



SUSTAINABILITY AND ANNUAL REPORT FOR 2020

SUSTAINABILITY REPORT, PREPARED IN ACCORDANCE WITH THE INTERNATIONALLY ACCEPTED GRI STANDARDS, ALLOWS TO IDENTIFY AND ANALYSE THE LONG TERM IMPACT OF THE COMPANY IN A BROADER CONTEXT. THE REPORT REFLECTS AND ANALYSES THE IMPACT OF THE COMPANY'S OPERATIONS ON THE NATIONAL ECONOMY, SOCIETY AND ENVIRONMENT. IT PROVIDES AN INSIGHT INTO SJSC "LATVIJAS DZELZCEĻŠ" ECONOMIC ACTIVITY AND FINANCIAL INDICATORS, IMPLEMENTATION OF THE MOST IMPORTANT PROJECTS, DAILY OPERATIONS AND ITS PUBLIC AND INTERNATIONAL ACTIVITIES.

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LEADERSHIP STATEMENT

01



JĀNIS LANGE

Chairman of the Council of
SJSC "Latvijas dzelzceļš"

Looking back at 2020, we can clearly say that this was a challenging year for the "Latvijas dzelzceļš" Group, in which the company's main goal was not only to stabilize its operations and cash flow, but also to evaluate possible future directions by making decisions on key operational goals.

When planning the company's development, it is critical to choose the right benchmark. In this time of changes, thinking about the future of "Latvijas dzelzceļš", we have set deliberate ambitions as a benchmark - our reference is the most modern railway companies in Western Europe, their management models, technology and efficiency level. Our quality goals are definitely high, but I am convinced that by thoughtfully and purposefully moving towards this goal, "Latvijas dzelzceļš" can achieve it.



MĀRIS KLEINBERGS

Chairman of the Board of
SJSC "Latvijas dzelzceļš"

The year 2020 has been anxious and rich in turbulence all around the world, during which countries, society, businesses and every citizen have been forced to ask themselves what our values are, what our goals are and how we will achieve them.

For SJSC "Latvijas dzelzceļš" 2020 was also a period of decisive changes - the company made a wide range of changes and reviewed all technological processes and functions, as well as took significant steps to create a stable foundation for future development - developed a new business strategy and business model, and launched its implementation process.

And, despite the global pandemic, the challenges of the Latvian transport and transit industry and SJSC "Latvijas dzelzceļš", we confirmed, as well as assured ourselves and others that, although "Latvijas dzelzceļš" is in the process of transformation, our core values are unchanged. Our aim is to establish "Latvijas dzelzceļš" as an efficiently operating and well-managed company that maintains and develops appropriate, safe, efficient and modern railway infrastructure for passenger and freight transport in Latvia.



Information about the report

SUSTAINABILITY REPORT OF
SJSC "LATVIJAS DZELZCEĻŠ" FOR
2020 HAS BEEN PREPARED IN
ACCORDANCE WITH THE CORE
REQUIREMENTS OF THE GRI
STANDARD.

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Reporting period

1 January 2020 to 31 December 2020.

Reporting cycle

The report is prepared once a year since 2016. Sustainability reports of SJSC "Latvijas dzelzceļš" for 2016 and 2017 were prepared according to the GRI (Global Reporting Initiative) G4 guidelines. Since 2019 (the report 2018), sustainability reports are prepared based on the GRI standard requirements. In the future, the possibility of preparing the GRI sustainability report of the entire "Latvijas dzelzceļš" Group is being considered.

Publication date

The publication date is 25 July 2021 (in Latvian). The report is publicly available in Latvian and English on the website <http://parskati.ldz.lv/>. Concurrently, the English version is submitted for publication in the international GRI database <http://database.globalreporting.org/>.

Reporting principles

In the course of preparation of the first sustainability report for 2016, SJSC "Latvijas dzelzceļš" has carried out a detailed survey of the views of the stakeholders, comprising public authorities, the non-governmental sector, customers, counterparties, representatives of the employee interests, etc., finding out their views on the areas in which SJSC "Latvijas dzelzceļš" had the greatest impact or in which there were the highest impact risks related to the significant aspects of sustainability. A matrix of significant aspects resulted from the survey, which was used in the preparation of all previous reports including the report for 2019. Transitioning to the GRI standard required adaption of the key aspects reflected in the matrix to the numbering of the indicators of the standard aspects of GRI.

Based on the survey and matrix, SJSC "Latvijas dzelzceļš" has fully reflected general standard disclosures (38 indicators) in the sustainability report on the activity of SJSC "Latvijas dzelzceļš", as well as provided information on 46 key aspects. The report also includes information on such activities, which in the company's view, are related to the community or identification and mitigation of certain risks, but which had not been highlighted as key aspects in the survey of the stakeholders or which do not form a part of the GRI standard. In the Sustainability report, the GRI standard indicators or the key aspects defined by the company are marked next to the relevant sections, which are marked with the indicator LDZ-x.

Data collections methods

For the preparation of the report is the information provided by the entities and structural units of SJSC "Latvijas dzelzceļš" as well as the data on the company's activity and the key reporting aspects have been used. Only verified and substantiated data have been used in the report. If specific data on a critical business impact area are not accumulated and analyzed, this is indicated in the report. The report covers both the financial and non-financial activity of SJSC "Latvijas dzelzceļš" in 2020. It also discloses general information on the activity of the subsidiaries of "Latvijas dzelzceļš" Group. The contents of the report do not fully reflect the activity of the whole Group in the field of sustainability.

Auditor's assurance

The review of the sustainability report of SJSC "Latvijas dzelzceļš" in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Federation of Accountants was carried out by the audit company PricewaterhouseCoopers. PricewaterhouseCoopers was selected because it was also the auditor of the financial statements of SJSC "Latvijas dzelzceļš".

Contact information

The contact information in case of questions or comments on the sustainability report of SJSC "Latvijas dzelzceļš" for 2020: leva.Karklina@ldz.lv

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SJSC "Latvijas dzelzceļš"

State joint stock company SJSC "Latvijas dzelzceļš" ("Latvian Railway"/LDz) is a public-use railway infrastructure operator and the dominant company of "Latvijas dzelzceļš" Group. The company provides public railway infrastructure, service station operator services (freight wagon handling, wagon maintenance and inspection services, provision of equipment and traffic information, ticket office and passenger station and stop services, traction electricity supply, automatic locomotive alarms for traction units (ALS) repair of equipment and repair of traction radio equipment), electricity distribution and trade, real estate rental, information technology, electronic communications, as well as the services of a principal.

The company's registered office is at Gogoļa iela 3, Rīga. Its structural units and subsidiaries operate across Latvia – in places, where important railway junctions are located that ensure handling of freight transit flow and scheduling of the passenger transport.

SJSC "Latvijas dzelzceļš" manages public railway infrastructure in Latvia. The Company earns most of its revenue from the public track access charges paid by carriers based on the actual run train-kilometers. The amount of track access charges is set by the entity carrying out the key functions of the public use railway infrastructure manager, i.e. AS "LatRailNet". The other part of revenue come from the fee charged for the services provided by LDz at the points of service.

The "Latvijas dzelzceļš" Group (LDz Group) comprises seven dependent subsidiaries (the parent company exercises direct decisive influence in six subsidiaries and indirect decisive influence in once subsidiary). Subsidiaries provide freight and international passenger transportation by rail, rolling stock maintenance, repairs and upgrading services, physical and technical security services, the development and rendering of international multi-modal logistic services. An independent joint stock company "LatRailNet" is part of the Group, which according to the regulation laid down by the European Commission carries out the key railway infrastructure manager's functions and is responsible for setting the track access charges and the allocation of the capacity among the rail network.

The sustainability report provides broader information about SJSC "Latvijas dzelzceļš" and includes an overview of the key processes of the LDz Group subsidiaries in 2020.

Key processes in 2020

In 2020, in parallel with the company's core business, ensuring the maintenance of railway infrastructure and the organization of freight transport, LDz continued the process of business efficiency and cost reduction already launched in the second half of 2019. However, as every company, in 2020 LDz also faced the impact of the Covid-19 pandemic on both freight and passenger transport and other economic activities.

In the reference year, strategic documents relevant for the future operation and development of the company were developed. 2019 was concluded with an evaluation of the existing business model of LDz Group and at the beginning of 2020, the management team started work on developing the new business model, which plays an important role in ensuring the future growth of LDz and international competitiveness. The new business model is focused on cost efficiency while developing and expanding existing services, establishing them as high value-added services, thereby promoting international competitiveness and efficient operation in changing market conditions.

At the same time, intensive work took place on the development of a new Medium-Term Operational Strategy of SJSC "Latvijas dzelzceļš" setting strategic development objectives by 2027 and both documents will have close links, ensuring that the defined goals are met. According to strategy, the LDz mission is to manage and continuously develop the railway infrastructure in a secure, efficient and sustainable manner, ensure competitive railway and logistics services in the interests of the Latvian economy and society. On the other hand, the company's vision is to be efficient, competitive and to be a client for a high-value-added enterprise that responds flexibly to changes in the transport sector.

In line with the Medium-Term Operational Strategy, both financial objectives and non-financial targets are

assessed annually. LDz non-financial targets for 2020-2025 identified in the Medium-Term Operational Strategy are assessed as being met, as the number of accidents per million train kilometers has decreased, average speed of passenger trains has increased, the Sustainability Index holds the Platinum category and the valuation of LDz employees on the company has improved.

Both the current geopolitical situation and the global pandemic also affected rail transport – the railway infrastructure of Latvia was transported by 41.9% less than a year earlier. The constraints created by the pandemic also affected people's movement, resulting in a reduction in the number of passengers transported by rail by 5.7 million. More details described on page 25.

Continuing the evaluation of functions and technological processes launched in 2019, also in 2020, changes were made to LDz structures to improve the efficiency of the company. In order to reduce administrative burdens and to simplify the circulation of documents, as well as avoiding duplication of functions, and thus contributing to the optimal use of resources and to the most efficient operation, separate LDz structures have been restructured and merged in 2020.

One of the toughest decisions taken in 2020 involved one of the company's most important values – employees. Aware that the existing solutions to stabilize the company's finances are insufficient, in January 2020, the board of LDz decided to optimize the number of employees. When assessing functions, their usefulness or duplication, the employment relationship was primarily terminated with the administration's employees. However, the optimization also affected staff from other bodies that were linked to the maintenance of infrastructure, following changes in transport volume and a review of the resulting technological processes.

Having regard to the financial situation, in 2020, the condition of the multi-year agreement between LDz and the Ministry of Transport regarding action in the event of financial instability of the company was used. LDz prepared and submitted a report to the Ministry of Transport informing about the planned failure of LDz to meet the financial equilibrium conditions in the first half of the year and on the need to

ensure the business of the company by allocating public budget resources of EUR 32.422 million to increase share capital and an advance of EUR 13.01 million to ensure financial equilibrium.

While Strategic Development Papers are critical to the company's future growth and competitiveness, it is also essential to improve the various internal processes, which also have an impact on the economic activity. Several policy documents have been improved or developed for this purpose. Among these are Risk Management policies that allow timely anticipation and prevention of potential damage to the reputation, financial situation and operational performance of the company. In order to improve the management of the Group's dependent companies, a policy for the management of "Latvijas dzelzceļš" Group with limited liability has been developed, on the other hand, intensification of international cooperation and representation of interests in international organizations, updated international relations policy of the "Latvijas dzelzceļš" Group. Several different internal regulatory frameworks have also been developed to improve governance. In turn, following changes to the Law on the Administration of Public Personal Capital Companies, councils were established for individual subsidiary companies.

One of the priorities of LDz is the maintenance and development of passenger infrastructure. Projects of different scale were launched or implemented in 2020. Among the major projects was the completion of the pedestrian tunnel in Ogre, on the other hand, the first

steps were taken to modernize passenger platforms at 48 stations in the coming years and on four electrified railway lines, where new electric units of AS "Pasažieru vilciens" will start to run in the coming years. For the first time in Latvia's railway history, uniform visual guidelines prepared by LDz specialists will be used for the implementation of this project and they will also be used in future upgrading projects for passenger platforms. Cooperation with local authorities will also be important in the implementation of the modernization project in order to improve infrastructure linked to train staging points. Also, in the coming years, depending on the available budget and the funding of the EU funds, LDz intends to develop the railway infrastructure for passengers.

The various restrictions imposed on the reduction of the pandemic undermined global economic activity, but solutions to various international developments were also found in these circumstances. Remote communication dominated last year, thus creating a new format for the exhibitions and forums that have been held so far. LDz participated in several remote international exhibitions in 2020, such as China's International Service Trade Show in September on the opening of a digital joint stand for two-dimensional and three-dimensional companies, VIA Latvia, which presented the Latvian transport and logistics sector and businesses, promoting safe, fast and efficient services and solutions for the distribution of goods, including e-commerce cargo through Latvia. Also, in early 2021, the company presented its services at the Logistics 2021 exhibition organized by India and will continue meetings with international partners and the implementation of mutual projects throughout the year.

Work on improving company governance and stabilizing economic performance is also continuing in 2021. Considering the business model of the LDz Group approved in 2020, the objectives set out therein have started to be met and significant work will be done to improve passenger infrastructure.

Passenger infrastructure will also play an important role in the coming years of the "Rail Baltica" project. Although this project is not implemented by LDz, it also directly affects the economic activities of LDz, which started in the first quarter of 2021 with the conversion of the Central Railway Station, which also affects railway traffic and passenger amenities.

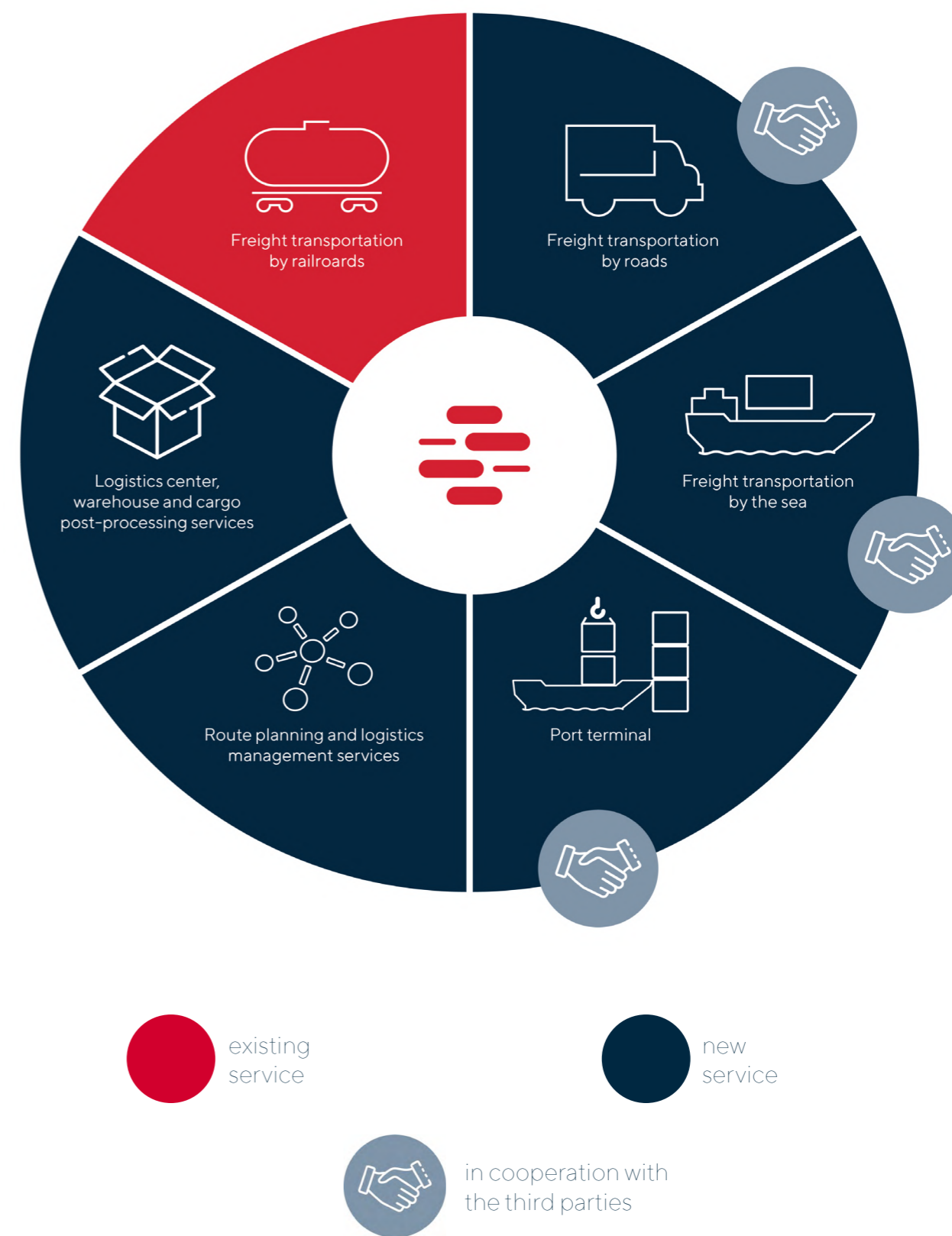
Information on the amount of public funding received in 2020 and the objectives of this funding

Public funding SJSC "Latvijas dzelzceļš" reimbursement of the costs of the minimum access service complex and maintenance of service sites (passenger segment)	30 525 228
Ensuring the financial balance of the infrastructure manager specified in regulatory enactments (advance payment)	13 011 000
SJSC "Latvijas dzelzceļš" the stabilization of core capital (for the maintenance and development of public-use railway infrastructure) in the sector, including:	32 422 016
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Railway transportation services in 2020

The Group company "LDZ CARGO" provides the largest volume of cargo freight both at the local and international levels. Freight is also carried by three companies that are not part of LDz Group, i.e., AS "BALTIJAS TRANZĪTA SERVISS", AS "BALTIJAS EKSPRESIS" and Ltd. "EURORAILCARGO", which started freight transport across the Latvian-Russian border in August 2020. Passenger carriage within the country is provided by the State capital company AS "Pasažieru vilciens". By the end of March 2020, when international passenger services were suspended for the purposes of limiting the pandemic, they were provided by Ltd. "LDZ CARGO", of which: transporting a Ukrainian railway formation train (Kiev-Minsk-Vilnius-Rīga) and Belarussian railway formation train (Minsk - Rīga) and Lithuanian railway company UAB "LG KELEIVIAMS" (AO „LTG Link“), who provided transport of the Lithuanian railway formation train (Vilnius-Daugavpils-Vilnius). International passenger transport by "LDZ CARGO" was not renewed throughout 2020. Latvia has also maintained and continues to operate 33-kilometer-long narrow-gauge railway section, where passengers are carried between Gulbene and Alūksne by Ltd. "Gulbenes-Alūksnes bānītis".

In Latvia, since the beginning of the formation of the railway infrastructure, a 1520 mm wide track network has been maintained, which differs from the track gauge (width) used in Western Europe (1435 mm), but it is the same as that used in the neighboring countries in the East. Thus, in cooperation with the three largest Latvian ports (Rīga, Ventspils and Liepāja), LDz has the opportunity to provide transit corridor connections between the leading Asian countries and the main transit hubs in Western Europe and Scandinavian countries.



According to the Medium-Term Operational Strategy, the strategic objective of the SJSC "Latvijas dzelzceļš", alongside efficient management of railway infrastructure and efficient management of capital shares in a strategically important sector for the country, is to become the Baltic transport sector. Competitiveness on an even wider scale, in the former CIS countries and in Asia, is equally important for the company, through an active involvement in the provision of international transit corridors. Involvement in international transit corridors also means the impact of global developments on LDz's economic activities. As in 2019, when prices of fossil raw materials declined in global markets, demand for the transport of these raw materials decreased, events around the world also affected the volume of freight transported by Latvian railway infrastructure and the economic performance of the company, respectively. In 2020, 24.1 million tonnes of cargo were transported by Latvian railway infrastructure, which is 41.9% less than in 2019.

Bank of Latvia data on the export value of railway transport (According to annual data compiled by the Bank of Latvia on the external trade balance, In 2020, the role of the rail sector in ensuring the export of services was EUR 159 million, of which EUR 132 million was in the freight segment)

Keeping focus on efficient use of public-use railway infrastructure, LDz is equally important in attracting and operating international freight in international transit corridors, as well as in local freight transport, which can be achieved by strengthening cooperation with local customers. This target is being implemented, according to the figures for the reference year: in 2020, domestic transport on LDz tracks amounted to 2.02 million tonnes, an increase of 18.6% over a year earlier.

Despite the increasing volume of inland freight transport, according to data from "LDZ CARGO", most shipments are still made up of import and land transit cargo from Russia, Belarus, Lithuania, Ukraine, Kazakhstan and other countries. The largest proportion of goods is still imported from Russia, but it has fallen to 61.2% in 2020 (70.4% in 2019). Russia's share of cargo as a sending country has tended to decline in recent years, which is due to Russia's increasingly active development of its ports and the shift of cargo to them. At the same time, the share of cargo from other countries has increased, from 21.7% in 2019 to 27% in 2020, to 9% of cargo imported from Lithuania, which is 4% more than a year ago, and from Ukraine 1.5% instead of the previous 1.1%.

For International freight transport as an important event in 2020 includes a cooperation memorandum with the railway



of the Russian railway Kaliningrad district on the transport of particularly long freight train compositions from Russia to Kalingrad, using the Latvian railway infrastructure. As part of the Memorandum of Cooperation, a record-long train from China crossed Latvia in April. On April 2, the train started on route China - Russia - Latvia - Kaliningrad county, reaching the destination in nine days, but crossed the territory of Latvia in ten hours, including the time required for customs and border crossing procedures. The transportation of such cargo composition confirmed the ability of LDz to process such long train compositions, as well as proving that the Latvian railway infrastructure is of sufficient quality for the transportation of such heavy compositions.

Meanwhile, after a 12-year stoppage on February 2, 2020, a renewed railway line Mažeiki-Reņģe was unveiled, which was dismantled by a Lithuanian railway company in the Lithuanian territory in 2008 from Mažeiki to the Latvian border. Oil and petroleum products are currently being transported along this line and further to destinations in Latvia or Estonia, however, the possibility of ensuring passenger traffic at this stage is not excluded in the future. Shipments at this stage started in the middle of the year and a total of 13 237 wagons with 790 896 tons of oil and petroleum products have been transported by December.

Share of freights by country in 2020

Belarus	27.0%
Estonia	0.2%
Kazakhstan	0.4%
Lihuania	9.0%
Russia	61.2%
Ukraine	1.5%
Uzbekistan	0.2%
Other countries	0.5%



Oil and oil products

6.41 mln t



Grain and flour products

4.361 mln t



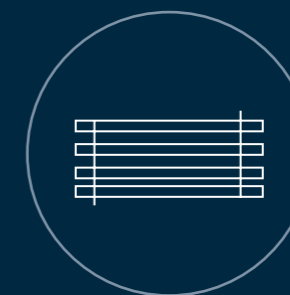
Coal

4.04 mln t



Mineral fertilizers

2.28 mln t



Timber

2.06 mln t



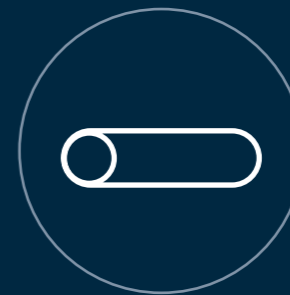
Chemical cargoes

1.27 mln t



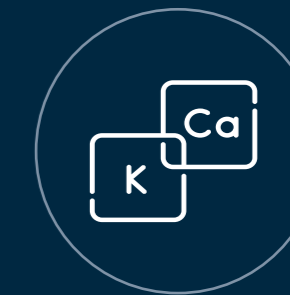
Ore

0.67 mln t



Ferrous metals

0.57 mln t



Minerals

0.54 mln t

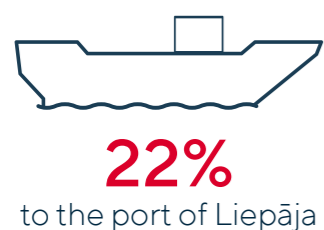
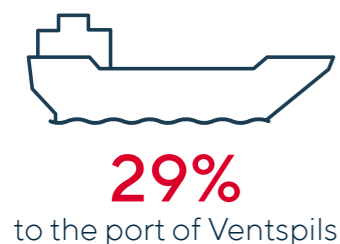
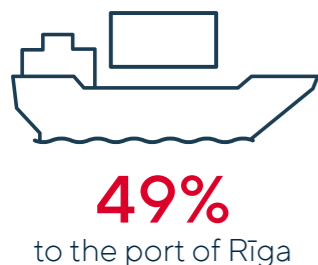


Other cargoes

1.9 mln t

Volumes of transported cargo in 2020

Share of total rail freight transport to ports in 2020

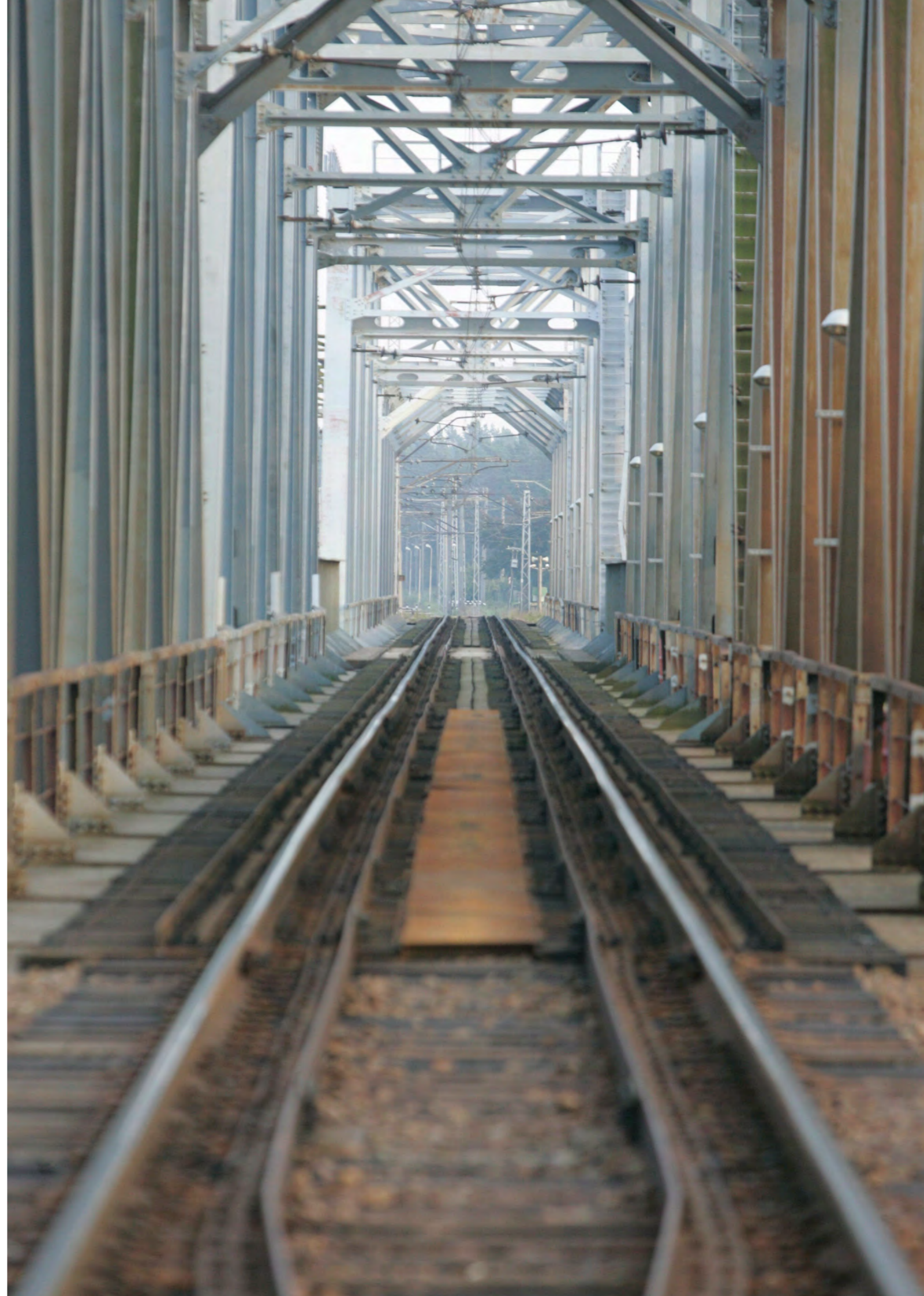


The Latvian railway network, due to the 1520 mm track gauge, is connected to the CIS countries and the Asian countries whose cargo destination is Western Europe and Scandinavian countries. In cooperation with major Latvian ports and LDz partners in Eastern Europe and Asia, the group can offer operational transportation of cargo to the rest of Europe.

With reduced freight intensity, freight volumes transported to the largest ports of the country have also decreased accordingly. Although the leader in transport with 8.9 million tonnes in 2020 was Rīga, the drop is significant – by 48.5% compared to 2019. The second largest cargo volume was transported to Ventspils port – 4 million tonnes (37.6% less), while 3.3 million tonnes were transported to Liepāja port (-81.2%). In total, 16.3 million tonnes have been transported to all three ports in 2020.

If coal, oil and petroleum products dominated shipments in previous years, as well as fertilizers, little change has happened in 2020. Oil and petroleum products were the largest, followed by grain and grain processing products, while coal was in third place. Growth in 2020 was limited to certain types of goods: minerals transported by 28.1% more than 2019, grains and grain products transported by 6.5% more than a year earlier, and wood and its products – 8.6% more than in 2019.

2020 was also a challenge for passenger transport. In the rail sector, as in other areas of passenger transport, due to the limits of the COVID pandemic, the number of people transported, decreased significantly. This situation occurred not only in Latvia, but also worldwide. In 2020, a total of 12.9 million passengers were transported by rail in Latvia, of which 26 117 in international traffic (from 1 January to 17 March, including transport by Corporation "Pasažieru vilciens" to Valga) and 12.8 million in inland traffic.



Management and development of the infrastructure

The primary function of SJSC "Latvijas dzelzceļš" is maintenance of public railway infrastructure in accordance with the laws and regulations of the Republic of Latvia and the European Union.

Maintaining, renewing and development of the railway infrastructure is ensured under the multi-annual contract No. L-7392/2018 entered into by and between the Ministry of Transport and LDz on planning and financing the maintenance and development of the public use railway infrastructure managed by SJSC "Latvijas dzelzceļš" of 9 November 2018 as well as by the Medium-Term operational strategy of SJSC "Latvijas dzelzceļš" for 2017-2022. In 2020, LDz managed 1779 kilometers railway, of which 1746 kilometers were 1520 mm track gauge and 33 kilometers - 750 mm track tracks running the historical Gulbene-Alūksne railway.

