



SUSTAINABILITY AND ANNUAL REPORT FOR 2018

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LEADERSHIP STATEMENT

01



Jānis Lange

VAS "LATVIJAS DZELZCEĻŠ"
CHAIRMAN OF THE COUNCIL

The year 2018 has been a year for positive changes for VAS "Latvijas dzelzceļš". The business and organizational processes of the Company were reviewed, productivity increased significantly, cooperation with the existing counterparties was strengthened and new partnerships were created.

Despite the uncertainty at the beginning of the year, which was due to the decline in the turnover of freights resulting from the regional and global geopolitical situation, the performance for the year turned out to be even better than expected. Furthermore, it is especially satisfying that the Group's productivity indicators have also improved considerably.

Changing the visual identity of LDz was an important event, which proved once again that LDz is a modern company capable of changing with the times. Continuous changes – this is the new reality, in which LDz must operate. One should always be ready to respond flexibly, adapt to the market situation. This is never easy for a large company, however, to ensure competitiveness, it is crucial for LDz to sense these trends both now and in the future and act accordingly.

Conversely, some things will never change: security will always be one of the core values of LDz, and it will always be among the priorities.

Furthermore, in 2018, a significant industry policy document paper "The Indicative Railway Infrastructure Development Plan" was passed, as well as a multiannual contract was entered into with the Ministry of Transport. The implementation of the decisions related to long-term investment plans was continued, including the development of the railway electrification project. It should be underlined that the electrification of railways is by substance not only the project owned by LDz but also a matter of the competitiveness of the country as such because nowadays it is not companies that compete but rather countries and even regions. In terms of the electrification of the Latvian railway network, the key aspect is related to decision-making and the continuity thereof.

The need to electrify the railway is set forth in Latvia's Sustainable Development Strategy, the National Development Plan as well as in the Transport Development Framework. Electrification has many practical advantages, such as the reduction of CO2 emissions, rendering transport more environmentally friendly, a higher tractive force that will enable carrying longer and heavier train stocks, which would result in the reduction of costs to the owners of cargoes. What infrastructure we will leave for our future generations also depends on the electrification of the railway.

I believe that the Company has a duty to make investments in a systematic manner, rendering the infrastructure and consequently the whole industry more competitive and profitable.

In 2019, the key challenges will be related specifically to the large investment projects, in terms of their compatibility with the market situation, anticipated costs and returns. The efficiency of the implementation of the projects and the transparency of the processes are of no less importance. It is also one of the tasks of the Council of LDz. Using a metaphor, if the Board of LDz is like a car pilot in a race steering and speeding thus determining how quickly the company moves forward, then the Council holds a map in its hands and sees to it that the car is driving in the right direction and helps the Board to make the right decisions at critically important moments.

LDz has set as its future objective that Latvia must become the transport and logistics services excellence centre of the Baltic Region. At present, Latvia has a fine railway network coverage, a very well developed port infrastructure and an airport. We also have the expertise, knowledge and a high ability to adapt to the market circumstances. Whereas this in turn means that, to achieve the said objective, a coordinated and balanced cooperation between the ports, railway, airports and freight shippers is an important factor. Undeniably, Lithuania is the largest and closest Latvia's competitor, and the competition for freights from Belarus is high. It should be pointed out that in the competitive battle with Lithuania, a critical importance is attached to the electrification of the Latvian railway network, which will enable the lowering of the tariffs. Freight transport volumes from Belarus have been increasing, and this has occurred in part thanks to the activities carried out by the representation office of LDz in Belarus, maintaining great relationship with the railway company of Belarus as well as all other players engaged in the process.

Looking to the year ahead, we are aware that various trends persist at global and regional levels,

which can affect the flow of goods in a favourable as well as unfavourable way not only to the direction of Latvia, but in various different corridors in general. Therefore the management of LDz must be prepared to continuously monitor the current trends as well as to aim its work not only at maintaining but also developing competitive infrastructure and improving the quality of the rendered services while increasing the volume of handled cargoes.

In the near future, along with promoting freight transport volumes, one of the key tasks will be to develop a strategy for hiring new employees. The average age of the employees of the company implies that it is critically important to think about a timely and balanced succession of generations at the company. It is important to find the right way to show young people that railway is an exciting as well as promising industry. What is clear now is that the requirements for the competences of employees will change over time, with increasingly more emphasis being laid on the specific qualifications of the employees. Conversely, simple and routine jobs would be robotised, where possible.

Looking further ahead, I am convinced that LDz will be a successful operator of the railway structure as well as a technology company. It will connect different modes of transport and promote their synergies at national level. It will be an innovative, digitalised company that owing to its skilled and knowledgeable staff will be capable of adapting to market changes and working under the circumstances of fierce competition, while ensuring a consistently high level of safety.

Having worked in the transport industry for more than ten years, I have ascertained that the infrastructure existing in the country is a means to build up the nation's welfare. LDz is a powerful tool enabling Latvia to earn money and contribute to the public welfare. Any of the employees of LDz is working not only for the benefit of their family and the employer but also for the benefit of the whole nation.



Edvīns Bērziņš,

VAS "LATVIJAS DZELZCEĻŠ"
CHAIRMAN OF THE BOARD, PRESIDENT

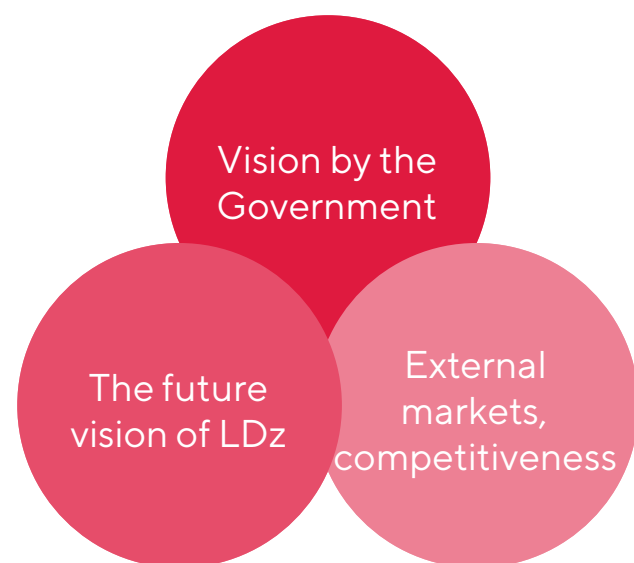
The activities carried out and the financial performance in 2018 suggest that "Latvijas dzelzceļš" has proven its ability to overcome difficult economic times, while achieving favourable operational results and creating a new vision for the future development.

In the beginning of the year, not only the railway and logistics industries, but also the companies operating in ports experienced challenging times due to declining freight volumes caused by the global political situation. However, already in the first few months of the year, transit cargo volumes from foreign countries began to rise, with the volumes continuing to rise until the end of 2018. Compared with the previous year, cargo volumes increased by 12%. Passenger transport volumes also increased. That enabled VAS "Latvijas dzelzceļš" not only to maintain its financial stability but also carry out various activities aimed at the development of the activities of the Group.

The year 2018 also marked a significant milestone in the history of LDz – during this year, the Government's vision of the development of the railway infrastructure was formalised (on 6 November, the Cabinet approved "The Indicative Railway Infrastructure Development Plan for 2018-2022"), whereas the company approved and for the first time publicly declared its future vision, introducing the new brand of LDz among other things.

Thus, the past year can be summed up by highlighting three key areas where changes have occurred.

According to the Government's vision laid down in "The Indicative Railway Infrastructure Development Plan" and the related multiannual agreement entered into by and between the Ministry of Transport and LDz, over a period of the five years, the existing infrastructure volume, quality and capacity will be maintained and a number of significant investment projects aimed at improving competitiveness would be implemented.



These documents also provide for the commitment on the part of the Government to ensure the financial equilibrium of the infrastructure manager (LDz) in case the costs of implementing the tasks provided for in the plan exceed the revenue earned by it due to the circumstances prevailing in the market. At the same time, by entering into the multiannual agreement, LDz has committed itself to ensure a stable infrastructure charge to carriers, thereby guaranteeing predictable conditions for market operators, insofar as the growth of transport volumes depends on the charges for the use of rail infrastructure. In other words, in its field of activity, LDz has committed to ensure stable operating conditions as well as a consistent quality of services for the transport and logistics industry.

In 2018, in addition to the said documents which capture the requirements and commitments defined by the Government, the Council of LDz approved the Medium-Term Operational Strategy for 2017-2022 of VAS "Latvijas dzelzceļš", which sets out the company's operational directions, development prospects and risk analysis. The strategy served as a basis for the development of the company's operational development plan. In 2019, much effort

is being put into the development of the long-term strategy of "Latvijas dzelzceļš" Group.

The basis for the long-term vision was laid down when developing the concept on the Group's strategic positioning, which is based not only on the analysis of the existing activities and development trends but also on the global and domestic development trends in the transport and tourism sectors. Based on the vision, it has been identified that the development path of LDz would be heading in the direction towards a full-fledged and well-managed group of transport, logistics and technology companies, in which the existing activities – ensuring of the infrastructure and the provision of transport services – are complemented by a dynamic cross-border cooperation aimed at the development of new logistics services as well as technology-based traffic control, safety, logistics and other solutions.

This vision has been boiled down to the new brand and motto of LDz, i.e., which is "Never too far!" Looking from this perspective, LDz has every opportunity to reach the farthest continents of the world, create unprecedented effective and competitive technological solutions, thus ensuring the reputation for Latvia of being the regional logistics excellence centre.

However, achievements arise from hard work, and it is not uncommon that maintaining the achieved results turns out to be more difficult than getting the first success. That is why we believe that continuous active effort, high efficiency and targeted cooperation on external markets are of decisive importance.

Although VAS "Latvijas dzelzceļš" is the infrastructure manager in Latvia, the success of the group of companies managed by it as well as that of the broader transport and logistics industry depends on how convincing and proactive we appear to be outside Latvia. In many places, especially in the Asian region,

state-owned companies are treated differently from private-capital market players. Therefore, in 2018, together with the managements of all of the largest ports in Latvia, the Riga Airport and Latvijas Pasts, we continued to take part in the international marketing events held in Russia, Belarus, China, Kazakhstan, Uzbekistan, India, and other countries, presenting the opportunities and benefits offered by the Latvian transit corridor.

Many of these visits do not produce immediate results, and the positive effect thereof would be visible only in the longer term. Sometimes, however, there are exceptions – such as taking part in the Chinese Top500 company forum held in September 2018. During the forum, the strategic cooperation agreement with the Xi'an International Trade and Logistics Park was signed, and two months later, the first container train from this Chinese city arrived at the Riga Port.

The year 2018 has been successful also in regard to the cooperation with closer markets. For example, the Minsk-Riga freight express train that was established in February 2018 had carried 180 train stocks by the end of the year. In addition, in close cooperation with Belarus Railways, an agreement was reached that each journey will last a little over 20 hours rather than the originally planned 28 hours.

The development of this as well as other international projects requires a competitive infrastructure. It should be underlined that the key objective is to build a modern, eco-friendly, all-electric rail infrastructure, gradually replacing diesel-powered trains with electricity-powered locomotives. In 2018, significant steps forward have been taken to implement the Latvian railway network electrification project previously approved by the Cabinet. A favourable opinion has been received from the Central Finance and Contracting Agency, and the consulting body of

the European Commission JASPERS IQR, as well as a procurement procedure was started so that when the final decision on the implementation of the project from the European Commission is received, the implementation of the project would be started without any delay.

For the implementation of electrification, ensuring of the long-term competitiveness of Latvian transit corridor is of major importance. The experience of other countries suggests not only the favorable impact on the environment, but also the reduction of transport costs. In addition, many large companies that require transportation of their goods, have laid down the following principle in their strategic documents – given equal opportunities, circumstances and costs to deliver cargoes using various transport corridors, preference should be given to green corridors with reduced harmful emissions, which significantly affects the amount of the overall harmful emissions arising from their activity.

Looking forward: in 2019, we will continue to actively work at improving our business processes, acting both as the infrastructure manager and as the Group as a whole. With the improvement of internal processes, we have identified the challenges related to the strategic development in the field of digitalization, implementation of innovations as well as in the field of modernization of technologies.

And last but not least – I am convinced that the strategic vision developed by VAS "Latvijas dzelzceļš", the work we have started, the transformation of the implemented business model that is producing great results, increasing our efficiency and the team of professional employees will help "Latvijas dzelzceļš" Group to achieve the set objectives. Moreover, everyone will benefit – each and every employee of the Group, their families and the Latvian economy as a whole!

INFORMATION ABOUT THE REPORT

THE SUSTAINABILITY REPORT OF VAS
"LATVIJAS DZELZCEĻŠ" FOR 2018 HAS
BEEN PREPARED IN ACCORDANCE WITH
THE CORE REQUIREMENTS OF THE GRI
STANDARD.

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Reporting period

1 January 2018 – 31 December 2018

Periodicity of reporting

The report is prepared once a year. The first two reports for 2016 and 2017 were prepared using the GRI G4 guidelines. The report for 2018 is the first report that was prepared based on the requirements of the GRI standard. In the future years, the reports will also be based on the GRI standard; preparing of the sustainability report of the whole "Latvijas dzelzceļš" Group will also be considered.

Date of publication

13 June 2019 (in Latvian). The report is available on the **website** in Latvian and English, it is also submitted for being published in the **GRI database** (in English).

Reporting principles

In the course of preparing the first sustainability report for 2016, VAS "Latvijas dzelzceļš" carried out a detailed survey of the opinions of the stakeholders, including the representatives of the public institutions, the non-governmental sector, customers, counterparties, and employees as well as the representatives of other fields, and identifying their views on the areas in which VAS "Latvijas dzelzceļš" has the greatest impact or in which the highest impact risks exist due to significant sustainability aspects. A matrix of the key material aspects was developed, which was used to prepare the first GRI report as well as the reports for 2017 and 2018. Given the transition from GRI G4 guidelines to the GRI standard, the key aspects reflected in the matrix have been aligned to the numbering of the GRI standard aspect indicators (p. 55).

Based on the results of the survey and the matrix, the sustainability report of VAS "Latvijas dzelzceļš" fully represents the general standard disclosures (38 indicators) of the activity of VAS "Latvijas dzelzceļš" as well as provides information on 47 material aspects.

In the report, the Company has included information that in its view is related to the company's sustainable activity or the awareness and minimisation of specific risks, but which were not highlighted as the material aspects of the stakeholder study or which are not part of the GRI standard. In the sustainability report, either the relevant GRI standard indicators or the material aspects defined by the company and marked with the indicator LDZ-x are assigned to the relevant sections.

Data collection methods

The basis for preparation of the report is the information provided by the structural units of VAS "Latvijas dzelzceļš" as well as the data on the company's activity and the material reporting aspects. Only verified and substantiated data have been used in the report. If specific data on a critical business impact area are not aggregated, this is indicated in the report. The report covers the activity of VAS "Latvijas dzelzceļš" in 2018. It indirectly presents the activity of the subsidiaries of Latvijas dzelzceļš Group, however, the contents of the report does not fully reflect the activity of the whole Group in the field of sustainability.

Auditor's confirmation

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

Contact information

The contact information on the sustainability report of VAS "Latvijas dzelzceļš" for 2018: ieva.kustova@ldz.lv

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ORGANIZATIONAL PROFILE

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ABOUT VAS "LATVIJAS DZELZCEĻŠ"

State joint stock company VAS "Latvijas dzelzceļš" is a public-use railway infrastructure manager and the governing company of "Latvijas dzelzceļš" Group. The company provides public use railway infrastructure services, handling of freight wagons, technical maintenance and inspection services of the rolling stock, electricity distribution and trade services, lease services, information technology services, electronic communications services, and the services of a principal.

The company's headquarters are Gogoļa iela 3 in Riga, however, its structures and subsidiaries operate across Latvia, especially in Daugavpils, Rezekne, Krustpils, Jelgava, Liepāja and Ventspils, where important railway junctions are located that ensure handling of the freight transit flow and passenger transport.

LDz is the only company managing the public railway infrastructure in Latvia. The majority of its revenue is made up from track access charges paid by carriers based on train-kilometres they run. The amount of track access charges are set by the entity carrying out the essential functions of the public use railway infrastructure manager, i.e., AS "LatRailNet".

"Latvijas dzelzceļš" Group (LDz Group) comprises seven dependent subsidiaries (in six subsidiaries, the governing company exercises a direct decisive influence, whereas in one – indirect decisive influence). Subsidiaries provide freight and international passenger transport by rail, rolling stock maintenance, repairs and upgrading services, physical and technical security services, the development and rendering of international multi-modal logistics services. A separate joint stock company "LatRailNet" has been established within the group, which according to the regulation laid down by the European Commission carries out the essential railway infrastructure manager's functions and is responsible for setting the track access charges and the allocation of the capacity across the rail network.

Sustainability report provides broader information about VAS "Latvijas dzelzceļš" (LDz), however, on pp. 30-35 information on the performance of the subsidiaries of LDz Group in 2018 is provided.

Strategic development

LDz is a state-owned capital company, the sole shareholder of which is the State of Latvia. The shareholder of LDz is the Ministry of Transport that in 2018 for the first time developed The Indicative Railway Infrastructure Development Plan based on the requirements laid down in EU Directive 2012/34/EU and the Law on Railway. The Plan was approved by the Cabinet on 6 November 2018. The document lays down the perspective of the State on the development of the railway infrastructure and the maintenance thereof for the forthcoming five years. Among other things, the plan includes the existing infrastructure volume and quality indicators, the major infrastructure development projects, as well as general principles and commitments for ensuring the financial equilibrium of the infrastructure manager if necessary. The Indicative Railway Infrastructure Development Plan for 2018-2022 is available on the website of the **Ministry of Transport**. (in Latvian).

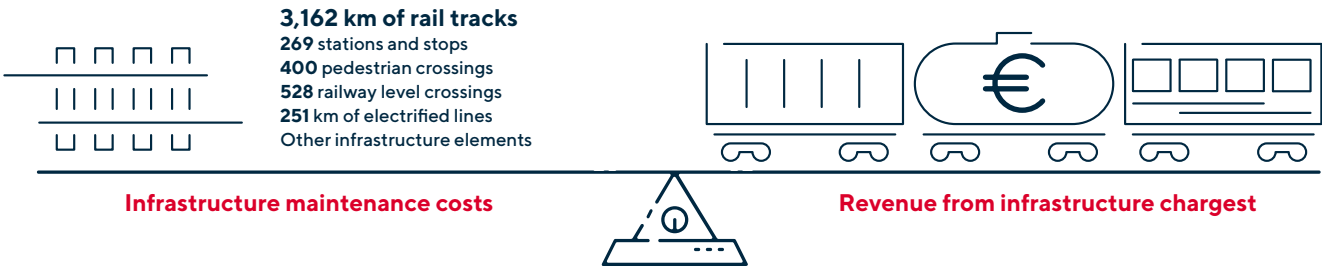
Based on the developed and approved Plan, on 9 November 2018, the Ministry of Transport and LDz entered into a multi-annual agreement for five years, setting out a clear mechanism for ensuring the financial equilibrium of the infrastructure manager, minimizing the need of raising financing from the State budget. On its part, LDz committed to ensure stable track access charges throughout the validity of the agreement, ensuring predictability for the users of infrastructure and thus strengthening the development of Latvian transit and logistics industry.

The anticipated directions of the development of the infrastructure and an effective use thereof are detailed in the Medium-Term Operational Strategy for 2017-2022 of VAS "Latvijas dzelzceļš" approved by the Council of LDz on 8 November 2018. Under the Cabinet Order No. 212 of 15 May 2018, for ensuring of the necessary financing for the development and renewal of the infrastructure, the profit to be distributed by LDz to the State as dividends is set to be 0%. Provisions of the Medium-Term Operational Strategy are outlined on the **website of LDz** (in Latvian).

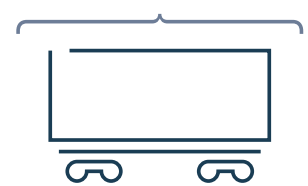
Concurrently in 2018, LDz also finalized the development of a new strategic future vision and the creation of a new brand aligned with this vision, the process of which lasted for two years. In accordance with it, LDz is looking to the future as a full-fledged well-developed and managed group of transport, logistics and technology companies, the principal activity of which – ensuring of a competitive railway infrastructure – will be complemented by multi-modal international logistics services and digitized control process, traffic organization, added-value logistics services and other solutions. These development directions are summarized and embodied by the new motto "NEVER TOO FAR!"

The new strategic vision will be integrated in the Group's Long-Term Strategy and other binding documents.

Thus in 2018, a solid foundation was set up to ensure a successful and growth-based, sustainable activity of the company.

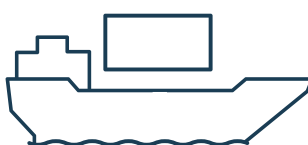


Development of railway transport services



345
EUR million

Export value of rail transport services



396
EUR million

Export value of marine transport services



741
EUR million

Total contribution of the industry in Latvian exports

Rail transport services within the territory of Latvia are provided by LDZ Group company "LDz Cargo" (freight and international passenger transport), state-owned capital company AS "Pasažieru vilciens" (inland passenger transport services), which is not a Group company, three private freight transport companies – joint stock company AS "Baltijas Tranzīta serviss", joint stock company AS "Baltijas Ekspresis" and limited liability company SIA "EuroRailCargo", as well as Lithuanian Railways that has been providing passenger transport services on the route Vilnius – Daugavpils since 2017.

All of the above carriers use the infrastructure managed by LDz, the development of which historically started during the times of the tsarist Russia and was developed using the typical track gauge width of 1,520 mm. Consequently, the width of the track gauges in Latvia today is similar to those of its Eastern neighbor countries. Thus, the infrastructure managed by LDz represents an efficient transit corridor in the East-West direction, linking Russia, Belarus and Asian countries with the largest ports of Latvia. It also provides a transit corridor in the North-South direction, connecting the Baltic countries that have the 1,520 mm track gauge infrastructure.

Consequently, the processes taking place in external markets are important for the development of the company because the largest share of transport services by rail consists of carriage of import freights, i.e., freights that are imported in Latvia from other countries. In 2018, import freight transport services accounted for 82% of the total freight volume of 49.3 million tons. The largest share of freights originate in Russia (66.5%), freights originating in Belarus are increasing and have reached 27.1% (in 2017: 19.3%, in 2016: 15.3%), whereas freights originating in Lithuania account for 4%, and on average 1% originate in the Ukraine, Kazakhstan and Estonia. Freight volumes originating in other countries are smaller,

however, the total transport geography covers more than 70 countries, from/to which the freights are carried through Latvian transit corridor. At the same time, it should be taken into account that a significant share of cargoes originating in Russia and other countries are carried into Latvia through Belarus, therefore for LDz as an infrastructure manager it is critically important to develop a railway connection through Daugavpils and raise the competitiveness thereof.

As for the macroeconomic dimension, according to the balance of payments figures aggregated by the Bank of Latvia, in 2018, the total exports by rail transport amounted to EUR 345 million, an increase by 18.6% from 2017. In addition, the railway services are closely related to the maritime transport activity, where the volume of exports was EUR 396 million in 2018, thus the total contribution by the industry in the total structure of Latvia's exports was close to EUR 741 million (not including the related services). Source: <https://statdb.bank.lv/lb/Data.aspx?id=200>

Considering the structure of the transport services, the situation in Latvia is different from that in most of the European countries where inland and international passenger transport accounts for the major share in the railway traffic services.

In 2018, the total volume of carried freight was 49.3 million tons, by 12% higher than the previous year, whereas the number of passengers carried was 18.2 million passengers, by 4.3% higher than the previous year and which was due to the rising demand in domestic passenger transport segment.

In recent years, significant effort was put to promote the diversification of freight transport, entering new target markets (generally in Asian countries) and organizing the backflow of cargoes from the West to the East. For example, in November 2018, more than 260 containers for shipment by rail to China were received at the Riga Port. Overall in 2018, over 64 thousand TEUs (the deemed container units, i.e., the twenty-feet-equivalent units) were transported using LDz infrastructure, of which 35.3 thousand TEUs had been imported by sea for further transportation by rail. The largest volumes were imported from the Netherlands (8,238 TEUs), Turkey (6,372 TEUs), Germany (4,852 TEUs) and China (2,135 TEUs). Whereas in the segment of the containers carried to the western direction, the largest volume was received by rail from Russia (14,894 TEUs), Belarus (1,928 TEUs) and the Ukraine

49,3
million
tonnes

Total cargoes

82.2%

Import cargoes

18,2
million

Total number of carried passengers

*Source: <https://statdb.bank.lv/>

(1,320 TEUs), and were further carried by sea to Germany, the Netherlands, Turkey, the USA, India and Sweden, and in small quantities also to other parts of the world.

Overland transit services through the territories of Latvia and Lithuania are also being developed. As part of them, in the autumn of 2018, several record-breaking (in weight as well as length) freight train stocks headed for Kaliningrad. Each of the trains weighed more than 7,000 tons (until then the weight of freight trains was up to 6,000 tons, whereas the weight of the average freight train was around 3,000 tons).

In the forthcoming years, there are plans to connect, at Baltic level, the European track width (1,435 mm) with Rail Baltica, being implemented by the state-capital companies unrelated to LDz. However, transporting is possible as of now using the existing infrastructure – that was proved in the testing mode in 2018 (the container train Amber Train). Furthermore, LDz and AS “LatRailNet” have engaged in the development of the 8th corridor of the EU TEN-T network (the connection of the North Sea and the Baltic Sea by railway), full connection to this corridor is expected to occur in November 2020.



Management and development of the infrastructure

To promote the development of the transport services sector, LDz invests in the modernization and raising the competitiveness thereof in accordance with the Indicative Railway Infrastructure Development Plan and the company’s Medium-Term Operational Strategy. Under these documents, over the next few years, the railway nodes would be modernized in Riga and Daugavpils, as well as the railway corridor from Latgale (Daugavpils and Rezekne) to Riga would be electrified, thereby creating an environment-friendly and efficient transport corridor. See more detailed information on the planned infrastructure development projects on page 63.

In 2018, LDz managed 3,162 km of rail tracks (the extended track length), 141 stations, 128 stops, 400 pedestrian crossings and 528 railway level crossings.

With a view to ensuring the maintenance of the whole existing infrastructure managed by LDz, the implementation of the contemplated projects and a successful operation of LDz, the average number of employees in 2018 was 6,439 (calculated in accordance with the provisions of the Law on Annual Financial Statements and Consolidated Financial Statements). Whereas the whole LDZ Group provided employment to 10,400 employees. Labor costs account for about half of the total infrastructure maintenance costs taken into consideration by AS “LatRailNet” when determining the track access charge.

In 2018, in cooperation with the audit company “Ernst & Young Baltic”, a repeated benchmar-

king analysis of the activity of infrastructure managers was carried, comparing LDz with the railway infrastructure managers in a number of European Union countries, i.e., analyzing their financing, cost level, infrastructure quality and other indicators. According to the study, LDz is one of the two benchmarked European railway managers (the other is Lithuanian Railways), which receives no public financing for the covering of its costs, namely, no State budget allocations or some other kind of support is granted to finance its activity unlike this happens in Finland, Germany, Poland, etc. Moreover, the grant for financing the manager’s activities in the Netherlands in 2017 amounted to EUR 232.5 thousand per kilometer of track, in the Czech Republic – EUR 77 thousand per kilometer, in Finland – EUR 62.4 thousand per kilometer. Whereas in Latvia, without any grants, the cost per kilometer of track maintenance amounts to EUR 57.6 thousand. Labor costs account for the greatest share of costs (more than a half). In some countries (distinctively in Finland), these costs are reduced on the account of outsourced services, however, in this case, it is essential that not only cost effectiveness but also quality assurance aspects should be considered.

At the same time, the Latvian railway infrastructure fully corresponds to 25 tons axle capacity, i.e., it is capable of transporting heavy freights along all the railway network, which in case of most other benchmarked countries applies to only a part of the network. Hence, the average weight of a freight train in Latvia is around 3,000 tons, whereas in Finland and Poland it is up to 1,500 tons, and in Germany – only about 500 tons.



Human resources

Traditionally, the railway industry has been related to technical occupations, including such, which include physical work. Therefore, historically the share of male employees in the company has been higher than that of female employees. At present, however, 65% of the company's employees are men and 35% are women (over a third of all employees). Around 70% of the employees are aged over 40 years. The question of succession planning and attracting new talent to the railway industry is gaining an increasing importance for the company. This issue is highlighted not only in Latvia, but in the rail industry throughout the world- this matter was discussed at the conference organized by LDz and the International Railway Union (UIC) held in autumn of 2018 (detailed information on page 39).

LDz plays a vital role in Latvian employment market, especially in the regions of Latvia. 30.5% of the company's employees are employed in Latgale, thus, the company indirectly fulfils the social function of contributing to the prosperity of the region; over 17% of its employees work in Zemgale. Most of the employees work in Riga and nearby Riga, which, however, accounts for slightly more than a third of all of the company's employees (37.7%).

Engaging the employees of all levels and regions has had a critical role in development and implementation of LDz's new strategic vision. Among other things, in the spring of 2018, LDz visited all regions of Latvia, holding meetings with mid-level managers and discussing the potential of the company's development, possible obstacles and solutions, as well as the congruity between the future vision and the expectations of employees.



Men

65%



Women

35%



Performance in 2018

209,4
EUR million

Turnover

4,2
EUR million

Profit

78,4
EUR million

Taxes paid

536,04
EUR million

Value of the company

Source: NASDAQ un Prudentia TOP101

In terms of financial performance, 2018 was a favorable year, during which actual traffic volumes were in line with the levels budgeted in the Medium-Term Strategy, and thanks to being active on the external markets as well as to cooperation within the transport sector, the freight volume reduction experienced in the previous year was balanced off. In 2018, the company's total turnover was EUR 209.4 million, whereas its profit was EUR 4.2 million. The greatest share of turnover (69.5%) is made up from the public railway track access charges paid by carriers. It is calculated based on the number of the train-kilometers run, which in 2018 were 9.99 million train-kilometers for freight trains (an increase by 12.9% compared to 2017), whereas in passenger transport – 6.12 million train-kilometers (an increase by 0.7%). Other sources of LDz revenue are from handling freight wagons, wagon maintenance and inspection services, electricity distribution and trade services, lease services, information technology services, as well as the principal services.

