

OVERVIEW OF LATVIJAS DZELZCEĻŠ BUSINESS RESULTS 2017



LATVIJAS DZELZCEĻŠ

Summary and expert's commentary

Analysing long-term processes through a short-term prism is not anything unique or typical of just our society. This is a problem for almost all publicly listed companies worldwide. This approach particularly affects businesses that need large capital investments or operate in the fields whose results are cyclic, seasonal or depend on short-term factors.

The ongoing processes in the field of cargo and passenger transportation should be

evaluated on a long-term basis, avoiding the method of assessing results for just one-two years, which has been used so far along with choosing incorrect reference points frequently. For example, when comparing business results of the Baltic ports (not ignoring at all the growth of Klaipeda in the last years), we can see that in **2017 Latvian ports handled almost a half of the total cargo volume handled by ports in the Baltic States, i.e. nearly as much as Klaipeda and Tallinn together.**

CARGO VOLUMES HANDLED BY STEVEDORES OPERATING IN THE BIGGEST PORTS OF THE BALTIC STATES (millions of tons) 2010–2017



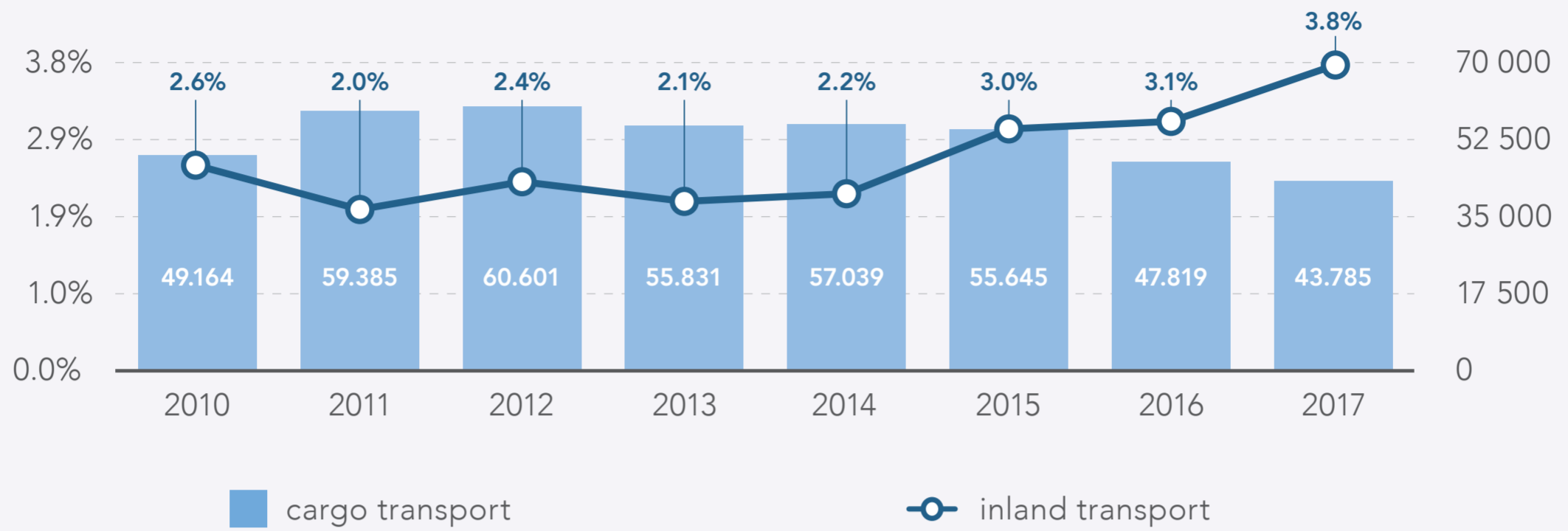
The competitiveness and sustainability of ports is characterized not only by the volume of handled cargoes, but also by the ability of ports to ensure and serve cargo traffic in both directions. The share of received cargoes in the total cargo volume becomes particularly important when political, not economic reasons prevail in choosing the port of embarkation. Although each port has developed this indicator in its own way, now it has stabilized on a very similar level.

The role of Latvian railway company "Latvijas dzelzceļš" (LDz) in ensuring cargo traffic is as important as the role of ports. The company has a double mission, which includes the management and maintenance

of infrastructure, as well as the provision of infrastructure services for cargo and passenger transportation.

The aggregated operation results show that in 2017 railway cargo traffic decreased by around 4 million tons as compared to 2016. The downturn started in 2015, when the volume of import cargoes received from Russia started to decrease following geopolitical situation changes. One of the responses of LDz to the changes in cargo traffic structure, along with active work in the direction of China and South Asia, were the attempts to increase inland cargo traffic volume, the share of which increased from 2.6% in 2010 to 3.8% in 2017.

