDz* or *the Company*) is one of the largest companies in Latvia through its business activities contributing greatly to the development of the national economy, providing railway infrastructure to be used for transporting of large-volume freight as well as passenger carriages.

Latvijas dzelzceļš has been operational since 1919. It is one of the oldest railway transport companies in the Baltics—in the reporting year it celebrated its 95th anniversary. According to the Strategy 2030 that was approved by *LDz* in 2013, the *Group's* mission is to ensure the managing of railway infrastructure and logistics services in the interests of the Latvian national economy. In turn, according to its development vision the *Group* aims to become the leader of the transport industry in the Baltics – an advanced, efficient and environmentally friendly group of infrastructure and logistics companies. The strategic objectives set for the *Group's* day-to-day activities are as follows:

- Ensure railway infrastructure, transport and logistics services at a

competitive quality and cost level;

- Lead in terms of freight turnover by railway infrastructure in the Baltics;
- Develop environmentally friendly and effective rail transport, through electrifying the key routes and renewing the fleet of the traction rolling stock.

The following four values underpin the *Group's* operations: **development, responsibility, safety and cooperation**. Based on these values and by implementing the defined objectives *LDz* has been promoting the development of the national economy and contributing to the development of the Baltic region, as well as positively impacting other European countries both economically and socially.

As the manager of the public-use railway infrastructure, VAS *Latvijas dzelzceļš* currently owns a railway network, the extended length of which exceeds 3,146 kilometres including station and spur tracks as well as other infrastructure objects.

The *Company* is the holding company of the *Latvijas dzelzceļš* Group. The Group consists of the holding company and six subsidiaries (in five of them the holding company has a direct decisive influence,

as well as an indirect influence in the remaining company), which together provide customers with various railway industry services.

The *Group's* parent company is a state joint stock company registered with the Commercial Register of the Republic of Latvia, and is wholly owned by the Republic of Latvia. The Ministry of Transport is the holder

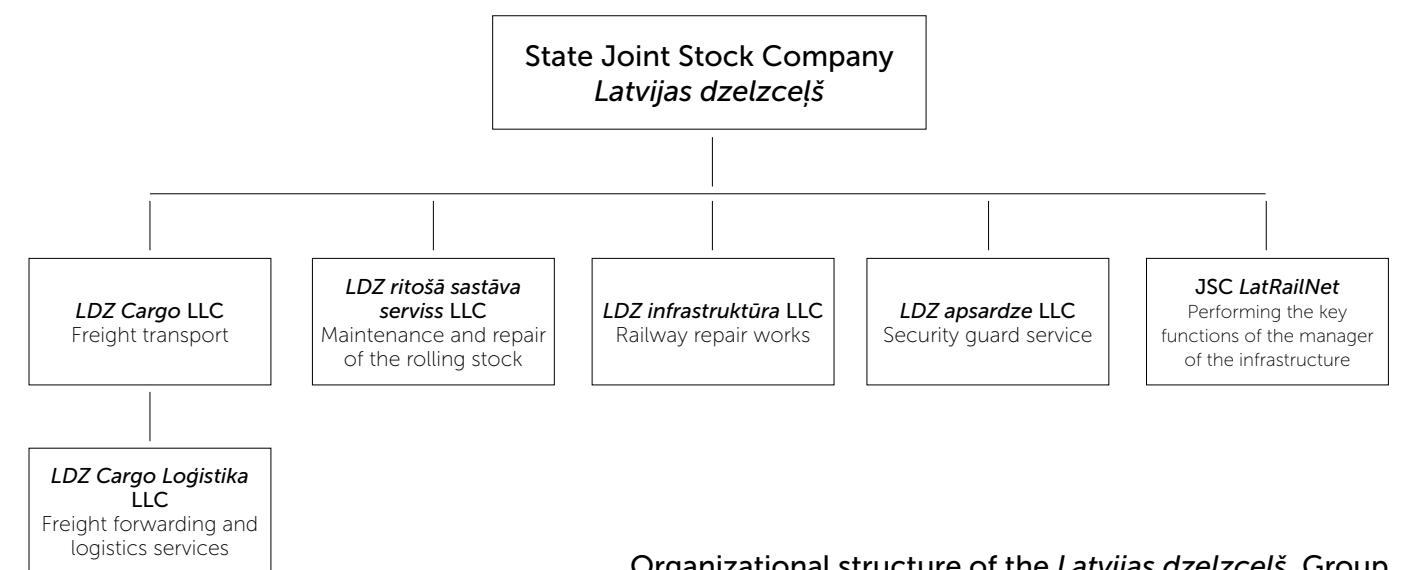
of the government's capital shares. The registered office of the *Group's* parent company is Gogoļa iela 3, Rīga, LV-1547, Latvia.

Principal activity – the management of railway infrastructure

The principal activity of *Latvijas dzelzceļš* is the management of the

public use railway infrastructure. *LDz* manages, maintains and develops the public use railway infrastructure in Latvia, by designing investment projects and investing in the development of infrastructure.

All the companies belonging to the *Group* are registered in the Republic of Latvia and are owned, directly or indirectly by the *Group's* parent company.





Latvijas dzelzceļš provides the public use railway infrastructure usage services, maintenance of the freight train rolling stock maintenance, technical maintenance of wagons and inspection services, telecommunications and information technology services, electronic communications services, electricity distribution and trade services, as well as the services of the principal. SIA LDZ Cargo is engaged in providing railway transport services nationally and internationally, ensuring traction services, freight wagon usage services, as well as arranging international passenger carriage. SIA LDZ infrastruktūra carries out the construction and capital repairs of railways. SIA LDZ ritošā sastāva serviss

provides the repairs for locomotives and wagons, the staffing thereof and modernisation. SIA LDZ apsardze provides physical and technical security services to the companies of the Group as well as to other companies and private persons. AS LatRailNet determines the charge for the usage of the railway infrastructure and distributes the railway infrastructure capacity, and is also engaged in the decision-making on the assignment of the trains of a particular carrier. SIA LDZ Cargo Logistika, the subsidiary of SIA LDZ Cargo, provides freight forwarding and logistic services, as well as is engaged in attracting new freight flows and promoting railway transport between the countries of Europe and Asia.

Services provided by *Latvijas dzelzceļš*:

- **Services related to the usage of the public use railway infrastructure** (ensuring the access to railway infrastructure). The manager of the infrastructure, without discriminating against anyone, provides access to all carriers at the fee determined under the methodology developed by the Public Utilities Commission (PUC). *The methodology for calculating the fee for the usage of the public use railway infrastructure for transport* has been developed in accordance with the Railway Law, the *Law on Regulators of Public Utilities* and approved under the 21 September 2011 decision No. 1/21 of the Council of the PUC. Revenue from infrastructure capacity trade is calculated by applying the charge approved by the price-setter AS LatRailNet per train kilometre by reference to the actual number of kilometres travelled, and is recognised in the period when the train has been in movement.
- **Auxiliary services of the manager of the infrastructure** – maintenance of freight wagon stock, technical maintenance and inspection of wagons, assistance in eliminating the consequences of accidents, controlling the transportation of dangerous freights and assistance in the driving of non-standard trains.
- **Lease services** – *Latvijas dzelzceļš* leases out the buildings, structures, land and other fixed assets that are not necessary for the carrying out of its business activities primarily to carriers and other companies and institutions whose business is railway related. Only the free areas and objects that are not necessary for carrying out the *Company's* principal activities are offered for sale in the open market. Leasing out the unused areas of railway infrastructure objects to external customers lowers the cost of the main service. As a result, the main service becomes more competitive, and the efficiency of the usage of facilities increases, as well. Revenue is recognised in the period when the services are provided.
- **Electricity sale services** – provision of electricity distribution and trade services to natural and legal persons. The costs relating to electricity distribution (traction power substations and contact networks) for the needs of passenger train traction are included in the infrastructure charge and are not included in this service. *Latvijas dzelzceļš* provides a universal service to natural persons, carrying out the duties imposed thereupon under the *Law on Regulators of Public Utilities*. For the customers of the universal service, the PUC sets a single tariff throughout the country irrespective of the service provider and its cost structure. *The Company* operates as the primary service provider, thus its revenue and costs are recognised at gross value. Revenue is calculated as a function of the tariff and the number of consumed kilowatt hours, and they are recognised when the consumption has occurred.
- **Services of the principal** – comprise the drawing up of transit documents at border stations, the drawing up of transit declarations at base stations in the transit control system NCTS, fulfilling the obligations for the payment of the outstanding customs duties to the state budget. Revenue is recognised in the period in which the services are provided.
- **Information technology services** – comprise the services related to freight and passenger carriage information systems, as well as business support, control and management information systems. Revenue is recognised in the period in which the services are provided.
- **Electronic communications services** – data and electronic message transmission services, leased line services, access to electronic communications network infrastructure services, public fixed-electronic communications network, voice telephony services and interconnection services. Revenue is recognised based on the actual use of the network in the respective reporting period.
- **Other services** – these services comprise management services to subsidiaries, sale of the own-produced thermal energy, facility management services and various other small-scale services to legal and natural persons. Revenue is recognised in the period in which the services are provided.







UĢIS MAGONIS,
President of VAS Latvijas dzelzceļš

STRENGTHENING COOPERATION WITH NEIGHBOURING COUNTRIES AND DEVELOPING ALTERNATIVE FIELDS OF OPERATIONS

2014 was a very successful year for VAS *Latvijas dzelzceļš* in terms of development and freight transport.

In assessing any company's performance, usually one of the key criteria is its ability to generate income for its operations and its owners. VAS *Latvijas dzelzceļš* is not only the largest Latvian company, employing more than 12 thousand employees within the companies belonging to the *Group*, but also one of the nationally strategic companies whose task is to ensure a steady and stable development of the transit industry, strengthening the national economic stability and promoting growth.

Achieved export potential

89.9 percent of the freight transported along our railways is of foreign origin, i.e. we get remuneration for freight transport from foreign businesses. Thus, the greatest share of freight transport by rail in Latvia represents the export of services. Possibly, this is why *LDz* has been recognised as one of the most known Latvian export brands in the previous years.

Despite not achieving a new freight volume record in 2014, the *Company's* performance has been successful – 57.04 million tonnes of freight have been transported along the infrastructure of *Latvijas dzelzceļš*, which is 2.2% more than a year ago.

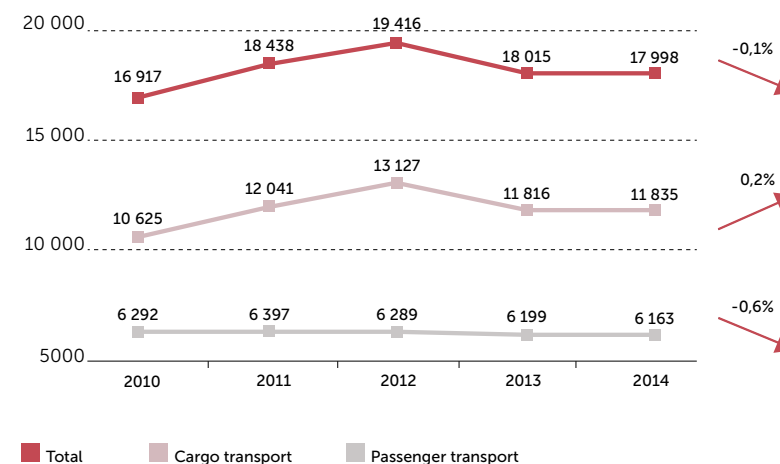
In 2014, the *Group's* consolidated income amounted to 440.89 million EUR – 1.86 million or 0.4% higher than a year ago. It can be explained by an increase in the volume of freight transport making up the greatest share of the *Group's* consolidated net sales.

SIA LDZ Cargo, a significant transport and logistics company in Latvian land transport sector and the largest rail freight carrier in the Baltic States, contributes the greatest share to the *Group's* revenue.

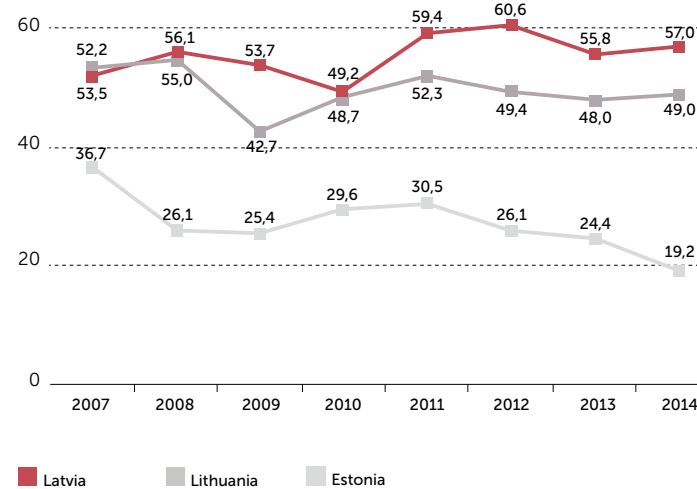
In light of the changes in the global geopolitical circumstances as well as fairly complex economic situation in Russia which is the main origin country of freight carried by the rail tracks of *Latvijas dzelzceļš*, as well as the increasing competition among carriers and transit corridors, we consider this a very significant achievement.

Although small in terms of its geographical size, Latvia is considered to be a serious player in the transit business, and for many years, it has been the leader among the Baltic States in terms of freight transport by rail. Latvia has three major ports, which are developing. Therefore, we are continuously looking for ways to attract new types of freight to the Latvian transit corridor, as well

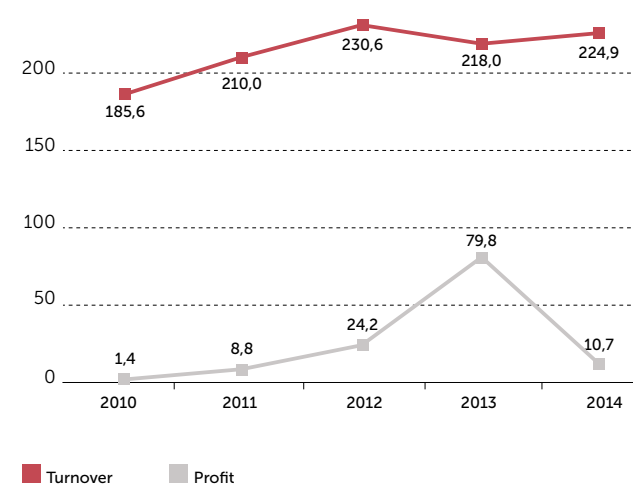
Usage of public use railway infrastructure (In thous. train kilometres)



Cargo transported by rail in the Baltic States (in million tonnes)



VAS *Latvijas dzelzceļš*: turnover and profit (In million EUR)





as working at developing alternative corridors.

Therefore, along with other companies *Latvijas dzelzceļš* has been very active in seeking to attract freight from Asian countries – China and Kazakhstan. It is a long-term project because the development of freight routes and attraction of customers in transit business does not happen overnight. We do hope, however, that in the future we will be able to attract container freight from the region.

Unless we are able to keep abreast with the times and respond to global challenges, we risk losing our competitiveness in the future, therefore *LDz*, using the financial opportunities provided by the European Union (EU) funds, as well as its own resources, has made significant investments in the projects of upgrading the railway infrastructure, which will certainly bring significant returns in the coming years.

Substantial investments

At the end of 2014, *Latvijas dzelzceļš* completed the construction of the second rail track in the section between Skriveri and Krustpils, which so far has been the most ambitious project worth more than 100 million euros, co-financed by the EU Cohesion Fund, enabling to significantly increase the train throughput capacity, speed and safety in the Krustpils - Riga line.

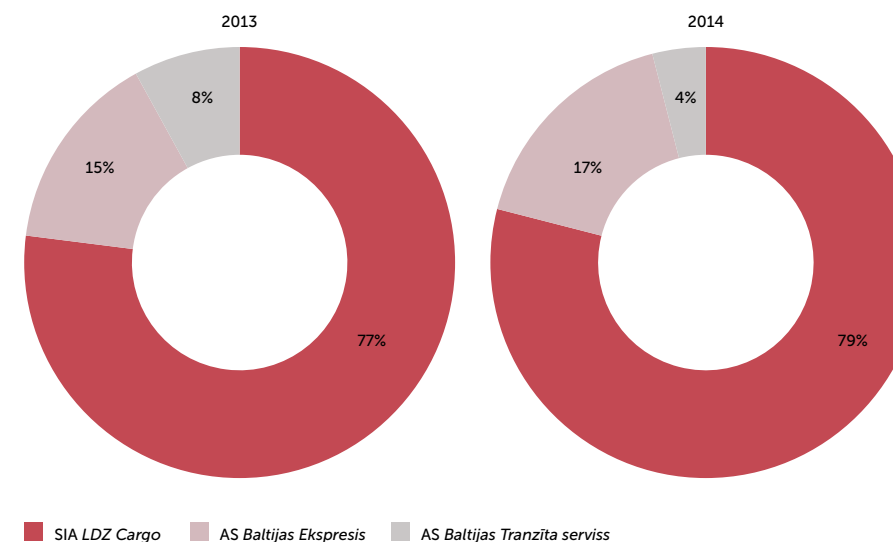
The line Riga-Krustpils is considered to be the most profitable route in Latvia in terms of carriage by rail as well as the volume of freight passing through.

Within the scope of this project, 61.45 km of rail tracks have been built, the reconstruction and construction of all the bridges and culverts have been completed, renovation and improvement of the Skriveri, Koknese, Aizkraukle, Plavinas, Krustpils stations and stops have been carried out, as well as the first railway bridge over the River Aiviekste has been built since Latvia regained its independence, and the bridge over the River Perse has been reconstructed. Crossings and platforms have also been reconstructed, the signalling system has been upgraded and new telecommunications and power supply systems have been installed.

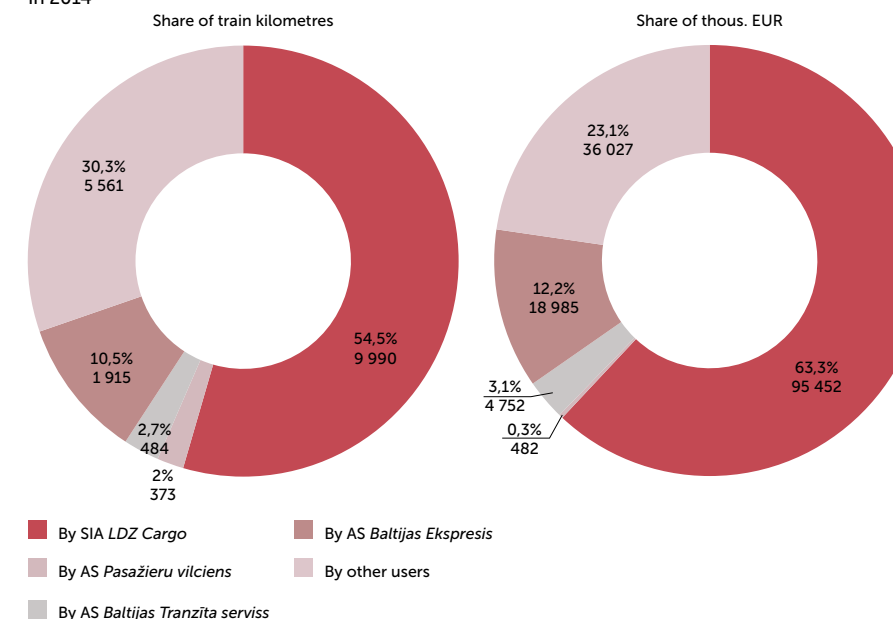
An equally major challenge was another very important EU Cohesion Fund co-financed infrastructure investment project (Modernisation of the marshalling hump in Riga Skirotava station). Although the project is expected to be completed in 2015, the most significant works in the hump modernisation were completed in 2014. During this time, we were forced to arrange trains in adjacent stations. It considerably complicated the organisation of the train traffic and hence the throughput capacity. However, following



Cargo carriers by train in Latvia
(Total net turnover of cargoes, share)



Proportion by carrier
In 2014



the modernisation worth 38.9 million euros, the hump capacity will increase by 30%, and the train traffic will be much safer, faster and more advanced.

In addition to the mentioned projects, *LDz* has been carrying out a range of other significant projects, including the development projects on the left bank of the River Daugava in Riga: *Construction of the Bolderaja II station with the access line to the Krievu Sala terminals and Modernisation of signalisation,*

telecommunications and power supply systems at the Bolderaja 1 – Zasulauks section. Similarly, in terms of the passenger infrastructure development, modernisation and improvement of stations and platforms will be carried out in 16 stations in the Jelgava and Jurmala directions within the scope of the project *Modernisation of the rail passenger infrastructure.*

When planning the long-term development of the industry, *LDz* carries out research on the options to



modernise the power network of the railway to offer customers more and more beneficial carriage terms and to ensure that carriage by rail becomes even more environmentally friendly.

Employees – the greatest asset

As a railway related saying goes, rails are made of iron, while men are made of gold. Railwaymen are justifiably proud of their profession and industry, as the prestige of the profession is built up by railway employees themselves. For many years, the company's human resource policy has been focusing on employee training and promoting their welfare. Perhaps this is why LDz has been among the most coveted employers in Latvia for several years now.

The Group has developed a clear employee bonus and award granting system relating to work results and performance. However, to promote the employees' understanding of the impact of their performance on the Company's performance, the personnel work performance and competence appraisal system is being developed and implemented.

In 2014, the Group employed 12,219 employees (in 2013 – 12,296 employees), of them 7,004 employees – in the Group's holding company VAS Latvijas dzelzceļš (in 2013 – 7,103 employees). Changes in the

number of employees are related to new technologies and management systems, such as the modernisation of traffic management.

The average age of employees during the year slightly increased to 44.1 years (in 2013 – 43.9), which can be explained by the increase of the statutory retirement age.

Although the public may think that the profession of a railwayman is commonly associated with men, in 2014, more than a third of the Group's employees (35%) were women, while the share of women in managerial positions (56%) exceeded that of men.

In supporting the development of employees' professional qualifications, LDz provides and plans the acquisition of knowledge and development of skills necessary for employees of different levels through both on-the-job training and specialised training, thereby contributing not only to the development of professionals, but also to the entire Group. With a view to ensuring quality and professional change of generations as well as succession of employees, LDz has developed the professional knowledge transfer system to the new generation of employees. The implementing thereof will result in the possibility of ensuring continuous and professional work process. In training young railway specialists, our main partners are the Riga Technical

University (RTU), the Riga State Technical College and the Daugavpils Technical College.

The personnel policy of LDz is aimed at attracting qualified employees in the railway sector, which is, of course, not a task to be achieved overnight. Therefore, the Group has developed a training system, as well as the motivation system, to engage employees in training. In cooperation with educational establishments, LDz has been actively supporting so-called dual education – combining theoretical knowledge and practice.

With a view to increasing the quality of training and reducing the length of the studies, in cooperation with RTU, VAS Latvijas dzelzceļš has reviewed the breakdown of the railway related study curriculum and plans. This enabled the reduction of the study term from five and a half years to four years, retaining the quality standard of the studies. In February 2014, 62 employees of LDz started studies at RTU according to this study form in the programmes *Rail transport* and *Rail power systems*.

LDz provides an opportunity to the best students to improve practical knowledge through an internship at the company. Thus, the young professionals strengthen their theoretical knowledge in practice and get acquainted with their future jobs. In turn, for the employer this is an opportunity to get to know his potential employees. For those who did well in practice, jobs in the Group companies are offered.

In addition, in 2014, the Training Centre of Latvijas dzelzceļš, which is engaged in providing professional qualification improvement, obtained the registration certificate of an educational establishment of the Republic of Latvia Education Quality Service, enabling the centre to offer quality training to the employees of LDz as well as other companies, ensuring a high training standard and capacity.

Future challenges

In the previous years, there have been a number of changes in the EU railway industry regulation, and policy planning documents that have a significant impact of the Group's operations and future development have been adopted

- Directive 2012/34/EU establishing a single European railway area;
- Directive 2008/57/EU on the interoperability of the rail system within the Community;

- Regulation (EU) No. 913/2010 concerning a European rail network for competitive freight;
- the White Paper of the European Commission on revitalising the Community's railways (2011)
- the strategy for the sustainable development of Latvia until 2030;
- The National development plan for 2014-2020
- Guidelines for the development of transport 2013-2020

The changes to the EU railway industry regulation and directly to the Directive 2012/34/EU establishing a single European railway area will necessitate the restructuring of the company, as well as redistribution of functions.

Therefore, the Group's development plans will primarily focus on such projects that directly increase the efficiency of services, not only promoting an increase in the volume of rail freight handling services, but also raising the competitiveness of the Latvian transport industry in general.