An essential indicator attesting to the successful performance of LDz and the outcome of the optimization measures is the productivity growth. In 2018, the productivity of LDz employees reached EUR 34,743 per employee, an increase by about 17% from 2017. The relevant Group indicator is overall even higher, i.e., EUR 62,778 per employee, an increase by 24% compared to the previous year.

Overall, in 2018, LDz paid EUR 78.4 million in taxes to the State budget. Exports of transport services by rail made up EUR 345 million in Latvia's external trade balance. The company's successful performance was also acknowledged in Top101 Latvia's Most Valuable Companies jointly created by NASDAQ Riga and Prudentia, where LDz ranked as No. 5. Moreover, it ranked No. 3 in the category of state-owned capital companies, valued at EUR 536.04 million. In addition, the transport and logistics sector has been recognised in this list as the second most valuable sector in Latvia, being slightly behind the financial sector. Importantly, the company's corporate governance practice was highly acknowledged. It also enabled the ranking of LDz in the Platinum category of the Sustainability Index for the first time in 2018.

External initiatives



ANDRIS GRAFS

Vice President in Latvia, the Baltic Institute of Corporate Governance

"VAS "Latvijas dzelzceļš" has been increasingly focusing on corporate governance practices, which were improved by setting up the company's Council in 2016. In the view of the Baltic Institute of Corporate Governance, there are two distinct fields, in which LDz corporate governance practices have been fully aligned to the OECD corporate governance principles, i.e., transparency of information and stakeholder involvement. It is appreciated that LDz has committed itself to improving corporate governance, through bettering the mechanism for cooperation among the shareholder, the Council and the Board, strengthening the company's Council with two independent members, as well as improving internal control and risk management procedures."

102-11
102-12
102-13

Being a socially responsible company, one of the largest employers and country's most valuable companies, it is critically important for LDz to engage in the activities of industry as well as business organizations, promoting the development of a sustainable and well-managed business environment, and share experiences and engage in initiatives that are related to closer integration of the sustainability and governance aspects in the company's activity.

In 2018, LDz took an active part in the events of the Sustainability Index and Responsible Business Week organized by The Institute of Corporate Sustainability and Governance. The assessment of the company's corporate governance practices carried out by the Baltic Institute of Corporate Governance was finalized, identifying the necessary improvements in the governance of LDz. The company took an active part in representing, at local as well as international levels, the industry and business interests within the framework of national, European and global organizations.

LDz has been particularly active in strengthening its role in international organizations. Since December 2017, Edvīns Bērziņš, President of LDz, is a member of the Management Committees of the International Union of Railways (UIC) and the Community of European Railway and Infrastructure Companies (CER). In December 2018, he was appointed First Vice President of the European Regional Assembly of the UIC.

It was exactly within the scope of the UIC that in October 2018, an international conference was held in Riga about talent management in the transport industry, which is a hot topic among railway companies globally. At the conference, LDz shared its talent management experiences, gained in cooperation with the vocational and higher educational establishments and developing the future specialists and middle-level managers at Group level.



Considering the need to recruit professionals in the future and the qualification requirements, at the end of the last year, LDz commenced a long-term cooperation with the movement "Iespējamā misija" (Mission Possible) implementing a nationwide program for educating young teachers. In cooperation with LDz, the movement will have a focus on pedagogues in the field of sciences and engineering because the future engineering and IT specialists also required by LDz need to have a strong foundation already in terms of the primary and secondary education.

To share the company's experience in another area of sustainable development, i.e., accessibility of environment and universal design, the experts from LDz attended the conference "Inclusive Design: Think, Plan and Make for Everyone" organised by the Ministry of Welfare and held on 18 October 2018. At the conference, LDz shared its insight at why ensuring the accessibility of environment in the railway infrastructure built 150 years ago presents a great challenge, as well as shared their favourable cooperation experiences with the Association of Disabled People and Their Friends "Apeirons" over the last five years. The organization provided a consultative sup-



In 2018, LDz joined several innovation platforms – such as the X-industry hackathon organised by the IT cluster of Latvia, and the "Demola" programme jointly organised by various national universities.

port within the scope of the modernisation of LDz passenger infrastructure (e.g., modernisation of Jelgava and Jurmala line passenger platforms), as well as consulted regarding the accessibility of the Riga Passenger Station environment before it is rebuilt within the scope of the project "Rail Baltica".

The company has been acknowledging the potential of external initiatives in the field of research and development. In 2018, LDz engaged in a number of innovation platforms, including the one organised by the IT technology cluster (cross-industry hackathon) as well as in the programme "Demola", jointly organised by Latvian universities. Within the scope of the hackathon, four problems that can be potentially resolved using IT tools and relate to the organization of freight transport services, traffic management and safety were presented. Of these, two ideas were acknowledged and further promoted for development by interdisciplinary teams of experts – increasing the safety of the control systems of railway level crossings, as well as for the development of the mobile application for the railway cargo management system with a view to improving the customer service.

Whereas in the framework of "Demola", in cooperation with a team of students LDz looked for solutions to replace the chemical substance glyphosate with other, more environmentally friendly, but equally effective kinds of weed management in railway partition zones. Weed destruction is an important rail traffic safety factor, however, there are no methods yet that would efficiently replace glyphosate. Furthermore, this problem is topical not only in Latvia, but throughout Europe, where the use of glyphosate would be banned in the coming years, whereas the national rail companies of all states in cooperation with universities and research institutes have been looking for solutions for the substitution thereof, while not reducing the level of road safety and not significantly increasing the weed destruction costs. The idea of using electrodes for destruction of weeds has been developed within the framework of "Demola", which is being assessed by the company's environment and technical experts.

Considering that LDz is not a production company, it does not use a precautionary approach principle on a daily basis in its routine operations with regard to environment protection, however, the environmental impact is assessed in every project carried out by LDz.

Membership in organisations

LDZ AND THE GROUP COMPANIES ARE ACTIVELY ENGAGED IN THE ACTIVITIES OF THE LEADING INDUSTRY AND BUSINESS ENVIRONMENT ORGANIZATIONS IN LATVIA, AS WELL AS DEVELOPS ITS ACTIVITY IN INTERNATIONAL ORGANIZATIONS, REPRESENTING THEREIN THE INTERESTS OF LDZ WELL AS THOSE OF THE BROADER TRANSPORT AND LOGISTICS SECTORS.

In 2018, the company had membership with the following organizations:



Employers' Confederation of Latvia (LDDK)

The LDDK is the largest organization in Latvia, bringing together the employers of the public and private sector and is the social partner to the Government and trade unions. The LDDK is a member of The Confederation of European Business BUSINESSEUROPE, thus it has access to the legislative and social dialogue tools at national as well as European level. The LDDK is a member of the National Trilateral Cooperation Council (NTCC) and its subsidiary councils where the representatives of the Government, employers and trade unions discuss any major changes required in legislation, as well as economic development areas.

In the beginning of 2018, in the election held at the annual meeting of the members of the LDDK, a new Council of the organization was elected. For the forthcoming three years, E. Bērziņš, President of LDz was repeatedly approved for the positions of the member of the Council and Vice President of LDDK. The President of LDz also holds the position of Head of the NTCC Transport and Communications Sector Sub-Council representing employers, as well as Co-Chairman of The Kazakhstan – Latvia Business Cooperation Council and The Belarus-Latvia Business Cooperation Council.

Experts from LDz are participating in working groups and consulting processes on various matters related to the activity of LDz and the general economic environment, such as Labour Law, tax policy, the strengthening of international economic cooperation, the competitiveness of the industries, etc.



Latvian Chamber of Commerce and Industry (LTRK)

The LTRK is the second leading business organization in Latvia bringing together companies of various sectors and sizes and the associations thereof. The LTRK is an active partner of the Government and sectoral ministries in negotiations and engages in the development of legislation and consultations related to the business environment. Unlike the LTRK, this organization does not have a formally strengthened status in the dialogue with the Government, nevertheless it gets actively involved in these negotiations, formally as well as informally.

The governance body of the LTRK is the Council, to which E. Bērziņš, President of LDz was elected repeatedly in the beginning of 2018.

Just like the LDDK, the LTRK has several competencies and

regional councils supervising the work of the industry committees, i.e., the representatives of LDz are represented on the National Strategy, Exports and Services Councils as well as the Transport Infrastructure Committee.

Latvian Railway Sector Employers' Organization (LDzDDO)

The LDzDDO was founded in March 2002 with the objective to improve the development of the sector and cooperation between employers through a social dialogue, in collaboration with industry companies and trade union.

LDz is a member of the organization and the largest employer in the industry. It engages in the discussion of the laws and regulations and the documents binding on the industry (such as The Indicative Railway Infrastructure Development Plan, etc.) and making relevant proposals, as well as to jointly maintaining the general agreement within the sector (collective bargaining agreement for the sector).



Railwaymen Association of Latvia (LDzB)

The Railwaymen Association of Latvia was established in 1920 and was renewed in 1991. Its members include over 1,000 individuals and eight legal entities, including VAS "Latvijas dzelzceļš" since 2003. LDzB has divisions in Riga, Daugavpils, Rezekne, Jelgava, Ugāle, Gulbene, Ventspils and Liepāja.

The mission of the association is to unite the enthusiasts of Latvian railway industry as well as nationally minded railway patriots, build a sense of togetherness among railwaymen, work for the benefit of Latvia, raise the prestige of the occupation of railwaymen, promote a modern and secure development of the railway industry, while preserving and nurturing its history built over the centuries and established traditions. Being the largest employer in the industry, LDz gets involved in the work of the association, as well as in organization of the Days of Engineers held by LDzB every autumn.

Latvia – China Business Council

Latvia – China Business Council is a non-governmental organization, founded in response to the increasing interest of various sectors in bilateral cooperation between the two countries, as well as wider cooperation in the format of 16 + 1 as well as other cooperation formats. The key task of the Council is to promote the development of joint projects, exports and investments.

Among the founders of the Council representing Latvia, there are companies representing the providers of transport and logistics services, telecommunications services, wood pro-

cessing, financial services, real estate, industry, education, electrical engineering services, etc.

The organization helps companies establish direct bilateral contacts, while recognizing the specifics of the Chinese economy. To bring the businessmen of the two countries closer, the organization is engaged in conducting studies of the hitherto activity of the economic cooperation as well as of the future prospects, through identifying strengths and weaknesses.

Given the industry's interest in developing cooperation with Asian companies, LDz is a member of Latvia – China Business Council since 2015, and has cooperated with the organization in preparation of various events related to establishing contacts in China, as well as engaged the Business Council in attracting participants for the annual conference held by LDz.

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

The Society for Promotion of Latvian-Belarusian Economic Relations was founded in the autumn of 2005, and legal entities and persons willing to promote the economic cooperation between two countries may join it.

The general objective of the activities of the LBESVB is to promote the development of reciprocal economic relations between Latvia and Belarus, as well as the development aimed at developing the economy and investments and representing the interests of the members thereof in Latvia and Belarus. The LBESVB is not engaged in politics but is rather a catalyst for those seeking to form mutual business contacts in Latvia or Belarus.

The LBESVB has close cooperation with the national regulatory authorities both in Latvia and Belarus. There is a regular exchange of information with embassies, consulates and public organizations. The LBESVB meets entrepreneurs on a regular basis and is building up close contacts with the industry experts.

The administrative structure of the LBESVB consists of the board, which is elected from the candidates nominated by LBESVB. In April 2018, the new board was elected for the term of three years. The representative of LDz is on the board, i.e., the manager of the representation office of LDz in Belarus – Una Vītola.

Latvian Transit Business Association (LTBA)

The LTBA is the leading organization in Latvia bringing together the companies from transport, transit and logistics industries, aiming to promote freight transit through Latvia, improve the competitiveness of Latvian transit corridor, re-



present the interests of Latvian transit business at international level.

To achieve this, the LTBA keeps abreast with and analyses the development of the transit business, the competitiveness thereof relative to other countries and regions, promote an effective cooperation between cargo carriers, freight forwarders, controlling institutions and other parties engaged, co-operates with national institutions in the drafting of legislation and consulting regarding it in the areas of transit business, cooperates with the economic diplomats of Latvian embassies abroad and the representation offices of the Latvian Investment and Development Agency, analyses and follows up on the development of EU legislation affecting the interests of the transit business, and engages in the preparation of the national position in all the fields related to the transit business and being of interest to the members of the LTBA.

LDz is a member of the LTBA, and its CEO is the member of the board of the LTBA (Edvīns Bērziņš, President of LDz was approved as the member of the board in the spring of 2016). In the light of the market developments, in 2017, the LTBA has been particularly active in developing strategic documents and discussing the drafts of the infrastructure development projects, aiming to balance off the interests of the industry players (railway, port administrations, stevedoring and transport companies, etc.) with a view to finding a common solution.

The LTBA has been taking an active part in the work of the Logistics Council, as well as of the Latvian Ports, the Transit and Logistics Council, engaging in the discussion of the issues on attracting cargoes to Latvian transit corridor, the matters of developing the infrastructure and charges promoting logistics services on the global transport market and strengthening the competitiveness of Latvian transit corridor.



Institute of Corporate Sustainability and Responsibility (InCSR)

The association "The Institute of Corporate Sustainability and Responsibility" (InCSR) was founded in 2011 with a view to strengthening the sustainable development of Latvia, educating the public and raising awareness about responsible and forward-thinking actions and promoting the development of a civil society. The InCSR has developed and organises the annual assessment of companies and organizations, i.e., the Sustainability Index. LDz has also been regularly participating in it since 2011. In 2018, for the first time, LDz was awarded the

Platinum category; LDz has encouraged other Group companies to take part in the Index ("LDz Cargo", "LDz ritošā sastāva serviss").

As a corporate member of the organization, LDz has been using an opportunity to take part in the seminars and exchange of experience organized by InCSR as a participant or delivering lectures, as well as engaging actively in the Responsible Business Week activities organised by the InCSR. The view of the InCSR experts had been of importance when starting to prepare the sustainability reports of LDz according to the GRI guidelines.



Baltic Institute of Corporate Governance (BICG)

The BICG was founded in 2009 with a view to promoting the implementation of good governance in Latvia, Lithuania and Estonia, extending to public institutions, state-owned companies and the private sector.

In 2016, LDz joined the BICG as a corporate development member, and actively engaged in the activities of the BICG, among other things using the opportunity to participate in the training programme aimed at senior management and other seminars offered by the BICG (e.g., on risk management) and carrying out an assessment of the company's corporate governance practices. The results will be evaluated in 2019, and the necessary steps for improving management practices will be carried out.

In addition to membership in a national or regional business or industry organizations, LDz has engaged in the work of a number of international railway organizations.



The International Union of Railways (UIC) coordinates co-operation on topical matters between railways worldwide, promoting a smooth operation of the railway system. The organization brings together 194 members from all over the world. The UIC develops standards and promotes innovation in the development of the railways. The members of the organization are being regularly informed about the key developments, documentation and new regulations that enable anticipating legal and technical changes in the industry. Membership in the organization enables timely planning and integrating of these innovations in the business management processes. LDz has engaged in the working groups that address security, statistics and documentation aspects, as

well as in the development of the railway data exchange Rail-TopoModel, which can play an important role in harmonizing the network reporting.

Twice a year, LDz participates in the General Assembly and the Security Congress of the UIC. A remarkable achievement for Latvia is the approval of E. Bērziņš, President of LDz as a member of the Management Committee of the UIC in December 2017. Work in the Management Committee enables LDz to raise the profile of Latvia and the Baltic region through cooperating with the largest European railways, expressing the position of LDz in line with the interests of Latvia's transport sector and finding new development opportunities. Furthermore, from January 2019, E. Bērziņš took up the duties of the First Vice-President of the European Regional Assembly of the UIC. This is not only prestigious but also provides the opportunity to influence decisions as well as indicates that the activities of LDz have been noticed and appreciated internationally as well as at the UIC level.

The key items on the UIC agenda are the development of European railway network corridors, the development of Eurasian transport corridors, financing of the development of the infrastructure, digitization of railways and a convenient and connected mobility. Work at the development of uniform standards, research and sustainable development programs, as well as security issues is being continued. In 2017, the work on the project management guide was completed. The guide is available to the members of the UIC at no charge. In addition, work at the pilot project of the Quality management system (QMS) was completed in the European region. Eleven member organizations of the UIC took part in the pilot project. In the forthcoming two years, the QMS will be implemented in the UIC organization itself as well as in the organizations of its members.



Community of European Railway and Infrastructure Managers (CER) brings together European railway infrastructure companies as well as providers of transport services. The CER represents the interests of its members in shaping EU policies, mainly to support and promote more efficient business and regulatory environment for the sector. Currently, the organization has more than 70 members and associates.

LDz is engaged in the work of the CER assistant working groups, as well as in the working groups on the environment and infrastructure matters, customer and cargo shipment matters, the development of the application TAF TSI (the application provides a standardized exchange of information in real time between the railway companies involved in trans-

port process rail companies, such as informing on delays, cancelled flights and missed connections) and the working group for HR directors.

At the end of 2017, President of LDz Edvīns Bērziņš was approved to be a member of the Management Committees of the UIC as well as the CER, which gives him the opportunity to take an active part in debating the European Union's policy of the railway sector. The key priorities of the CER and the railway industry is the implementation of the Technical Pillar of the Fourth Railway Package, the cooperation of European railways in the field of the ticket sale system and data exchange, the development of innovations and digitization, including alarm systems and automatically controlled trains, as well as the development of new cargo corridors and improving the conditions of the inter-modality requirements.

At the end of 2017, LDz passed the decision to engage in the work of the **Platform of Rail Infrastructure Managers and entities carrying out the key functions (PRIME) established by the European Commission**. PRIME commenced its activities in 2013 with a view to launching a common cross-border platform for cooperation among infrastructure managers with a view to developing European railway network. Participation in PRIME is binding on all European infrastructure managers. Membership in the platform includes cooperation in the development of the core network corridor, the rail freight transport corridors and the implementation of the European Rail Traffic Management System (ERTMS), as well as sharing the experience and good practice in the field of infrastructure management.

The European Commission engages in the work of PRIME with a view to directly communicating with railway companies and identifying industry problems, and working together on finding solutions.

Twice a year, as part of PRIME, plenary sessions at executive level are held, as well as activities take place in subsidiary groups at the level of experts (digitization, financial issues, the key performance indicators (KPIs) of the industry, legislation, security, charge collection, cooperation with the regulator, etc.).

LDz had the opportunity to participate in working groups, present its vision and express its position on the issues that are important to the company, thus also participating in the shaping of the EU railway policy. Engaging in the new transport corridors and the development thereof is very important to LDz, and one of the key topics on the agenda of PRIME.



The International Rail Transport Committee (CIT) the member whereof LDz Group is, helps railways to enforce the international rail transport laws. The CIT develops and maintains information on legal publications as well as documents related to the international carriage by rail, formalises the contractual relationship between customers, operators and infrastructure managers, as well as represents the interests of carriers in negotiations with lawmakers.



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

The common task of 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, exchange experience of the best multilateral cooperation with government representatives and other railway companies, as well as deal with IT security issues.

Twice a year conferences are held, with the representatives of LDz participating.



European Agency for Railways (currently – The European Union Agency for Railways; EURA)

With the entry of the Technical Pillar of the Fourth Rail Package into force, the European Agency for Railways has been replaced by the European Union Agency for Railways. The Agency deals with the matters of the implementation of the EU directives and legislation. From 2019 on, the Agency will be the authorized institution in Europe to issue a uniform EU security certificate to carriers, issue permits for the activity in more than one Member State, carry out the pre-verification of the ERTMS infrastructure grants.



OECD International Transport Forum Corporate Partnership Board

In May 2018, when the term of the presidency of Latvia in the International Transport Forum (ITF) of the Organization for Economic Cooperation and Development (OECD) expired, LDz participated in the Forum summit in Leipzig (Germany). During the summit, LDz as the first and currently the only company in the Baltic countries joined the Corporate Partnership Board of the International Transport Forum, joining

about 30 other global transport, logistics, industry, manufacturing and high technology companies.

The ITF and its Corporate Partnership Council is part of the OECD network of organizations, which especially promotes good governance at all levels, thus the invitation to join one of these organizations is to be considered a high acknowledgment of the LDz corporate governance practice.

The role of the Corporate Partnership Board of the ITF is to provide the insight of entrepreneurs of the transport sector of the Member States to the decision-makers on the regulation of critical sector development questions. In recent years, the members of the Board have provided their opinion on the areas, such as decarbonisation of the transport sector, regulation of drones, etc. At present, one of the hot topics on the agenda of the Board is developments related to blockchain and various artificial intelligence application solutions and the regulation thereof, including from the viewpoint of security risks.

The participation in the Corporate Partnership Board of the ITF provides the opportunity for LDz to share its view of the industry's regulatory framework internationally, which is especially important, given the nature of the activity of LDz, on the one hand, being subject to the European regulatory framework, but, on the other hand, operating the infrastructure with the track gauge of the Countries of Independent States (CIS), i.e., 1,520 mm. Thus the company has experience in terms of a different regulation and practice in international cooperation formats.

Considering that the largest share of freight transport of LDz Group is related to the CIS countries and that the new Asian routes are running through them, LDz has been an active member in the organizations bringing together railway companies representing 1,520 mm rail track width as well as Eastern European countries' railways.



Organization for Co-operation Between Railways (OSJD/ОСЖД) is engaged in developing cooperation in the field of railway transport, forming a single railway space in the Eurasian region and raising the competitiveness of the transcontinental transport. OSJD has 28 Member States, seven of them have the status of an observer, and 40 companies have the status of an associate.

The State of Latvia is a member of OSJD, and LDz is represented in its governance structure – the Conference of the General Directors (responsible representatives). Observers and associated companies (such as private rail carriers, railways from non-member countries, companies representing candidate countries, etc.) are not represented at the Conference of the General Directors.

The organizational structure consists of five panels and two working groups. LDz experts participate in the working groups and commission meetings organized by the committee as well as in the annual conference of Directors-General and in the ministerial meeting session.

Within the scope of the OSJD, e.g., in the second (Transport Rights) commission, the representatives of LDz have been actively participating in the work aimed at improving the Agreement on International Rail Traffic (SMGS) and the annexes thereof. Among other things, with a view to promoting the flow of freight transport in the international traffic, matters concerning the requirements for fixing freights and transport of dangerous goods, etc. are evaluated.



Rail Transport Council (ЦСЖТ) coordinates the work of the administrations of 1,520 mm track gauge railway tracks. There are currently 18 Member States in the organization. The members of the organization mutually handle both operative matters and matters on future cooperation.

The Council consists of nine commissions, 15 working groups and five expert groups in various areas. In the course of its activity, the organization has prepared more than 260 agreements, regulations, instructions and other regulatory documents aimed at the development and technological unity of the rail freight and passenger transport. The technical documentation worked at by the experts of LDz within the scope of this organization is related to the ensuring the train traffic, the requirements for wagon and locomotive repairs, traffic safety issues, passenger transport issues in international trains, etc. In the spring of 2018, the Council held a meeting in Riga regarding the improvement of the ticket booking system ASU "Ekspress". With the help of this system, in the ticket offices in Riga, passengers can buy train tickets for international traffic, including the railway tickets of other countries.



Coordinating Council on Trans-Siberian Transportation (CCTT/КСТП) has an objective of increasing transport volumes on the main line of Trans-Siberian rail tracks as well as develop freight traffic between Asia and Europe, using the rail infrastructure. The CCTT has been paying great attention to the development of the container train routes, for this matter holding, annually, expert meetings, during which the current situation and development plans regarding "Baltika Tranzīts" and "Zubr" arranged by the subsidiaries of LDz are discussed. The CCTT brings together rail companies, ports, shipping companies, public authorities, operators and freight forwarders.

ETHICS AND INTEGRITY

IN ORDER TO ENSURE TRANSPARENT, CLEAR AND ETHICAL OPERATIONS, LDZ HAS DEVELOPED A NUMBER OF DOCUMENTS BINDING TO ALL THE EMPLOYEES OF THE GROUP, AS WELL AS PRINCIPLES OF BUSINESS ETHICS APPLICABLE TO THE COOPERATION PARTNERS OF LDZ.

Business ethics and internal process control

An effective and sustainable business is not only about quality services, competitive costs and properly qualified personnel, but also about compliance with the general principles of business ethics and the control thereof. This is especially relevant for large companies whose business is related to attracting various partners and suppliers, engagement in the sector planning issues, etc.

In order to ensure a clear, transparent and ethical business practice, LDz has developed a number of documents binding on all employees of the Group, as well as business ethics principles for the counterparties of LDz.

In 2013, the Corporate Social Responsibility (CSR) Commission became operational in the Group, it developed the **Code of Ethics** (in Latvian), which is binding for all employees of the Group and lays down the general principles for cooperation with peers,

other companies of the Group, counterparties, customers, NGOs and other stakeholders. In case of violations of the Code of Ethics, anyone may directly or anonymously refer to the Chair of the Corporate Social Responsibility Commission.

The Code of Ethics also requires a responsible behavior in case of possible conflicts of interest, however, the matters involving conflicts of interest, corruption, fraud and other related issues are discussed in detail in the **Fraud Prevention Policy approved in 2016**. The Fraud Prevention Division of the Security Directorate of LDz is responsible for the implementation of it, the activity and tasks of the Division are set forth in the approved policy as well as in the Cabinet Regulation No. 630 "Regulation on the General Requirement of the Internal Control System for Prevention of Corruption and Interest Conflict Risks in the Body of a Public Person", as well as the Law on International Sanctions and National Sanctions of the Republic of Latvia.

The Fraud Prevention Policy of LDz Group lays down the requirements for the behavior of the employees of the Group with suppliers and other partners, including such areas as business trips, gift making/accepting and other areas, as well as providing for the tools for engaging counterparties; educating the employees of LDz and reporting on possible violations of the Fraud Prevention Policy. For more detail on the Fraud Prevention Policy and the measures taken within the scope of it, see p. 68.

Internal Audit Division has been set up within LDz. Under the Internal Audit Working Plan approved by the Board of LDz, it systematically audits and assesses the functions set up by LDz and the quality, efficiency and compliance with statutory requirements of the internal control of the relevant processes as well as the set strategic and operational objectives. In 2018, the Internal Audit Division carried out 21 audits in total, including in LDz as well as in its group companies. Audits have been carried out to assess the implementation and monitoring of management policies, material and technical resources, continuity of the provision of information technology services, development of internal communication, the planning and execution of the development strategy of the company, and a number of other areas as well as supervisory audits aimed at the assessment of the implementation of specific infrastructure projects. The total volume of audits carried out is 715 auditor days, within the scope of which the Internal Audit Division has issued 40 medium-priority and 87 low-priority recommendations. No major internal control system deficiencies have been

identified in any field, therefore high-priority recommendations have not been issued.

At the end of 2018, the Council of LDz and the meeting of shareholders gave their prior consent and the Board of LDz approved the Internal Audit Working Plan for 2019, which provides for carrying out 22 internal audits in various areas of activity of LDz – supervision of the project implementation, functional, personnel and financial management systems, as well as audits of other areas of the structural units of LDz and Group companies.

The Company's risk **management approach** is described in the Financial Risk Management Policy of "Latvijas dzelzceļš" Group, Regulation on the Application of a Single Railway Traffic Risk Assessment and Supervision; the instruction "On the Assessment of Information System Risks in the Group"; Transfer Pricing documentation that describes the mutual transactions carried out within the Group, while defining various risks related to the Group's overall performance; tax risk manuals; Regulation on the internal control system for outsourcing accounting for compliance with the requirements of the Law on the Prevention of Money Laundering and Terrorism Financing; Regulation on contract preparation, registration and enforcement, and other documents. General risks that may affect the Group's performance and development options, are described in the Medium-Term Operational Strategy of VAS "Latvijas dzelzceļš" for 2017-2022.

Transparent flow of documents

For organizing the daily processes and con-

trol, the **Document Management System** has been developed, within the scope of which a transparent approval of contracts, organizing of correspondence, handling staff matters, handling of cross-directorial and cross structural unit matters, as well as other solutions for the flow of documents are set out. Thus tracking the progress of every matter as well as identifying the responsible employees is possible. Pursuant to the accounting records of the Legal and Administrative Affairs Directorate of LDz, in 2018, the Company's back office registered 8,478 incoming documents, 1,037 outgoing documents, and 461 orders.

At the same time, for the purpose of ensuring the flow of information, the telegraph system is still being used; it was improved over the recent years by transferring it to the internal electronic information sharing environment. The telegraph is used for giving notices to employees (often in various structural units and regions) on immediate changes in train scheduling, accidents or other emergencies. Telegrams for the daily exchange of information are still widely used by the counterparties of LDz in the neighboring countries, including the national railway companies in Russia, Belarus, Estonia, Lithuania, etc. In 2018, LDz telegraph received 108,476 telegrams using the Vector system, 70,049 telegrams were sent, 9,052 alerts for Latvian addressees were issued (to a total of 14,012 recipients); telegraph was used to exchange operational information with AS "Pasažieru vilciens".

To improve the performance of the telegraph, the Technical Inspection and Traffic

Control Distance of LDz developed a technical solution and made the necessary amendments to internal regulations, in accordance with the Cabinet Regulation No. 724 "Regulation for the Technical Operation of the Railways" of 3 August 2010. According to these changes warnings are no longer transmitted using the telegraph as the local telegrams. Instead the employees of LDz and carriers get warnings through the integrated informative alert system. Consequently, in the future, the telegraph will only be used to transmit international warnings.

Whereas in cooperation with the Information Technology and Telecommunications Directorate a solution for improving the information system was found, and as a result, in 2019, the system of tracking of telegrams and possible errors would be improved.