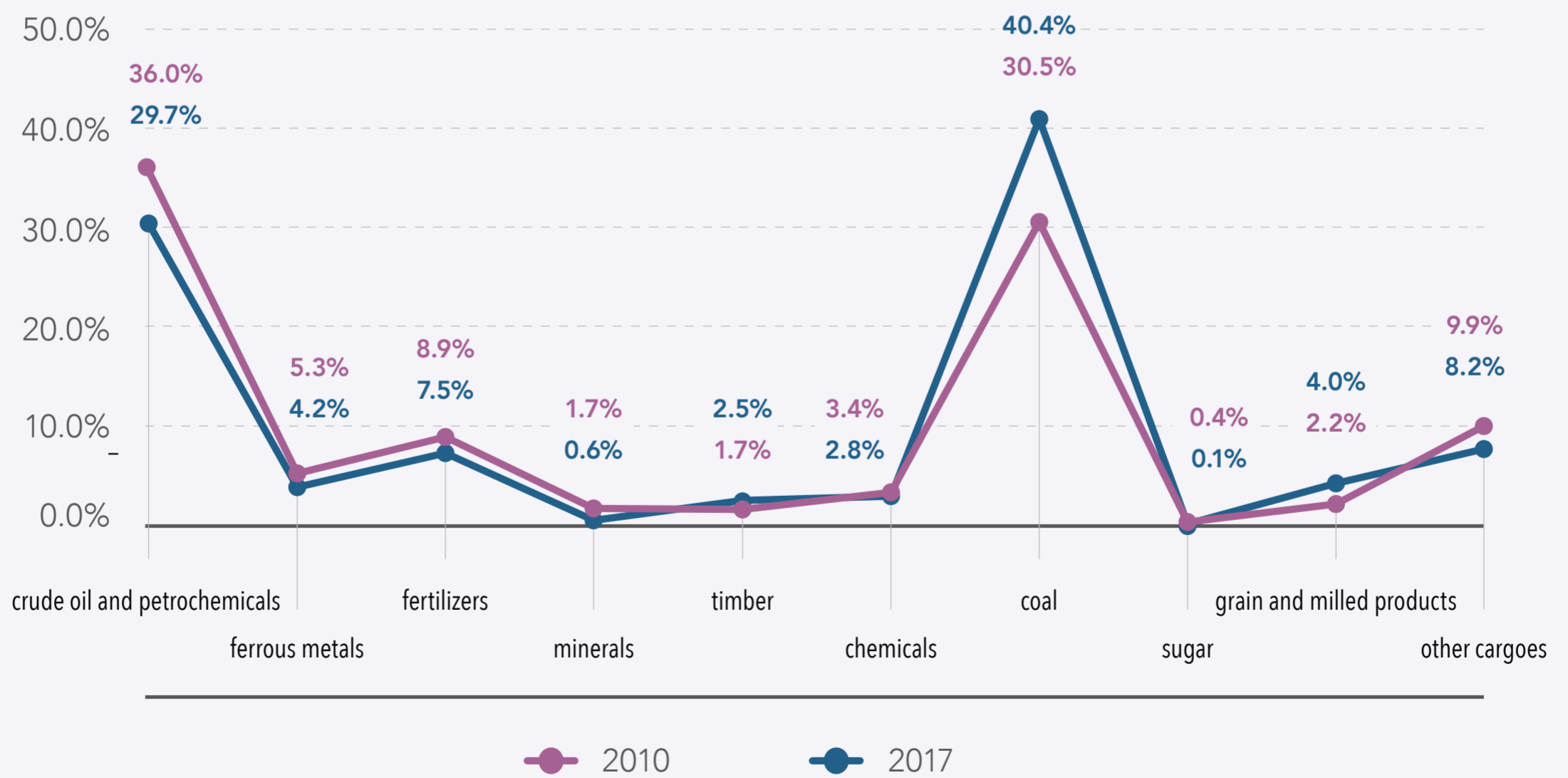
SHARE OF LDZ CARGO TRAFFIC (thousands of tons) AND INLAND TRAFFIC (%) 2010–2017



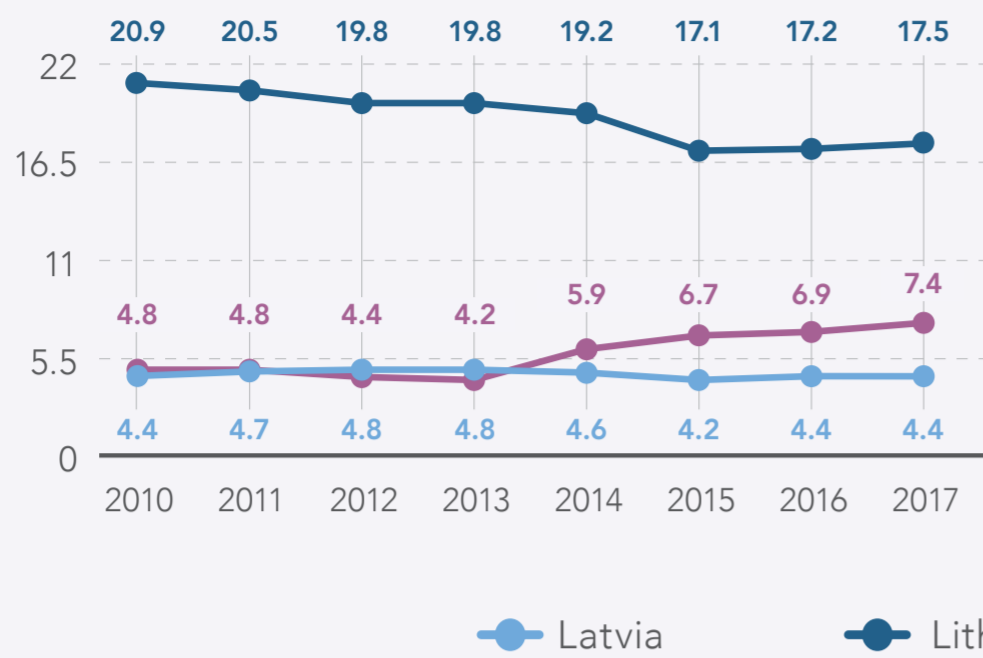
Despite the decline in cargo volumes, there were only minor changes in the structure of railway cargo traffic as compared to 2010. The

share of transported coal has grown by 10.5%, whereas that of crude oil and petrochemicals decreased by more than 5%.