Radical changes in the transport market, as well as recent geopolitical developments, require reviewing the previously developed scenarios and adapting the Group's development plans accordingly. A significant risk that may undermine the performance of VAS Latvijas dzelzceļš and the entire Group, is instability in the Eastern region, as well as an unclear political and economic environment.

Latvijas dzelzceļš has been continuously and actively working on attracting new customers in Asia and other regions, aiming at strengthening cooperation with the partners of neighbouring countries, as well as developing alternative fields of operations, including combined transport and the North-South direction. LDz will continue to take part in the legislative initiatives concerning the transport industry, viewing the establishment of a sustainable railway infrastructure financing model as a priority.

The Company will continue to develop and maintain the brand and importance of Latvijas dzelzceļš, and take an active position on the matters relating to the transport system development.

UĢIS MAGONIS,
VAS Latvijas dzelzceļš
Chairman of the Board, President





AIVARS STRAKŠAS,
Vice President of VAS Latvijas dzelzceļš

AIMING AT FINANCIAL STABILITY AND ENSURING THE COMPETITIVENESS OF THE RAILWAY INFRASTRUCTURE

In the light of the significance of railway being the key transit industry of Latvia to the national economy, VAS Latvijas dzelzceļš has always had a focus on its financial stability and ensuring the competitiveness of the railway infrastructure.

The net sales of VAS Latvijas dzelzceļš from operating activities amounted to 224.9 million EUR in the reporting year, which was by 6.9 million EUR or 3.1% higher than in 2013, because due to increase in freight transport revenue from the railway infrastructure charge has also increased, which is the main source of revenue of LDz as the manager of the public use railway infrastructure. The public use railway infrastructure charge and additional services of the manager of the infrastructure accounted for 85.6% (192.5 million EUR) of net sales.

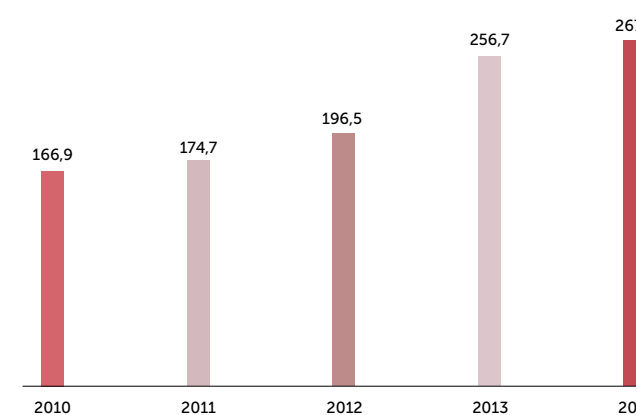
In 2014, the Company's showed a profit (after taxes) of 10.7 million EUR, which was by 69.1 million EUR lower than in 2013. The performance, however, cannot be compared because we need to take into account that in 2013, the Company's profit was critically affected by the transfer of the business of the freight wagon fleet management to the subsidiary SIA LDZ Cargo under the investment in kind arrangement, which was a one-off transaction resulting in the net profit from this transaction of 62.2 million EUR.

In 2014, the profit was affected by the investment of the revalued six railway machines into the share capital of the subsidiary SIA LDZ infrastruktūra, which was also a one-off transaction not entailing any cash flows – the net profit from this transaction reported in the profit and loss amounted to 8.7 million EUR.

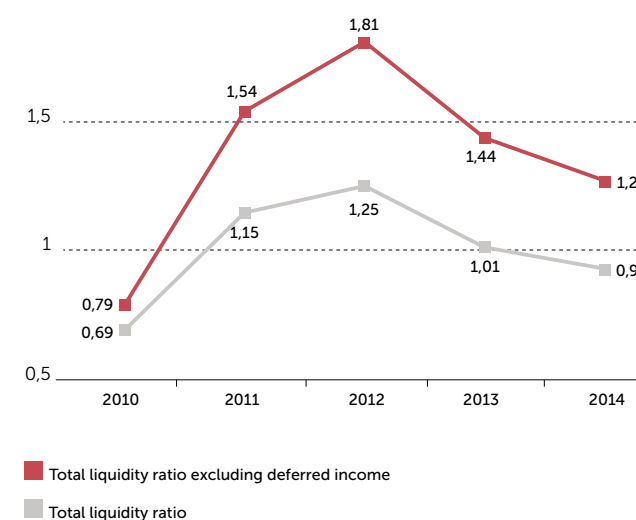
On 31 December 2014, VAS Latvijas dzelzceļš short-term liabilities exceeded its current assets by 7.6 million EUR, thus the total liquidity was 0.9. Deferred income of 27.6 million EUR is included under short-term liabilities, which is related to the investment of EU project and state budget funds in the railway public infrastructure; therefore outflow of financial resources for settling these liabilities is not expected to occur in the coming year. The total liquidity ratio, excluding deferred income, is 1.3. In evaluating financial ratios, it must be considered that the co-financing received from the European Community funds and the state budget for the European Union (EU) investment projects is presented under the balance sheet liabilities item *Deferred income* and has been charged off to the profit and



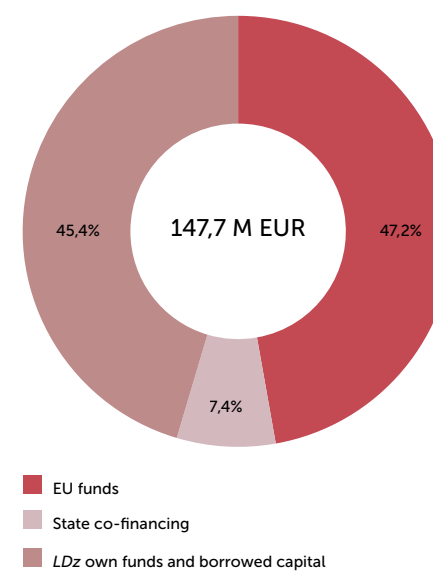
VAS Latvijas dzelzceļš: equity
(in million EUR)



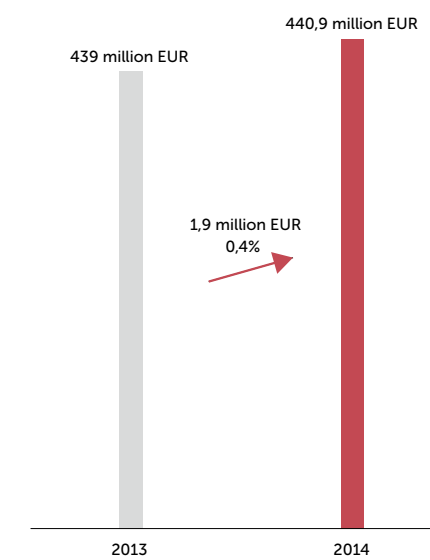
VAS Latvijas dzelzceļš: total liquidity ratio
(current assets / current liabilities)



VAS Latvijas dzelzceļš
The sources of capital investment



Consolidated revenue





loss item *Other operating income* by reference to the part of the annual depreciation of created objects, which related to the received financial support item, while the depreciation of the objects is included under the item *Cost of goods sold* (in 2014 it amounted to 20.4 million EUR). Same as before, the above-mentioned depreciation is not included in the tariffs, the gross profit is reduced accordingly. Such an accounting methodology is used pursuant to the Cabinet Regulation No. 537 *Procedure under which the financial support (financial aid), donations and gifts in cash or in kind of the central and local government, foreign, European Community, other international organizations and institutions is presented in the financial statements* and in accordance with the methodology for calculating the usage of the public use railway infrastructure for transporting approved by the Public Utilities Commission (PUC), which does not provide for the inclusion of the above mentioned depreciation in the tariffs. Such an accounting methodology also affects other financial ratios, without unduly reducing them. We are convinced

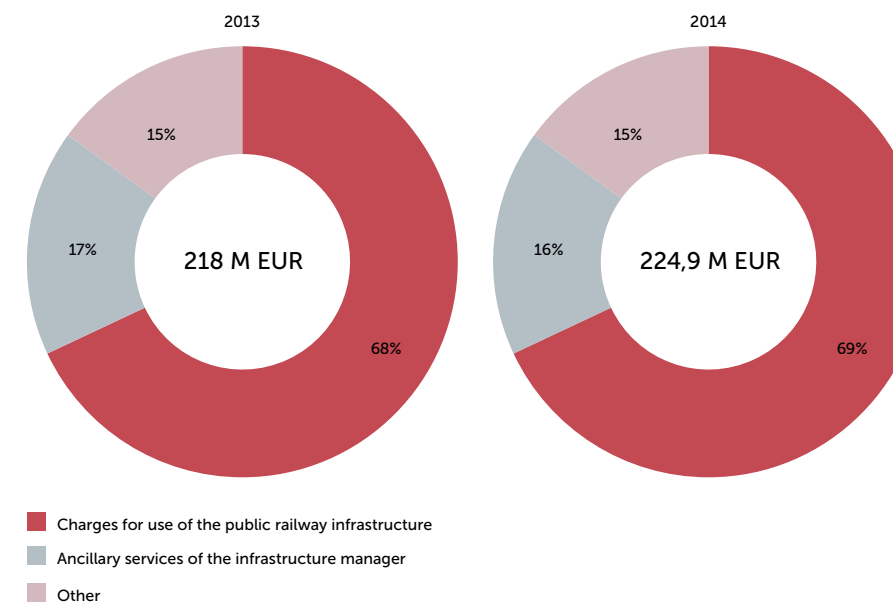
that VAS *Latvijas dzelzceļš* is financially stable and able to meet its current liabilities, as well as ensure the fulfilment of its investment plan. At the end of the year, the cash balance of VAS *Latvijas dzelzceļš* had increased compared to 2013, and its ability to meet short-term liabilities has been maintained.

On 31 December 2014, the equity of VAS *Latvijas dzelzceļš* was 267.4 million EUR; compared to the end of the last year, it increased by 10.7 million EUR. *The Company's* equity/total assets ration was 32.7 percent.

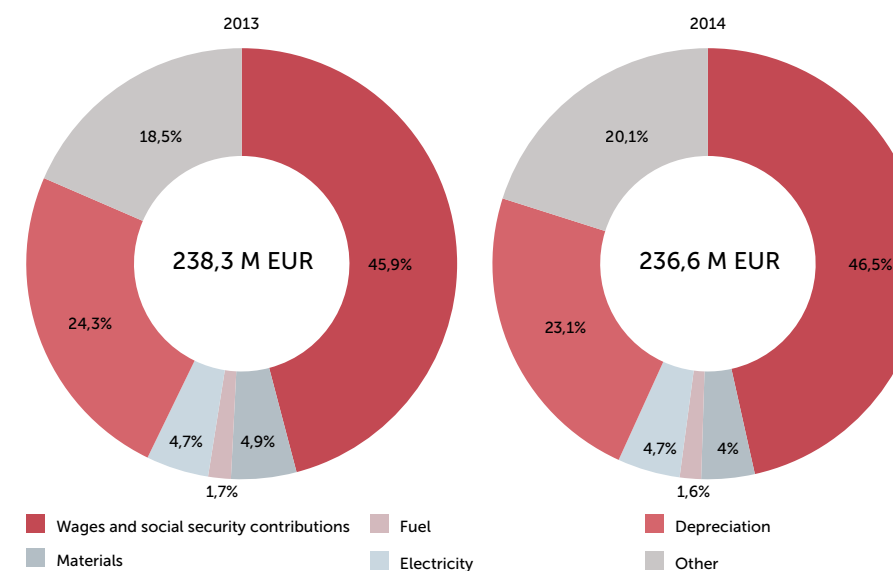
On 1 January 2014, the share capital of *Latvijas dzelzceļš* was converted from lats into the euro. In 2014, the share capital was increased by 93.2 million EUR, by transferring retained profit into it. On 31 December 2014, the share capital was 256,720,375 EUR, consisting of two hundred fifty-six million seven hundred and twenty thousand and three hundred seventy-five shares with a nominal value per share of 1.00 EUR.

In 2014, the total capital expenditure by *Latvijas dzelzceļš* amounted to 147.7 million EUR. Financial resources have been invested in the renewal,

VAS *Latvijas dzelzceļš*: breakdown of operating revenue



VAS *Latvijas dzelzceļš*: breakdown of operating costs



upgrading, and acquisition of tangible and intangible assets, as well as in the construction of new facilities. The source of the funding for the capital expenditure was the EU funds (47.2%) and the government's co-financing (7.4%), as well as *The Company's* own funds and borrowed capital (45.4%). Of the total capital expenditure, 142.1 million EUR have been invested in the extension and renewal of infrastructure. To

increase the train traffic safety, the devices for the repair and maintenance of the technological equipment of railways as well as equipment for the development of information systems and communication tools of 3.8 million EUR were acquired. 1.8 million EUR has been invested in new product launching projects during the reporting period. The annual report of VAS *Latvijas dzelzceļš* for 2014 has been prepared



in accordance with the Republic of Latvia law *On Accounting, the Annual Accounts Law* and other laws of the Republic of Latvia governing accounting. Since 2011, the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the EU. The need to prepare the *Group's* consolidated financial statements in accordance with IFRS requirements results from LDz cooperation with foreign investors and its business partners, to whom financial statements prepared in accordance with the IFRS must be submitted, to provide assurance that VAS *Latvijas dzelzceļš* and its subsidiaries have used internationally recognised asset, liability, revenue, expense and other item recognition and measurement principles.

In 2014, *the Group's* consolidated revenue was 440.9 million EUR. Compared to 2013, consolidated revenue has increased by 1.9 million EUR or 0.4% due to the increase in freight carriages making up the critical share of the consolidated revenue.

The greatest share of the *Group's* revenue is derived by SIA LDZ Cargo, a

significant Latvian transport and storage industry company and the largest rail freight carrier in the Baltic States.

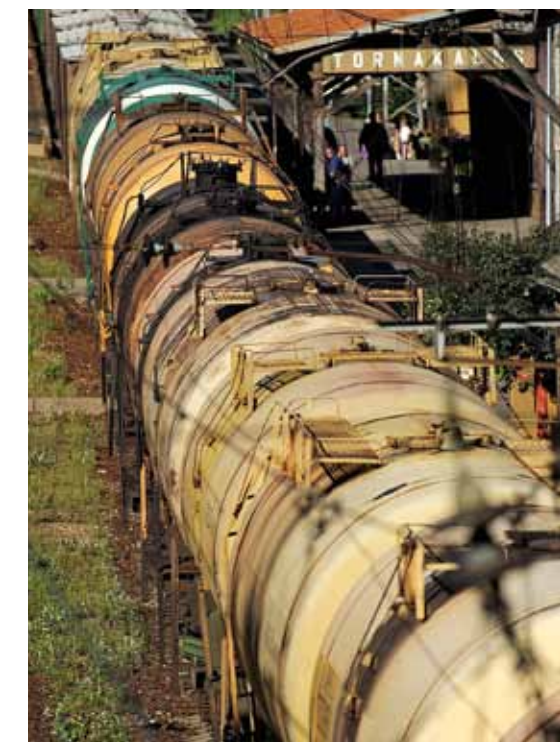
In 2014, the *Group's* performance was a gross profit of 24.9 million EUR, an increase of 15.4 million EUR against 2013. The after-tax profit was 1.2 million EUR, which was 2.3 million lower than in 2013 – the profit was affected by the creation of provisions, corporate income tax and currency fluctuations.

In 2014, the total amount of taxes paid by the *Group* was 105.1 million EUR, where more than half or 53 million EUR were mandatory social insurance contributions; 29.6 million EUR was personal income tax, and 21.3 million EUR in excise tax, as well as other taxes.

Dramatic changes in the transport market as well as recent geopolitical developments require the reviewing the freight transport volume scenarios and adapting the *Group's* development plans accordingly. According to the transport market research papers of the World Bank, Russia, the freights of which account for the largest share of the freights carried by Latvian rail, will be handling an increasing amount of

Total tax payments of the Group (in thous. EUR)

	2014	2013
Corporate income tax	549	2 261
Mandatory national social insurance contributions	52 987	54 084
Personal income tax	29 556	29 501
Real estate tax	505	486
Excise tax	21 263	21 216
Other	223	177
Total tax payments	105 083	107 725



its freights in ports of its own; these will be mainly oil and oil products making up a major share of freights carried by rail. The Russian railway development strategy does not provide for an increase in freight transport to Latvia.

In the investment policy, the focus is and will be on the strategically important East-West transit corridor, connecting the Russian and Belarusian railways to ports in Riga, Ventspils and Liepaja. Taking into account the prudent development scenarios for freights handled in ports, the Latvian port development projects as well as work with customers in freight servicing areas will play a much more important role. The efficiency of infrastructure services will be one of the decisive factors in competing for cargo handling services between rail and road carriers. Therefore, *Latvijas Dzelzceļš* will focus on such projects that increase the efficiency of services directly, not only promoting an increase in the volume of rail freight handling services, but also raising the competitiveness of the Latvian transport industry in general.

To reduce the risk associated with the dependence on transit freights in the East-West direction, the *Group* expects

to strengthen cooperation with the partners of neighbouring countries, as well as developing alternative courses of business, including combined carriage services in the North-South direction. *Latvijas Dzelzceļš* will continue to take part in the legislative initiatives concerning the transport industry, viewing as a priority the establishment of a sustainable railway infrastructure-financing model.

AIVARS STRAKŠAS,
VAS *Latvijas dzelzceļš* Member of the Board, Vice-President of Finance



ĒRIKS ŠMUKSTS,
Vice President of VAS Latvijas dzelzceļš

AIMING AT THE DEVELOPMENT OF THE RAILWAY INFRASTRUCTURE AND PEOPLE'S SAFETY ON RAIL TRACKS

In 2014, VAS *Latvijas dzelzceļš*, ensuring intensive train traffic, was able to simultaneously carry out a number of development projects, as well as to successfully implement the approved investment programme aimed at the modernisation and development of the railway infrastructure, power supply, communications, signalling systems and traffic management system, as well as rolling stock purchases, investing works (capital expenditure) of 67.7 million EUR of own resources.

The East-West transit corridor connecting Russian and Belarusian railways with Latvian ports in Riga, Ventspils and Liepāja, continues to be a strategically important project in Latvia, attracting great attention.

The most ambitious project has been implemented since Latvia regained its independence

At the end of 2014, the largest infrastructure project after Latvia regained its independence – *Construction of the second railway track in the section Skrīveri – Krustpils* was put into operation; 107.4 million EUR have been invested in the project, whereof 62.2 million EUR was the funding of the EU Cohesion Fund. The works entailed design and construction – earthwork, construction of railway tracks, reconstruction of stations, renewal of culverts and small bridges, construction of a bridge across the River Aiviekste, reconstruction of railway crossings, as well as construction of passenger platforms, development of the signalling, telecommunications and power supply systems, meeting the national requirements and the provisions of the EU technical interoperability requirements.

Upon commencing the project, the total freight transport volume in the section was 24.1 tonnes per year – 97% of the

section's maximal throughput capacity. The ambitious project resulted in a completely new railway infrastructure – the railway track with the length of 61.45 kilometres as well as engineering structures and systems have been constructed. A new bridge across the River Aiviekste has been built, the bridge across the River Pērse has been reconstructed, and culverts and crossings have been modernised. An anti-noise wall for environment protection from railway noise has been built in Pļaviņas. Significant changes have also been made to line stations and stop points – new passenger platforms equipped with modern lighting, benches and walkways, and ramps for disabled people have been built.

Many unexpected situations arose during the implementation of the project: when carrying out the ground works, several explosive items from the times of war were found, as well as the consequences of railway accidents of the previous century were identified. For example, after removing the bottom layer, a large diesel fuel pool was found that needed to be eliminated. The ground had to be strengthened by replacing the peat mass with sand and rubble. In 2014, the so-called technological windows of a total of 100 days were used for the implementation of the project, on average 7.5 hours each, which, given the intense

Second track construction Skrīveri–Krustpils



freight and passenger train traffic at the section (in 2014, the project construction affected the schedules of more than 45 thousand trains in total – domestic as well as international passenger, freight and internal trains), significantly complicated the train traffic management and the organisation of work, especially during summer months, when construction was the most intense. After completing the project, the section throughput capacity was increased approximately three times to more than 100 pairs of trains a day. This project will allow *Latvijas dzelzceļš* to work more efficiently by providing a stable source of revenue for the state budget and contributing to the development of the railway industry in general.

Improvement of infrastructure

During the reporting year, the following significant projects were continued – *Construction of Bolderāja II station with a connecting track to Krievu sala terminals* and *Modernisation of signalling, telecommunications and power supply systems at Bolderāja I – Zaslauks section* –, financed by VAS *Latvijas dzelzceļš* with the support of EU Cohesion Fund with a view to relieving the centre of Riga from freight handling operations at the territory of Riga Free Port, by relocating freight terminals closer

to the sea. According to the Riga City Development Programme for 2006 – 2018, the port territories in Andrejsala and Ekportosta are to be excluded from the territory of the Freeport of Riga. It is an area of approximately 123 hectares close to the historical centre of Riga, partly located in the UNESCO World Heritage protection area. Therefore, the current port operations in Andrejsala and Ekportosta and the activities related thereto ought to be finished. It is planned that a rail link with the port territory in Krievu sala will be created.

By the end of 2014, reconstruction of two sewerage penstocks and two water pipes has been completed within the scope of the project *Construction of Bolderāja station II with a connecting track to Krievu sala terminals*, the construction of earth foundation has been carried out as well as the consolidation of the embankment in the entire building site performed, construction of rain water drainage system and construction of a motor road between Bolderāja and Bolderāja II stations, as well as the building for central interlocking and other buildings, totalling 21.08 million EUR. At 31 December 2014, works worth 4.3 million EUR have been carried out of the total contractual amount of 13.86 million EUR, laying cables, carrying out interior works at Bolderāja I





station and installing equipment in stations and on rail tracks within the scope of the project *Modernisation of signalling, telecommunications and power supply systems at Bolderāja I – Zaslauks section*. In the reporting year, within the scope of the project Reconstruction of the marshalling hump of Škirotava station, the hump control system and the loudspeaker notification system, the IP telephony, radio and lighting towers, power station, etc. were put into operation. The major share of cables, hydraulic channels, track turnouts and almost all retarders have been laid in the object, construction works at station throat are in progress.

In 2014, LDz continued major railway infrastructure renewal projects. In 2014-2015, within the scope of the project *Replacement of track turnouts*, replacement of 180 sets of railway turnouts is envisaged; in 2014, 93 switches were replaced. The reconstruction of A and B type rail tracks worth 36.68 million EUR has been completed. Within the scope of the capital repairs of the A type railway tracks, 49.5 kilometres have been renewed; 53.7 kilometres of B type railway tracks have been renewed, and 16 railway crossings have been modernised. During the reporting year, 11 items of production machinery (railcars, snow ploughs and others) were subject to maintenance and upgrading at a cost of 0.7 million EUR and capital repairs of nine

engineering structures (bridges, culverts) of 0.6 million EUR.

During the reporting period, five ČME3 locomotives have been upgraded and eight ČME3 locomotives have been capitally repaired, and the working life of one ČME3 locomotive and five M62 locomotives has been extended.

In 2014, the power infrastructure has also been renewed – modernisation of overhead contact lines, power transmission and substations, replacement of transformers, modernisation of transformer substation at Škirotava station, replacement of train wagon retarders and other works for the total amount of 2.22 million EUR.

The focus on people's safety on rail tracks and in the vicinity thereof

In 2014, VAS *Latvijas dzelzceļš* continued work aimed at improving people's safety on railway tracks and in the vicinity thereof, as well as carried out preventive activities, educating the public on compliance with safety rules near railway tracks. Fencing has been built along the railway tracks and around the territories of stations; several pedestrian crossings across railway tracks have been built and improved. Several labyrinths have been installed and warning signs have been put up, platforms have been renovated and paved and ramps have been installed for disabled people. The

project *Modernisation of railway passenger infrastructure* financed by the EU Cohesion Fund was also commenced in the reporting year. . *Installing of informative and video surveillance systems* for the total amount of 17.6 million EUR comprises several solutions aimed at people's safety near railway tracks: by building fences and crossings, constructing a new standard passenger platforms, etc.

The most common causes of accidents were still as follows: walking in highly dangerous areas – on railway tracks, crossing of railway tracks in prohibited areas, standing too close to a moving rolling stock, standing or lying on or near railway tracks and the railway right of way, suicides and being under the influence of alcohol in the railway territory. In the reporting year, the drivers of locomotives used sudden breaking 85 times (73 times in 2013) to avoid a deadly hitting of people. Nine people have been spotted lying right between the tracks

Overall, in 2014, 26 serious accidents occurred on LDz's public railway infrastructure, 27 people were injured, 20 of whom lost their lives. Two car passengers were killed in a train accident on the crossing when the driver of the passenger car, disregarding the signals prohibiting driving, crossed the railway track at Stende station. Four people were killed because they failed to notice prohibiting signals, crossing railway crossings on foot or bicycle. On a positive note, no children or young people have been killed.