Also in 2018, negotiations were started with the Latvian National Archive regarding the use of the Uniform National Archives Information System and proposals on the digitization of the documents archived by LDz. In 2018, LDz archived 3,328 files, bound 961 files, issued 265 references to physical persons, upon request of the employees of LDz, 305 files were temporarily issued to them, whereas within the scope of the "Rail Baltica" project, 344 technical drawings and other documents were prepared and issued (they were necessary to accurately prepare documents and schedule the work aimed at the reconstruction of the Riga Central Railway Station – including taking into account historical engineering systems and other infrastructure elements).

GOVERNANCE

03

102-18
102-20
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LDZ-1

Governance structure

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

As of 2016, the company has **the Council** composed of three people selected and approved by the nomination commission set up by the Ministry of Transport in accordance with the Law On Governance of Capital Shares of a Public Person and Capital Companies and the Cabinet Regulation "Regulation under which Candidates are Nominated for the Positions of Board and Council Members in the Capital Companies in which the State as the Shareholder has the Right to Nominate the Board and Council Members of the Capital Companies in which there is the Council". In 2018, the composition of the Council changed, because a number of the members of the Council started employment in other state-owned companies of the transport and logistics industry and therefore left their positions in the Council. Thus in 2018, new board members were elected to the Council for a term of five years – Jānis Lange, Chairman of the Board of VAS "Latvijas Valsts ceļi" (Chairman of the Council of LDz) and Andris Maldups, Director of the Transit Policy Department of the Ministry of Transport, who was elected to the Council of LDz on 6 November 2017. Aigars Laizāns, the independent member of the Council, energy expert and the professor at the Latvian University of Agriculture has been elected to the Council of LDz since the establishment thereof. The Council does not have any committees or other subordinated structures. On 8 February 2019, the shareholder meeting of LDz made amendments to the Articles of Association of LDz providing for the Council of LDz to be composed of five members. Until the time the new Council members are selected and elected, the Council has three members.



JĀNIS LANGE

Chairman of the Council of
VAS "Latvijas dzelzceļš"
the term of office
from 2 February 2018 to
1 February 2023

J. Lange 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 VAS "Latvijas Valsts ceļi" (state-owned road infrastructure company), 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
VAS "Latvijas dzelzceļš"
the term of office
from 2 February 2018 to
1 February 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 Riga Business School of Riga Technical University.

Since 1997, he has been in charge of development of the transit industry at the Ministry of Transport. His duties include facilitation of the competitiveness of transit and logistics sector – development of ports, 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 transportation, development of port and warehousing services, as well as on development of industrial projects in Latvian free ports and special economic zones.



AIGARS LAIZĀNS

Member of the Council of
VAS "Latvijas dzelzceļš"
the term of office
from 22 July 2016 to
21 July 2021;
the independent member
of the Council

A. Laizāns graduated from the Latvian University of Agriculture with PhD in Engineering and obtained Master's Degree in Business Administration (MBA) at Riga Business School of Riga Technical University.

He served as the first Vice President and Commercial Director of AS "Preses nams", worked on the implementation of the INTERREG IV A cross-border co-operation projects specializing in science, environmental protection, and promotion of commercialization since 2009. Participated in the activity of various business and technology incubators.

Currently, A. Laizāns is the member of the Senate and the Convent of Latvian University of Agriculture, the professor of the Energy Institute of the Technical Department of the University, and the director of the Graduate Program.

A. Laizāns was Chairman of the LDz Council from 29 August 2017 to 2 February 2018.





EDVĪNS BĒRZIŅŠ

Chairman of the Board of
VAS "Latvijas dzelzceļš"
the term of office
from 25 February 2016 to
24 February 2021,
President

Area of responsibility: Corporate governance

E. Bērziņš has been Chairman of the Board of LDz since 2016 and a member of the Board since 2011. He holds a Master's Degree in Law and Professional Master's Degree in business and institutional administration (MBA) of the Norwegian-Latvian master's program "Innovations and Entrepreneurship" (Riga Technical University). Previously he worked as the Head of International Relations Department at the Police Academy of Latvia, Legal Advisor at "Lattelecom", Head of the Legal Department and Board Member of AS "Latvijas kuģniecība".

Since 2015, E. Bērziņš is a member of the Council of the joint venture of the Baltic countries "RB Rail", he has also served as Chairman of the Council. Currently, he is Deputy Chairman of the Council.

E. Bērziņš is Vice-President of the Employers' Confederation of Latvia, Presidium Member and Council Member at the Latvian Chamber of Commerce and Industry, a member of the Advisory Board of Riga Technical University, Chairman of Latvia-Belarus and Latvia-Kazakhstan Councils of Business Cooperation, as well as a member of the Convent of Councilors and Council Member of the Faculty of Law at Turība University.

In December 2017, E. Bērziņš was approved as a member of the Management Committees of the International Union of Railways (UIC) and the Community of European Railway and Infrastructure Companies (CER).



AIVARS STRAKŠAS

Member of the Board of
VAS "Latvijas dzelzceļš"
the term of office
from 29 August 2017 to
28 August 2022,
Vice-President

Area of responsibility: Finance

A. Strakšas holds a master's degree in Economics (Latvian University of Agriculture). Previously he worked as an advisor to the Minister for Agriculture of the Republic of Latvia, Council Member of AS "Hipotēku un zemes banka", Council Member of AS "Latvijas Pasts", Chairman of the Council of the Lotteries and Gambling Supervision Inspection and advisor to the Minister for Finance of the Republic of Latvia.

Currently A. Strakšas is a member of the National Strategy Council at the Latvian Chamber of Commerce and Industry.



ĒRIKS ŠMUKSTS

Member of the Board of
VAS "Latvijas dzelzceļš"
the term of office
from 2 December 2017 to
1 December 2022,
Vice-President

Area of responsibility: Technical management

Ē. Šmuksts began his career at LDz in 1983 as the person of duty of the switch point. Thereafter he work at Radviliski Station of the Baltic Railway (in Lithuania) as a person on duty of the station and the maneuver dispatcher, has been Deputy Station Manager. He has also been the manager at Gulbene Station and deputy manager at Daugavpils Station on operational as well as commercial matters. He holds a degree from Leningrad Institute of Railway Transport Engineers. Before that he had graduated Daugavpils Railway Transport Technical School.

Previously he was in charge of the Freight Traffic Department of VAS "Latvijas dzelzceļš", from 2007 until 2008, he was the Chairman of the Board of the subsidiary of LDz "LDz Cargo". In 2017, he received the highest award of LDz "For personal contribution to the industry of railway transport".



AINIS STŪRMANIS

Member of the Board of
VAS "Latvijas dzelzceļš"
the term of office -
from 18.07.2016 to 17.07.2021,
Vice-President

Area of responsibility: development, information technologies

A. Stūrmanis was approved as Member of the Board of LDz in 2016. He has been employed in LDz Group since 2005. From 2007 to 2011, he was Chairman of the Board of SIA "LDz infrastructure", thereafter - CEO of the subsidiary of VAS "Latvijas dzelzceļš", AS "LatRailNet" - the company engaged in determining the track access charges and allocation of the infrastructure capacity.

He holds Bachelor's Degree in Engineering sciences in economics acquired at International Relations and Customs Institute of the Riga Technical University (RTU), as well as he has a qualification of the economist specializing in the customs management. He studied at RTU Management Quality Institute in the Master's program General Quality Management, as well as obtained his professional Master's Degree in customs and tax administration. Previously he has been the director of the State Revenue Service Kurzeme Regional Tax Control Department, Ventspils Tax Inspectorate, as well as of other structural units.

The executive body of the Council of Presidents is the Directorate-General of LDz. It enforces the execution of the decisions of the Council of Presidents as well as the orders and instructions of the President and Vice-Presidents. The Directorate-General organizes the carrying out 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. The Directorate-General of LDz consists of nine directorates and six structural units that ensure the performance of internal audit, procurement, services of a principal and other functions.

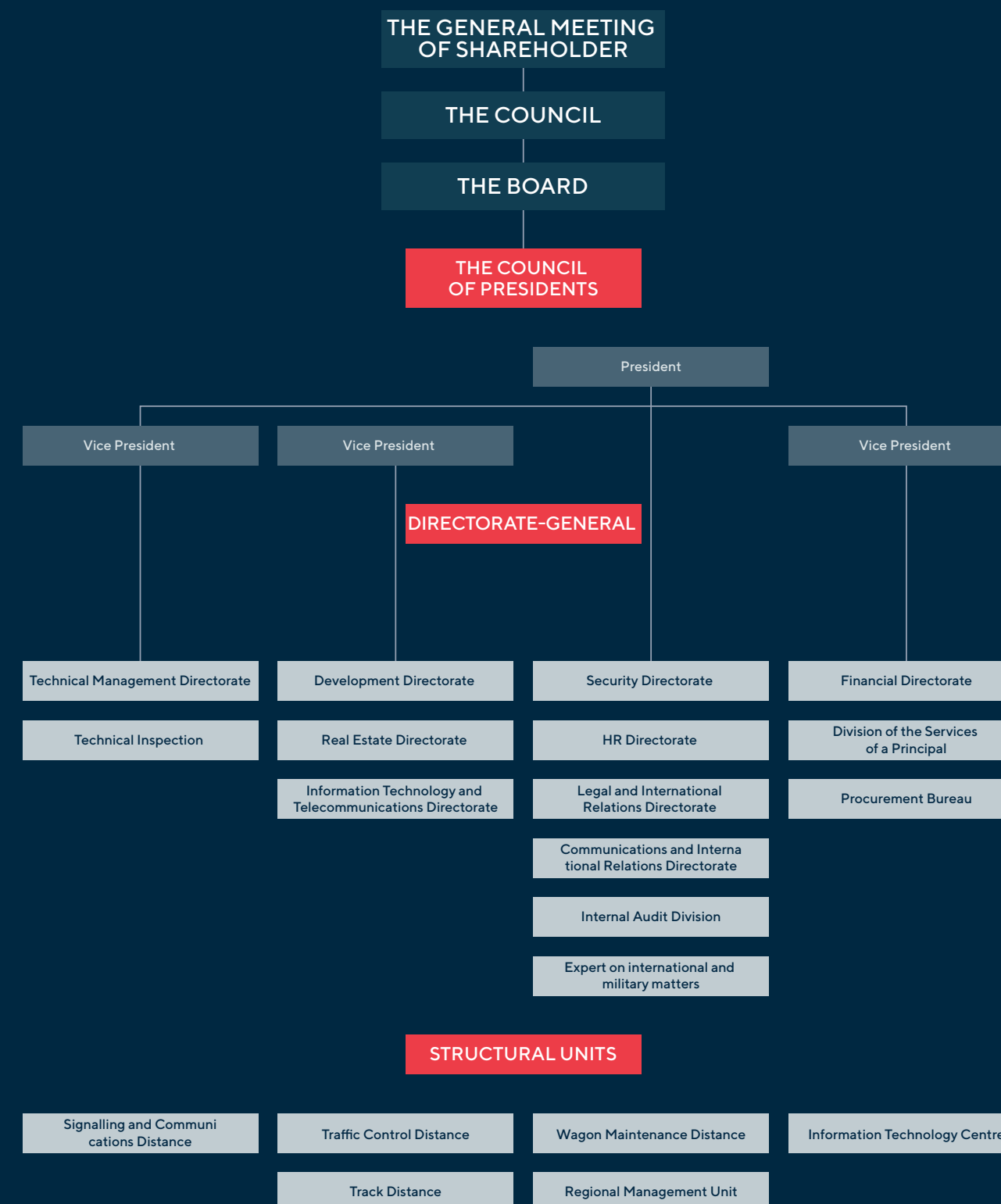
The structural units of LDz carry out a business activity to meet the set business goals. Structural units are mainly deployed in Riga and Daugavpils and in other locations in Latvia, and they carry out daily works on the tracks, stations and stops, as well as ensure an efficient functioning of the company's information systems. In 2018, structural units underwent restructuring, through improving the track maintenance and repair process (providing a homogenous professional capacity during all seasons), improving the performance of wagon maintenance and creating opportunities for developing the provision of wagon services for external customers as well as improving traffic management and monitoring processes in the stations across Latvia. Using information and communications technologies, the work of line stations has been optimised, providing on average one base station for three line stations and thus adjusting the workloads. To implement these changes, Track Distance of LDz took over the track repair work and also

the professionals who carried out the work from the Group's subsidiary company SIA "LDz infrastruktūra". In order to carry out more efficient and transparent maneuvering works at the end stations, wagon stock compilers and maneuver dispatchers were taken over from the Group's subsidiary "LDz Cargo", and two new structural units were formed on the basis of the former Riga and Daugavpils Operations units – Traffic Control Distance and Wagon Maintenance Distance.

As a result of the restructuring carried out: within the scope of operations of the Track Distance, the cost of renewing one kilometre of track ("A" type repairs) was reduced by more than 15%, but one of the most typical infrastructure repairs, i.e., switch replacement costs were reduced by over 5%; there has been an increase in the wages of the employees in all occupational groups of the said structural units; for example, the average wages of wagon inspectors and repairers increased by EUR 147,2 (13.2%), the wages of station attendants were increased by EUR 110 (10.7%), the average wages of track assemblers – by EUR 94 (10.8%), whereas the wages of train dispatchers on average rose by EUR 200.6 (11.3%).

Continuing the process towards a greater efficiency, at the end of 2018, with a view to improving the quality of services, their development and management, as well as to carry out market research and provide services in various markets, a new Services and Customer Relations Unit was set up, incorporating the existing Customer Relations unit that ensures the work of the Inquiry Service of LDz.

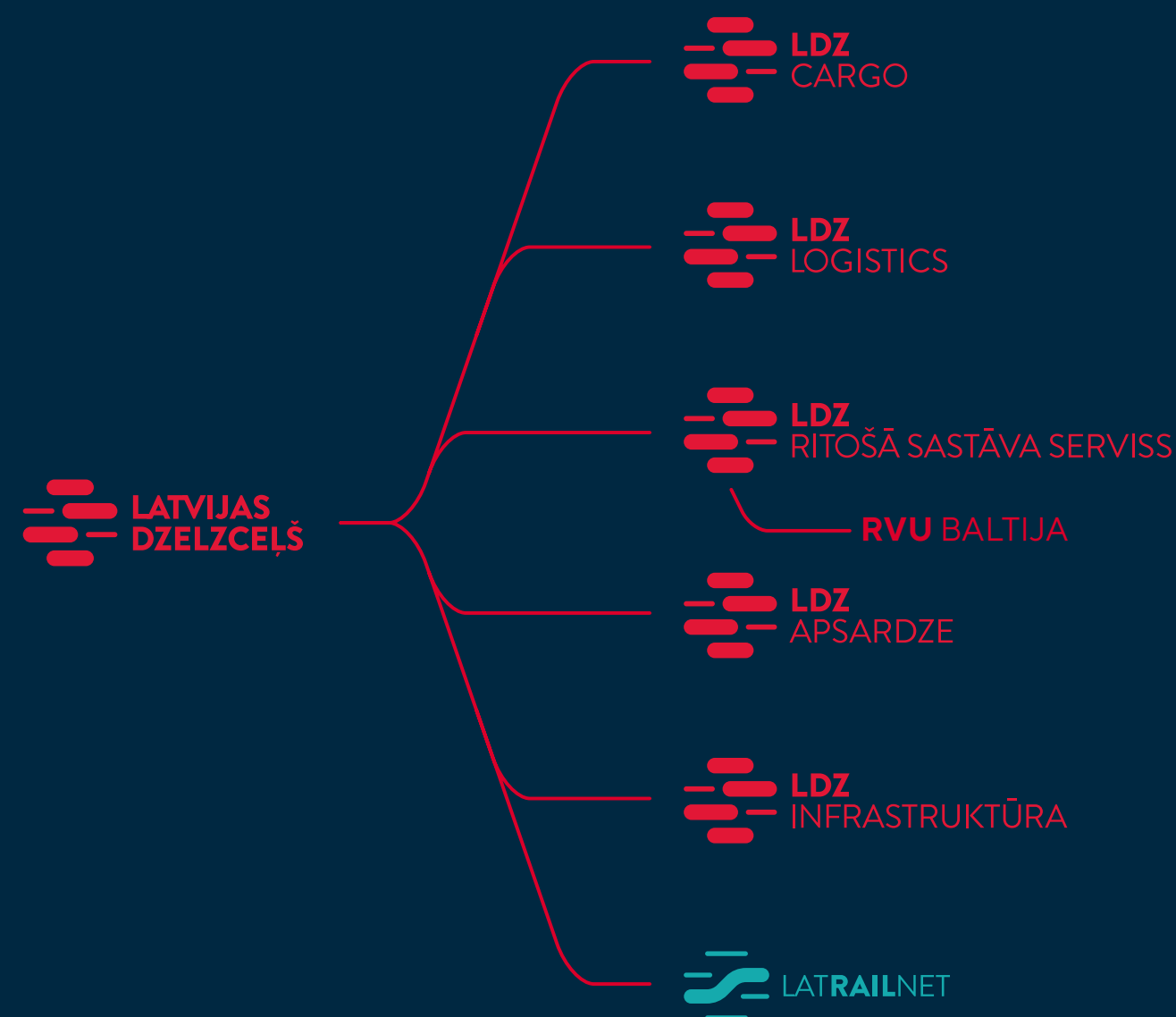
Organizational structure of VAS "Latvijas dzelzceļš"



Performance of the subsidiaries in 2018

THERE ARE SEVEN DEPENDENT SUBSIDIARIES (IN SIX SUBSIDIARIES THE DOMINANT COMPANY HAS A DIRECT DECISIVE INFLUENCE, WHEREAS IN ONE - INDIRECT DECISIVE INFLUENCE) IN LATVIJAS DZELZCEĻŠ GROUP (LDZ GROUP), WHICH PROVIDE FREIGHT AND INTERNATIONAL PASSENGER TRANSPORT BY RAIL SERVICES, ROLLING STOCK MAINTENANCE SERVICES, REPAIRS AND UPGRADING SERVICES, PHYSICAL AND TECHNICAL SECURITY SERVICES AND CARRY OUT OTHER FUNCTIONS. IN 2018, OWING TO THE INCREASE IN THE VOLUME OF TRANSPORT SERVICES AND THE MEASURES AIMED AT IMPROVING THE INTERNAL EFFICIENCY, ALL OF THE GROUP'S COMPANIES HAVE HAD A FAVOURABLE OPERATIONAL PERFORMANCE.

Structure of "Latvijas dzelzceļš" Group





SIA "LDz Cargo"

SVETLANA BERGA,

Chairwoman of the Board
the term of office from
10 June 2016 to 9 June 2021

ALEKSANDRS KAZAČKOVŠ,

Member of the Board
the term of office from
10 April 2017 to 9 April 2022

The company provides freight and international passenger transport by rail services. In the containers and wagons owned by SIA "LDz Cargo" a variety of goods is 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 Riga-Moscow, Riga - St. Petersburg, as well as since September 2018, it has been operating the Latvian part of the route Riga - Vilnius - Minsk - Kiev.

In 2018, the company's revenue from operating activities amounted to EUR 275.3 million, an increase by EUR 39.9 million (17%) from 2017. The key increase in net revenue was related to the positive changes in the total transported cargoes: in 2018, 49.3 million tons of various cargoes in total were transported, an increase by 12.5% from 2017.

The largest group of cargo transported was coal: 22.7 million tons (46% of the total freight volume), the second largest group was petroleum and petroleum products (11.2 million tons (22.7%)). The volume is considerably lower for fertilizers (3 million tons (6%)), grain and flour products (2.9 million tons (5.8%)) and other groups of cargoes.

Great attention is paid to the development of the container transport services. In 2018, the company entered into several contracts for container transport services with container trains "Baltika-Tranzīts", "Baltika tranzīts IV" and "Eirāzija" along the routes the Baltic countries - Kazakhstan and the Central Asian countries. The trains "Riga - Express" and "Riga-Moscow" operate along the route from Riga ports to Moscow and the stations in the vicinity thereof and in the opposite direction. The train "ZUBR" provides services along the route Estonia-Latvia-Belarus-Ukraine, and currently the company

is working on extending the route of cargo base through the Ukraine to the Black Sea and in the future - to Turkey.

The advantage of container trains lies in the possibility of using multimodal means of transport for carrying goods, thus combining several types of freight transport. In 2018, container transport services increased by 17% compared with 2017, and the company has been putting in much effort to provide stable, secure and reliable container freight transport services.

In the field of international passenger transport, the results have remained almost at the previous year level. During the year, 159.7 thousand passengers were carried (781 passengers less (-0.5%) than in 2017). The reduction in the number of passengers was observed in the route Riga-Moscow, whereas the numbers increased in other routes.

In the future, the company intends to maintain and strengthen the existing position in bulk cargoes and liquid cargoes and to pay particular attention to attracting new markets in China's direction, as well as to work towards increasing the quality of international passenger transport services and the profitability of passenger transport services.

A priority for the company's development is to raise the quality of customer service and customer satisfaction. In 2018, the experts from SIA "LDz Cargo" were actively engaged in the development of the customer relations management system (CRM), the development and complementing of the Cargo Traffic Information System, as well as continued to develop a centralized billing system.

In 2018, attention was devoted to expanding the System for automated freight wagon and train commercial inspection, wagon number recording and recognition system at Šķirotava and Jelgava. The implementation of the system helps increase the competitiveness of the rail transport, ensure a higher occupational and traffic safety, as well as serve as one of the links in creating an electronic corridor. The objects of the system would be commissioned in the first half of 2019.

In 2019, investments would be made in the acquisition and upgrading of the rolling stock, in order to ensure freight transport services and to gradually renew the ageing rolling stock.



LDZ RITOŠĀ SASTĀVA SERVISS

SIA "LDz ritošā sastāva serviss"

JĀNIS STALĪDZĀNS,
Chairman of the Board
the term of office from
18 December 2018 to
17 December 2023

SANDIS VĒTRA,
member of the Board
the term of office from
15 January 2018 to
14 January 2023

SERGEJS KARPAČOVŠ,
member of the Board
the term of office from
22 April 2016 to 21 April 2021

The company is engaged in providing repair, modernization, maintenance and staffing of the railway rolling stock 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 Riga and Daugavpils and locomotive reserve base at Rezekne, the wagon repairs center at Daugavpils, the chemical and technical measurement laboratory in Riga 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 2018, the turnover of "LDz ritošā sastāva serviss" was EUR 74.7 million or by 18.3% higher than in 2017. An increase in turnover was due to the increase in the sale of diesel fuel owing to the positive trends of cargo transport services, as well as an increase in the wagon repair segment. Conversely, the locomotive repairs volume has fallen slightly due to the results of the upgrading of the locomotives in recent years, i.e., damage is rarer as well as smaller in size.

The locomotive modernization program would be continued in 2019. Two more of 2M62UM locomotives would be upgraded, thus the program of upgrading of 14 locomotives in total would be completed. The upgrading is carried out under the CZ LOKO project with MTU 16V4000 R34L engines. In the beginning of 2019, twelve 2M62UM locomotives were put into operation.

Preparatory works have been started for the implementation of the 2TE10 diesel locomotives upgrading project, using

more economical and sustainable type D49 diesel engines. As a result, the unification of 2TE10 and 2TE116 diesel engines would be ensured, replacing the two-stroke diesel engine of type 10D100.

Concurrently, work is being continued at identifying the use of alternative fuels for the needs of the rolling stock (such as using natural gas, hydrogen, etc.).

In addition to upgrading the rolling stock, the projects aimed at the digitization of the production processes (planning of repairs, management of documents, and organization of procurements) have been launched, consistently with the vision of LDz on the development of the group of transport, logistics and technology companies, with a greater focus on smart technologies.

In 2018, the subsidiary of "LDz ritošā sastāva serviss" – SIA "Rīgas vagonbūves uzņēmums "Baltija" completed the upgrading of ten railway platforms that can be used for transporting heavy machinery, developed a project for multiuse universal equipment for transporting the light wheel machinery on fitting platforms, as well as manufactured three such pieces of equipment for testing purposes. It also entered into the agreement with "LDz Cargo" for manufacturing 15 pieces of such equipment. Whereas in December 2018, a contract for manufacturing special supports for crawler machinery to be transported by rail was signed. In 2018, the company's turnover was EUR 0.8 million.



SIA "LDz Loģistika"

GUNDARS ĀBOLS,
Chairman of the Board
the term of office from
15 January 2018 to
14 January 2023

EDUARDS ČERŅAVSKIS,
member of the Board
the term of office from
15 January 2018 to
14 January 2023

The company's principal activity is to market and sell intermodal logistics services, attract new customers to the Latvian transit industry, in this way contributing to the public use of railway infrastructure. To ensure this, work is being done aimed at an active cooperation within the sector, as well as with other sectors engaged in the field of railway transport and multimodal logistics services.

In 2018, the annual turnover from operating activity was EUR 33.6 million, an increase by EUR 6.5 million (23.9%) from 2017. An increase in net turnover is related to the positive trends in the transport services, mainly container cargoes and bulk cargoes. There has been an increase in the transported cargoes carried by the container train "ZUBR" in the route that crosses Belarus. The revenue of "LDz Loģistika" consists of transport freight forwarders services. In 2018, the largest share of these services were provided to local customers (87.2%), to EU customers (2.6%), and customers in CIS countries (5.5%). Customers outside the EU and CIS countries accounted for 4.7% of the total revenue.

The prerequisite of the development of the company is ensuring of the "one-stop-shop" principle to its customers, which is already being implemented in practice, ensuring a single focal point in the chain between the consignor and the consignee, addressing all logistics related issues and respecting the interests of all the sectors.



SIA "LDz Apsardze"

ARNIS MACULĒVIČS,
Chairman of the Board
the term of office is from
24 December 2016 to
23 December 2021

LINDA BALTIŅA,
member of the Board
the term of office is from
1 March 2018 to
28 February 2023

The company is engaged in providing technical 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. Its management system has been certified according to the ISO 9001:2009 standard.

Owing to the increase in the volume of the security services, in 2018, the company's turnover amounted to EUR 7.3 million (an increase of nearly 11.4% from 2017). There has been an increase in the amount of services provided to the customers outside LDz Group.

80.9% of the turnover originates from physical security services provided. In 2018, the company was active in promoting the technical security services, which led to an increase of its customer base by 23% compared to 2017 and resulting in an increase in turnover in this segment.



SIA "LDz Infrastruktūra"

JĀNIS CEICĀNS,

Chairman of the Board in
2018

ARTIS BĒRZIŅŠ,

Member of the Board
the term of office from
15 August 2018 to
14 August 2023,
Chairman of the Board
(from 10 January 2019)

EGILS FELDMANIS,

Member of the Board
(from 10 January 2019)
the term of office from
10 January 2019 to
9 January 2024

VALDEMARS DAĻECKIS,

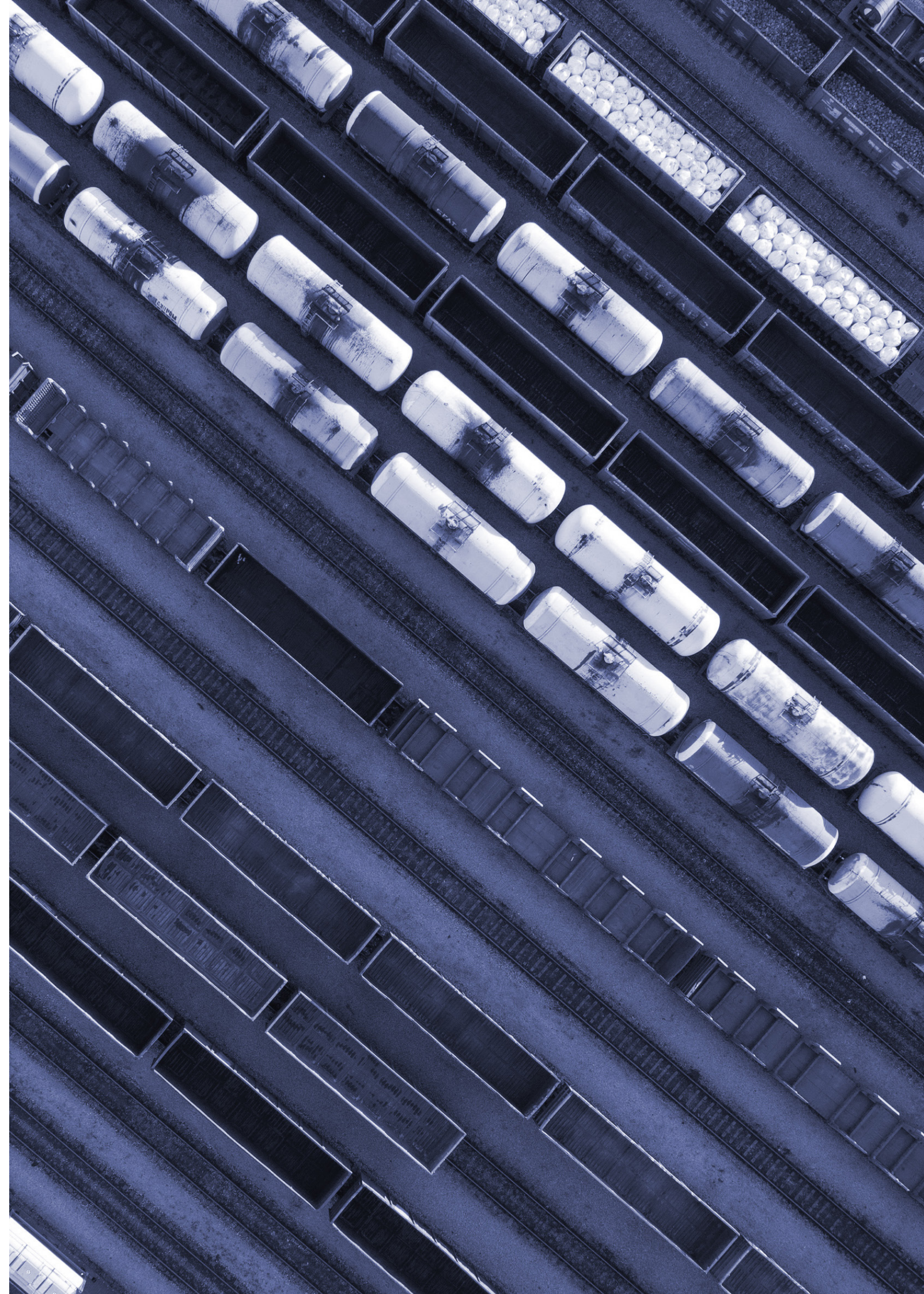
Member of the Board
until 1 August 2018

The company is engaged in providing railway machinery, tool and mechanism repair services, track welding works and lengthwise track transporting services, as well as road machine and mechanism services.