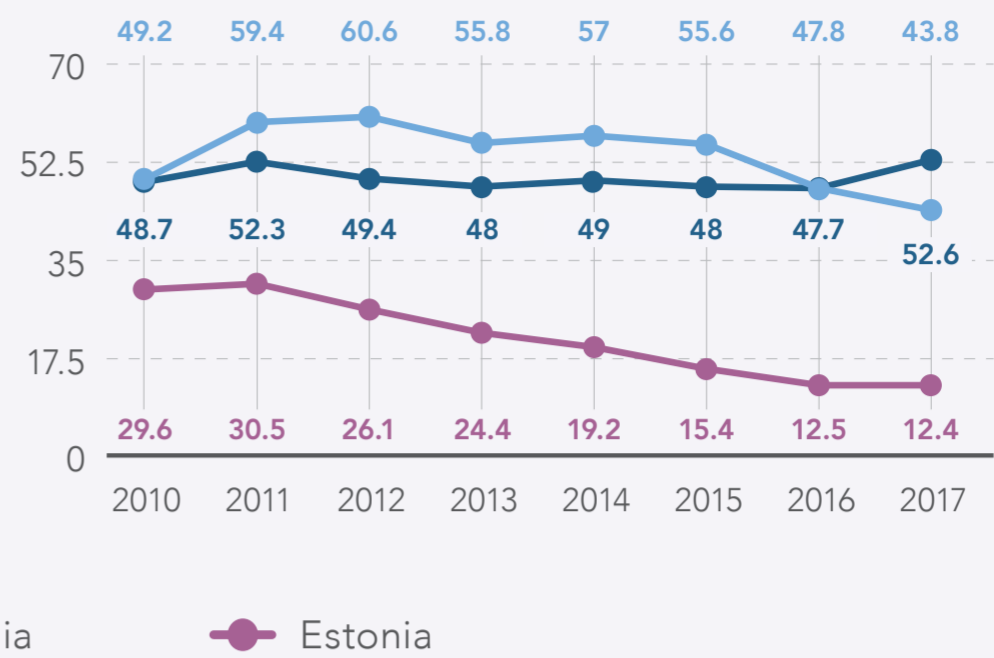
STRUCTURE OF LDZ CARGO TRAFFIC (%) 2010 AND 2017



RAILWAY PASSENGER TRAFFIC IN THE BALTIC STATES (MILLIONS OF PASSENGERS) 2010–2017



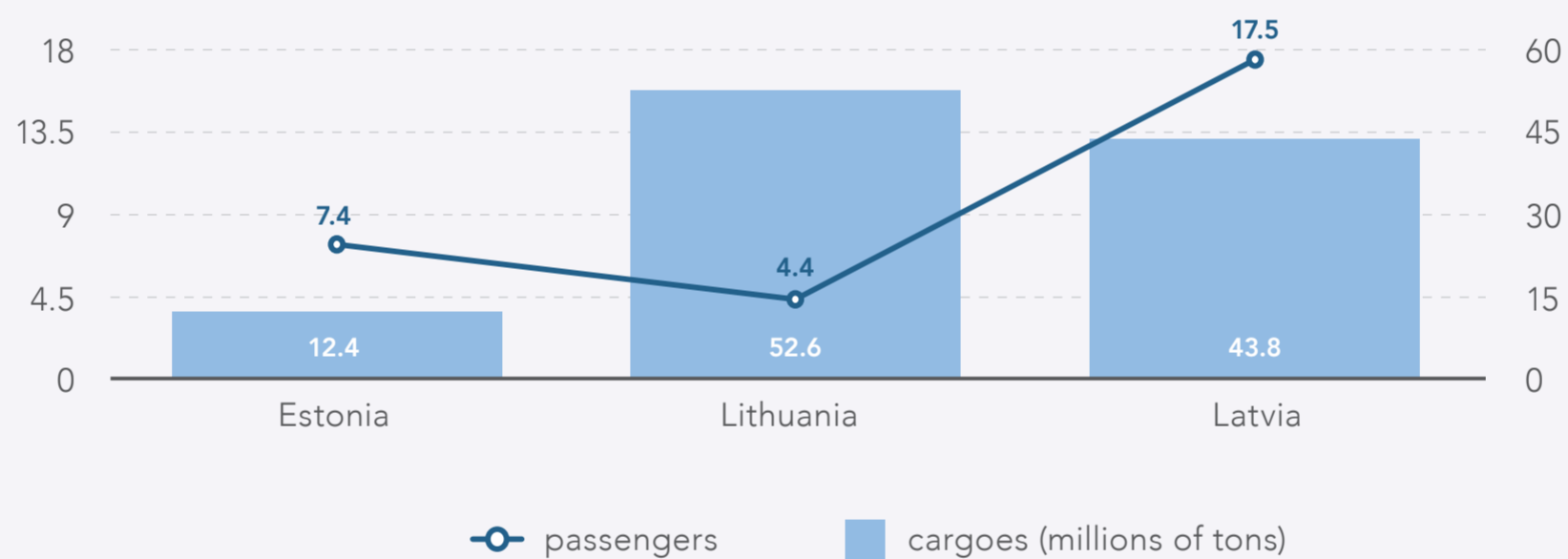
RAILWAY CARGO TRAFFIC IN THE BALTIC STATES (MILLIONS OF TONS) 2010–2017



During the period of 2010-2017, Latvia was the leader in terms of total cargo and passenger transportation volumes among the Baltic

States. In 2017, Latvia carried almost four times more passengers by railways than Lithuania.

PASSENGER (millions of passengers) AND CARGO TRAFFIC (millions of tons) IN THE BALTIC STATES 2017



The management and maintenance of infrastructure, which is a part of LDz mission, is much more difficult to review and evaluate than the results of cargo and passenger traffic. Of course, we can always use a very narrow interpretation saying that the infrastructure quality shall be reflected in its use results. Yet such an approach would deliberately ignore the achievements of LDz in upgrading its infrastructure. For example, during the period of 2010-2017, LDz invested EUR 782,8 million in infrastructure maintenance and development projects, and there is no doubt that it will be possible to see and evaluate the return from a majority of these projects in the

long run only.