Continuing the preventive educational work aimed at children and young people, in 2014, lessons on safety were run at the Latvian Railway History Museum, as well as at schools and pre-school establishments – overall, 82 lessons were run for 137 classes of approximately 4,000 pre-school, general and vocational educational establishment children/students, as well as the participants of spring and summer camps. Special education classes were held on safety on railways at special schools for children with mental, hearing and speech disorders. Traditionally, *Latvijas dzelzceļš* together with other companies and institutions took part in the making of a film *Live safely!* as well as the exhibition *Children's world* in the exhibition centre Ķīpsala. It was attended by almost 20 thousand visitors.

In order to encourage car, motorcycle, bicycle drivers and pedestrians to observe

the traffic rules at railway crossings, LDz, joining the initiative of the European Commission and the International Union of Railways (UIC), in cooperation with other institutions, held their annual social campaign on 3 June – the day of safety on railway crossings under the slogan *Make the right decision!*, emphasising that unauthorised crossing of railways is everyone's own personal decision. In addition, there have been two safety campaigns *Stay healthy! One whole!* – at the end of summer, before children return to schools as well as at the beginning of winter, when a cold and dark season sets and when the ability of people to notice approaching trains is affected by the weather conditions – wind, rain and darkness, as well as one's hat or hood.

In the light of the importance of railway in terms of the national transport system and its significant role in contributing to the competitiveness of Latvia's transit corridor, one of the key long-term infrastructure development projects is the electrification of the railway routes of the East-West corridor from Daugavpils and Rēzekne stations to Riga and Ventspils stations while migrating from 3 kV DC to 25 kV DC in the existing electrified lines. The proposed objective of the project is to raise the efficiency and competitiveness by reference to competitors in neighbouring countries, as well as significantly reduce train-related impact on environment. In 2014, within the scope of the preparation for the project, public consultations were continued across Latvia and preliminary design of electrification was developed.

LDz will continue work implementing the project *Innovative Solutions to Railway Noise Management* approved by the European Commission on 19 September 2012 – within its scope it is intended to research innovative noise barrier options in Latvia.

The risks to which the *Group* may be exposed in the next period of operation, is a decrease of freight volume, affected by the political and economic situation in the rail freight shipper and recipient countries, as well as oil, metal and electricity prices fluctuations. Depending on the circumstances repair, reconstruction and development work on the railway rolling stock and infrastructure in Latvia will be performed. Particular focus will be the safety on railway tracks and public awareness on safe crossing of rail tracks.





Current infrastructure development projects (in million EUR)

Project	Total	Source of funding		
		EU funds	government	LDz
Construction of the second track in Skrīveri–Krustpils section (Rīga–Krustpils line) was put into operation in 2014	108,95	62,33	0,00	46,62
Reconstruction of signalling, telecommunications and power supply systems in Bolderāja I–Zasulauks section	13,85	11,35	0,00	2,50
Construction of Bolderāja 2 station with a connecting rail track to Krievu Sala terminals	41,23	29,88	0,00	11,35
Reconstruction of the marshalling hamp of the Šķīrotava station	39,41	23,70	6,86	8,85
Rail track renovation of the <i>Rail Baltica</i> corridor in Latvia	54,27	10,07	33,41	10,79
Preliminary design of the LDz electrification project	1,94	0,97	0,00	0,97
Modernisation of signalling system and track reconstruction of Liepāja station	24,40	18,14	0,00	6,26
Modernisation of the centralisation of the Šķīrotava station	42,68	36,28	0,00	6,40
Modernisation of the main data transmission network	14,81	8,84	0,00	5,97
Rail track reconstruction	46,24	35,05	0,00	11,19
Replacement of track turnouts – supply of turnouts	16,16	13,50	0,00	2,66
Modernisation of the railway passenger infrastructure	17,79	17,59	0,00	0,20
Total	421,73	267,70	40,27	113,76



Implementation of infrastructure development projects

Project	Project stage	Deadline
Construction of the second track in Skrīveri–Krustpils section (Rīga–Krustpils line) was put into operation in 2014	Put into operation	The end of 2014
Reconstruction of signalling, telecommunications and power supply systems in Bolderāja I–Zasulauks section	Construction works in progress	The end of 2015
Construction of Bolderāja 2 station with a connecting rail track to Krievu Sala terminals	Construction works in progress	The end of 2015
Reconstruction of the marshalling hamp of the Šķīrotava station	Reconstruction works in progress	August 2015
Rail track renovation of the <i>Rail Baltica</i> corridor in Latvia	Renewal works in progress	The end of 2015
Preliminary design of the LDz electrification project	Development of a preliminary design in progress	The end of 2015
Modernisation of signalling system and track reconstruction of Liepāja station	Works in progress	The end of 2015
Modernisation of the centralisation of the Šķīrotava station	Design works in progress	The end of 2015
Modernisation of the main data transmission network	Works in progress	The end of 2015
Rail track reconstruction	Works in progress	The end of 2015
Replacement of track turnouts – supply of turnouts	Works in progress	The end of 2015
Modernisation of the railway passenger infrastructure	Design works in progress	The end of 2015

ĒRIKS ŠMUKSTS,
Member of the Board,
Vice-president of Technical operations



EDVĪNS BĒRZIŅŠ,
Vice President of VAS Latvijas dzelzceļš

LEGAL INITIATIVES AND THE LATEST TECHNOLOGIES FOR INCREASING EFFICIENCY

Important developments at VAS *Latvijas dzelzceļš* have been related to various legal and administrative matters, as well as the implementation of the latest technology for ensuring administrative and production processes and real estate management, setting new goals and objectives every day.

Taking into account the significant role of freight transport for the performance of the *Group*, the preparation of the new wording of the *Agreement on rail freight transport* (SMGS) and seeing to the progress thereof was an important pre-condition for ensuring successful development and improvement of competitiveness.

Active involvement in the development of international and national legislation

One of the biggest challenges for the railway industry in general and for *Latvijas dzelzceļš* as the transport sector leader in particular was the expected 2015 Amendments of the Railway Act to implement the provisions of Directive 2012/34/EU (establishing a single European railway area), in the development of which the employees of the Legal Department of *LDz*'s Directorate of Legal and Administrative Affairs actively participated in the working group led by the Ministry of Transport alongside other subject-matter experts.

Work was continued on debating the legislative proposal of the European Commission - the Fourth Railway Package - at the meetings held by

the Ministry of Transport and the *CER* (European Rail Association).

In 2014, *Law on Management of the Capital Shares of a Public Person and Capital Company*, which came into force on 1 January 2015. During the bill consultation period, the responsible subject-matter experts of *LDz* prepared and submitted a number of proposals, some of which have been considered. Similarly, the Legal Department got involved in the preparation of the amendments to the *Law On Prevention of Conflict of Interest in Activities of Public Officials* as well as in the preparation of amendments to the *Carriage by Railway Law* with respect to the carrier's obligations and rights in verifying the travelling documents of passengers in international traffic, as well as the use of electronic invoices for freight services.

As an industry leader, *LDz* had a focus on the implementation of various projects and new legal initiatives. Significant work was carried out in rewording the *Agreement on International Passenger Traffic by Rail* (SMPS) and ensuring the progress thereof. In terms of preparing the pilot project *Passenger Control in Trains Riga-Moscow-Riga* (carried out together with the State Border Guard, Customs,

SIA LDz Cargo and *SIA L-Express*) the legal aspects of documents were of key importance to ensure a successful implementation of the project, with the involvement of various institutions and companies.

In terms of procurements, the lawyers of *LDz* protected the Company's interests before the Procurement Monitoring Bureau of the Republic of Latvia against the complaints submitted about procurement procedures arranged and decisions made by *LDz*. Overall, 15 decisions were adopted in favour of *LDz*, granting it the right to enter into procurement contracts.

During the financial year, the board members of VAS *Latvijas dzelzceļš* were re-elected, 27 shareholder meetings of the subsidiaries of *LDz* Railway were held (seven of *SIA LDz ritošā sastāva serviss*, six of *SIA LDz Cargo*, four of *SIA LDz apsardze*, six of *SIA LDz infrastruktūra*, and four of *AS LatRailNet*).

Latest technologies for freight and passenger carriage

With the development of modern technology and information systems in the freight transport sector, in 2014, work related to the implementation of freight management system was continued. The information technology specialists of *LDz* have put in a lot of effort in implementing the latest technology, in particular - in the railway freight transport sector. On 17 February 2014, the bill of lading module of the *Freight movement management information system* (FMS) was launched in the production environment. The module ensures the preparation of the data for the bills of lading of freight shippers (KU-29) and SMGS and the transfer thereof to the carrier. The module was introduced to systemise a large amount of legal documents and develop the rules for *LDz* services of the regular repairs of separated train wagons.

In 2014, in accordance with the requirements of the Eurasian Economic Commission and under the terms of the relevant contracts concluded by VAS *Latvijas dzelzceļš* with OAO RŽD and Belintertrans (Belarusian railway transport-logistic centre) the *Advance electronic notification module* of the railways of neighbouring countries has been developed and put into operation on 1 October.

With a view to increasing the efficiency of cargo handling in 2014, in the section Rezekne 2-Taudejāni electronic gauge gate construction (EGGV) was built, on which equipment (video cameras and laser sensors) is located, ensuring the commercial inspection of the train wagons, as well as reading and recognition of the number of wagons. The data recorded by the equipment immediately becomes available in the installed *Automated freight wagon and train commercial inspection and wagon number registration and recognition system* (KVNNS) programme, which provides train-acceptance information support simultaneously with the arrival of the train. On 1 September 2014, KVNNS was put into continuous operation.

In 2014, the project entailing the extension of the functionality of the automated train *Traffic performance timetables automated system* (KIGAS). Its purpose is to automatically create the train traffic performance timetable, which is based on the data received from the sensors of microprocessor controller centralisation (MDC) devices. The project implementation is expected to occur in three phases. The first phase, when arrangements for the data exchange between KIGAS and APOVS, and other systems was carried out in a number of units and the Jelgava station, was successfully completed in October 2014. The results thereof will allow to automatically prepare the completed traffic timetables on all MDC-equipped Latvian railway sections.

Based on the results of the analysis of the availability of services to external and internal customers of a *Single service and help desk* the range of the VPPD services has been significantly expanded. In addition to the existing free processing of inquiries and IT service applications, VPPD began to accept facility management (technical, sanitary, right of way area), telephony interconnection and customer relationship management services, including damage reports, carried out track maintenance division consultations on crossings, resulting in an increased efficiency of services to the *Group*'s employees, customers, partners and the public. To ensure these services the functionality and modernisation of the support information system (contact processing systems and knowledge base) was carried out.





The internet brings users closer

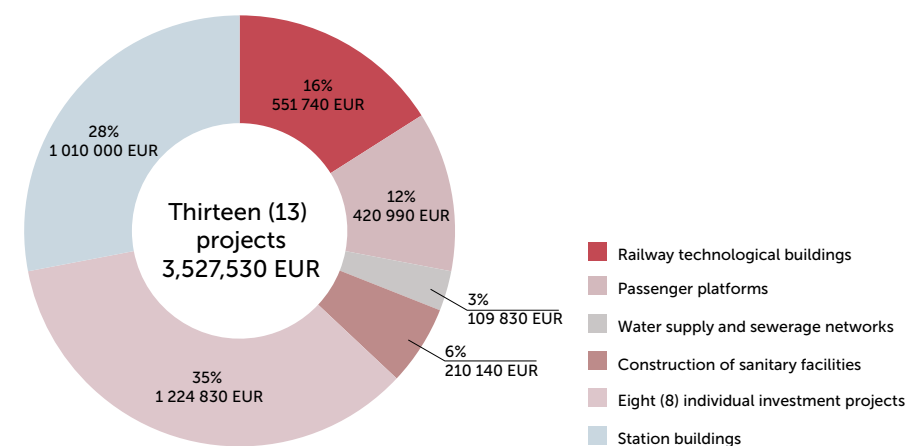
To ensure a uniform visual identity of the Group's companies in the internet resources, a single website design has been implemented for the Group's holding company and its subsidiaries, and a new internal website - LDz Intranet - has been created. Statistical data show an increase in the number of viewers by 59% compared to the previous version of the website, which supports the increasing role of LDz Intranet in communication with the Group's employees. The new LDz Intranet has been integrated with the VPPD contact processing system to automate the filing of applications and make it possible to further improve the effectiveness of the processes associated with the rendering of the VPPD services and processing of applications. In implementing the website www.ldz.lv project, the latest technology in the development of the internet resource has been used with a view to offering its users an adaptive design that ensures an automatic tailoring to the resolution of the internet resource browsing device used by the user. Thus, the websites of the Group's companies provide an increasingly wider use of mobile devices in searching and browsing information.

Significant improvements have also been made to the LDz telecommunications network - 250 jobs have been connected to the IP telephony (VoIP): in the area between Riga-Valga, the VoIP telephony has been implemented (train dispatcher communication, interstation communication and other) and a MPLS data transmission network has been constructed (19 railway stations and 3 HBD points). The telephony and data transmission networks of the railways of Estonia and Latvia has been connected. At Jelgava station, the loudspeaker communication system has been modernised, by implementing the IP system Stentofon (5 commanders, 54 loudspeakers installed on metal poles in the railway yard). The Wi-Fi network has also been expanded and Daugavpils, Biksti and Kraslava railway stations have been connected to the optic lines of the data transmission networks of power substations.

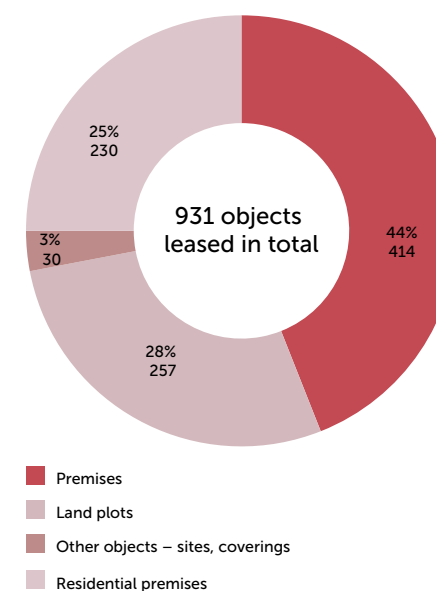
Developments in real estate management

In 2014, in terms of real estate management of VAS Latvijas dzelzceļš the most important work related to cadastral measurement of land and

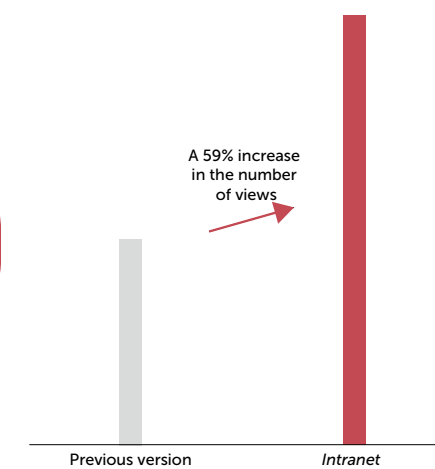
Major repairs of buildings and structures of LDz



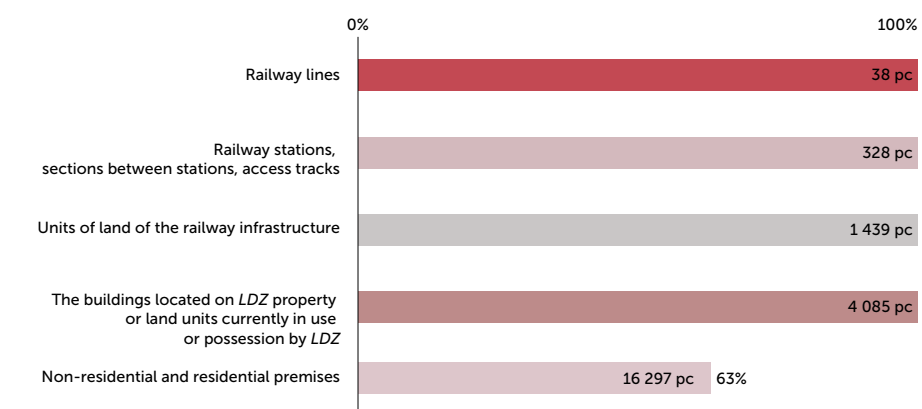
Number of assets leased out by LDz



The popularity growth of the LDz Intranet



LDz's real estate entered into the SAP system by the end of 2014





buildings and the registration thereof in the Land Register, repair and renewal works on structures and buildings, leasing of real estate, etc. Within the scope of the investment programme for the reporting year 13 projects worth 3.5 million EUR in total have been carried out.

Based on the master listing of current and unforeseen repair works of structures and buildings, 146 objects have been renovated during the reporting period, carrying out work for a total of 2.29 million EUR.

In terms of the railway right of way area, VAS *Latvijas dzelzceļš* administered 1,007 land units with a total area of 15,153 hectares in 2014, continuing the cadastral measurement of land and the registration thereof in the Land Register.

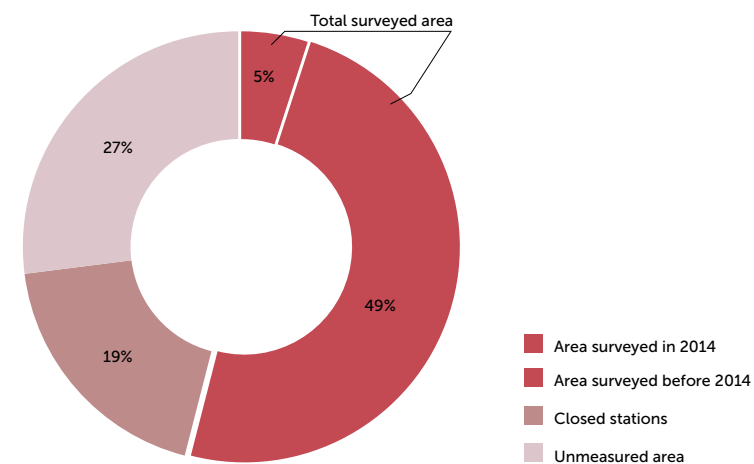
The digital informative database created with a view to better administering the real estate for which LDz is responsible, maintains information on historical borders, orthophotos, land boundaries, the progress of measuring land, buildings, structures and infrastructure objects, topography, the progress of the land plot registration, and land lease areas. The implementation and maintenance of the *Real Estate* (RE) module of the *Enterprise resource*

management system (SAP) provides the opportunity to supplement and update the input data. By the end of 2014, almost all real estate objects have been input in the SAP system.

Ensuring an efficient use of the real estate objects for which VAS *Latvijas dzelzceļš* is responsible, 931 different types of objects have been leased out (agreements effective at 31 December 2014). Real estate that is not necessary for carrying out business activities is leased out. LDz also leases real estate necessary for carrying out its business activities from third parties, these, however, are only a few cases. Therefore LDz has the duty to ensure the public availability of the information on real estate objects intended to be leased out or which have already been leased out on the website of VAS *Valsts nekustamie īpašumi* and on the website of LDz.

In 2014, VAS *Latvijas dzelzceļš* submitted the proposal for draft amendments to the *Law on Recording Immovable Property*. The proposals have been taken into account, and according to the amendments to the Law, the engineering structures of the railway infrastructure are not recorded in the Land Register. The changes brought an end to the differing interpretation of the

VAS *Latvijas dzelzceļš* cadastral surveying
1,007 land units with a total area of 15,153 ha are administered in the railway right of way zone



need to register/not register railways in the Land Register.

The supervision, monitoring and control of the *Visual and audio passenger notification system* (VAPIS) installed in the Riga Central passenger station, and as of 2014, the Passenger station unit of the Real Estate Directorate VAS *Latvijas dzelzceļš* is responsible for the maintenance of the visual and audio notification system at Daugavpils, Zemitāni and Jelgava stations with a view to integrating thereof in the future.

To ensure the technical protection of real estate, fire-safety and alarm systems have been put into operation in 82 objects in 2014. Repaired technical protection systems have been put into operation in 36 objects. In assessing the position and priorities in terms of technical protection, proposals have been submitted for equipping objects with the technical protection systems pursuant to the requirements of the laws and regulations and the specifics and financial value of the objects (premises).

The *Group* will continue to be facing many challenges related to various legal and administrative matters by carrying out the necessary activities in relation to the expected Amendments to the Railway Law to implement the provisions

of Directive 2012/34/EU establishing a single European railway area, and by getting involved in the discussion of the legislative proposal of the European Commission - the Fourth railway package.

In introducing the latest technologies for ensuring administrative and business processes, there will be a special focus on the implementation of upgraded, complex, energy efficient and safe data centre infrastructure solutions. In terms of real estate management, in 2015, VAS *Latvijas dzelzceļš* will work actively with a view to improving passenger infrastructure and continuing the cadastral measurement of land and buildings.

EDVĪNS BĒRZIŅŠ,
Member of the Board
Vice President of Real Estate
Management, Legal and
Administrative Issues

FINANCIAL STATEMENTS

VAS (STATE JOINT STOCK COMPANY) LATVIJAS DZELZCEĻŠ CONDENSED ANNUAL REPORT FOR 2014

INCOME STATEMENT

(prepared under the revenue-cost method)

EUR

ITEM	2014	2013
Net turnover	224 854 541	217 993 030
Cost of sales	(217 860 646)	(220 193 263)
Gross profit/loss	6 993 895	(2 200 233)
Administrative expenses	(18 783 297)	(18 077 528)
Other operating income	35 360 924	93 784 265
Other operating expenses	(10 441 747)	(4 306 726)
Income from participation in subsidiary and associated undertakings	1 515 549	13 045 242
Income from securities and loans held as long-term investments	137 420	149 218
Other interest income and similar income	36 229	72 891
Interest expense and similar expenses	(2 205 210)	(1 966 390)
Profit before taxes	12 613 763	80 500 739
Corporate income tax	-	(1 007 352)
Deferred corporate income tax	(1 905 049)	326 412
Profit after taxes for the reporting period	10 708 714	79 819 799

Riga, 10 April 2015

U. Magonis,
chairman of the board

E. Bērziņš,
member of the board

A. Strakšas,
member of the board

Ē. Šmuksts,
member of the board

BALANCE SHEET

EUR

ASSETS	31.12.2014.	31.12.2013.
1. LONG-TERM INVESTMENTS		
I. Intangible Assets		
1. Concessions, patents, licences, trademarks and similar rights	1 508 081	1 630 832
SUBTOTAL I	1 508 081	1 630 832
II. Fixed Assets		
1. Land plots, buildings, structures and perennial plantings	385 875 895	288 749 580
2. Long-term investments in leased fixed assets	2 243 137	2 492 999
3. Equipment and machinery	108 991 612	96 318 295
4. Other fixed assets and inventory	15 009 493	13 152 669
5. Fixed assets under construction and construction in progress	53 071 088	74 318 263
6. Advances paid for fixed assets	31 128 814	37 392 004
SUBTOTAL II	596 320 039	512 423 810
III. Long-term financial investments		
1. Participation in related undertakings	125 701 736	104 717 682
2. Other securities and investments	494 227	494 377
SUBTOTAL III	126 195 963	105 212 059
TOTAL LONG-TERM ASSETS	724 024 083	619 266 701
2. CURRENT ASSETS		
I. Inventories		
1. Raw materials, basic materials and consumables	21 238 404	16 125 354
2. Finished goods and goods for sale	3 487	821
3. Orders in progress	13 239	-
4. Advance payments for goods	98 600	104 134
5. Working animals and productive animals	14	14
SUBTOTAL I	21 353 744	16 230 323
II. Accounts Receivable		
1. Trade receivables	5 674 690	5 128 070
2. Receivables from related undertakings	11 331 430	16 148 223
3. Other receivables	1 513 395	1 067 868
4. Prepaid expenses	1 173 041	615 476
SUBTOTAL II	19 692 556	22 959 637
III. Cash	53 828 715	29 271 934
SUBTOTAL III	53 828 715	29 271 934
TOTAL CURRENT ASSETS	94 875 015	68 461 894
TOTAL ASSETS	818 899 098	687 728 595

BALANCE SHEET

EUR

EQUITY AND LIABILITIES	31.12.2014.	31.12.2013.
1. EQUITY		
1. Share capital	256 720 375	163 528 584
2. Reserves: other reserves	1	13 371 993
3. Retained earnings: profit for the reporting year	10 708 714	79 819 799
TOTAL EQUITY	267 429 090	256 720 376
2. PROVISIONS		
1. Other provisions	30 937 816	26 531 376
TOTAL PROVISIONS	30 937 816	26 531 376
3. LIABILITIES		
I. Long-term liabilities		
1. Borrowings from credit institutions	122 492 361	103 655 478
2. Other borrowings	2 671 582	2 788 585
3. Trade payables	7 696 295	6 918 035
4. Deferred income	275 603 483	215 757 265
5. Deferred tax liabilities	9 582 137	7 677 088
SUBTOTAL I	418 045 858	336 796 451
II. Current liabilities		
1. Borrowings from credit institutions	22 749 231	18 399 786
2. Other borrowings	117 003	117 003
3. Advances from customers	648 345	453 098
4. Trade payables	32 527 764	9 340 959
5. Amounts owed to related undertakings	5 770 292	3 007 965
6. Taxes and mandatory state social security contributions	7 231 784	8 692 880
7. Other payables	5 708 478	7 344 250
8. Deferred income	27 568 061	20 278 349
9. Accrued liabilities	165 376	46 102
SUBTOTAL II	102 486 334	67 680 392
TOTAL LIABILITIES	520 532 192	404 476 843
TOTAL EQUITY AND LIABILITIES	818 899 098	687 728 595

Riga, 10 April 2015

U. Magonis,
Chairman of the Board

E. Bērziņš,
Member of the Board

A. Strakšas,
Member of the Board

Ē. Šmuksts,
Member of the Board

NOTES

Basis of preparation of the condensed financial statements

These condensed financial statements, consisting of a balance sheet as at 31 December 2014 and an income statement for 2014, are based on the respective information of the audited 2014 financial statements of VAS *Latvijas Dzelzceļš* without making any changes thereto. The audited financial statements are available from the management of VAS *Latvijas dzelzceļš*. Consequently, these condensed financial statements correspond to the overall financial statements.