In Latvia, the railway infrastructure comprises 140 stations (It is possible to perform cargo operations at 75 stations and 2 cargo points (acceptance and issue of cargo, loading/unloading)) and 128 stops (66 stop points open for passenger disembarkation and boarding operations). The maximum train speed is set at 120 km/h for passenger trains and up to 90 km/h for freight trains. The maximum axle load for railway rolling stock is 25 tons, which means that the railway infrastructure in Latvia can handle heavier freight transport (the average weight of one freight).

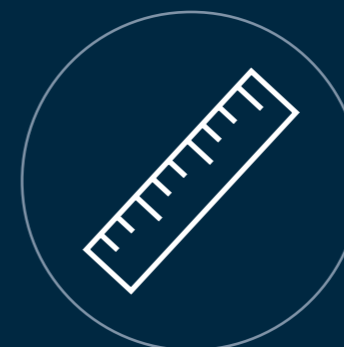
The infrastructure of LDz comprises the following electrified compartments:

- Rīga Passenger Station – Jelgava;
- Torņakalns – Tukums II;
- Rīga Passenger Station – Zemitāni – Skulte;
- Rīga Passenger Station – Aizkraukle;
- Zemitāni – Šķirotava.

The safety of pedestrians near and crossing the railway is one of the priorities of LDz, so investments are also made in improving safety. In 2020, the number of railway crossings in which pedestrian traffic is regulated by sound and light traffic lights – such infrastructure is set up in Ogre, Vidzeme's street. The first such traffic light was installed at Sigulda railway station in 2016. Currently, 5 pedestrian passes are equipped with audible and light signaling lights in Latvia.

In 2020, LDz maintained 527 railway level crossings and 389 pedestrian crossings.

Managed by LDz in 2020



1779 km
of rail tracks
(the extended track length)



140
stations



128
stops



389
pedestrian crossings



527
railway level crossings

Human resources

As modern technologies develop, more and more processes can be automated or trusted to machines. However, human resources continue to play an important role in the railway sector, as a number of important processes related to the maintenance, development and safety of railway infrastructure are possible only through the use of human hands and mind. LDz, as a company with more than 100 years of history, appreciates the experience and knowledge of long-term employees, while acknowledging that a company that aims to become a modern, flexible and internationally competitive market player also needs advanced-minded young specialists.

Among the company's employees, the most represented in the 50–59 age group, whereas the average age of employees is 46.9 years. However, there is a relatively large number of young specialists. With a view to attracting young and advanced professionals, LDz has for years strengthened its cooperation with Latvian higher and vocational education establishments. At the same time, it also plays an important role in motivating existing employees and developing their competencies. Moreover, there is a special programme designed to promote generational change by providing incentives for retirement age employees to retirement age employees to pass on their knowledge accumulated during the decades to the young professionals and to retire.

The railway infrastructure consists of a variety of components, including a variety of technological processes designed to guarantee quality and safe operation. Persons responsible for these processes – employees of LDz throughout the territory of Latvia, in places where public use railway infrastructure is located. Most people are employed in large cities of Latvia, which are also railway hubs in both freight and passenger transport. Although the largest number of employees works in Rīga and the Rīga region, the Latgale region, which connects the Latvian railway infrastructure with Asian transit corridors, plays an important role.

In recent years, there has been a gradual reduction in the number of LDz employees through efficient performance and improved technological processes. By improving operational efficiency and streamlining the various processes and in order to stabilize the financial situation, the Board of LDz decided in early 2020 to optimize the number of employees by reducing the total number of employees of the Group's governing company by around 1500 people per year. At 31 December 2020, 4813 people were employed in the SJSC "Latvijas dzelzceļš". At the same time, the reduction in the number of employees occurred in LDz-dependent subsidiaries, where around 1000 people were terminated during the year, with a total of 7578 people employed by the Group at the end of 2020.

In its human resources policy, LDz pursues the principles of non-discrimination, employing residents of different ages, genders and nationalities. Despite the opinion that the railway industry is clearly masculine, in 2020, the Company employed 1673 females, which is 34.8% of all employees. For years, this ratio has been minimally changing in one direction or the other. Thus, LDz is one of the few sector companies in the European Union with such a gender ratio.

Performance results in 2020

As in 2019, the volume of goods transported by Latvian railway infrastructure continued to fall in 2020 and this was due to both changes in international markets and the impact of the Covid pandemic on the global economy, which had a significant impact on every sector of the economy. At the beginning of the year, it was clear that, in the current situation, it would not be possible to ensure the financial balance of the company without public financial support in the first quarter of the year. In order to continue its economic activity, the Cabinet of Ministers supported the Transport Ministry's proposal to allocate EUR 27.236 million to LDz, including EUR 14.22 million for the passenger segment grant and an advance payment of EUR 13.01 million to ensure financial equilibrium. A further EUR 32.422 million was invested in LDz's equity capital (for the maintenance and development of public-use railway infrastructure, for stabilizing the sector), increasing to EUR 289 142 391.

The bulk of the company's turnover consists of revenue from the public railway infrastructure charge paid by the carriers, calculated on the basis of the number of kilometers travelled by train. If in 2019 freight transport amounted to 8.6 million kilometers and 6.14 million train kilometers in passenger transport, 4.5 million train kilometers in freight transport and 6 million train kilometers in passenger transport respectively in 2020.

Other revenue consists of the handling, rental, electricity distribution, rental, sale of real estate, information technology and principal services of freight wagons.

Starting from July 1, 2019, due to the changes in the minimum access service package and access to public use railway infrastructure, which connects the railway infrastructure with service stations, the structure of LDz revenues and financing procedures changed. AS "LatRailNet" determines service groups (passenger transport and freight transport) and market segments according to the fee calculation scheme. The specifics of each market segment have been

considered and the ability to pay the calculated fee has been assessed.

The net turnover of LDz in 2020 was EUR 156.5 million. It consisted of:

- fees paid by carriers for the use of a minimum access service package and access to infrastructure connecting the infrastructure to the service EUR 60.3 million (38.5% of revenue);
- public funding for a minimum access service complex and access to infrastructure linking the infrastructure to service sites of EUR 30.5 million (19.5% of revenue);
- additional services of the infrastructure manager – EUR 20.7 million (13.3% of revenue)
- State funding under the multi-year agreement to ensure financial equilibrium of EUR 22.5 million (14.4% of revenue);
- Other services of EUR 22.4 million (14.3% of revenue).

Operating revenue in 2020, compared with 2019, has fallen by EUR 26.7 million, or 14.6%.

LDz's 2020 performance before tax was zero, however, it should be noted that in 2020, the Cabinet of Ministers



EUR **156.5** mln
net turnover



EUR **36.7** mln
taxes paid



EUR **341.01** mln
value of the company

decision supported the allocation of funds to stabilize the financial situation and received an advance payment of EUR 13 million in the reference year. The public funding received has been used for the targets and targets allocated, as well as the missing share of funds needed to ensure financial equilibrium, or EUR 9 503 295 is recognized in the revenue of 2020, based on guidelines for International Financial Reporting Standards, which will be required following approval of the Company's Annual Report.

In 2020, the implementation of optimization and operational efficiency measures resulted in a reduction of different cost lines. Consequently, the actual operating costs of LDz 2020, compared to LDz's 2020 budget, have been reduced by EUR 10.953 million, or 7.24%.

In 2020, SJSC "Latvijas dzelzceļš" paid EUR 36.27 million in taxes to the State budget. With slight changes in the rating, the company has still been ranked among the top ten most valuable companies in Latvia, according to TOP101 rating, which is compiled jointly by NASDAQ Riga and Prudentia. This rating has assessed the company's value of EUR 341.01 and it was ranking No. 10. Whereas among the capital companies owned by the State, LDz ranked No. 4, however, is a leader among the transport, transit and logistics companies.

Under Section 28, Paragraphs one and two of the Law On Governance of Capital Shares of a Public Person and Capital Companies, the projected share of profit to be paid in dividends and the share of profit to be paid in dividends shall be determined on the basis of the Medium-Term strategy of the Company. At the same time, the Medium-Term operational strategy of LDz for 2017-2022 provides for the importance of determining a different amount of profit to be paid to the State in dividends from the Company's net profit, so that LDz would retain a profit, on the other hand, LDz, as a parent company, forecasts profits without state resources to ensure financial equilibrium only in 2025 (EUR 59 thousand), therefore no dividend is planned for the shareholder during this period.

Accountability for external initiatives

In 2020 LDz continued to operate in industry, business and various sustainable management-related initiatives, thereby demonstrating responsibility for sustainable, transparent and good corporate governance. Participating in the assessment of the Sustainability Index organized by the Institute for Corporate Sustainability and Responsibility, LDz received the highest-grade Platinum rating for the third year in a row.

In parallel to actively engaging in the work of local organizations, LDz also participates in the activities of European and global organizations.

Science plays a key role in the further development of the national economy, so in 2020 LDz continued to promote these sciences among young, emerging professionals. In 2020, the SteamUP project, created in 2019, continued to work to inspire and motivate pupils to see science subjects as interesting, exciting and forward-looking. In 2020, part of the project's activities took place online,

taking into account the constraints imposed by the pandemic, including the organization of public presence events, for example, in December, LDz, together with the "Mission Possible" foundation and other experts in the education sector, organized an online discussion entitled "Progress on learning – how to achieve this and assess it?". At the time, experts acknowledged that successful use of technology in the learning process, strengthening feedback and learning based on real life developing pupils' critical thinking and problem-solving capabilities.

Accidents on the railways often take place in people's willingness to separate from life, and this is closely linked to the mental health of society. In order to raise this issue, in October 2020 LDz organized an expert discussion on mental health issues with the Crisis and Consultation Centre "Skalbes". On the other hand, a previous study shows that 85% of the population are prepared to provide emotional support and assistance to strangers who behave risky or potentially harmful to themselves, but more than half do not know how to recognize someone with suicidal behavior.

Considering that LDz is not an industrial company, it does not directly use the precautionary approach to environment protection in its daily work, however, the impact on the environment is assessed in every single project implemented by LDz.

Membership in organizations

Latvian organizations



Employers' Confederation of Latvia (LDDK)

LDDK as the largest employers' organization in Latvia brings together employers from the public and private sector. The organization is also an important social partner of the Cabinet of Ministers and a member of the European Employers' Confederation, BUSINESSEUROPE. With the involvement of different forms of cooperation with the public administration, representatives of the LDDK discuss major legislative changes as well as economic development issues.

The representatives of LDz have engaged in working groups and consultation processes on the various aspects related to the company's activities and the general economic environment.



Latvian Chamber of Commerce and Industry (LTRK)

LTRK is the largest business association in Latvia, with around 6000 companies. It brings together companies of different sectors and scale and their associations, and it is also one of the social partners of public administration. The organization is involved in the development and consultation of legislation relating to the business environment and its main areas of activity are the business environment, business competitiveness, export.



Latvian Railway Sector Employers' Organization (LDzDDO)

The aim of the LDzDDO is to implement a social dialogue with industry companies and the Latvian trade union for railroad and traffic workers, as well as to improve industries. LDz as the largest employer in the railway sector in the status of member of the organization engages in the regulatory enactments of the sector and the binding document on the industry (such as

the Indicative Railway Infrastructure Development Plan) and making relevant proposals, as well as jointly maintaining the general agreement within the sector (collective bargaining agreement for the sector).



Railwaymen Association of Latvia (LDzB)

Latvian Railway Association is one of the oldest industry organizations in Latvia – it was created in 1920 and was renewed in 1991. The association's mission is to unite enthusiasts and nationally speaking railway patriots in Latvia's railway sector, to create a sense of iron society, to increase the prestige of the railway profession. The organization cares about preserving the value and history of the rail industry while ensuring the continuation of historical traditions.

LDz, as the industry's largest employer, engages in the work of the organization as well as in the activities organized by the LDzB.



Society for Promotion of Latvian-Belarus Economic Relations (LBESVB)

The aim of promoting economic relations in Latvia-Belarus is to develop economic relations and attract investments between the two countries. The organization does not have political objectives, but it is a proxy for companies that create mutual business relations in Latvia or Belarus. The association has close cooperation with national administrative authorities in Latvia and Belarus. It shall carry out regular exchange of information with embassies, consulates and public organizations. The Board of Governors LBESVB is also composed of a representative of LDz, Una Indāne, Head of the Mission of LDz in Belarus.



Institute of Corporate Sustainability and Responsibility

The aim of the association is to promote sustainable state development by educating society, raising awareness of responsible and forward-looking actions and promoting the development of civil society. By attracting independent experts, the Institute organizes an annual assessment of companies and organizations in the "Sustainability Index". LDz has also participated in the assessment since 2011, receiving the highest award of Platinum grade in the last three years. The sustainability index also includes four subsidiaries of LDz – "LDZ CARGO", "LDZ ritošā sastāva serviss", "LDZ apsardze", "LDZ Loģistika".



Baltic Institute of Corporate Governance (BICG)

The aim of BICG is to promote good corporate governance in Latvia, Lithuania and Estonia, by offering members advice on good governance, as well as by organizing awareness raising and educational courses for company management. Both public administration bodies, public capital companies and the private business sector have participated in the organization.

Since 2016, LDz has been a member of BICG corporate development, participating in BICG activities, including through the possibility of participating in the company's continuing higher management education programme.

International organizations

Latvia, as an EU Member State, is bound by all EU regulations, rules contained in the directives, and acts adopted. International railway organizations bring together member companies at both European and global level to represent the interests of industry in EU policy making, in particular, to support and promote a more efficient business and regulatory environment for European railway operators (carriers) and railway infrastructure companies (infrastructure managers). Members of organizations shall be kept regularly informed of the main developments, dossiers and new regulations allowing for legal and technical changes in the sector. Membership of organizations enables timely planning and integration of these innovations into business management processes.

LDz's participation in European and global international organizations gives the opportunity to participate in the EU rail sector policy debate, expressing its position in line with the interests of the company and the Latvian transport sector, also creating new development opportunities. It is an opportunity to have a common approach and understanding of the adaptation of directives and standards in the process of harmonization between railways. Given that LDz has also engaged in connections between China and Europe, interoperability is an important item on the agenda.

During these years, there have been many contacts with other railways and organizations working in organizations, which enable LDz to speak at international events, promoting the visibility of the company and Latvia. As a result, major international market participants have been introduced to

the Latvian railway system, major connections and future intentions. The General Assembly consists of industry companies from all over the world, which is an opportunity to meet many existing and potential partners.

The legal framework for rail transport at international level is determined by the International Intergovernmental Organization for Rail Transport, OTIF, which maintains the "Convention on International Carriage by Rail" (COTIF) (adopted on 9 May 1980, in Latvia this Convention applies from 1 September 2000).



CIT: The International Rail Transport Committee was founded in 1902 and its members are European and Maghreb railway companies and shipping companies. CIT shall ensure uniform application and practical implementation of the provisions of the Convention on International Carriage by Rail (COTIF), the Uniform Rules for the International Carriage of Goods by Rail (CIM) and the Uniform Rules for the International Carriage of Passengers and Luggage (CIV) - establish legal bases for contracts governing the relationship between customers and carriers, as well as the relationship between carriers.



CER - Community of European Railway and Infrastructure Managers represents the interests of its members in shaping EU policies, mainly to support and promote more efficient business and regulatory environment for the sector. The organization has more than 70 members and associates.

The organization shall be responsible for environment and infrastructure matters, customs, legal matters, passenger and freight transport, the development of application TAF TSI (the application provides a standardized exchange of information in real time between the railway companies involved in transport process rail companies, such as notifying of delays, cancelled travels and missed connections) and the work teams of HR directors.

The main priorities for the CER and the railway sector are the introduction of the Technical Pillar of the Fourth Railway Package, European rail cooperation on ticketing

and data exchange, innovation and digitalization, including signaling systems and automatically controlled trains, as well as the development of new freight corridors and the improvement of inter-modality terms.



UIC is the oldest and richest of traditions International Union of Railways, created in response to geopolitical changes following the First World War. It was founded in 1922 and the Latvian Railways Board became a full member of this organization in the beginning of its activities. LDz restored Latvia's representation in the UIC organization in 1992.

UIC coordinates cooperation on topical matters between railways worldwide, promoting a smooth operation of the railway system. The organization brings together 194 members globally. The UIC develops standards and promotes innovation in the development of the railways. The key matters on the UIC agenda are the development of the trans-European rail corridors, the development of the Euro-Asian transport corridor, funding for infrastructure development, the digitalization of the railways and convenient connected mobility. Work on developing common standards, research and sustainable development programs, and security issues continues.



COLPOFER - Collaboration of Railway and Security Services brings together the forces of the railway companies and railway police to formulate a common approach to the safety of the European railway system.

The common task for the organization is to protect people, property and assets in the territory of the railway from disruptive and criminal activities. LDz experts take part in the working groups "Preventing terrorism activities" and "Cybersecurity" of the organization, which address the questions about the actions in case of a terrorist attack or a threat thereof as well as deal with IT security issues.



RailNetEurope (RNE). Cooperation within the RNE allows the joint development of harmonized EU rail corridor management processes and tools (IT systems) for both freight carriers, infrastructure managers and capacity-sharing companies.

THE RNE was established in 2004 to help address the challenges facing the international rail sector: support for compliance with the European legal framework, i.e. developing harmonized international business processes, templates, manuals, guidelines and systems.



North Sea - Baltic Sea Rail Freight Corridor (RFC8). Established in 2015, in accordance with Regulation No 913/2010 of the European Parliament and of the Council of 22 September 2010 on the trans-European rail network for competitive freight transport. The Ministry of Transport and the representatives of the Group companies are currently participating in the activities of the NSB RFC Board, the management board and the working groups. For the coordination of information and the preparation of opinions for the representation of LDz in the RFC8 working groups and institutions, an internal working group of the company has been set up.



PRIME, Platform of Rail Infrastructure Managers in is a cooperation organization established by the European Commission in 2013 aimed at bringing together the main EU railway infrastructure managers (companies), to discuss, coordinate, develop and take decisions for the development of the EU's single railway area and the railway sector, thus, providing the European Commission with better decision-making, respecting the interests of the Member States and facilitating the implementation of directives in the railway sector.

The organization's scope includes digital (IT) issues, rail financing, infrastructure charges, KPIs & Benchmarking, legal issues and rail safety issues.



The Council of the Commonwealth Member State Railway Transport (Совет по железнодорожному транспорту государств - участников Содружества) is the international institution of the CIS, which coordinates railway transport activities by bringing together 18 national railway administrations at transnational level.

The Latvian railway infrastructure is uniform at 1520 mm track gauge with other Member States and work with trains and wagons in international cargo and passenger traffic in the eastern direction is done on the basis of documents, instructions and electronic systems developed by the Council of the Commonwealth Member State Railway Transport. In the framework of the Council, freight and international passenger train movement schedules, capacity for infrastructure stages shall be harmonized.



International Coordinating Council on Trans-Eurasian Transportation (ICCT), which promotes and develops transport towards Europe - Asian - Europe, bringing together shippers, terminals, carriers and others in the transport process in order to contribute to the increase in rail freight traffic towards the latter. ICCT consists of 120 members from 24 countries.



Railway Cooperation Organization (RCO) was founded in 1950 to bring about the legal framework and economic aspects of international transport. The governing body of the organization shall be composed of the Ministries of Transport of the Member States, while the executive bodies shall be national railway undertakings of the Member States. Together 29 Member States are represented in the organization.

RCO ensure the development of the International Transport Rights (MTP), updating the International Passenger Traffic Agreement (SMPS), supplementing the Agreement on International Rail Freight Traffic (SMGS) and other legal documents relating to international rail transport.

The organization also contributes to the development of rail transport between Europe and Asian, including combined transport, the development of a coherent transport policy in the field of international rail transport, the development of operational strategies for rail transport and the provision of a railway lobby in competition with other modes of transport.

ETHICS AND PROFESSIONAL INTEGRITY

LDZ AIMS TO IMPROVE ECONOMIC PERFORMANCE WHILE IMPROVING CORPORATE GOVERNANCE, BECAUSE INTEGRATING THE PRINCIPLES OF GOOD GOVERNANCE AND TAKING CARE OF EVERYDAY PROCESSES MEANS OPENNESS AND A CLEAR DIVISION OF RESPONSIBILITIES, RESPECT FOR THE PRINCIPLES OF BUSINESS ETHICS, A BUSINESS ENVIRONMENT FREE FROM CORRUPTION RISKS THAT IS ESSENTIAL FOR THE REPUTATION OF THE COMPANY AND FOR INCREASING THE VALUE OF BUSINESS. THE RESPECT OF THE PRINCIPLES OF GOOD GOVERNANCE IS ALSO ASSESSED BY THIRD PARTIES, WHO ARE ESSENTIAL THAT THE COMPANY IS RESPONSIBLE NOT ONLY FOR FINANCIAL INDICATORS BUT ALSO FOR RESPECTING THE PRINCIPLES OF ENVIRONMENTAL PROTECTION, SUSTAINABILITY AND SOCIAL RESPONSIBILITY IN ITS ACTIVITIES.

102-16
102-17

In order to promote the development of corporate governance culture in Latvian capital companies, the Corporate Governance Advisory Board established by the Ministry of Justice has developed the [Corporate Governance Code in 2020](#) (Good corporate governance recommendations for companies in Latvia) which, taking into account the requirements of the Republic of Latvia's regulatory enactments for companies, as well as the recommendations of the Organization for Economic Cooperation and Development (OECD), defines 17 principles for corporate governance. The principles set out in the Code are intended to supplement the procedures specified in regulatory enactments by providing sound but flexible guidance for the development of the corporate governance model that is best suited for the company. The functioning of the LDz also complies with this Code and the principles contained therein:

- The company has an up-to-date strategy that sets out the company's goals and the way forward for long-term value gains;
 - A code of internal culture and ethical behavior has been developed for the company, which serves as a standard of behavior for management and employees;
 - The internal control system of the company shall be supervised by the Board;
 - An entity shall identify, assess and monitor the risks associated with its activities;
-

- An internal audit unit is established in the company;
- The company has an independent external auditor;
- The Company shall ensure transparent procedures for the election and withdrawal of members of the Council;
- The members of the Council have adequate experience and competence;
- The Governing Council shall be composed of independent members of the Board;
- A remuneration policy has been introduced in the company;
- The organization of the work of the Council has been identified and understood in the company;
- The Council shall take informed and balanced decisions; the Committee shall make proposals for decision-making within the Council;
- The members of the Governing Board and the Council are clearly aware of the signs of a conflict of interest and are informed of the necessary action in the event of a conflict of interest;
- The company shall provide the shareholder with timely information on the conduct of the meeting of shareholders, providing all necessary information for decision-making;
- The company promotes effective involvement of the shareholder in decision-making;
- The company's dividend policy is implemented in accordance with the regulatory enactments of the Republic of Latvia and is consistent with the shareholder;
- The company shall inform the shareholder and other interested parties on a regular and timely basis about the company's economic activities, financial results, management and other topical issues.

In 2020, LDz has identified existing corporate governance practices and set up a working group to implement the necessary improvements to corporate governance practices in 2021, considering OECD guidelines and the Corporate Governance Code. The company has launched a review and updating of a number of policies, including the updating of the Code of Conduct for Employees, which has been in force since December 2014 and the anti-fraud policy of the LDz Group, which has been in force since March 2016.

Key policies for good corporate governance

Risk management

It is necessary to identify operational risks for the good management of an undertaking and to ensure future development, to detect them in good time and to prevent or minimize them. Risk management is a continuous and regular process of strategic importance that is planned and refined in line with the Medium-Term performance strategy of the Group's governing company as well as dependent companies. The LDz Group, including also the ruling company, has had Risk Management Policy in place since 2019. In 2020, risk management processes, including risk reporting, were provided in the Group's governing company SJSC "Latvijas dzelzceļš" and the implementation of risk management processes in dependent companies was completed by the end of 2020.

The policy states that risk management within a Group is based on the principle of three lines of protection: primary risk management (carried out by risk owners or bodies and employees under direct supervision of which the risk is likely to occur); supervision of the risk management process by the risk manager and supervisors of specific risk groups to which this obligation is determined by the external regulatory framework; providing independent assurance on the conduct and effectiveness of risk management provided by the part of the internal audit of LDz, which is directly subject to the Council. In 2020, a Council Audit Committee was set up between the tasks of monitoring the effectiveness of internal control and risk management systems of LDz, operational compliance control and internal audit activities.

For effective risk management, responsibility levels are defined in the LDz Group, both in terms of policy monitoring and day-to-day implementation. According to the Risk Management Policy, the Board of "Latvijas dzelzceļš"

supervises the establishment and operation of the risk management process in the SJSC "Latvijas dzelzceļš" and the Group as a whole, and regularly review reports on risk management and the implementation of the plan of mitigation measures provided by the Management Board. In the meantime, the Board of Governors of each of the Group's dependent companies shall be responsible for the implementation and success of the risk management process within their own company, while risk managers appointed by each undertaking shall exercise their practical implementation and cooperation with risk supervisors and risk owners in their areas of responsibility. The structure and development of the overall risk management shall be coordinated by the risk and risk management process supervising the development of policies and its amendments, reporting to the Management Board, supporting the group-dependent companies, organizing training in the field of risk management.

The Group's operational risks are classified into risk categories, combining similar or related risks with potential consequences:

- Safety risks, including traffic safety, infrastructure security, IT security, etc.;
- Operational risks, including the risks of infrastructure maintenance and operation, the provision of production processes, the operation of rolling stock, the service delivery process, etc.;
- Financial risks, including tax, financial stability, budgetary planning and control, creditworthiness, transaction closures and control, etc.;
- Legal risks, including legal, compliance, procurement, corruption and conflict of interest, protection of personal data, etc.;
- Strategic risks, including the risks of strategic planning, investment projects, reputation, planning and deployment of new developments, etc.

At the same time, there are defined areas where risks cannot be accepted, including any risks to workers' health and life, railway safety, critical infrastructure safety, IT safety incidents, or the result of unlawful action on the assets and financial resources of the group-dependent companies, so the LDz Group maintains and continuously develops strong control mechanisms. mechanisms to minimize potential risk occurrence.

The overall level of risks in 2020 was mainly affected by external environmental conditions, including a sharp reduction in demand for fossil raw materials and Russia's policy to use its ports for transport. On the other hand, the reduction in passenger transport is due to the restrictions on passenger mobility imposed to limit the distribution of COVID-19. Consequently, in the LDz reporting year there were critical and high strategies and financial risks, while in other risk categories the overall level of risks is medium and low.

In the light of changes in the external and internal environment of the SJSC "Latvijas dzelzceļš", an analysis and review of identified risks was carried out in 2020, specifying or supplementing with new aspects, and new risks were identified. Similarly, due to the structural changes of LDz in 2020, the impact of redundancies and technological changes on operational performance has been analyzed and risks identified in the core areas of infrastructure maintenance activities are identified.

By promoting good risk management at the company, 2021 is scheduled to bring together proposals for the necessary policy changes that could have been introduced in 2022, similarly, according to the risk management policy of the LDz Group, depending on the results of the risk assessment and the defined risk appetite, the effectiveness of existing risk mitigation and control measures will be reviewed in 2021 and the necessary changes will be proposed. It is also important to promote the level of knowledge of risk management among the employees of the company itself, so training is planned in 2021 for risk managers and risk owners as well as for employees.

Policy for the management of "Latvijas dzelzceļš" Group companies with limited liability

In view of the fact that the SJSC "Latvijas dzelzceļš" is the governing company of the LDz Group, the policy of management of dependent subsidiaries of the LDz Group has been developed and approved in 2020. It aims to define principles and management tools for the efficient management of the Group's dependent companies in order to ensure an appropriate environment for the execution of the medium-term performance strategies of the dominant company and dependent companies, by consolidating the commercial objectives of the SJSC "Latvijas dzelzceļš" and its dependent companies, promoting the competitiveness of the governing company and subsidiary companies and by fulfilling the rights of the Republic of Latvia legislative requirements.

International relations policy of the "Latvijas dzelzceļš" Group

LDz operates international transport corridors and has a wide range of international partners among organizations, railway infrastructure managers and businesses. It is therefore essential that the quality of the representation of the interests of the company be carried out at international level. To this end, the international relations policy of the LDz Group was approved at the beginning of 2020.

The aim of the policy is to provide support for the attainment of the Group's commercial objectives, in cooperation with international organizations and cooperation partners, and to promote the international visibility and a positive international reputation of the Group.

Internal audit

One of the LDz parts is the Internal audit department which reports to the Council of LDz and administratively to the Chairman of the Management Board. Each year management approves the internal audit work plan. Its employees perform systematic verification and assessment of the quality of the functions created by LDz and the internal control system for the corresponding processes, effectiveness and compliance with the requirements of the legislation and the strategic and operational objectives pursued. The work plan is agreed at the LDz Council and the shareholder meeting.

Audit staff carried out 16 audits in 2020, including 12 audits of total systems of LDz and 4 internal control systems audits in the company's departments and group-dependent companies. Unplanned audits were not carried out in 2020 and the audit of the Information Technology Centre was cancelled in the framework of the reorganization of the body. After carrying out the audits, internal auditors provide specific recommendations for improvement of processes for each audited structure and a total of 71 recommendations are made in 2021, 29 of them defined as low priority recommendations, 38 are given a middle priority and 4 recommendations are given high priority.

Under the approved audit plan, 18 thematic audits were planned for 2021, as well as thematic unbudgeted for audits in accordance with the instructions of the Board or Council of LDz, the Internal Audit Department will also assess the results of the implementation of the audit recommendations. In order to improve the work of the internal audit part, an independent external audit company entrusted with the external evaluation

Numbers of internal audit recommendations in 2019

Priority of the recommendations	Total	Implemented	Not implemented (not relevant)	Not implemented (extended implementation period)	Implementation in progress
High	4		-	-	1
Medium	38		-	2	10
Low	29		-	2	7
Total	71		-	4	18

of the body was attracted in 2020, preparing an objective and independent assessment of the compliance of internal audit activities with the Internal Audit Professional Standards of the Institute of Internal Auditors, The Code of Conduct and all the requirements of the applicable Latvian regulatory enactments regarding the operation of the internal audit. This assessment takes place every five years, which is a good corporate governance practice and forms the basis for decisions to improve the performance of the internal audit. In addition, the participation of employees in seminars and discussions organized by the Institute of Internal Auditors and the Ministry of Transport took place in 2020 and, as far as possible, such practices will be continued in 2021.

Thinking about ethical behavior in dealing with business partners and ensuring their ethical behavior towards LDz, since 2017, there has been [Business Ethics for Collaboration Partners](#). The aim of the document is to promote compliance with good governance and socially responsible business practices in Latvia, and these fundamental principles are binding on every partner of the Group's companies.