Numbers are unemotional and show results and trends, yet they do not always explain causes and do not reflect the activities and efforts, whose results we will be able to analyse only in the future. For example, today it is too early and even impossible to quantify the investments and efforts of ports and LDz in developing new services and attracting new clients and cargoes. Establishing new ways for trade and cargo traffic is a long-term task, which cannot be implemented in one or two years' time. Today's achievements will be visible in numbers 5 – 7 years later.

Aivars Jūrcāns

finance and investment expert



Edvīns Bērziņš, Chairman of the Board, state-owned JSC "Latvijas dzelzceļš"

2017 was a year full of challenges for transport industry in Latvia and worldwide. Therefore, Latvian cargo carriers and port terminals, as well as our colleagues abroad had to seek ways to become more effective, develop contacts with new partners and look for new clients.

As a railway infrastructure managing company, we see that clients still willingly choose Latvia's transport corridor to deliver their cargoes to Latvian ports. It is important that this year client demand for transportation of cargoes, using the infrastructure of "Latvijas dzelzceļš", is nearly three times higher than the volumes approved for transportation in our direction. This is an evidence of Latvian transport corridor being highly competitive. These indicators make us to hope that next year the volume of cargoes sent to our ports will correspond to the real market situation.

Although last year the tonnage of cargoes transported by our infrastructure decreased, the distance to which cargoes were carried became longer, as clients sent cargoes to more remote ports. An increase in the volume of cargoes handled in the ports of Liepāja and Ventspils confirm it.

The new partnerships established last year

with "DHL", the port of Duisburg, Khorgos cargo terminal, the "Big Stone" in Belarus, as well as the agreements signed with Indian and Iranian partners open up new opportunities for the long-term development of the Latvian transport corridor. Of course, cooperation in such a format does not guarantee an immediate result, yet in the future it will make, together with planned infrastructure development projects, an important contribution to increasing the competitiveness of the Latvian transport corridor.

There is a popular saying that nothing is as constant as changes. One can certainly say that in our industry changes will continue also this year. Not only new routes, but also technologies will be developed and put in place. Data processing and digitalisation, as well as the development of new, client-oriented solutions will play an increasingly important role in our industry. Despite different external factors, for example, changes in prices of energy resources or geopolitical events, the implementation of new technological solutions, as well as investments in infrastructure play a significant role in ensuring our long-term international competitiveness.

A year in cross-section: the industry expands geography of its operations

It has long been clear, even before the geopolitical events of last years, that in the transport and logistics industry a breaking point will be reached sooner or later, when changes will have to be started. Since the end of the last century, Russia made no secret of its plans to develop its ports in the Gulf of Finland on the Baltic Sea, which would inevitably affect the operation of the Latvian transit corridor. True, the political situation of last years speeded up the implementation of these plans, which is now reflected by a decrease in the industry's operation volumes in Latvia.

It must be admitted that there is some inertia in the industry and changes do not come fast, that is why transport and logistics companies did not feel their impact in 2014 and even in 2015, when international sanctions had been already in force for some time, but only in the last two years. Therefore, many of them responded to these events with some delay, yet the changes which occurred in the industry in 2017 show that now everybody is aware of the reality and is working actively to strengthen the already existing partnerships and to find new ones in directions, which the industry's companies have not considered at all so far, for example, not only the direction of China, but also that of South Asian countries. One of the most important trends are the growing prospects of container transport that we can see worldwide. Traditionally, most cargoes are carried by sea, yet the European-wide initiative of developing land container transport gradually furthers the development of new multimodal route, a task on which "LDz Logistika", a subsidiary of "Latvijas dzelzceļš", worked actively last year. As part of these efforts, in 2017 the delivery of two fully loaded container trains from the port of Riga to the city of Kashgar in the western part of China was organized, and a container train went via Riga to the port of Rotterdam from Urumqi, which is located close to the Chinese-Kazakh border.

The participation of the Latvian transport and logistics industry in exhibition "Astana EXPO 2017" last summer laid foundations for closer cooperation with Kazakhstan, which ensured that in autumn Riga welcomed Kazakhstan's First Deputy Prime Minister Askar Mamin, who has a wide professional experience just in the field of transport and logistics. During his visit, several important contracts were signed between the railway companies of Latvia and Kazakhstan, as well as a cooperation memorandum on joint participation in the development of the Khorgos logistics hub on the border with China. It must be emphasised that the development of land transit corridors resulted in a new trend – the building of land "ports" or logistics hubs. One can mention as examples Khorgos, as well as the "Big Stone" near Minsk in Belarus, in the construction of which both Chinese and Belarussian companies are involved, and also Duisburg, the world's leading land port.

To keep Latvia's positions and develop it as an important logistics hub for Eurasian cargo traffic, in 2017 the Ministry of Transport and the management of Latvia's three largest post, as well as that of "Latvijas dzelzceļš" worked on promoting our transit corridor in the Chinese provinces of Chengdu and Shenzhen, the Indian cities of Mumbai and Delhi, had several meetings with the industry's management in Iran, etc.

In the direction of China, a very strong partnership was established last year between "Latvijas dzelzceļš" and "DHL Global Forwarding", one of the leading global logistics companies, which sees the advantages of Latvia as an important logistics hub in creating efficient connections with Nordic countries. To discuss the prospects of this direction, "DHL Global Forwarding" CEO Steve Huang visited Riga last November to meet the leading companies of the industry – representatives of ports, railway and stevedoring companies. A detailed study of Scandinavia's potential is among

the industry's priorities in 2018.