SIA LDZ CARGO

THE LARGEST FREIGHT CARRIER BY RAILWAY IN THE BALTICS

GUNTIS MAČS,
Chairman of the Board

VLADIMIRS GRJAZNOVS,
Member of the Board

INESE KLEINBERGA,
Member of the Board

ANDRIS REĶIS,
Member of the Board

KASPARS GERHARDS,
Member of the Board
(from 10.01.2013 to 05.11.2014)

SIA LDZ Cargo is the subsidiary of VAS Latvijas dzelzceļš. It is principally engaged in providing freight and international passenger transport by rail. SIA LDZ Cargo Logistika, the subsidiary of SIA LDZ Cargo, provides freight forwarding and logistics services.

Stability despite the surrounding turbulence

SIA LDZ Cargo (hereinafter referred to as LDZ Cargo or the Company) is the largest rail freight carrier in the Baltic States. The Company transports containers, oil, coal, metals, timber, food products, fertilisers, chemicals and other types of cargoes. LDZ Cargo operates in the SMGS and CIM railway legal environment and uses the East-West and North-South transport corridors for freight transport. The primary objective of the Company's subsidiary SIA LDZ Cargo Logistika is to seek to attract freight transport to SIA LDZ Cargo, increase the number of the latter's customers and provide efficient and secure freight transport forwarding and logistics services.

At 31 December 2014, the equity of LDZ Cargo was 123.7 million EUR. Compared to the end of the previous

year, it had increased by 10.7 million EUR. The Company's equity makes up 66.3% of its total assets.

The share capital of LDZ Cargo has been denominated from lats into euros, and under the 15 April 2014 decision No. 6-12/42853/1 of the Enterprise Register of the Republic of Latvia, the share capital has been increased from 70,742,369 EUR to 80,492,369 EUR. The share capital increase was related to the 10 February 2014 decision made by the shareholder meeting of VAS Latvijas dzelzceļš (the sole shareholder of SIA LDZ Cargo) to increase the share capital of SIA LDZ Cargo by 9,750,000 EUR, by making a cash investment in the share capital thereof. At the end of 2014, the Company's share capital was 80,492,369 EUR, with the nominal value per share of 1 EUR. The Company's share capital is fully paid up.

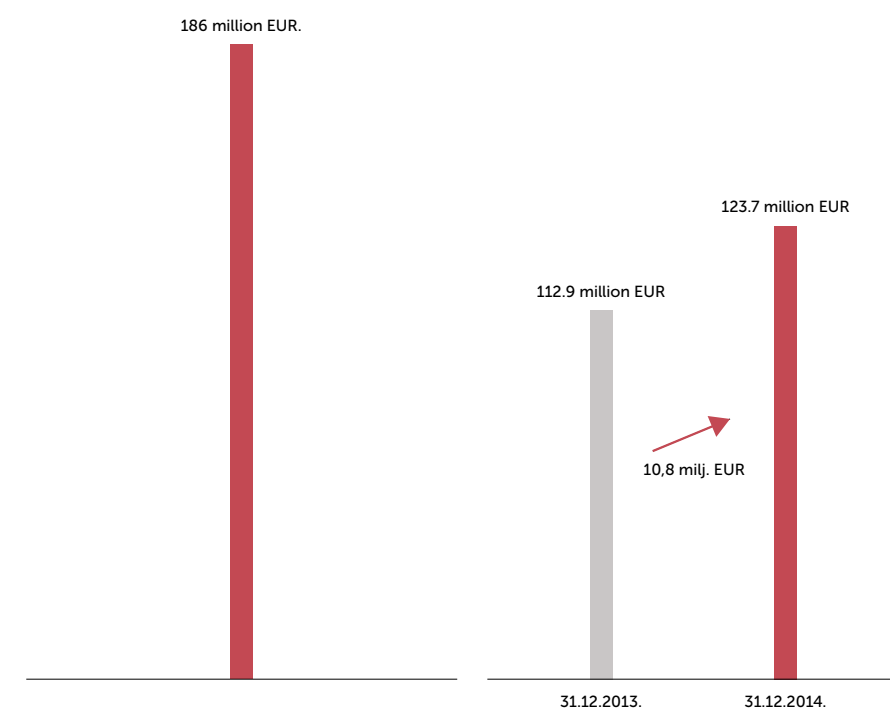
In 2014, the Company's net operating revenue was 365.5 million EUR, which is 3.9 million EUR or 1.08% higher than in 2013. An increase in revenue in 2014 compared to the previous year is mainly related to the increase in the total volume of transported cargoes.

The performance of LDZ Cargo for the reporting year was a profit after

SIA LDZ Cargo: equity In 2013 and 2014

Total assets – 186 million EUR.

The company's equity



+ 10,8 million

2013 112,9 million EUR
2014 123,7 million EUR

LDZ Cargo
EQUITY VALUE



tax of 1.7 million EUR, which is almost 3 million EUR less than in 2013. The Company is financially stable – in 2014, its liquidity ratio was 1.12 (in 2013 – 0.8).

In 2014, the Company's total capital expenditure amounted to almost 16 million EUR, these were investments aimed at the renewal, modernisation and acquisition of fixed assets. To improve the quality of freight transportation and increase the volume of carried freights, LDZ Cargo acquired 200 new cargo wagons in 2014, as well as carried out general repairing of wagons. In 2014, the implementation of the automated train and wagon commercial inspection system at Rēzekne cargo terminal was continued.

The most significant and most appreciated area of operations of LDZ Cargo, both nationally and internationally, is international freight transport. In 2014, in general, the volume of freights carried by rail has increased compared to 2013. 57.04 million tonnes of freight were transported in 2014, which is 1.21 million tonnes or 2.2% more than in 2013. In 2014, as well, oil and oil products account for the major share of the carried freights – 21.3 million tonnes (37.4%), while coal accounts for 20.1 million tonnes (35.4%).

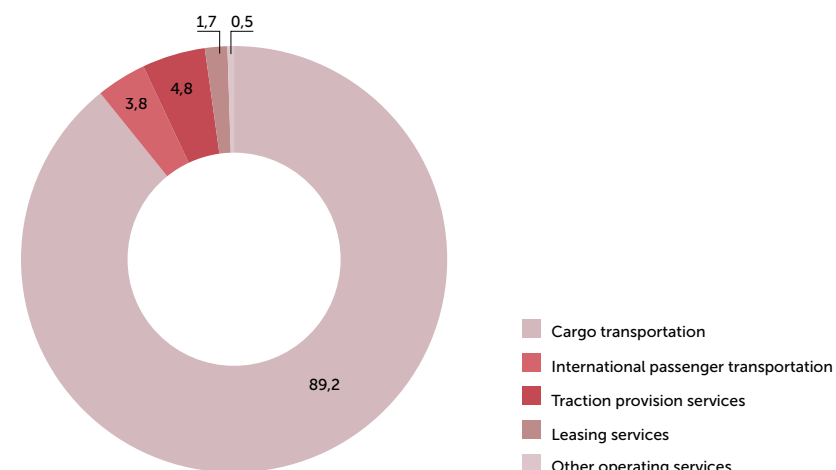
In 2014, serious effort was focused on ensuring the operation of three container train routes: *Baltika – Tranzīts* (carries freight in the routes the Baltic States – Kazakhstan and the countries of Central Asia), *Rīgas ekspresis* (operates between Riga and Moscow) and the container train *Zubr* (carries freights in the route Latvia–Belarus–Ukraine and the Black Sea).

The advantage of container trains is the opportunity to transport and upload containers to another vehicle without unloading the freight, e.g. from a train into a ship, a lorry or a plane. In 2014, there was a decline in carried containers, however, the Company continues to be actively engaged in guaranteeing stable, reliable and trustworthy container freight transport, ensuring a regular operation of container trains.

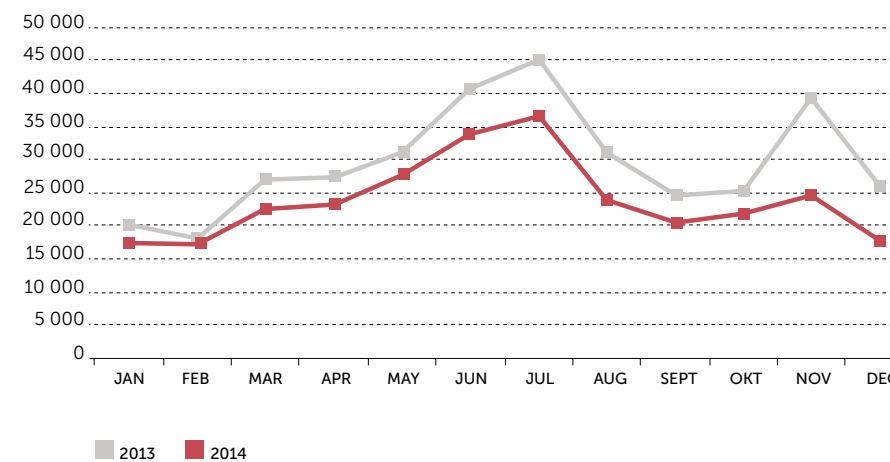
In 2014, the volume of freight forwarding and logistics services of the Company's subsidiary SIA LDZ Cargo Logistika fell by 30.67% compared to 2013, and amounted to 9.94 million EUR.

Alongside freight transport, LDZ Cargo ensures international passenger services in three routes – to St. Petersburg, Moscow and Minsk. Traditionally, the most demanded route is the route to Moscow.

SIA LDZ Cargo: breakdown of net turnover In 2014



Number of international passengers carried by SIA LDZ Cargo



The highest number of passengers is carried in the trains Riga-Moscow-Riga.

In 2014, due to political reasons, as well as the volatility of the Russian rouble exchange rate, in particular at the end of 2014, the number of passengers carried on international passenger trains declined significantly – to 286,837 carried passengers, which was a drop in the number of carried passengers in 2013 (355,508) by 19 percent.

Number of passengers carried

In 2014, close cooperation with the Russian passenger carrier AO *Federal'naja Pasažirskaja Kompanija* was continued with a view to resolving various international passenger transport-related

issues. Similarly, in 2014, within the scope of the project aimed at reducing the aggregate travel time of the international passenger train No. 2/1 Riga-Moscow, a pilot project was implemented on transmitting passenger data to Latvian controlling authorities (border guard and customs), while the train was running. Upon completion of the pilot project, it was decided to eliminate the identified gaps and repeat the pilot project in 2015.

In response to the trends observed in the tourism and passenger transport market and communications where effective modern technologies are increasingly used, especially in the e-environment, in 2014, work was continued on the development and



+9.9% compared to 2011
-12.1% compared to 2012
-0.7% compared to 2013

2012	111 117 TEU container units
2013	97 710 TEU container units
2014	97 028 TEU container units

LDZ Cargo Ltd.
TRANSPORTED
CONTAINERS



improvement of the internet site www.travel.ldz.lv. This is done to provide all interested parties with comprehensive information on the organisation of international passenger services, as well as on a wide range of tourist information about sightseeing and significant events at the destination cities of our trains, as well as other useful information for passengers. On the internet site, without having to pay commission fees for the arranging of travel documents collected at ticket offices, one can buy travel documents for all train routes, as well as register for the journey electronically.

In 2014, the average number of employees at LDZ Cargo was 2,797. They are employed in various positions. Being a responsible employer, the Company provides further development opportunities to its employees by offering them horizontal as well as vertical growth opportunities. This way, employees are motivated to perform their duties with a high sense of responsibility, professionally and diligently. To maintain their competence and qualifications, LDZ Cargo employees improve their knowledge in Latvia as well as overseas. The Company employs 53.5% of employees with a

secondary vocational education and 24.5% of employees with higher education.

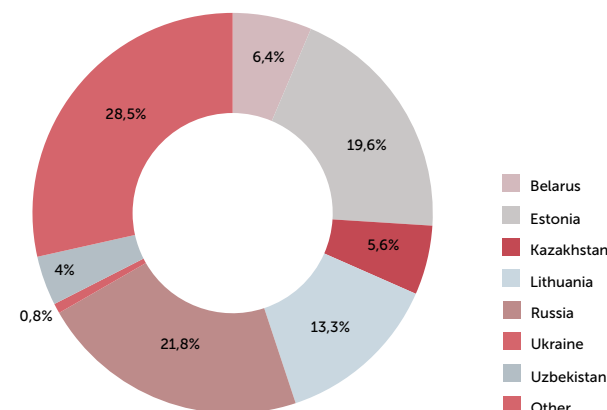
To maintain the Company's leading position in the cargo carrier segment in the Baltic States, the management of LDZ Cargo uses and implements new technological solutions in the daily operations of the Company, optimises freight and passenger routes, widely uses electronic devices and applications, as well as improves the Company's organisational structure.

Steadily aiming at further objectives

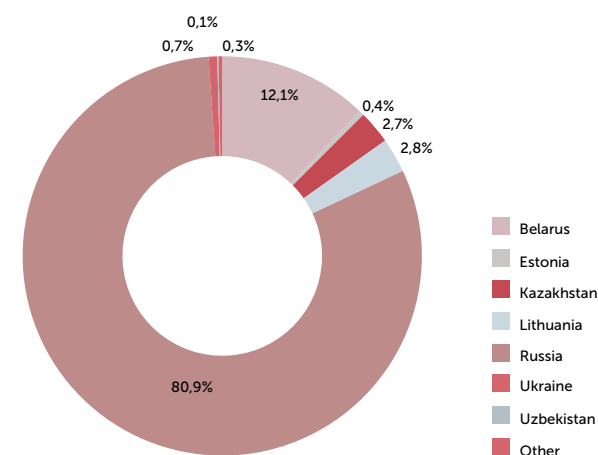
It is critical for LDZ Cargo to maintain and consolidate its existing positions in the bulk as well as liquid cargo sector, with a special focus on the attraction of new cargoes from new markets, thus raising the Company's competitiveness.

In assessing the situation in freight transport by rail between the Baltic Sea and the Black Sea region, the Company plans to be more actively engaged in developing container transport in the East-West and North-South direction. Cargoes are increasingly transported in containers, and generally these are cargoes with a high added value. To increase the volume

Breakdown of export and land transit cargoes carried by SIA LDZ Cargo (by shipping countries) In 2014 (in thousand tonnes)



Breakdown of import and land transit cargoes carried by SIA LDZ Cargo (by shipping countries) In 2014 (in thousand tonnes)



of container transport, the conditions for carrying freights should be harmonised as much as possible and the international legal framework should be improved. To achieve time and financial savings, there should be an active focus on the electronic exchange of information on train constituent parts and freights carried, as well as, in the future, using electronic signatures for customs documents should be started.

LDZ Cargo is aware of the significance of the establishment of the logistics centre in the Baltic States to maintain its leading position. Considering the transport development trends in the European Union, an attractive

combined transport system needs to be established. The future of such a system is determined by legislative framework as well as the availability and efficiency of infrastructure. During the financial year, active cooperation was started with the Eastern countries to attract transit cargoes to Latvian ports, as well as cooperation with Chinese counterparties is in progress for extending the container train *Baltika-Tranzit* to China. International executive-level negotiations have had a focus on the development of the transit routes between the Baltic Sea and the Black Sea, leading to the decision to establish a special management centre for coordinating the container train *Zubr*.



2013	2 797
2014	2 802

LDZ Cargo
THE AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR



Based on the successful experience of 2014, when a pilot project of the Automated cargo wagon and train commercial inspection, wagon number registration and recognition system (the KVNNS) was implemented in the track section Rēzekne-Taudejāņi to ensure the improvement and automating of the processing of trains coming in from the railways of neighbouring countries, the decision for the extension of the KVNNS has been made. In 2015, based on the concluded contract, the KVNNS extension will be carried out and additional KVNNS objects will be installed in Rēzekne and Daugavpils, ensuring the functioning of the above-mentioned system and the objects installed in 2014 in a single system.

In further operations of the *Company*, it is planned to ensure a high degree of competitiveness in rail freight transport and a gradual replacement of the aging rolling stock, and investments into the modernisation of the rolling stock.

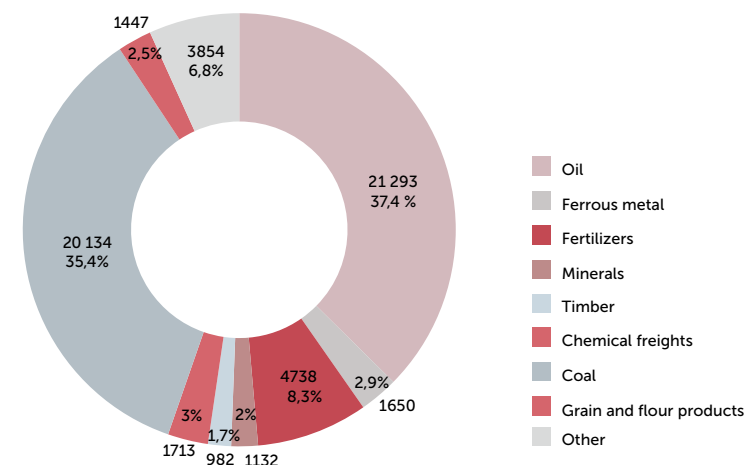
In 2015, the upgrading of the *travel.ldz.lv* portal that started in 2014 will be continued. After the upgrade, it is planned that customers, for a single payment, will have the option of buying a range

of additional services along with the train tickets, such as booking a hotel, rent a car, etc.

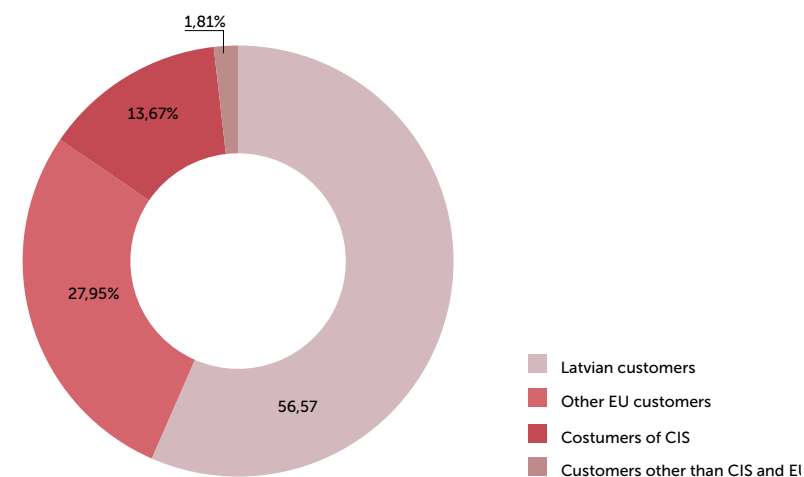
The key long-term objective of the *Company's* subsidiary *SIA LDz Cargo Logistics* has a focus on attracting new customers, increasing the volume of container transport, widening the range of services, developing logistics services and strengthening the *Company's* position in the transport sector.

Changes in the political situation may affect the *Company's* future operating performance. Due to a major share of *LDZ Cargo* transport volume being from Russia, significant risks that may affect the *Company's* operating performance include the instability of the Eastern market, the uncertain political and economic environment, as well as the development of Russian ports leading to cargoes being diverted from Latvian ports. To reduce the risk associated with the dependence on the transit freight transport in the East-West direction, *LDZ Cargo* intends to develop cooperation with its existing partners, as well as to look for alternative courses of action, including combined freight transport in the North-South direction.