To implement transparent contract coordination, correspondence organization, personnel management, interdepartmental and interdepartmental issues, as well as other document management solutions, the **Document Management System** (DPD) is used. Using this system, tracking the progress of each issue and identifying the responsible employees is possible. The LDz back office shall be responsible for receiving and registering the various documents, and in 2020, 11 480 documents were received, including 3131 documents that were submitted signed by electronic signature, meanwhile, 1202 documents have been received in the official electronic address system. LDz back office employees also are registered 9536 documents. Compared to 2019 volume of documents declined by 5-10% in 2020.

The storage, description, accounting and availability of documents is ensured by the LDz archive. In 2020 it has adopted 342 personnel documents and permanently stored documents in storage, 900 temporary storage documents.

197 requests have been received from employees, including the preparation, copying, scanning and issuing of information, as well as 220 inquiries drawn up and issued.

Based on the Law on Archives, from 2020, a common nomenclature of the General Directorate for LDz and departments was introduced. Meanwhile, 919 cases have been transferred to the National Archives of Latvia for 2003 and 2004, but an act agreed with the National Archives of Latvia on the destruction of 3670 cases. Similarly, a harmonized extension of the storage period of 10 years for the 1991-2003 documents needed daily by the LDz Museum.

LDz specialists have described the long-term and independently stored documents of the Group 2015 and have agreed with the National Archives of Latvia the LDz reference system used in 2015 (multi-level archive description scheme, archival description, accounting lists).



Governance structure

Council

LDz is a 100% State-owned capital company, the sole shareholders of which is the State, and the older of the shares is the Ministry of Transport.

Since 2016, the activity of the company has been supervised by the Council of LDz, which composed of five members till February 9, 2020. Since 2 February 2018, Jānis Lange is the Chairman of the Council, he is also the Chairman of the Board of SJSC "Latvijas valsts ceļi".

Composition of the Council by 9 February 2021:

- Jānis Lange - Chairman of the Council
- Andris Maldups - Member of the Council
- Aigars Laizāns - an independent member of the Council (term of office 22.07.2016. - 31.01.2021.)
- Reinis Ceplis - an independent member
- Andris Liepiņš - an independent member

The term of office of the members of the Council are five years.

Until 7 February 2020, the remuneration of the members of the Council was determined in accordance with the Law On Governance of Capital Shares of a Public Person and Capital Companies and the Cabinet Regulation No. 791 "Regulations on the number of members of the board and council, maximum monthly remuneration of Ministers of 22 December 2015". Since 7 February 2020, these regulations are replaced by the Cabinet Regulation No.63 "Regulations regarding the number of members of the board and council of public capital companies and public private capital companies, as well as the maximum amount of monthly remuneration of members of the boards and council" passed on 4 February 2020.

Remuneration of the members of the Council:

The remuneration of the members of the Council was determined in accordance with the Law On Governance of Capital Shares of a Public Person and Capital Companies and the Cabinet Regulation No. 791 "Regulations on the number of members of the board and council, maximum monthly remuneration of Ministers of 22 December 2015.

Total remuneration paid to members of the Council in 2020: EUR167357 (including mandatory national social security contributions).



JĀNIS LANGE

Chairman of the Council of
SJSC "Latvijas dzelzceļš"
term of office:
02.02.2018. - 01.02.2023.

Holds a master's degree in Economics and Management from the Department of Economics and Management of the University of Latvia. He holds a bachelor's degree in Economics from the Department of Economics at the Latvia University of Latvia

Since 2013 he is Chairman of the Board of SJSC "Latvijas Valsts ceļi", from 2008 to 2013, he carried out the duties of the member of the Board of the Company, whereas in 2008, he was the Head of its Jelgava Division.

From 2004 to 2007, J. Lange was deputy director of the Jelgava municipal agency "Pilsētsaimniecība" in charge of project implementation matters.



ANDRIS MALDUPS

Member of the Council of
SJSC "Latvijas dzelzceļš"
term of office:
02.02.2018. - 01.02.2023.

A. Maldups holds a master's degree in Engineering from Latvia University of Agriculture, obtained master's degree in International Relations from the Institute of International Relations of the University of Latvia, and a Master of Business Administration (MBA) from Rīga Business School of Rīga Technical University.

Since 1997, Andris Maldups has been employed at the Ministry of Transport focusing on the development of the Latvian transit industry, including the promotion of the competitiveness of transit and logistics, including the development of the port, railway, road transport and pipeline transport. In recent years, the main focus has been on the development of value-added services in the logistics industry, in particular on the increase of the volume of container cargoes, on Eurasian freight traffic, development of port and warehousing services, as well as on the promotion of industrial projects in Latvian free ports and special economic zones.



ANDRIS LIEPIŅŠ

Member of the Council of
SJSC "Latvijas dzelzceļš"

term of office:
07.06.2019. - 06.06.2024.
an independent member of the
Council

A. Liepiņš graduated from Rīga Technical University Rīga Business School, obtaining a master's degree in Business Administration, as well as Columbia University (USA), obtaining a master's degree in international relations. Before that, he obtained a master's degree in public administration and a bachelor's degree in economics.

He has been deputy chairman of the Council of Latvenergo AS, a member of the Audit Committee and Human Resources Committee, chairman of the board of SJSC "Starptautiskā lidosta "Rīga" (Rīga International Airport), chairman of the Council of AS "Air Baltic Corporation". From 2001 to 2014 he was deputy State Secretary of the Ministry of Economics.



REINIS CEPLIS

Member of the Council of
SJSC "Latvijas dzelzceļš"

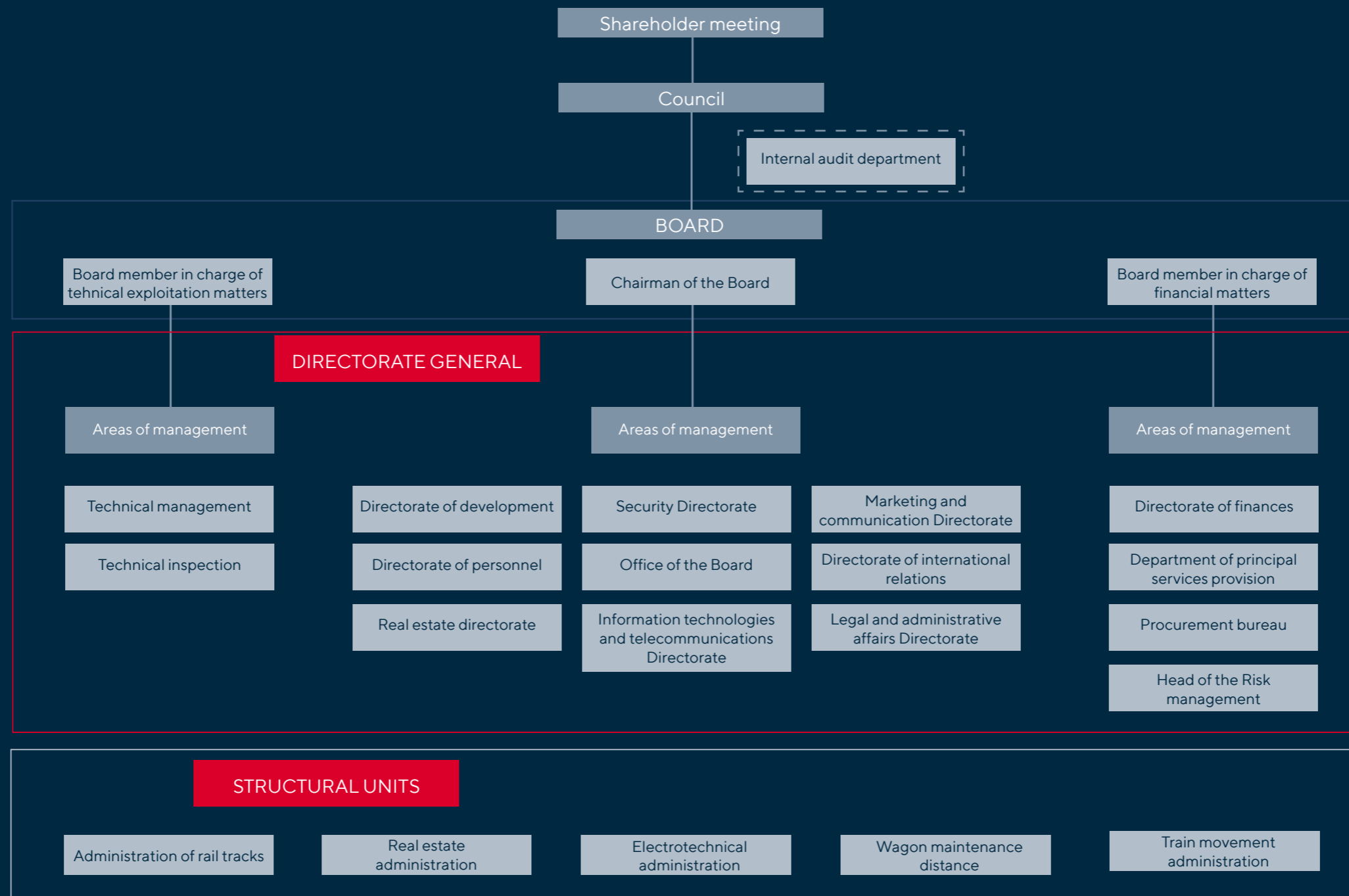
term of Office
07.06.2019. - 06.06.2024.
an independent member of the
Council

R. Ceplis graduated from the Faculty of Economics of the University of Latvia, acquired bachelor's degree in economics and a certified financial analyst degree from the USA (CFA Institute).

R.Ceplis is the chairman of the board of the Baker Tilly Baltics audit company and member of the board of the family health center Stārķa Ligzda, as well as the chairman of the board of the Good Health Ltd. and the development manager of the Respectful Consulting Ltd..

He was the head of the Finnish subsidiary of Lassila & Tikanoja PLC, a Latvian subsidiary of Ltd. L&T, CFO of AS ACB, corporate finance specialist of investment bank SUPREMA, corporate finance specialist of investment bank Trasta komercbanka, as well as Rīga Stock Exchange Head of Listing Department.

SJSC "Latvijas dzelzceļš" organisational structure as of 28 November 2020



Board



MĀRIS KLEINBERGS

Chairman of the Board of
SJSC "Latvijas dzelzceļš"

term of office:

13. 03. 2020. - 12. 03. 2025.

Areas of responsibility: corporate governance, personnel matters, communication, real estate management.

Chairman of the Board of SJSC "Latvijas dzelzceļš" since 12 August 2019 (With the LDz Council decision on 13 March 2020 appointed as permanent Chairman of the Board).

Before approval as Chairman of the Board of Governors of M. Kleinbergs has been chairman of the Board and the CEO of Schenker Ltd. since 2013. Before that he was chairman of the Board of SJSC "Latvijas Pasts", director of the transport and logistics company "Baltic Logistic Solutions", director of logistics at the company "Avers centrs", head of the Latvian office of transport and logistics firm "Kuehne & Nagel Latvija".

M. Kleinbergs has acquired engineering education at Rīga Technical University, while the board member's competence has been improved in training organized by the Baltic Corporate Governance Institute for company management.



ĒRIKS ŠMUKSTS

Member of the Board of
SJSC "Latvijas dzelzceļš"

term of office:

02. 12. 2017. - 01. 12. 2022.

Area of responsibility: technical management matters

Ē. Šmuksts began his career in railway sector in 1983 as a crossing-post debutant, worked at Lithuanian Radviliski Station of the Baltic Railway as a person on duty of the station and the manoeuvre dispatcher. He was Chief of Gulbene Station and Deputy Chief of Daugavpils Station in Operational and Commercial Matters. Education has been acquired in the Leningrad Railway Engineers Institute and has previously graduated from Daugavpils Railway Engineering.

Ledged SJSC "Latvijas dzelzceļš" Freight management Board. During 2007 – 2008 was the subsidiary company "LDZ CARGO" Chairman of the Board.

In 2017, he received the highest award for personal investment in the rail transport sector.



VITA BALODE - ANDRŪSA

Member of the Board of
SJSC "Latvijas dzelzceļš"
term of office
01.06.2020. - 31.05.2025.

Area of responsibility: financial and economic issues, procurement and risk management

Since 2009, V. Balode-Andrūsa has worked for the Swedish airport operator's state-owned company "Swedavia AB", where she worked for the last six years under the company's management as economic director in the company's commercial and real estate development segment, the retail and airport advertising business segment, as well as the head of the parking and mobility business segment. Before that, for six years worked for "SAS Scandinavian Airlines", where, after completing the company's management trainees' program, was the head of the East Market's cargo airway routes.

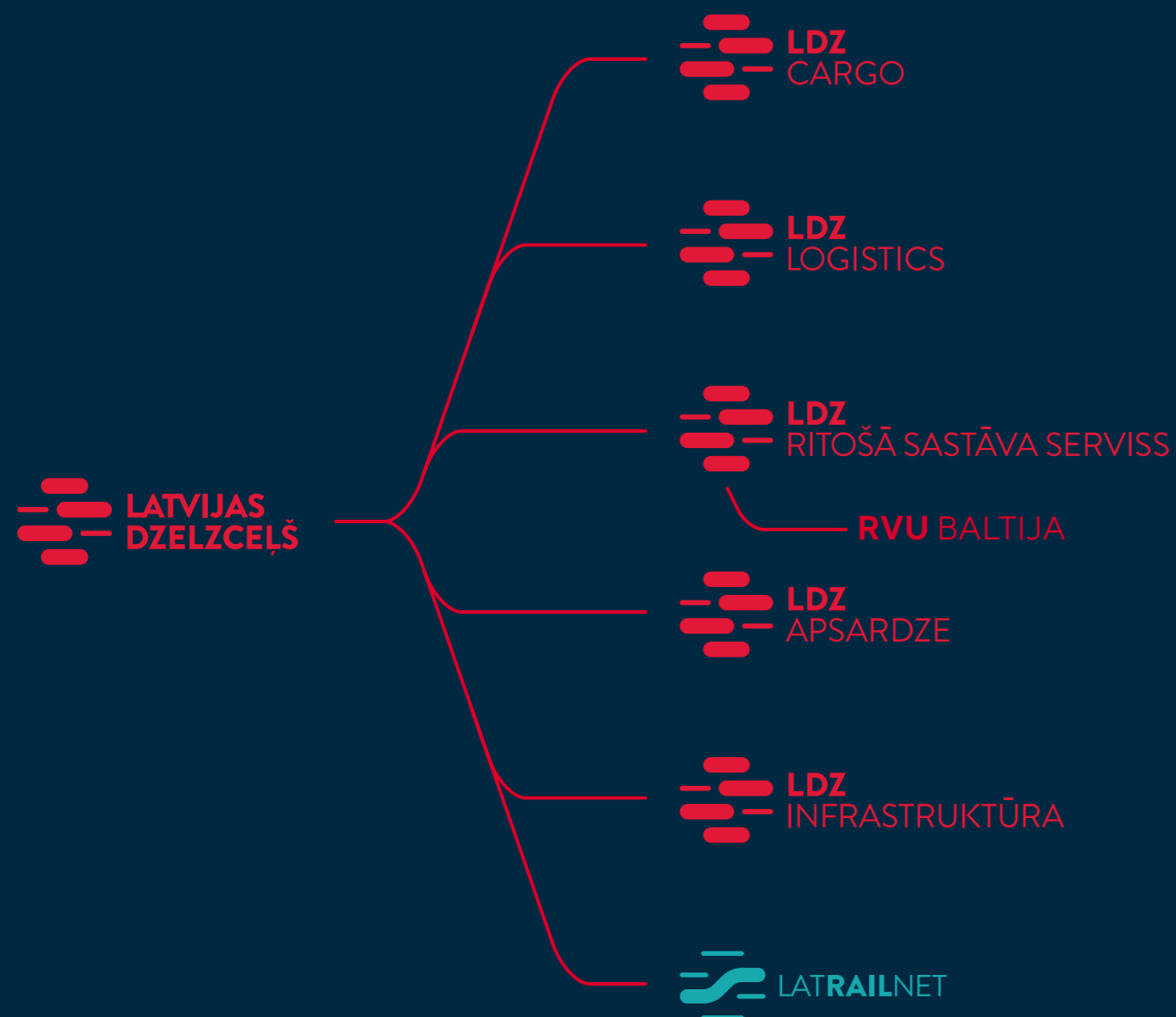
V. Balode-Andrūsa graduated from Stockholm School of Economics, obtaining a master's degree in economics, specializing in economic analysis and control. Later, she also studied high-school doctoral, obtaining a licensed degree in accounting and management economics.

Until 7 February 2020, **the remuneration of the members of the Management Board** was determined in accordance with the Law On Governance of Capital Shares of a Public Person and Capital Companies and the requirement of the Cabinet of Ministers Regulation No. 791 "Regulations on the number of members of the board and council of the public capital companies and public private capital companies, in accordance with the indicators characterizing the size of the capital company and the maximum monthly remuneration of the members of the supervisory board". Starting from 07.02.2020 these regulations are replaced by the Cabinet of Ministers Regulation No. 63 "Regulations regarding the number of members of the board and council of public capital companies and public private capital companies, as well as the maximum amount of monthly remuneration of members of the board and council" passed on 4 February 2020.

The executive body of the LDz Group parent company is the General Directorate of LDz. The General Directorate ensures the execution of the Board decisions as well as the orders and instructions of the Chairman and Members of the Board in accordance with the laws, Cabinet regulations, the Articles of Association of the Company, resolutions of the Shareholders' Meeting, the Council, the Board and other laws and regulations governing and binding on the activities of the Company. It organizes the execution of the functions of the Group's governing company, develop strategies, policies, and procedures, the business plan, budgets and other documents regulating the activity of LDz. LDz General Directorate consists of ten directorates and five structures, which are responsible for the internal audit, procurement, service and customer relations, principal service provision and technical inspection. Taking into account the strategical importance of LDz for the state security, LDz has created the position for the expert in the international and military matters.

The economic activity is the responsibility of a number of LDz departments responsible for the day-to-day work on track, stations and stop points, as well as for the quality maintenance of information systems. Those are Rail Track Department, Information technology and telecommunication Department, Train Traffic Department, Wagon Maintenance Distance and Real Estate Management Department.

Structure of the "Latvijas dzelzceļš" Group



Performance of the subsidiaries in 2020

The "Latvijas dzelzceļš" Group includes seven dependent subsidiaries (in six subsidiaries the parent company has a direct decisive influence, whereas in one – indirect decisive influence), which provide freight and international passenger carriage by rail services, rolling stock maintenance services, repairs and upgrading services, physical and technical security services, the development and provision of international multimodal logistics services, as well as the performance of the essential functions of the railway infrastructure and is responsible for setting the infrastructure charges and allocating capacity for railway transport.

In 2020, the changes also affected the activities of subsidiaries – in order to improve their management, the number of board members was reduced. However, according to the national regulatory framework, in two subsidiary companies, councils were set up in Ltd. "LDZ CARGO" and Ltd. "LDZ ritošā sastāva serviss", while AS LatRailNet was invited to tender for the positions of council members and the composition of the council was confirmed in early 2021. In the light of the Group's Risk Management Policy approved by LDz in 2020, they have also been developed for each subsidiary in 2020.



Ltd. "LDZ CARGO"

Chairwoman of the Board

SVETLANA BERGA

term of office

10. 06. 2016. - 09. 06. 2021.

The company provides freight and international passenger transport by rail services. In the containers and wagons owned by Ltd. "LDZ CARGO", various goods are transported, such as petroleum, coal, metals, lumber, and food commodities, fertilizers, chemicals and other types of cargo. The company also provides international rail passenger transport services along the routes Rīga - Moscow, Rīga - St. Petersburg. Since September 2018, it has been operating a portion of the route Rīga - Vilnius - Minsk - Kiev in the territory of Latvia.

The company's main income is made up of the fees charged for carrying out transport and, as their volume decreases, the turnover of the company also decreased significantly, amounting to EUR 162.3 million in 2020, or EUR 90.7 million less than in 2019. Ltd. "LDZ CARGO" closed 2020 with EUR 3.3 million loss. The largest impact on the profits of the company was the fine of EUR 5 694 174, which was determined by the Competition Council decision of 28.12.2020. on the alleged infringements of Section 13, Paragraph one of the Competition Law and the prohibition laid down in Article 102 of the Treaty on the Functioning of the European Union in the activities of Ltd. "LDZ CARGO", as a result, the company made provision for contingent liabilities in full. In February 2021, an application for annulment of the Competition Council decision was submitted to the Administrative District Court of LDz.

International rail passenger traffic transported 17 737 passengers during the period January-March 2020, which is 89.6% less compared to the 12 months of 2019. The reduction in the volume of international passenger transport is linked to the pandemic COVID-19, since international rail passenger transport was suspended to limit its distribution in March 2020.

IN freight transport using Latvian railway infrastructure, Ltd. "LDZ CARGO" carried out 6 million tonne-kilometres. In 2020, oil and petroleum products transport (26.6%) and coal transport (16.8%) accounted for a major proportion (almost half of all transport). The proportion of fertilizer shipments in total transport is 9.5%, the share of wood and its products is 8.6%, the proportion of animal feed transport is 8.5%. The proportion of other types of freight in 2020 is 30% of total freight transport.

In 2020, Ltd. "LDZ CARGO" concluded several agreements for container freight transport with "Baltic Transit IV", "Eurasia" on the Baltic States - Kazakhstan and Central Asian countries and with a container/intermodal train on the "AMBER TRAIN" route from Lithuania to Estonia.

In 2020, A council was appointed to the Ltd. "LDZ CARGO". It consists of Silvija Dreimane (Chairwomen of the Council, p.i.), Edvīns Korneliuss (an independent member of the Council) and Baiba Beatrise Sleže (Member of the Council). The Board was initially also composed of Ingrīda Ķirse, but she left her post and Baiba Beatrise Sleže was appointed as member of the Council in early 2021.

In 2020, the company received the Gold category rating in the Sustainability Index.



Ltd. "LDZ Logistika"

Chairwoman of the Board
JŪLIJA VASIĻKOVA
 term of office
 14. 08. 2020. - 13. 08. 2025.

The company is principally engaged in marketing and selling of intermodal logistics offers, attracting new customers to the Latvian transit industry and thus promoting the use of public railway infrastructure. To ensure this, active networking is being established within the industry, as well as with other sectors of the economy in the fields of railway transport and multimodal logistics services. Ltd. "LDZ Logistics" works in close cooperation with Ltd. "LDZ CARGO", ports, terminals and other companies providing transportation services both in Latvia and abroad.

The company's net turnover in 2020 was EUR 15.6 million, while the volume of freight transport also decreased significantly, resulting in a decrease in logistics services, as a result of which Ltd. "LDZ Logistics" closed the year with a loss of EUR 127 thousand.

The company's main source of revenue is the provision of transport-expedition services, and the majority of revenues in 2020 were provided by the Latvian customers (68%), while countries outside the EU and CIS, as well as the CIS countries, by 13%.

According to Ltd. "LDZ Logistics" business plans for the period till 2025, its vision is to be a strong player in the industry by promoting cooperation with ports, terminals, road haulers. Given that the company provides logistical and expedition services, it will focus on developing the 3PL service basket.

In 2020, the company received the Bronze category rating of the Sustainability Index.



Ltd. "LDZ apsardze"

Chairman of the Board
ARNIS MACULĒVIČS
 term of office:
 24. 12. 2016. - 23. 12. 2021.

Member of the Board
LINDA BALTIŅA
 term of office:
 01. 03. 2018. - 19. 05. 2020.

The company is engaged in providing object and physical security services, designing and assembling the security, fire-safety and video surveillance systems, providing technical and maintenance services during the operation thereof, and monitoring the received alarm signals. In 2016, the company received a special permit for carrying out security services for an indefinite term (license) No. 146/2016-TA, as well as received the Industrial security certificate No. 250 and its management system is certified in accordance with the requirements of the ISO 9001: 2009 standard.

2020 for Ltd. "LDz apsardze" was historically the most successful - the company's turnover reached EUR 7.73 million and profits of EUR 159.5 thousand, which is 89% more than a year earlier. In 2020, the company actively participated in outside the Group physical and technical security procurements, which allowed it to improve its financial results while at the same time reducing the size of the order from LDZ Group companies. Thus, the company has fulfilled the objectives and objectives set out in the medium-term strategy. The company is registered in the Register of Construction Merchants (registration No.14855).

In 2020, the company received the Silver category rating of the Sustainability Index.



LDZ RITOŠĀ SASTĀVA SERVISS

Ltd. "LDZ ritošā sastāva serviss"

Chairman of the Board

GUNTIS INNUSS

term of office
04.09.2019. – 03.09.2024.

Member of the Board

ARTIS BĒRZIŅŠ

the term of the office from
02.11.2020 for a term not
exceeding one year, until the
Council elects a member of
the Management Board in
accordance with the procedures
specified in the Law on the
Management of Shares of a Public
Person and Capital Companies

Member of the Board

VLADIMIRS DERUKS

term of office
04.09.2019. – 30.10.2020.

The company is engaged in providing repair, upgrading, maintenance services and staffing of the railway rolling stock services as well as leasing of diesel locomotives, buying, storage and sale of fuel, chemical engineering and measurement laboratory services. The company's structural units include locomotive repair hubs in Rīga and Daugavpils and locomotive reserve base at Rēzekne, the wagon repairs center at Daugavpils, the chemical and technical measurement laboratory in Rīga offering testing of fuel and smearing substances, air pollution, noise and other types of pollution, testing of various measuring devices and 3D printing services.

In the reference year, the company's net turnover is EUR 49.1 million, which is 33.6% less than in 2019. The most significant decrease in net turnover is recorded in revenues related to changes in the repair programme for wagons and locomotives, changes in quantities of diesel sold and the price of purchased diesel, depending on the situation on the oil market. The main sources of revenue of the company are the railway rolling stock, which provides freight transport, repair, rental of main diesel locomotives and the sale of fuel, which is directly linked to changes in the volume of freight transport. Reducing freight volumes reduces both fuel consumption and the need to repair rolling stock and the need to rent diesel locomotives for freight. As a result, the company closed the year 2020 with losses of EUR 5.3 million.

In 2020, in cooperation with the Ltd. "LDZ CARGO" 2M62UM series diesel locomotives were equipped with the driver's vigilance telemechanism (TSKBM), which is intended to also equip 2TE116 diesel locomotives, so that the driver's assistant will not be required to drive the locomotive. In addition, it is planned to equip diesel engines for this series with an internal video surveillance system to ensure continuous control and the possibility of following the technical state of diesel, power equipment and equipment.

Also, in 2021, the company will continue to introduce more efficient and safer technologies in the operation of diesel locomotives.

The net turnover of the subsidiary Ltd. "LDz ritošā sastāva serviss" – Ltd. "RVU Baltija" was EUR 6485 and the year closed at a loss of EUR 58 319.

In 2020, the company received the Gold category rating of the Sustainability Index.



Ltd. "LDZ infrastruktūra"

Chairwomen of the Board

TERĒZE LABZOVA-CEICĀNE

term of office:

01.02.2021. - 31.01.2026.

Chairman of the Board

ARTIS BĒRZIŅŠ

term of office:

15.08.2018. - 31.01.2021.

The company provides railway machines, tools and mechanism repair services, provides rail welding works and long rail transportation, provides road machinery and equipment services. The company has implemented the quality management system ISO 9001, as well as the environmental management system ISO 14001.

In the reference year, the net turnover from its core business is EUR 4 million, 1.1% less than in 2019, and the company closed the year with a loss of EUR 3.2 million. Evaluating future development prospects for Ltd. "LDz infrastruktūra", a decision was made on the termination of LDz's decisive influence and participation in Ltd. "LDz infrastruktūra", by initiating the liquidation process of the company. At the same time, the impact of the liquidation process on the whole group of LDz has been assessed and it is concluded that this will have a positive impact on the economic performance of the Group's companies. The final decision regarding the commencement of the liquidation process must be made by the Cabinet of Ministers.



AS "LatRailNet"

Chairwomen of the Board

JUSTĪNA HUDENKO

term of office:

22.07.2016. - 21.07.2021.

Member of the Board

GUNTARS LAPIŅŠ

term of office:

08.08.2016. - 07.08.2021.

AS "LatRailNet" performs the key functions of the public railway infrastructure manager, i.e., decision-making on capacity allocation, allocation of train paths, including both determination and assessment of access and allocation of individual train paths, and decision-making on infrastructure charges, including charging and the establishment of charging schemes.

Company is obligated to provide all railway carriers (applicants) with equal, fair and non-discriminatory access to the infrastructure.

AS "LatRailNet" had a net turnover of EUR 1.3 million in 2020 and a profit of EUR 64 462.

In order to improve business processes related to the allocation of train paths and the application of applicants for railway infrastructure capacity, a modern electronic solution "Capacity Statement System" has been established in 2020. In assessing best international practices in the countries of the Single European Railway Area, LatRailNet will continue to work towards improving network activities in the coming periods, contributing to reducing delays in the rail network. AS "LatRailNet" actively follows international practice and works with foreign infrastructure managers, key players, industry organizations, higher education institutions, research institutes and other public organizations. In 2020, AS "LatRailNet" officially joined the North Sea -Baltic Sea Rail Freight Corridor (RFC8) as a full member.

Sustainability

One of the principles of good corporate governance is a sustainable business. This aspect is being given increasing attention today, given the increasing focus on achieving long-term objectives and growth in the future. LDz also integrates the principles of sustainable management into each process and strategic development plan.

Four main areas of social responsibility are defined by the Group: Business environment, Environment, Employees and Community. These areas are consistent with the operational indicators set out in the GRI standards as well as several sustainable development goals defined by the UN, i.e., Quality of education, Decent work and economic growth, Industry, innovation and infrastructure, Sustainable cities and communities, and Climate action.

The first major step towards the implementation of the sustainability principles was the establishment of the corporate Social Responsibility (CSR) Commission in 2013. It is composed of specialists from the LDz Directorates-General, as well as representatives from all subsidiaries of LDz. Owing to the work of the Commission, LDz Group developed the code of conduct, activated the activity of the companies making up the Group in the Sustainability Index. In 2020, four subsidiaries and the Group's governing company participated in the assessment of the Sustainability Index.

One of the key developments is the regular reporting, based on the internationally acknowledged GRI guidelines, based on which the first report was prepared in 2017 for 2016.

Business environment

Participation in International business forums and exhibitions

Regular meetings with both partners and existing and potential customers are crucial in the rail sector, in order to discuss existing cooperation, in agreement on new cooperation projects. Participation in international forums and exhibitions is equally important. Nor was 2020 an exception when the leadership of LDz participated in international conferences, bilateral meetings, exhibitions - five bilateral meetings organized during the year, three international exhibitions, 18 business forums and conferences, 82 meetings in the framework of international organizations, 11 meetings within the working groups, 7 visits and meetings in Latvia, as well as the membership of the host delegation within the framework of the State visit.