At the same time, despite geopolitical processes in our region, the industry's cooperation with partners from the nearest neighbouring countries, particularly from Russia and Belarus, remains very close. Last year representatives of the industry participated in the leading transport and logistics expositions in Russia, while continuing successful day-to-day cooperation in providing cargo transportation services. In Belarus, "Latvijas dzelzceļš" opened its representation office, whose task is to further cooperation with the neighbouring country's transport and logistics industry and industrial plants which would be interested in using Latvia's transit corridor to transport their goods.

As a result of this close cooperation, last autumn the railway companies of the two countries agreed to create a new cargo express train Minsk–Riga that shall be organised at request within 28 hours and will

ensure fast and efficient cargo transportation. Furthermore, it will enable the attraction of cargo traffic from the "Big Stone" mentioned above.

It is essential that the position of the Transport ministry's attaché was established in several target markets which are important for Latvia's transport and logistics industry. Such an attaché already works for a second year in China, and last year a new attaché was appointed also in Russia and a new position for permanent representation of the industry's interests was established in Kazakhstan.

Turning back to the industry's inertia, we shall remember that given the fact that the decrease in cargo volumes under the impact of geopolitical events was not immediate, their increase shall not be expected after one or two expositions, forums or meetings either. Yet there will be results in the long run, if we strengthen cooperation and our competitiveness inside the industry.



Latvian transport industry participates in "Astana EXPO 2017" in Kazakhstan.



Welcoming the first container train from Urumqi, a city near the Chinese-Kazakh border.



LDz opens its representation in Minsk, Belarus.



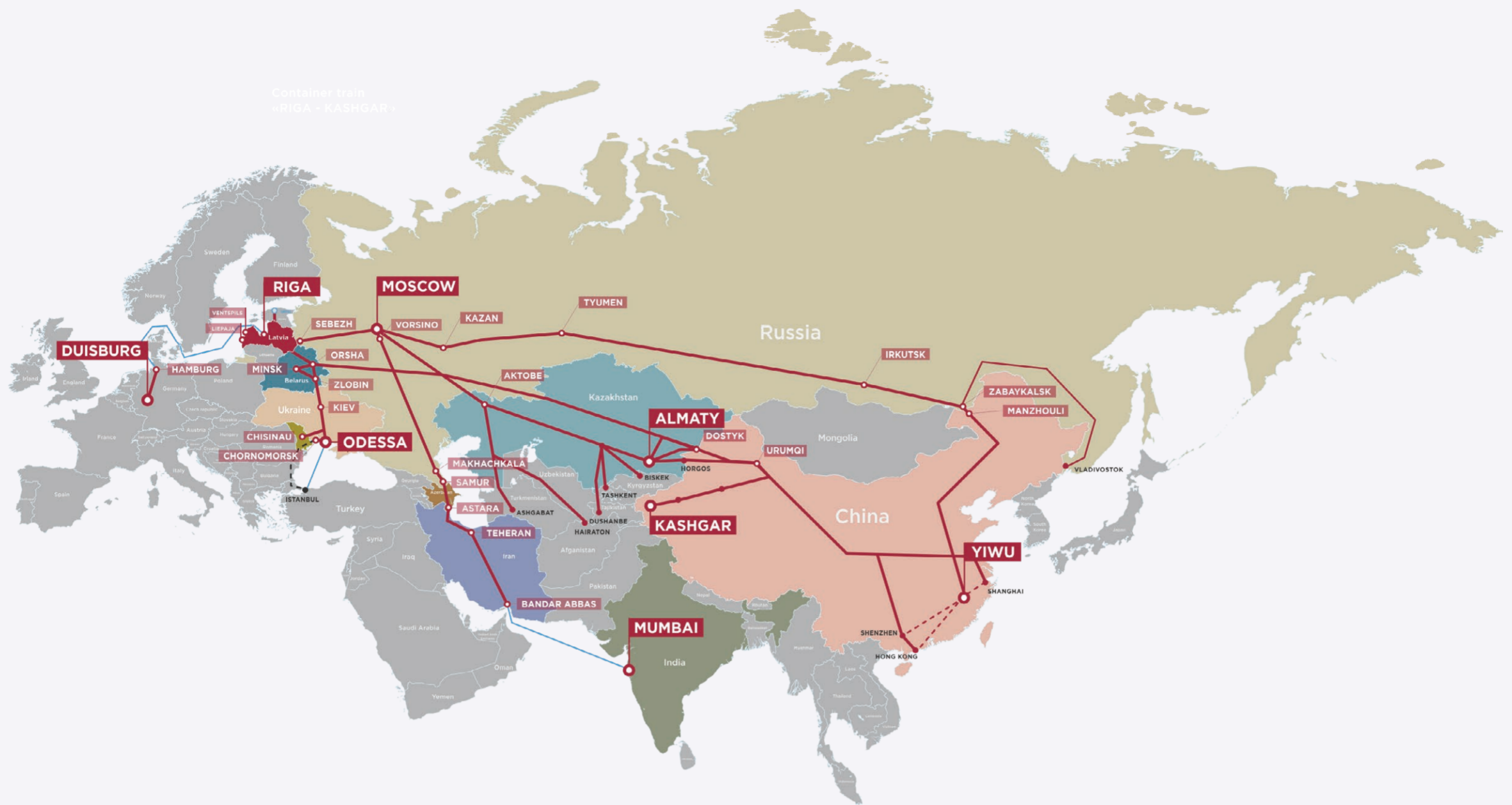
The opening of a multimodal route from the port of Riga to the city of Kashgar in the western part of China.



Kazakhstan's First Deputy Prime Minister Askar Mamin visits LDz, where cooperation agreement and a memorandum are signed.



A cooperation agreement between LDz and "DHL Global Forwarding" is signed in China.



MOSCOW – bilateral meetings of Russian and Latvian officials; solving day-to-day cooperation issues; participation in leading exhibitions and forums of the industry; participation in a session of North-South Business Club.