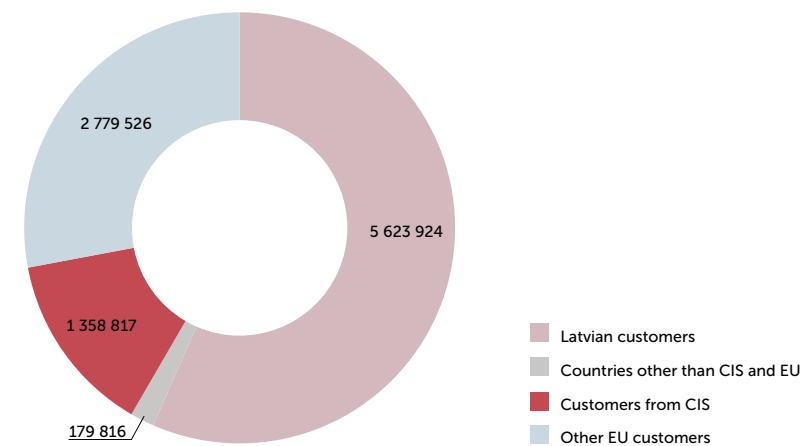
Types of cargo transported by SIA LDz Cargo In 2014 (in thousand tonnes)

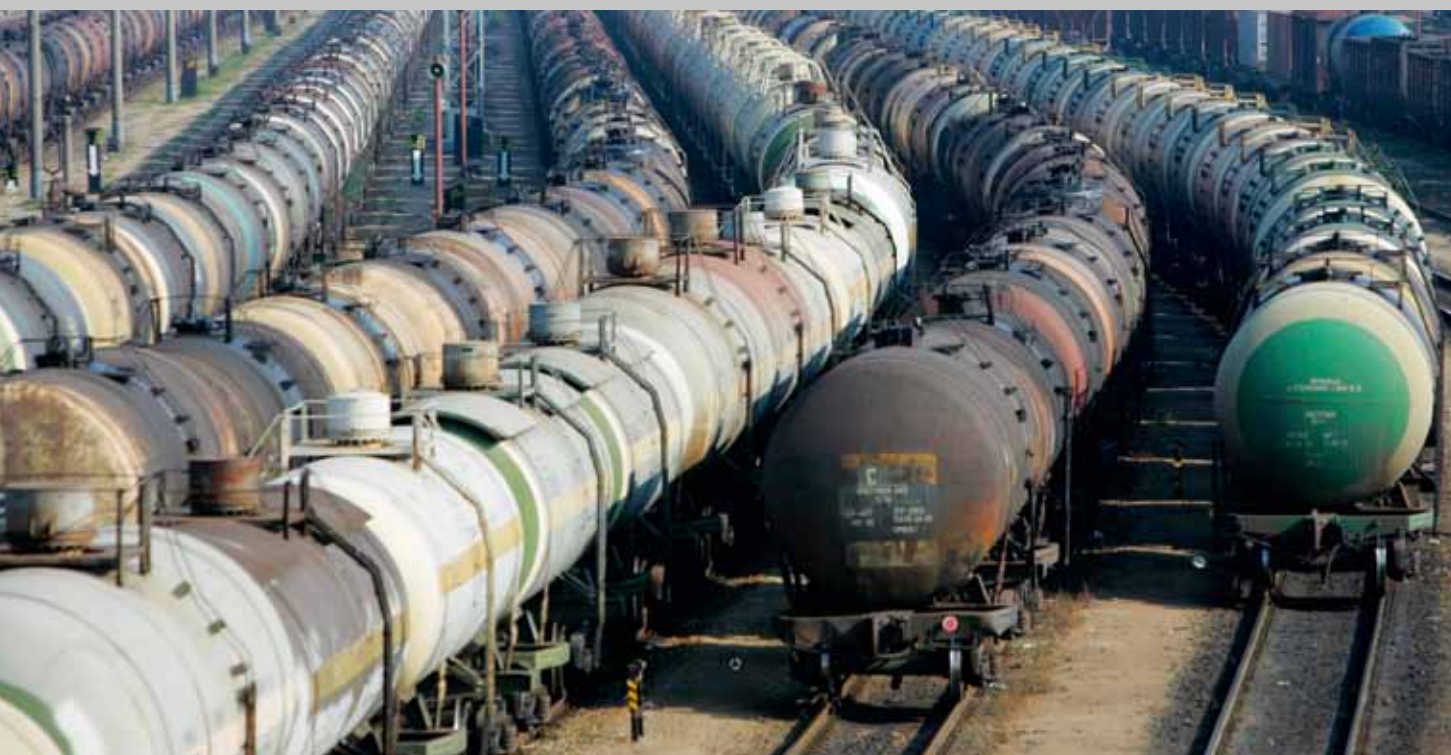


Proportion of transport-forwarding services of SIA LDz Cargo Logistika in 2014 (%)



Breakdown of transport-forwarding services of SIA LDz Cargo logistika





FINANCIAL STATEMENTS

SIA LDZ CARGO CONDENSED ANNUAL REPORT FOR 2014

INCOME STATEMENT

(prepared under the revenue-cost method)

EUR

ITEM	2014	2013
Net turnover	365 506 543	361 588 032
Cost of sales	(350 839 872)	(351 090 635)
Gross profit/loss	14 666 671	10 497 397
Administrative expenses	(10 281 488)	(10 276 146)
Other operating income	1 425 143	5 439 600
Other operating expenses	(3 434 168)	(867 094)
Income from participation in subsidiary and associated undertakings	-	202 250
Other interest income and similar income	8 093	32 872
Interest expense and similar expenses	(249 852)	(326 346)
Profit before taxes	2 134 399	4 702 533
Corporate income tax	(200 774)	(830 980)
Deferred corporate income tax	(231 910)	820 949
Profit after taxes for the reporting period	1 701 715	4 692 502

Riga, 9 March 2015

G. Mačs,
Chairman of the Board

V. Grjaznovs,
Member of the Board

I. Kleinberga,
Member of the Board

A. Reķis,
Member of the Board

BALANCE SHEET

EUR

ASSETS	At 31.12.2014.	At 31.12.2013.
1. LONG-TERM INVESTMENTS		
I. Intangible Assets		
1. Concessions, patents, licences, trademarks and similar rights	40 797	55 708
2. Intangible assets of construction in progress	66 640	-
3. Advances paid for intangible assets	-	26 323
SUBTOTAL I	107 437	82 031
II. Fixed Assets		
1. Land plots, buildings, structures and perennial plantings	372 670	111 560
2. Equipment and machinery	151 601 860	154 480 117
3. Other fixed assets and inventory	942 431	825 981
4. Fixed assets under construction and construction in progress	-	248 113
5. Advances paid for fixed assets	-	3 443
SUBTOTAL II	152 916 961	155 669 214
III. Long-term financial investments		
1. Participation in related undertakings	142 287	142 287
SUBTOTAL III	142 287	142 287
TOTAL LONG-TERM ASSETS	153 166 685	155 893 532
2. CURRENT ASSETS		
I. Inventories		
1. Raw materials, basic materials and consumables	1 793 287	1 146 246
2. Advance payments for goods	136 985	505 864
SUBTOTAL I	1 930 272	1 652 110
II. Accounts Receivable		
1. Trade receivables	3 992 272	5 559 455
2. Receivables from related undertakings	1 752 044	1 416 398
3. Other receivables	4 764 574	4 866 260
4. Prepaid expenses	73 064	121 987
SUBTOTAL II	10 581 954	11 964 100
III. Cash	20 926 063	14 525 298
SUBTOTAL III	20 926 063	14 525 298
TOTAL CURRENT ASSETS	33 438 289	28 141 508
TOTAL ASSETS	186 604 974	184 035 040

BALANCE SHEET

EUR

EQUITY AND LIABILITIES	At 31.12.2014.	At 31.12.2013.
1. EQUITY		
1. Share capital	80 492 369	70 742 369
2. Reserves: other reserves	37 476 702	37 476 702
3. Retained earnings:		
a) profit of the previous years	3 988 627	-
b) profit of the reporting year	1 701 715	4 692 502
TOTAL EQUITY	123 659 413	112 911 573
2. PROVISIONS		
1. Provisions for pensions and similar obligations	301 361	688 417
2. Other provisions	13 322 602	13 062 663
TOTAL PROVISIONS	13 623 963	13 751 080
3. LIABILITIES		
I. Long-term liabilities		
1. Borrowings from credit institutions	7 296 837	8 874 216
2. Deferred tax liabilities	11 774 615	11 542 705
SUBTOTAL I	19 071 452	20 416 921
II. Current liabilities		
1. Borrowings from credit institutions	1 994 511	1 949 855
2. Other borrowings	-	7 036 370
3. Advances from customers	3 896 819	4 305 225
4. Trade payables	6 366 838	4 902 752
5. Amounts owed to related undertakings	13 107 282	13 177 642
6. Taxes and mandatory state social security contributions	2 410 010	2 644 161
7. Other payables	2 406 675	2 870 436
8. Accrued liabilities	68 011	69 025
SUBTOTAL II	30 250 146	36 955 466
TOTAL LIABILITIES	49 321 598	57 372 387
TOTAL EQUITY AND LIABILITIES	186 604 974	184 035 040

Riga, 9 March 2015

G. Mačs,
Chairman of the Board

V. Grjaznovs,
Member of the Board

I. Kleinberga,
Member of the Board

A. Reķis,
Member of the Board

NOTES

Basis of preparation of the condensed financial statements

These condensed financial statements, consisting of a balance sheet as at 31 December 2014 and an income statement for 2014, are based on the respective information of the audited 2014 financial statements of SIA LDZ Cargo without making any changes thereto. The audited financial statements are available from the management of SIA LDZ Cargo. Consequently, these condensed financial statements correspond to the overall financial statements.



FINANCIAL STATEMENTS

SIA LDZ CARGO LOGISTIKA CONDENSED ANNUAL REPORT FOR 2014

INCOME STATEMENT

(prepared under the revenue-cost method)

ITEM	2014	2013
Net turnover	9 942 083	14 340 520
Cost of sales	(9 453 430)	(13 994 349)
Gross profit/loss	488 653	346 171
Administrative expenses	(343 792)	(287 776)
Other operating income	13 306	3 367
Other operating expenses	(28 067)	(4 484)
Other interest income and similar income	156	321
Profit before taxes	130 256	57 599
Corporate income tax	(25 146)	(8 489)
Profit after taxes for the reporting period	105 110	49 110

EUR

Riga, 26 February 2015

M. Kancāns,
Chairman of the Board

R. Tukāns,
Member of the Board

I. Rudzīte
Member of the Board

BALANCE SHEET

EUR

ASSETS	At 31.12.2014.	At 31.12.2013.
1. LONG-TERM INVESTMENTS		
I. Fixed assets		
1. Other fixed assets and inventory	10 733	14 186
SUBTOTAL I	10 733	14 186
TOTAL LONG-TERM ASSETS	10 733	14 186
2. CURRENT ASSETS		
I. Inventories		
1. Raw materials, basic materials and consumables	6 105	1 558
2. Advance payments for goods	311 456	10 351
SUBTOTAL I	317 561	11 909
II. Accounts Receivable		
1. Trade receivables	458 327	885 052
2. Receivables from related undertakings	180 449	213 823
3. Other receivables	87 484	117 037
4. Prepaid expenses	219	1 001
SUBTOTAL II	726 479	1 216 913
III. Cash	298 720	486 752
SUBTOTAL III	298 720	486 752
TOTAL CURRENT ASSETS	1 342 760	1 715 574
TOTAL ASSETS	1 353 493	1 729 760

BALANCE SHEET

EUR

EQUITY AND LIABILITIES	At 31.12.2014.	31.12.2013.
1. EQUITY		
1. Share capital	142 287	142 287
2. Reserves: other reserves	18 216	18 216
3. Retained earnings:		
a) profit of the previous years	232 696	183 586
b) profit of the reporting year	105 110	49 110
TOTAL EQUITY	498 309	393 199
2. PROVISIONS		
1. Other provisions	8 901	7 015
TOTAL PROVISIONS	8 901	7 015
3. LIABILITIES		
I. Current liabilities		
1. Advances from customers	647 805	473 032
2. Trade payables	6 090	337 787
3. Amounts owed to related undertakings	168 536	490 743
4. Taxes and mandatory state social security contributions	11 615	12 439
5. Other payables	10 947	13 411
6. Accrued liabilities	1 290	2 134
SUBTOTAL I	846 283	1 329 546
TOTAL LIABILITIES	846 283	1 329 546
TOTAL EQUITY AND LIABILITIES	1 353 493	1 729 760

Riga, 26 February 2015


M. Kancāns,
Chairman of the Board

R. Tukāns,
Member of the Board

I. Rudzīte
Member of the Board

NOTES

Basis of preparation of the condensed financial statements

These condensed financial statements, consisting of a balance sheet as at 31 December 2014 and an income statement for 2014, are based on the respective information of the audited 2014 financial statements of SIA LDZ Cargo Logistika without making any changes thereto. The audited financial statements are available from the management of SIA LDZ Cargo Logistika. Consequently, these condensed financial statements correspond to the overall financial statements.



SIA LDZ RITOŠĀ SASTĀVA SERVISS

MAINTAINING THE RAILWAY ROLLING STOCK AND RESOLVING THE MATTERS RELATED THERETO

SVETLANA BERGA,
Chairperson of the Board

IVARS RULLIS,
Member of the Board

GENĀDIJS RJAZANCEVS,
Member of the Board

IVARS PĀŽE,
Member of the Board

GINTS LIEPASKALNS,
Member of the Board
(from 25.04.2013 to 06.11.2014)

SIA LDZ ritošā sastāva serviss is the subsidiary of VAS Latvijas dzelzceļš, which started its business operations in July 2007. It specialises in locomotive and wagon repairs, as well as the upgrading and maintenance thereof, providing main and shunting locomotive leasing services, fuel selling and staffing services.

The mission of the operation of SIA LDZ ritošā sastāva serviss (hereinafter also referred to as LDZ RSS and the Company) is to provide high-standard maintenance services using advanced technologies to guarantee safe and good quality railway traffic in Latvia, adhering to the Company's values – security, quality, advanced technologies and innovation, customer-oriented teamwork, as well as professional and motivated employees.

The laboratory has been accredited by the Latvian National Accreditation System in terms of the assessment for compliance of the testing of oil products, emissions of permanent air pollution sources, the testing of air quality, noise and lighting levels, manometer calibration and verification, modernisation repairs of railway tanks and rolling stock with the service time extension.

At 31 December 2014, LDZ RSS equity was 41,824,612 EUR. In comparison with the end of the previous year, it has grown by 2,769,679 EUR. The Company's equity amounts to 66.1% of its total assets. In the reporting year, LDZ RSS's sole member VAS Latvijas dzelzceļš made the decision to increase the Company's share capital by 1,103,437 EUR, as a result of which, at 31 December 2014, its share capital was up 29,351,905 EUR.

At 31 December 2014, SIA LDZ ritošā sastāva serviss current assets exceeded its short-term liabilities by 3.46 mil EUR, hence the total liquidity ratio (current assets to short-term liabilities) was 1.2 (1.2 in 2013).

The total volume of the Company's capital investments made in 2014 reached 8.71 million EUR, which have been invested in the acquisition, renovation and modernisation of its fixed assets.

In the reporting year, the net turnover from operating activities amounted to 116.87 million EUR, which is 5.22 million EUR or 4.3% less than in 2013.

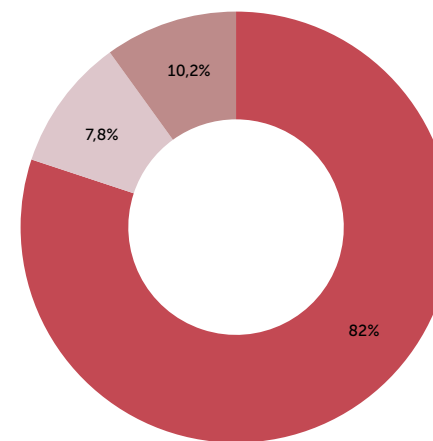
The drop in net turnover is mainly related to the decrease in the costs and volume of the locomotive and wagon



2014 **8,81 M EUR**

LDZ ritošā sastāva serviss TOTAL CAPITAL INVESTMENTS

SIA LDZ ritošā sastāva serviss: net turnover In 2014



- Revenue from services to the subsidiaries of VAS Latvijas dzelzceļš
- Revenue from services to other companies
- Revenue from services to VAS Latvijas dzelzceļš



The Company consists of several structural units.

LOCOMOTIVE REPAIR CENTER is engaged in providing:

- technical maintenance, repair and modernisation of cargo, passenger and shunting diesel locomotives;
- technical maintenance and repairs of infrastructure track machines;
- staffing of rolling stock;
- purchasing and selling of fuel.



repair programme, as well as the volume and price of the sold diesel fuel.

The major share of net turnover (82%) – is made up of revenue from services to the subsidiaries of VAS Latvijas dzelzceļš, about 10.2% of net turnover represents revenue from services to LDZ, and 7.8% represent revenue from services to other companies.

When evaluating the Company's performance, the number of locomotives and cargo wagon repairs, as well as the volume of diesel fuel sold during the reporting year need to be analysed. Compared to 2013, the volumes of the works and sold diesel fuel have declined:

In 2014, 98 capital repairs of wagons and 1,874 depot repairs of wagons were carried out in the Wagon repairs centre of LDZ RSS, as well as 421 repairs of wagons of private owners. In turn, technical maintenance for 13,708 diesel locomotives, current repairs for 259 diesel locomotives, 17 capital repairs of diesel locomotive units and modernisation of 8 locomotives have been carried out in the Locomotive repairs centre.

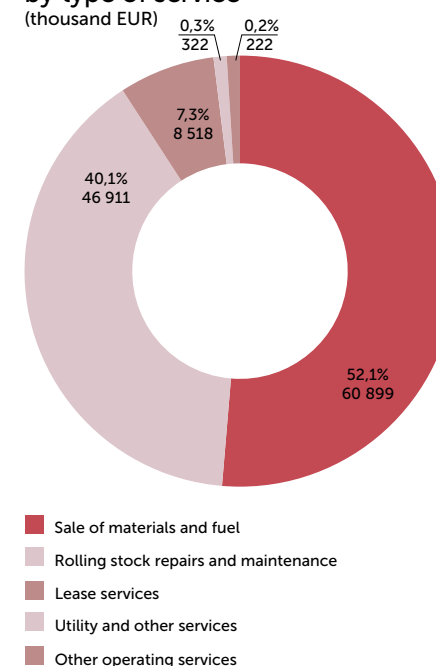
Sales of fuel and oils to the Group is one of the Company's key business activity, contributing over 52.1% to its net turnover.

LDZ RSS has received the following licences for operations with excise goods (diesel fuel):

- special permissions (licences) for operating as a verified keeper of an excise warehouse in Daugavpils and Riga fuel depots – the licences allow the Company to accept and send diesel fuel as well as perform biodiesel blending with diesel fuel, paying excise duty under a deferred payment procedure.
- a special permission (licence) for operating as a registered shipper for shipping excise goods (diesel fuel) from the state boarder to excise warehouses, receiving diesel fuel from third countries.
- a special permission (licence) for the wholesale of oil products with places of operation in the Company's fuel depots in Daugavpils, Rezekne, Riga, Jelgava and Liepāja – the licence gives permission to sell diesel fuel to the subsidiaries of the Group and other companies.

In the reporting year, the reconstruction of the Rezekne fuel depot of the Locomotive repairs centre, started in 2011, was completed, 311.37 thousand EUR were spent on this project in 2014. In the Jelgava workshop of Riga district, 40.44 thousand EUR have been spent on the reconstruction of the water supply pipe – this project will significantly decrease heating expenses during the heating season. 227.66 thousand EUR have been invested in the reconstruction of the Daugavpils diesel locomotive

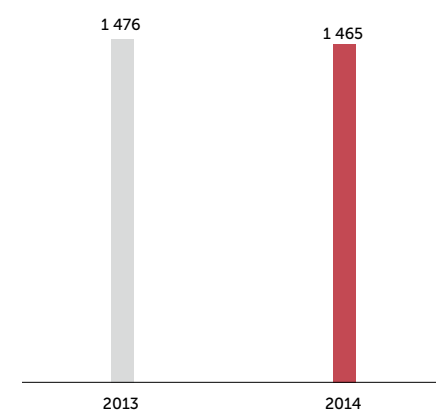
SIA LDZ ritošā sastāva serviss: breakdown of net turnover by type of service



SIA LDZ ritošā sastāva serviss: works completed in 2013 and 2014

Type of services	Unit of measurement	2014	2013
Current repairs and maintenance of locomotives	Locomotive	13 967	13 926
Capital repairs and modernisation of locomotives	Locomotive	25	21
Current repairs of wagons	Wagon	1874	2013
Capital repairs and modernisation of wagons	Wagon	98	154
Wagon repair for private owners	Wagon	421	523
Sale of fuel	Tonnes	52 440,70	54 006,76

SIA LDZ ritošā sastāva serviss: number of employees in 2013 and 2014



WAGON REPAIR CENTER is engaged in providing:

- capital and depot repairs of cargo wagons;
- capital repairs of cargo wagons with their lifetime extension;
- modernisation of cargo wagons;
- extension of the cargo wagon lifetime;
- inspection and repairs of wagon aggregates and nodes, including automatic brakes and connections;
- repairs of the locomotive wheel pairs with replacement of parts and a complete inspection;
- manufacturing and capital repairs of wagon wheel pairs.



washing area of the Locomotive repairs centre, which is estimated to be completed in 2015. In the reporting year, the Riga district oil storage warehouse of the Locomotive repairs centre was put into operation; 205.11 thousand EUR were spent on its reconstruction in 2014.

In 2014, the capital repairs and modernisation of the wheel pair turning machine KZTS-1836 LDZ were carried out at the Wagon repairs centre of LDZ RSS at 219 thous. EUR. The machine was additionally equipped with a modern automated management system that considerably increases the quality of turning, facilitating the work of turners.

To ensure the safety of rolling stock traffic, and to maintain the Company's locomotives in good technical condition as well as provide railway carriers with the necessary amount of locomotives, six repairs of 2M62 and 2TE10 series diesel locomotives in GR volume and one repair of the 2TE116 series diesel locomotive in VR volume for a total sum of 4.2 million EUR were carried out in 2014.

In the reporting period, the project *Locomotive ČME3M modernisation with non-diesel busters* for almost 700 thousand EUR was completed, as well as the modernisation of shunting locomotives TGM23 and ČME3 for 1.46 million EUR were carried out. The modernisation of the first type of ČME3

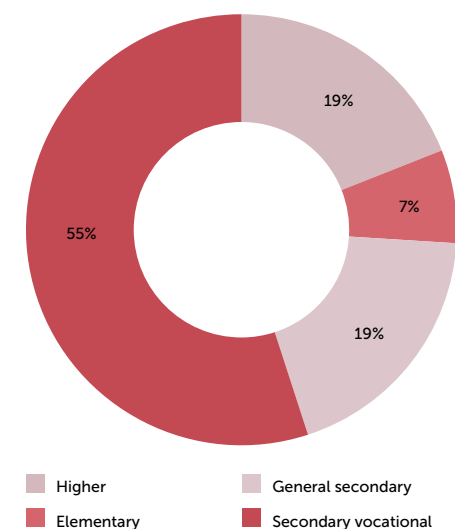
locomotive was started in 2014 by setting up the CAT 3508C type diesel engine with 1000 kW power capacity for performing manoeuvring works and ensuring the traffic of maintenance trains. The modernisation work will continue in 2015 when the modernisation of two other ČME3 locomotives will be completed.

During the reporting period, the average number of staff employed by SIA LDZ *rietošā sastāva serviss* was 1,465, of whom 75% were men and 25% were women. The average age of employees was 43 years.

Each year, the *Company* provides on-the-job training to students of vocational schools, which study subjects related to the management of locomotives and wagons. The performance of the students is assessed during the on-the-job training, and the best of them are identified with a view to offering them employment after the completion of their studies.

With transit volumes and the weight of freight trains increasing, the requirements for rolling stock safety are becoming more stringent. To ensure that repairs are effected in line with advanced technologies and to a high quality standard, the *Company* provides training to its employees aimed at improving their professional skills and technical knowledge, and invests heavily in raising the qualification of such staff whose

SIA LDZ *rietošā sastāva serviss*: education of employees (%)



jobs are related to the controlling of the technical condition of the sub-assemblies and components of the rolling stock.

In the future, SIA LDZ *rietošā sastāva serviss* aims to become a competitive maintenance services provider in the Baltic States in the fields of railway transport repairs, modernisation, providing locomotive leasing and staffing services, while simultaneously ensuring safe railway traffic.

The projects included in the *Company's* investment programme for 2015 are connected with the renewal and modernisation of the diesel locomotive fleet along with the reconstruction of the current assets to meet environmental regulations.

In 2015, to carry out the modernisation of the core diesel locomotive park and decrease investments in the capital repairs of the 2M62U type diesel locomotives, the *Company* will continue work on modernising the 2M62U type diesel locomotives, which was started in 2014. The estimated project implementation term between November 2014 and May 2018. The related benefits include an opportunity to transport heavyweight trains, extend the periods in between repairs, decrease the number of repairs and technical maintenance, and get modern and environmentally friendly locomotives.

In order to guarantee the safety of the rolling stock traffic and an adequate maintenance of the technical state of LDZ RSS's diesel locomotives, among providing carriers with the necessary amount of locomotives, the *Company* intends to continue work on modernising the ČME3 type locomotives in 2015, as well as carry out repairs of varying degrees of significance of the series 2M62, 2TE116, 2TE10 locomotives.

Plans for 2015 include completing the reconstruction of the Daugavpils diesel locomotive washing area, started in 2013, in addition to the reconstruction of Jelgava workshop's fuel depot equipping assets of the Riga district Locomotive repairs centre. The reconstruction involves lifting and placing pipes above ground to meet the requirements of environmental regulations, modernisation of equipping positions by implementing anti-filtration flooring underneath them. In 2015, there are plans for the construction of a machining centre building in the Wagon repairs centre. The building will have a horizontal turning machine with a modern automated control system, and a guillotine for metal sheet cutting.

To improve the work environment and the quality of diesel locomotive painting, the company plans to reconstruct the painting camera in Riga district's Locomotive repairs centre according to a design developed in 2014.

As the *Company's* main sources of revenue are from the repairs of the rolling stock, leasing of locomotives, and fuel sales, the revenue is directly linked to changes in the volume of cargo transport. As the volume decreases, so does the fuel consumption, as well as the need to repair the rolling stock and lease locomotives to carry cargoes.

In assessing the risks that LDZ RSS might face in the next period of operation, it should be acknowledged that there are risks beyond the *Company's* control and which could affect the decrease of turnover, such as political risks, the risk of oil price volatility, the risk of exchange rate fluctuation. Owing to this, greater attention will be paid to cash flow optimisation, maximising the use of the company's own resources in the amount of depreciation of fixed assets, and the profit share, at the *Company's* disposal, as well as timely raising of funds for the *Company* to meet its objectives.



CHEMICAL-TECHNICAL AND MEASUREMENTS LABORATORY is engaged in providing:

- testing of diesel fuel, oils and lubricants;
- measurement of emissions from stationary air pollution sources;
- measurement of air quality, noise and lighting levels of the work environment;
- assessment of compliance of the 3 – 9 category railway tanks for the transportation of substances;
- assessment of compliance of the rolling stock modernisation repairs with lifetime extensions;
- metrological testing of pressure and temperature measurement instruments;
- metrological testing of geometrical measurement instruments;
- metrological testing of electric measurement instruments;
- metrological testing of non-destroying control measurement instruments;
- metrological testing of railway connection and wheel pair templates.