For the first time LDz participated in online-format exhibitions, which are considered to be a very valuable experience, as trends suggest that the format for such exhibitions could be increasingly popular in the future. LDz was the only railway company in the Baltic States, participating in the international online exhibition in China "CEEC Trade EXPO". The advantage of online exhibitions and forums is operational communication with stakeholders, which takes place quickly, transparently and easily, and the exhibition platform also offers virtual workshop spaces that are useful in negotiating with potential customers and/or customer groups. Similarly, the "VIA Latvia" was participating in the "China international fair for trade and SERVICES" exhibition.

In the future, LDz intends to continue and develop the presentation format for such services, thereby attracting new partners.

At the beginning of September, a joint working group of the International Railway Transport Committee and the Organization for Railway Cooperation is planned to address the issues of electronic waybills as well as the development of multimodal transport rules.

Objective of cooperation with international railway organizations

Latvia is bound by all EU directives, regulations and legislation adopted as an EU Member State. Accordingly, international railway organizations are bringing together member companies at both European and global level to represent the interests of industry players in EU policy making – mainly to support and promote a more efficient business and regulatory environment for European railway operators and railway infrastructure companies. Members of organizations shall be kept regularly informed of the main developments, dossiers and new regulations allowing for legal and technical changes in the sector. Membership of organizations enables timely planning and integration of these innovations into business management processes.

The aim of the European rail policy is to create a single European railway area. With the adoption of the EU's fourth railway package and its so-called technical pillar at the end of 2016 and its entry into force in June 2020, removing existing technical, administrative and competitive barriers to rail traffic in the EU. The problem is that at present each Member State has its own standards and technical requirements, while cross-border rail traffic is limited. Common standards mean that a locomotive from one EU country can cross borders without snagging across other Member States under the supervision of the European Union Railway Agency. It is essential for Latvia to achieve interoperability of technical standards with the two Baltic States, although they do not come under the supervision of the EU's joint supervisor, the European Union's railway agency, but may also be carried out locally on the basis of the principle of mutual recognition.

LDz's participation in European and global international organizations gives the opportunity to participate in the EU rail sector policy debate, expressing its position in line with the interests of the company and the Latvian transport sector, also creating new development opportunities. Participation in organizations enables a common approach and understanding of the adaptation of directives and standards in the process of harmonization between railways. Given that we are also involved in connections between China and Europe, an important item on the agenda is interoperability, which is an item on the agenda of the UIC.

UIC also cooperates with OSJD on bulky cargo issues, where our specialists are actively working on the mutual harmonization of the 1520mm and 1435mm rail system. The organization's CER/UIC/CIT/ERA/EIM works closely with each other so that full information on what is happening in the sector can be obtained.

During these years, activities in organizations have developed many contacts with other railways and organizations, which enable LDz to speak at international events, promoting the visibility of the company and Latvia. Thus, the big international players have been introduced to the Latvian railway system, major connections and future intentions. The General Assembly consists of industry companies from all over the world, enabling them to meet many existing and potential partners.



Employees

Promoting the professional development of the existing employees

In order to ensure sustainable business growth, it is essential to invest in the professional growth of employees. For this purpose, different courses and training are organized for employees, using both the LDz Training Centre and external partner services. In relation to the optimization of the number of employees performed by LDz, cooperation with the Latvian Railway and Transport Union and the State Employment Agency was essential during the reporting year, so that, after termination of their employment relationship with LDz, the former employees would be socially provided and would also find new job opportunities for them.



Environment

Energy efficiency

In 2017, LDz's Energy management system was certified under the ISO 50001 standard. To date, no inconsistencies have been identified in the previous audits, at the same time, by recommending improved awareness among employees of energy-efficient behavior. As one of the key factors for promoting energy efficiency, it is a clear human factor – everyday habits, therefore, workers' awareness of energy efficiency is promoted through internal communication channels. Based on the energy management rules of LDz and in compliance with the standard LVS EN ISO 50001: 2019 "Energy management systems. Requirements and User Guidelines (ISO 50001: 2018)" and requirements, developed in 2020 SJSC "Latvijas dzelzceļš" Environment and Energy Management Programme for 2021-2028.

Action aimed at reducing rail noise

Although the train is one of the most environmentally friendly modes of transport, it nevertheless has an impact on nature and on people. One of the side effects of train traffic is the emitted noise and vibration, which can have an impact on the environment and the health of the population. SJSC "Latvijas dzelzceļš" action plan for noise reduction by 2023 has been developed to identify impacts caused by train noise. The action plan applies to the territories along the sections of the railway line Rīga Central Railway Station – Torņakalns – Zaslauks and Rīga Central Railway Station – Lielvārde: the Rīga agglomeration, as well as Salaspils, Stopiņu, Ikšķile, Ogre, Ķegums and Lielvārde counties. In order to minimize the effects of noise and vibration, LDz shall carry out annually track reconstruction and repairs according to track use intensity and load.

Community

Caring of the environment

The concern for the preservation of the environment for future generations does not only include actions to reduce CO2 emissions or to clean up contaminated sites, but also the cleaning of the environment. Therefore, the employees of the LDz Group engage annually in environmental cleaning and greening activities. In recent years, increased attention has been paid to greening and improving the environment as waste volumes in the immediate vicinity of railway infrastructure.

Removal of historical pollution

One of LDz's responsibilities is to limit historical oil-product pollution, which is implemented according to the approved list of contaminated sites. Such work has also been carried out in 2020 by collecting and disposing of contaminated soil, performing laboratory tests of groundwater, as well as continued remedial work at the site of the 2012 crash "Krauja".

Improving positions in the ranking of the most environmentally friendly companies

The fact that LDz is concerned about the preservation of the environment for future generations is also confirmed by the assessment of third parties. In particular, annual improvements are made to the value of the "green" companies made up of "Balticbrands". In 2020, there has been a significant increase in this assessment – LDz, stepped up by 27 places, ranking 9th. On the other hand, the State group of capital companies took 3rd place.

Educating the population on safe railway level crossing

As a railway infrastructure manager, LDz has an obligation to inform the public about the consequences of not complying with safe behavior rules in the vicinity of the tracks. Therefore, LDz engages annually in the activities of the International Safety Crossing Day by launching a safety campaign aimed at informing and educating the public about safety in the vicinity of the railway. In June 2020, LDz launched the campaign "Neesi pārbrauktuve. Nopauzē pie dzelzceļa!" indicating the importance of stopping in time before crossing the railway. People familiar with children and young people participated in this campaign as messengers – Emīls and Ieva or "Mēs ar brāli kolosāli", Lauris Zalāns, Karmena Stepanova and Markus Riva.

Aware of the fact that influencers are those who often influence the behavior of children and young people, in summer 2020 LDz raised the issue of the responsibility of these individuals, both against the law and in front of their followers. Last year, several influencers came to the fore of LDz, who made reckless videos on the railway and later made them public on social networks, to this end, LDz focused their attention on the tragic consequences of irresponsible behavior.

Latvia is one of the countries where there is one of the highest suicide rates in Europe, and sometimes people choose to leave their lives by putting responsibility on the "shoulders" of train drivers. In order to draw public attention to mental health, LDz, in cooperation with the crisis center "Skalbe", in October organized an expert discussion in, while a study was conducted prior to the discussion, which shows citizens' readiness to spot and see the mental health problems of their fellow people.

Safety classes at schools

Children are often the ones who encourage adults to behave properly in the vicinity of the railway, so it is important to learn safe behavior at the age of early childhood and early school. In order to promote the education of children and young people regarding the correct crossing of railways, LDz specialists attend Latvian educational establishments every

year to present the rules of safe behavior near railways in an attractive manner. Safety classes are also held at the Latvian Railway History Museum. Due to the pandemic in 2020, visits to schools and lectures at the museum were limited, but all relevant information is available on the website dedicated to railway safety www.dzirdiredzidzivo.lv.

Promoting studying science subjects at schools

One of the drivers of the economic growth of the country's economy is educated, professional people in different areas. However, for the development of the country to take place smoothly, there must be a balance between specialists in the physical sciences and humanities. Aware that young people often do not have the motivation to learn the exact sciences, as a result of which the humanities professions are more popular, LDz started in 2019 and continued activities in 2020 under the "Latvijas Dzinējspēks" project, informing young people about the benefits of science. In the autumn of 2020, due to the limits of the COVID pandemic and the urgency of remote learning, LDz held a debate on the challenges in education and the importance of feedback. In an online discussion, experts discussed issues such as the remote absorption of a high-quality teaching substance, the importance of the evaluation and the provision of feedback and the need for skills education.

Gifts (donations)

In supporting major and long-term public interest-aimed projects, LDz follows the Policy of donations (effective from 01.01.2018) approved in 2017, under which the Company may support projects in the fields of education and science, public health promotion, social assistance and environmental protection. Each project application is evaluated by the LDz Group's Marketing Communication Projects Commission, which recommends supporting or not supporting the project in question. The final decision shall be taken by the management of the company and the boards of subsidiary companies.

In view of the financial situation, LDz and its subsidiary did not provide financial support for projects in 2020.

The public image of LDz

LDz, as a company for more than 100 years, has also been paying more attention in recent years to improving the external image of the company, which is essential given that LDz is a state capital company and largely reflects the overall corporate culture of public administration and large state enterprises. A great deal of work is being invested in the LDz community as a modern, well-managed and efficient company that complies with the principles of good corporate governance in its activities.

Each year, LDz, in cooperation with the sociological research company, conducts an image survey that clarifies citizens' views on the image of the company as a whole, as well as on the opportunities provided for train as public transport. The results of the study show that the image of LDz in society has improved by 3% since 2019, with a positive assessment of 38% of respondents.

While assessing the image of LDz in more detail, 66% have recognized it as a strategically important company for Latvia's economy, 58% have noted the educational and informative role of LDz regarding safety in the vicinity of the railway. Similarly, 50% believe that LDz is a transport and logistics leader in Latvia, as well as one of the most export-friendly companies.

The image of LDz has also increased by third parties: "Balticbrands" survey of the most loved brands LDz stepped up 3 places since 2019, ranking 16th, while maintaining 4th place in the country's large group of capital companies.

LDz brand awareness

The number of Latvian residents who recognize the LDz logo is increasing, with 24% of the population in 2019, the share increased to 32% in 2020, while 4% admit they associate the LDz logo with another company. Most commonly, the LDz logo is recognized by people who travel by train on a daily basis.



16% ↑ 32%

Brand awareness



66%

Strategically important company for the Latvian economy



58%

Educate and inform the public about safe behavior on and near the railway



50%

One of the most export-friendly companies

ENGAGING STAKEHOLDERS

04

102-9
102-10
102-40
102-41
102-42
102-43
102-44

Upon commencing work on the first LDz Sustainability report in accordance with the GRI G4 guidelines, the company carried out the stakeholder assessment, mapping and survey, identifying the most relevant aspects to be included in the content of the sustainability report. The process resulted in identifying the key stakeholders, information on which is identified in the figure.

Important stakeholders that do not appear in the radar are international companies and organizations of the sector, which are long-term counterparties of LDz. The Latvian transport and logistics sector cannot operate in isolation from international processes, and the railway infrastructure is related to the railway networks of other countries. The opinion of the stakeholder is analyzed when taking decisions on activities on international markets.



LDz involvement in the law-making activities

In its operations, SJSC "Latvijas dzelzceļš" complies with the provisions of Latvian laws as well as international law. The tasks and objectives of the company's development have also been defined in various policy planning documents. The key documents determining the role of LDz are Transport Development Guidelines for 2021 - 2027 and the Indicative Railway Infrastructure Development Plan for 2018 - 2022. The Company pursues its medium-term operational strategy for 2017 -2022, as well as the 2020 Medium-Term action strategy for 2020-2025. LDz's activities are not detached from the Group's activities, which is persuaded by the approved strategy of "Latvijas dzelzceļš" for the period until 2030.

Given the contribution of LDz to the growth of the national economy, the involvement of employees of the company in the work of Advisory Councils is important, which is an opportunity to present the views of LDz on the planned changes in legislation or activities. The representatives of LDz, including the Company's management, regularly participate in the work of the Ports, Logistics and Transit Council chaired by the Prime Minister, as well as in the National Tripartite Cooperation Council, the Transport and Communications Tripartite Cooperation Sub-Council and the Logistics Council under the leadership of the Ministry of Transport, bilateral business cooperation councils and intergovernmental commissions with third countries (outside the European Union), such as Belarus, Russia, Kazakhstan and other countries. LDz has developed good cooperation with the Latvian Employers' Confederation and the Latvian Chamber of Commerce and Industry, and the company is a member of these organizations.

Shareholders/owners

The State holds 100% of the capital shares in LDz, and the shareholder of these capital shares is the Ministry of Transport. The representative of the shareholder is the State Secretary (or Deputy) of the Ministry of Transport. Consequently, the Company has one shareholder and clearly defined cooperation mechanisms for convening shareholders' meetings and exchanging information in accordance with the Law on Governance of Capital Shares of a Public Person and Capital Companies.

In 2020, six shareholders meetings were convened, during which the LDz 2019 annual report was approved, the financial situation of LDz in 2020 has been assessed, the use of profits and the increase in share capital for 2019 was decided, as well as the approved decisions on real estate activities.

Management

The company has the following institutions: the meeting of shareholders, the Council and the Board of directors. Shareholder meeting elect's council, which is the body supervising the Board and the governing Board of the Council. In 2020, 27 Council meetings were held, during which 134 decisions were passed, and 81 board meetings where 510 decisions were passed.

Planning of operational and Group matters is handled by the committees of LDz Group. LDz has directors of LDz General Directorate and heads of structural units. The dependent companies are managed by the boards of the group's subsidiaries. The meetings of the Steering Committee set up by the Group take place once a week to discuss topical issues and ensure the exchange of information on what is happening in the various structures of the Company and Group companies. Awareness of decisions taken and future development plans at all levels and employees of all bodies is essential for qualitative decision-making and employee loyalty. Therefore, meetings of mid-level leaders in the regions are regularly organized.

Employees

With a view to improving performance and stabilizing economic performance, LDz continued its assessment of functions and technological processes in 2020, including through a heavy decision on staff optimization. As of 31 December 2020, 7578 people worked in the Group and in the SJSC "Latvijas dzelzceļš" - 4813 people.

LDz, as one of the major employers, employs people in all regions of Latvia, and it is important to ensure internal communication so that employees are informed directly about the topics in the company, including the decisions taken that affect employees themselves and the future development directions of the company. At a time when the operational circulation of information is important, electronic communications networks have a major role to play and LDz has two, such as: the company's intranet, or intranet, and "Dzelzceļa TV", which was introduced in 2019. Since 2019, however, every employee receives the information about current events once a week in e-mail with the help of the "News leaflet" page. Each week "News leaflet" is placed on the notice boards every in over 300 places available to a wide number of employees throughout Latvia.

The intranet is used in the Company not only to disseminate information about the current developments, but also to inform employees about changes in LDz's regulations, vacancies, as well as to allow employees to keep track of salary calculation and annual leave information.

In spring 2020, when setting the country's emergency situation due to the COVID pandemic, companies were invited to provide their employees with the opportunity to work remotely. This call was also followed by LDz, providing remote work facilities for those employees for whom it is possible, considering the work responsibilities to be carried out, thereby extending the use of the intranet outside the offices. At the same time, however, an intranet backup staff portal, which can be accessed by authorizing the Internet banking approach, also continues to operate.

Organizations/NGOs

Cooperation with non-governmental organizations in the sector and organizations not directly affected by LDz is essential for the successful development of the company.

In matters of employee rights and social protection, LDz's most important counterparty is the Latvian Railway and Traffic Industry Trade Union (LDZSA). LDz Group has entered into a collective agreement with it, which is binding on all employees. The collective agreement came into force in 2017 and it is regularly updated and adapted to the current situation.

The collective agreement and the amendments thereto signed by it provide for a broad range of social guarantees for employees, as well as various measures taken by the employer aimed to improve the work environment and promote employee well-being and motivation.

The sustainable and efficient functioning of rail transport and the social protection of all sectors and employees is guaranteed by the general agreement of the railway sector. Its current version is valid until 2024, and this document is binding on the entire LDz Group, the Latvian Railway and Traffic Industry trade union and the Latvian Railway Industry Employers' Organization. The general agreement of the sector serves as a mechanism for cooperation and consultation between the parties involved, as well as the basis for decisions relating to the economic situation of companies or the socio-economic interests of employees.

Although the association of Disabled People and their Friends "Apeirons" is not directly linked to the railway sector, the decisions taken also affect every day. The opinion of the association is taken into consideration on the matters

related to improvements of the public railway infrastructure, including adjusting it so to meet the needs of disabled people. Organization's opinion was considered in ensuring the operation of mobile lifts for passengers using wheelchairs, as well as additional improvements for the convenience of deaf and hard of sight people, on the other hand, in 2020, "Apeirons" provided an opinion on the project to modernize passenger platforms in 48 stations and at staging points.

Given that the economic activities of LDz are also linked to the development of passenger infrastructure, the project identifies the views of various non-governmental organizations. In order to ensure better access to railway infrastructure for citizens, LDz has worked with representatives of cycling interests, while launching a project to modernize passenger platforms involved a wide range of urban experts in 2020.

Despite the adjustments made by the pandemic in day-to-day activities, cooperation with the foundation "Mission Possible" continued in 2020, jointly promoting young people's interest in science and telling them about their role and the need to promote national development.

One of the important impacts is environmental protection organizations. Environmental protection is one of LDz's priorities, so as to minimize the environmental impact of its activities, measures related to environmental protection are regularly implemented, historical pollution is being eliminated and means of reducing harmful emissions and improving energy efficiency in LDz managed properties are being addressed. Under the regulatory framework, each infrastructure development project is subject to an environmental impact assessment.

Affirming that involvement in stopping climate change is an important part of LDz, LDz annually participates in the Worldwide Fund for Nature's "Earth Hour" campaign, by switching off the lighting of the railway bridge over the Daugava in Rīga. Switching off lights, symbolically in support of climate change mitigation, takes place annually. In 2020, however, the railway bridge was the site where the switching off could be seen on a live broadcast world-wide basis.

Representatives of interests

LDz is a major player in the transit and transport sector, and in order to express its views on topical issues, to defend the interests of the sector, the company has been involved in the Port, Logistics and Transit Council, which has a key role to play in promoting the development of the sector, as well as in coordinating national policies in relation to port development and operation. The company participates in discussions on development projects and legislative initiatives within the Council. Successful development of the sector also requires involvement in international cooperation formats, and one of these is the Advertising Commission of the Port, Logistics and Transit Council, which is responsible for promoting the sector in international exhibitions and forums, presenting it at the stand "VIA Latvia".

LDz is the only public use railway infrastructure manager in the territory of Latvia. At the same time, the company has partners that are considered to be important sides of the influence of interest representatives. Similarly, the project "Rail Baltica" developers "RB Rail and the "Eiropas dzelzceļa līnijas" are considered to be an important partner and influence. As early as the end of 2020, the Rīga Central Railway Station redevelopment project started, where the biggest challenges are related to the matching of two-gauge tracks and the organization of train traffic during rebuilding.

Customers

The calculation and determination of the railway infrastructure charge is responsibility of LDz subsidiary AS "LatRailNet", which determines the infrastructure charge according to the direct costs of providing train services.

According to the macroeconomic indicators and forecasts of the Ministry of Finance, a 1.2% increase in the consumer price index and the values affecting the pay fund is planned for 2021 and a 1.3% increase in the producer price index. These forecasts have been taken on the basis of a decision by the Board of AS "LatRailNet" on the indexation of infrastructure charges for the period from 1 January 2021 – it increased by 1.67%. Similarly, at the end of 2020, the Board of AS "LatRailNet" adopted decisions on infrastructure charges for coal and container cargo transport, amended the list of market segments in international movement and amended the capacity allocation scheme. The decisions made by the company are available on its [website](#).

Domestic passenger transportation in Latvia is provided by AS "Pasažieru vilciens" and Ltd. "Gulbenes – Alūksnes bānītis". International freight carriage services in the territory of Latvia by mid-March 2020 were provided by the subsidiary of LDz Ltd. "LDZ CARGO and UAB "LG Kieruiams" (on the route Vilnius-Daugavpils), however, with the spread of the COVID pandemic, these shipments were suspended.

In the field of freight transportation, LDz has four customers: Ltd. "LDZ CARGO" and three private merchants, i.e., AS "BALTIJAS TRANŽĪTA SERVISS", AS "Baltijas Ekspresis" and Ltd. "EURORAIL CARGO".

In view of the range of services provided by LDz, customers also include port terminal operators and their existing businesses, wagon handling service recipients, electricity distribution and trading customers, real estate lessors. Cargo owners and passengers affected by the quality of the railway infrastructure shall also be considered to be customers. LDz continuously aims to improve the railway infrastructure, as well as thinking about passenger amenities – modernizing platforms, as well as ensuring the provision of railway inquiries to persons in wheelchair throughout the day and hoist services.

LDz provides electricity distribution and marketing services to several thousand customers. This service is essential in places where other operators do not have access to the distribution network. At the end of 2020, LDz had 4556 electricity connections for households and 939 connections for legal entities, including 176 for internal structures of LDz Group and 763 – for external customer

LDz customers are also those who receive LDz as a service point provided by the operator (freight wagon handling, wagon maintenance and inspection services, provision of equipment and traffic information, ticket office and passenger station and stop services, traction electricity supply, automatic locomotive alarms for traction units (ALS) repair of equipment and repair of traction radio equipment) services and various other ancillary services.

Suppliers

As a subject of the Public Utilities Procurement Law, LDz must comply with the requirements of the said law as regards the procurement procedures. In 2020, 212 procurement procedures were arranged, and 387 procurement contracts were awarded. More information about the activities of LDz Procurement office is provided on [page 136](#).

During the term of co-operation, adhering to the general principles of business ethics of the "Latvijas dzelzceļš" Group are binding on the suppliers of LDz and its prospective counterparties. At the same time, it is possible to report anonymously on possible cases of fraud, corruption or conflict of interest (Whistle-blower's report). Compliance with the code of ethics and the alert mechanism in relations with suppliers is a way of preventing contracts with potentially dishonest partners and suppliers at the same time, it is a mechanism for ensuring the control of the company's employees in their business relations with partners.

Society

One of the priorities for the public railway infrastructure is the responsibility for the infrastructure for passengers – safety, quality and accessibility for every population group. Railways in Latvia connect larger and smaller cities, different regions, thereby providing extensive mobility opportunities for a wide range of citizens – students, employees, and local and foreign tourists.

The development of the passenger infrastructure is planned based on the "Indicative Railway Infrastructure Development Plan for 2018-2022". The modernization of passenger platforms at 48 stations and stops is one of the largest projects being carried out in the context of passenger amenities. In turn, in order to make the railway more accessible to Rīga residents, the project foresees the creation of four new staging points, thereby encouraging residents to switch from other modes of transport to a train, which is one of the most environmentally friendly modes of transport. At the beginning of the project to modernize passenger platforms, LDz studied the views of urban experts, municipalities and other relevant groups of society, which was essential to ensure that the project was fully in public interest.

Day-to-day communication with citizens takes place through different channels of information, as well as an evaluation of the content to be distributed through a given information channel happens. The public is informed about current developments related to the Company's economic activities or processes both through traditional media (press, TV, radio and Internet media), as well as through social networks Twitter, Facebook, Draugiem.lv, Instagram and LinkedIn. Youth audiences are more frequently addressed through social media.

There is also an interactive communication with the public through both social media and e-mails and the railway information service. In 2020, LDz Customer Service Centre in collaboration with a call center service provider handled 54594 calls regarding domestic and international passenger carriage services, electricity supply to customers, issues related to the core business of LDz Group and the operation of level crossings. In the reference year, the number of calls was affected by the COVID pandemic, so a significantly lower number of calls was received compared to 2019, by 13 628 calls. Meanwhile, a total of 2322 e-mails sent to "uzzinas@ldz.lv" were received and answered, of which 330 were registered as claims.

In view of the financial situation of LDz, no aid for the implementation of major public education and science, health promotion, social assistance and environmental projects was implemented in 2020. Information on projects supported in previous years is available on the [website of LDz](#).



PERFORMANCE INDICATORS

05

102-46
102-47
102-48

Identification of the key aspects

Starting work on the preparation of the first GRI report in 2016, LDz conducted an impact assessment, taking more than 10 individual and group interviews. To determine which stakeholder representatives to be interviewed, a chain of LDz supply values has been established – identifying suppliers, customers and other partners who exercise the greatest mutual influence on LDz. Both internal and external stakeholders have been identified using a stakeholder identification matrix and identifying key stakeholders in the value chain from the supply chain perspective. The opinion of these stakeholders formed the basis for gathering information on developments in the following years, as well.

This section provides information on the process of the relevant aspects identification and the obtained results. When the preparation of the 2018 GRI report has started, the GRI G4 guidelines were replaced by the GRI standard, and these indicators of significant aspects have also been included in the 2019 and 2020 reports. While transitioning from the GRI G4 guidelines to the GRI standard, it was established that the GRI standard no longer contains specific aspects of the Road transport (Highways and Railways) sector, consequently, in future reports, indicators LDZ-x have been retained to report important aspects for the company. The aspect Land use rights has been eliminated, which was relatively insignificant from the viewpoint of the stakeholders and the Company itself.

According to the stakeholder radar (see page 56.) the representatives of the following organizations were involved in the process of determining critical aspects:

External stakeholders	Internal stakeholders
Customers AS "Pasažieru vilciens", Ltd. "Baltijas Tranzīta serviss", Ltd. "LDZ CARGO"	The Ministry of Transport
Suppliers (providers of financing for operations) AS "Swedbank"	The Council of SJSC "Latvijas dzelzceļš"
Conterparties The Association of the Disabled People and Their Friends "Apeirons"	Development Directorate
Educational establishments Rīga Technical University	Latvian Railway and Transport Industry Trade Union
Environmental organisations Latvian Green Dot	The Board of SJSC "Latvijas dzelzceļš"
Associations Latvian Association of Large Cities, Latvian Employers' Confederation	

Steps to identify key aspects:

1. Identification of stakeholders – identification of the organizations and companies that have the greatest importance in the value adding process for LDz.
2. Identification of potentially significant aspects – identification of the aspects referred to in GRI G4 guideline materials and selection of potentially significant aspects for LDz operation.

When preparing the first report based on the GRI guidelines, significant economic, social and environmental aspects related to the activities of LDz were discussed in interviews with all the above-mentioned internal and external stakeholders. During the interviews not only their views on the sustainability aspects that apply to companies of all sectors were identified, but also the potential relevance of the specific 25 additional aspects for the Land transport (Highways and railways).

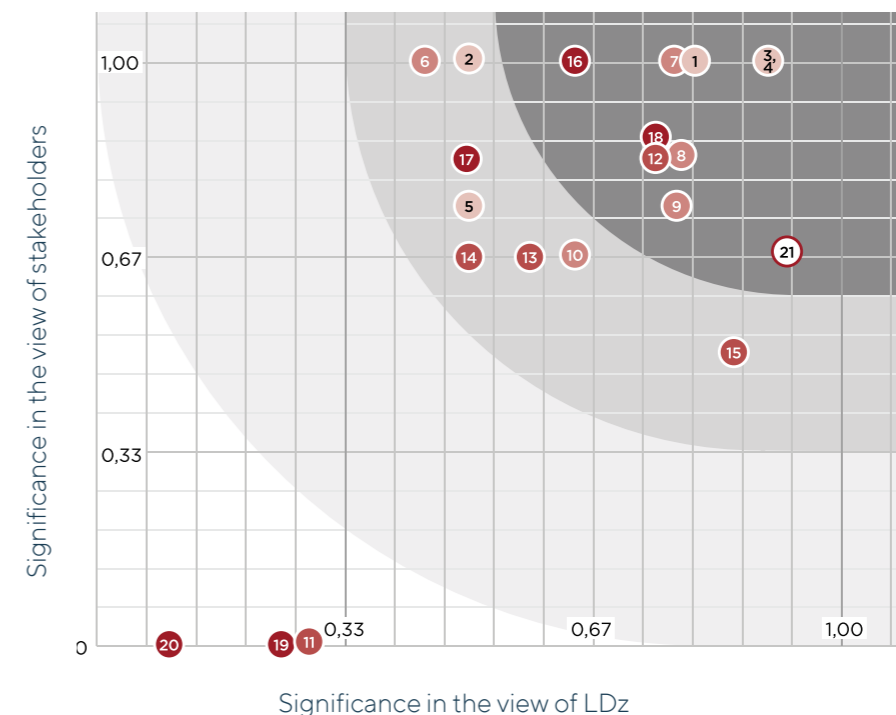
3. Identification of truly significant aspects – the analysis of potentially significant aspects, during the interviews identifying those that are most significant for LDz as well as the identified stakeholders.
4. Determination of financial aspects – identification of the content of the report and setting the limits for the key financial aspects.

Based on the assessment by internal and external stakeholders of the importance of aspects in the materiality dimensions, a matrix of significance of aspects ("Materiality matrix") has been developed.

It proves that the economic impact of LDz and some environmental impact indicators are considered to be the most important aspects in the view of internal as well as external stakeholders, but several indicators related to the community and the work environment have been identified as less significant. Concurrently, it should be noted that the summary of interviews shows that there are no particularly significant differences in the assessment of internal and external influence parties, the exception is certain issues related to very specific areas or the internal enterprise environment, which did not seem relevant to the external parties of influence.

Considering that since the preparation of the first Sustainability Report, new influencers have appeared, in 2021 it is planned to conduct a survey of new influencers.

When interviewing the stakeholders, the significance of each general aspect of the GRI G4 guidelines was established, as well as, having analyzed the activities of LDz and identifying the views of stakeholders, four industry-specific aspects were raised, which were included in interviews with stakeholders and in the significance matrix of the LDz Sustainability report



Sustainability category	Topics
Environmental dimension	Sound and vibration
Social dimension	Land use rights Accessibility of the environment for people with special needs
Other	Corporate governance (gender equality in management positions)

ECONOMIC IMPACT

06

The role of LDz in promoting export services of the sector

The companies of the "Latvijas dzelzceļš" Group, which are responsible for the performance and organization of freight transport, as well as for the preparation of tenders, operate on the international market and the company governing the Group also has a series of contractual relations with international customers and other railway companies. As a state capital company with a high reputation among its partners, LDz provides both revenue in its budget and a contribution to the national economy. It is important to set specific objectives and objectives for sustaining international competitiveness to realize them. In 2020, the business model of the "Latvijas dzelzceļš" Group was developed in order to further develop and offer competitive high value-added services on the international market. On the other hand, the strategic objectives of LDz are set out in the Medium-Term development strategy for 2020-2025.