In 2018, the company's turnover was EUR 4.5 million, a decrease of 64.4% from a year ago, as VAS "Latvijas dzelzceļš" passed the decision to renew tracks with own resources – as a result, the work volume of "LDz Infrastruktūra" declined.

At the same time, the company used its technical base to provide services to external customers (for example, leasing out track maintenance machinery and the relevant staff to Lithuanian Railways). Thus in 2018, the services provided within the scope of the Group accounted for 83.6% of the turnover (99.2% in 2017).

The company is undergoing the process of certification according to the requirements of ISO 9001:2015 Quality management systems and ISO 14001:2015 Environmental management system requirements, as well as considering entering into new fields of business activities.





AS "LatRailNet"

JUSTĪNA HUĐENKO,
Chairwoman of the Board
the term of office from
22 July 2016 to 21 July 2021

GUNTARS LAPIŅŠ,
member of the Board
the term of office from
8 August 2016 to 7 August 2021

The joint stock company is engaged in performing the essential functions of the manager of the public use railway infrastructure – decision-making regarding the allocation of capacity, train path allocation, including the determining of access and assessment, allocation of an individual train path and decision-making on the track access charges, including the determination of the amount of the charges and the schemes of collecting them.

"LatRailNet" operates in accordance with the requirements laid down in Section 13.1 of the Law on Railway regarding the ensuring of the independence of the provider of essential functions of the manager of the infrastructure. The company makes decisions on track access charges and the allocation of capacity, adhering to the principle of equality, as well as the optimal use of the infrastructure. In carrying out its functions, "LatRailNet" has a duty to ensure an equal, fair and non-discriminatory access to infrastructure for all carriers by rail (the subjects filing the application).

In 2017, AS "LatRailNet" passed the decision on changes to the track access charges for 2018, under the statutory methodology. Thus in 2018 and the first half of 2019, the track access charge per train kilometer for freight trains was EUR 11.08 (excluding VAT), for passenger trains – EUR 7.27, for passenger diesel powered trains – EUR 6.10, for passenger trains with a locomotive – EUR 6.94, whereas for the narrow gauge trains – EUR 2.52 per train km¹.

¹ A train-km is a measure that is used to calculate the fee and for levying it and tells how many kilometers have been travelled by train – regardless of the weight of the train. Another unit of measure-TKM-represents how many kilometers each ton of cargo was transported, and allows one to identify not only the distance, but also the impact of freight on the depreciation of the infrastructure. The longer the distance travelled by a heavier load, the more it affects the condition of the railway infrastructure.

During the reporting period, no complaints have been received about the breaches of confidentiality or any other failure to ensure the independence requirement settings. In 2018, data was summarized concerning the compliance of the requirements of the independence program for 2017 and submitted for evaluation to the State Railway Administration, as well as a new railway administration independence program was developed and submitted to the State Railway Administration. In 2018, the State Rail Administration passed three decisions regarding the activity of "LatRailNet", the latter appealed two of them to the Administrative District Court.

To ensure an effective integration of the Latvian railway infrastructure in the European rail network and promote a mutually agreed exchange of information and the development of uniform operational parameters, "LatRailNet" has been participating in the work of the North Sea-Baltic Sea railway transport corridor institutions (RFC8), as well as has engaged in the official European Commission and infrastructure manager dialogue platform PRIME, taking an active part in the work of several subgroups – the setting of the track access charges, implementation documents, etc. In addition to these formats, the company has been planning strengthening and expanding cooperation with the entities carrying out the essential functions of Lithuanian and Estonian infrastructure managers.

Planning of sustainability at LDz



DACE HELMANE

Member of the Board, the Institute for Corporate Sustainability and Responsibility

“To make it to the Platinum category, the involvement of the senior management is crucial. In recent years, LDz has increased the level of transparency through ensuring communication on the Internet as well as through launching non-financial reporting in accordance with the internationally recognised standard. At the same time, the contribution of “Latvijas dzelzceļš” to the local community was no less important, not only through improvements in the procedures, but also through a clearer approach to setting the priorities. Despite the progress made, one should remember that the assessment of the Sustainability Index is not the destination, but rather a competition with oneself, still carried on when the highest, i.e., Platinum category has been reached.”

Considering the nature of the operations of the railway sector, which significantly differs from short-term business projects and require planning over several decades ahead, sustainability has always been of great importance in the development of the company, even in the times when such a term was not in use yet. However, in today’s terms, bringing together the company’s broader economic, social and environmental aspects, the planning of sustainability was started in 2013 when the Corporate Social Responsibility (CSR) Commission chaired by President of LDz was established at LDz.

The Commission is composed of the specialists employed by LDz Human Resource, Legal and Administrative Affairs, Communication and International Relations, Finance, Security, Development and other Directorates, as well as of the representatives from all the subsidiaries of LDz.

Within the scope of the CSR Commission, the Code of Ethics of LDz has been developed, annual planning for the CSR activities has been implemented, with the Commission participating, the Group’s companies have engaged in the Sustainability Index demonstrating improved results, and the Commission has implemented one of it’s initial goals – established regular reporting under the internationally recognised GRI guidelines (now – standards).

In 2018, along with the new strategic vision of LDz (more information on p.10), several initiative groups were developed, including one that focused on studying sustainable and resource-efficient solutions, and another – on the development of good governance practices within the Group. Given that the areas of activity of the CSR Commission and two mentioned initiatives overlap as well as that the tasks of the CSR Commission have been fulfilled, currently the opportunity of combining both of these internal cooperation formats and establishing a new format for the development of content-wise significant sustainability initiatives is being considered.

Key corporate social responsibility activities in 2018

According to the approved Corporate social responsibility policy of LDz, the Group has four main areas of social responsibility:

 BUSINESS ENVIRONMENT	 ENVIRONMENT
 EMPLOYEES	 COMMUNITY

The mentioned areas of activity are consistent with the traditionally defined areas of sustainability (economic, environmental and social impact) as well as the indicators of activity defined under the GRI standards, and also meet several of the UN Sustainable Development Goals (including No. 4 – Quality education; No. 8 – Decent work and economic growth; No. 9 – Industry, innovation and infrastructure; No. 11 – Sustainable cities and communities; as well as No. 13 – Climate action).

In each of the four areas , activities aimed at promoting good governance practices are being implemented in the operations of LDz as well as in Latvian business environment, thus contributing to the improvement of the image of LDz, ensuring transparency of operations as well as timely risk management.

Business environment

New vision and brand – in 2018, a new strategic vision and brand marked the development of the company. It is essential that one of the cornerstones of the new brand is the implementation of good governance practices within LDz as well as the Group companies. Whereas the strategic vision is based on the ability to look broader and consider the company's vision and mission not only from the perspective of corporate but also national development.

Adoption of the documents regulating the railway industry – in 2018, the Cabinet approved the Indicative Railway Infrastructure Development Plan for 2018-2022, and the Ministry of Transport entered into a multi-annual agreement with LDz based on this plan. Under the document, LDz has committed to ensure a stable infrastructure charge for users for five years, thus ensuring predictability and the possibility for the companies operating within the industry to enter into long-term contracts with their counterparties.

The industry's overall vision of the external markets (VI-ALATVIA) – LDz has been actively engaging in the work of the Advertising Commission of the Latvian Ports, Transit and Logistics Council. In 2018, jointly with the port authorities and the International Airport "Riga", the concept as well as its visual and technical solution for representation of the Latvian transport and logistics industry in international exhibitions, forums, and other formats were developed and confirmed. The concept is summed up by its motto "VI-ALATVIA" that represents the "way" in its broadest sense as well as identifies Latvia as a convenient, economically justifiable logistics hub that meets the needs of the cargo owners.



The conference "Global Transport Development Challenges" – the annual international conference organized by LDz was held in Riga on 11 September 2018 for the fifth consecutive time and was attended by around 350 experts from 20 countries of the world. The keynote speakers at the conference were from the USA, the UK, Finland, Sweden and Belarus and paid a particular attention to the impact of the future technologies on traditional transport and logistics industry, through gradually developing hyper-modal services (where digital solutions play a big part) which would replace multimodal services gradually. Within five years, the conference has become the meeting place of the experts of the whole transport and logistics industry, as well as other economic areas; it is a platform for debating the future challenges and opportunities, including environmental challenges, technology and workforce change aspects. In 2018, the conference was attended by a number of reputable experts from other industries, such as construction, finance, IT, education, etc., thus confirming the contribution thereof as well as its role beyond the railway sector's direct counterparties.

Assessment of corporate governance – in 2018, the corporate governance assessment of LDz, which was carried out by the Baltic Institute of Corporate Governance, within the scope of which the experts of the Institute analyzed in detail the governance practice of LDz by reference to 58 indicators. Those included setting up of the company's council, the role and operational principles, the performance of the company's board, the information disclosure practices, risk management and control systems as well as other aspects. The results of the assessments are being analyzed to decide on the improvements of the activities of LDz.

Joining the OECD International Transport Forum Corporate Partnership Board – when the term of the presidency of Latvia in the OECD International Transport Forum expired, in May 2018, LDz joined it's Corporate Partnership Board that brings together around 30 transport, logistics and technology companies from around the world. Participation in this format serves as a proof of good governance practices at LDz, which is one of the core principles for any of the OECD activities.



Engaging in external research and development initiatives – along with the Group's internally organized research and development processes, in 2018, LDz for the first time actively engaged in several external initiatives bringing together experts from various sectors as well as university students, to develop new and innovative solutions. Thus LDz joined the university innovation platform "Demola" in order to find a sustainable solution to an area related to the environment protection, as well as participated in the cross-industry hackathon organized by the Latvian IT cluster with a view to creating new technological solutions in the area of security and customer service. More details on the participation of LDz in those activities are provided on page 16.

Employees



Engaging of employees in planning strategic changes – in 2018, the new strategic vision of LDz and the new brand identity was made public. The employees of LDz at various levels were engaged in the development of the strategic vision and the related internal initiatives, whereas information on the upcoming changes before they were communicated to the wider public were presented to a wide range of employees in all regions of Latvia. For this purpose, in April 2018, several events were held in Riga, Daugavpils and Ventspils, bringing together middle-level managers from all regions. Events were attended by the Board of LDz, as well as by the leadership of the Latvian Railway and Transport Industry Trade Union. The participants of the events were acquainted with the current situation in the company, industry and market, as well as the new core operational principles aimed at becoming a more active, customer-oriented and technologically advanced company. Concurrently, the visual appearance of the key internal communications tool (intranet and the magazine "Latvian Railwayman"), and the contents of the magazine were also changed significantly to meet the new operating principles.



JEAN PIERRE LOUBINOUX

Director General, UIC

"In the 21st century, the railway sector should have a wider perspective and attract the new generation to foster social and economic growth. Young people will be those who will combine our past traditions with the vision of the future, ensuring that railways are the backbone of a sustainable, integrated and interlinked international mobility chain."

World-class railway industry talent conference in Riga

– in cooperation with the International Railway Union (UIC) at the end of October, an international conference was held in Riga regarding the demand for professionals and talent development in the rail sector. Recognizing that talent management is a major challenge and for the seemingly unwieldy rail sector it is difficult to reach out to the generation that is increasingly into digitization, development and dynamics, the keynote speakers from Latvia, Germany, Italy, Belarus, Russia, France and even Australia shared their insights and employee retention solutions at the conference.

LDz – a family-friendly business – together with the assessment for the Sustainability Index for 2018, the Ministry of Welfare, having assessed the submitted information regarding the work environment to the Index, determined the companies that were awarded the title of a Family-friendly business. In 2018, it was repeatedly awarded to LDz, its subsidiaries, which participated in the Index, thus demonstrating that in the collective bargaining agreement entered into between LDz and the trade union, as well as in the routine work environment, families with children were being supported, a variety of additional benefits were provided to them, and various activities aimed at families and children were organized.

Development of training programs – in terms of training provided to employees and attracting new specialists, LDz operates in two main areas: the development of the vocational training establishment "LDz Training Centre" and cooperating with other educational establishments, notably the Riga Technical University (RTU), the Riga State Technical School and the Daugavpils Vocational Education establishment. During 2018, internships were provided for 192 students from vocational establishments, one new railway specialty training program was launched in RTU, for the purpose of raising professional knowledge and qualifications, 944 employees have attended training courses organized by educational establishments, whereas 4,544 employees of LDz mastered their skills attending the training courses arranged by LDz Training Centre. These training opportunities have also been used by 609 employees of LDz subsidiaries, and 59 external customers. Among the most popular training programs were those related to safety, railway technical operation and personal

data protection regulation-related training that was topical in 2018. More details on the participation of LDz in those activities are provided on page 86.

Establishing the Career Management and Staff Recruitment Centre

– through amendments to the Regulations of the HR Directorate of LDz, at the end of 2018, the Career Management and Staff Recruitment Centre was established aiming to bring together five HR management functions that are similar in content and by nature – for better and faster cooperation, career progress and development, as well as for development of provision of new services in HR. The functions of the newly-established centre include selection of professional and loyal staff, the implementation and maintaining of the staff appraisal systems, increasing effectiveness of human resources, the development and implementation of the career planning management process, ensuring of a sound professional succession system in the Group's companies, as well as implementation and supervision of the system of staff development and training process.

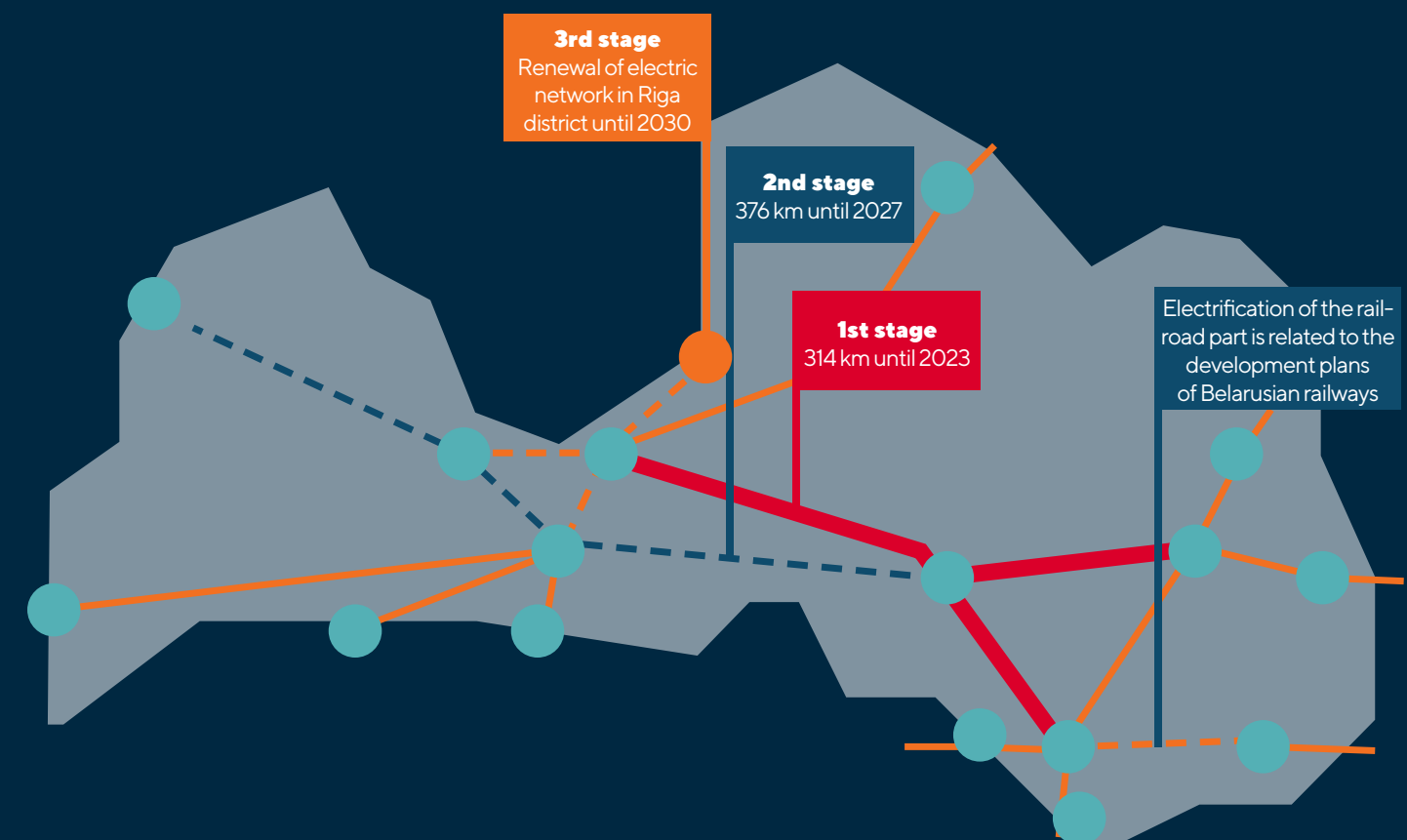


Environment

Energy efficiency – In 2017, LDz received the energy management system certificate according to the standard LVS EN ISO 50 001:2012 “Energy management systems. Requirements and instructions for use (ISO 50 001:2011)”. The certificate is valid until March 2020. In February 2018, the audit of the implemented energy management system was carried out, resulting in no inconsistencies being identified; thus the recommendation was issued to maintain the certificate. At the same time, the internal audit of LDz Energy management regulation and the execution of the Environmental and Energy Management Programme was implemented in 2018. As a result, it was found that the said regulations and the programme have been implemented systematically, however, in the future, attention should be paid to raising the professional qualifications of employees in this regard thereby promoting the implementation of energy-efficient behaviour in all structures and levels.

The development of the project “Electrification of the Latvian railway network” – In 2018, considerable progress was made towards achieving the objectives of this environmental project. Following the decisions passed by the Cabinet in 2017, under which the implementation of the first stage of the project in the direction of Riga and the solution of the implementation thereof without State budget funds was accepted, in March 2018, a favourable opinion was received from the Central Finance and Contracting Agency, the project application was submitted to the European Commission Technical Assistance independent experts JASPERS IQR (JASPERS Independent Quality Review). Whereas early in 2019, a favourable assessment of the quality of the project application was received. At the same time, throughout 2018, negotiations with the European Investment Bank had been held for the financing of the project, expected to end in the beginning of 2019. The first stage of the design and construction procurement will be held (there are four applicants). The project is expected to be implemented until 2023. EUR 347 million are available for it from the European Union Cohesion Fund co-financing, and throughout the project life cycle (from 2024 to 2047) in accordance with the results of the analysis carried out by the audit company Ernst & Young Baltic, the CO2 resulting from railway will decrease by 20%.

The programme for the electrification of Latvian railway network



Preparing noise maps and the action plan – Train traffic by rail causes the noise, and it is one of the side effects of the operation of the railway, resulting in complaints from the population. In providing its opinions or comments about the design of the territory to municipalities, LDz draws their attention to the need for local authorities to provide for the conditions that would ensure the compliance with the requirements laid down in the Cabinet Regulation No. 312 "Regulation on the Latvian Building Standard LBN 016-15 "Acoustics of constructions"" of 16 June 2015 in developing residential areas in close vicinity to the railway. Regardless of the regulatory requirements of the Republic of Latvia on environmental noise management, in 2018, LDz started work at the Action plan aimed at reducing the project noise along the rail lines with traffic intensity of over 30,000 trains a year. Such lines are located in Riga as well as in the railway section between Riga – Lielvārde. The public consultation of the Action plan took place during the period from 21 December 2018 to 21 January 2019. At the same time, LDz has been systematically taking measures to reduce noise levels, including through improving the quality of the tracks.

Elimination of historical pollution – LDz carries out the monitoring of soil and groundwater, and work is still being carried out to eliminate the historical pollution, which includes regular monitoring (twice a year) and rehabilitation work carried out since 2012 in the place of the accident at "Krauja". The collecting of the historical oil pollution and the utilization thereof has been started at the railway station Višķi. More details on the participation of LDz in those activities are provided on page 76.

Planting greenery at Latvian port cities during the Big Cleanup – Every year LDz holds the Cleanup Day one day before the national Big Cleanup Day. In 2018, LDz continued the tradition of planting greenery along the railway-related objects, this time in cooperation with its closest partners – the largest Latvian port authorities in Riga, Ventspils, and Liepāja. Trees were planted at the recently reconstructed Ventspils station building, at the Liepāja station, as well as at the "Bolderaja 2" station opened in 2015, which plays a big role in regard to the connection with the Krievu Island, where handling of less environmentally friendly bulk cargoes will be fully transferred in 2019. By participating in the Cleanup Day together with the ports, LDz not only proved its environmentally friendly approach, but also demonstrated close cooperation with its most important counterparties.



Community

The new brand and the beginning of the celebrations of the 100th anniversary of LDz – In 2018, the company presented its new brand, which would be implemented within about two years. Concurrently with the new brand, the communication of #LDz100 anniversary was started (a set of activities related to the 100th anniversary of VAS “Latvijas dzelzceļš” – the Company will celebrate its centenary in 2019). In the autumn of 2018, within the scope of these activities, production and publishing of the video series “The Railway Stories” began, presenting the history of LDz, Riga Central Station and various occupations (track master, engineer, etc.) and practical issues (for example, the operation of railway-level crossings and safety nearby the railway).

Safety campaigns – Just like in the previous years, LDz has been paying great attention to providing information to the public about safety nearby the railway. In 2018, the campaigns were based on presenting the difference between the capacity of a train and that of a human being, using the currently popular fighting sports’ metaphor. This solution was selected, as one of the risk groups are men who are often less careful and risk more when finding themselves in the vicinity of the railway. Similarly, economically more active people risk more as they ignore the traffic rules due to being in a hurry. This is supported by the survey carried out within the campaign by the media agency PHD, the results of which show that nearly 49% of men admit that they have violated safety rules in the vicinity of the railway, the indicator is particularly high among economically active people aged 35–44 (57%). In addition, the statistics for 2018 aggregated by LDz Technical Inspection suggests that out of the victims of the 20 accidents that occurred on the railway (excluding suicides), 74% were men. Therefore, in the three stages of the campaign throughout the year, visual materials were used to show the difference between the weight, speed and power of trains and the powerlessness of a human being before this force. Within the scope of the campaign, a video material was created involving the fitness trainer Kaspars Ozoliņš and the LDz cargo locomotive driver Sergejs Tretjakovs, comparing the parameters



KASPARS OZOLIŅŠ

DCH Studio Fitness Trainer

of the 2M62UM locomotive and the wagons pulled by it with those of a physically well-trained, yet comparatively small, light and weak man, thus reiterating that “engaging in a fight” with a train is pointless and that its outcome is indisputable.

Lecturing on safety at Latvian schools – Along with the campaigns aimed at informing the general public, every year LDz visits Latvian schools to present specially designed safety classes there, as well as encourage to attend these classes in the Latvian Railway History Museum. Overall, in 2018, 178 classes were organized for 6,251 school students. With the program and activities developed for classes on safety LDz regularly takes part in public events aimed at families with children, such as the exhibition “Kids’ world” at Ķīpsala, festivals for children and young people “Come and take part” at Vērmānes dārzs, or the campaign “One day dedicated to safety” in various cities of Latvia.

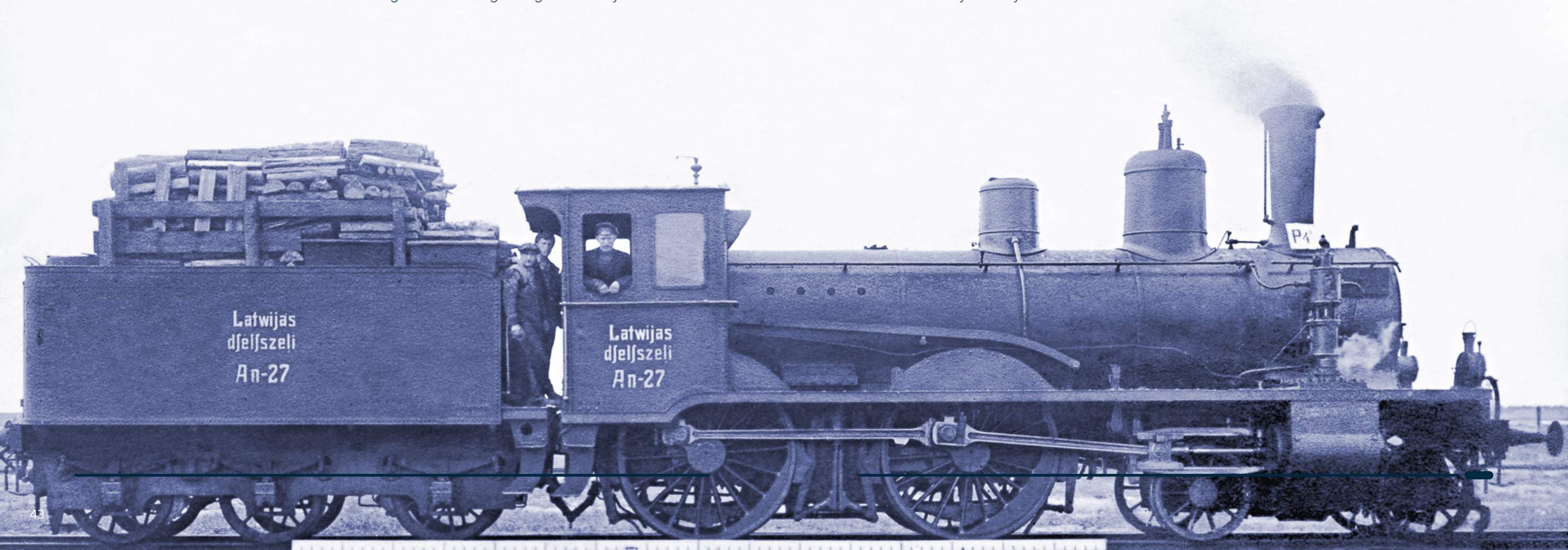
“One should never underestimate their opponent – and a train is no opponent of equal measure! When delivering lectures on safety at Latvian schools together with the experts from LDz, we discuss various situations as well as safety rules to be followed in the vicinity of railway tracks. When we were filming the video, I myself came face-to-face with a train and realised the superiority of a train that I’m definitely not ready to fight. The train will always win, so it’s best not to engage in a fight with it.”



The railway line Riga-Jelgava celebrated its 150th anniversary

– At the end of the year, the 150th anniversary of the historical line Riga-Jelgava was celebrated. The construction of the Riga-Jelgava railway line was first discussed in 1859, while the actual construction of it began only by the second attempt, i.e., in 1867. A group of gentry from Kurzeme and merchants from Riga had submitted a proposal to the Government for the construction of the railway; the proposal was supported by the Governor General of Riga (Vidzeme, Estonia and Courland) Peter Albedinski. Under the resolution of the tsar, the construction of the railway within a period of three years was permitted, granting the right for the company specially established for this purpose to use it for 85 years. The construction budget was set at RUB 2.652 million. The Riga-Jelgava railway was put into operation on 21 November 1868, significantly earlier before the set deadline. In 1894, under the provision included in the Articles of Association of the private public company, the State bought out the Riga-Jelgava railway line and the

extension thereof to Mažeikiai built later and handed it over for further management to the Riga-Orel Railway Administration. The Riga-Jelgava railway line played an important line in the interwar period in the first half of the 20th century, when express trains ran the route Riga-Berlin along this line. In the 70s of the past century, the line was electrified, and today it is being actively used for providing passenger transport services. Currently the fastest electric-powered train brings passengers from Jelgava to Riga in 36 minutes. In 2018, AS "Pasažieru vilciens" transported about 2.8 million passengers along this line. The Riga-Jelgava line is also used for providing the passenger transport services on the route of the "Four Capital train" (i.e., Kiev-Minsk-Vilnius-Riga), for transport services in the territory of Latvia. At the event to celebrate the anniversary of the line, everyone had the opportunity to visit Jelgava depot, to see the locomotive 2M62UM upgraded by the LDz subsidiary "LDz ritošā sastāva serviss", as well as visit the Jelgava branch of the Latvian Railway History Museum.





KĀRLIS KRAVIS

Director, the foundation
"Iespējamā misija"
(Mission Possible; MP),
an alumnus of MP

"For the foundation "Iespējamā misija", a common sharing of values with the closest partners is important. Therefore we are glad that LDz does appreciate the work we have done in pursuit of promoting access to quality education for every child in Latvia and highlighting the importance of STEM knowledge for ensuring the national and sustainable development of our society. In cooperation with LDz we have had the chance of addressing the experts of exact sciences with a view to engaging them to the education sector." pie-
saistītu tos izglītības nozarei."

Cooperation with the movement "Iespējamā misija" (Mission Possible) – Being aware that sound primary education is at the core of the development of new talents for the railway industry, at the end of 2018, LDz started a long-term cooperation with the movement "Iespējamā misija", which every year hires new teachers with a view to helping them acquire modern teaching skills. In cooperation with LDz, particular attention will be paid to attract science teachers, thus creating the basis for the development of the future engineering and information technology professionals.