FINANCIAL STATEMENTS

SIA LDZ RITOŠĀ SASTĀVA SERVISS CONDENSED ANNUAL REPORT FOR 2014

INCOME STATEMENT

(prepared under the revenue-cost method)

ITEM	2014	2013
Net turnover	116 871 623	122 090 941
Cost of sales	(110 903 533)	(117 147 556)
Gross profit/loss	5 968 090	4 943 385
Administrative expenses	(4 211 554)	(4 038 982)
Other operating income	1 423 057	6 083 407
Other operating expenses	(1 047 141)	(1 231 252)
Other interest income and similar income	639	2 190
Interest expense and similar expenses	(101 026)	(140 984)
Profit before taxes	2 032 065	5 617 764
Corporate income tax	(297 302)	(200 799)
Deferred corporate income tax	(68 521)	(590 617)
Profit after taxes for the reporting period	1 666 242	4 826 348

Riga, 11 March 2015

S. Berga,
Chairperson of the Board

I. Rullis,
Member of the Board

G. Rjazancevs,
Member of the Board

I. Pāže,
Member of the Board

BALANCE SHEET

	EUR	
ASSETS	At 31.12.2014.	At 31.12.2013.
1. LONG-TERM INVESTMENTS		
I. Intangible Assets		
1. Concessions, patents, licences, trademarks and similar rights	243	493
SUBTOTAL I	243	493
II. Fixed Assets		
1. Land plots, buildings, structures and perennial plantings	7 445 497	7 193 404
2. Long-term investments in leased fixed assets	11 956	19 927
3. Equipment and machinery	33 802 518	33 132 497
4. Other fixed assets and inventory	615 686	669 165
5. Fixed assets under construction and construction in progress	456 578	568 721
6. Advances paid for fixed assets	3 570	16 200
SUBTOTAL II	42 335 805	41 599 914
III. Long-term financial investments		
1. Other securities and investments	249 714	249 714
SUBTOTAL III	249 714	249 714
TOTAL LONG-TERM ASSETS	42 585 762	41 850 121
2. CURRENT ASSETS		
I. Inventories		
1. Raw materials, basic materials and consumables	11 213 059	14 730 449
2. Work in progress	109 575	1 391 037
3. Finished goods and goods for sale	739	251
4. Advance payments for goods	1 207 310	1 860
5. Working animals and productive animals	7	7
SUBTOTAL I	12 530 690	16 123 604
II. Accounts Receivable		
1. Trade receivables	1 071 168	530 797
2. Receivables from related undertakings	4 830 067	4 964 320
3. Other receivables	34 897	750 997
4. Prepaid expenses	54 815	128 598
SUBTOTAL II	5 990 947	6 374 712
III. Cash	2 215 012	3 901 026
SUBTOTAL III	2 215 012	3 901 026
TOTAL CURRENT ASSETS	20 736 649	26 399 342
TOTAL ASSETS	63 322 411	68 249 463

BALANCE SHEET

	EUR	
EQUITY AND LIABILITIES	At 31.12.2014.	At 31.12.2013.
1. EQUITY		
1. Share capital	29 351 905	28 248 469
2. Reserves: other reserves	3 661 049	3 661 048
3. Retained earnings:		
a) profit of the previous years	7 145 416	2 319 068
b) profit of the reporting year	1 666 242	4 826 348
TOTAL EQUITY	41 824 612	39 054 933
2. PROVISIONS		
1. Other provisions	1 445 061	1 760 363
TOTAL PROVISIONS	1 445 061	1 760 363
3. LIABILITIES		
I. Long-term liabilities		
1. Borrowings from credit institutions	2 112 500	4 225 000
2. Other borrowings	7 642	16 065
3. Deferred tax liabilities	659 138	590 617
SUBTOTAL I	2 779 280	4 831 682
II. Current liabilities		
1. Borrowings from credit institutions	1 950 000	1 787 500
2. Other borrowings	1 215 650	8 386
3. Advances from customers	-	4 131 506
4. Trade payables	8 247 380	10 174 045
5. Amounts owed to related undertakings	420 245	511 822
6. Taxes and mandatory state social security contributions	4 385 215	4 515 514
7. Other payables	1 043 338	1 462 916
8. Deferred income	1 730	978
9. Accrued liabilities	9 900	9 818
SUBTOTAL II	17 273 458	22 602 485
TOTAL LIABILITIES	20 052 738	27 434 167
TOTAL EQUITY AND LIABILITIES	63 322 411	68 249 463

Riga, 11 March 2015


S. Berga,
Chairperson of the Board

I. Rullis,
Member of the Board

G. Rjazancevs,
Member of the Board

I. Pāže,
Member of the Board

NOTES

Basis of preparation of the condensed financial statements

These condensed financial statements, consisting of a balance sheet as at 31 December 2014 and an income statement for 2014, are based on the respective information of the audited 2014 financial statements of SIA LDZ *rietošā sastāva serviss* without making any changes thereto. The audited financial statements are available from the Finance Department of the Commercial Directorate of SIA LDZ *rietošā sastāva serviss*. Consequently, these condensed financial statements correspond to the overall financial statements.



SIA LDZ INFRASTRUKTŪRA

CONSTRUCTING RAIL TRACKS AND CARRYING OUT THE CAPITAL REPAIRS THEREOF

JĀNIS CEIČĀNS,
Chairman of the Board

VALDEMĀRS DAĻECKIS,
Member of the Board

MARINA KABALSKA,
Member of the Board

ENTS PUTNIŅŠ,
Member of the Board
(from 9.10.2013 to 20.03.2014)

JĀNIS LAPIŅŠ,
Member of the Board
(from 20.12.2012 to 6.11.2014)

SANDIS VĒTRA,
Member of the Board (from 6.11.2014)

SIA LDZ infrastruktūra is a subsidiary of VAS Latvijas dzelzceļš, the principal activities of which are the construction and repairs of rail track and bridge superstructure, replacement of turnouts, rail welding and transportation of continuously welded rails, as well as the repairs of railway vehicles, tools, mechanisms, and the upgrading of wagons, installation and repairs of the drainage system, etc.

The mission of SIA LDZ infrastruktūra is to ensure, through using advanced technologies and ensuring the development of high standard railway infrastructure (construction and repair), guarantee safe and qualitative rail transport traffic in the territory of Latvia, establishing its status as the leading railway infrastructure construction and repair company in the Baltic States.

The construction and capital repair of railway tracks is the principal activity of LDZ infrastruktūra (hereinafter also referred to as the Company), accounting for 89% of its total revenue in 2014, as well as in 2013.

LDz is its strategic contracting entity. In 2014, revenue from the services provided to the Group made up 93.2% (90.9% in 2013) of the Company's total revenue.

At 31 December 2014, the share capital of the Company was 15,523,088 EUR, consisting of 15,523,088 shares, the value of each share being 1 EUR. In 2014, the sole shareholder of the Company (VAS Latvijas dzelzceļš) invested 10,130,619 EUR into the Company's share capital.

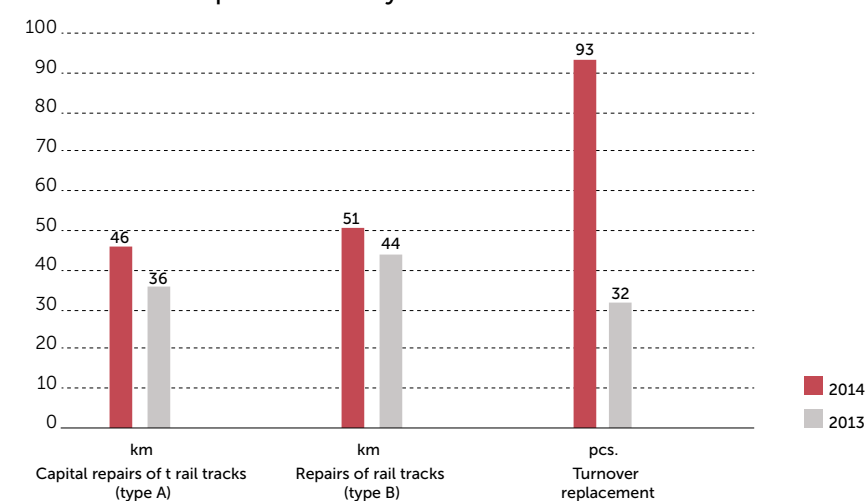
At 31 December 2014, the equity of SIA LDZ infrastruktūra had increased by more than 10 million EUR compared to the 31 December of the previous year and amounted to 17.1 million EUR. In 2014, the Company paid 770 thousand EUR (90% of the 2013 profit) in dividends to its sole shareholder VAS Latvijas dzelzceļš. The Company's equity amounts to 74.5% of its total asset value.

In the reporting year, the Company's net turnover from operating activities was 23.9 million EUR, which is 2 million EUR or 9.1% higher than in 2013. The net turnover increase in 2014 is mainly due to the increase in the amount of rail track capital repair orders by LDz.

Volume of works completed

Compared to 2013, in 2014, the volume of rail track repairs increased significantly. In 2014, the volume of replacements of turnouts increased almost three times.

Volume of completed work by SIA LDZ infrastruktūra



In 2014, the Company's profit before tax was 1.2 million EUR (1 million EUR in 2013). The profit growth by 14.7% can be explained by the volume increase (9.1%), as well as cost savings.

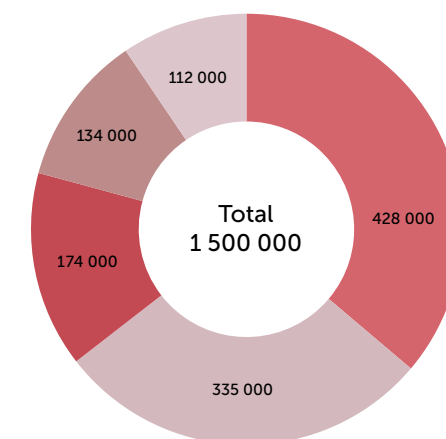
At 31 December 2014, the current assets of SIA LDZ infrastruktūra exceeded its current liabilities by 2.76 million EUR, hence the total liquidity ratio (current assets to current liabilities) was 1.54 (2.08 in 2013), which supports the fact that the Company is financially stable and able

to cover its current expenses, as well as ensures the fulfilment of its investment plan. Compared to 2013, at the end of the year, the Company's cash balance increased by 738 thousand EUR.

In 2014, the profit after taxes of SIA LDZ infrastruktūra was 890 thousand EUR, which is 34 thousand EUR higher than in 2013.

The Company used the resources from its operating activities to finance its capital investments.

SIA LDZ infrastruktūra: total capital investments In 2014



- Capital repairs of wagons
- Excavators
- Capital repairs of diesel locomotives
- Specialised semi-wagon
- Capital repairs of rail track machines



To raise work productivity, the *Company* modernised its vehicle fleet, as well as further improved technological processes: a new excavator was purchased to fulfil the needs of Riga's regional centre, thus the *Company* no longer needs to lease vehicles, a new front loader with an increased bucket capacity was purchased for the Jelgava regional centre's crushed stone base.

The average salary in 2014 was 1188.3 EUR, in 2013 – 1134.2 EUR.

In 2014, the average salary increased by 54.1 EUR or 4.77%. This was due to many factors, including increased costs for the time spent commuting to the objects and the security of the vehicles (in 2014, the work objects were located much further from the production bases), bonuses for night-time shift work have increased (technological traffic interruptions were more often scheduled during the night, when the traffic is less heavy), also the amount of overtime hours worked and paid for has increased (vacant rail track fitter positions). In 2014, the volume of completed work for the *Group* has increased by 29.2% (in 2013 – 157.587 equalised kilometres, in 2014 – 203.666 equalised kilometres).

The changes in the number of *SIA LDZ infrastruktūra* employees are depicted in the table below.

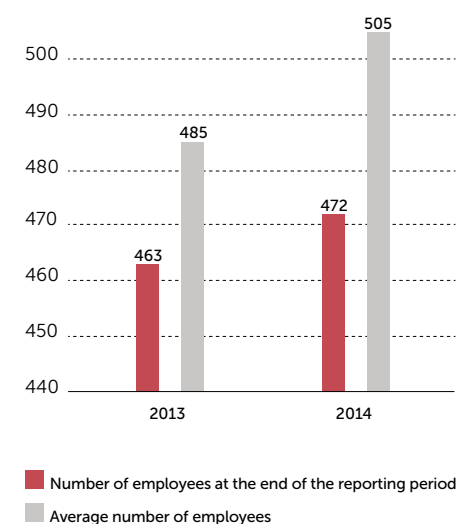
Environmental protection is one of the *Company's* priorities. The most important environment protection areas include soil and groundwater protection, rehabilitation of polluted areas, the monitoring of air, ground and groundwater, as well as hazardous waste management.

Technological solutions are being sought and developed on a daily basis by the employees of *SIA LDZ infrastruktūra* in order to improve the *Company's* production process, reduce the impact on the environment and reduce energy consumption by carrying out measures related to the prevention of heat loss, such as changing the windows of workshops, performing regular repairs of boiler houses and insulating the walls of workshops.

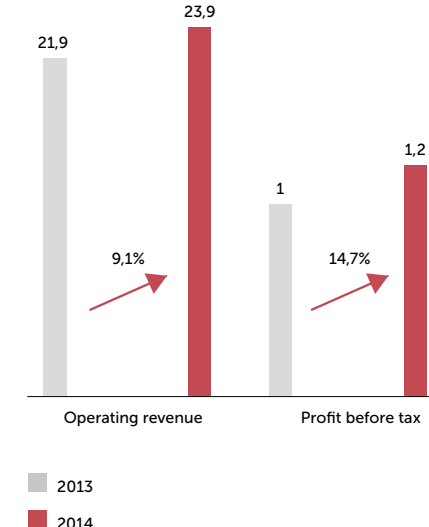
In territories of *SIA LDZ infrastruktūra* regional centres, technical maintenance and repairs are carried out. These areas have been arranged in such a way that prevents oil products from leaking into the soil and ground. Spilled liquids are collected immediately with rags and various absorbers.

Liquid hazard waste (processed oil, cooling fluid) is collected in separate closed vats and, if necessary, transferred for disposal. All tanks, in which hazardous liquid waste is stored, are placed on a metal support, which prevents oil products

SIA LDZ infrastruktūra:
number of employees
In 2013 and 2014



SIA LDZ infrastruktūra:
turnover and profit before tax
(million EUR)



from leaking and facilitates the collection of spilled oil products.

To prevent soil pollution, the *Company* has planned for a number of measures of environmental protection. Solid hazardous waste (absorbents and materials polluted with petroleum products) is collected and transferred for disposal in a timely manner. In the reporting year, separate waste collection was ensured (collecting used batteries, wastepaper, used materials of printers and copying machines (toners and cartridges) separately).

Once a year, *SIA LDZ infrastruktūra* monitors its ground waters, which allows for the timely prevention of possible threats to the quality of groundwater, avoiding situations when oil products penetrate groundwater. The *Company* has developed a plan of measures, as well as instructed its employees in a number of measures of necessary action in the event of possible accidents.

During the reporting year, the *Company* continued work aimed at maintaining and improving the ISO 9001 and ISO 14001 standard systems.

In 2015, *SIA LDZ infrastruktūra* will continue to provide high standard, high quality rail track construction and repair services to the *Group* companies, as well as external customers. All work on

the objects started during the previous European co-financing period must be completed by October. Consequently, 2015 will be a year of challenges and developments for the *Company*. By October, the projects *Rail track reconstruction* (a 44 km long section) and *Rail track renewal in the "Rail Baltica" corridor in Latvia* (a 40 km long section) need to be completed. Moreover, the work started in 2014 in Sakstagals-Rezekne II (3 km) section needs to be completed, and switches (120 pcs.) need to be replaced.

To ensure the successful and timely completion of the projects, the *Company* will need to use all the knowledge accumulated during the years of its operation, as well as find new and advanced ways to plan the work schedule. This experience will give the *Company* an opportunity to evaluate the efficiency of its work planning and fulfilment, as well as gain awareness of the actual potential of its productivity.

SIA LDZ infrastruktūra will continue to work on the improvement of working conditions of its employees, productivity growth, training will be organised. There will be an increased focus on the fulfilment of work safety and environmental protection policies, especially due to the estimated volume of work to do.



FINANCIAL STATEMENTS

SIA LDZ INFRASTRUKTŪRA CONDENSED ANNUAL REPORT FOR 2014

INCOME STATEMENT

(prepared under the revenue-cost method)

EUR

ITEM	2014	2013
Net turnover	23 939 967	21 953 104
Cost of sales	(21 021 140)	(19 228 641)
Gross profit/loss	2 918 827	2 724 463
Administrative expenses	(1 723 808)	(1 641 927)
Other operating income	96 751	128 809
Other operating expenses	(112 544)	(170 334)
Other interest income and similar income	603	1 578
Interest expense and similar expenses	(7 293)	(19 928)
Profit before taxes	1 172 536	1 022 661
Corporate income tax	-	(189 635)
Deferred corporate income tax	(283 006)	22 574
Profit after taxes for the reporting period	889 530	855 600

Riga, 5 March 2015

J. Ceicāns,
Chairman of the Board

V. Daļeckis,
Member of the Board

M. Kabaļska,
Member of the Board

S. Vētra,
Member of the Board

BALANCE SHEET

EUR

ASSETS	At 31.12.2014.	At 31.12.2013.
1. LONG-TERM INVESTMENTS		
I. Intangible Assets		
1. Concessions, patents, licences, trademarks and similar rights	775	471
SUBTOTAL I	775	471
II. Fixed Assets		
1. Land plots, buildings, structures and perennial plantings	239 253	261 860
2. Long-term investments in leased fixed assets	23 658	22 679
3. Equipment and machinery	13 351 023	3 164 840
4. Other fixed assets and fixtures	1 068 178	905 716
5. Fixed assets under construction and construction in progress	28 110	40 572
6. Advances paid for fixed assets	133 044	26 726
SUBTOTAL II	14 843 266	4 422 393
III. Long-term financial investments		
1. Long-term trade receivables	187 100	200 110
SUBTOTAL III	187 100	200 110
TOTAL LONG-TERM ASSETS	15 031 141	4 622 974
2. CURRENT ASSETS		
I. Inventories		
1. Raw materials, basic materials and consumables	310 063	301 006
2. Work in progress	49 186	-
3. Finished goods and goods for sale	34 419	35 755
4. Advance payments for goods	196 228	115 560
SUBTOTAL I	589 896	452 321
II. Accounts Receivable		
1. Trade receivables	757 945	1 121 385
2. Receivables from related undertakings	3 316 998	1 180 559
3. Other receivables	481 471	256 577
4. Prepaid expenses	15 171	13 898
SUBTOTAL II	4 571 585	2 572 419
III. Cash	2 724 662	1 986 374
SUBTOTAL III	2 724 662	1 986 374
TOTAL CURRENT ASSETS	7 886 143	5 011 114
TOTAL ASSETS	22 917 284	9 634 088

BALANCE SHEET

EUR

EQUITY AND LIABILITIES	At 31.12.2014.	At 31.12.2013.
1. EQUITY		
1. Share capital	15 523 088	5 392 469
2. Reserves: other reserves	10 798	10 798
3. Retained earnings:		
a) profit of the previous years	651 398	565 838
b) profit of the reporting year	889 530	855 600
TOTAL EQUITY	17 074 814	6 824 705
2. PROVISIONS		
1. Other provisions	254 105	254 977
TOTAL PROVISIONS	254 105	254 977
3. LIABILITIES		
I. Long-term liabilities		
1. Other borrowings	-	12 108
2. Trade payables	39 459	-
3. Deferred tax liabilities	418 862	135 856
SUBTOTAL I	458 321	147 964
II. Current liabilities		
1. Other borrowings	12 091	17 699
2. Advances from customers	1 567 920	1 137
3. Trade payables	947 410	900 363
4. Amounts owed to related undertakings	1 368 676	412 259
5. Taxes and mandatory state social security contributions	527 889	445 760
6. Other payables	483 053	395 140
7. Accrued liabilities	223 005	234 084
SUBTOTAL II	5 130 044	2 406 442
TOTAL LIABILITIES	5 588 365	2 554 406
TOTAL EQUITY AND LIABILITIES	22 917 284	9 634 088

Riga, 5 March 2015


J. Ceicāns,
Chairman of the Board

V. Daļeckis,
Member of the Board

M. Kabaļska,
Member of the Board

S. Vētra,
Member of the Board

NOTES

Basis of preparation of the condensed financial statements

These condensed financial statements, consisting of a balance sheet as at 31 December 2014 and an income statement for 2014, are based on the respective information of the audited 2014 financial statements of SIA LDZ infrastruktūra without making any changes thereto. The audited financial statements are available from the management of SIA LDZ infrastruktūra. Consequently, these condensed financial statements correspond to the overall financial statements.



SIA LDZ APSARDZE

PROVIDING SECURITY SERVICES ACROSS THE WHOLE TERRITORY OF LATVIA

ARNIS MACULĒVIČS,
Chairman of the Board

LINDA BALTIŅA,
Member of the Board

The principal activity of SIA LDz *apsardze* is the provision of a wide range of security and fire-safety services to the companies of the *Latvijas dzelzceļš* Group, Latvian companies and individuals.

SIA LDz *apsardze* provides security services of various objects and freight, designs and assembles a variety of security, fire-safety and video surveillance systems and ensures the technical services and maintenance within the lifetime thereof, as well as performs the monitoring of the received alarm signals.

SIA LDz *apsardze* (hereinafter *Apsardze* or the *Company*) is a company belonging to the *Latvijas dzelzceļš* Group wholly owned by LDz (share capital of 298,803 EUR).

The mission of *Apsardze* is to be the exclusive provider of security services to VAS *Latvijas dzelzceļš*, as well as other legal entities and individuals of the Republic of Latvia.

The *Company's* key strategic objectives are to ensure the quality security services of all kinds depending on the demand, as well as introduce and offer new kinds of

security services to potential customers, with an increasing focus on technical security.

The *Company* has received a category II special open-ended permit No. 800 for carrying out security services activity, as well as the industrial security certificate No. 250, and its management system is certified under the ISO 9001:2008 standard.

The key customer of SIA LDz *apsardze* is the *Latvijas dzelzceļš* group (hereinafter the *Group*), contributing 93% to the *Company's* net sales. To reduce the direct dependence of the *Group's* business activities, the *Company* is seeking to attract other external customers. Over the last three years, the share of revenue from external customers has increased.

As of 31 December 2014, the equity of *Apsardze* was 508,666 EUR. Compared to the end of the previous year it has grown by 10,855 EUR. The *Company's* equity is 32.4% of total assets.

In 2014, the share capital of *Apsardze* was not increased, and as of 31 December 2014, it was 298,803 EUR.

The net sales in the reporting year were by 562,403 EUR or 8.98%

higher than in 2013 and amounted to 6.8 million EUR.

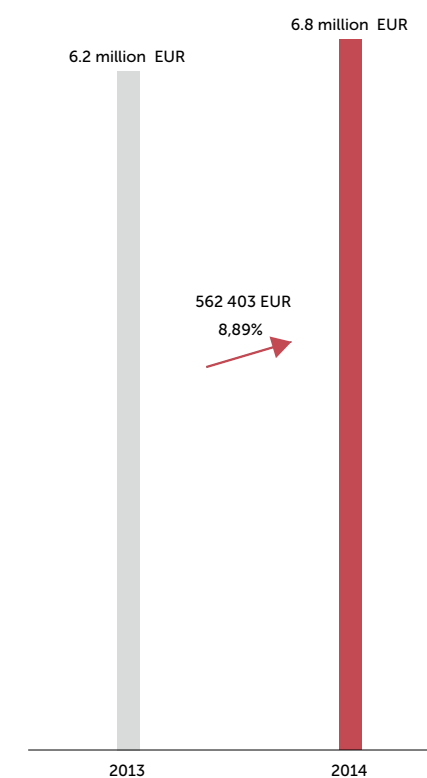
The key source of revenue of *Apsardze* is from the sale of physical security guard services (81.2% of net sales).

In 2014, the *Company's* profit after tax is 30,827 EUR – by 8,636 EUR higher than in 2013.

As of 31 December 2014, the short-term liabilities of *Apsardze* had increased by 64,598 EUR, current assets by 128,508 EUR higher compared to the beginning of the year, therefore total liquidity (current asset and short-term liability ratio) had increased to 1.54 (in 2013 – 1.50). It means that the *Company* is financially stable and able to meet its current liabilities, as well as ensure the fulfilment of its investment plan. The cash balance of *Apsardze* at the end of the year had increased by 120,836 EUR compared to 2013.

In 2014, the total capital expenditure of the *Company* amounted to 41,069 EUR, representing investments in the renewal, modernisation and acquisition of fixed assets, all capital expenditure are financed from own resources.