LDz is undeniably contributing to the national economy as a player in the international transport market, but even more successful economic development is possible, with all players in the sector being united and implementing joint cooperation projects. One of these is the "VIA Latvia" brand, whereby transport and logistics players present themselves on the global market. Such sector unity is essential for international partners, since in the field of freight transport, one member cannot operate in isolation from others – high value-added services can only be created through joint cooperation. The creation of such a brand shows that the Latvian transport and logistics industry is aware that it is possible to achieve international competitiveness in joint cooperation and to achieve the stated objectives.

Development of services, ensuring efficiency

Share of LDz's revenue in total net turnover of 2020 (including revenues from public finances to balance) from the Minimum Access Service Complex and access infrastructure linking infrastructure to service sites and government grants for the minimum access service complex and access infrastructure connecting infrastructure to service sites, including passenger platforms (hereinafter – infrastructure) fee revenue, made up 58.04%. The calculation of infrastructure usage charge is the responsibility of the subsidiary of LDz AS "LatRailNet" and it is effected from the second half of 2019 in accordance with the fee calculation scheme developed by the company, replacing charge that was calculated in accordance with the Public Utilities Regulatory Commission approved by the Public Utilities Regulatory Commission methodology.

Revenue from the additional services of the infrastructure manager consist of revenue for wagon maintenance services, revenue for freight train composition processing services, revenue for commercial survey services for freight wagons and revenue for wagon intermediation settlement services. SJSC "Latvijas dzelzceļš" provides its customers with the drafting of a full cycle documents in e-environment for the organization of freight transportation with all neighboring countries of Latvia – Russia, Belarus, Lithuania and Estonia. This solution provides for a full electronic exchange of information on transport. In turn, the Automated Transport Operational Management System allows carriers to maintain a container and wagon database, provide technological documents, draft them according to the plan, as well as determine the location of locomotives and estimate the time of arrival of the cargo at its destination.

Economic performance

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201-4
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The situation in global market, which had developed as a result of declining demand for coal and oil products, and the consequences of various international policy decisions with an impact on economic processes, were compounded by the challenges posed by the COVID-19 pandemic in 2020. On a global scale, the impact on economic processes started in early 2020, while Latvia's economic situation and a number of sectors were affected in the spring and continued to affect the rest of the year. The slowdown in global economic activity meant halting production processes or maintaining minimum volumes, which also resulted in a decline in demand for freight transport. LDz's largest share of revenue comes from infrastructure charges, and as freight volumes are reduced, there are lower revenues, which also negatively affect the economic value generated by the company.

In 2020, the funding of the European Union Structural Funds was continued, starting with the modernization of passenger platforms at 48 stations and stops. Also, in 2020, projects have been identified, in the implementation of which it is planned to attract European Union co-financing in the near future. However, in November, a pedestrian tunnel under the tracks in Ogre was put into operation, and at the end of 2018, state budget funding of two million euros was allocated for its construction.

Generated and distributed economic value

The total income generated by LDz in 2020 was EUR 185.5 million, which consists of revenue from operating activity of EUR 156.5 million, other operating income of EUR 28.4 million and financial income of EUR 0.5 million. Compared to 2019, the total economic value generated by the Company decreased by EUR 22.4 million in 2020.

The cost of provided services was EUR 178.6 million. In the cost of sales structure, a large share— 44.6 % (EUR 79.7 million) is the employees' remuneration and related social security contributions. The cost of materials, fuel and electricity amounted to EUR 16.3 million, whereas administration costs were EUR 11.3 million, which has fallen significantly in 2020 — by EUR 4.8 million, or 29.8% compared with 2019.

As the number of employees declined in 2020, the amount of taxes paid to the State also decreased. EUR 36.27 million were paid in taxes, including EUR 18.4 million of national social insurance mandatory contributions, EUR 9.5 million of personal income tax, EUR 7.6 million of value added tax and EUR 0.6 million of property tax.



Investment in infrastructure and development

THE MAIN ACTIVITY OF LDZ IS THE MANAGEMENT AND MAINTENANCE OF PUBLIC AREAS RAILWAY INFRASTRUCTURE IN ACCORDANCE WITH CERTAIN QUALITY AND SAFETY STANDARDS.

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203-2

The main activity of LDz is the management and maintenance of public access railway infrastructure in accordance with certain quality and safety standards. A number of annual inspections are carried out to record track quality and to decide on the necessary improvements and the assessment of the condition of the track is expressed as an average mark obtained by dividing the total score of the test section by the number of kilometers tested. The results of the regular inspections show that the quality of the rail tracks in Latvia meets the rating "excellent". In the reporting year, the average number of points was 14.9, which is 4.3 points better than in 2019. This quality indicator has been achieved thanks to investments in the modernization of infrastructure, ensuring its quality, safety and competitiveness.

In the reference year, EUR 7.5 million has been used for infrastructure improvements and upgrades from the share capital of LDz. Use of funding:

Project	Use of funding
Track renewal - "A" type capital repairs of rail tracks	3 079 537
Track renewal - "B" type capital repairs of rail tracks	1 189 224
Replacement of long rails against new rails	2 314 143
Re-establishment of the crossing surveillance systema	108 296
Rebuilding of infrastructure in connection with the closure of the Rīga-Krasta Station	233 803
Renewal of energy	468 492
Measures to reduce railway accident risks to crossings and pedestrian crossings	72 563

New pedestrian crossings in 2020 have been installed in Stage Garkalne-Krievupe at 25.5 kilometers, Madona-Gulbene at 96.407.

In 2020 the total investment of LDz amounted to EUR 11.3 million:

EUR 10.5 million has been invested in the recovery, including:

- overhaul of railway infrastructure – EUR 9.7 million;
- the renewal of existing IT systems: EUR 185 thousand;
- technological equipment purchased during the reporting period for the repair and maintenance of tracks, as well as equipment for the further development of information systems and means of communication and other intangible assets of EUR 656 thousand.

EUR 738 thousand have been invested in infrastructure development, including:

- EUR 313 thousand in modernization;
- EUR 340 thousand in the deployment of innovative technologies;
- in the rest of the development, EUR 85 thousand.

Materials consumed for the construction and repair of infrastructure in 2020 and their volume

Material	Quantity	Unit of measurement
Sand	35 230	tonnes
Gravel (dolomite rubble)	1035	tonnes
Stone rubble	15 000	tonnes
Granite crushed stones	80 140	tonnes
Soaked oak sleepers	2800	pcs.
Coniferous impregnated sleepers	7114	pcs.
Wood sleepers used	465	m ³
Overpass oak beams	580	m ³
Bridge beams	159	pcs.
Reinforced concrete sleepers (new)	13 080	pcs.
Reinforced concrete sleepers (used)	43 352	pcs.

Projects of the EU Funds 2014-2020 programming period

In pursuing the operational objective of maintaining and developing the railway infrastructure, LDz regularly intends to improve and modernize it, including through the funding of European Union funds.

For LDz projects, the co-financing of the Cohesion Fund is linked to the specific support objective of the priority axis "Sustainable transport system" of the Operational Programme "Growth and Jobs", "Providing a competitive and environmentally friendly TEN-T railway network, promoting its safety, quality and capacity" of measure 6.2.1.2 "Modernizing and building the railway infrastructure", which aims to improve the TEN-T rail network by promoting its safety, quality and capacity.

Under the specific aid objective 6.2.1 "Ensuring a competitive and environmentally friendly TEN-T rail network by promoting its safety, quality and capacity", four separate railway infrastructure development projects are being implemented or will be implemented: Upgrading of the Sarkandaugava – Mangaļi – Ziemeļblāzma section of the Rīga railway hub section; "Upgrading of the railway passenger service infrastructure.", "Upgrading rail infrastructure to increase train speed" and "Installation of enclosures and pedestrian passes at railway infrastructure facilities".

In 2020, LDz continued to implement the project included in 6.2.1. Specific support objective "To ensure a competitive and environmentally friendly TEN-T rail network by promoting its safety, quality and capacity" 6.2.1.2. in the measure "Modernization and construction of railway infrastructure", which envisages modernization of the Sarkandaugava-Mangaļi-Ziemeļblāzma section of the Rīga railway junction.

Work has begun on a project for the modernization of railway passenger infrastructure - the construction of elevated platforms and the installation of passenger information and video surveillance systems at 48 stations and stopping points on four railway lines.

In addition to projects supported by the EU Cohesion Fund, LDz, together with the Estonian railway company AS "Eesti Raudtee", has engaged in the implementation of the project "Establishing a sustainable railway system in the Baltic States" co-financed by the Connecting Europe Facility (CEF).

Upgrading of the Sarkandaugava-Mangaļi-Ziemeļblāzma section of the Rīga railway hub

The need for upgrading has been identified in the Mangaļi-Ziemeļblāzma section, which is a single-track section, although there are two parallel tracks on the Rīga-Skulte line where it is located. Therefore, the Mangaļi-Ziemeļblāzma unit is one of the problem areas of the railway line Rīga-Skulte. The upgrading project of the Sarkandaugava-Mangaļi-Ziemeļblāzma section of the Rīga Railway hub provides for the construction of a second track at this section, as well as for upgrading and centralization of microprocessors with a view to improving the handling capacity of the Rīga Railway hub, to significantly reduce bottlenecks and to increase efficiency.

The estimated total cost of the project is EUR 22.4 million. Financing of the EU Cohesion Fund (85%) has been attracted for the implementation of the project.

In February 2020, an agreement was signed with the winner of the announced tender for the "Rīgas dzelzceļa mezglā posma Sarkandaugava - Mangaļi - Ziemeļblāzma modernizācija: būvuzraudzība" - Ltd. "Firma L4". Similarly, preparatory works for project implementation were organized, technical and technological documentation and construction projects were developed. Several necessary building permits have also been received for the implementation of the project.

The project is expected to be completed by the end of 2023.

Upgrading of the railway passenger infrastructure

One of the areas of responsibility of SJSC "Latvijas dzelzceļš" is the maintenance and development of the railway infrastructure for passengers. In order to fulfil this task, LDz started preparatory work in 2020 to implement a project financed by the European Union Cohesion Fund, which aims to modernize passenger platforms.

The project aims to fully modernize passenger infrastructure on electrified railway lines Rīga – Tukums II, Rīga – Skulte, Rīga – Krustpils un Rīga – Jelgava. During the project, new stops will also be built at Silikātu street and Slokas street (on the line Torņakalns – Bolderāja), Dauderi (on the line Zemitāni – Skulte) and near the shopping center "Alfa" (on the line Rīga – Cēsis).

In each of the 48 stations and stops, elevated platforms, modern and functional shelters, benches and bicycle sheds, tactile bands and tactile guides, notification and video surveillance systems will be constructed, a common standard information instructions will be provided, as well as access platforms for people with reduced mobility. In order to make it easier for citizens to access the railway infrastructure, certain stop points will change their location.

During the development of the project, common [guidelines](#) for the visual appearance of the infrastructure have also been prepared, which means that in the future they will have to be considered when modernizing the existing or building new passenger infrastructure.

In 2020, a procurement tender was announced for the design and construction of platforms. The bids were opened in early January 2021.

The project is expected to be completed by the end of 2023.

Upgrading rail infrastructure to increase train speed

Within the framework of the project, it is planned to increase the speed of trains on the lines Rīga – Aizkraukle and Rīga – Jelgava, in general, modernizing the railway infrastructure in the length of approximately more than 110 kilometers.

On the lines Rīga – Aizkraukle and Rīga – Jelgava it is planned to equip level crossings with new level crossing signaling systems and automatic barriers, reconstruction of railway curve geometry and related electrical contact network to ensure train speed up to 140 km/h, installation of switches with continuous crossing construction of surfaces, protective fences along the railway in the most dangerous places.

The estimated cost of the project is EUR 68.3 million.

The project is expected to be completed by the end of 2023.

Installation of enclosures and pedestrian passes at railway infrastructure facilities

During the implementation of this project, the Rīga railway junction will be developed, and the passenger service infrastructure will be modernized, ensuring the increase of train speed and safety. The project will restore existing railway crossings, build new ones, and fence the track sections and station areas with security fences. Two sites also include the construction of two-level crossings.

The amount of funding available for the project is EU 7.6 million.

The project is expected to be completed by the end of 2023.

Connecting Europe Facility (CEF) "Building an interoperable railway system in the Baltic States"

SJSC "Latvijas dzelzceļš" (LDz) and AS "Eesti Raudtee" (ER) have signed a Grant Agreement with the Innovation and Network Executive Agency (INEA) for the implementation of the project "Development of an Interoperable Railway System in the Baltic States".

The aim of the project is to replace the automated transport operational management system (APOVS) currently in operation of LDz with a new operational transport management system (OPVS) and to supplement the existing transport management system (VJS) on Estonian railways, as well as to implement the requirements of TAF TSI Regulation 1305/2014 (as amended by TAF TSI Regulation 2018/278) and TAP TSI Regulation 454/2011.

The project envisages the introduction of a new technological model in the railways of Latvia and Estonia in accordance with the EU Fourth Railway Package, etc. Security pillar legislation. The project will comprise an analysis of the existing processes, business processes and data modelling, development of the technical and functional specifications and introduction of a new system to meet simultaneously the requirements of the technical specifications for the interoperability of freight/passenger transport (TAF/TAP TSI) and ensure the compatibility of transport information with the rail systems of the Commonwealth of Independent States (CIS) in accordance with the requirements of the legislation of the Railway Transport Council of the Member States (CSZT).

The project includes the functionality required for Rail Freight Corridor North Sea – Baltic (RFC8):

- retrieval of the infrastructure information;
- planning, coordination and allocation of the capacity;
- determination of charges for the use of infrastructure;
- train traffic information.

The estimated total cost of developing an interoperable rail system is EUR 5.3 million. For the implementation of the project, co-financing of the Connecting Europe Facility (CEF) (40%) has been attracted.

In 2020, within the framework of the project, a procurement was announced in two parts: for project management and business model and technical specification development services. Procurements are made in accordance with the Grant Agreement No. INEA/CEF/TRAN/M2018/1774156 concluded on 29 August 2019 between SJSC "Latvijas dzelzceļš", AS "Eesti Raudtee" and the Innovation and Networks Executive Agency (INEA).

The project is expected to be completed by the end of 2023.

Property management and efficiency improvement

The real estate of LDz, which is owned and owned by it (e.g. the land compartment band of the public-use railway infrastructure), is used first to ensure its core business. The rest of the real estate, in whole or in part, which is not necessary for the provision of LDz's core business, is offered for lease to LDz's dependent companies, as well as to external customers in accordance with external and internal regulations. In 2020, LDz performed significant work to assess the future need for real estate to ensure its core business, and the improvement of this area was continued.

In the reporting year, LDz had 2073 buildings in its balance sheet, of which external tenants (including AS "Pasažieru vilciens" and LDz dependent companies) had leased premises in 279 buildings, which is 13.5% of the total number of LDz buildings, and leased premises area 22% of total LDz building areas.

LDz owns a number of real estate properties (buildings, engineering structures, separate apartments, access roads), which are not necessary for the provision of the main activity and their daily maintenance creates inefficient consumption of resources. In order to reduce useless expenses, LDz regularly assesses which of the properties, taking into account their technical condition, location in the public railway infrastructure land division zone, existence of technical and property rights documentation, as well as market demand, would be necessary to ensure LDz's core business and for dismantling. Buildings and civil engineering works in poor technical condition, as well as those located close to the side rail, in the inspection triangle at the level crossing and are not necessary for the provision of the main activity, are directed to dismantling.

The interest of potential buyers in the real estate offered for disposal is different, it depends on the location in the administrative territory, the technical condition of the real estate, the type of use and the price

In 2020, in the six meetings of the Commercialization Commission, 17 issues regarding the alienation of buildings (including CA shelters, residential houses, depot buildings and others), 14 - engineering structures and 1-apartment were considered and decided.

In total, 7 purchase agreements have been concluded, selling:

- 6 buildings
- 4 engineering structures
- 1 plot of land.

Total sales revenue: EUR 213.021.

In 2020, the optimization of LDz real estate continued, in which LDz directorates and structural units assessed the need to use LDz real estate to ensure their operations. Regarding the property not necessary for the provision of the main activity, taking into account its technical condition, location in the land use zone of the public railway infrastructure, the conjuncture of the rental market, the property is registered/not registered in the Land Register, it is proposed to lease it to external clients. In total, 14 publications have been placed on the websites of AS "Valsts nekustamie īpašumi" and LDz, offering for rent to 110 external lease objects that are not necessary for ensuring the core business of LDz. In 2020, 29 meetings of the Lease Agreement Commission were convened, drawing up 49 protocols on real estate lease, as well as 339 issues on real estate lease, rental, amendments to agreements were considered in these meetings.

In 2020, revenue from external tenants rented premises and land amounted to EUR 1.82 million, which is 2.7% less than in 2019, considering the application of the rent exemption or reduction due to the Covid-19 pandemic.

Revenues from premises and land lease companies' dependent on the Group decreased by 7.6% to EUR 1.2 million. The revenue reductions are explained by optimizations in subsidiaries, which have reduced the need to use leased premises and land for operating activities.

Rental income has slightly increased, amounting to EUR 28.300 in 2020 and is 0.2% more than a year earlier.

In 2020, real estate management was affected by the COVID pandemic, as with the decrease in economic activity, the situation also deteriorated for LDz tenants, as a result, decisions were taken to reduce rents or to exempt rentals. During 2020, the minutes of 32 lease commission meetings on the granting of lease support to tenants under the influence of COVID were reviewed and executed. Decisions have been made to grant support for the 2020 rent in connection with the COVID pandemic in the amount of EUR 223.730 and USD 3.393.

LDz is also responsible for the public railway section, which has a total area of 15.156 ha and includes both operating railway sections and lines where there are currently no trains, but which LDz has to maintain until the adoption by the Cabinet of Ministers a decision on the closure of railway sections.

In Latvia, alongside the active railway lines, there are also those in which train movements have been stopped many years ago and the tracks have been dismantled. By promoting environmentally friendly tourism, part of these lines is being turned into so-called "green railways", and in 2020 an

agreement was reached with three municipalities – Ogre, Ērgļi and Ropaži on concluding lending agreements to create a “green railway” route. There are benefits for both residents who can see scenic Vidzeme landscapes on foot and by bicycle, as well as LDz, as the expenses for the maintenance of these properties are reduced.

LDz, as the owner, has the right to ensure the maintenance of the buildings and structures owned by it in an appropriate technical condition so that it does not pose a threat to the health or life of others and it means that LDz is obliged to repair and renovate objects where any defects have been identified or it is necessary to eliminate the potential danger of the object to others. In 2020, an overhaul of the roof structure for the Liepājas station building was carried out, as well as an improvement in the technical condition of the pedestrian bridge at the station. Roofing and interior repairs have been carried out for several station buildings and several procurements have been announced for the replacement of roofing for several station buildings. Work was also carried out on the development of a project for the reconstruction of the underground tunnel of the Daugavpils station building with the renovation of the pavement of the station square.

One of the areas of responsibility of LDz Real Estate Management is the maintenance of the fleet necessary for LDz's economic activities and by reducing the amount of LDz functions and evaluating the usefulness of the fleet, in 2020 its optimization was performed. With several auctions, 46 cars were sold, with revenues of EUR 61 348 (excluding VAT). In addition, a new road transport auction was organized for 22 transport units, the projected revenue in 2021 was EUR 21.661 (excluding VAT). In order to reduce the costs of the technological fleet required for use, 303 technological transport units are equipped with GPS equipment, the main advantages of installing GPS systems in vehicles are centralized fleet control and significant cost savings, resulting in a more efficient use of the fleet, thus reducing its operating and fuel costs.

Indirect economic impact

The provision of rail transport in passenger and freight traffic has a direct economic impact on both the industry and the national economy as a whole, however, there are indirect economic effects on other sectors, as they do not operate in isolation from each other. A large share of freight transport reaches Latvian ports, which means that rail also has an indirect economic impact on the port and maritime transport sector. LDz's cooperation with the three largest Latvian ports has been established for many years. “Latvijas dzelzceļš” employs several thousand people throughout Latvia, which means that providing a regular income has an indirect effect on the trade and services sector and other consumption-related sectors.

Indirect economic impact on such sectors as medicine, education, defense is created by annual social contributions to the state budget. From these contributions, which are also made by other companies, a budget of important sectors of the state is formed. In 2020, LDz paid EUR 36.3 million in taxes in the country.

Every year, the average amount of remuneration is determined in the country, and LDz also has an indirect effect on it. The average salary in the company in 2020 was EUR 1227.6 before taxes. Meanwhile, the average gross salary in the country in 2020 was EUR 1143, respectively the average salary paid to LDz was EUR 84.6 higher than in the country as a whole.

The railway network in Latvia has a significant impact on the mobility opportunities of the population and at the same time on the tourism industry. Train traffic along the railway infrastructure maintained by LDz throughout the country

provides everyone with an opportunity to move between regions and cities for work, education or tourism. Rail as a mode of public transport has become increasingly popular in recent years, carrying close to 20 million passengers annually. In 2020, a total of 12.86 million passengers were transported via LDz infrastructure, of which 12.83 million were domestic, but 16.83 thousand were international passengers, where transportation was provided by Ltd. "LDZ CARGO", and another 9283 in international traffic to Valga, where transportation is provided by AS "Pasažieru vilciens". However, the number of passengers in 2020 has significantly decreased compared to 2019 (by 5.8 million passengers), which is related to the restrictions caused by the COVID pandemic, including the suspension of international traffic on March 17.

Most often the passengers used electric trains to commute locally, which means that the greatest mobility of the population by railway was in the Rīga and Pierīga regions. It is expected that in the future the use of the train within the borders of Rīga will increase even more, which will be facilitated by the creation of new stops in Dauderi, near the shopping center "Alfa", as well as by creating a new passenger railway line to Bolderāja.

Given the large-scale infrastructure modernization projects, construction and the production of raw materials have an indirect economic impact on the railway sector. The information technology sector is also benefiting, offering technologies that are also needed for the maintenance and modernization of railway infrastructure, for example, a project to modernize passenger platforms involves the installation of video surveillance systems and notification systems.

Procurement practices

In the field of procurement, LDz is a public service provider, which means that in organizing procurement procedures the company must act in accordance with the Public Service Providers Procurement Law, follow the guidelines approved by the Procurement Monitoring Bureau, procurement rules developed by the capital company code of ethics. The body responsible for organizing procurement procedures LDz is the Procurement Office, which compiles procurement plans and orders, organizes procurement procedures, ensures their legal supervision.

In order for procurements to be organized as transparently, fairly and openly as possible, the LDz Procurement Office complies with all applicable legal acts, as well as cooperates with the LDz Security Directorate. In addition, each procurement agreement contains references to the general principles of business ethics applicable to the counterparties of LDz and the possibility of using the whistle-blower mechanism in case of doubt.

When conducting procurement procedures, the Procurement Office observes the principles of openness, free competition, equal and fair treatment, which means setting equal requirements and evaluation criteria for all tenderers. An important precondition for the operation of the Procurement Office is the efficient use of funds. A wide range of staff is involved in the organization of procurement procedures - in-house contracting authorities, specification developers, members of the procurement commission, as well as drafters of contracts and those responsible for concluding contracts, and these people are regularly trained to avoid potential risks.

In 2020, LDz Procurement Bureau organized 212 procurement procedures and concluded 387 procurement contracts, the total amount of which was EUR 34.4 million. By implementing a well-thought-out and responsible procurement policy, EUR 2.4 million have been saved in 2020, while in 2021 it is planned to achieve that the annual planned procurement amount has been reduced by at least 5% compared to the number of concluded contracts.

LDz's concern for the environment is also reflected in the field of procurement, applying the so-called "green procurement" to certain procedures, which means the purchase of environmentally friendly goods or solutions that have a potentially less harmful impact on the environment. Of all purchases made in 2020, 38 were "green purchases". The principle of "green procurement" is applied to the purchase of energy-efficient luminaires, light bulbs, lamps, but impregnated wooden sleepers, switches and bridge beams are purchased for the renewal of railway infrastructure. Renewal of the fleet is also important, given that older vehicles emit more than new ones.

Improving the procurement policy, the Basic Procurement Regulations of the "Latvijas dzelzceļš" Group and the Procurement Regulations of SJSC "Latvijas dzelzceļš" were updated in 2020, but in 2021 the Procurement Office plans to continue the initiated risk reduction measures, for example, to use the Electronic Procurement System as often as possible (EIS), which excludes direct communication with applicants.

SJSC "Latvijas dzelzceļš" anti-corruption measures

Open and honest handling of company property, honest employees, as well as transparent transactions with third parties is one of the most important principles of good corporate governance, which LDz also observes and implements in its operations.

In 2019, the new version of the Fraud Prevention Policy, adopted in 2016, was approved and provides for how employees should act with suppliers, counterparties, as well as in connection with accepting business trips and gifts, which may constitute fraud. The Fraud Prevention Section of LDz Security Directorate is responsible for the implementation of the Policy, and this document is binding on all employees of LDz and its subsidiaries.

The Fraud Prevention Policy implemented by LDz is closely related to the state regulatory framework – Cabinet of Ministers Regulation No. 630 "Regulations on the Basic Requirements of the Internal Control System for Preventing the Risk of Corruption and Conflict of Interest in a Public Institution" and the Alert Raising Law. The Code of Ethics of the LDz Group, which determines the basic principles of professional ethics and conduct of employees, is also important in its implementation.

On 1 May 2019, the Whistle-blower's Law came into force, aiming to promote whistleblowing in cases of violations and ensure the development of the whistle-blower mechanisms and putting them in place. According to the law, every company and institution employing over 50 people has to put in place an internal whistleblowing system. Such a mechanism existed in LDz before the law came into force and was used

as an opportunity to report a potential case of corruption or fraud anonymously, confidentially or report disclosing one's identity. The functionality of the tool has been enhanced with the Anti-corruption measures adoption of the new law. It is now possible to report potential cases of fraud (corruption)/ money laundering as well as submit a whistle-blower's report. In addition, in accordance with the requirements of the law, a mechanism has been developed for accepting, registration and checking the reports submitted by whistle-blowers and the necessary communication with the whistle-blower.

The whistle-blower's reporting tool is available online on the Company's intranet, for everyone - employees of the Company and people living in Latvia, i.e., on the [Company's webpage](#).

In 2020, using one of the information channels, including the LDz intranet or the website, 29 reports on possible cases of fraud were received, of which there has been an in-depth investigation of the circumstances in 12 cases. No whistle-blower reports were received in 2020.

Since March 2019, LDz Group has been implemented the information system "Sanctions", which is intended to ensure compliance with the requirements of the Law on International and national sanctions within the Group and notifications received from it regarding the possible presence of a potential or existing cooperation partner in the sanctions lists are evaluated on a daily basis.

Analyzing the entered data in the Information System "Sanctions", it was concluded that it is necessary to improve its mechanism, therefore the improvement of the said system took place.

In its turn, in May 2020, the State Revenue Service Anti-Money Laundering Department complied with the requirements of the Law on the Prevention of Money Laundering and Terrorism and Proliferation (Production, Storage, Transfer, Use or Distribution of Weapons of Mass Destruction) and the International and Republic of Latvia compliance check ". At the request of the SRS representatives, an insight into the operation of the Information System "Sanctions" was provided during the meeting, as well as the internally developed mechanism regarding the identification of persons included in the sanctions. Also, in 2020, communication took place with the Ministry of Foreign Affairs in cases where it is necessary to receive the opinion of the Ministry's experts on concluding agreements regarding cooperation partners directly and indirectly involved in sanctions. In accordance with the Railway Law, LDz ensures equal, non-discriminatory access to the infrastructure for all railway carriers.

ENVIRONMENTAL IMPACT

07

EVERY PERSON'S OR COMPANY'S ACTIVITY LEAVES ITS MARK ON THE ENVIRONMENT - THEY CAN BE BOTH ENVIRONMENTALLY FRIENDLY AND DEGRADING. ONE OF THE ISSUES DISCUSSED BY WORLD LEADERS IN ENVIRONMENTAL PROTECTION IN RECENT DECADES IS HOW TO REDUCE GREENHOUSE GAS (GHG) EMISSIONS INTO THE ATMOSPHERE, WHICH CONTRIBUTE TO GLOBAL WARMING AND HAVE A NEGATIVE IMPACT ON THE CLIMATE, AND THUS ON THE QUALITY OF LIFE OF PEOPLE IN GENERAL. THE EFFECTS OF GLOBAL WARMING ARE THE MELTING OF GLACIERS, WHICH ARE RAISING WATER LEVELS IN THE OCEANS, FLOODS AND DROUGHTS, UNEXPECTED TSUNAMIS AND OTHER EXTREME EVENTS THAT HAVE HITHERTO BEEN CONSIDERED RARE.

The fight against climate change must be united throughout the world, and LDz is also aware of the need to reduce the consequences of the company's economic activities on the environment.

With around eight times less carbon emissions per tonne-kilometre than other modes of transport, rail is recognized as one of the most environmentally friendly modes of transport in the world. At the same time, freight and passenger transport by both diesel and electric trains have a negative impact on the climate.

In Latvia, 14% of the entire railway network is electrified and electrified passenger lines cover Rīga and Pierīga regions. In the rest, both passenger and freight transport are diesel, generating GHG emissions. In order to reduce the consequences of its economic activities on the environment, LDz is looking for solutions for climate-friendly solutions in the industry.

LDz developed an environmental management system on the basis of the standard EN ISO 14001, as well as a certified energy management system in accordance with the standard LVS EN ISO 50 001:2019 "Energy management systems. Requirements and guidance for use (ISO 50 001:2018)". Considering the standards, the Environmental Policy has been implemented throughout the LDz Group, but the Group's management company also has an Energy Management Policy. In its turn, in order to determine the most important environmental aspects and define the tasks to be performed for the improvement of the state of the environment, the LDz Environmental and Energy Management Program has been developed and regularly reviewed. In 2020, based on the new Energy Management Standard, the Environment and Energy Management Program for 2021-2028 was developed and approved, which identifies five key environmental aspects:

1. Historically contaminated and potentially contaminated sites;
2. Energy consumption;
3. Consumption of non-renewable natural resources;
4. Noise and vibration;
5. Odors.

The assessment of environmental aspects uses a method based on determining the significance of the environmental impact of the environmental aspect. The criteria for determining the significance of the environmental impact are the amount and probability (frequency) of the environmental impact, the possible damage to the environment, the opinion of the stakeholders, the requirements of legal acts and other regulatory documents.

LDz responsible environmental management specialists annually evaluate the tasks and goals included in the program and, if necessary, propose amendments to promote more responsible action against the environment.