Cooperation with Rauda and Medumi special boarding schools – Since 2006, LDz has been regularly engaging in the activities of Rauda and Medumi boarding schools, which are located in the vicinity of Daugavpils. A significant part of LDz employees work in Daugavpils and the vicinity thereof, therefore the involvement in the developments of the local community is a logical step. In 2018, LDz organized a Christmas event for school students and teachers at the Daugavpils Theatre as well as an excursion to the Riga Motor Museum. Within the scope of the Big Cleanup, LDz helped restore the green area near the Rauda school building, i.e., the stone garden, greenery, etc.

Donations and gifts – In 2018, LDz has cooperated with several organizations engaged in developing meaningful, long-term public interest-focused projects. At the same time in 2018, a new **donation (gift) policy** (in Latvian) of LDz stepped into force. According to the policy approved by the Board of LDz, the company may support projects in the fields of education and science, public health, social welfare and environmental protection. The company does not support political parties and their associations, religious organizations, organizations with a vague reputation, tax debtors or organizations that failed to fulfil their obligations within the scope of other projects properly. Neither are entertainment and business travels of organizations and people encouraged, no support is provided to natural persons. Cooperation or advertising projects are implemented also in the fields related to the development of transport and logistics, the promotion of traffic safety, education, environmental protection, sports and culture.

Just like before, every project application is reviewed by the Marketing Communication Project Commission of LDz Group that either recommends to support the relevant project or not. The final decision on the matter is taken by the Council of Presidents of LDz and the Boards of the subsidiaries.

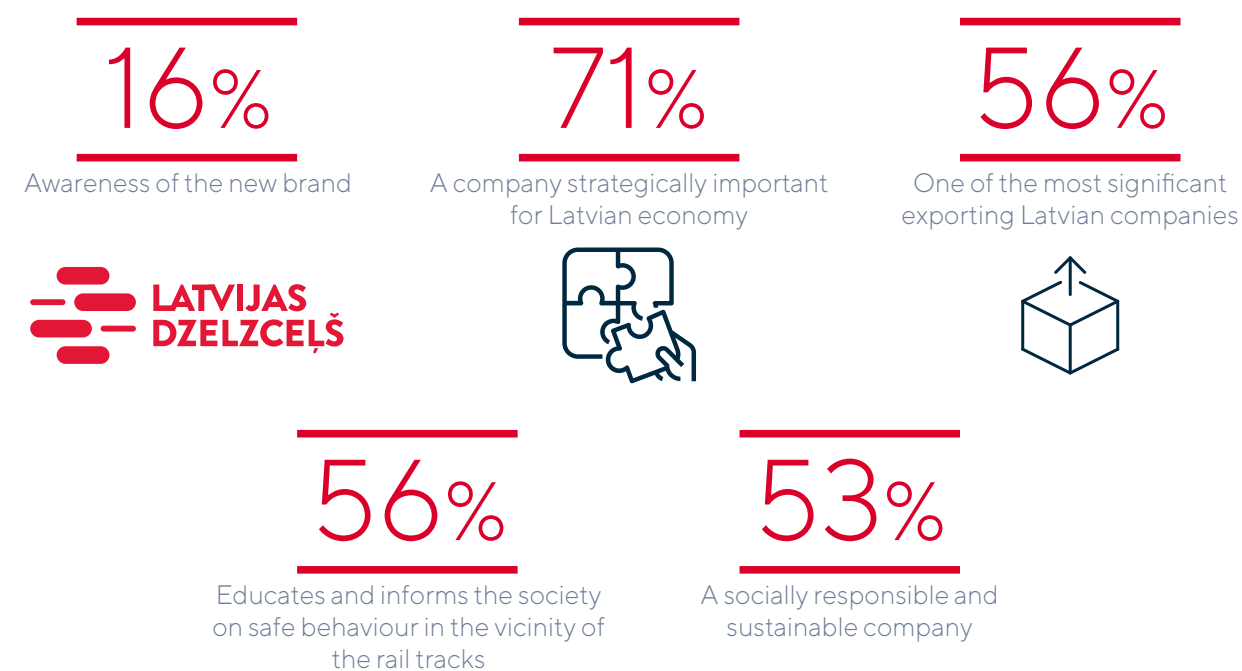
Additionally the company engages in advertising projects related to the development of the transport and logistics sector,

improvement of traffic safety, education, environment protection, sports and culture.

The public image of LDz – To identify the perception by the public of the factors that are key to the activity of LDz and their impact on the company's reputation, a study of the image of LDz is carried out every year. In the autumn of 2018, a survey was carried out by the research company "SKDS". The results of the sociological survey prove that the reputation of LDz has been improving since 2015, and over the last year it has increased by 0.1 points to 6.4 on a 10-point scale (several other large state-owned companies have similar indicators). Over a quarter (26%) of the respondents rated the reputation of LDz with 8-10 points, whereas 44% of the respondents rated it between 5 and 7 points. The results of the survey suggest that the top rate aspects of the image of LDz were:

- Strategically important company for the economy of Latvia – 71%;
- One of the most significant exporting companies of Latvia – 56%;
- The company that educates and informs the public about safety rules near the railway tracks – 56%;
- A socially responsible and sustainable company – 53%.

Within the scope of the survey, in 2018, the level of public awareness of the new brand of LDz or its visibility was measured. The brand was positioned publicly for the first time in August 2018, whereas the survey was carried out in November. In the time period of about three months the new brand was recognised by 16% of the respondents, which is a relatively high indicator for such a short time.



STAKEHOLDER ENGAGEMENT

04

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Cooperation with the stakeholders

One of the core principles of the new strategic vision of LDz is "Everything is connected". It includes facilitation of the co-operation between the company, Group and the industry as well as cooperation with public authorities, local authorities, non-governmental organizations and various groups of the community.

Upon commencing work at preparing the Sustainability report of LDz pursuant to the guidelines of GRI G4, in 2016, the company carried out the identification, mapping and survey of the stakeholders with a view to identifying critical aspects to be included in the contents of the sustainability report.

The said process resulted in the identification of major stakeholders that are summarized in the figure:

The resulting stakeholder radar does not separate international counterparties, i.e., the companies and organizations of the industry, but they are also considered significant stakeholders due to their impact on the transport and logistics sector, a significant part of the infrastructure of which is managed by LDz. The sector is heavily dependent on international processes and choices made by the counterparties in favor of one or another transit corridor.

The company communicates with each of the identified stakeholders and cooperates in a certain way, being aware of their impact on the company's performance in the short and medium term; seeking to find a solution acceptable to all parties even in challenging situations.



Politics/legal framework

LDz is a strategically important company for the economy of Latvia and a state-owned company. The decisions passed by the relevant bodies at international, national and regional levels are binding on the company. One of the key regulatory policy planning documents is the Transport Development Framework for 2014-2020 and the Indicative Railway Infrastructure Development Plan for 2018-2022. LDz has engaged and will engage in the development of the said documents and the planning documents of the future period, providing its view and position on certain tasks and objectives to be reached, which are specified in the planning documents.

In order to timely identify the areas with the upcoming changes and provide views from the viewpoint of companies, LDz gets involved in the activity of various advisory councils as well as through the international and national institutions and businesses – to build the positions on the matters that are critical for the development of the company. Thus, for example, LDz participates in the work of the Latvian Ports, Logistics and Transit Council chaired by the Prime Minister, in the National Trilateral Cooperation Council's Transport and Communications Sector's Sub-Council and the Logistics Council under the auspices of the Ministry of Transport, the activities of bilateral business cooperation councils and preparation of the agenda for the intergovernmental commissions with the third countries (outside the European Union), such as Belarus, Russia, Kazakhstan, etc. On the matters concerning the national legislation, LDz provides its opinions directly to the Ministry of Transport as its shareholder and the relevant sector ministry, to the Employers' Confederation of Latvia and the Latvian Chamber of Commerce and Industry that present the aggregated positions of their members before the Government. In 2018, the company provided opinions on tax policy and administration matters, on international marketing support programs for companies actively operating on external markets, on changes to Labor Law and on governance matters of state-owned capital companies, etc. Thus, using the possibilities offered by an active participation in the social dialogue, LDz has been building sustainable cooperation with its stakeholders in the field of the regulatory framework.

Shareholders/owners

The State has a 100% shareholding in LDz, and the shares are held by the Ministry of Transport. Consequently, the company has a single shareholder and clear cooperation mechanisms for convening general meetings of shareholders and exchanging information in accordance with the Law On Governance of Capital Shares of a Public Person and Capital.

In 2018, four meetings of shareholders were held, during which the annual report of LDz for 2017 was approved, as well as the matters regarding the distribution of the profit for 2017 were considered and new members of the Council of LDz were elected.

Management

The Company's management consists of the Council elected by the general meeting of shareholders (thus being the supervisory body for the Board), and the Board elected by the Council (more information is provided on page 24). On average, the meetings of the Council take place once a month and are convened at least one week in advance. In 2018, 13 Council meetings and 31 Board meetings were held, during which the matters of the Company's strategic development, investments, approval of the internal regulatory documents, budget planning and execution, and other matters related to critical areas of operations were dealt with.

Along with the Council and the Board, the Council of Presidents is set up in the company. It is a collegial executive body consisting of the Board members and handling routine matters of the company, representing it and entering into transactions on behalf of the company. The Council of Presidents is directly subordinate to the Board, and each member of the Council of Presidents is also responsible for a certain governance area of the company (general governance, finance, development, technical leadership) and supervises its planning and operations.

The planning of operational matters of the Group and the company takes place within the scope of the Management Committee of LDz, in which alongside with the members of the Council of Presidents all directors and heads of the structural units as well as the CEOs of the Group's subsidiaries take part. The meetings of the Management Committee take place once a week, during them the topical issues are discussed and the information is exchanged by the different structures of the company and Group companies.

The involvement of the middle management and ensuring the awareness thereof is the responsibility of the directors and heads of the structural units, but for the discussion of key strategic development issues, middle-level management meetings with participation of the executive management of the company are arranged on a regional level. In 2018, when the new strategic vision of the company and the related brand were developed and implemented, such meetings took place in Riga, Ventspils and Daugavpils, covering all middle management of LDz working in Latvia.

Employees

LDz employs over 6,000 people, whereas the average number of employees in the whole Group is around 10,000. Thus, including subsidiaries, LDz is the largest employer in Latvia. In addition, employees are geographically dispersed all over the country. Consequently, daily communication and cooperation is largely the direct responsibility of the supervisors, at the same time LDz ensures several direct channels of information, the purpose of which is to provide direct information, as well as to enable employees to get involved in the company's processes. The most important information channels are the magazine "Latvian Railwayman", which in 2018 was transformed into a monthly edition, through improving its content and making its design and content consistent with the new brand of LDz, as well as the employee intranet, currently used by about 2,800 employees. Concurrently, there is an employee portal that overlaps with the intranet and is accessible by logging in through employees' online banking access, thus access to up-to-date information is provided also outside the company.

In the intranet and employee portal, the employees are provided with the opportunity to learn the current information about the developments in the company, but also access the data, contacts, and other information necessary for work, as well as to apply for internal services (hardware services, transport, operative work, etc.), check out their monthly current salary calculation and the annual leave period.

To ensure the involvement of the employees in improving the working environment and processes, the company has introduced "LDz's Idea Bank" where everyone can submit their proposals to be reviewed by the responsible structures. Ultimately a group of experts led by the President of LDz passes the decision on the implementation of the relevant idea. In 2018, 13 proposals were submitted to the Idea Bank, whereof two have been implemented, four proposals were rejected after having assessed the feasibility of the implementation or concluding that equivalent solutions already exist, and seven proposals are being examined by the expert groups.

An important role in engaging employees is played by the Latvian Railway and Transport Industry Trade Union that ta-

Organisations/NGOs

kes part in communicating important matters to employees as well as provides feedback. A collective bargaining agreement with the trade union has been entered into on behalf of all employees (regardless of their membership in the trade union), which is binding on the Group and provides for a wide range of social security and additional benefits package to motivate employees (loyalty) and is key to attracting new employees.

As for new employees (in 2018, over 700 employees started employment at LDz), LDz has been actively cooperating with the higher as well as vocational educational establishments, by providing the opportunity for the students to get to know the company and its activities during the training process, as well as undergo internship in the company. Also, in cooperation with the Riga Technical University (RTU), the company has been regularly reviewing the curricula of certain specialties, and has been working at developing new programmes. For example, in preparation for the electrification of the rail network project (the infrastructure created within the scope of it will be operated after 2023), in 2015, the curricula of the RTU railway specialty study programme was complemented with new study subjects to prepare the required specialists. Currently there are 33 students in the programme, of which 21 students will graduate from the university in 2019. Whereas the professional higher education undergraduate studies programme "Railway electrical systems" was complemented to include new subjects in the telecommunications field, thus creating a new specialisation "Railway telecommunications". In 2018, 12 employees enrolled in this programme.

The cooperation of LDz with public and non-governmental organizations can be viewed from two aspects. LDz is an active member in a range of organizations (more on page 17), however, at the same time with other organizations representing specific interest groups, the company seeks to cooperate to the extent possible, listen to their views and, in certain cases, engage in common projects and developments.

One of the key long-term partnerships is cooperation with the Association of Disabled People and Their Friends "Apeirons", the views of which the company takes into account to improve the accessibility of the public-use railway infrastructure. Their recommendations have been taken into account when modernizing the passenger platforms in the directions of Jelgava and Jurmala (was completed in 2015), they will also be taken into account over the next upgrading cycle. Some of the recommendations have also been implemented in the Riga Central Station, by providing a mobile lift for passengers in wheelchairs, as well as additional improvements to accommodate for the convenience of people with impaired hearing or visually impaired people. However, no major capital investments are being made in the Riga Central Railway Station as it soon will be rebuilt as part of the "Rail Baltica" project, ensuring accessible infrastructure.

Representatives of interests

The company has had an active communication with the representatives of bike riders, however, to date, the issue of bike parking lots has been addressed in bouts – depending on the ownership of land in the vicinity of the station, the interest on the part of the municipality to cooperate, etc. In the forthcoming years, a program for a systematic planning of bike parking lots will be developed, within the scope of which the public mobility matter will be addressed.

With regard to environmental protection, LDz has not had significant disagreements with the environmental protection organizations, as the company has contributed to elimination of the historical pollution as well as reduction of harmful emissions and other types of pollution. At the same time, the company prepares an environmental impact assessment for all infrastructure development projects, as well as in cooperation with specialized environmental and research institutions develops solutions to specific environmental issues, such as minimizing noise and the impact, as well as reduction of harmful substances in the railway partition zone to eliminate weeds (More information on page xx).

Whereas moving towards the company's future focus – including labor demand LDz launched a long-term cooperation with the movement "Iespējamā misija" (Mission Possible), jointly ensuring attracting of new, innovative-minded teachers to Latvian schools – especially the teachers of science subjects. Given that science subjects are at the core of the engineering education of specialists required by the company and LDz Group, it is important to timely take care of developing the new generation of professionals.

LDz has been taking part in a number of organizations and cooperation formats (such as Latvian Ports, Logistics and Transit Council, and Latvian Transit Business Association joining together rail carriers, leading Latvian ports, road transport companies, industry training programs and other professionals), as well as has cooperated with other organizations and industry players.

Within the scope of Latvian Transit Business Association, there is an ongoing debate on the matters that are key to the development of the industry (e.g., during 2018, there was a debate about the railway network electrification project, the application of the European Union funds to various infrastructure development projects, as well as on the contents of the Indicative Railway Infrastructure Development Plan). On some issues the positions of the association and other groups of representatives of interests differ, however, LDz is always prepared for a discussion with a view to reaching an agreement on a solution acceptable to all parties.

The representatives of interests also include competitors. As currently the only public railway infrastructure manager in Latvia, LDz does not have competition in the traditional sense of the word. However, in ensuring the development of the infrastructure, the company together with all rail carriers and port companies compete at international level, especially with the nearest neighbors in the Baltic region. Thus, the importance of cooperation within the industry has increased significantly.

In 2018, Lithuanian Railways started to use the Latvian railway infrastructure for carrying passengers on the route Vilnius-Daugavpils. Entry of a new carrier on the market is critical, since, on the one hand, the infrastructure is used more efficiently, on the other hand, entering of competitors puts pressure on identifying the sector's strengths and unused potential.

Looking ahead, it is expected that in the coming years, the European track gauge (1,435 mm) railway infrastructure "Rail Baltica" will be built in Latvia. Consequently, the developers of this project, i.e., "RB Rail" and "Eiropas dzelzceļa līnijas" are becoming increasingly important cooperation partners and stakeholders. The opportunity to create synergies with the railway electrification project has been discussed with "RB Rail", which could result in the economies of scale.

Customers

As the manager of the public railway infrastructure LDz has the following customers:

- AS "Pasažieru vilciens" and SIA "Gulbenes – Alūksnes bānītis" that provide inland passenger transport services in accordance with the services ordered by the Government;
- four freight transport companies – SIA "LDz Cargo" which is a Group company (also provides international passenger transport services) and three private capital companies: AS "Baltijas Tranzīta serviss", AS "Baltijas Ekspresis" and SIA "EuroRailCargo" that began its operation in the territory of Latvia in 2018, providing small volume freight transport services so far;
- AB "Lietuvos geležinkeliai" (Lithuanian Railway) that started providing international passenger transport services on the route Vilnius-Daugavpils at the end of 2017.
- A broader base of LDz customers include the companies operating in ports and providers of technological services, to which additional services are rendered (for example, wagon handling services), as well as customers to which LDz provides other operating services, such as electricity distribution and sale services and real estate lease services, etc.

The cooperation of LDz with the customers, which are the users of public-use railway infrastructure, depends on several aspects:

In 2018, consistently with the resolution of the Public Utility Commission (PUC) of 21 September 2011 on the methodology for calculating the track access charges for public use railway infrastructure (<https://likumi.lv/doc.php?id=237132>; in Latvian), the charges were determined by AS "LatRailNet", based on the costs of maintenance of the LDz infrastructure and transportation volume forecasts. Track access charges per train-kilometer were set separately for freight trains, passenger transport (separately for electric-powered, diesel-powered, and international trains) and for narrow gauge train transport services. The track access charges set for 2018 will also apply in the first half of 2019 until AS "LatRailNet" approves the new charges. In the beginning of 2018, in accor-

dance with the methodology of the PUC, new track access charges were calculated (information about the amount for different modes of transport is available **here**);

On 30 June 2017 AS "LatRailNet" approved the new calculation principles of the public-use **railway infrastructure** charge (in Latvian) which will apply for setting the track access charges in 2019;

LDz also provides staffing services and additional services to customers, which do not fall within the public railway infrastructure services (such as wagon handling services at the destination stations, i.e., shunting jobs);

According to Paragraph 52 of the Transitional provisions of the Law on Railway and the resolution No. JALP-1.3/03-2018 of the performer of the essential functions of the public-use railway infrastructure manager, AS "LatRailNet" of 9 April 2018, which was passed in compliance with the requirements of the Regulation of the EU Regulation 2015/909 of 12 June 2015, new procedure for the provision of railway infrastructure services and charges for these services, now divided into minimum access package and service facilities, should be implemented in 2019.

Cargo owners and the passengers of trains are not the direct customers of LDz, however, LDz ensures an indirect cooperation with these customer groups, through developing infrastructure that meets the needs of passengers and ensuring a continuous operation of the Inquiry Service, as well as in cooperation with other industry players promoting action in external markets where (in particularly in the Asian region and CIS countries) is of critical importance for the potential partner to be reliable and financially sound state-owned company.

In addition to ensuring the public-use railway infrastructure, LDz provides individual services to other customer groups. LDz sells electricity to several thousand customers, especially in areas where the distribution network is not available to other distributors. At the end of 2018, there were 4,585 electricity connections to households and 4,292 connections to legal entities (including 3,506 connections to the internal structures of LDz Group and 786 – to external customers). To improve the quality of customer service for electricity customers, in 2018, a new customer service procedure was developed and the systematic energy consumption metering and control system was improved.

Suppliers

LDz is subject to the Public Service Providers' Procurement Law, therefore major suppliers are selected under the procurement procedure. Overall in 2018, more than 250 of the procurement procedures were carried out (more information on page 67).

In addition to the requirements of the law, LDz requires that any counterparty of the Group, whether selected in a procurement procedure or without must confirm their compliance with the **Basic principles of business ethics for cooperation partners of "Latvijas dzelzceļš" Group of companies**, as well as commit themselves to provide any information at their disposal about potential violations on the part of LDz employees during the cooperation with the counterparty. Thus, the company simultaneously minimizes the likelihood that some counterparties and suppliers might avoid paying taxes, be not compliant with the working environment or environmental protection rules, could be engaged in unfair commercial practices, etc., at the same time ensuring a mechanism for controlling its staff relations with the counterparties.

Relations with LDz counterparties are regulated in detail by the Code of Ethics and Fraud Prevention Policy of LDz Group. More information is provided on page 68.

General public

Although LDz is the infrastructure manager, the primary activities of which include the strategic management of the infrastructure and the provision of business-to-business services to other companies, its activity is also closely linked to the development of public mobility, employment and the quality of the environment. Thus the company is planning the future development, considering the needs of the community (they are also set out in **"The Indicative Railway Infrastructure Development Plan for 2018-2022"** (in Latvian), determining the requirements set by the State regarding the matter).

The company ensures daily communication with the public through the media, ensuring maximum transparency, as well as providing information on the website and social networks (Twitter, Facebook, Draugiem.lv, Instagram and LinkedIn), and, where possible, providing a fast response to questions from the members of the public through social networks, email, or receiving them from the operators of the Inquiry Service of LDz Customer Relations Department. In 2018, the Inquiry service of LDz received 78.9 thousand calls with questions about passenger transport services, malfunctions on railway level crossings, the services provided by LDz, etc. It also received and processed 1,265 email letters and 354 applications for the mobile lift for passengers with special needs.

Being aware of its role in supporting the local community, LDz has developed its **Donation /Gift Policy**. According to the policy approved by the Board of LDz, the company may support projects in the fields of education

and science, promoting public health, social welfare and environmental protection. The company does not support political parties and their associations, religious organisations, organizations with a vague reputation, tax debtors or organizations that are not properly fulfilled their obligations within the scope of other projects. Neither are entertainment and business travels of organizations and people encouraged, no support is provided to natural persons.

Every project application is reviewed by the Marketing Communications Project Commission, which may recommend supporting the relevant project or not. The final decision based on the recommendation from the Commission, is made by the Council of Presidents of LDz and the Boards of the subsidiaries. In cases where the expected donation amount exceeds the statutory limit of 1,500 EUR, LDz asks the permission from the Ministry of Transport and the Ministry of Finance, to make such a donation. In 2018, the company made one donation that exceeded 1,500 EUR and was for supporting the operations of the organization "Iespējamā misija" (Mission Possible).

Cooperation or advertising projects are implemented also in the fields related to the development of transport and logistics, the promotion of traffic safety, education, environmental protection, sports and culture.

More information on the donations and gifts made in 2018 and previous years as well as on cooperation/advertising projects is to be found on the **website of LDz**: (in Latvian)

PERFORMANCE INDICATORS

05

Identification of the key aspects

In preparing the sustainability report for 2018 in accordance with the GRI standard, LDz used its insights about the important aspects of sustainability as well as the results of the assessment of the stakeholders, which was made with the help of more than 10 individual and group interviews in 2016, when preparing the first sustainability report in accordance with the GRI G4 guidelines.

For this purpose, LDz first developed its supply value chain, identifying the suppliers, customers and other counterparties that have the greatest mutual impacts with LDz. Using the stakeholder identification matrix and identifying the key stakeholders creating added value from the viewpoint of the supply chain, internal as well as external stakeholders were identified. Based on this study, the stakeholder radar was developed and the key representatives of each stakeholder were identified, the views of which were identified in the process of preparation of the GRI report. The views obtained were also used in preparing the sustainability report for 2018.

This section describes the process of identifying the material aspects and the results obtained, as well as provides an explanation of the changes made to material indicators has been provided, replacing the GRI G4 guidelines to the GRI standard.

According to the stakeholder radar (see p.46), the representatives of the following organizations were engaged in the identification of the key aspects:

External stakeholders	Internal stakeholders
CUSTOMERS AS "Pasažieru vilciens", SIA "Baltijas Tranzīta serviss", SIA "LDz Cargo"	SHAREHOLDER The Ministry of Transport
SUPPLIERS (providers of financing for operations) AS "Swedbank"	The Council of VAS "Latvijas dzelzceļš"
COUNTERPARTIES The Association of Disabled People and Their Friends "Apeirons"	Development Directorate
EDUCATIONAL ESTABLISHMENTS Riga Technical University	Latvian Railway and Transport Industry Trade Union
ENVIRONMENTAL ORGANIZATIONS Latvijas Zaļais punkts	The Board of VAS "Latvijas dzelzceļš"
ASSOCIATIONS The Association of Large Cities of Latvia The Employers' Confederation of Latvia	

Steps in determining the key aspects:

1. Identification of stakeholders – organizations and companies that have the greatest importance in the creation of added value.

2. Identification of potentially relevant aspects – awareness of the aspects referred to in the GRI G4 guideline materials and the selection of the aspects that are potentially significant to the operation of LDz.
Preparing the first report under the GRI guidelines, in the interviews with all the above-mentioned internal and external stakeholders the relevant economic, social and environmental aspects of the business of LDz were identified. In the interviews, not only their views of the sustainability aspects that apply to the companies of all sectors were identified, but also the potential relevance of 25 additional aspects of the Road transport (Roads and railways).

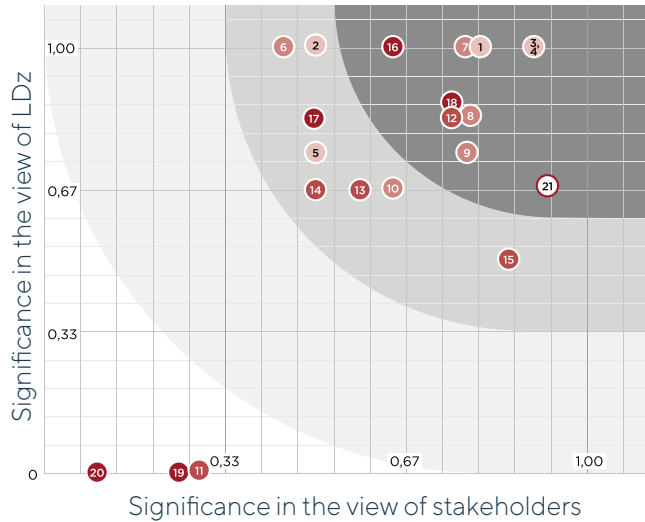
3. Identification of truly relevant aspects – an assessment of potentially relevant aspects, in the course of the interviews determining those, which are important both to LDz and the identified stakeholders.

In the course of the interviews with stakeholders, the relevance of each of the general aspects of GRI G4 guidelines was identified, as well as having assessed the performance of LDz and identifying the insights of the stakeholders, four specific industry aspects were highlighted to be included in the interviews with stakeholders and in the LDz sustainability report materiality matrix:

Sustainability category	Topics
Environmental dimension	Sounds and vibrations
Social dimension	Land use rights Accessibility of the environment to people with special needs
Other	Corporate governance (in terms of gender equality management)

4. Identification of material aspects – the identification of the contents of the report and defining the relevant material aspects

According to the assessment of the significance of the aspects in terms of materiality (relevance) by internal and external stakeholders, the materiality matrix was prepared. It proves that internal and external stakeholders consider the indicators of LDz economic impact and some environmental impact indicators as material aspects, whereas several community and work environment-related indicators were identified as less material. At the same time, the conclusion derived from the interviews suggests that there are no particularly significant differences in the assessments by the internal and external stakeholders, with the exception of certain very specific areas or internal company environment-related issues not considered material by the external stakeholders.



5. Reporting on the material aspects in the sustainability report for 2018.

In 2019, a new stakeholder study would be carried out, specifying the range of their interests, taking into consideration the changes in the company’s area of impact and expanding the selection of the stakeholders included in the study.

Given that the GRI G4 guidelines have been replaced with the GRI standard, the material aspects specified in the matrix in the 2018 report have been aligned to the following indicators of the GRI standard:

Material aspects	The indicators specified in the GRI G4 guidelines used to analyze the relevant aspect in the report for 2017	The GRI standard indicators used in the report for 2018
ECONOMIC RESPONSIBILITY		
The company’s contribution to the economy	G4-9	GRI 201-1
The value created and distributed by the company	G4-EC1	GRI 201-1
Financial assistance received	G4-EC4	GRI 201-4
Indirect economic impact	G4-EC8	GRI 203-1, GRI 203-2
Procurement practices	G4-EC9	Management approach -103
ENVIRONMENT		
Resource consumption	G4-EN1	GRI 301-1, GRI 301-2
Energy consumption and energy efficiency	G4-EN3, G4-EN4, G4-EN6	GRI 302-1, GRI 302-2, GRI 302-4
Emissions, wastewater, waste, soil pollution	G4-EN8, G4-EN10, G4-EN15, G4-EN16, G4-EN23, G4-EN24, G4-EN34	GRI 305-1, GRI 305-2, GRI 305-5, GRI 305-7, GRI 306-1, GRI 306-2, GRI 306-3, GRI 306-4,
Sounds and vibrations	G4-EN27	Management approach to the environmental impact section – 103
The impact of the service on the environment	Includes the abovementioned indicators	Includes the abovementioned indicators
EMPLOYEES		
Long-term strategy to attract employees	G4-LA10	GRI 401-1, GRI 401-2,
Occupational safety	G4-LA5, G4-LA6, G4-LA7, G4-LA8	GRI 403-1, GRI 403-2, GRI 403-3, GRI 403-4, GRI 403-5, GRI 403-6, GRI 403-8, GRI 403-9, GRI 403-10
Professional development of the employees	G4-LA10	GRI 404-1, GRI 404-2, GRI 404-3
Employee discrimination	G4-LA12	GRI 405-1, GRI 405-2
The company’s corporate governance (in the context of gender equality)	G4-10, G4-11	GRI 401-3, GRI 402-1, GRI 405-1, GRI 405-2
PRODUCT LIABILITY		
Customer safety	G4-PR1, G4-PR2	GRI 416-1, GRI 418-1
GENERAL PUBLIC		
Accessibility of the environment for people with disabilities	LDZ-7 (GRI G4 guidelines did not include this indicator)	LDZ-5 (the GRI standard does not include this indicator)
Anti-corruption measures	G4-58, G4-SO4	GRI 205-1, GRI 205-2, GRI 205-3
Political responsibility	G4-SO6	GRI 415-1
Anti-competitive actions	G4-56	GRI 206-1

In transitioning from the GRIG4 guidelines to the GRI standard, it was found that the GRI standard no longer included the specific Road transport (Roads and railways) industry aspects, therefore in the report for 2018, the indicators LDZ-x were retained to report the aspects that are significant for the company, however excluding the aspect Land use rights, which was a relatively insignificant aspect in the view of the stakeholders as well as the company itself.