MINSK – an LDz representation is opened; new cargo express train Minsk – Riga is launched; cooperation with investors of the “Big Stone” has started.

ASTANA – participation of the industry representatives in “Astana EXPO 2017”; meeting of Kazakh and Latvian officials; cooperation in developing new route Urumqi–Dostyk–Riga–Rotterdam.

KHORGOS – an agreement is signed on cooperation between Latvian and Kazakh companies in developing a new logistics hub on the Kazakh–Chinese border.

MUMBAI – participation in the Latvian Prime Minister’s visit; representation of the industry in the leading transport and logistics expositions in India.

IRAN – meeting with the industry’s officials; participation in the industry’s international forums.

CHENGDU – a cooperation agreement is signed between “Latvijas dzelzceļš” and “DHL Global Forwarding”.

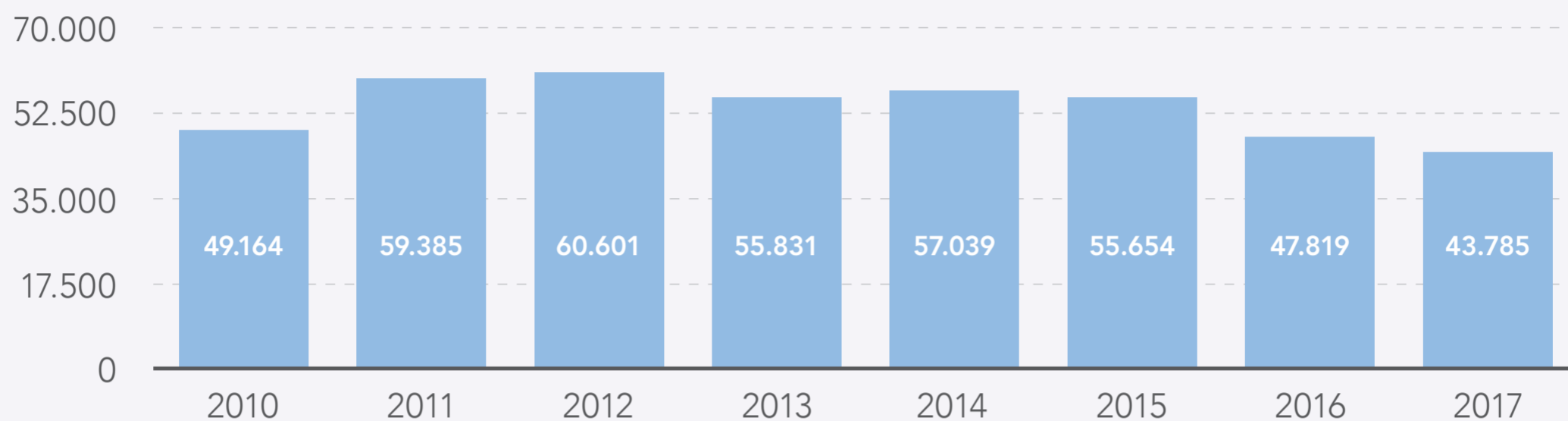
RIGA – a Scandinavian Days event is organised in cooperation with “DHL Global Forwarding”; a meeting of the heads of railway companies of 18 Eurasian countries; a bilateral meeting with the management of the port of Duisburg; international conference “Challenges of Global Transport Movement” organised by LDz.

FRANKFURT – the signing of a cooperation agreement between “LDz Logistika” and “RTSB GmbH”, one of the leading railway logistics companies and a close partner of the port of Duisburg and “DHL Global Forwarding”.

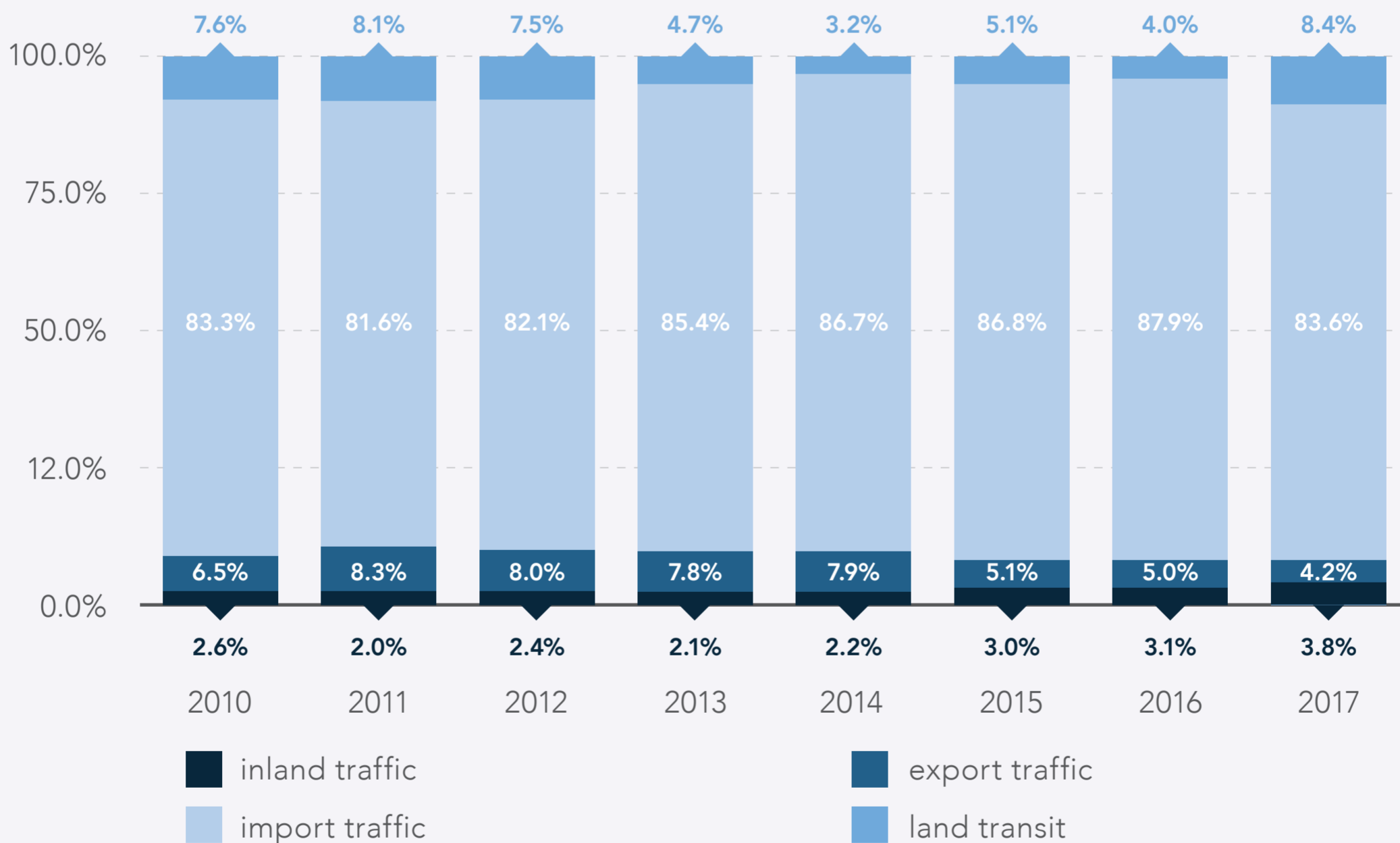
SHENZHEN – participation in the industry’s leading exhibition, “CILF 2017”, and negotiations with the province leadership about cooperation in cargo transportation.