Environmental impact of investment and development projects

LDz is bound by the investment planning and execution control regulations of the "Latvijas dzelzceļš" Group, which provide for the assessment of the potential impact of each investment project on the environment. According to the regulation, development or investment projects must comply with the main strategic objectives of LDz, which comprise the development of environmentally friendly and efficient rail transport.



Energy management

The energy management system of LDz was certified in 2017 according to ISO 50001:2011 standard. In 2020, the re-certification of the LDz energy management system was performed in accordance with the requirements of the standard ISO 50001:2011, the scope of certification was the services of the public railway infrastructure manager and the real estate management of SJSC "Latvijas dzelzceļš". According to the energy management system, electricity consumption (kWh), heat consumption (kW/m²) and fuel consumption (l/100km) are the largest consumers of the resources, which is regularly monitored.

In 2020, the current Environment and Energy Management Program expired, and from 2021 the new program will be in force, which will run until 2028.

Most of the buildings owned and managed by LDz were built between 1950 and 1980, as well as there is a significant number of buildings built between 1900 and 1940. These buildings and structures and their utilities are physically and technically obsolete, as well as energy inefficient. Measures to improve the energy efficiency of buildings owned by LDz are defined in the real estate development and management program of SJSC "Latvijas dzelzceļš" for the period until 2030. The program sets goals to reduce the specific consumption of real estate, to increase the energy efficiency of real estate, as well as to reduce the consumption of electricity and water in the operation and management of real estate.

One of the most effective ways to improve energy efficiency is to replace windows, doors and roofs in buildings, as well as wall insulation and the installation of sustainable heating systems.

Pollution reduction

The railway industry in Latvia has a history of more than 150 years, which means that environmental pollution has also developed over the years, which for various reasons was not given much attention in the 20th century for many decades. However, as policies and public attitudes change, preserving the environment and reducing pollution have become high on the public and political agenda in the 21st century. Also, in Latvia, as the railway industry develops, the issue of reducing pollution is among the priorities.

LDz's activity in reducing environmental pollution is implemented in three directions:

- elimination of historical pollution,
- monitoring of environmental quality at major railway hubs,
- additional measures aimed at reducing the sources of environmental pollution.

The environmental policy is binding on the entire LDz Group; therefore, the subsidiaries must also introduce environmentally friendly solutions in their daily activities. One of the large-scale projects was the modernization program of main diesel locomotives 2M62UM, which was implemented by the LDz subsidiary Ltd. "LDZ ritošā sastāva serviss". Upgrading old diesel locomotives has made them more environmentally friendly with lower oil consumption and lower emissions. Shunting diesel locomotives ČME3M, TGK2V and TGM23B have also been made more environmentally friendly.

Noise and vibration

One of the essential aspects of the LDz Environment and Energy Management Program is the noise and vibrations generated by the railway, and LDz annually receives complaints from residents about the noise and vibrations caused by train traffic on the nearby tracks.

However, the number of complaints has decreased in recent years. Between 2008 and 2012, 10 complaints were received about railway noise and 2 complaints about vibration, while from 2012 to 2017, 35 complaints were received about noise and 5 complaints about vibrations, while the number of complaints received in recent years is below 10.

Since 2019, the document "Action Plan for Noise Reduction by 2023 of SJSC "Latvijas dzelzceļš" is valid. The action plan has been developed for noise reduction on the railway lines with traffic intensity of over 30 000 trains a year, which includes the areas crossed by the railway line sections Rīga Central Railway station – Torņakalns – Zaslauks and Rīga Central Railway station – Lielvārde: Rīga agglomeration, Salaspils, Stopiņi, Ikšķile, Ogre, Ķegums and Lielvārde counties.

The action plan also includes a summary of the strategic noise map, which was developed in 2017. When preparing it, calculations were made on the noise level near the facades of residential buildings located near the railway, determining the loudest facade of each building. Thus, the number of populations affected by railway noise has been assessed. The measurements showed that about 2500 people live in areas where the environmental noise level exceeds 55 dB during the day, about 10 thousand people live in areas where the environmental noise level exceeds 50 dB in the evenings, and 14 thousand people live in areas where the environmental noise level exceeds 45 dB at night.

Fulfilling the condition of the State Environmental Service, in 2020 a noise assessment was performed in the territory of the

station "Rēzekne II". Within the framework of the assessment, it has been established that the noise level created as a result of railway operations does not exceed the Cabinet Regulation No. of 7 January 2014. 16 "Noise Assessment and Management Procedures" specified annual limit values for environmental noise in the relevant territories.

Various solutions can be implemented to reduce rail noise, but it is important to assess their effectiveness or benefits in relation to the costs of implementation.

One of the most effective solutions is the construction of anti-noise screens, however, their installation on the railway lines managed by LDz is complicated because it is hindered by protection zones, regulations for train safety and passenger access to stations, as well as adjacent ownership issues and economic disadvantage in sparsely populated areas. At the same time, the construction of such screens is essential in places where new railway lines are being built, where, evaluating all aspects, it is possible to find the best and most economically justified technical solutions.

Relatively cheaper technologies for noise reduction are the reconstruction and repairs of tracks performed by LDz, which are performed considering the intensity and load of track use.

LDz also implements measures to reduce vibrations, including the installation of heavy rails and long rails using flexible rail fastenings. In order to reduce noise and vibration, in 2020 long rails were installed on railway lines with a total length of 14.771 kilometers.

As one of the solutions, the installation of vibration damping mats under the rails during their overhaul is being considered. However, LDz environmental management specialists draw attention to the fact that the formation of the construction of the specific territory is of great importance. Namely, if the railway infrastructure is built first and only then the building, moreover, without observing the distance to the rails or building regulations, the discomfort caused by the railway will be correspondingly greater. Therefore, in the future, it is especially important to pay attention to how these requirements are stipulated and defined in spatial plans, including instructions on acoustic discomfort zones.

Materials

In order for the railway infrastructure to be safe and of high quality, a number of different materials are used in its repair works - sand and gravel, crushed stone, wooden and reinforced concrete sleepers. Every year the amount of these materials is variable and depends on the number of planned repairs. The detailed amount of materials used in 2020 is listed on [page 124](#).

LDz does not use recyclable materials for the repairs of the railway infrastructure.

Water consumption

For business consumption and for daily consumption by employees, LDz uses the water supplied by merchants from centralized water supply systems, as well as water from the extraction systems owned by the company, including boreholes. LDz has concluded 32 agreements with municipal utility companies, as well as two agreements with the Freeport of Rīga Authority to ensure water supply and wastewater management.

Water is also one of the natural resources that is being talked about at the global level, and LDz is also trying to manage it efficiently in order to reduce the amount of water consumed.

As a result, in 2020, compared to 2019, the amount of extracted and used water has decreased - it decreased to 84.098 cubic meters, while the amount of wastewater generated was 89.553 cubic meters.

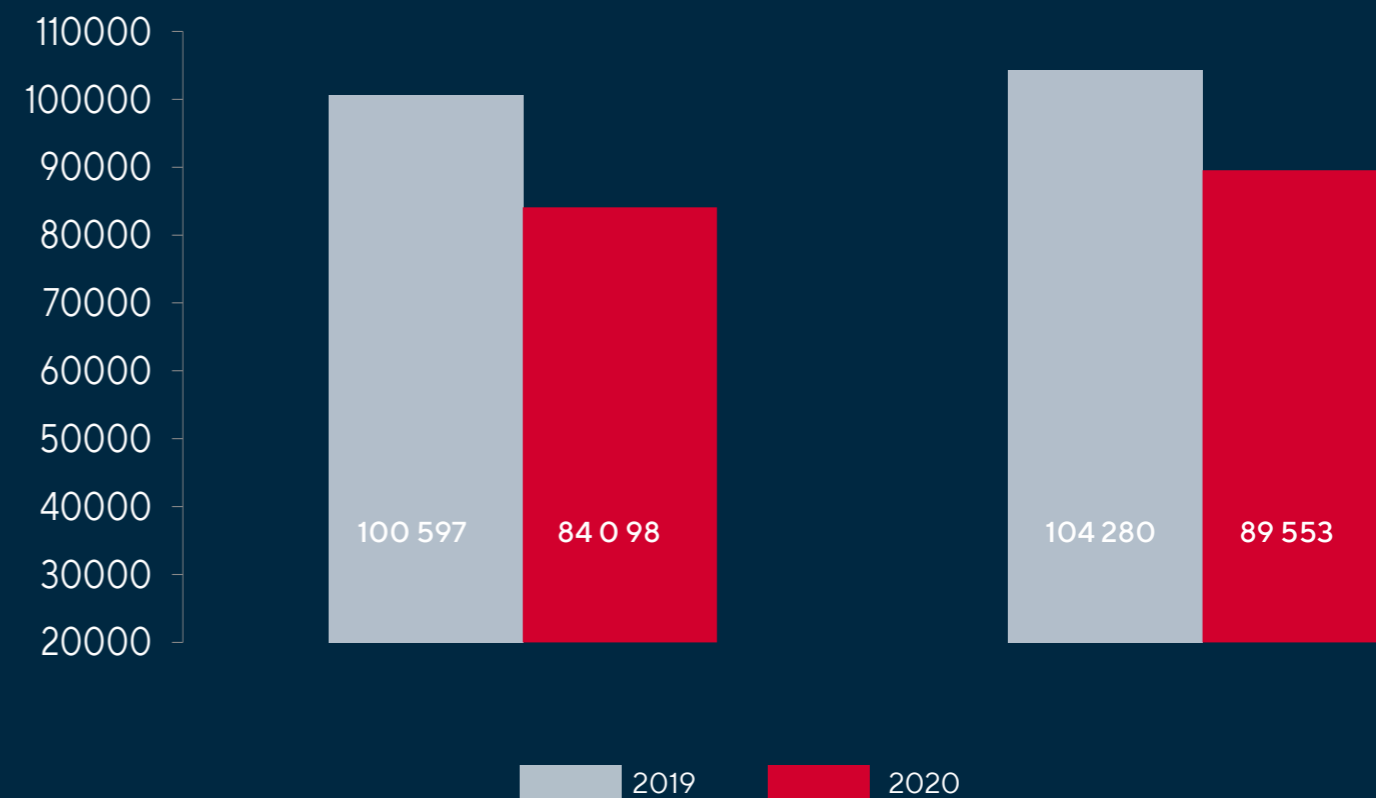
Water consumption, m³



volume of consumed water



volume of wastewater



Energy consumption

There are two key benefits to promoting energy efficiency: mitigating climate change and the financial benefits of consuming less energy. In order to achieve this, it is important not only to implement large-scale energy efficiency measures at company level, but also to change people's thinking and habits.

According to the Energy Efficiency Law, LDz must implement at least three energy efficiency improvement methods that have the highest rated energy savings or the highest economic return. To reduce the amount of electricity and heat consumed, employees are regularly trained to focus on ways to save resources.

In order to ensure more efficient operation and promote energy efficiency and reduce daily expenses, LDz in 2020 optimized printing equipment. If at the beginning of 2020 1,043 printing devices were registered, at the end of the year their number had decreased to 976 devices or by 6.1%. Equipment inventories, on the other hand, have been reduced by 40%, including:

- system blocks (older than 2015) – 193 pcs.;
- laptops (older than 2015) – 48 pcs.;
- monitors (older than 2015) – 129 pcs.;
- fax machines (older than 2009) – 24 pcs.;
- uninterruptible power supplies (older than 2014) – 84 pcs.;
- multifunctional equipment (older than 2010) – 2 pcs.;
- printers (older than 2010) – 85 pcs.;
- scanners (older than 2011) – 15 pcs.

Thermal energy

LDz has set the reduction of heat energy consumption as one of the goals in the field of energy efficiency. Insulation of buildings is one of the main ways to save heat and electricity while improving the quality and sustainability of buildings. Insulation also contributes to the level of indoor comfort and increases the visual attractiveness of buildings.

When carrying out insulation and modernization of heating systems in buildings owned by LDz, 2019/2020 in the heating season, the specific heat energy consumption has decreased by 16.05 kWh/m² or by 11.54%. The average specific heat consumption decreases every year, and one of the most important factors influencing heat consumption is the outdoor air temperature (its decrease during the heating season), as well as the transition from heat to natural gas and heat pumps, which are more energy efficient and cost effective. types of heating. In the past heating season, the set goal has been achieved - the specific heat energy consumption is less than 150 kWh/m² per year both in the average LDz consumption and separately for each region.

Seq. No.	Region	Heating season (kwh/m ²)				
		2015./2016.	2016./2017.	2017./2018.	2018./2019.	2019./2020.
1.	Rīga region	162.2	132.00	129.41	123.62	109.88
2.	Jelgava region	146.9	168.00	160.42	155.62	148.19
3.	Daugavpils region	168.7	167.50	156.38	163.46	134.43
	Average LDz	158.0	148.5	141.5	136.06	123.01



54 447 583 kWh
Electricity distribution services provided to other users in 2020, including

42 226 583 kWh
to users external to the Group

6 115 210 kWh
to household users

6 105 789 kWh
to subsidiaries of LDz

17 050 288 kWh
Electricity trade service to external users in 2020

4 829 289 kWh
to users external to the Group

6 115 210 kWh
to household users

6 105 789 kWh
to subsidiaries of LDz

Electricity consumption

Electricity is used on a daily basis for various production processes and maintenance of railway infrastructure, as well as for providing indoor and outdoor lighting, operation of office equipment. Although this resource is critically needed on a daily basis, one of the tasks of the Environment and Energy Management Program is to reduce electricity consumption in the operation and management of real estate.

Reducing electricity consumption is also associated with changing attitudes and daily habits. Therefore, LDz employees are also regularly reminded through internal communication channels about the use of energy-saving habits in everyday life, such as the use of office equipment and lighting habits.

The total electricity consumption consumed for the needs of LDz in 2020 has decreased by 6290.3 MWh or by 16.6% compared to 2019. The decrease was influenced by the decline in freight and passenger traffic, company restructuring and optimization measures, climatic conditions (high average air temperature), as well as the introduction of energy efficiency measures in the company (change of lighting facilities). Raising employees' awareness and understanding of energy efficiency measures through training and the preparation and dissemination of educational articles on internal communication networks also plays an important role in promoting energy efficiency.

LDz also separately accounts for electricity consumption for the maintenance of railway infrastructure, and it has decreased in 2020 compared to the previous two years. Warm winters contributed to a significant reduction in electricity consumption, as a result of which the switches had to be heated less.

Electricity consumption for railway infrastructure maintenance

Year	Electricity consumption for switch heating (MWh/year)	Electricity consumption for external lighting (MWh/year)	Electricity consumption for SCB and communication equipment operation (MWh/year)
2018	1 607	4 414.1	19 308.1
2019	1 460 (-9.2%) ¹	4 428.4 (+ 0.3%)	19 166.5 (- 0.7%)
2020	296 (- 79.7%)	3 670.8 (- 17.1%)	16 998.4 (- 11.3%)

¹Reduction (%) compared to the previous year

Diesel fuel consumption

Diesel fuel is used for the maintenance of the railway infrastructure and for the performance of various duties related to the implementation of LDz functions, and its consumption is accounted for. LDz annually evaluates the total consumption of diesel fuel and its consumption for technological and transport needs. In the reporting year, the total reduction of diesel fuel, compared to 2019, has been small - by 1% or by 21.9 thousand liters per year. One of the reasons is the increase in the consumption of diesel fuel compared to the consumption of petrol, i.e. during the reporting period the consumption of petrol decreased more, when the car fleet was changed to diesel-powered transport.

Use of diesel fuel for technological and transport needs

Year	Total diesel consumption (thousand liters/year)	Diesel fuel consumption for technological needs (thousand liters/year)	Diesel fuel consumption for transport needs (thousand liters/year)
2019	2550.90	175.3	2375.6
2020	2529.00 (- 1%)	260.3 (+ 49%)	2268.7 (- 5%)

Also, in 2020, the installation of GPS devices and processing of electronic route pages has been continued, thus achieving centralized control and fuel economy.

Diesel consumption for transport includes road and rail transport. If in 2019 48% of diesel consumption for transport was accounted for by road transport (cars, trucks, buses/minibuses) and 52% by rail, then in 2020 30% of diesel consumption for transport was accounted for by road transport (cars, trucks, buses/minibuses) and 70% by rail.

Preserving biodiversity

Preserving the richness and diversity of nature is one of the responsibilities of today's generations towards future generations. There are many valuable and unique habitats in Latvia, the further preservation of which depends on how responsibly people treat nature. LDz is in charge of a significant number of territories and as a result of the nature census it has been revealed that the company owns valuable natural habitats in Ropaži, Valka, Ventspils region and Ventspils city.

Taking care of nature, LDz mows the lawn in these habitats, as well as ensures the collection of biomasses. In places where the habitat area overlaps with other properties, a biological method - grazing - is implemented to maintain the lawn. In order to show how diverse and lively nature is in the railway section, in the spring of 2020 SJSC "Latvijas dzelzceļš" together with a friend of nature and nature photographer Karmena Roze from Vaivari, cleaned the section, at the same time letting everyone know what a living creature is and what plants are found along the railway. The collaboration also resulted in a video on wildlife in the immediate vicinity of the railway. The video can be viewed on [LDz's Facebook profile](#).

Emissions

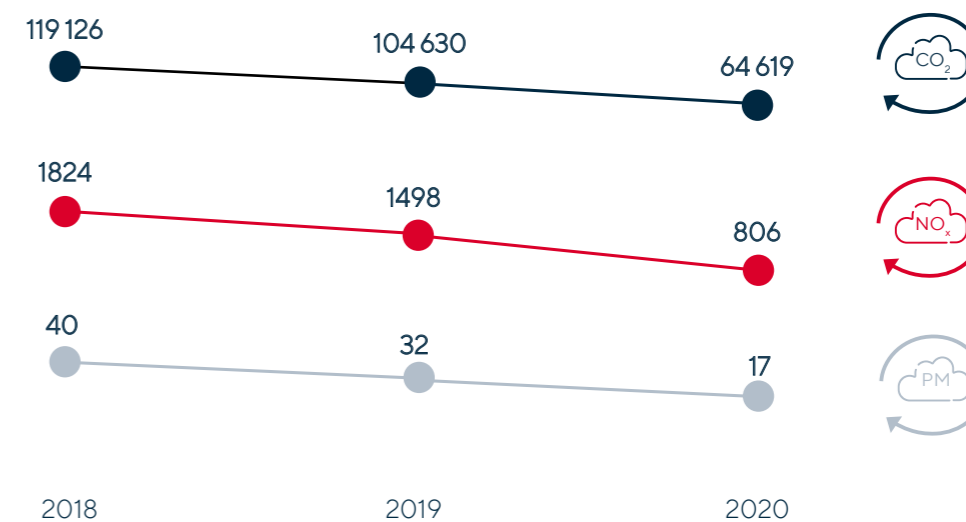
One of the main causes of global warming is greenhouse gas or GHG emissions, which, when released into the atmosphere, "warm" the globe, causing a series of climate changes that have a negative impact not only on the environment but also on economic processes.

Although railway transport accounts for a small share of the total GHG emissions of the transport sector - 5.5% (2018 [Latvian National Inventory Report](#)).

Among the solutions that would promote the reduction of emissions are the modernization of traction vehicles, making them more environmentally friendly, as well as electrification of railway lines, which would allow expanding the area of electric trains, which is currently possible only in 14% of lines in Pierīga regions.

Between 2014 and 2019, 14 main diesel locomotives 2M62UM were upgraded and gradually put in operation. The upgraded locomotives are more efficient and economical, resulting in a reduction in both fuel consumption per 100 kilometers and emissions. In the future, electrification of railway lines in the direction of Rīga-Valmiera and in the direction of Rīga-Daugavpils is planned.

Emissions p.a., in tons



The volume of emissions is directly related to the performed transportation, and in 2020, compared to 2019, freight transportation decreased by 43% and international passenger transportation, which is provided by diesel traction - by 30.1%, correspondingly decreasing the amount of emissions, which caused by the diesel traction movement.

Waste management and groundwater monitoring

Every economic activity is also linked to the generation of waste, and the railway sector is no exception. These are different types of waste, including hazardous and recyclable waste. Waste generated as a result of economic activity is divided into the following categories:

1. municipal waste generated in offices, stations and other facilities. They are managed by specific companies that have received such permits and have the right to operate in the territory of a particular municipality;
2. waste generated as a result of the activities of offices to be utilized or recycled – household appliances, computer equipment, used paper (wastepaper);
3. waste and/or pollution generated as a result of the economic activity of the enterprise (soil pollution, waste generated during the repair and construction process).

In recent years, LDz has been increasingly practicing the circulation of paperless documents and employees are also encouraged to think about saving natural resources and using paper efficiently. However, various work-related materials are still printed and account for a relatively large share of the company's municipal waste generation. However, LDz, as a company responsible for ensuring environmental sustainability, has entered into a cooperation agreement with Ltd. "Līgatnes papīrs" for the transfer of wastepaper, thus giving the paper a second life.

In 2020, 5.150 kilograms of used paper were recycled free of charge, which is almost half as much as 11.980 kilograms of paper was delivered a year earlier. One of the reasons is the increasing use of electronic document circulation on a daily basis, as well as educating employees on the use of useful resources.

Hazardous waste is also generated annually, the collection of which is the responsibility of hazardous waste management

306-1
306-2
306-3
306-4

companies. One such type of hazardous waste is office equipment. LDz is responsible for its maintenance in the Information Technology and Telecommunications Directorate, which in 2020 disposed of a total of 9.6 tons of used equipment, including monitors, printers, system blocks, batteries and accumulators.

In order to improve energy efficiency in all regions, in 2020, 120 mercury-containing luminaires were replaced with LED luminaires for indoor lighting, the total achieved energy savings reached 3.6 megawatt hours per year. In turn, in 2021, it is planned to replace 115 mercury-containing luminaires with LEDs, saving 3.45 megawatt hours per year.

5.42 tons of tires and 22 thousand kilograms of hazardous waste have been disposed of by companies responsible for hazardous waste collection. In 2020, waste collection companies with which LDz has concluded agreements exported a total of 11.107 cubic meters of waste, while LDZ structures delivered a total of 94.150 kilograms of municipal waste, 16.120 kilograms of construction waste and 110.97 biodegradable waste to the "Getliņi EKO" landfill. By implementing efficient economic activity, the amount of generated and, accordingly, treated wastewater has significantly decreased in 2020.

Year	Amount (m3)
2016	105 259
2017	103 121
2018	105 294
2019	104 280
2020	89 553

One of the responsibilities in the field of environment is soil pollution with oil products, which has occurred in LDz territories, where oil products are transshipped, stored and equipped for a long time (for several decades). Such soil pollution is also called historical pollution. Places where soil contamination with oil products is observed are:

- fuel and fuel bases;
- locomotive equipment points;
- wagon maintenance points;
- parking lots for diesel locomotives and diesel locomotives;
- at certain location in stations (parks or individual tracks).

Although the Latvian Environment, Geology and Meteorology Centre periodically updates the list of Contaminated and Potentially Contaminated Sites in the country, LDz also maintains and updates data on sites contaminated with oil products. In 2020, the list of LDz polluted sites and its name was updated – SJSC "Latvijas dzelzceļš" register of polluted sites with oil products.

The register includes 19 sites polluted with oil products, of which 6 are of high priority (Višķi, Skrunda, Wagon Park, Šķīrotava 46. road, Gulbene and Šķīrotava Rīga Locomotive Depot). High priority means that very high and high levels of historical oil pollution have been identified in these areas.

Soil and groundwater monitoring are performed at stations with the greatest impact on the environment – soil and groundwater.

Regular monitoring of soil and groundwater is performed every year or every two years in stations and their parks, where the State Environmental Service has set it as a condition. Monitoring is performed in the Sorting, Sea and Oil Park of Ventspils station, as well as in the territory of locomotive depot, in the territory of Torņakalns and Mangaļi station in Rīga, Jelgava station, Daugavpils station A, D and S park, as well as in the territory of Railway Administration, Krustpils station, Rēzekne II station territory, station "Indra", Gulbene and Pļaviņas stations. In total, LDz manages 102 groundwater monitoring wells, and according to the measurement results, in 2020 there was a slow but stable improvement of groundwater quality or decrease of oil products in them.

Meanwhile, the monitoring of the soil and groundwater of historically polluted sites is performed at the station "Višķi", in the territory of Šķīrotava Rīga locomotive depot and in the territory of the station "Skrunda". The total number of groundwater monitoring wells in the territories of historically polluted sites is 40 wells. Groundwater monitoring is also performed in Krauja, where an accident occurred in 2012, as a result of which a large amount of oil products spilled into the ground. There are 8 groundwater monitoring wells in the Krauja.

At the end of 2020, a detailed study of the oil-contaminated site in the former bitumen base of the Skrunda station was started to determine the nature, extent and distribution of soil and groundwater pollution, which will be achieved by probing the historically contaminated site and supplementing the existing groundwater monitoring network consisting of five wells with 10 new groundwater wells for more complete pollution detection. Probing is planned to be performed at a total of 50 points.

LDz annually updates the list of contaminated sites, and in accordance with this list, measures are taken to limit pollution with oil products. In 2020, the following works continued:

- At the end of 2020, work was started on detailed research work at the site "Skrunda" historically contaminated with oil products.
- In January 2020, an emergency situation with dangerous cargo occurred at the station "Indra" – a leak of heating oil was detected through the lower drainage device of the tank. During the remediation works, a total of 40 tons of waste oil products were collected and utilized – soils and stones containing hazardous substances.
- In Krauja in 2020, work on the elimination of the consequences of the accident was continued – laboratory analyses of groundwater were performed, and 1.8 tons of oil products and water emulsions were collected using vacuum pumping and disposed of accordingly.

Activity in accordance with the laws and regulations governing environmental protection

LDz complies with all external regulatory acts governing environmental protection, as well as internal laws and regulations defining the activities of LDz in the field of environment.

In 2020, LDz environmental management specialists developed a B and C category polluting activity permit inspection plan - the territories of stations and parks were inspected, assessing the fulfilment of B and C permit conditions, compliance with the actual situation and the existence and quality of relevant documents. Also in 2020, three B permits were issued - Daugavpils station Passenger Park (Park A), Dispatch Park (Park D) and Daugavpils Operation Department of the Railway Administration (CPE-3), Krustpils Station and Rēzekne Operation Division of the Railway Administration (CPE- 5), and Rēzekne II station and reception park (A) - review and renovation.



SOCIAL IMPACT

08

In the social field, the impact of LDz activities can be assessed by looking at three important aspects: employment, mobility, availability of railway infrastructure and safety.

In the social field, the impact of LDz activities can be assessed by looking at three important aspects: employment, mobility, availability of railway infrastructure and safety. LDz's task is also to ensure that the railway infrastructure - stations, stops, passenger platforms - is available to every group of society. Accessibility is ensured both through minor improvements (such as ramp construction) and through large-scale projects such as the modernization of passenger platforms.

Freight is also transported through the infrastructure managed by LDz, and also in this area LDz is responsible for ensuring that the infrastructure is of sufficient quality for the transport of goods, including particularly heavy and long trains.

The railway is associated with a high level of danger - every year several people die in collisions with trains, sometimes there are also collisions between trains and cars. Therefore, LDz has a duty to take care of educating the public about safety in the vicinity of the railway, as well as to ensure that the crossing of the railway infrastructure is becoming safer. In Latvia, railway crossings are mostly level, so it is especially important to consider that both pedestrian and road traffic is not endangered, and that train traffic - passengers and freight - is not endangered, considering that dangerous cargo.

By maintaining the railway infrastructure in all regions of Latvia, LDz also employs a significant number of people. Although the number of employees has decreased in recent years due to the streamlining of technological processes and the introduction of modern technologies, the company is still one of the largest employers in the country, thus having a direct impact on several thousand employees and their families.

Work environment

LDz provides work for representatives of various social groups, regardless of gender, age or nationality. Employees are an essential part of LDz's daily processes and economic activities, therefore the company takes care that every employee is socially insured against various life situations, so that employees have opportunities for growth that promotes employee loyalty, motivates them, and at the same time contributes LDz growth. As a large company with several thousand employees, the issue of generational change is equally important for LDz, therefore, when attracting new professionals, great attention is paid to the fact that older employees are motivated to transfer their accumulated knowledge to new employees.

The issue of generational change and the attraction of young professionals is critical in the age of modern technologies, when the company's growth depends not only on the knowledge and processes accumulated over the years, but also on the successful integration of various modern technologies, allowing the company to be modern, flexible and ensure international competitiveness. LDz is a company with more than 100 years of history, and various technological processes have changed over time, introducing more and more new methods. In today's increasingly important role of modern technology, including IT, it is particularly important to attract new professionals, for whom modern solutions are part of the curriculum.

LDz has the largest number of employees over the age of 40 - the average age of employees in the company is 46.9 years, which shows that attracting new specialists is a particularly important issue.

By providing jobs in all regions of Latvia, LDz simultaneously invests in the prosperity of the regions. Historically, the largest number of employees is in Rīga and the Rīga region (39.1%), but the company also plays a significant role in the Latgale region (30%), where the second largest number of employees is employed. Meanwhile, 16.8% and 10.6% of employees are employed in Zemgale and Kurzeme, respectively.

LDz's work environment policy is implemented in three main directions:

1. Creation of a stable, predictable and supportive work environment

In order to implement this direction, LDz has a long-term cooperation with the Latvian Railwaymen and the Trade Union of the Transport Industry. LDz Group companies have entered into a Collective Bargaining Agreement with the trade union. Every employee of the LDz Group has a free choice - to be a member of a trade union or not, but most of the benefits specified in the collective agreement apply to all employees. The collective agreement provides employees with extensive social guarantees for various life situations and measures provided by the employer to improve the working environment and promote the employee's well-being and motivation. The collective agreement is regularly improved to suit the interests of employers and employees.

2. Raising the professional qualification of young specialists

LDz cooperates with professional and higher education institutions, thus ensuring the attraction of new specialists and raising the professional skills of existing employees. Among the long-term cooperation partners is Rīga Technical University, where new specialists in the field are trained, as well as vocational education institutions in Rīga and Daugavpils. Career development at the Group level is ensured by the professional continuing education institution "LDZ Training Centre", whose tasks are to ensure the improvement and supplementation of employees' professional knowledge, as well as the attraction of new employees.

3. Involvement of employees in the company's development planning

The development of the company is not possible without employees, including their involvement in the development of strategic planning documents and preparation of proposals for the future of LDz. In order to ensure good corporate governance, employee relations at various job levels are important, so the opinion of each employee on the relationship between managers and subordinates is regularly ascertained.