SIA LDz *apsardze*: net turnover





One of the main risks to which *Apsardze* is exposed is sufficient qualified employees and changes in employment remuneration in the industry in general. To reduce unfavourable risks related to the costs of employees, the management carries out regular employee training and qualification raising events, as well as develops a competitive remuneration policy. The *Company* has concluded a collective agreement with the trade union of the relevant sector.

Also, to reduce the risks related to changes in the employee costs, in recent years *Apsardze* has increased its revenues from technical security and related services, resulting in the reduction of the employee costs/net sales ratio by 5% over three years.

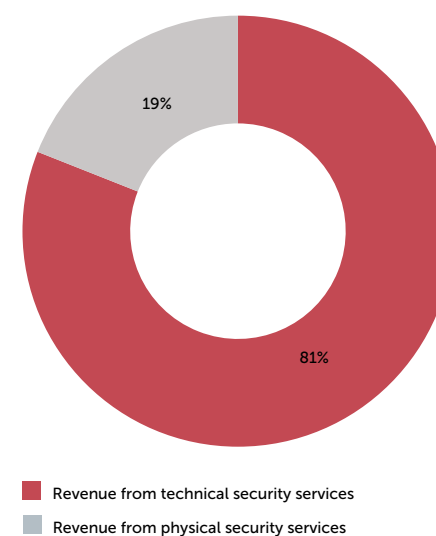
The *Company's* greatest assets are its employees. They specialise in providing security services of railway objects pursuant to the wishes of the main customer and the nature of the objects. In 2013 and 2014, the employees of *Apsardze* were trained pursuant to the requirements laid down in the Railway technical regulation, the

employees also underwent *Modern security technology* training. It is intended that new training programmes will be developed and implemented in line with the *Company's* strategic objectives and needs.

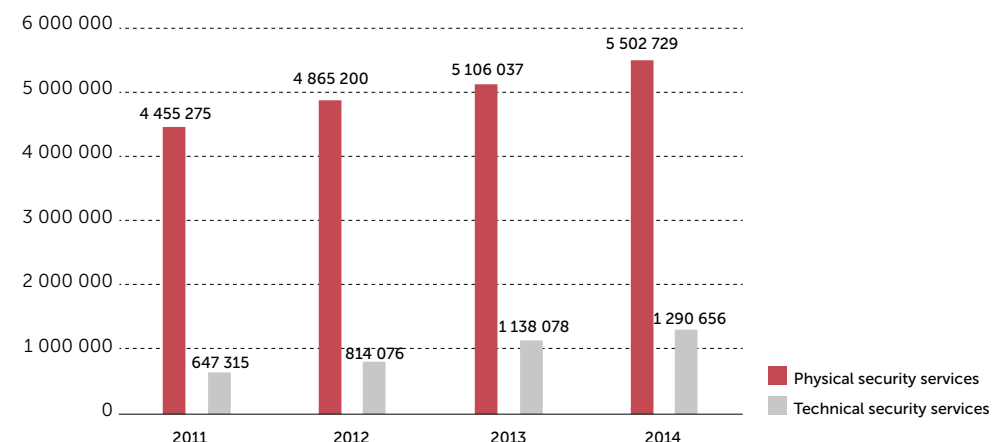
When analysing the *Company's* future goals and development, it should be taken into account that the level of risk of thefts and other criminal offences is expected to remain high, therefore additional resources need to be provided to ensure services. Great attention will be paid to continuing the commenced services related to the technical security, improving technical capabilities and increasing the amount of technical security services.

With a view to increasing the amount of services provided outside the *Group* and being aware of the available technical potential of the *Company*, and the high competence of employees, in the future *Apsardze* intends to focus on offering security services to industrial objects and increasing the amount of services in regions, especially in regions where emergency response teams are currently being set up.

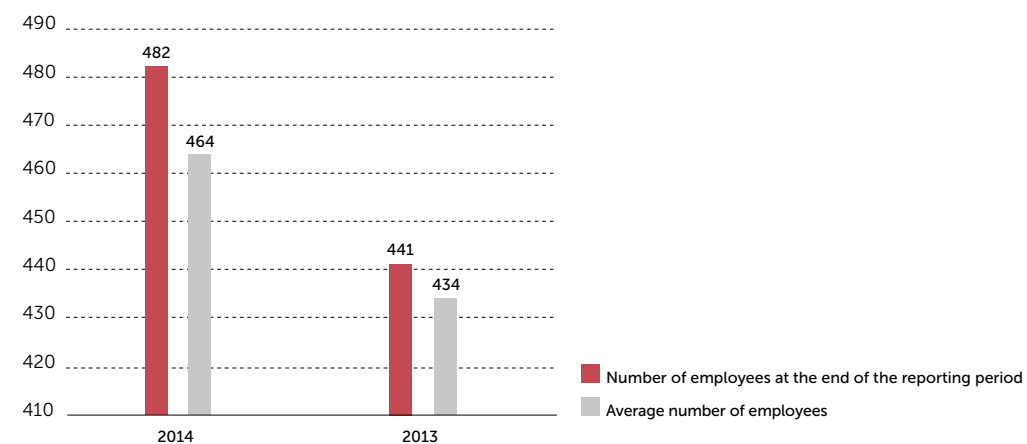
SIA LDZ *apsardze*: net turnover



SIA LDZ *apsardze*: breakdown by operating revenue (EUR)



SIA LDZ *apsardze*: number of employees in 2013 and 2014



FINANCIAL STATEMENTS

SIA LDZ APSARDZE CONDENSED ANNUAL REPORT FOR 2014

INCOME STATEMENT

(prepared under the revenue-cost method)

EUR

ITEM	2014	2013
Net turnover	6 819 778	6 257 375
Cost of sales	(6 245 224)	(5 651 279)
Gross profit/loss	574 554	606 096
Administrative expenses	(513 520)	(556 372)
Other operating income	35 661	41 034
Other operating expenses	(49 133)	(53 823)
Other interest income and similar income	361	401
Profit before taxes	47 923	37 336
Corporate income tax	(17 096)	(15 145)
Profit after taxes for the reporting period	30 827	22 191

Riga, 13 February 2015



A. Maculēvičs,
Chairman of the Board



L. Baltiņa,
Member of the Board

BALANCE SHEET

EUR

ASSETS	At 31.12.2014.	At 31.12.2013.
1. LONG-TERM INVESTMENTS		
I. Intangible Assets		
1. Concessions, patents, licences, trademarks and similar rights	48	14
SUBTOTAL I	48	14
II. Fixed Assets		
1. Land plots, buildings, structures and perennial plantings	163 924	182 138
2. Long-term investments in leased fixed assets	6 010	6 659
3. Other fixed assets and inventory	83 208	113 543
SUBTOTAL II	253 142	302 340
III. Long-term financial investments		
SUBTOTAL III		
TOTAL LONG-TERM ASSETS	253 190	302 354
2. CURRENT ASSETS		
I. Inventories		
1. Raw materials, basic materials and consumables	78 102	75 394
2. Advance payments for goods	1 086	963
3. Working animals and productive animals	1	1
SUBTOTAL I	79 189	76 358
II. Accounts Receivable		
1. Trade receivables	60 839	57 537
2. Receivables from related undertakings	775 608	774 613
3. Other receivables	4 770	5 435
4. Prepaid expenses	18 983	17 774
SUBTOTAL II	860 200	855 359
III. Cash	378 494	257 658
SUBTOTAL III	378 494	257 658
TOTAL CURRENT ASSETS	1 317 883	1 189 375
TOTAL ASSETS	1 571 073	1 491 729

BALANCE SHEET

EUR

EQUITY AND LIABILITIES	At 31.12.2014.	At 31.12.2013.
1. EQUITY		
1. Share capital	298 803	298 803
2. Reserves: other reserves	176 817	176 817
3. Retained earnings:		
a) profit of the previous years	2 219	–
b) profit of the reporting year	30 827	22 191
TOTAL EQUITY	508 666	497 811
2. PROVISIONS		
1. Other provisions	204 184	200 293
TOTAL PROVISIONS	204 184	200 293
3. LIABILITIES		
II. Current liabilities		
1. Advances from customers	255	2 926
2. Trade payables	66 210	63 843
3. Amounts owed to related undertakings	34 091	33 996
4. Taxes and mandatory state social security contributions	469 080	390 950
5. Other payables	286 307	299 631
6. Accrued liabilities	2 280	2 279
SUBTOTAL II	858 223	793 625
TOTAL LIABILITIES	858 223	793 625
TOTAL EQUITY AND LIABILITIES	1 571 073	1 491 729

Riga, 13 February 2015


A. Maculēvičs,
Chairman of the Board

L. Baltiņa,
Member of the Board

NOTES

Basis of preparation of the condensed financial statements

These condensed financial statements, consisting of a balance sheet as at 31 December 2014 and an income statement for 2014, are based on the respective information of the audited 2014 financial statements of SIA LDZ *apsardze* without making any changes thereto. The audited financial statements are available from the management of SIA LDZ *apsardze*. Consequently, these condensed financial statements correspond to the overall financial statements.



AS LATRAILNET

THE USE OF RAILWAY INFRASTRUCTURE

AINIS STŪRMANIS,
Chairman of the Board

GUNTARS LAPINŠ,
Member of the Board

The public use railway infrastructure in Latvia is freely accessible and open for carrying freight and passengers by rail, as well as for ensuring technological processes. Any carrier that has obtained a carrier's licence and safety certificate, and has submitted an application for the allocation of infrastructure capacity to the AS *LatRailNet*, may qualify for the use of the railway infrastructure capacity.

AS *LatRailNet* (hereinafter referred to as the *Company*) takes decisions on the charge for using public rail infrastructure and capacity allocation, based on the equality principle and the requirements of the best use of rail infrastructure. In carrying out its functions, the *Company* has a duty to ensure equal, just, and non-discriminating access to railway infrastructure to all carriers.

AS *LatRailNet* has developed a programme of independence requirements laying down the duties of particular employees and measures to prevent unequal treatment of carriers, and ensures adequate control over the compliance therewith. The State Railway Administration monitors compliance with the independence requirements and reviews the complaints lodged by the

carriers regarding the breaches of such independence requirements.

At present, two passenger and three freight carriers use the capacity of the public railway infrastructure in Latvia.

The key task of AS *LatRailNet* is the carrying out of the functions of the manager of the public use railway infrastructure, i.e., setting of the infrastructure charge, allocating the capacity, as well as assigning trains of a particular carrier.

The key functions of the manager of the public use railway infrastructure are:

- decision-making regarding the infrastructure charge;
- setting of an increased charge for the use of rail infrastructure on busy sections and at peak times of the respective infrastructure;
- granting economically justified rail infrastructure charge discounts, which facilitate the best use of the infrastructure capacity;
- allocating the rail infrastructure capacity among carriers based on the submitted applications regarding the use of the respective railway infrastructure;

- decision-making regarding the train assignment of a particular carrier.

Charges, increased charges and discounts for the use of the rail infrastructure for transport

The use of public rail infrastructure for transport by rail is subject to the infrastructure charge, which is calculated for different train categories using the methodology, developed by the Public Utilities Commission, and ensures the infrastructure charge that is cost-based and compliant with the following principles:

- the estimated cost base consists of the current rail infrastructure maintenance and management costs estimated by the manager, as increased by the depreciation allowance and the profit margin (capital expenditure for the development of infrastructure);
- the cost base with various cost drivers is allocated by reference to different train categories;
- freight volume is estimated for each train category, based on which the cost base of the respective train category is allocated to determine the infrastructure charge;

- discounts or increased charges may apply to the infrastructure charge in accordance with the procedure prescribed by the Public Utilities Commission.

Rail infrastructure capacity allocation and the assignment of the trains of a particular carrier

Rail capacity needs to be allocated so that rail carriers are treated equally and the principles of the best use of rail infrastructure are adhered to. Priority in allocating the railway infrastructure capacity is given to transportation services that are provided based on the contracts of carriage with the State or a municipality, i.e. mainly for the carriage of passengers.

Capacity allocation must consider the capacity required for the technological needs of the manager as well as repairs. The procedure of capacity allocation is based on a number of criteria, such as previous cooperation between the carrier and the manager, the frequency, intensity and duration of the infrastructure use, as well as the compliance of train technical parameters with rail infrastructure efficiency requirements.

Where possible, the full capacity requested in the application is granted to the carrier. If the requested capacity exceeds the available capacity, the carrier is offered to choose another route or another time for the requested route; to reduce the passenger train travel time by reducing the number of stops or otherwise, to reduce the total weight of the passenger train or to use a traction unit with better traction parameters; to increase the total weight of a freight train, to use a traction unit with better traction parameters or to give up some of the requested capacity. Where it is impossible to grant all the capacity requested in the application, the rail carriers may contract on the volume of the requested capacity with other railway carriers, who have applied for the capacity in the particular section.

AS *LatRailNet* takes a decision on the allocation of the capacity and approves the annual capacity allocation plan not later than by 15 December of the current year.

The assignment of trains occurs within the scope of the daily capacity allocation plan. It includes determining exact train departure times and regulation of the circulation of the locomotives of carriers.

FINANCIAL STATEMENTS

AS LATRAILNET CONDENSED ANNUAL REPORT FOR 2014

INCOME STATEMENT

(prepared under the revenue-cost method)

EUR

ITEM	2014	2013
Net turnover	1 177 925	1 147 332
Cost of sales	(478 310)	(478 873)
Gross profit/loss	699 615	668 459
Administrative expenses	(659 512)	(628 598)
Other operating income	9 088	6 425
Other operating expenses	(16 318)	(10 419)
Other interest income and similar income	59	56
Profit before taxes	32 932	35 923
Corporate income tax	(8 805)	(8 846)
Profit after taxes for the reporting period	24 127	27 077

Riga, 26 February 2015



A. Stūrmanis,
Chairman of the Board



G. Lapiņš,
Member of the Board

BALANCE SHEET

EUR

ASSETS	At 31.12.2014.	At 31.12.2013.
1. LONG-TERM INVESTMENTS		
I. Fixed assets		
1. Long-term investments in leased fixed assets	20 490	–
2. Other fixed assets and inventory	20 573	19 967
SUBTOTAL I	41 063	19 967
TOTAL LONG-TERM ASSETS	41 063	19 967
2. CURRENT ASSETS		
I. Inventories		
1. Raw materials, basic materials and consumables	2 181	1 536
2. Advance payments for goods	9 471	5 659
SUBTOTAL I	11 652	7 195
II. Accounts Receivable		
1. Trade receivables	–	107
2. Other receivables	1 752	1 564
3. Prepaid expenses	1 621	5 779
SUBTOTAL II	3 373	7 450
III. Cash	176 937	233 925
SUBTOTAL III	176 937	233 925
TOTAL CURRENT ASSETS	191 962	248 570
TOTAL ASSETS	233 025	268 537

BALANCE SHEET

EUR

EQUITY AND LIABILITIES	At 31.12.2014.	At 31.12.2013.
1. EQUITY		
1. Share capital	35 571	35 572
2. Other reserves	5 416	–
3. Retained earnings:		
a) profit of the previous years	4 206	4 206
b) profit of the reporting year	24 127	27 077
TOTAL EQUITY	69 320	66 855
2. PROVISIONS		
1. Other provisions	21 306	24 630
TOTAL PROVISIONS	21 306	24 630
3. LIABILITIES		
I. Current liabilities		
1. Trade payables	2 863	11 480
2. Amounts owed to related undertakings	8 413	10 031
3. Taxes and mandatory state social security contributions	76 191	98 189
4. Other payables	51 332	53 795
5. Accrued liabilities	3 600	3 557
SUBTOTAL II	142 399	177 052
TOTAL LIABILITIES	142 399	177 052
TOTAL EQUITY AND LIABILITIES	233 025	268 537

Riga, 26 February 2015



A. Stūrmanis,
Chairman of the Board

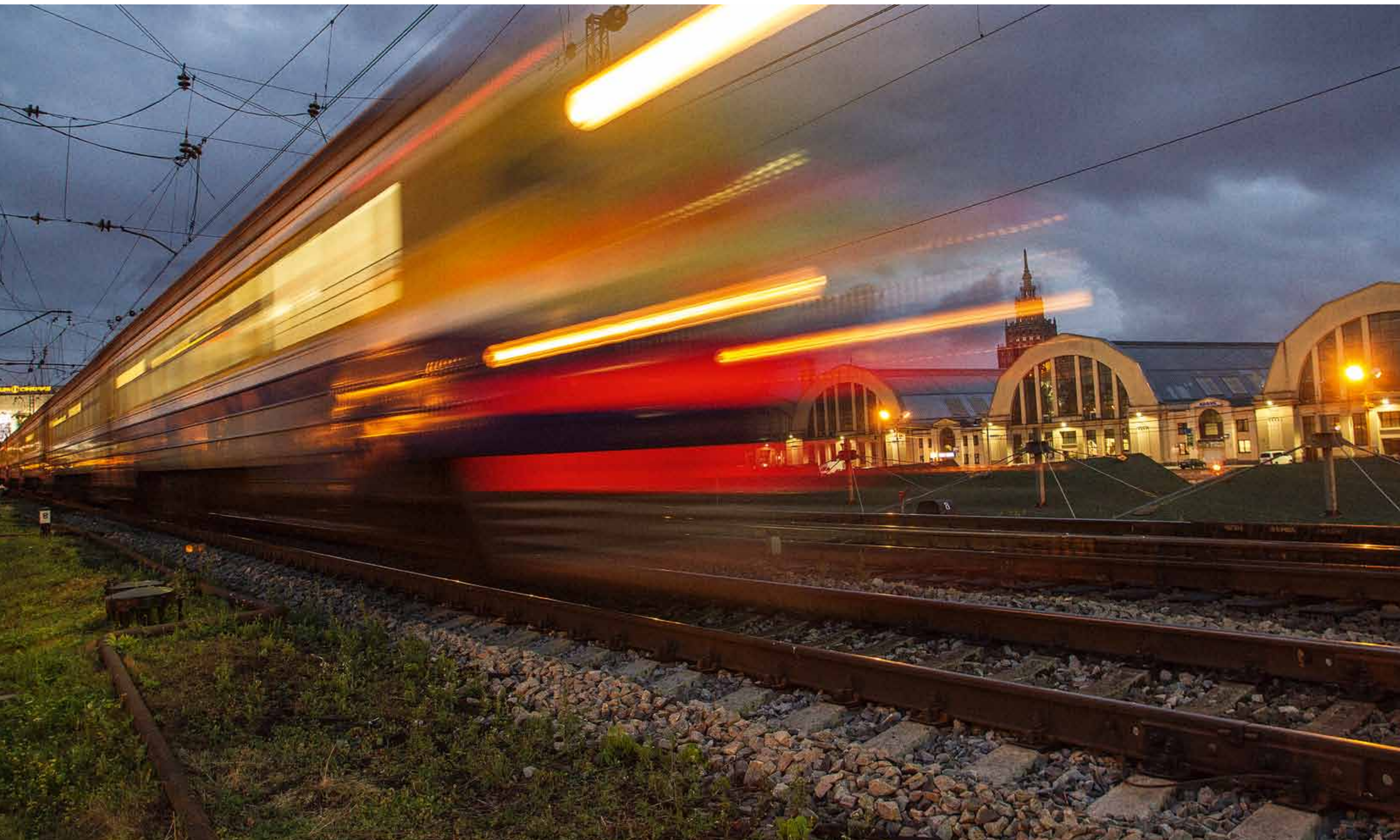


G. Lapiņš,
Member of the Board

NOTES

Basis of preparation of the condensed financial statements

These condensed financial statements, consisting of a balance sheet as at 31 December 2014 and an income statement for 2014, are based on the respective information of the audited 2014 financial statements of AS *LatRailNet* without making any changes thereto. The audited financial statements are available at AS *LatRailNet*. Consequently, these condensed financial statements correspond to the overall financial statements.



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

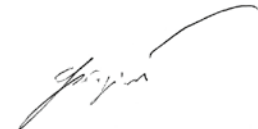
LATVIJAS DZELZCEĻŠ GROUP CONDENSED ANNUAL REPORT FOR 2014

ITEM	2014	2013
Revenue	440 898	439 030
Cost of goods sold	(415 954)	(429 481)
Gross profit/loss	24 944	9 549
Administrative expenses	(32 728)	(31 773)
Other operating income	26 256	33 509
Other operating expenses	(12 515)	(4 591)
Loss from investments in associated companies	(49)	(57)
Income from long-term investments	137	149
Financial income	35	80
Financial costs	(2 552)	(2 423)
Profit before corporate income tax	3 528	4 443
Corporate income tax for the reporting year	(2 367)	(965)
Net profit for the year	1 161	3 478

Riga, 10 April 2015



U. Magonis,
Chairman of the Board



E. Bērziņš,
Member of the Board



A. Strakšas,
Member of the Board



Ē. Šmuksts,
Member of the Board

NOTES

Basis of preparation of the condensed consolidated financial statements.

These condensed consolidated financial statements, consisting of a consolidated statement of the financial position as at 31 December 2014, a consolidated income statement and a consolidated statement of comprehensive income for the reporting year ended on 31 December 2014 have been prepared based on the respective information of the audited 2014 consolidated financial statements of VAS *Latvijas dzelzceļš*, without making any changes thereto. The audited consolidated financial statements are available from the management of VAS *Latvijas dzelzceļš*. Consequently, these condensed consolidated financial statements correspond to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME


LATVIJAS DZELZCEĻŠ GROUP CONDENSED ANNUAL REPORT FOR 2014

ITEM	2014	2013
Net profit for the year	1 161	3 478
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Revaluation of property, plant and equipment	-	73 161
Disposal of revalued property, plant and equipment	(1 987)	-
Deferred income tax on revalued property, plant and equipment recorded directly in other comprehensive income	298	(10 974)
Other comprehensive (loss)/ income for the year	(1 689)	62 187
Total comprehensive (loss)/ income for the year	(528)	65 665
Total net profit and comprehensive (loss)/ income for the year attributable to the shareholders of the parent company	(528)	65 665

Riga, 10 April 2015



U. Magonis,
Chairman of the Board



E. Bērziņš,
Member of the Board



A. Strakšas,
Member of the Board



Ē. Šmuksts,
Member of the Board

CONSOLIDATED STATEMENT OF THE FINANCIAL POSITION

LATVIJAS DZELZCEĻŠ GROUP CONDENSED ANNUAL REPORT FOR 2014

EUR'000

ASSETS	At 31.12.2014.	At 31.12.2013.
NON-CURRENT ASSETS		
Property, plant and equipment	802 294	716 658
Intangible assets	1 617	1 687
Advance payments for property, plant and equipment	29 697	33 349
Long-term financial investments	494	494
Investments in associated companies	145	194
Long-term trade receivables	187	200
TOTAL NON-CURRENT ASSETS	834 434	752 582
CURRENT ASSETS		
Inventories	36 813	34 554
Trade and other receivables	18 157	18 546
Corporate income tax	2 079	2 702
Cash and cash equivalents	80 549	50 663
TOTAL CURRENT ASSETS	137 598	106 465
TOTAL ASSETS	972 032	859 047

CONSOLIDATED STATEMENT OF THE FINANCIAL POSITION

LATVIJAS DZELZCEĻŠ GROUP CONDENSED ANNUAL REPORT FOR 2014


EUR'000

EQUITY AND LIABILITIES	At 31.12.2014.	At 31.12.2013.
EQUITY		
Attributable to the shareholders of the Parent:		
Share capital	256 720	163 529
Long-term investments revaluation reserve	60 498	62 187
Reserves and previous years retained earnings	39 687	127 711
Current year comprehensive income	1 161	3 478
TOTAL EQUITY	358 066	356 905
LIABILITIES		
LONG-TERM LIABILITIES		
Deferred income tax liabilities	27 712	25 894
Provisions	706	780
Loans from credit institutions	131 902	116 755
Other borrowings	2 679	2 817
Trade creditors	7 736	6 918
Deferred income	275 603	215 757
TOTAL LONG-TERM LIABILITIES	446 338	368 921
SHORT-TERM LIABILITIES		
Loans from credit institutions	26 694	22 137
Other borrowings	137	144
Provisions	34 400	30 095
Trade and other payables	63 715	43 766
Corporate income tax	66	7
Taxes and the state compulsory social insurance contributions	15 046	16 793
Deferred income	27 570	20 279
TOTAL SHORT-TERM LIABILITIES	167 628	133 221
TOTAL LIABILITIES	613 966	502 142
TOTAL EQUITY AND LIABILITIES	972 032	859 047

Riga, 10 April 2015



U. Magonis,
Chairman of the Board



E. Bērziņš,
Member of the Board



A. Strakšas,
Member of the Board



Ē. Šmuksts,
Member of the Board





CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR), as a good business practice and organised movement, has been developing since the nineties of the last century, gaining increasing support not only among businesses, but also among consumers who choose products and services from companies with a good reputation and whose daily operations are based on generally accepted business ethics principles. The competitiveness and productivity of businesses is not possible without their involvement in international and global processes. CSR has, therefore, become a part of the corporate strategies of businesses over the past decade.