ECONOMIC IMPACT

06

VAS "LATVIJAS DZELZCEĻŠ" IS ONE OF THE LARGEST EMPLOYERS AND TAXPAYERS IN THE COUNTRY, THE MANAGER OF A STRATEGICALLY IMPORTANT INFRASTRUCTURE THAT FORMS THE BASIS FOR THE EXPORT OF LATVIAN TRANSPORT AND LOGISTICS SECTOR AND CONTRIBUTES TO AN EFFECTIVE FUNCTIONING OF OTHER ECONOMY SECTORS. ACCORDING TO THE STUDY "THE ROLE OF THE TRANSPORT SECTOR IN THE ECONOMY OF LATVIA" CARRIED OUT IN 2017-2018, THE INDUSTRY'S DIRECT CONTRIBUTION TO GDP ACCOUNTS FOR NEARLY 10%, WHEREAS NEARLY A FIFTH OF THE ECONOMY OF LATVIA DEPENDS ON THE SUCCESSFUL PERFORMANCE OF THE INDUSTRY. THEREFORE LDZ TREATS KEEPING THE CONTRIBUTION OF THE INDUSTRY AND INCREASING OF THE POSITIVE IMPACT ON THE ECONOMY WITH GREAT RESPONSIBILITY.

Management and development of the infrastructure



AIVARS STRAKŠAS,

Vice-President of LDz

"The Indicative Plan and the multi-annual agreement ensures stability for all the parties involved. It guarantees the availability of a certain amount and quality of infrastructure. For LDz it ensures financial equilibrium. However, the most important thing is that it guarantees a foreseeable amount of the track access charges to the industry and hence the opportunity to enter into long-term cooperation agreements with their customers".

In order to ensure the development of the existing infrastructure in the interests of the national economy as well as the financial equilibrium of the infrastructure manager, in November 2018, the Cabinet approved the Indicative Railway Infrastructure Development Plan for 2018-2022 that defines the amount of services the State requires from the infrastructure manager (LDz) during this period. The multi-annual agreement entered into between the Ministry of Transport and LDz was developed based on this plan. Thus there are clear directions in place for developing a competitive infrastructure promoting public mobility, as well as principles for ensuring, to the extent possible, the financial stability from LDz's own resources, attracting the State budget financing only in emergency situations. Thus, approving the plan and entering into a multi-annual agreement, the safest solution has been achieved for the national fiscal space, while giving guarantees to the infrastructure manager for action in case of cardinal changes in transport volume. Whereas LDz based on the provisions of both the documents has committed to provide a stable infrastructure usage charge to the users thereof, i.e., carriers and their customers in the said five-year period. Thus, the predictability is secured in the industry as well as the possibility for the LDz's clients and other industry players to enter into long-term contracts with their counterparties.

At the end of the term of the approved plan and the concluded multi-annual agreement, the continuity would be ensured as well as documents of a similar nature would be developed for the next five-year period. The development of these documents is the competence of the Ministry of Transport.

Promoting the industry's export services



**VLADIMIR
MOROZOV**

CEO of Belarusian Railways

"We have built up a very good cooperation with LDz as well as share a common understanding on all key issues. We have been working together and in concert to develop and make our services effective, through reducing costs, improving quality, implementing digital solutions, as well as through ensuring competitive tariffs."

Although LDz is the infrastructure manager, it is concurrently the governing company of LDz Group. Considering that the company is a state-owned company and such type of legal status is perceived as particularly important in many partner countries of Latvia in the transport and logistics industry, LDz has been contributing to the development of the whole Group as well as to the development of the industry at international level, through jointly participating in international exhibitions, visits as well as actively working on attracting international counterparties to the Latvian transit corridor.

At the same time in recent years, LDz has reinforced the industry's internal coordination, encouraging cooperation with the port authorities, the companies operating in the logistics industry and other sectors, thus ensuring the maintaining of the total contribution to the economy. Together with other industry players in 2018, a new industry positioning concept VIALATVIA was developed, using which the industry is participating in international events. In 2018, LDz has also entered into a strategic cooperation agreement with Xi'an International Trade and Logistics Park in China, an agreement with Lithuanian and Estonian railway companies on developing a joint container train "Amber Train", joined the Belt and Road International Transport Alliance BRITA, and due to successful operation of the representation office of LDz in Belarus created a new cargo express train route Minsk-Riga and increased the total share of cargos of Belarusian origin in the overall structure of the transport volume from 19.3% in 2017 to 27.1% in 2018.

International cooperation activities are promoted by LDz Communication and International Relations Directorate in cooperation with other structural units of LDz and its Group.

Development of services, ensuring the efficiency of the company's performance

69.5% of LDz's turnover is made up from revenue from track access charges, which are calculated in accordance with the methodology approved by the Public Utilities Commission (whereas starting from the second half of 2019, it will be calculated according to the charging scheme developed by AS "LatRailNet"). At the same time, the company provides additional services to carriers, as well as other services not related to transport, such as electricity, real estate leasing and other services.

To promote the development of these services, increase customer satisfaction and at the same time ensure the highest possible efficiency, while reducing the bureaucratic burden and duplication of functions in rendering the services, at the end of 2018, a new structural unit was set up, i.e., Service and Customer Relation Division. It is charged with the tasks of assessing all existing services and developing a systematic approach to the provision of the company's operating activities as well as additional services and quality control.

Economic performance

THE ECONOMIC VALUE CREATED BY THE COMPANY IS DIRECTLY RELATED TO ITS FINANCIAL PERFORMANCE, WHICH IN 2018 IMPROVED IN COMPARISON TO 2017, AS WELL AS EXCEEDED THE TARGET OF THE MEDIUM-TERM OPERATIONAL STRATEGY OF LDZ.

201-1
201-4
205-1
205-2
205-3
103

Financial assistance received

In 2018, LDz did not receive co-financing from EU structural funds, however, during the year, significant preparatory work was carried out for the implementation of a number of projects co-financed by the EU Cohesion Fund, to be completed by 2023 (more information is provided on page 63).

Whereas in respect to the State budget financing, based on the Law on State Budget for 2018 and the order of the Ministry of Transport of 8 November 2018, LDz was granted financing of two million euros from the State budget for a priority event: the construction of a pedestrian tunnel construction in the Ogre station to improve the level of safety in a railway station in the vicinity of intensive pedestrian and train traffic.

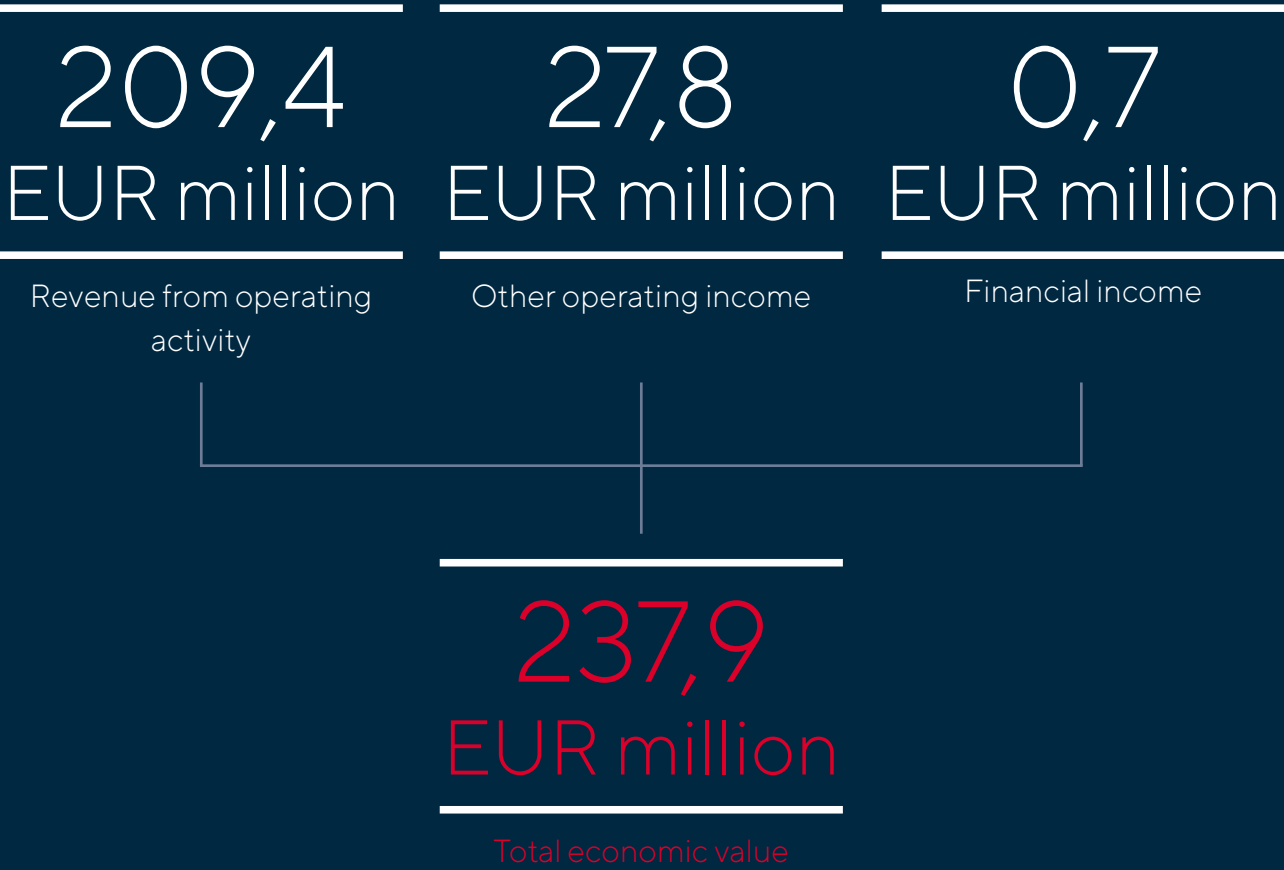
According to the procurement carried out at the end of 2018, the works related to the tunnel construction will be carried out in 2019 and 2020.

Direct economic value generated and distributed

In 2018, revenue from operating activity was EUR 209.4 million, an increase of 16% compared to 2017. Other operating income amounted to EUR 27.8 million. The company also had financial income of EUR 0.7 million. Consequently, the total economic value generated in 2018 was EUR 237.9 million.

The company's cost of sales was EUR 200.2 million. Nearly half of it (EUR 92.1 million (46%)) is made up by the employee wages and the related social insurance contributions. The cost of materials, fuel, diesel fuel and electricity amounted to EUR 19.7 million (9.8%) Administrative costs are EUR 15.9 million (7.4%) of the total cost structure of the company in 2018. In 2018, EUR 78.4 million were paid in taxes, including EUR 30.6 million paid as national social security insurance mandatory contributions, EUR 14.5 million as personal income tax, EUR 32.6 million as value added tax and EUR 0.6 million as real estate tax.

According to the Regulation issued by the Cabinet on 8 August 2018 LDz has paid EUR 614,875 or approximately 2.65% of its net profit in dividends to the State.



Investments in infrastructure and development

AS THE PUBLIC RAILWAY INFRASTRUCTURE MANAGER LDZ IS REQUIRED TO MAINTAIN ALL THE ELEMENTS OF INFRASTRUCTURE IN PROPER CONDITION AND REGULARLY PERFORM WORKS AIMED AT RENEWING IT.

In 2018, EUR 25.2 million were invested to restore the infrastructure of LDz, expand the capacity thereof, improve services, acquire new equipment, safety solutions and make other significant improvements.

The infrastructure renovation works include repairs of rail tracks, switch and sleeper replacement, improvements of the functioning of the signaling and communications equipment, etc.

In 2018, the structural unit Track Distance of LDz took over from the subsidiary SIA "LDz Infrastruktūra" the infrastructure renovation works, including the staff trained in carrying out the mentioned works, to ensure a steady workload for staff during the year (the repairs must be mostly carried out in the warm period of the year) and achieve a greater efficiency within the Group.

In 2018, using the resources taken over in the course of the restructuring, Track Distance made capital expenditure of EUR 14.3 million in total, including:

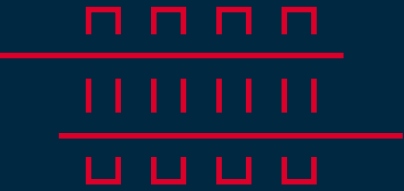
- Track renovation works ("A" type of overhaul) in total length of 17.6 km on the sections Pureņi – Mežvidi and Mežvidi – Ilzēni. Capital repairs were carried out for three railroad crossings and engineering construction repair works were carried out for four buildings;

- The “B” type repair works for rail tracks were carried out for 14.3 km on the section Madona – Gulbene and at Daugavpils marshalling yard. Within the scope of repairs, tracks were replaced with the heavy type lengthwise rails, wooden sleepers were replaced with concrete sleepers (the replacement of the tracks and sleepers enables the reduction of the environmental noise caused by the operation of a railway), as well as the capital repairs for six railway-level crossings were carried out;
- Rebuilding of the rail track at the Daugavpils passenger station;
- Replacing of 25 new switch change sets;
- The capital repairs and upgrading of the railway-level crossings on the sections Riga-Krustpils, Riga-Jelgava, Sabile-Kandava, Liepāja-Tore and Slampe-Līvberze;
- Replacing of the lengthwise rail tracks with new ones on the sections Sece-Sēlpils, Jugla-Garkalne, Torņakalns-Jelgava, Šķīrotava-Salaspils, Stende-Sabile, Cirma-Ludza.

The current repairs of the civil engineering structures and rail tracks amounted to EUR 1.8 million, including:

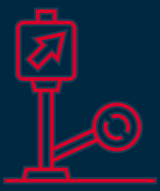
- Repairs of the civil engineering structures in the section Jugla-Garkalne and the repairs of the metal bridge over the Lielupe;
- Replacing of 31 obsolete switch item sets;
- Repairs of the surface of seven railway crossings in the sections Riga-Skulte, Zasulauks-Bolderāja, Ventspils-Tukums II, Jelgava-Liepāja, as well as the Mangaļi station.

During the year, 24,933 wooden sleepers were replaced with reinforced concrete sleepers (due to being considered a more sustainable and eco-friendly solution; in 2018, the project was concluded to replace all the sleepers on the main tracks), 256 track joints were welded using the thermite welding method, whereas sleeper consolidating and switch balancing machinery was used to maintain 541.4 km of rail tracks across Latvia. Thanks to the works carried out in 2018 as well as in previous years, the quality indicators of LDz infrastructure are excellent: in 2018, the overall condition of the rail tracks was rated with 15.6 points, whereas a year before – with 17.2 points (an excellent condition ranges from 0 to 40 points). The quality of the rail tracks is assessed using sophisticated measurements carried out by a specially equipped measurement wagon of LDz.



17,6 km

Capital repairs (type “A”) of the rail tracks



25

Switch change sets replaced



31

Switch element sets replaced

14,3 km

Capital repairs (type “B”)

24 933

Wooden sleepers replaced with reinforced concrete sleepers

256

Track joints welded using the thermite welding method

15,6
points

Excellent condition of the rail tracks



ĒRIKS ŠMUKSTS

Vice-President of LDz:

"The quality of Latvia's main rail tracks and the related infrastructure is currently excellent thanks to the work of LDz technical service staff. Their work enables the provision of competitive railway services for freight as well as passenger transport. In addition, as the latest technology is gradually entering the routine work – for rail track machines as well as IT solutions – maintaining of the infrastructure is becoming more effective and enforceable."

In 2018, in addition to the track maintenance and repair work, LDz Track Distance carried out the dismantling of 94 various structures using own resources. In previous years, this work was carried out using outsourced services, but thanks to the reinforced concrete crushing device purchased in 2018, the works can be carried out with the company's own resources.

Whereas LDz Signaling and Communications Distance, through ensuring an adequate functioning of signaling, control and command equipment throughout the infrastructure managed by LDz, replaced 67 traffic lights of various types, 18 relay and battery cabinets, 480 different type batteries and 42 marshalling yard device components, as well as more than three and a half kilometers of signal cables, carried out the repairs of 1.3 km communication lines with cable replacement, the repairs of 63 trains, shunting and loud-speaker communication devices, repairs of more than 25 of the hot-element control devices and the repairs of various data transmission equipment.

The repairs of traction substation equipment, contact network, high voltage and low voltage electric networks, transformer substations and diesel engines were carried out in the electrified railway lines in the suburban area of Riga, as well as the contact network and power transmission lines were modernized.

Whereas in order to improve rail security solutions, in 2018, the railway-level crossings in Jumprava and Ķegums were equipped with automated barriers and video surveillance systems; in the section Priedaine-Dobulti-Majori, two pedestrian crossings were installed. In four stations (Mežvidi, Višķi, Ilūkste and Kurcums), the railway-level crossings were upgraded by installing lights. Moreover, LDz Signaling and Communications Distance carried out these works using own resources, from design to construction to commissioning the system.

In addition to the maintenance and repair works of the existing infrastructure, in 2018, LDz carried out preparatory works for the implementation of a number of large scale infrastructure upgrading and new infrastructure development projects. Among others, the procurement procedures were carried out for the upgrading projects in Riga and Daugavpils, and a procurement procedure was started and the final approval processes at the European Commission organized for the Latvian railway network electrification project which is so far the biggest investment project in the railway infrastructure in Latvia.

Projects of the EU fund programming period 2014-2020

Latvian railway network electrification

To improve the efficiency of transport services, promote the use of environmentally-friendly technologies and increase the competitiveness of Latvia's rail transit corridor at international level, LDz intends to carry out a full electrification of the main network (main tracks) with 25kV AC technology, including reconstruction of the existing electrified railway network and replacing the 3.3kV system with the 25kV system. Because the project is financially intensive, the implementation thereof is divided into stages.

Within the scope of the European Union funds and the Cohesion Fund 2014-2020 programming period action program "Growth and Employment" 6.2.1 specific aid objective "Ensure a competitive and environmentally friendly TEN-T railway network, to promote its security, quality and capacity" for the eligible activities under the measure 6.2.1.1 "Electrification of Latvian railway network", the first stage of the project would be carried out, attracting the financing of the Cohesion Fund in the amount of EUR 347 million for the electrification of the sections Daugavpils-Krustpils, Rēzekne-Krustpils, and Krustpils-Riga.

The project will enable freight carriers to reduce the rolling stock operating and ener-

gy costs almost 2.5 times. Besides, electric-power is especially efficient in the case of heavy-weight cargo trains, thereby improving the competitiveness of Latvia as the transit corridor at international level.

The project is a significant contribution to regional development, because it will affect mainly the communities outside the Riga, particular in Latgale region, creating additional jobs during the implementation of the project and thus contributing to the reduction of unemployment in the region.

Along with the benefits to the economy, the project would contribute to the reduction of CO₂ and NO_x emissions significantly, as well as to achieving the national energy efficiency objectives.

The total costs of the first phase of the project are estimated at EUR 441 million, and for the implementation of it no public financing will be raised from the State budget, instead LDz will provide co-financing.

The implementation of the first phase of the project is expected to be completed by the end of 2023. In 2018, the procurement procedure for the design and the construction works was launched. The design and construction works are expected to start in 2019.

Other projects

In 2018, work on the action program "Growth and employment" priority direction "Sustainable transport system" 6.2.1 specific aid objective "Ensure a competitive and environmentally friendly TEN-T railway network, to promote its security, quality and capacity" for the eligible activities under the measure 6.2.1.2 "Modernisation and construction of the railway infrastructure" continued on these projects:

- Modernising the Riga railway node section Sarkandaugava-Mangaļi-Ziemeļblāzma;
- Development of the Daugavpils marshalling station;
- Development of the Daugavpils reception park and the access roads to it;
- Implementing a unified train traffic scheduling and control system;
- Modernising the railway passenger service infrastructure.

Modernisation of the Riga railway node section Sarkandaugava-Mangaļi-Ziemeļblāzma

The need for the modernization was identified in the section Mangaļi-Ziemeļblāzma, which is a one-road section, despite that on the line Riga-Skulte in which it is located there are two parallel rail tracks. Consequently, the section Mangaļi-Ziemeļblāzma is one of the most problematic places of the railway line Riga-Skulte. Within the scope of the Riga railway node section Sarkandaugava-Mangaļi-Ziemeļblāzma modernization project, a second rail track in this section would be built, and modernization of the centralization of micro-processors would be carried out with a view to improving the Riga railway node handling capacity, through significantly reducing the bottlenecks of the node and increasing efficiency. The total costs of the modernization of the Riga railway node are estimated at EUR 25 million. The co-financing from the EU Cohesion Fund (85%) was attracted for the implementation of the project.

The project is scheduled to be completed by the end of 2022.

Development of the Daugavpils marshalling station

In the Daugavpils railway node, given the current technological process, it is difficult to ensure a successive smooth preparation and delivery of the cargoes. In addition the existing automation devices are technically and morally obsolete due to the lengthy term of operation.

As a result of developing the Daugavpils railway node, the identified problems therein will be eliminated, the safety level will improve, and the railway platform for receiving and sending off trains will meet the market requirements, through implementing automatic and safe freight wagon marshalling process, eliminating the movement of unsafe connecting points as well as taking care of the staff directly involved in the processes, significantly reducing the working environmental threats.

The total costs of the development of the Daugavpils marshalling station are expected to be EUR 36.62 million. The co-financing from the EU Cohesion Fund (85%) was attracted for the implementation of the project.

The project is scheduled to be completed by the end of 2022.

Development of the Daugavpils reception park and its access roads

After building a new reception park in Daugavpils, the efficiency of railway infrastructure in receiving and sending off trains outside Daugavpils, including long trains, will improve, ensuring optimal process in receiving, marshalling and sending off trains, eliminating the mutual overlapping of train routes, idle time of trains, reducing the marshalling works, emissions and freeing the internal railway network of Daugavpils, thus ensuring a safer traffic thereof along the tracks connecting outside the city as well as improving the living environment of the urban people.

The costs of the Daugavpils reception park access road developments are estimated at EUR 43.53 million. The co-financing from the EU Cohesion Fund (85%) was attracted for the implementation of the project.

The project is scheduled to be completed by the end of 2022.



AINIS STŪRMANIS

Vice-President of LDz:

"The infrastructure development projects are aimed at increasing the competitiveness of Latvian railway and all transport and logistics industry in the region. By making the environmentally friendly technologies compatible with efficient IT solutions and the infrastructure that is easily accessible to everyone, all prerequisites will be created to maintain the industry's role in the economic growth of Latvia in terms of exports as well as providing more and more convenient mobility and inland transport development opportunities in Latvia."

Implementing a unified train traffic planning and control information system

Currently, the organization of the train traffic is not automated, the process is being ensured by a number of separate systems, and the data exchange between them is limited. The process largely depends on subjective decisions that pose risks to safety. The planning of operational changes to the traffic schedule still occurs on the basis of requests in the form of faxes or telegrams.

An effective management of train traffic requires an integration between the alarm and communications systems, traffic planning and control systems, which will ensure making operational decisions regarding the organization of the train traffic, as well as enable a more rational planning of train traffic. Investments for a single train traffic planning and control system are budgeted at EUR 21.3 million. The EU Cohesion Fund co-financing (83.89%) has been attracted to the implementation of the project.

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

Modernisation of the railway passenger service infrastructure

Continuing the program "The modernization of the railway passenger service infrastructure" in this programming period, too, the opportunities to raise the quality and efficiency of the railway passenger transport are sought, ensuring comfortable and safe railway services for passengers, including focusing attention on the environmental accessibility for persons with reduced mobility.

The anticipated project provides for the modernization of the infrastructure in 21 stations, including the construction and elevated passenger platforms, installing passenger information and video surveillance systems, as well as developing the passenger service related infrastructure, i.e., the related pedestrian crossings and safety barriers.

The indicative costs of the project is EUR 24.2 million, however, the implementation of the project depends on the availability of public financing in the EU fund planning period 2014-2020. In 2019, LDz has scheduled EUR 1.5 million in the company's annual budget for project designing for 25 stations.

Property management and improvement of efficiency

LDz possesses the public use railway land partition zone with a total area of 15,055 ha (this area includes both functioning track circuits and lines, on which currently there is no train traffic, but which need to be maintained by LDz for as long as, based on the information prepared by the Ministry of Transport, the Cabinet has not passed the decision to close these lines). According to the balance sheet of LDz, LDz owns 2,141 buildings and structures, of which 72% have been inventoried (1,549 buildings), of which ownership title to 1,251 (58%) have been registered in the Land Registry.

In 2018, investments in various station buildings and technological buildings, as well as repairs of external engineering networks were done, the heating system was replaced in nine objects and insulation was finalized in four objects. The total investment amount was EUR 2.2 million.

The company carries out a regular assessment of the real estate in its possession and the necessity of this property for the operating activity of LDz. If the property is not necessary, LDz evaluates options of leasing, selling (based on a decision by the Commercialization Commission) or dismantle the building. In 2018, five properties in total for EUR 48,346.63 were sold.

In 2018, work was started at updating of the information about the tenants, lessees, and users of the premises in the application SAP RE module with a view to faster and better management of LDz real property and ensuring efficient use thereof.

In 2018, 334 buildings were transferred into use to external tenants and the subsidiaries of LDz Group (with a space area of 112,156.2 sq. m.), 157 new lease agreements for premises or land and usage rights limitation agreements were entered into, amendments were made to 59 of the existing agreements, as well as 14 agreements for the transfer into use of premises and rooms as well as 19 rental agreements were entered into. From external tenants, the company thus received additional revenue of EUR 1.8 million, which is an increase of 4.1% from 2017.

From the perspective of the development of the railway sector and the industrial heritage it should be pointed out that an agreement for the lease of premises was entered into with Gulbene station for establishing an educational and interactive center "Railway and Steam".

Indirect economic impact



ANETE MIGALE

Economist, the Bank of Latvia, Macroeconomic Analysis Department

"The year 2018 was a favourable year for the transport industry. The value added by the industry grew by 5.2%, however, the stability of the growth should be viewed prudently. A significant role in the development of the transport sector has been played by the railway transport, where the volume of freight transport has increased significantly, ensuring a positive contribution to the total exports of transport services. Although the flow of cargoes from Belarus has been increasing, the transport services by "Latvijas dzelzceļš" and the port activity operations continue to depend heavily on the flows of Russia's transit traffic, which might decline as Russian infrastructure capacity increases. Therefore, in order to ensure a further development of the sector and rail transport, new long-term cooperation partners should be sought and effort should be put into improving competitiveness."

*<https://statdb.bank.lv/>

The railway infrastructure and the use thereof ensures not only the development of the transport sector in Latvia, but also indirectly contributes to the development of other sectors of the economy as well as the whole national economy.

The fact that LDz has a significant impact on the overall national economic growth, is supported by dozens of million euros paid in taxes annually, and also by the information aggregated by the Bank of Latvia about foreign trade data. In 2018, the contribution of railway sector to Latvian export services amounted to EUR 345 million, of which EUR 293 million come from the freight transport segment. Given that the operation of the railway freight transport sector is closely linked to the port and maritime transport activities, the contribution of which was respectively EUR 396 million, it can be concluded that the total direct and indirect effect on the economy of Latvia is in the ballpark of EUR 741 million.

It is also critical that LDz is one of the largest employers in the country, employing several thousand people in the largest cities and regional centers of Latvia. Workers' wages are used for everyday needs for shopping and making various payments, causing a secondary effect and supporting economic activity in a wider range of industries. A fundamental factor of the company's economic impact is the average wage – in 2018, on average, salaries received by LDz staff was EUR 1,206 (gross) per month, an increase of nearly 10.5% from 2017. It is

also EUR 202 more than the country's average (according to the data of the Central Statistical Bureau of Latvia, the average gross wage per month in 2018 was EUR 1,004).

In addition to the impact on employment, LDZ has been contributing to the mobility of the community and thus promoting the economic activity thereof. Through ensuring the development of the railway infrastructure and maintenance between the largest cities of Latvia and in the regions, LDz and AS "Pasažieru vilciens" gives the opportunity for the population to be more mobile, including not to be tied to a specific city or region in terms of the workplace. The data for 2018 suggest that on average, one passenger travelled 25.5 km every day with an electric-powered train and 97.2 kilometers with a diesel-powered train. Thus, people have the possibility of acquiring education or find a suitable job in the region of 100 kilometers from their place of residence.

In respect of infrastructure development, the modernization projects as well as the projects related to the implementation of a new infrastructure allow to attract experts from other sectors, through facilitating their professional growth and causing favorable effects on the national economy. An especially important economic activity is expected at the time of the implementation of the railway network electrification project, 38% of the planned capital investments would be spent on local workforce, materials and technologies.

Procurement practices

The procurement procedures of LDz are organized in accordance with the Public Service Providers' Procurement Laws, the provisions of which are binding on state-owned capital companies such as LDz. Under the internal regulations of LDz Group, the Procurement Office of LDz coordinates the procurement procedures and has an oversight over them throughout the Group (i.e., planning of procurements, aggregating information on orders, preparing and organizing procurement procedures, carrying out the legal compliance and oversight of the contracting entity's procurement procedures, verifying the methodology, supervising the procurement procedures and other services as necessary).