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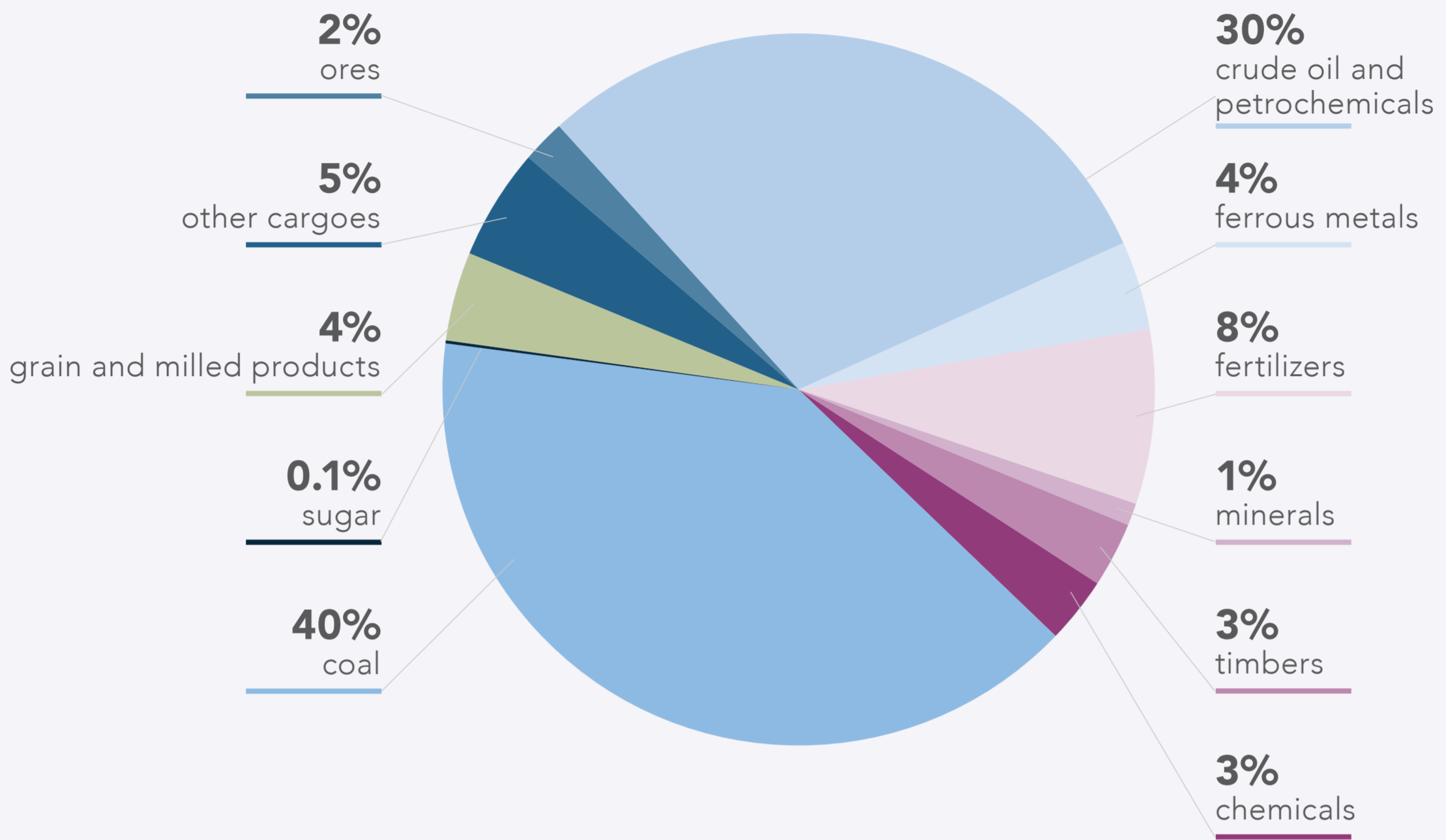
CARGO TRAFFIC 2010 – 2017 (thousands of tons)