One of the ways to find out employees' satisfaction with working conditions, types of communication and involvement in the company's processes is to conduct regular surveys on topical issues related to the work environment. Such a survey was also conducted in November-December 2020.

Age structure of employees 2020

292 or 6.1% age group 20-29

930 or 19.3% age group 30-39

930 or 19.3% age group 40-49

In total, 2845 employees of the Group or 37.5% participated in the survey, which is a significantly higher number compared to the survey conducted in 2019. According to the results of the survey, 89% evaluated cooperation and communication with colleagues positively, 81% admitted that the company has a good exchange of information in communication with the line manager. On average, 70% of employees agree that they agree with the statement that the line manager provides information about the employee's goals and objectives, up-to-date information about the company's progress, the results and achievements of the department, and how employees affect the company's development.

Employee turnover

At the end of 2019, the evaluation of the company's functions and processes was started in order to restore the financial balance of LDz, because with the decrease in cargo transportation, the economic performance indicators also significantly deteriorated. One of the most difficult decisions that LDz management had to make at the beginning of 2020 was to optimize the number of employees in order to improve the company's financial indicators. In total, during the year, employment relationships with SJSC "Latvijas dzelzceļš" were terminated with approximately 1,500 employees, and with approximately 1,000 others from subsidiaries of the Group. Many of them were administrative staff, whose functions often overlapped. At the same time, a smaller number of employees was needed in connection with cargo handling, as the volume of their transportation decreased.

Although less than in other years, new employees have also been hired in 2020 - employment relationships have been started with 52 people.

Considering the average age of employees and the age structure of employees, in recent years one of the topical issues in the field of personnel management is attracting new employees and motivating mechanisms for employees of pre-retirement age to transfer their years of knowledge to new professionals. Therefore, since 2014, LDz has been implementing a generational change promotion program, which is ensured by the Regulations on Ensuring the Succession of Employees of SJSC "Latvijas dzelzceļš". Various incentive mechanisms are provided for employees of retirement age to facilitate generational change. By joining the program, the senior transfers his/her knowledge to the new employees and retires with a severance grant.



52

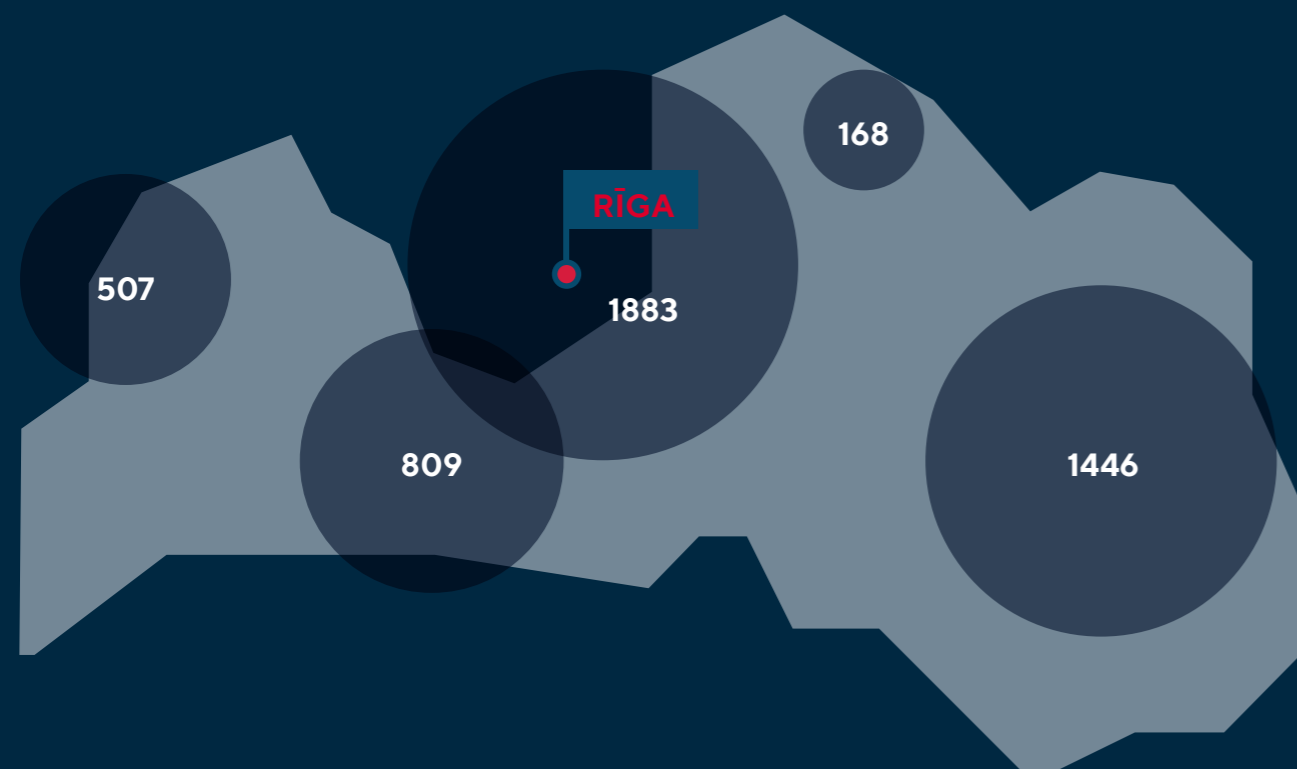
new hires



259

retired employees

Employee distribution by regions 2020



4813

number of employees as
at 31 December 2020

46.9

average age of employees

In 2020, 259 employees of the company retired. Although the number of retired employees has gradually decreased from year to year, taking into account the implemented generational change program, in 2020 this number has increased due to the review and streamlining of the functions implemented by LDz, which also included optimization of the number of employees.

In order not to expose employees to the risk of infection with COVID-19 infection, it was decided not to organize and not to participate in events and activities related to educational institutions – “Shadow Day” and “Open Doors Week”.

Social guarantees

In addition to the social guarantees for every employee specified in the state legislation, the "Latvijas dzelzceļš" Group has introduced social guarantees defined for LDz Group companies SJSC "Latvijas dzelzceļš", Ltd. "LDZ CARGO", Ltd. "LDZ Loģistika", Ltd. "LDZ ritošā sastāva serviss", In the Collective Bargaining Agreement concluded between Ltd. "LDZ infrastruktūra" and the Latvian Railwaymen and Transport Industry Trade Union. The collective agreement has been in force since February 1, 2017 and is regularly updated.

A collective agreement guarantees an employee of the company:

- Additional payment for the work performed by the employee in addition to his direct duties, for training apprentices, for work under special circumstances (e.g., high noise, vibration, work at the height, etc.);
- Paid additional annual leave days for a certain number of years of employment with the Company (5, 10 and 15 years, respectively);
- For work under special conditions and accidents additional leave days are granted to employees who have participated in the liquidation of the consequences of the Chernobyl nuclear power plant accident or performed duties of soldiers in the Afghan war or other military conflicts within the framework of compulsory military service;

- Additional paid annual leave days on the occasion of the employee's 50th or 60th birthday, in case of marriage of the employee or his children, in case of graduation of an educational establishment, on the first day of the school year (for employees whose children start school in grades 1-4), as well as in case of death of the employee's spouse, parents or children. A monthly additional day of rest is granted to employees who have two or more children under 12 years old;
- An allowance for the purchase of school supplies at the beginning of the school year for children of LDz employees – school pupils of grades 1 to 4;
- Bearing of the costs of moving for the employee and his family members and, if necessary, compensation up to a certain limit for the purchase of a place of residence, if the employee is transferred to another city, parish, region in the interests of the Company;
- Support to the employee or his relatives due to the consequences of accidents or their consequences.



Every employee is also guaranteed life and accident insurance, which also applies in cases where the employee has suffered a serious illness. Every employee can buy health insurance for themselves and their family members

60

employees
on parental
leave

Use of parental leave

According to statutory provisions, in connection with the birth of a child, employees can use a parental leave, and it can be used by both young mothers and fathers. In 2020, 60 employees have used this opportunity – 46 women and 14 men. After the end of parental leave, 46 employees have returned to work – 13 men and 33 women.

46

employees
returned
from parental
leave

According to the results of the survey conducted at the end of 2020, 81% of the surveyed employees admitted that they are satisfied with additional social benefits in the company, 51% believe that the remuneration corresponds to the qualification and workload, but almost half of the respondents indicated that they are satisfied with the received remuneration for the work done. Another 76% of respondents indicated that they feel a balance between work and private life, while 75% feel that it is important for a manager and colleagues as a person, not just an employee.

Communication with employees

Accurate and fast information flow is important for the smooth running of the daily work regime in the entire LDz Group, which employs more than 7,000 employees. The principle of good corporate governance is also openness and transparency of operations, which is equally important both in informing cooperation partners and the society as a whole, as well as in the company's employees. Timely and objective information about the developments in LDz ensures the formation of employee involvement in the company, as well as creates feedback with them. In order to provide the widest possible opportunities for employees to learn about current events in the Group and the railway industry in general, various information channels have been established.

More information about current events, including decisions made, reviews of events, as well as the internal regulations themselves are available on the company's intranet. It was created in 2014 and recognizing that this platform is also used outside the workplace, its content is duplicated on the employee portal, where you can log in with Internet banking access.

In the spring of 2019, "Railway TV" was launched, its task being to provide information on the latest developments in the Group, answer the questions of interest to employees – to provide an information channel that delivers all the information without intermediaries. "Railway TV" is available in the intranet and on screens arranged in places where the flow of people occurs.

Not all employees have the opportunity to get acquainted with current events on the LDz intranet, Dzelzceļa TV and the portal darbinieki.ldz.lv, therefore, in order to improve the information flow, a "Info Page" was created at the end of 2019, which is currently one of the main information channels in the Group. The "Info Page" is published every Thursday, providing employees with access to all the latest information on events in the Group and current events that affect the Group's operations and each of its employees. The "Info Page" is sent to employees' e-mails and placed on message boards in more than 300 workplaces throughout Latvia. Considering that "Latvijas dzelzceļnieks" was published once a month and its circulation was ~ 1300 copies, without providing access to all employees of the Group, it was decided to replace the current edition with other, more operative and wider news channels.

Occupational safety

An employment relationship means respecting the obligations and rights between the two sides, the employer and the employee, and one of the rights is the right to a safe environment for every employee. Every employer has a duty to take care of a safe work environment, to educate employees about occupational safety issues and to prevent potential violations of occupational safety.

In order for the work environment to be safe, LDz complies with the legislation of the Republic of Latvia in this field, as well as has a binding internal normative document – Labor Protection Policy, which describes the norms that must be observed to ensure the safest and most safe work environment. LDz Technical Inspectorate is responsible for the implementation of the Labor Protection Policy and the observance of the state level regulatory framework. Its responsibilities are not only to control and monitor compliance with occupational safety regulations, but also to make recommendations for improving occupational safety in the company.

The railway is a high-risk area not only for any person traveling by train or crossing the tracks, but also for the company's own employees, especially those whose daily duties involve staying in the track area. Being in the immediate vicinity of the tracks means work in high-risk conditions, and each worker must strictly comply with all occupational safety requirements, including the wearing of high-visibility protective clothing and constant vigilance when rolling stock moves within the defined work area. According to the legal framework, employees involved in traction driving, maintenance of railway infrastructure, maintenance of rolling stock, train

traffic management must undergo medical examinations and have increased requirements for their health and level of knowledge.

As LDz has an obligation to create a safe work environment and monitor compliance with regulatory enactments, so every employee has a mandatory requirement to comply with the requirements of legislation and internal labor protection regulations. When starting an employment relationship with LDz, each new employee receives instruction on the established work safety requirements, as well as confirms that they will be observed during the performance of work duties. Given that there are specific professions in the railway sector, future employees are theoretically and practically trained on the job. Prior to the issuance of a permit to work independently, the knowledge of both employees in the field of labor protection and in the field of railway technical operation regulations is tested.

In order to monitor the daily observance of occupational safety measures and the observance of the related regulatory framework, the Labor Protection Division and labor protection

Work environment inspections in 2020:

Structural unit	Technical inspection	Occupational safety specialists in the structural unit	
		Scheduled	Without prior notice
Railway Administration	14	63	22
Electrical engineering department	12	72	13
Real estate management	9	13	1
Train Traffic Management	6	4	1
Wagon maintenance distance	4	8	3

specialists of the structural units of the LDz Technical Inspectorate organize planned and unplanned inspections.

Working in the railway sector for certain professions is physically difficult and complex, and as a result there are employees who are diagnosed with occupational diseases or diseases acquired in the course of their work every year. Occupational diseases are most often found in employees who perform manual work on a daily basis, such as lifting and moving heavy objects, who are in the same position for a long time. Among the professions, occupational diseases are most often diagnosed by track fitters, diesel locomotive drivers and wagon inspectors – repairers.

In 2020, a total of 53 occupational diseases were confirmed, which is almost half more than in 2019. The most common occupational diseases were observed in three professions: station attendants, train drivers and wagon inspectors – repairers. The most common occupational diseases are spondylosis (osteocondrosis (chronic deformity of the spine) and carpal tunnel syndrome.

One of the risk factors of the work environment is injuries in the workplace while performing direct work duties. Most often they are falls from a height, falling, getting caught behind an object, slipping on a slippery surface. In total, six accidents at work were investigated in 2020 (one of them injured two people) and 50% of injuries were caused by violating occupational safety requirements, while other accidents are related to negligence in various situations. Most accidents have not had serious consequences.

Accidents cause financial losses to the company, and in 2020 their amount was 1428 euros, but the total number of days of incapacity for work was 513. LDz complies with the requirements of legislation and pays for the period of incapacity for work from its own funds starting from the first day of incapacity for work for the first 10 calendar days.

Accidents at the workplace in 2016 - 2020:

		2016	2017	2018	2019	2020
Number of accidents		7	4	7	11	6
Gender of employees	women	3	1	1	1	2
	men	4	3	6	10	5
Age of employees	20-30	0	0	0	2	0
	31-40	2	2	3	3	3
	41-50	3	1	3	3	1
	51-60	1	1	1	1	3
	over 60	1	0	0	2	0

In order to improve the general health of employees, the Technical Inspectorate in cooperation with LDz Marketing and Communication Directorate creates educational materials aimed at educating employees on health improvement issues, such as various exercise complexes, safe work methods. Also, plans for preventive measures of labor protection are developed in each structural unit and General Directorate of the company to improve occupational safety.

Training and education

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404-3

There are several hundred professions in the railway sector, some of which can be acquired in most higher education institutions, but there are specific professions that can be acquired only in some educational institutions that specialize in training new railway specialists. Therefore, LDz cooperates with Rīga Technical University (RTU), Rīga and Daugavpils vocational education competence centers - technical schools in training and attracting new specialists, as well as promoting the professionalism of existing employees. The LDZ Training Centre also plays an important role in educating employees, therefore this educational institution is also being developed to provide high-level educational programs for LDz employees and external clients. Due to restrictions that are also related to the organization of the learning process in person, in 2020 distance learning was introduced at all stages of education. The full implementation of many educational programs was not possible, because the curricula for the acquisition of professional skills provide for practical classes, which could not be implemented in person.

However, while the restrictions on the organization of studies were not in force, in order to increase professional knowledge, 115 LDz employees attended training courses organized by educational institutions:

- At RTU Faculty of Mechanical Engineering, Transport and Aeronautics Transport Institute 20 employees study and 9 employees graduated from the study program "Railway Electrical Systems", 10 employees study and 12 employees graduated from the study program "Railway Transport" and 4 employees study in the study program "Occupational Safety";
- In 2020, 13 employees graduated from the professional secondary education program "Railway Transport" of the Vocational Education Competence Centre "Rīga State Technical College" with the qualification to be awarded "Track Management Technician";
- In 2020, 12 employees graduated from the vocational secondary education program "Railway Transport" of the Vocational Education Competence Centre "Daugavpils Tehnikums" with the qualification to be awarded "Track Management Technician";
- In cooperation with RTU Institute of Transport, Faculty of Mechanical Engineering, Transport and Aeronautics, Vocational Education Competence Centre "Rīga State Technical School" and Vocational Education Competence Centre "Daugavpils Technical School", in 2020 training internships were organized for 127 students of these educational institutions, 49 of internships organized by mobilizing the European Social Fund.

Activities of the LDz Training Centre

In the reporting year, the work of the LDZ Training Centre was focused on the improvement of the e-learning environment. The specialists of the center developed electronic versions of the training materials so that the employees could study this training program remotely. Also, new learning materials were added to the e-learning environment "Moodle". It is supplemented with materials on labor protection, civil protection issues, as well as developed and inserted in the system knowledge testing tests in the field of technical supervision of dangerous equipment, developed and placed training and knowledge testing materials for non-formal education program "Railway Technical Operation Regulations" according to the railway specialist.

In 2020, the LDZ Training Centre gave priority to training related to ensuring railway traffic safety and creating and maintaining a safe working environment. This is evidenced by the fact that 925 participants have completed the training courses "Work Environment and Safety", which is 89% of all trainees.

In total, 37 educational programs were implemented in LDZ Training Centre in 2020, including two professional development education programs - "Basic level knowledge program for employees responsible for civil protection of the facility" (160 hours) and "Basic level knowledge education program" (60 hours).

A total of 1.042 students have been trained in vocational education and non-formal education programs and seminars, of which:

- 831 employees of SJSC "Latvijas dzelzceļš";
- 183 employees of the subsidiaries of the "Latvijas dzelzceļš" Group;
- 28 external clients (including 25 legal entities).

In 2020, LDZ Training Centre provided training in the amount of 13.900 participant hours.

Career assessment and development activities

Every LDz employee has the opportunity to develop a career in one of the LDz structures, and with the involvement of the Personnel Directorate, the professional qualification of employees and personal desire to improve their professional skills are assessed.

The results of the employee survey show that:

- It is important for 93% of employees to acquire new knowledge and keep up with the latest trends;
- 92% of employees are aware that from time to time they need to acquire new knowledge and skills necessary for quality work;
- 75% of employees believe that they have access to training to do their job;
- 43% of employees are convinced that LDz has good career opportunities.

In connection with the implemented collective redundancies, during which 1452 employees were terminated, in order to evaluate the employees' professional qualifications and performance, the Career Management and Personnel Selection Centre of the Personnel Directorate held interviews with 216 managers and specialists. In order to fill the vacancies, 28 recruitment competitions were organized, with 225 telephone interviews and 128 face-to-face or remote (Skype, Team) interviews. In 2020, 6 interns were interviewed, for whom internship opportunities were provided in the Information Technology and Telecommunications Directorate, and after the internship, 2 interns were hired.

In order to save paper and time resources, in 2021 it is planned to implement the submission and storage of Work Performance and Competence Assessment Forms in electronic form.



Diversity and management and equal opportunities

LDZ OBSERVES THE PRINCIPLES OF EQUALITY IN RELATIONS WITH EMPLOYEES - IN EMPLOYMENT LEGAL RELATIONS NO PREFERENCE IS GIVEN TO A REPRESENTATIVE OF A PARTICULAR GENDER, RELIGIOUS AFFILIATION, SEXUAL BELIEF, AGE, NATIONALITY OR REGIONAL LOCATION

405-1
405-2

LDz observes the principles of equality in relations with employees - in employment legal relations no preference is given to a representative of a particular gender, religious affiliation, sexual belief, age, nationality or regional location. Employees are also employed depending on their professional qualifications, knowledge and skills. LDz is working to ensure that any document that relates to the duties and rights of employees is available not only in the official language of the state, but also in other countries, which would allow attracting foreign specialists as well, promoting the company's economic growth.

In 2020, LDz employed 1673 women or 34.8% of the total number of employees and 3140 men or 65.2% of the total number. The relatively large number of women employed in the company in the sector, which has traditionally been strongly masculine, confirms that LDz does not discriminate against employees according to their gender and promotes the reduction of stereotypes about the railway as a masculine sector.

In 2020, 14 women or 0.83% of the total number of women and 27 men or 0.85% of the total number of men were employed in top management. In middle management, the share of women in the total number of women in the entire company was 1.85% or 31 women and 21 men or 0.66% of the total number of men.

Employees in the company are also not discriminated against on the basis of their nationality. Although LDz does not list a specific number of employees belonging to each nationality, the company still has representatives of many nationalities. The largest number are Latvian and Russian employees, followed by Belarussian, Poles, Ukrainians and Lithuanians. However, such nationalities as Jews, Georgians, Moldovans, Tatars, Estonians, Udmurts, Germans are also represented.

The LDz Group has had a Remuneration and Motivation Policy in force since 2013, which is also binding on the Group's parent company - SJSC "Latvijas dzelzceļš". According to this policy, job classifications are defined, specific criteria for the amount of salary: work difficulty, intensity, complexity, education, previous experience, performance and qualifications. The principle of fairness is observed in determining the remuneration, i.e. equal remuneration for the same work or work of equal value is determined both within the Group company and in the Group as a whole.

Responsibility towards the general public

RAILWAY CONNECTS THE LARGEST TOWNS OF LATVIA AND CROSSES MANY COUNTIES, THUS ENSURING EFFECTIVE MOBILITY OPPORTUNITIES FOR THE POPULATION THEREOF, REQUIRING THE COMMUNITY TO PAY ATTENTION TO SAFETY AND BEHAVIOUR NEAR RAILWAY. AS SUCH, THE ENGAGEMENT AND ROLE OF SJSC "LATVIJAS DZELZCEĻŠ" IS SIGNIFICANT.

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LDZ-2
414-1
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Railways, as one of the types of mobility, play an important role in the daily life of society, and LDz, as the railway infrastructure manager in Latvia, is responsible for the accessibility of passenger infrastructure to every inhabitant, its safety, as well as with the quality of life of the population.

Safety in the railway sector does not only mean the responsibility to ensure that rail crossings are safe, but it is also the responsibility of society to educate them about proper rail crossings and to stay in their immediate vicinity.

Engaging local communities

The provision of support to local communities is regulated by the Gift (Donation) Policy of the "Latvijas dzelzceļš" Group, which has been in force since December 2017, defining the most important activities for society and national development – support for education and science, health promotion, social assistance and environmental protection projects. No support is provided to organizations with outstanding tax liabilities and individuals.

Considering the financial situation of the Group, neither the dominant company nor its subsidiaries in 2020 have financially supported the projects.

The list of projects supported in previous years has been published on the LDz website, where information on donations received by the Latvian Railway Museum is also [available](#).

Impact on the local community

LDz with its economic activity, as well as the represented industry directly affects a large number of inhabitants throughout Latvia. First of all, they are more than 7,000 employees of the LDz Group, who are employed and receive remuneration, which further affects several thousand more residents – the families of employees. Secondly, LDz, as the company responsible for railway infrastructure, affects every resident who travels by train, as well as those who are otherwise affected by railway traffic, for example, the place of residence is close to the tracks.

In order to motivate the population to use more and more trains as a means of transportation on a daily basis, LDz is looking for opportunities to improve mobility. In order to motivate the population to use more and more trains as a means of transportation on a daily basis, LDz is looking for opportunities to improve mobility. LDz will continue to improve the railway infrastructure so that, if necessary, it would be possible to create new express train routes, as well as increase the speed in certain sections.

Railway operation is closely linked to environmental factors and its impact on the quality of life of the population. One of the current issues is the noise generated by rail traffic, especially freight traffic, and its negative effects on the health of people living nearby. In order to reduce the impact of noise and vibrations, LDz developed and approved LDz Action Plan for Noise Reduction by 2023". The action plan was developed for noise reduction along the railway lines with traffic intensity of more than 30 000 trains per year, which includes areas crossed by the railway line sections: Rīga Central Railway station – Tornakalns – Zaslauks and Rīga Central Railway Station – Lielvārde: Rīga agglomeration, Salaspils, Stopiņi, Ikšķile, Ogre, Ķegums and Lielvārde counties.

Preservation of the industrial heritage of the sector

The history of the railway industry in Latvia dates back to the second half of the 19th century, and LDz is not only the maintainer of the public railway infrastructure, but it has a duty to preserve historical evidence for future generations from the beginnings of the industry. These are a variety of railway-related objects and things, from rolling stock to books, postcards and badges.

The Latvian Railway History Museum plays a major role in preserving the industrial heritage of the railway industry. Its main exhibition is located in Rīga, on Uzvaras bulvāris 2a and Jelgava. The Railway History Museum has a very broad collection, which is regularly replenished both by receiving gifts and purchasing various items for the museum itself.

The museum operates based on its bylaws and the Medium-Term development strategy until 2030.

Last year was very difficult for the museum, considering the assembly restrictions imposed by the COVID pandemic, thus compared to 2019, the number of full-time visitors has significantly decreased. In total, 14,618 people visited the museum in 2020 and the income from entrance tickets amounted to EUR 31,244. The total annual revenue was EUR 51,749.



However, the museum continued to operate through research, maintenance and replenishment of the collection. In total, 162 new units were added to the stock in 2020, and at the end of the year the total number of stock items was 20,011.

The museum regularly receives additions to the collection in the form of gifts, and in 2020, a total of eight gifts were received from three people. One of the gifts was a portrait of Hugh Carlile (1833–1911), an English engineer and chief of the international Rīga–Dinaburg railway line. Also, in the reporting year, 19 items were purchased to supplement the museum collection, and, reviewing the materials received from various structures, 134 items were included in the museum collection:

- 10 photo albums from the archive of the Rīga Wagon Building Factory transferred to the Latvian Railway History Museum;
- 20th century. Electric railway model produced in the 1950s "Pioneer";
- 123 audio-visual materials (station diagrams, printed matter, documents, photographs).

Implementing research activities, in 2020 the museum with the financial support of the State Culture Capital launched an ambitious project "How railwaymen lived, worked and loved in Jelgava", the aim of which is to create a social portrait of a railwayman and a new museum exposition in Jelgava. The project interviews former Jelgava railway workers who worked in the industry after the Second World War. This allows the museum to gather information on why the workflow has been chosen specifically for the railway, and what has been the daily life of the employees of the industry both inside and outside the railway. In parallel with the interviews, the museum staff analyses the periodicals of that time in order to obtain as much information as possible about Jelgava railwaymen, as well as to learn as much as possible about the development of the Jelgava railway junction and compare how different railway and railway life areas are viewed by industry and general media. In 2020, a scientific research of the Railway Uniform Collection was carried out and a reference material was prepared entitled "Railway Uniforms in the Territory of Latvia in the 19th Century. 70s–21st century beginning".

During the year, the museum specialists provided 48 consultations on various topics related to the history of the railway in person, by e-mail and by telephone.

During the consultations, the materials in the collection and scientific archives (approximately 4,500 items) have been used in their research and other work by students and pupils, as well as journalists, researchers and representatives of the creative industries.

In 2020, the Railway Museum received support from the State Culture Capital Fund in the amount of EUR 19,440 for the restoration of railway uniforms, the 1:87 scale model project of the Railway and a field study at the Jelgava railway junction.

A total of four exhibitions were on display in the museum premises in 2020, and despite the difficulties caused by the pandemic, the total number of visitors to the exhibitions was 13,129. In 2020, visitors had the opportunity to visit the following exhibitions:

- Deconstruction of Rīga station. Organizer: Latvian Railway History Museum. Number of visitors: 7325;
- I see the railway as follows ... /Railway through the wagon window. Organizer: Latvian Railwaymen's Association. Number of visitors: 3756;
- Puppet art exhibition "Artistic games of light and shadow". Organizer: - Foundation "Puppet Art Museum". Number of visitors: 1015;
- "Toys on wheels". Organized by the Latvian Railway History Museum in cooperation with other museums. Number of visitors: 1033.

In the autumn of 2020, the museum prepared an exhibition "The Work of a Railway Engineer", which was planned to open in November, however, due to the restrictions imposed by the pandemic, the project was suspended indefinitely.

The Latvian Railway Museum is not only the custodian of the historical heritage of the industry. As an educational function, the museum offers a variety of activities for a wide audience.

The experience of previous years shows that the activities organized by the museum are widely attended and often the number of places specified for the event is filled shortly after the announcement of the event. In 2020, a total of 169 excursions and classes were conducted in the museum, and the total number of visitors was 2712.

- Excursion "History of Vehicles in Latvia" (in Latvian and Russian)
- Excursion "From semaphore to dispatcher centralization"
- Excursion to the former Jelgava locomotive depot
- Lesson "Journey to the Past"
- Lesson "Station life"
- Lesson "Assemble locomotives"
- Lesson "Lokosalīme"
- Safety lesson
- Orienteering with a guide

Two summer camps and several industrial hikes were conducted. A remote offer has been prepared for students and families. Significantly developed project during the year www.dzelzceļobjekti.lv, supplementing it with information, objects, images.

In turn, participating in activities organized by third parties, the museum in 2020 in cooperation with the Latvian Railwaymen's Association organized a children's drawing competition and exhibition, as well as a conference "LDzB 100".

In order for the museum collection to be publicly available remotely, work is being done on the electronic collection catalog, which is available on the museum's website. In 2020, 3728 descriptions of objects were published in the catalog, of which 3287 images with images were added. In the reporting year, a collection of negatives was digitized (8106 objects), descriptions of objects were edited and supplemented, as well as video materials at the disposal of the museum were digitized.

Museum 2020

14 618
visitors

4
exhibitions
(13 129 visitors)

169
tours and
classes (2712
visitors)

The fact that there were once other gauge railways in Latvia is evidenced by the 33-kilometer-long narrow-gauge railway section from Gulbene to Alūksne, along which the historical railway runs daily. Within the meaning of the Railway Law, the narrow-gauge railway is an object of historical heritage. In accordance with this law, LDz helps to ensure the preservation, maintenance and operation of the Historical Heritage (Gulbene-Alūksne Narrow Gauge) railway.

Bānītis is operated by a private railway transport company, the founders of which are the municipalities of Gulbene and Alūksne, as well as the municipalities of Stāmeriena Parish, the Latvian Railway Association and six private persons. In order to preserve the historical narrow-gauge railway section by attracting railway enthusiasts, the company is engaged in the restoration of rolling stock, popularization of railway history, as



well as the organization of tourism and entertainment events. Toms Altbergs, an LDz industrial heritage expert, is also a member of the Board of the company.

Another important custodian of historical evidence is the LDz Library, which has been publicly available since the end of 2020. LDz Documentation Centre or library, which is the oldest and largest repository of literature in the railway industry in Latvia, provides everyone with free access to literature related to the railway industry, which has been accumulated for almost 120 years.

Literary collections in the library have been formed since the beginning of the 20th century – its operation began in 1902, when after several years of preparations, the Central Library of the Orla Railway Administration opened its doors in Rīga. Initially, it had 4363 books and 1182 magazines. In the following years, the library collection has been significantly supplemented with both literature in the railway industry and books of various other, including political, nature. Currently, the library offers interested parties' books of the railway industry, social scientific literature, periodicals, normative and technical documents, as well as various types of dictionaries. The library collection consists of 12.850 items of literature on the railway industry – books, audio-visual publications, magazines and other printed materials.