In 2018, the Procurement Office organized more than 250 procurement procedures, using the electronic procurement system (EIS) in 70 procedures. 220 procedures have been completed, and over 200 procurement contracts were concluded. With a view to evaluating the efficiency and quality of the procurement procedure, budget savings indicators of LDz are aggregated. According to the results of the analysis, in 2018, the savings of LDz Group amounted to EUR 1.67 million against the original budget.

To improve the procurement process at LDz, the Procurement Office gradually works at solutions aimed at to reduce bureaucracy (including a broader use of electronic versions of documents in the routine work and refusing from requesting such information from applicants, which is already available in public data bases), coordinating the tasks to be carried out within effective procurement process at LDz and its subsidiaries, optimizing administrative and time resources in the interests of the company, as well as systematically increasing internal competencies, through attending trainings aimed at the industry specialists.

In 2018, several procurements were made that might be labelled as "green" or environmentally friendly solutions or

procurement aimed at reducing harmful effects on the environment. Among other things, impregnated wood sleepers, turnouts and bridge beams, energy efficient luminaires, lamps and bulbs were purchased, the technological transport was replaced, giving preference to more environmentally friendly means of transport, as well as procurement procedures were carried out for minimizing the historical pollution at Višķi and Mežvidi (disposal of the petroleum product waste and dismantling of the reinforced concrete tanks and pump station related to this pollution). Overall, there have been eight such purchases, not including the largest one related to eco-friendly solutions, i.e., the first stage of the procurement for the electrification of the Latvian railway network, as a result of which the contractor will be selected who will design and build a new structure with a potentially high positive impact on the quality of the environment (reduction of emissions).

In the process of organizing procurements, evaluating the tenderers and awarding the contracts, the Procurement Office cooperates with LDz Fraud Prevention Department engaged in taking anti-corruption measures across the Group, the reporting channels managed by which for potential violations as well as the general principles of the business ethics of the counterparties are included by reference in all contracts entered into by LDz. At the same time, Fraud Prevention Department, assessing the groups of positions that attract potential risks, take into account those categories of employees that are directly or indirectly related to the organization of procurements (domestic customers, the developer of the specification, the organizer of the procurement, the members of the commission of the procurement, the party preparing and signing the agreement, etc.), provide training to them and reviews them.

Taking into account that the company strictly complies with the Public Service Providers' Procurement Law, in the procurements giving preference to any local suppliers is not possible and this is not practiced.

250

Procurement procedures

200

Purchase contracts concluded

1,67

EUR million

Savings of the budget funds

Anti-corruption measures

In 2016, the Fraud Prevention Policy of LDz Group was approved. The Head of Fraud Prevention (LDz Security Director) is responsible for the enforcement thereof, the carrying out of it must be ensured by the Fraud Prevention Department of the Security Directorate, the activities and tasks whereof result not only from the approved policy but also from the Cabinet Regulations No. 630 "Regulation on the General Requirement of the Internal Control System for Prevention of Corruption and Interest Conflict Risks in the Body of a Public Person", as well as the Law on International Sanctions and National Sanctions of the Republic of Latvia.

The Fraud Prevention Policy of LDz Group provides for the behavior of the employees of the Group with suppliers and other partners, including business trip and gift making/accepting and other areas, as well as providing for the tools for engaging counterparties; educating the employees of LDz and reporting on possible violations of the Fraud Prevention Policy.

Under the Fraud Prevention Policy, the Cabinet Regulation No. 630, as well as in line with the guidelines developed by the Corruption Prevention and Combating Bureau, a risk assessment has been carried out relating to employee job groups of the Group, specifying the jobs, which are subject to risks of corruption (awarding of contracts, the choice of counterparties, etc.). In 2018, the fraud risk analysis was completed, within the scope of which a study of documentation, interviews with the management and employees of LDz and subsidiaries were carried out, the processes and offices subject to risks, potential risks and the evaluation thereof were identified. The risk analysis is approved by the resolution of the Council of Presidents of LDz, the Action plan for the reduction of the risks of fraud has also been approved.

Moreover, The basic principles of business ethics for cooperation partners of the LDz Group have been developed within the **policy**. The Group's counterparties, when signing a contract on cooperation, must certify with their signature that they comply with those fundamental ethical principles, as well as they assume a liability to report in case of any suspicion of a potentially fraudulent actions of employees of the Group. There is a small number of counterparties who have refused to include such a clause in the

contract. Generally these are the monopolies of various Latvian municipalities, insisting on model agreements or requirements of regulators, as well as some foreign companies or the representations thereof having internal regulation of their own in this regard. Regardless of the basis in accordance with the internal regulation of LDz, entering into such contracts is possible only upon approval of the Head of Fraud Prevention.

The Fraud Prevention Policy provides for a number of reporting channels so that LDz staff, external partners and any member of the public may provide information about the potential incident of fraud or corruption. It is possible to fill in an anonymous reporting form on the **company's website**, a reporting form in the intranet of LDz, as well as turn to LDz Fraud Prevention Department by email info@kn.ldz.lv or in person.

In 2018, 21 reports were delivered. They were investigated by Fraud Prevention Department of LDz, and the Head of Fraud Prevention submitted a report to the management of LDz (under the Fraud Prevention Policy, in situations of particular importance the report must be submitted directly to the shareholder of LDz. There have been no such cases so far). In-depth analysis of the circumstances of the case, for which the reports to LDz management were drawn up, was carried out in three cases. I.e., the rest of the information that is recorded has not been confirmed, or the problem identified in the report has been addressed in carrying out the routine duties. The reports are examined by the management of the company which depending on the circumstances, decides on further action, including the likely changes to processes or procedures to prevent risks in the future.

Since 2018, the reporting tools may also be used for reporting possible violations of the Law on the Prevention of Money Laundering and Terrorism Financing. The Group's Regulations on the internal control system for outsourcing financial accounting describes compliant with the requirements of the Law on the Prevention of Money Laundering and Terrorism Financing.

Training is provided and testing of the employees subject to the risk is carried out. At the same time, the senior management of LDz and the employees in charge of the Fraud Prevention Policy regularly attend the seminars and training arranged by the Corruption Prevention and Combating Bureau for a timely identification of risks and action in the case of identifying them as well as the seminars on the compliance with international and national sanctions organized by the Ministry of Foreign Affairs and other institutions in charge.

IMPACT ON THE ENVIRONMENT

07

NOWADAYS ENVIRONMENTAL CONSIDERATIONS FORM AN INTEGRAL PART OF THE ACTIVITY OF THE COMPANIES OPERATING IN THE TRANSPORT SECTOR, NOT ONLY DUE TO DIFFERENT REQUIREMENTS OF THE LAWS AND REGULATIONS, THEY SHOULD BE TAKEN INTO ACCOUNT IN THE PLANNING OF THE FUTURE OPERATIONS AND BUSINESS DEVELOPMENT OF THE COMPANY, BECAUSE ONLY IN THIS WAY CAN THE COMPANY ENSURE COMPETITIVENESS AND A SUCCESSFUL EXISTENCE IN THE LONG TERM.

According to the estimates made by the OECD International Transport Forum, railway is one of the most environmentally friendly modes of transport; the carbon emissions generated by it on one tonne-kilometre is about eight times smaller than those caused by the road transport¹. At the same time, as an environmentally friendly mode of transport that can deliver large volumes of goods and passengers by rail, however, railway creates a certain impact on the environment, which LDz is seeking to reduce. The greatest effect is caused by emissions from rail transport and the noise resulting from the operation of the railway, which can adversely affect not only the environment, but also human health.

Being aware of its responsibility towards the environment, LDz has established an environmental management system that meets the standard LVS EN ISO 14001:2017 "Environmental management systems. Requirements with guidance for use (ISO 14001:2015)". In 2017, a certified energy management system that meets the standard LVS EN ISO 50001:2012 "Energy management system. Requirements and instructions for use (ISO 50001:2011)" was implemented. Currently, the company complies with LDz Group's Environmental Policy, LDz Energy Management Rules (Policy) and the related Environmental and Energy Management Program (the existing program expires in 2020). Every year, an assessment of the implementation of the measures contained in the program is carried out, and if necessary, amendments made to the program to facilitate the reduction of the company's environmental impact as well as establishing an environmentally friendly approach in all business areas and levels.

LDz Development Directorate Environmental Management Division is charged with an oversight of the implementation and execution of the Environmental and Energy Management Program.

¹ [https://www.itf-oecd.org/rails-sustainable-chain-mobility?ct=t\(2018_Sept_Newsletter_COPY_01\)&mc_cid=547116eab5&mc_eid=631d9b9318](https://www.itf-oecd.org/rails-sustainable-chain-mobility?ct=t(2018_Sept_Newsletter_COPY_01)&mc_cid=547116eab5&mc_eid=631d9b9318)

Investment projects and environmental impact

Environmental impact is assessed and taken into account in all investment projects, which are implemented in LDz Group under its investment planning and execution control rules approved by LDz on 1 November 2018.

Whereas the largest railway infrastructure investment project implemented so far, i.e., "Latvian railway network electrification" is based primarily on achieving the environmental objectives (reduction of the emission of GHG and air pollutants), while also offering a significant economic return at the time of carrying out the project as well as operating the newly established infrastructure.

In other projects of a smaller-scale environmental aspects are taken into account, e.g., deploying sewerage treatment equipment in upgraded or newly built objects, stimulating the reduction of the consumption and the resulting emission of air pollutants on the rolling stock development projects, etc.

Energy management

Energy management and energy efficiency issues have been particularly topical for LDz in the last two years, complementing the range of issues related to the existing environmental impacts. In 2017, the energy management system implemented in LDz was certified; it was developed according to LVS EN ISO 50 001:2012 "Energy management systems. Requirements and instructions for use (ISO 50 001:2011)". The certificate is valid until 2 March 2020, the certificate registration No. 10.16-54.4/01, the field of certification – public rail infrastructure manager's services and real estate management of VAS "Latvijas dzelzceļš". The system was certified by SIA "Latvijas rūpnieku tehniskās drošības ekspertu apvienība" – TÜV Rheinland Group.

In 2018, the implemented system was audited. No inconsistencies were identified as a result of the audit, and the recommendation to keep the certificate was made. At the same time in 2018, the internal audit of the LDz Energy management regulations (policy) \ and the Environmental and Energy Management Program of LDz was carried out in all structural units of LDz. According to it, the requirements set out in these documents and the measures are taken consistently, however, special attention should be paid to raising the awareness of individual employees in the field of energy management and energy efficiency. To promote it, in cooperation with the Energy Efficiency Centre of the joint stock company AS "Latvenergo", a seminar was organized as well as the first auxiliary materials were prepared to be used for inclusion of energy efficiency matters in the content of the technical training provided to the employees of LDz.

Reduction/prevention of pollution

The activities carried out by LDz aimed at reducing harmful effects can be divided into three general blocks:

- elimination of historical pollution in places where it has remained (LDz has been carrying out remediation works in areas where oil pollution has formed historically);
- regular **monitoring of the quality of environment** (in Latvian), in the most significant railway nodes in Latvia;
- additional measures to reduce or prevent the sources of pollution, e.g., at the places where locomotives stop, special fiberglass trays and petroleum product-absorbing mats have been placed. Fiberglass trays are inspected by SIA "Ūdensnesējs", the mats, depending on their absorption capacity (usually once a year) are replaced by LDz Track Distance.

LDz also pays attention to the fact that the Group's subsidiaries would implement rolling stock solutions, which prevent and minimize the potential pollution. The locomotives 2M62UM upgraded by SIA "LDz ritošā sastāva serviss" are considered such a solution.

Noise and vibrations

In providing opinions or comments about the spatial planning by municipalities, LDz draws the attention of municipalities to the need to provide for the conditions that would ensure the compliance with the Cabinet Regulation No. 312 "Regulation on the Building Standard LBN 016-15 "Building acoustics"" of 16 June 2015, in the development of the residential areas in the direct vicinity of the railway. Regardless of that, according to the regulations governing the environmental noise in the Republic of Latvia, in 2018, LDz started working on the Action plan for noise abatement on the railway lines with traffic intensity greater than 30,000 trains a year. Such lines are located in Riga as well as between Riga - Lielvārde. The public consultation of the Action plan took place during the period from 21 December 2018 to 21 January 2019. The action plan was developed by SIA "Estonian, Latvian & Lithuanian Environment", and it is available on the **LDz website**.

To reduce the noise resulting from the railway activity, LDz has been carrying out a series of measures that simultaneously improve the quality of the tracks and the safety of train traffic, such as renewal and repair of rail track, capital repairs of railway crossings (including laying in the "soft" coverings), replacing the tracks and railway sleepers, consolidating the ballast layer, switch replacement, track connector welding, grinding of switches, etc. More information of the Track Distance of LDz works carried out, which also have an impact on the reduction of noise, is provided on page 62.

MATERIALS

Materials used for building the infrastructure
In the activity of LDz, consumption of materials is related mainly to the works related to infrastructure construction and repairs, and for this purpose the following was consumed in 2018:

Sand and gravel	27 720 t
Chips	83 102 t
New wooden sleepers	10 170 pcs..
Reinforced concrete sleepers	25 160 pcs.

LDz does not have a focus on using recycled materials in large quantities (except, for example, eco-friendly materials for representation), because to maintain and develop infrastructure due to longevity and safety reasons, it is essential to use materials of certain specifications.

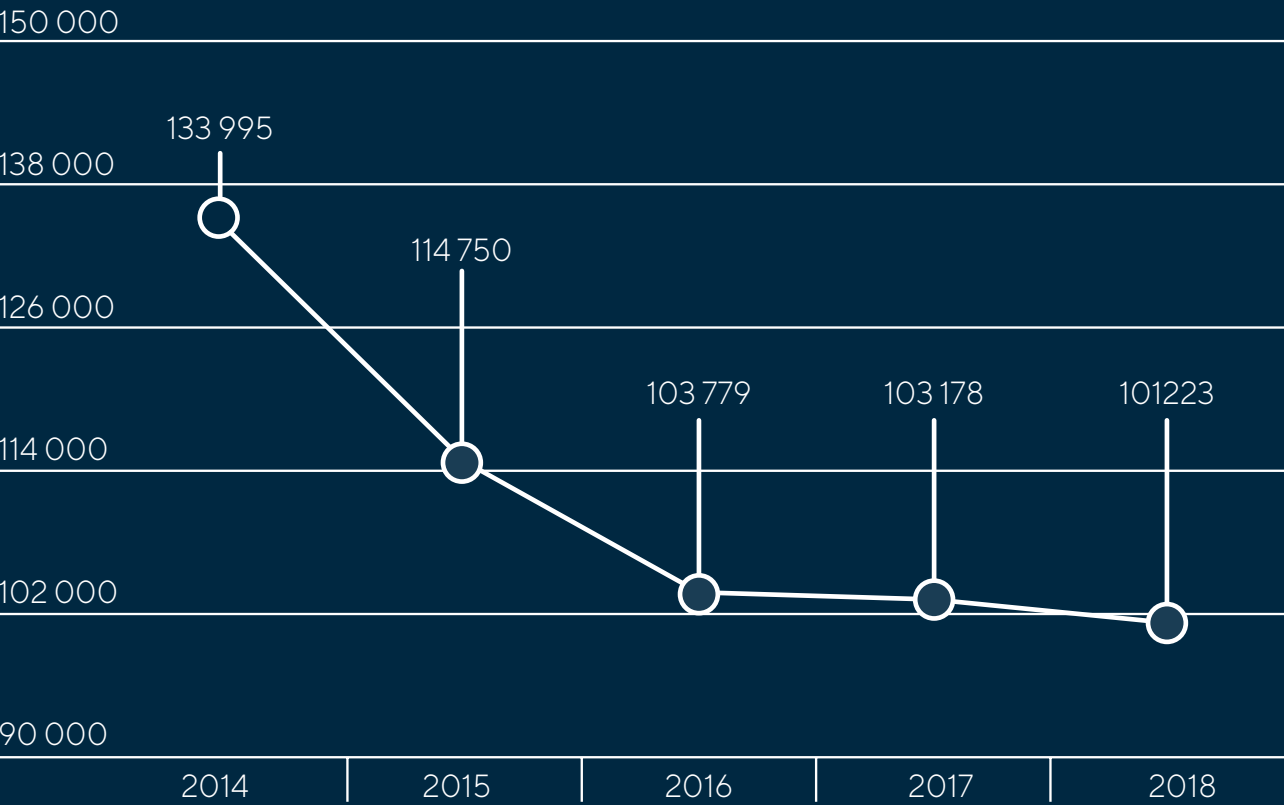
Water consumption

LDz uses water supplied by a number of merchants obtained from a centralized water supply system provided by municipal companies. LDz has entered into 34 agreements with municipal utility companies across Latvia on water supply and wastewater discharge. The existing boreholes, wells and water poles owned by LDz are used to obtain water.

In 2018, water consumption somewhat declined, and as a result of the optimization of a gradual number of connections and more and more effective property management, water consumption has been declining for the past five years:

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Volume of obtained and used water, m³



Energy consumption

The activity of LDz is deemed to be energy-intensive due to the size of the infrastructure and well as the number of its objects, and therefore, fuel consumption and associated emissions play a significant role in the railway business. However, within the scope of the Environmental and energy management program, the company has been gradually reducing the consumption of various its aspects, as well as seeks to educate the company's employees, motivating them to be more energy efficient, e.g., instead of using the elevator, use the stairs (which also has a positive effect on health), turn off electrical equipment and lighting when it's not necessary, heat the premises reasonably and to ensure the circulation of fresh air in them, etc.

Electricity consumption

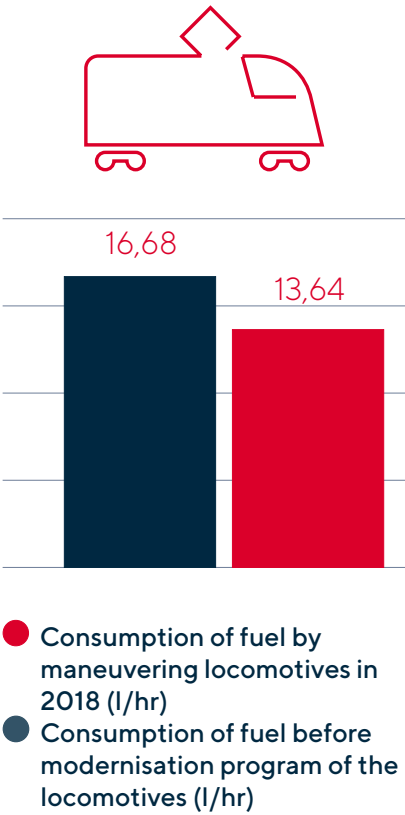
To ensure its operating activity and capital expenditure in the development of its infrastructure, LDz consumes significant amounts of electricity. In 2018, 109.4 million kilowatt-hours (kWh) were consumed. At the same time, LDz sells electricity to external customers – especially in areas where other energy companies do not make targeted investments in the building of the infrastructure and ensuring the service. In 2018, the total electricity consumption by external users was 12.5 million kWh, including household electricity consumption of 6.8 million kWh.

Heat consumption

Taking into consideration that over 2,000 buildings are in possession of LDz, during winters they need heating, and heat consumption has an environmental impact, too. Therefore, one of the indicators defined in LDz Environmental energy management program is specific heat consumption, the base line of which is 150 kWh per sq.m. of a heated area in a year. According to the 2017/2018 heating season performance indicators, LDz's heat consumption indicators were:

an average indicator in the objects of Daugavpils region – 156.38 kWh/m² (in the previous season 167.50 kWh/m²), an average indicator in the objects of Riga region – 129.41 kWh/m² (in the previous season 132 kWh/m²), an average indicator in the objects of Jelgava region – 160.42 kWh/m² (in the previous season 168 kWh/m²), the average consumption at LDz – 141.54 kWh/m² (in the previous season 148.50 kWh/m²). To contribute to the reduction of the consumption of heat, LDz has been investing in building insulation and heating system replacement to achieve more efficient and environmentally friendly solutions (in 2018, heating systems were replaced in nine objects, whereas insulation was carried out in four objects).

One of the types of energy consumption that was accounted for until 1 January 2019 within the scope of LDz Environmental and Energy Management Program, was the fuel consumption of the shunting locomotives. During the last three years, it has grown slightly, from 13.14 liters per hour up to 13.64 liters per hour, which can be explained by the increase in the volume of carried freight and the need to provide greater volume of maneuver works. At the same time this indicator does not exceed the base line of the energy management system of 14.02 l/h and is significantly lower than in the period before the locomotive modernization program is launched, when the figure was 16.68 l/h. Modernization of locomotives shunting is the most effective way to extend their useful life and increase the energy efficiency, while reducing both the emissions of GHG as well as other pollutants in the air. In 2019, this consumption indicator will not be accounted for and will be excluded from the Environmental and Energy Management Program because the locomotives have been sold to the subsidiary SIA "LDz Cargo" of LDz.



14,02 l/hr

The base line of fuel consumption set for maneuvering locomotives in the energy management system

Biodiversity

In 2017, the Nature Protection Administration launched the project "Stock-taking of nature" aimed at getting detailed and scientifically founded information on Latvian natural assets, their quantity, type, and quality. The data obtained are available in nature data management system OZOLS which is connected to the State Uniform Geospatial Information portal. According to the information obtained during the project and provided to LDz by the Nature Protection Department, several valuable habitats have been identified in the property of LDz exposed to the risk of extinction and for the safeguarding of which the responsibility rests with the European Union, considering area of their natural habitat within the EU territory.

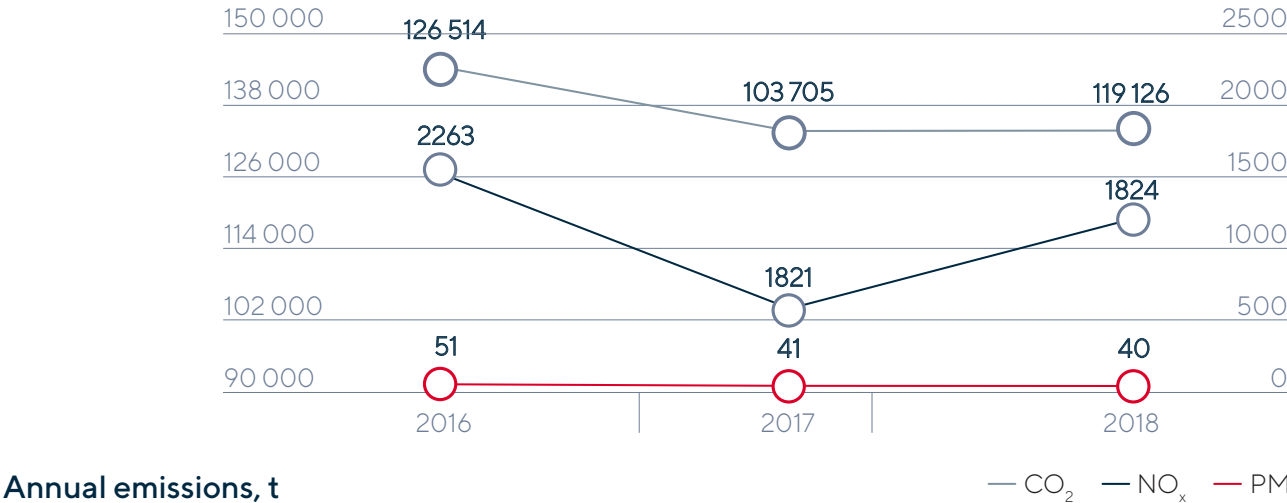
The valuable habitats owned by LDz are located in:

- At Ropaži county Augšciems railway unit, where train traffic on the route Rīga-Ērgļi has been suspended;
- In Ventspils;
- At Ventspils county Zīri parish railway unit, where train traffic on the route Ventspils-Liepāja has been suspended;
- At Valka county railway unit Rīga - Lugaži-the national border, in the territory of the station "Saule". The land unit is located in the biosphere reserve of Ziemeļvidzeme.

Grazing is the recommended method for taking care of the habitats owned by LDz, which is possible in some of the mentioned habitats where the distribution thereof overlaps with the adjacent property, where agricultural activity is carried out. At least once a year, LDz ensures that grass is mown and biomass on the territory owned by it is harvested. Considering that in two of the mentioned locations no train traffic occurs, they are not exposed to air, soil and ground and other pollution caused by transport, which can impact the quality of the habitat.

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Emissions



The greenhouse gas (GHG) emission reduction in the transport sector is of particular importance because transport emissions, make up 26% of the total GHG emissions in Latvia.¹ 93.4% of the GHG emissions are caused by the road transport, whereas the railway transport causes just 6.09% of the emissions.² Overall LDz may not be considered a major generator of pollution, at the same time there is also no reason not to think about reducing emissions of pollutants in the air.

One of the key objectives of LDz's Environmental Policy is to reduce the company's impact on the environment, where one of the ways to achieving these objectives is to reduce the emission of pollutants in: air and water, through using resources (diesel fuel) efficiently and upgrading rolling stock.

Over the last three years, the volume of emissions has been cut back, at the same time they are directly related to the volume of transport services, which has increased in 2018. However, despite the fact that in 2018, 49.3 million tons of cargoes were transported, but in 2016 – 47.8 million tons were transported, the amount of CO₂ emissions in 2018 was less than two years ago. This suggests that the investments gradually made by LDz and its Group activities in the upgrading of the rolling stock, have had a favorable effect from economic as well as environmental point of view.

1 Data according to the GHG inventory report submitted on 15 March 2016.
2 Data according to 2018 Latvia's national inventory report for the years 1990-2016.

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Wastewater and waste

Waste management and pollution control

Having regard to the business of LDz, i.e., infrastructure management, the waste created by the company falls into several categories:

- 1) Municipal waste at the stations, offices, and other business-related facilities, which, depending on the location of the object is passed to the waste management company authorized to work in the territory of the relevant municipality. The amount of municipal waste is not accounted for separately;
- 2) Disposable or recyclable office waste, i.e., electric appliances, hardware, scrap paper;
- 3) Waste and/or pollution resulting from the company's operating activities (including soil pollution, waste resulting from repair and construction processes).

LDz has a cooperation agreement with SIA "Līgatnes papīrs", to which scrap paper from four objects (the Directorate General building in Rīga, Gogoļa iela 3 and Turgeņeva iela 21, as well as Latvian Railway History Museum and LDz Training center) is transferred for processing on a regular basis. According to the accounting data provided by SIA "Līgatnes papīrs", 9,485 kg (nearly 10 tons) of scrap paper were accepted from LDz in 2018.

Also, LDz has several agreements with companies specializing in collection and disposal of hazardous waste, including:

- for the disposal of electric appliances, office equipment and batteries. In 2018, LDz did not transfer any appliances or batteries for disposal, however, throughout the year they have been collected and kept by the Provision Division of the LDz Real Estate Directorate that in the beginning of 2019 will transfer them to SIA "ALL recycling", for which a statement detailing the type of waste, weight and units transferred will be received;
- LDz Information Technology Centre takes care of the disposal of hazardous waste, i.e., electrical and electronic equipment and acid/alkali/leaded batteries. In 2018, 9.3 tons of hazardous waste were transferred for disposal;
- LDz Regional Management Unit transferred 1,084 kg of fluorescent lamps, 307 kg of worn out electric appliances and 17 kg of used batteries to SIA "Clean-R" – under the contract for waste management. In 2018, a particularly large increase was observed in the amount of fluorescent lamps transferred for disposal as LDz has been gradually replacing the current lighting devices to LED lighting.

LDz also transfers the wastewater generated by it for treatment to specialized companies – the amount thereof has been relatively smooth in recent years.

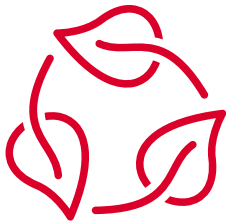
Quantities of generated and treated wastewater, m³

In 2016	105 259
In 2017	103 121
In 2018	105 294

LDz has been regularly monitoring soil and groundwater at major railway nodes where there is potentially the biggest impact on the environment, i.e., including shunting works, standing of the locomotives used for transport services, etc. The purpose of monitoring groundwater is to carry out a detailed analysis of oil products at each place, in order to assess and if necessary find potential methodological solutions for reducing pollution in the soil and groundwater.

Monitoring is carried out in Ventspils, Riga, Daugavpils, Jelgava, Rezekne, Krustpils and Mangali. In 2019, the groundwater monitoring well network would be implemented in the territories of Torņakalns, Gulbene and Pļaviņas stations. Groundwater monitoring wells have been installed at the station Indra near the Belarusian border, as well as in the place of the accident "Krauža" where remediation works are being carried out in 2012. Since the beginning of 2012 (when the accident happened) to the end of 2018, 177.88 tonnes of oil products/water emulsions that account for 83-97.5% of the liquid pollution resulting from the accident have been collected using the vacuum suction method, not counting the part of the pollution collected during the excavation works, calculating of which precisely has not been possible. At the end of 2018, LDz launched oil waste collection and disposal at the railway station "Višķi". In total, 597 m3 of spilled petroleum products have been collected and disposed of.

In general, LDz has 92 groundwater monitoring wells, which at the beginning of 2018 were consolidated into a single monitoring system and transferred into the charge of LDz's Directorate of Development. The results of the monitoring of soil and groundwater in 2018 showed a slow but stable improvement of soil and groundwater quality, which means that the amount of oil pollution has decreased.



Transferred for disposal in 2018

9485 kg

Scrap paper

9,3 t

Hazardous waste

307 kg

Used electric appliances

17 kg

Used batteries

Activity in accordance with environmental protection governing laws and regulations

In carrying out its business, LDz complies with all applicable external environmental protection laws and regulations, as well as internally developed laws and regulations governing the activities of LDz in the field of the environment.

In 2018, LDz has not been fined for non-compliance with environmental requirements. During the period, Environmental Management Division has received four grievances about the noise caused by the railway activity, which have been registered according to the procedures laid down by LDz and to which answers have been provided under the procedures prescribed by law.

In 2018, the catalogue of B category polluting activity permits has been maintained and updated, to ensure an efficient and faster way to see and manage these permissions and the deadlines of their review. The catalogue lists 19 LDz Traffic Control Distance permits. Information on B category polluting activity permits has been obtained from the Environmental Monitoring State Bureau.