VAS *Latvijas dzelzceļš* has also been continuing its traditional corporate social responsibility activities, as well as undertaking new activities that meet modern trends. In middle of 2014, LDz CSR committee commenced its work, with the middle-level executives and specialists of LDz being actively involved in the work. The Committee is presided by Uģis Magonis, President of VAS *Latvijas dzelzceļš*. The key areas of CSR activities for the forthcoming five years have been identified – employees, society, the environment, and the business environment. At the end of the year, LDz was already able to reflect on a number of initiatives that were improved or implemented, as well as the new initiatives.

Employees Health improving events

Latvijas dzelzceļš is the largest employer in Latvia – the Group employs more than 12,000 people. It is a great challenge to take care of such numerous staff who is engaged in performing their duties in 528 various occupations across Latvia, often working under the conditions of increased

stress and harsh weather. With a view to creating a work environment where employees can focus on their best possible performance, LDz has been carrying out a number of initiatives.

Considering the efficiency of preventive measures in ensuring good health, under the section *Staff* of LDz's Intranet site, a subsection titled *Vitamins* has been created where employees can regularly read comprehensive information about a set of exercises for workers with sedentary work, exercises for the eyes, which get tired while working at the computer, and reminders of the importance of healthy eating and personal hygiene habits during the outbreaks of respiratory diseases.

Latvijas dzelzceļš encourages employees and their family members to take part in big popular sporting events as well as organises the events. On 4 May 2014, despite harsh weather conditions, nearly 30 of the *Group's* employees took part in the *Race of the Strong*, which was full of various challenging obstacles, such as a mud bath, scratchy bushes and other challenges, as well as an ice-cold water shower after reaching the finish line. On 18 May, 288 of the *Group's* employees and their family members took part in the

Nordea Riga Marathon, all wearing shirts with the LDz logo, and ran a distance of five or ten kilometres, or half-distance or full-distance marathon.

VAS *Latvijas dzelzceļš* and its dependent companies are long-term business partners of the annual *Unity Bike Race* that takes place in Sigulda, and each year, quite a few railwaymen are there on the start line. In 2014, 188 railwaymen took part in the sport bike, mountain bike and *Popular Race* events. After the race, the employees and their family members enjoyed traditional soup at the *Unity Square* in Sigulda, while sharing memories of the difficulties up to the finish line in the last kilometre up the River Gauja Valley.

The *Group's* sports games held annually at the recreational campsite of *Latvian Railwaymen and Transport Industry Trade Union* (LDzSA) *Virogna* brought together the best and physically strongest teams of the Company's structural units and dependent companies. For three days in the middle of summer, nearly 700 employees and their family members – supporters – were engaged in varied sports activities, played football, wrestled, played ball, sang songs and danced, enjoying the sun and networking.

Promoting involvement and competence

Preventive work is of utmost importance in terms of the involvement of employees in the assessment and minimising of work environment risks to create safe and optimal work conditions for the performance of their job duties, as well as promoting awareness of the staff of the required and mandatory actions in an emergency. In 2014, the *Group* organised five practical workshops on emergencies in different places (Riga, Jelgava, Daugavpils, and Liepāja). Such workshops are necessary so that staff, upon hearing the alarm going off, knew what to do in an emergency, were aware of escape routes and would not give in to panic, which can endanger human health and life. During the year, more than 500 of the *Group's* employees were involved in the workshops. Emergency and Recovery Resources Department of the Technical Inspection of VAS *Latvijas dzelzceļš* is responsible for organisation of workshops and assessment of the results thereof, as well as recommended future solutions.

In 2014, ambitious training on emergency situations on the railway was organised in Riga, Ventspils, and Daugavpils



with a view to verifying and improving the readiness of the employees of LDz and other stakeholders in the face of emergency situations, such as leakage of hazardous substances, improving their skills, cooperating with freight carriers, recipients, state and municipal institutions, NGOs, emergency medical care, Disaster and Medical Centre, the State Police, etc., jointly taking action to eliminate potential accidents and environmental hazards. The representatives of regional and national media also took part in emergency training and reported to the public on the progress and the experience gained at the training. Practical training on handling the situations of accidents involving hazardous cargoes with the station unit staff was held in 27 stations, with about 100 people attending.

Considering the experience of professionals and employees involved in the daily activities of the company on job safety matters, a new system was developed for the assessment and reducing of work environment risks. The Technical Inspection of VAS Latvijas dzelzceļš is in charge of the system. To receive practical recommendations, professional assessment of the developed job safety and actions instructions, at the

end of 2014, the e-mail address tehniska.inspekcija@ldz.lv, in which the Group's employees and business partners share their experiences and recommendations regarding railway safety to reduce work environment risks related to railway safety (not limited solely to it) became functional.

Research

For the second consecutive year, the Group has been implementing an extensive and a very significant project – an internal research. It was aimed at identifying the awareness of employees of developments at LDz, their loyalty, job satisfaction and other key matters, as well as to identify bottlenecks that needed to be eliminated, and improve work conditions and the daily routine. The results obtained were used to improve the Group's flow of information, understanding the needs of people, identifying and eliminating problems.

According to the results of the research, overall, the LDz employee involvement index has remained high, having even increased slightly – to 72 in 2014 from 69 in 2013. It was quite similar in all structural units and subsidiaries. The employees demonstrating the highest involvement were the employees of the

The largest gifts/donations made in 2014

To the foundation Latvijas Bērnu fonds	60,000 EUR by SIA LDz Cargo
Society Resursu centrs sievietēm «Marta»	42,686.15 EUR by VAS Latvijas dzelzceļš
Foundation Bērnu slimnīcas fonds	71,143.59 EUR by VAS Latvijas dzelzceļš
Foundation Invalīdu un viņu draugu apvienība «Apeirons»	21,343.08 EUR by VAS Latvijas dzelzceļš
Society Latvijas specializētā neatkarīgā tenisa akadēmija	28,457.44 EUR by VAS Latvijas dzelzceļš
Society Pēdas LV	42,686.15 EUR by SIA LDz RSS



Directorate General and Signalling and Communications Maintenance Workshop. The employees of LDz are becoming increasingly proud of being part of LDz and are of the opinion that the Company is developing. Eighty-seven percent of respondents said they were proud to be employees of Latvijas dzelzceļš. Compared to 2013, employees appreciate peer motivation more. The reputation of the Group has also improved in all aspects.

In the fourth quarter of 2014, qualitative research *The Impact of Psycho-emotional Factors on the Labour Capacity of Train Drivers and Their Assistants* was carried out for the first time. In terms of the traffic safety chain, a human being is the weakest link, as most accidents occur due to the human factor rather than technical reasons. With a view to exploring the impacting negative factors, a group of train drivers and their assistants was selected for the pilot project study, given that these are the key occupations in railway traffic. Psychologists interviewed 10% of train drivers and their assistants across all Latvian regions, pro-rata to the number of employees – one hundred people in total. Each individual was interviewed under the guidance of a professional psychologist for about half an hour.

Society
Supporting the needs of society

VAS Latvijas dzelzceļš is one of the largest Latvian companies, it is therefore our duty and philosophy to engage in processes that are critical for the country as well as its population. The principles underlying granting of gifts/donations by the Group cover all the areas specified in the Law On Prevention of Squandering of the Financial Resources & Property of the State & Local Governments – education, science, culture, art, sports, health, social assistance and environmental protection. The granting of gifts/donations is part of the Group's corporate social responsibility. Gift and donation projects are charity work the Group's companies undertake, which may take the form of gratuitous assistance in various social activities based on the concluded gift/donation agreement. In 2014, LDz received nearly a hundred gift/donation applications (projects). Fifty-two applications for 190,634 EUR were accepted.

Latvijas dzelzceļš supports projects related to Latvian culture, education, sports, social and environmental, as well as other projects of public interest, considering the topical issues for the public. VAS Latvijas



dzelzceļš and the subsidiaries thereof make contributions in accordance with *Law On Prevention of Squandering of the Financial Resources & Property of the State & Local Governments*, upon receiving the shareholder's consent and the authorization of the Minister for Finance, as well as in compliance with the *Latvijas dzelzceļš Group marketing communication policy* approved by the management board of VAS *Latvijas dzelzceļš* and binding upon all the Group's companies.

Long-term cooperation with special boarding schools

Latvijas dzelzceļš and its employees continued their close cooperation with specialised boarding schools located at Rauda and Medumi. In January 2014, the delegation of the representatives of VAS *Latvijas dzelzceļš*, traditionally led by the internal communication's project manager Māra Baumanē, headed for the boarding schools with New Year's gifts prepared and donated by the employees (table games and materials for crafting), as well as the Latvian Puppet Theatre troupe with the performance *The Sun and the Little Snow Humans*. After the performance, the actors helped the children from the Medumi specialised boarding school present the

puppet performance staged by themselves to the visitors from Riga and Rauda.

At the end of the 2013/14 school year, the annual traditional sports games organised by *Latvijas dzelzceļš* for the pupils of the Medumi and Rauda specialised boarding schools were held at LDZSA recreational campsite *Virogna*. These games were organised by the staff of the LDZ Communications Directorate outside their normal working hours. As pointed out by the headmasters of both schools, the children had been long waiting for this day to come. Meeting railwaymen at the sports games, Christmas or any other occasion, is a big event for these boys and girls, and railwaymen are invited to visit and are always welcome to the events that are important to the schools and their pupils. This year, graduates received special gifts prepared by VAS *Latvijas dzelzceļš* and its subsidiaries – assistance for independent life after school.

For the sixth consecutive year, the charity *Palīdzēsim.lv* in cooperation with the hockey club *Dinamo Riga*, the *Week of Good Work* has been organised, when everyone was encouraged to do something good. In response to this invitation, *Latvijas dzelzceļš*, for the second consecutive year, provided an opportunity

to fifty pupils of the Medumi and Rauda special boarding schools to visit the Lido recreational centre, as well as a hockey game between *Dinamo Riga* and *Baris Astana*. A number of LDZ employees volunteered to organise the event.

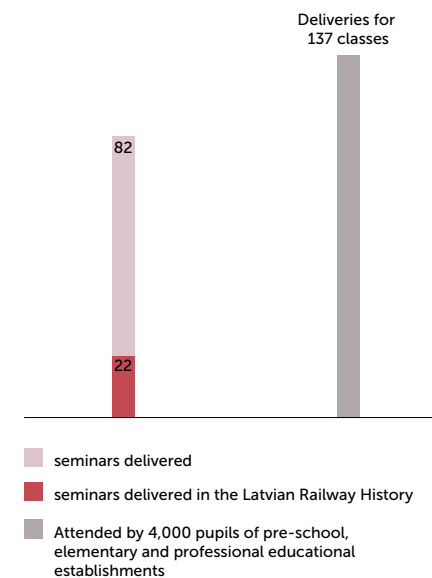
Furthermore, in the autumn of 2014, VAS *Latvijas dzelzceļš* supported the Christmas drawing competition organised by the European Railway and Infrastructure Companies Community (CER), organising a drawing competition for Latvian children with a theme of the *Christmas Gift Train*. More than 60 works were received, including those from Rauda and Medumi specialised boarding schools. Six drawings were sent to Brussels, where the drawings by Aniela Lepuhova, Diana Mikhailovskaya, Sandra Dzene and Dārta Eve Voiceščuka were exhibited in the children's drawing exhibition at the CER headquarters during the celebrations.

Just like every year, the employees of *Latvijas dzelzceļš* headed for Rauda and Medumi around Christmas time to create a festive mood for children who had gone through many difficulties. Alongside the traditional Christmas gifts – sweets – the Christmas elves of *Latvijas dzelzceļš* brought other gifts to pupils – sportswear. The Latvian Olympic Committee helped to provide this.

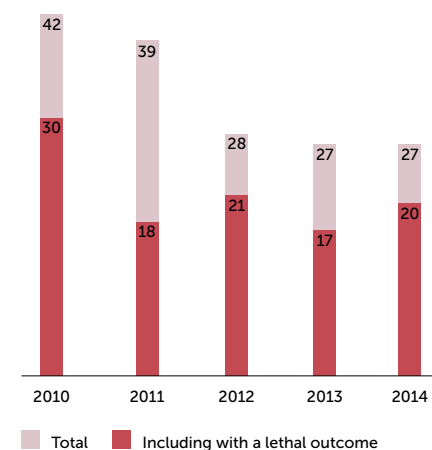
Social campaigns on safety

The railway is alluring, however it is a high-risk territory, therefore the employees of VAS *Latvijas dzelzceļš* keep reminding that the railway is no place for playing and strolling. Latvian Railway History Museum regularly holds lessons on security, and the Latvian railway workers go to schools, particularly those close to the railways to keep reminding of how dangerous it is to play near the railway, that one should cross the track carefully and how to behave at the train station and near the rail tracks. In 2014, 82 lessons (whereof 22 were held in the Latvian Railway Museum) were delivered to 137 classes, overall engaging nearly 4,000 pre-school, general and vocational education establishments, as well as various cases were role played during children's spring and summer camps. (grafikā vai tabulā) In analysing the cases, the pupils found the correct answers to memorise and avoid confusion should a similar situation occur in real life. Hundreds of children learned about safety near rail tracks, visiting Latvian Railway History Museum on the Night of Museums.

About safety near rail tracks



Number of injured people and casualties on Latvian railways



Latvian Railway History Museum





In 2014, there was a special focus on specialised schools, where children with physical, visual, hearing or mental disabilities study.

For the third consecutive year, railwaymen alongside the employees of the State Police, the State Fire and Rescue Service, *Latvijas gāze* and other service providers, LDz has been actively involved in the exhibition *Children's World* with a view to informing several thousands of children and their parents about the risks near rail tracks and involve them in games and competitions, thereby widening their knowledge. The fact that, in 2014, no children (negadījumi ar bērniemstatistika) were injured in rail accidents in Latvia, gives hope that the educational programme on safety near rail tracks implemented by VAS *Latvijas dzelzceļš* for more than ten years already, made the public – and especially children – aware of the behaviour rules near railways, as well as the hard consequences of failing to abide by them.

In May, August and November 2014, LDz carried out the *Hear it! See it! Live!* on safety near rail tracks, encouraging everyone to be especially careful near the railway. Conversely, the campaign *Make the right decision!* highlighted the habits of crossing rail tracks, because far too many traffic participants, including drivers,

motorcyclists and cyclists, pedestrians and even young mothers with prams – fail to comply with the signals forbidding moving across railway tracks, thereby endangering their lives and others, as well as creating significant risks to railway traffic safety.

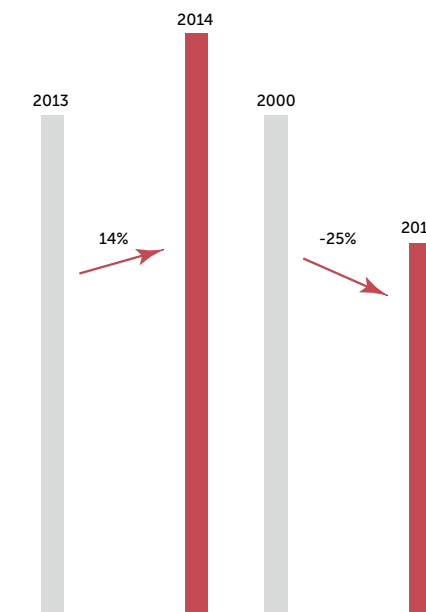
During the reporting year, LDz financially and organisationally continued cooperation with the creative team of the annual film *Long live children!*, creating educational videos about the risks associated with climbing below and over train wagons; crossing of railways in unsuitable and dangerous places or manner. The film is targeted at school pupils, and this film is included in the general curriculum to inform children and young people about personal safety.

Preserving industrial heritage

Latvian Railway History Museum plays a critical role in the research, preserving and spreading of knowledge of the documentary and industrial heritage of Latvian railway transport and industry. Preserving and promoting the history of the railway industry is one of LDz's social responsibility components, carried out by the Latvian Railway History Museum for 20 years now. In 2014, the Museum supplemented its collection with 275 items and provided various pieces of advice to researchers, artists and other stakeholders.

The museum's collection is the largest railway history repository in Latvia, comprising 19,079 items in total. In addition to research work, the museum promotes the railway industry among students and families through expositions, exhibitions, events and campaigns. They represent the key audience of the Museum. In 2014, the Railway Museum was visited by 73,021 people, 367 tours were guided and 89 activities of other kinds occurred. To preserve the heritage of railway history for future generations, in 2014, in cooperation with the *Vides filmu studija* an educational film on the now vanishing railway device – electric staff instrument; a wagon dating back to the start of the 20th century and intended for carrying prisoners has been restored; the old clock of *Majori* station building has been renovated and the restoration of the ER2 head wagon has been started; the exposition *From a semaphore to dispatcher centralisation* has also been opened.

Specific emission of CO₂ and other emissions from locomotives used for transporting



Environment

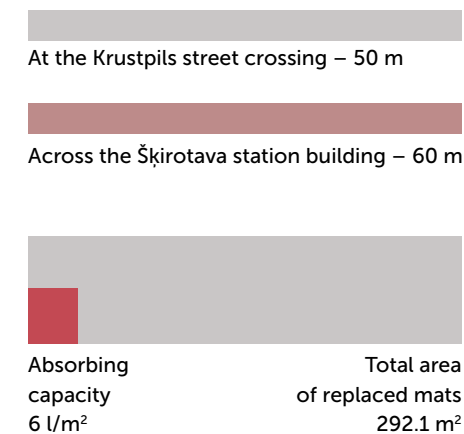
Although trains are acknowledged as one of the most environmentally friendly means of transport, they nevertheless has a certain impact on the environment. The greatest impacts are the emissions of railway transport into the atmosphere and noise, which adversely affects not only the environment but also human health. The questions about the impact of railway operation on climate changes and the energy efficiency of the provided services/production processes are also becoming increasingly important. As one of the largest employers in the administrative, economic and industrial areas across the country, VAS *Latvijas dzelzceļš* is aware of the important role it plays in preserving the environment and ensuring its sustainable development.

In order to promote public awareness of the activities carried out by VAS *Latvijas dzelzceļš* and its subsidiaries concerning the environment, the amount of information published in its website *www.ldz.lv* has increased greatly. Since 2014, everyone can get acquainted with the *Group's* environmental policy, its objectives, principles of their implementation, directions of action, as well as the results of the environment monitoring, particular projects, the progress thereof and other environment related information.

In November 2014, the mats absorbing oil that were laid on the tracks at the places of locomotive stops at the Krustpils street crossing (50 m) and on the deadlock 19T across Skirotava station building (60 m) in 2013, were replaced to prevent the rail track ballast and the soil below it from being polluted with by oil product leakages from locomotives. The total area of the fitted in mats was 292.1 m², and their absorption capacity was 6 l/m². The structure of the mats enables holding oil product pollution in the absorbing layer, while water released through the polyester geotextile material and refined, would get into the ground.

At the time of replacing the mats, it was identified that the results are obvious and the benefit is immense because the ballast layer was clean, almost as clean as at the time when it was changed in 2013. The disposal of absorbents takes place in accordance with the effective laws and regulations. Technical and financial capabilities, as well as the need to equip other locomotive parking in other places with such oil absorbent mats are currently being considered.

Specific CO₂ and other emissions from transport locomotives used for freight carriage slightly increased in 2014 (up by 14% against 2013), which can be explained by the reduction in the average weight of the freight trains. The overall



LDz and environment
In November 2014, the oil absorbent mats were replaced



trend, however, persists – the volume of emissions is declining (the emission is down by 25% compared to 2000).

At the Indra and Rezekne stations, the gutter system in the locomotive parking places to protect the rail track from being polluted with oil products has been in use for several years now. Leakage from oil products is gathered into drains and, through the underground sewerage system, discharged to specialised wastewater treatment plants. The gutters are made of fibreglass material, while their walls are made of concrete. The gutters, same as mats, are fitted on the rail track sleepers. The environmental remediation was done before fitting the gutters – the contaminated soil was excavated and new track ballast was laid in. Specialised treatment facilities that collect oil from the gutters, purify water to such an extent that it can be discharged back into the environment, while the collected oil products are transferred for disposal to a licensed hazardous waste management organisation. There is a reason to believe that the risks to the environment associated with railway operation have been significantly reduced, however, it can always be better, therefore the work on environmental conservation and recovery issues is being continued.

Business Environment

During the reporting year, VAS *Latvijas dzelzceļš*, on the basis of the Uniform Service and Support Service, created a new toll-free phone line 80001181 and the email address uzzinas@ldz.lv, that is used to ensure the provision of inquiry services, as well as receiving applications for improvements and complaints concerning *LDz* services, provides advice regarding passenger domestic and international train traffic and related matters on a 24-7 basis. The system established by the Service provides for the tracing of handling the questions submitted by telephone and electronically up to the response provided to the submitter. The document management system (DPS) that was introduced back in 2010, provides the traceability of the correspondence received at the back office of *LDz*, as well as responses provided to submitters.

LDz treats its customers and business partners fairly, openly and honestly, always provides top quality services and respects the principles of fair cooperation.

To identify the view of its customers and business partners on the hitherto cooperation, as well as informed recommendations on improvement, at the

end of 2014, *LDz* surveyed its customers and business partners. The survey was conducted using qualitative interviews with the representatives of businesses and organisations. Twenty-three interviews were held. In general, respondents viewed the cooperation with *Latvijas dzelzceļš* as positive or mostly positive. In providing their evaluations, customers were somewhat more critical and also more specific than business partners. Nearly half of the respondents were of the view that positive changes had occurred in the operations of *LDz* over the last two years. The key areas for improvement in the view of the respondents were improving communications, better services to meet customers' needs, a more flexible attitude to the calculation of fines, as well as speeding up decision-making and the implementation of decisions. Based on the recommendations provided during the survey, the *Group* intends to enhance cooperation with customers as well as business partners, and to implement a number of informative and educational events aimed at these target audiences.

To promote the development of customers, business partners and of the entire transport sector, in 2014, *Latvijas dzelzceļš* organised an international transport conference, *Global Transport Traffic Vision 2030*, which was attended by international as well as local key-note speakers. The conference gained high appraisal among industry professionals, and it has therefore been decided to turn it into an annual event.

In 2014, *LDz* also continued to participate actively in various non-governmental organisations with a view to defending its interests, as well as contributing to the development of the entire transport sector as well as the national economy. *LDz* is an active member of the Latvian Confederation of Employers, the Latvian Chamber of Trade and Commerce and the Latvian Transit Business Association, and the *Group's* employees are represented in the management of these organisations, as well as provide their professional contribution in various working groups.

In 2014, the CSR committee initiated and its work group led the development of *LDz* Code of Ethics. In December 2014, the Code was approved by the President council. The principles and rules contained in the Code of Ethics are binding on employees with regard to their attitude

towards work and mutual communication, as well as lay down the business principles of *LDz*, relations with public and non-governmental institutions and business partners, based on the *Group's* core values: development, responsibility, security, and cooperation.

A number of other *LDz* internal documents, as well as in the external law governing the business area lay down general terms and conditions applicable to the operation of the *Group* (such as internal rules of conduct, Railway technical operation rules, the *Law on state and municipality capital shares and capital companies*, etc.), while the Code of Ethics lays down the basic requirements for *LDz* operations (such as the principles of commercial practices among companies, relations with the shareholder, public authorities and other stakeholders, confidentiality and compliance with other requirements), so the documents are complementary and consolidating rather than excluding each other.

2015 priorities

Carrying on focused work in the field of CSR, *LDz* corporate social responsibility committee members have identified the following priorities for 2015:

Employees – continue to develop the range of health-improving events, with a special focus on communicating on smoking-related hazards and offering a healthy alternative; carry out internal surveys to measure the results and identify a range of problems; improve the information circulation system, highlight the role of the middle-level and line managers in terms of information circulation.

Environment – activities aimed at energy consumption reduction by encouraging employees to rethink their energy consumption habits; relation of environmental issues to manufacturing processes; a focus on green procurement.

Society – involve the *Group's* employees in the charitable activities supported by *LDz*; improve social marketing campaigns on safety near the rail tracks.

Business environment – implementation of the principles of the Code of Ethics and promotion thereof within the *Group*; versatility and regularity of educational activities aimed at suppliers and business partners.



A new toll-free number
8000 1181
has been brought into use

23 interviews conducted

Approximately half of the respondents think that *LDz* operations have undergone positive changes in the last two years

Survey of *LDz* business clients and partners