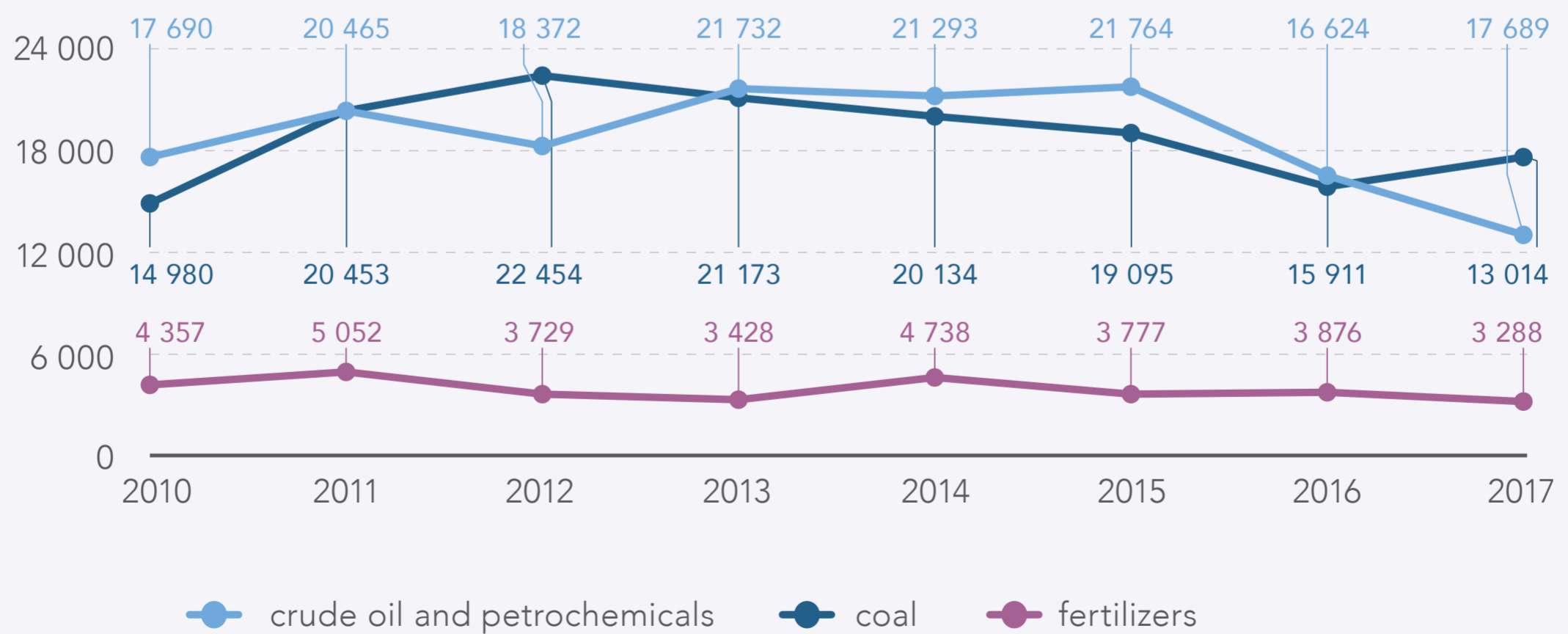
CARGO TRAFFIC STRUCTURE 2010 – 2017



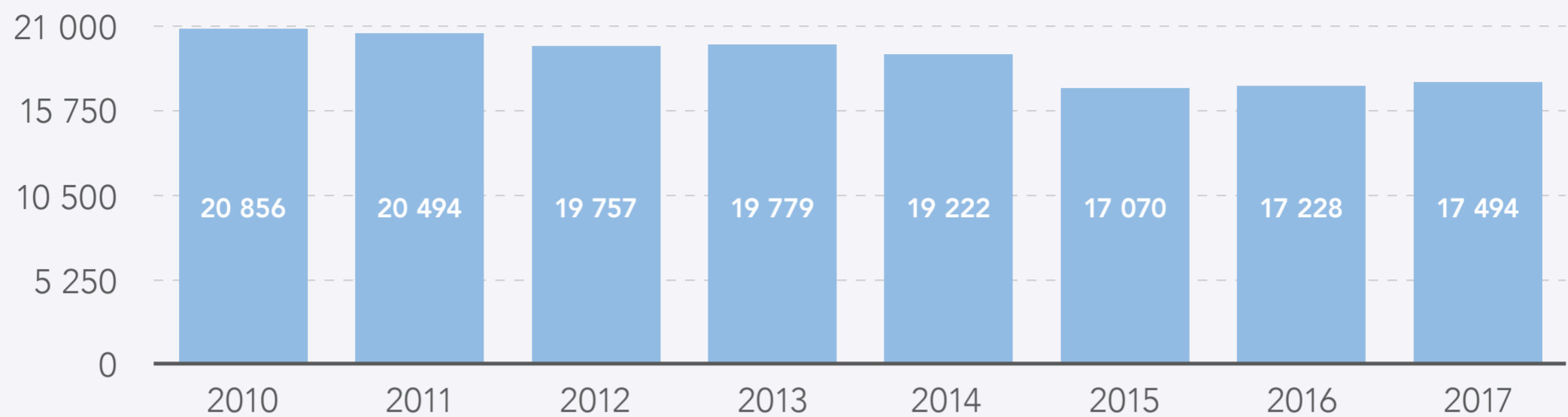
CARGO STRUCTURE 2017 (%)



MAIN TYPES OF CARGOES 2010 – 2017 (thousands of tons)



NUMBER OF CARRIED PASSENGERS (thousands)



SHARE OF INVESTMENTS IN RAILWAY INFRASTRUCTURE (millions of EUR) AND PASSENGER INFRASTRUCTURE (%)