The library collection is located in the premises of "LDZ Training Centre", 147/3 Dzirnava Street.

Other aspects of the impact

Suppliers social impact assessment

LDz does not evaluate in detail the influence of cooperation partners and suppliers, but in cooperation with third parties, the basic principles of business ethics of the Cooperation Partners of the "Latvijas dzelzceļš" Group are applied. They are binding on each partner, and the commitment to the basic principles is confirmed by a signature. LDz has information systems at its disposal, with the help of which it is possible to check operatively whether the potential cooperation partner is not included in the lists of Latvian and international sanctions. Since 2019, such an opportunity has been provided by the information system "Sanctions", which gathers up-to-date information about those companies and organizations that are included in the lists of sanctions and concluding agreements with them is not desirable.

Political responsibility

As a state-owned capital company, LDz complies with national legislation, as well as EU-level legislation, which is related to, among other things, freight and passenger transportation. A separate regulatory framework is observed in freight and passenger traffic with the CIS countries. Until the end of 2020, LDz was bound by the Transport Development Guidelines 2014–2020. From 2021, the Transport Development Guidelines for 2021–2027 have entered into force. Since autumn 2018, LDz is also bound by the Indicative Plan for the Development of Railway Infrastructure approved by the Cabinet for five years.

Company management is organized on three levels:

1. Shareholder (Ministry of Transport)
2. The Council
3. Board

The Council of LDz was established in 2016, consisting of five* people since 2019. In turn, the shareholder is involved in the operation of the company only in matters specified by law. The operational management of the company is implemented by the Board of LDz, which in 2020 consisted of three people. The Gifts (Donations) policy prohibits the Company from supporting political parties, organizations and the associations thereof.

*In February 2021, the independent member of the Council Aigars Laizāns resigned.

Responsibility to customers

"Latvijas dzelzceļš" has four customers in the field of freight transportation, while there are three passengers in the field of passenger transport, i.e., AS "Pasažieru vilciens", Ltd. "LDZ CARGO" and Lithuanian railway company UAB "LG Keleiviams", which until mid-March 2020 provided transportation on the route Vilnius-Daugavpils. In a broader sense, LDz customers are residents who use the railway infrastructure on a daily basis both as passengers and as visitors to railway stations.

In accordance with Regulation (EC) No. 1 of the European Parliament and of the Council, the provisions of Regulation (EC) No. 1371/2007 of 23 October 2007 on the rights and obligations of railway passengers, LDz has been tasked with ensuring both public order and safety at railway stations and providing inquiry services on passenger transport. In accordance with Commission Regulation (EU) No. 1300/2014 of 18 November 2014 concerning the technical specifications for interoperability relating to the availability of the Union rail system for persons with disabilities and persons with reduced mobility, it is required to accept and process mobile lift applications from passengers with special needs.

The issue of accessibility of railway infrastructure for passengers to every inhabitant in Latvia has been relevant only for the last couple of decades, therefore LDz started to address the issue of accessibility of the environment for persons with reduced mobility only in a relatively recent history. In order to ensure the accessibility of the infrastructure for people with special needs, the long-term cooperation partner and consultant is the Association of Disabled People and their Friends "Apeirons". The organization's recommendations are being heard and, as far as possible, implemented, both by modernizing passenger platforms and by introducing less costly solutions to enable people in wheelchairs to use the railway infrastructure. At the Rīga Central Station, the accessibility of the environment is also ensured for people with hearing impairments by creating induction loops at the ticket offices.

The punctuality of trains also depends to some extent on the quality of the tracks and the operation of the overall infrastructure. Passengers are transported domestically by AS "Pasažieru vilciens", which is obliged to coordinate train routes and timetables with LDz. According to the Average level of operational accuracy, passenger trains arrived at the station with almost 100% (99.1% -99.8%) accuracy.

The number of deaths in railway accidents in Latvia is significantly lower than the number of deaths in road accidents. However, LDz, as the manager of the public railway infrastructure, is responsible for minimizing the number of injuries and deaths in train collisions. In addition to improving infrastructure safety, one of the methods is informing and educating the public about safe behavior in the vicinity of railway infrastructure and crossing the tracks. This income is implemented in two ways: through annual social campaigns, in which citizens are reminded of safe behavior near the railway, both at the railway and through the media, and through safety lessons for school and pre-school children.

The information campaigns are organized in several stages: the opening of the annual campaign takes place in late spring, early summer, the start of school holidays, late summer when school reopens, and late autumn and winter months, when the train is difficult to see in darkness and weather. In information campaigns, LDz residents are tried to be addressed by attracting well-known people in the society and actualizing a certain topic. For example, in 2020, residents were urged not to become a "crossing", while doctors asked to think about the severity of injuries.

Safety classes, on the other hand, take place during the school year, and they can be organized in educational institutions visited by LDz specialists to tell children in an attractive and exciting way about how to behave near the railway so that health and life are not endangered. Safety classes are also held at the Latvian Railway History Museum.

In 2020, two more problems arose in connection with safe behavior at the railway. One of them was the effect of influencers on followers. Namely, LDz recorded several cases when well-known people in the society, who have a wide range of followers on social media, behave recklessly at the railway and also publish these videos in their social media profiles. In order to encourage influencers to think that their example can be followed by young people, thus endangering their lives, LDz together with the State Police called on well-known people to be responsible to their followers. In the autumn, LDz together with mental health experts raised the issue of suicides, the number of which in Latvia is one of the highest in the European Union. Unfortunately, the railway is also chosen as a place to end its life, so by holding a public expert discussion, LDz called on the public to notice in time if a fellow person has mental health problems and to prevent potential suicide.

Customer health and safety

In recent years, there has been a tendency to reduce the number of people injured and killed in collisions with trains, however, everyone's life is important, so safety in the vicinity of the railway is still among LDz's priorities. In order to promote safe movement in the vicinity of the railway, as well as safe crossing, LDz annually improves the infrastructure, for example, by installing fences, improving crossings and level crossings.

Continuing to improve the safety of railway crossing, in 2020 LDz equipped a pedestrian crossing in Ogre, Vidzemes Street with a sound and light signaling or traffic light that signals the approach of a train. In recent years, such transitions have been established in Jūrmala, Rīga, Sigulda and Ogre. In 2021, it is planned to equip two more pedestrian crossings with a sound and light traffic light - at the stop "Babīte" on the railway section Zaslauks-Priedaine and in Jūrmala, Turaidas Street. Observations show that people often cross the railway in places where it is not allowed, and some of them are opaque sections of track. In order to deter such risky actions, LDz has been paying great attention to track fencing in recent years. Although no new fencing has been installed in 2020, LDz plans to implement an ambitious security fence installation project in the next three years.

Video surveillance systems are installed at level crossings:

- in the section Liepāja - Tore (Liepāja, Brīvības Street);
- st. Krustpils (Jēkabpils, Madonas Street);
- st. Daugavpils (Smiltenes Street);
- st. Jelgava (Garozas Street);
- st. Jelgava (Tērvetes Street);
- st. Šķirotava (Krustpils Street);

- st. Zvāre (highway Tukums - Lazdas);
- st. Salaspils (Rīgas Street);
- st. Čiekurkalns (Krustabaznīcas Street);
- st. Ventspils (Small Kurzemes Street).

Railway level crossings have been equipped with automatic barriers at:

- in the section Liepāja - Tore (Liepāja, Brīvības Street);
- in the section Cēsis - Jāņamuiža.

In 2021, it is planned to equip two more level crossings with automatic barriers: at the 182nd kilometer of the Kalvene-Ilmāja section and at Līvērze station. Also, in 2021, LDz will continue to equip a number of level crossings with video surveillance systems.

In the reporting year, the largest project in recent years was completed, the aim of which was to create a safe pedestrian crossing in Ogre - at the end of November 2020, a pedestrian tunnel under the tracks in Ogre, connecting Skolas Street and Mālkalne Avenue, was put into operation. The tunnel in Ogre was critical given the large number of tracks and the intensive movement of passengers and freight trains, which made it difficult for locals to move from one part of the city to another.

The control centers located in Rīga and Daugavpils are responsible for the management of railway traffic throughout the country. Dispatcher control center devices provide the ability to control and control station and access road switches and traffic lights from one place. The centers are responsible for organizing train movements in the country, drawing up and rescheduling train movements, coordinating traffic interruptions necessary for the maintenance and repair of railway infrastructure, and responding quickly to situations that affect traffic safety and efficiency.

Accidents on the railway

The number of people injured and killed in collisions with trains has decreased year by year through the implementation of information safety campaigns - in 2020, 13 accidents were registered in which six people were injured and nine people died. It is about half less than in 2019. The places where tragic accidents take place are different - it can be on crossings, on railway sections, as well as on level crossings. Three accidents have occurred in the railway station areas, one person has died and two have been injured, while 8 people have died and two have been injured in 10 accidents on road sections.

The statistical data compiled by LDz show that in 2020, there were 10 men (7 killed) and 3 women (2 killed) from train victims and fatalities.

Uncommonly, road collisions are involved in collisions with railway rolling stock. In the reporting year, a total of three cases were registered when a vehicle was involved in a collision with a train. Three people have been injured in these accidents.

In 2020, the largest collision took place on April 4 at the 182nd kilometer of the Rīga-Liepāja railway line, in the section Kalvene - Ilmāja, where a passenger train and a truck collided on an unprotected level crossing No. 731 equipped with traffic lights. Ignoring the prohibitor signal, the truck crashed into the third, rear wagon of the Liepāja-Rīga diesel train. As a result of the collision, both the passenger train and the solid LDz infrastructure were significantly damaged - about 100 m of rail fastenings were damaged, a crushed ballast layer was damaged, and possible permanent damage to the level crossing was caused.

In order to increase traffic safety and draw more attention of drivers to traffic on the railway, in 2021 a railway crossing No. 731 is planned in the section Kalvene - Ilmāja (182.km 7th section), where on April 4, 2020 the truck driver was seriously injured, in addition existing warning lights, equipped with automatic barriers.

During the analysis of accidents, LDz employees have concluded that most often the residents suffer in train collisions because they have not been careful enough when crossing the railway, i.e. they have not been sure whether the rolling stock is not approaching at the given moment. Accidents often occur when people use smart devices and listen to music on headphones while crossing the railway, as well as under the influence of alcohol.

Deliberate action causing a collision with a train (suicide or attempted suicide) was recorded 4 times in 2020. Taking into account that pursuant to European Commission Directive 2009/149/EC of 27 November 2009 on Directive 2004/49/EC of the European Parliament and of the Council as regards common safety indicators a suicide is characterized as a deliberate act by a person with intent to cause bodily harm, these victims are disregarded for accident statistics purposes.

Age distribution of accidents victims

Age group	Number of accidents
Up to 15 years	1
15 - 17 years	2
18 - 24 years	1
25 - 34 years	1
35 - 44 years	2
45 - 54 years	2
55 - 64 years	35
Over 65 years	1

Dynamics of accidents victims



Causes of accidents:

- careless crossing of tracks in front of the train, in a place where it is not allowed - 2 accidents, 2 killed;
- location in the track area without observing the precautionary requirements - 5 accidents, 4 killed, 1 person injured;
- collision of a road vehicle with rolling stock on a level crossing - 1 accident, 1 person injured;
- falling from the platform under the rolling stock in motion - 1 accident, 1 person injured;
- suicide - 3 accidents, 3 people died;
- suicide attempt - 1 accident, 1 person injured.

Although accidents on the railway are registered every year, the analysis performed by LDz shows that the traffic safety indicator, which reflects the number of serious accidents per one million train-kilometers, has improved over the last five years.

The company is doing its best to reduce the number of accidents on the rails, and the long-term goal is to ensure that no lives are lost on the rails.

Performance indicators	2015	2016	2017	2018	2019	2020
Serious accidents (without suicide)	25	18	24	20	19	9
Train kilometers (million)	18.577	16.516	15.665	16.758	15.319	11.501
Traffic safety indicator	1.35	1.09	1.53	1.19	1.24	0.78

Critical infrastructure and security

The railway infrastructure in Latvia is an object of national security, which means that LDz, as the railway infrastructure manager, is obliged to maintain a high level of safety in all infrastructure objects. Taking care of critical infrastructure objects, LDz complies with the National Security Law, Cabinet Regulation No. 1 of 1 June 2010. 496 "Procedures for Planning and Implementation of Critical Infrastructure, including European Critical Infrastructure, Identification and Security Measures" and Cabinet Regulation No. 186 of 18 December 2007. 923 "Regulations regarding Compulsory Guarded State Public Use Railway Infrastructure Objects and the Procedures for Guarding Them". The State Security Service supervises the compliance of the implemented security measures with the requirements for the protection of critical infrastructure.

The Internal Security Department of LDz is responsible for keeping state secrets, and this is done in accordance with the Cabinet of Ministers Regulations No. 21 "Regulations on the Protection of State Secrets, the Organization of the North Atlantic Treaty, the European Union and Foreign Institutions" and Cabinet Regulation No. 10 of 10 July 2018. 417 "Provisions for Industrial Safety Certificates". In its turn, the State Security Service and the Constitution Protection Bureau supervise the compliance of the state secret protection measures implemented in the company with the requirements.

In 2020, LDz received the Industrial Safety Certificate after performing all the preparatory works. It is a statement issued by the Constitution Protection Bureau on the readiness and ability of a merchant to perform work related to the use of state secrets, the North Atlantic Treaty Organization (NATO), EU or foreign classified information and the merchant's

ability to ensure the protection of such information. Such a certificate is required if the company plans to participate in public procurement, where the customer needs to get acquainted with, create or protect state secrets, NATO, EU or foreign classified information or enter a room, group of rooms and surrounding area with a specific security regime. Also, during the reporting year, work was completed on the preparation of several safety-related regulatory documents and they were approved by the company's board, including SJSC "Latvijas dzelzceļš" state secret information protection regulations, SJSC "Latvijas dzelzceļš" special record keeping procedure, SJSC "Latvijas dzelzceļš" state secret object evacuation plan. The order on assigning responsible employees to work with state secrets was approved, as well as the order on designating a special room for special records, as well as other documents confirming the readiness and ability of SJSC "Latvijas dzelzceļš" to perform work related to the protection of state secrets and their ability save and handle it. On the other hand, based on the priority directions and goals set in the strategy approved by SJSC "Latvijas dzelzceļš", work on the development of the Security Policy is continued, with the aim to determine uniform and effective preconditions for the implementation of security measures in the Group.

LDz Internal Security Department employees are also responsible for security measures at railway infrastructure facilities, including physical and technical security, fire alarm systems, video surveillance and voice alarm systems, restricted access systems and fencing of facilities and operation of pass control points.

In order to improve the safety of the railway infrastructure against damage caused by third parties, LDz annually

invests in the improvement and modernization of various technical solutions. In 2020, EUR 171,960 were invested in the implementation of the LDz object protection program implemented by LDz, which were used to deploy new video surveillance systems and install security technical systems. During the year, new video surveillance systems have been installed in nine objects, including the Latvian Railway Museum. Security alarm systems have been installed in 10 objects, but fire detection and alarm systems – in two objects.

In order to improve the supervision of railway infrastructure safety, in 2021 the process of optimization of railway infrastructure protection expenditures will be continued, as a result of which it is planned to save financial resources necessary for ensuring physical security of objects. Namely, by optimizing security expenditures, it is planned to replace physical security with technical security systems in several railway infrastructure objects – video surveillance, security and fire alarm systems, as well as restricted access systems. It is also planned to continue work on the modernization of previously installed technical security systems and will also equip new facilities with technical security systems.

LDz is obliged to take care of the safety of the railway infrastructure, preventing its damage, access to unauthorized places, or disturbance of public order. In 2020, LDz employees were detained for various violations of the railway infrastructure and 269 persons were handed over to the State Police employees:

- 189 persons for finding under the influence of alcohol or drugs in the railway stations area
- 33 persons were detained for unauthorized entry into guarded railway infrastructure facilities
- 15 people detained for uncoordinated photography of critical railway infrastructure
- 14 people were detained for hooliganism on trains and on rolling stock

Services for people with disabilities

In recent years, there has been an increasing focus on accessibility of the environment for people with reduced mobility and other special needs, as well as on the use of the train as a means of transport. Although their number is not large, LDz is still obliged to ensure that people in wheelchairs can get to both the platforms and the train. Historically, the railway infrastructure is not suitable for convenient use by persons with reduced mobility, however, LDz has ensured that several stations and stops are accessible to people with reduced mobility both within the framework of various large-scale modernization projects and smaller projects.

After absorbing EU funds, LDz modernized 16 stations and stops on the Jūrmala and Jelgava railway lines. During the modernization of these stops, the Association of Disabled People and their Friends "Apeirons" was also involved, which provided its recommendations on more convenient access to infrastructure for people with reduced mobility. Currently, LDz has started to implement a new passenger platform modernization project, which envisages the construction of elevated platforms at 48 stations and stopping points, making these facilities accessible to any group of the public, including persons with reduced mobility.

In previous years, the electronic bulletin boards at Rīga Central Station have been adapted for the visually impaired, while one domestic passenger ticket office has an induction loop for the convenience of people using hearing aids, and wheelchair users are provided with assistance on board and on the train, including mobile lift service. Since 2019, the "Meeting Point" has been located at the Rīga Central Station, where, upon prior application, the applicant is provided with assistance in getting to the platform and the train. The "Meeting Place" is equipped with two chairs and an audio console, which is connected to the railway free telephone number 80021181.

Although the Central Railway Station in Rīga will undergo significant changes within the Rail Baltica project until the project is implemented, LDz has provided a solution for people in wheelchairs to get to the platforms - lifts, elevators, as well as mobile lifts for appointing people to the train. The mobile lift service is available at nine stations: in Rīga, Krustpils, Rēzekne, Daugavpils, Jelgava, Saulkrasti, Sigulda, Dubulti and Vaivari.

The mobile lift service must be applied for to the LDz Inquiry service and must be done 48 hours before the planned trip. Such a period of time is necessary to ensure the location of the lift at the specific location, the presence of appropriately trained personnel, as well as - AS "Pasažieru vilciens" can ensure the dispatch of a suitably equipped train on the specific trip. In 2020, 180 applications were received, of which 176 were in domestic traffic and four in international traffic. In the reporting year, the activity was affected by the state-of-the-art emergency situation - after March 17, applications for the use of mobile lifts on international flights were no longer received, and in spring and autumn, the number of applications in domestic traffic decreased. In agreement with the LDz subsidiary Ltd. "LDZ apsardze", it is possible to get people with prams on the platform.

At the same time, a number of stations provide access to platforms for people with reduced mobility - they are equipped with ramps.

They are available at the following stations and stops: Krustpils, Daugavpils, Pārogre, Arboretum, Muldakmens, Aizkraukle, Koknese, Alotene, Pļaviņas, Ozolsala, Rēzekne II, Olaine, Cukurfabrika, Jelgava, Zemitāni, Čiekurkalns, Zulūdes, Babīte, Lielupe, Bulduri, Dzintari, Majori, Dubulti, Pumpuri, Melluži, Asari, Vaivari, Sloka, Ziemeļblāzma, Saulkrasti.

Customer satisfaction

The opinion of the users - what the residents think about the quality of the infrastructure - is also important for the maintenance of LDz as a railway infrastructure. This is clarified by conducting an annual LDz image survey.

According to a survey conducted in 2020, more than half of the respondents are generally satisfied with the level of service at passenger stations. The appearance and cleanliness of platforms, station buildings and stops were rated the highest - 78% of the respondents gave a positive evaluation. 66% of respondents are satisfied with the platform equipment, but 59% of the population is satisfied with the level of safety in the stations and their territory. When asked about the directions of transport infrastructure development, 51% of the respondents expressed the opinion that Latvia should focus on the creation of a convenient and suitable public transport network for passengers, based on the railway.

Service development

Most of LDz's revenue comes from infrastructure charges, but external customers are also offered more than 50 other services, such as capacity sales to carriers, wagon handling, wagon accounting, customs operations, electricity trade, real estate rental and others.

In its turn, a very important service for ensuring daily operations is information technology services, which are managed by LDz Information Technology and Telecommunications Directorate. In order to guarantee a high level of IT services, service level agreements (SLAs) have been concluded and quality indicators have been set – the timeliness of incidents must be 90% of cases within one calendar month and the availability of information systems must be ensured. In 2020, the average timeliness of service incident applications was 98%. In 2020, the Information Technology and Telecommunications Directorate maintained 59 information systems, and 43 of them were 100% available. The average availability of information systems in 2020 was 99.98%.

In order to determine the quality of the service provided, after closing the application, the client is asked to fill in the satisfaction question about the timeliness of the service,

the solution of the problem applied and the response of the employee, involvement. According to the results of the survey, in 95.49% of cases the deadline for receiving the service satisfied the applicant, 96.98% were satisfied with the quality of the service/problem solution and 98.35% positively assessed the responsiveness of the involved IT specialists.

LDz complies with the international standard ISO 9001 "Quality Management Systems. Requirements".

In order to improve the IT security systems used by LDz and increase the possibility to detect security threats more quickly, including incident investigations, new as well as improved existing solutions were introduced in 2020, which are necessary, among other things, to ensure the provision of various business services. IT systems. The company's employees have also performed a risk analysis of LDz information systems and developed risk prevention plans. At the same time, the knowledge of the entire LDz Group employees in relation to IT security issues was tested.

In order to improve IT security, a new IT security policy of the "Latvijas dzelzceļš" Group was developed and approved in 2021, as well as work was started on reviewing the documents related to the IT Security Policy, evaluating their usefulness, and developing new documents. In 2020, the LDz Security Directorate was also involved in improving the security of IT systems by participating in audits and tests of IT security systems.

During the COVID-19 pandemic, employees needed to work remotely, so the Group's employees were allowed to use their personal computers for remote work (before the COVID-19 situation, only Group-owned computers were used in the case of remote connection). This step reduced the Group's overall level of IT security, and to compensate for it as much as possible, changes were made to the IT Security Protection System:

- VPN (Virtual private network) service was provided to employees to create a secure connection with LDz Group's resources, changes were made to the VPN system so that it could handle the rapidly growing number of VPN users.
- The SIEM system (security information event processing and analysis system) has been improved to detect incidents related to remote connection to LDz Group's IT resources.
- If necessary, LDz employees were provided with consultations on the safe use of computer equipment and the Internet while working remotely.

In order to increase the quality of IT infrastructure supervision and to improve IT security management, it is planned to supplement the LDz centralized audit record collection and management system with audit records from all LDz workstations. Configuration of workstations and servers started in the 4th quarter of 2020 and it is planned to implement it by the 3rd quarter of 2021. In order to assess the vulnerability of the Group's IT systems in accordance with the regulations of the Cabinet of Ministers, in the 3rd quarter of 2021, an external IT audit will be performed for enhanced security systems (security documentation review and intrusion testing).

In order to improve employee productivity and relieve LDz IT security systems from unnecessary data flow, it is planned to start blocking Internet resources unnecessary for the performance of work duties (entertainment portals, social networks, external e-mails).

Data protection

Observing the requirements of national and European Union level regulatory enactments, as well as internal documents, LDZ Group processes personal data within the framework of its commercial activities.

The LDZ Group has developed internal regulatory enactments that determine the goals and areas of personal data processing, basic principles, rights, duties and responsibilities of employees, data processing organizations, rights and obligations of data specialists. Existing internal procedures for data protection have been developed or modified in accordance with the requirements of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation). obligations for the processing and protection of employees are laid down in national law.

In order to improve the protection of personal data, a new personal data protection policy of SJSC "Latvijas dzelzceļš" Group was adopted in 2020. The most significant changes in the policy document:

- the rights, duties and responsibilities of employees have been updated and clarified;
- adjustments to the rights and duties of specialists;
- the procedure for prevention, detection, investigation and notification of data protection violations has been significantly supplemented and changed;
- a violation registration accounting form has been developed;
- principles and procedures for personal data protection risk impact assessment have been developed;

- procedures and a standard form for conducting a data processing impact assessment on data protection have been developed, which has not been the case so far, as previous assessments were carried out in accordance with the requirements of external legislation.

Since April 2019, the privacy policy of individuals has been in force throughout the LDz Group. Its main goal is to explain in a visible and relatively simple way to data subjects (customers, visitors, cooperation partners, etc. data subjects) which personal data enters LDz Group companies, why they enter the Group, on what legal basis these data are processed, what security conditions are complied with for data protection, etc. The privacy policy is available on the website of each company belonging to the LDz Group.

In order to fulfil the requirements of the General Data Protection Regulation regarding informing data subjects before data collection/processing about him/her, directly in connection with the personnel selection process, it is planned to adopt LDz Group personnel selection privacy policy during March 2021. The new policy is needed because, in the case of recruitment, personal data are processed differently than in other cases.

A certified data protection specialist is responsible for data protection at LDz. In order to speed up the exchange of information on personal data protection, a unified cooperation model has been introduced throughout the Group, which ensures simultaneous receipt of information from data subjects.

As of 31 December 2020, 37 personal data processing operations were registered in LDz, including information systems that process personal data, including data of LDz Group employees.

Since April 2019, the Group's privacy policy has been in force throughout the Group, the main purpose of which is in a clear and relatively simple manner. Explain to data subjects (customers, visitors, business partners, etc. data subjects) what personal data are and why they end up in Group companies, on what legal basis these data are processed, what security conditions are observed for data protection, etc. The privacy policy is available on the website of each company in the Group.

In October 2020, the LDz Data Protection Specialist performed a random on-site inspection of personal data processing regarding personal data processed in the video surveillance system to verify the compliance of data processing with the General Data Protection Regulation and the LDz Group requirements of internal legal norms and observance of these legal norms in practice. No irregularities were found during the inspection.

Availability of information

The principle of corporate governance regarding the transparency of the company's operations imposes an obligation on the company to regularly and timely inform shareholders and other stakeholders about the company's business activities, financial results, governance and other relevant information. Following this principle, LDz publishes all current information on its website www.ldz.lv. At the same time, a separate website has been created, where once a year a sustainability report for the previous year is posted: <http://parskati.ldz.lv>.

Under Section 58 of the Law on Governance of Public Persons Capital Shares and Capital Companies and the Guidelines for the Disclosure of Information for State Capital Companies and Holders of Capital Shares issued on the basis of it, LDz publishes unaudited interim (quarterly) reports and an annual report, information on the Company's Council and Board members, organizational structure, gifts (donations), purchases made, activities in the fields of environmental protection, anti-corruption, human resources management, etc.

Information on the issues related to safety near railway and safety campaigns organized by the Company is regularly published on a specially created website www.dzirdiredzidzivo.lv.

Since 2019, the website www.steamup.lv has also been operating, which serves as an assistant for students, their parents and teachers in learning exact subjects.

LDz social media profiles have been created on Facebook, Twitter, LinkedIn and Instagram, Draugiem.lv for more operative communication with the population, as well as for dissemination of information.

Facebook, Twitter, LinkedIn un Instagram, Draugiem.lv.



INDEPENDENT AUDITORS' REPORT



Independent Practitioner's Limited Assurance Report on the Sustainability Report

To the Management of VAS Latvijas Dzelzceļš

We have undertaken a limited assurance engagement in respect of the Sustainability report of VAS Latvijas Dzelzceļš (the "Company") for the year ended 31 December 2020 ('the 2020 Sustainability report').

Management's Responsibility

The Management of the Company is responsible for the preparation and presentation of the 2020 Sustainability report, in accordance with the requirements of the Core level application of Global Reporting Initiative Guidelines ("GRI Guidelines"), issued by Global Reporting Initiative, a network-based non-profit organization with secretariat based in Amsterdam, the Netherlands (the "Reporting criteria"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the 2020 Sustainability Report that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the 2020 Sustainability report is not prepared, in all material respects, in accordance with the reporting criteria.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance engagements other than audits or reviews of historical financial information', issued by the International Auditing and Assurance Standards Board. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance about whether the 2020 Sustainability report is free from material misstatement.

This report, including the conclusion, has been prepared solely for the Management of the Company, to assist the Management in reporting on the Company's sustainability performance and activities. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of the Company, and the Company for our work or this report.

Independence and Quality Control

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



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

Summary of the Work Performed

Our procedures included examination, on a test basis, of evidence relevant to the 2020 Sustainability report. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the 2020 Sustainability report in accordance with the GRI guidelines.

Our work consisted of:

- Interviewing the management and senior executives to evaluate the application of the GRI guidelines and to obtain an understanding of the control environment related to sustainability reporting;
- Obtaining an understanding of the relevant processes for collecting, processing and presenting data included in the 2020 Sustainability report;
- Verifying the information included in the 2020 Sustainability report through inquiries to the relevant management personnel of the Company and its subsidiaries;
- Testing data included in the 2020 Sustainability report on a selective basis;
- Inspecting documentation to corroborate statements of management and senior executives in our interviews;
- Comparing the financial data included in the 2020 Sustainability report to the 2020 financial statements of VAS Latvijas Dzelzceļš; and
- Evaluating the overall format and content of the 2020 Sustainability report, taking into account the compliance of the disclosed information with the applicable criteria.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

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

Inherent Limitations

Non-financial data is subject to more inherent limitations than financial data, given both the nature and the methods used for determining, calculating, sampling or estimating such data. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgments.

We have not carried out any work on data reported for prior reporting periods nor in respect of future projections and targets included in the 2020 Sustainability report.



Limited Assurance Conclusion

Based on our work performed, nothing has come to our attention that causes us to believe that the 2020 Sustainability report is not prepared, in all material respects, in accordance with the Reporting criteria.

Restriction of Use and Distribution

This report has been prepared by PricewaterhouseCoopers SIA ("PwC") for VAS Latvijas Dzelzceļš under the terms of the contract between the VAS Latvijas Dzelzceļš and PwC, dated 11 February 2021. This assurance report is intended solely for the use of the management of VAS Latvijas Dzelzceļš in respect only to the 2020 Sustainability Report. It should not be used for any other purpose.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No.168
Member of the Board

Riga, Latvia
07 July 2021

ANNUAL REPORT

09

SJSC "Latvijas dzelzceļš" annual report

As a result of various economic and geopolitical developments, the entire Latvian transport and transit industry, including SJSC "Latvijas dzelzceļš" and "Latvijas dzelzceļš" Group, have experienced significant turbulence in the last two years. In addition, the decline in freight traffic was also negatively affected by the situation caused by the Covid-19 pandemic and compliance to respective restrictions. Thus, in 2020 the most important priorities of "Latvijas dzelzceļš" were both the stabilisation of the cash flows and the promotion of operational efficiency, development of a new operating strategy and creation of the new business opportunities.

The annual report for 2020 is available at SJSC "Latvijas dzelzceļš" website.