SOCIAL IMPACT

08

Social impact by LDz is related to three essential aspects:

- 1) Considering that LDz employs more than 6,000 employees, whereas the Group employs more than 10,000 employees, the company has a significant direct impact on a large part of the Latvian population;
- 2) At the same time rail activity affects most of the largest cities as well as their surrounding counties and the everyday life of the population living there, ensuring favorable effects in terms of mobility and economic activity as well as potential adverse effects, such as safety risks, noise, etc. The company has a duty to contribute to the best possible living environment by reducing negative side effects, as well as contributing to the development of the local communities;
- 3) Railway activity is also related to the development of infrastructure for passengers, providing an appropriate infrastructure quality, safety and availability, whereas in terms of freight transport services the company's social impact is related to customer service, which includes ensuring of the transparency of services, data protection and the process of digitization and optimization.

In each of the mentioned sections the management approach and performance regarding certain indicators in 2018 is described.

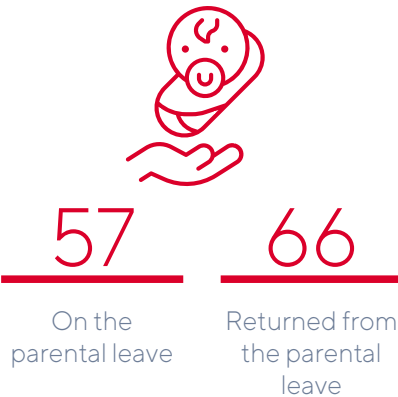
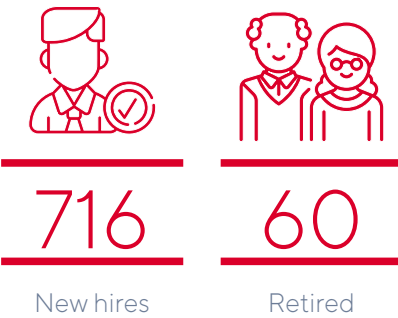
Working environment

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LDz is one of the largest employers in Latvia but, in looking at the Group’s perspective, the largest employer in the country. Hence, it assumes responsibility to employees at all levels. One of the company’s key social impact directions is a well-thought of approach of attracting new specialists and change of generations. The qualifications of specialists is of key importance same as the ability to learn new technology and to see the overall picture, not only look from the perspective of a narrow specialization, as well as a responsible attitude toward the work to be done, including commitment to safety.

Around 70% of the company’s employees are aged over 40 years. Therefore, in recent years, the matter of succession planning and attracting new talents to the railway industry has been gaining an increasing importance. These problems are topical not only in Latvia, but throughout the world, which is demonstrated by the talent platform created by the International Railway Union (UIC), within the scope of which new ways to attract potential employees and drive their professional growth are being sought.

LDz plays a critical role in Latvian regions, i.e., 30.5% of the company’s employees are employed in Latgale and over 17% in Zemgale, thus the company is fulfilling the social function of contributing to the prosperity of the regions. Only slightly more than a third of all of the company’s employees (37.7%) are employed in Riga and nearby Riga.

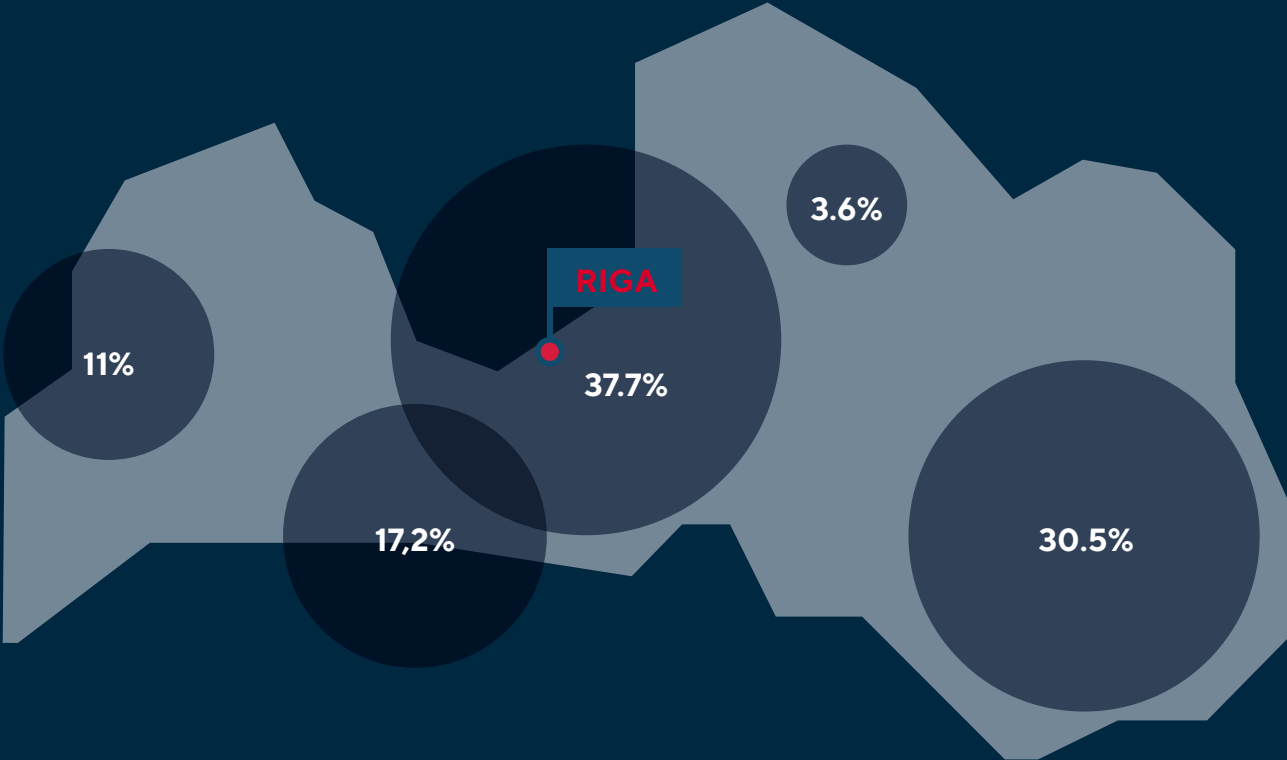


The company’s position in the field of the working environment can be divided into three major directions:

- The development of a sound, predictable and supportive working environment in cooperation with the Latvian Railway and Transport Industry Trade Union (LDzSA) and based on the collective bargaining agreement concluded between LDz and LDzSA (among other things, the provisions of the collective bargaining agreement apply to all workers, not just the members of the trade union). The existing collective bargaining agreement provides for additional benefits for families with children, loyal employees, etc.;
- Promoting the education of the new professionals and attracting them to the company in cooperation with the leading educational establishments in the field of engineering (including the Riga Technical University and the Riga and Daugavpils vocational educational establishments), as well as ensuring the continuing education of the existing specialists, using the opportunities provided by the LDz Training Centre. To promote attracting new specialists, the horizontal career opportunities within the company and LDz Group and ensure a uniform human resources planning, appraisal and development, at the end of 2018, subject to changing the bylaws of the LDz HR Directorate, the Career Management and Recruitment Center was established;
- Gradual involvement of the employees in the planning of the development of the company. Just like most of the railway infrastructure companies in the region, LDz has historically formed as a structure with a high degree of discipline and hierarchy, however, with the advent of the latest technology and with the development of the cross-cutting cooperation mechanisms and cooperation within the working environment increased not only at the company, but also at national and international levels, more attention is paid to ensure that the broad and diverse resource of LDz – employees – get involved in the planning and putting forward the proposals for improving work processes.

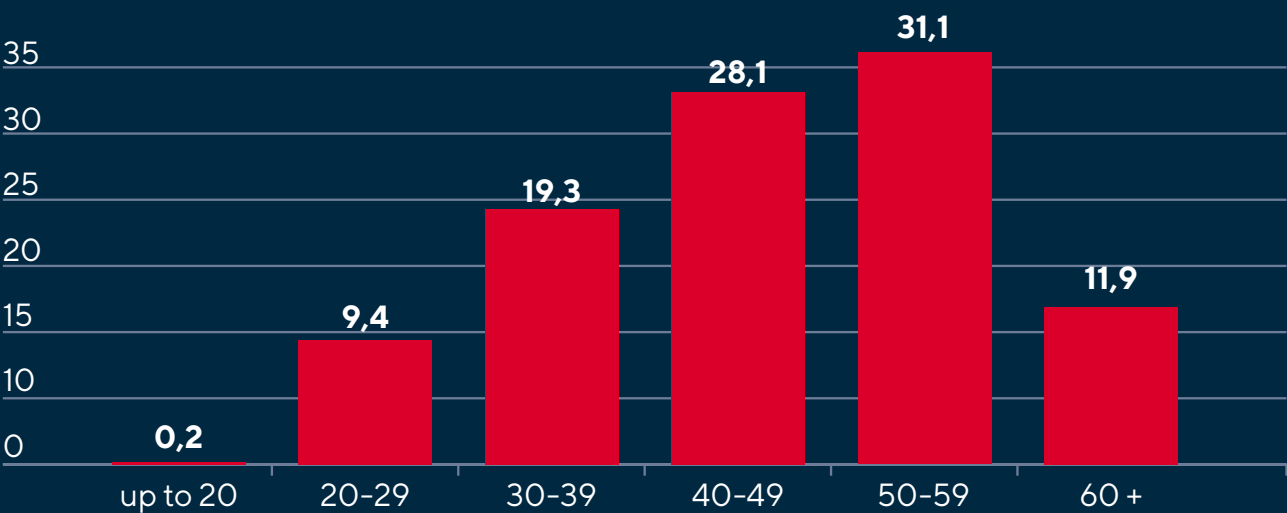
Employee distribution by region

2018



Employee distribution by age

2018



Employee turnover

In 2018, the average number of employees at LDz (calculated as the sum of the number of employees at the last date of each month and divided by 12) was 6,439. The number has dropped slightly compared to the previous two years, when the average number of employees at LDz was 6,491 (2017) and 6,808 (2016). At the end of 2018, the company employed 6,321 people. The said changes in recent years were due to the restructuring of processes and efficiency increase, particularly in areas where a wider use of the technology and less manual work was introduced.

At the same time every year new specialists with requisite technological skills, knowledge and competencies are recruited. In 2018, the number of hired employees at LDz was 716 (11.3% the number of employees employed by the company at year-end). Most of the new employees were taken by Track Distance (due to the transfer of taking over the employees of the SIA "LDz Infrastruktūra"), as well as the Traffic Control Distance and Regional Management Unit.

Whereas despite the high average age of the company, 60 of LDz employees retired in 2018, which is 0.95% of the total employees. During the previous two years, the number of retired employees was 211 and 141, respectively.

In order to ensure a smooth succession planning and the transfer of the accumulated knowledge and skills to the company's new specialists, in 2014, the Rules of the Succession of Employees at VAS "Latvijas dzelzceļš" was approved.

At the same time LDz is willing to attract new employees, therefore during the year various activities were carried out where everyone has the opportunity to learn about work in the railway sector. In the annual Shadow Day, organized by the organization "Junior Achievement Latvia", 22 school children visited LDz in Riga and Daugavpils, where in the Open Door Week held in April, the company had 71 visitors from various educational establishments.

Benefits provided to employees

According to the Group's collective bargaining agreement entered into between LDz and the Latvian Railway and Transport Industry Trade Union (LDzSA) on 12 January 2017, the company's employees in addition to the benefits provided for in the law have access to the following benefits:

- The premium for the work that an employee performs in addition to their direct job duties, apprenticeship training or work of special circumstances (such as under increased noise, vibration, at height, etc.);
- Additional paid vacation days for a certain number of years worked in the company (applies to 5, 10 and 15 year thresholds), for work in specific circumstances, as well as, additional leave is granted to employees who participated in the elimination of the consequences of the Chernobyl nuclear power plant emergency or fulfilled the obligations of soldiers in Afghanistan in a war or other military conflicts within the framework of compulsory military service;
- Additional paid holidays on the occasion of their 50th or 60th anniversary, marriage of the employee or their children, or graduating an educational establishment, on the first day of the school year (for employees whose children are in grade 1 to 4), as well as in case of the death of the employee's spouse, parents or children. Monthly extra rest day is allocated to employees who have two or more children aged 2 to 12 years;
- Severance pay and additional monthly allowance in the amount and time period, if the company under the procedure prescribed in the Labor Law is terminating the employment relationship with a long-term staff (more than 10 years in the industry) that has five or less years left to retirement;
- Allowance for the purchase of school supplies to the children of employees, grade 1 to 4;
- Removal expenses for the employee and his family members and, if necessary, compensation in the amount set by the acquisition of a residence, if the interests of the company require that the employee relocates to another city, parish or region;
- Support to the employee or their family in case of an accident or due to eliminating the consequences thereof;
- LDz has entered into the agreement on life and accident insurance of the company's employees. The employees are also covered by insurance in case of serious illnesses;
- LDz has an approved annex to the Collective bargaining agreement, i.e., the procedure for insurance coverage for LDz employees and the employee lists of occupations for which pension savings are ensured;
- In cooperation with the trade union health insurance for employees and their relatives, as well as other additional benefits related to the promoting health of the company's employees.

Use of parental leave

In 2018, 57 employees had the parental leave (PL) (16 men and 41 women), and 66 employees returned from the PL (17 men and 49 women). This is slightly less than 2017, when 66 went to PL and 79 employees returned to work.

Management and employee relations

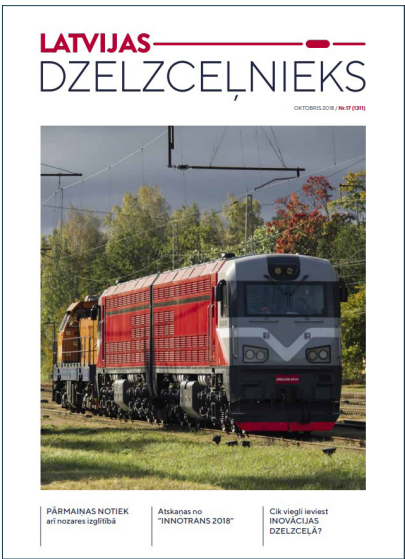
Given the large number of employees, effective and timely communication plays an important role in the activity of LDz, ensuring the flow of information and involvement opportunities at every level. Although the employees of LDz are geographically dispersed throughout the territory of Latvia and perform very different tasks, the company has established a system of exchange of information, addressing each employee individually as well as using communication and information-sharing opportunities through LDzSA as provided for in the collective bargaining agreement.

No minimum time limits for the provision of information are provided, but it is in the interest of the company to provide information in a timely manner, and this is required in the collective bargaining agreements provide for the timely provision of information to trade unions on the company's economic and financial position and the expected changes, the reorganization of a the company's structural units or downsizing of the number of employees, as well as the provision of information and consultations with LDzSA concerning such decisions that affect or may affect pay, work and leisure time, work conditions, etc. employment-related aspects.

To ensure direct communication with employees on a daily basis, a number of communication channels have been established. Since 1992, the newspaper (now -magazine) "Latvian Railwayman" has been published. In 2014, LDz intranet was established, which contains not only topical daily information, but also staff contact information, the documents necessary for work, application forms, salary calculation and other information necessary for employees. Currently, the Intranet is used by 2,800 employees a day, whereas the contents thereof are backed up in the employees' portal, which is also available outside the company - using the online banking data to log in.

Over the last two years, the magazine "Latvian Railwayman" has been transformed from a weekly newspaper into a monthly magazine with an increased quality content not only on developments topical for the company but also about the current developments in the industry. In 2018, it acquired a new meaning in accordance with the approved new brand of LDz. The circulation of the journal is 1,300 copies monthly.

In recent years, employees are increasingly involved in the planning and implementation of the company's strategic issues and the future lines of business, engaging them in initiative groups for researching certain matters and developing solutions. Every employee also has an opportunity to submit their proposals to "LDz Idea bank", an a specific Academy for Managers at LDz Training Centre is established, in order to carry out specific trainings, as well as use the format for executive management's dialogue with the middle-level managers.



1300
Copies monthly

Occupational safety

The field of occupational safety in LDz Group is governed by the Occupational Safety Policy developed to ensure a working environment that is as safe as possible and not harmful to the life and health of employees. The implementation of the Occupational Safety

Policy and priority actions are laid down by the Technical Inspection of LDz, which coordinates the structural units, carries out monitoring and control as well as provides recommendations and guidance on improving occupational safety measures.

On the basis of the Occupational Safety Policy Occupational safety systems have been developed in LDz and the subsidiaries, covering all employees. The system's task is to prevent or minimize the risks existing in the working environment, ensuring early identification, assessment and elimination of the risks.

In 2018, the audit of the occupational safety system was carried out, recognizing the compliance with the requirements of the laws and regulations. Taking into account the audit recommendations, special attention will be paid to improving the occupational safety training in the company.

There are several dangerous and harmful factors in the railway industry, which potentially may cause serious risks as well as accidents. The employees working in the territory of increased danger are those who work in the track area because they may be subject to the rolling stock impact. Not to expose one's health and lives to risk while working in the track area, it is essential to strictly adhere to safety procedures, beware of the traffic of the rolling stock, wear a high visibility protective clothing, comply with the railway traffic signs, indicators and legends.

LDz takes care that the occupational safety would meet the provisions of the laws of the Republic of Latvia. Employees are required to comply with the requirements of laws as well as internal regulatory documents in respect of safety. Under the occupational safety system, all new employees, taking up employment at LDz, during the introductory training are trained and instructed on the occupational safety requirements and with their signature certify to comply with them. In addition, employees who acquire specific railway professions,

get theoretical and practical training in the workplace and before the right to work independently is given, their knowledge of both occupational safety and railway technical operations are examined. Training is also held at the LDz Training Centre, e.g., on safe use of dangerous equipment and other significant topics.

A key element of Occupational safety system is permanent monitoring and control, to timely detect potential risks, which may become the cause of an accident, and carry out a risk assessment of the working environment. This function lies within the competence of the Occupational Safety Department of the Technical Inspection of LDz . In the company, the inspections of the work environment take place regularly to promote using safe occupational practices, - those also include unplanned for and sudden inspections exactly in the place of carrying out a specific work. In 2018, 753 inspections were carried out in LDz structural units, approximately 19% of them were unplanned inspections without prior notice. During the inspections it is verified how employees comply with the occupational safety requirements, use collective and individual safety equipment and work equipment. The results of the inspections are formalized in writing, deficiencies are identified and the measures for eliminating them and the deadlines for doing that are specified, and timely execution of the measures identified during the inspection is controlled.

According to the Occupational safety system of LDz, an occupational safety specialist of the specific structural unit (an OS specialist), employees working at the relevant working places as well as a trustee of the employees who represents the interests of the employees in occupational safety take part in the inspections.

The inspections carried out in LDz structural units in 2018:

Inspections Structural unit (SU)	LDz Technical inspection	OS specialists at SUs	
		Planned	Without prior notice
Track Distance	32	83	54
Signaling and Communications Distance	37	110	28
Regional Management Unit	12	231	30
Traffic Control Distance	35	39	5
Wagon Maintenance Distance	25	24	8



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Based on the results of the risk assessment of the working environment, employees regularly undergo mandatory medical examination and are provided with personal protective equipment under the collective bargaining agreement.

Although work in the railway industry is associated with a high risk, the number of occupational diseases and accidents is small.

In 2018, from the average number of employees (6,439 employees) occupational diseases were identified for 19 employees, in addition, the number thereof had declined over the year. In 2017, 25 employees were diagnosed with occupational diseases. Mostly technical staff is diagnosed with occupational diseases – the employees whose job is often physically demanding work, such as track fitters, repair workers, wagon inspectors, drivers of rail transport, locomotives and cranes, etc.

In 2018, the Technical Inspection of LDz carried out an investigation and analysis of the cause of occupational diseases and working conditions. The trend in occupational diseases, as well as diagnoses and occupations contributing to occupational diseases have been identified. The main cause of occupational diseases in almost all cases is physical workplace factors, i.e., heavy manual work, lifting of heavy things, relocation, and retention with physical force, overload, forced labor positions, etc.

In 2018, seven accidents at work were investigated, of which two resulted in severe consequences, with no lethal outcome though. Accident investigation and recording, and the legal framework thereof occurs in accordance with the relevant Cabinet Regulations. The representatives of the employer and the employees or the State Labour Inspectorate take part in the investigation.

In 2018, total sick leave due to accidents at work was 614 days, costing the company EUR 1,483 (in accordance with the Cabinet Regulation, it is the duty of the employer to cover the employee's sickness pay in the amount which is not less than 75 percent of the employee's average earnings for the 2nd and 3rd day of disability and not less than 80 percent from the 4th day of disability for the first 10 calendar days).

The results of the analysis of the statistics of past years on accidents at work suggest that primarily men aged 41-50 years get injured, and most of the accidents happen due to the lack of care or the failure to comply with the occupational safety instructions.

It is important to point out that in 2018, the Informative system of stationary alcometers (ISSA) was implemented with a view to con-

trolling employees for alcohol intoxication during working hours. The ISSA is equipped with a video camera set, and the task thereof is to increase the efficiency of the inspection of the employees' work capacity, reduce the risks related to human error related accident risks and possible costs. Control is carried out before the start of the working time and end of the working time for all employees whose job performance directly affects the safety on railway. 39 stationary alcometers have been connected to the ISSA centralized system.

Activities promoting employees' health

Alongside with the mandatory health checks provided for in the Occupational safety system and the health insurance available to every employee and his family members, in cooperation with the Latvian Railway and Transport Industry Trade Union LDz ensures the opportunity for its employees to engage in a variety of sports activities, organized by the sports club of the trade union "Lokomotive", thus contributing to the promotion of health enhancing hobbies.

In accordance with the collective bargaining agreement, LDz provides financing each year to be used by the trade union to promote a healthy lifestyle and improve employees' health. This financing can be used to participate in team sports (such as ice hockey or football), and to participate in specially organized chess, table tennis and other sports championships, as well as to visit athletics hall to exercise under the guidance of the sports coach Viktors Lācis. Active lifestyle opportunities also include heavyweight lifting and taking swimming lessons, as well as engaging in other physical activities in winter as well as summer season. A team of the employees of LDz takes part in the Unity bike race, Lattelecom Riga Marathon and other competitions.

In cooperation with the sports club "Lokomotive", the company holds a sports festival for its employees, which traditionally takes place in the recreational base "Virogna" in the Daugavpils county. In 2018, 14 teams (15 members in each) took part in the sports festival, whereas a large number of LDz members with families visited the sports festival.

Every year a team of the best athletes from LDz go to Sochi to take part in the sports games organized by Russian Railway, thus promoting cooperation with the representatives of the railways of the neighboring countries. Whereas teams from Russia and Belarus participate in the sports festivals organized LDz and SC "Lokomotive". Latvian railwaymen take part in the global and European workers' sports games. It is expected that in June 2019, European Railway games will take place, in which the athletes of LDz will take part, too.



Training and education

ATTRACTING SKILLED WORKERS AND ENSURING PROFESSIONAL GROWTH OF THE EXISTING STAFF, THROUGH CONSTANTLY IMPROVING THEIR KNOWLEDGE BOTH IN THE FIELD OF THEIR JOB DUTIES AS WELL AS ACQUIRING NEW SKILLS ENABLING OPTIMISATION OF ONE’S WORK, AS WELL AS DEVELOPING A HORIZONTAL CAREER IN THE COMPANY, IS ONE OF THE PRIMARY TASKS OF LDZ HUMAN RESOURCE DEVELOPMENT.

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To ensure the achievement of these objectives, LDz has a continuous cooperation with external educational establishments (the Riga Technical University (RTU) and the Riga and Daugavpils vocational training establishments). Furthermore, professional vocational education establishment “LDz Training Centre” that provides a wide range of educational programs to all employees of LDz Group, as well as the workers outside the Group.

LDz employees who studied in the educational programs of educational establishments and graduates thereof in 2018:

Educational establishment	Study program	Number of students - LDz employees in 2018	Number of LDz employees - graduates in 2018
Riga Technical University, the Faculty of Mechanical Engineering, Transport and Aeronautics, the Institute of Transport	“Rail electrical systems”	63	14
	“Rail transport”	36	36
Vocational education competence center “Riga State Technical School”	Vocational secondary education program “Rail transport” with the qualification “Technician of railway tracks”	13	15
Vocational education competence center “Daugavpils Technical School”	Vocational secondary education program “Rail transport” with the qualification “Technician of railway tracks”	13	



ARTŪRS ZEPS

Development Prorector,
Riga Technical University
(RTU)

"The University highly appreciates engaging of the management of LDz in the Advisory Convent of the RTU, as well as in the co-operation with the RTU Railway Department and the Railway Automation and Telematics Department.

LDz is one of the most important cooperation partners of the RTU, not only using the opportunity to provide further training for its staff, but also creating the possibility to the staff without a university degree to obtain a bachelor's degree. As part of the cooperation model, RTU offers the content and format of the training designed particularly for the company, which facilitates the ability of the employees to start and undergo the training cycle. In view of the forthcoming railway infrastructure development plans, the development of the railway electrification project and Rail Baltica, cooperating with the LDz is very important for RTU in order to be able to provide, working jointly, a modern training programme for students, which would be necessary for the development of the railway sector. It is of equal importance, through engaging in research projects, to raise the research capacity of RTU and provide support to the industry in general in terms of the application of the latest technological developments, as well as coming up with new and innovative solutions."

Within the scope of the mentioned programs in cooperation with the Riga Technical University (RTU), the company regularly reviews the content of certain study programs, as well as works on new areas of expertise. For example, in preparation for electrification of the railway network project, the infrastructure created within the scope of which will be operated after 2023, a new direction of specialization was created at RTU already in 2015. Currently 33 students have enrolled in it, and 21 students will graduate this program in 2019. Whereas the professional higher education undergraduate studies program "Railway electrical systems" was complemented with new subjects in the telecommunications field, creating a new specialization field "Railway telecommunications". In 2018, 12 employees enrolled in the studies of the program.

Whereas at the end of 2018, 47 employees of LDz raised their professional qualification attending three multi-direction training courses at Belarus National Transport Institute. Throughout the year, 944 employees of LDz attended various training courses organized by educational establishments.

Furthermore, in cooperation with the foundation "The Riga Technical University Development Fund" in 2018, the competition for granting scholarships for acquiring and improving practical skills at LDz was organized for the students of the Vocational education competence center "The Riga State Technical School", the vocational education competence center "Daugavpils Technical School" and the students of the Transport Institute of the Riga Technical University. The competition takes place in two rounds, The first round is based on grades (average grades). 30 different railway specialties students (Years 1-3) are identified to whom internship at LDz is offered under the supervision of LDz employees, providing a lump sum scholarship of EUR 285 to the students. In the second round of the competition, from the 30 students identified based on their grades, and performance during internship, as well as motivation for the future theoretical and practical education, 24 students are selected, who receive a monthly scholarship of EUR 95 (the students of vocational schools) or EUR 110 (the students of the RTU) for ten months. The scholarship is lost in case of poor grades. Scholarship contest in cooperation with the RTU Development Fund is held since 2012 and it would also be held in 2019.

The company's own vocational training establishment, i.e., LDz Training Centre has been developing dynamically. In 2018, it had a close cooperation with the Latgale Training

Centre in Daugavpils with a view to ensuring a consistent quality of the methodological materials, as well as to discuss the issues pertaining to the topical issues in life-long education of adults. Negotiations were also started with the Rezekne Technology Academy about improving the quality of the professional competences of the coaches of LDz Training Centre, ensuring the possibility for them to enroll to the educational program "Organisation and management of the pedagogical process" and get a certificate in pedagogy (improvement of the teacher qualifications was started in 2019). Negotiations with the National Centre for Education (VISC) have been started regarding the involvement of LDz Training center in the European Social Fund project the aim of which is to ensure an effective management over the vocational educational establishments and improving the professional competence of the engaged staff (see detailed information on **the website of VISC** (in Latvian)).

LDz Training Centre cooperates not only with educational establishments, but also with other institutions, building up top quality and topical education programs. For example, the State Fire and Rescue Service gave recommendations and participated in the approval of the program licensed in 2018 "The program of general-level knowledge about the fire safety of objects for the responsible staff" (license ID number P_901).

To develop top quality, nationally accredited training programs, LDz Training Centre works closely with the State Education Quality Service, as evidenced by the accreditation No. AI11082 received in 2018 ("The program of general-level knowledge about the fire safety of objects for the responsible staff") and the received license No. B75 ("The program of general-level knowledge about the civil safety of objects for the responsible staff").

Overall in 2018, LDz Training Centre provided training equal to 59,026 training hours. The training hours of the employees of LDz and other Group companies are not accounted for individually, however, assuming that LDz employees made up 87% of the total number of the participants of trainings and a similar ratio would have been calculated from the total number of hours, the approximate number of training hours of the employees of LDz is 51,353 participant hours ((87% of the total 59,026 hours). Thus, given the total number of employees at LDz, in 2018, training was provided on average for 7.98 hours per employee (51,353 hours/6,439 – the average number of LDz employees).

Training
provided to the
employees of
the rail transport
sector by LDz
Training Centre
in 2018

5212

Total number of
students

4544

or 87% – employees
of LDz

609

Employees of the
subsidiaries of LDz
Group

59

External customers

59026

Total number of
training hours in
2018

Given one of the core values of LDz is safety, the company carries out a series of measures to facilitate work in a safe working environment. One of the measures for building a safe working environment is staff training. Thus LDz Training Centre attaches particular importance to providing training to employees and developing of educational programs and improving in this field. In 2018, the priority training areas were "Working environment and safety", "Machinery and technology" and "Rules of the technical operation of the railway".

LDz Training Centre regularly monitors the events in the country and develops education programs and organizes workshops on the developments in the law binding on the company. For example, in 2018, attention was paid to the application of the personal data protection rules. Educational seminars in this area were held for LDz employees in Riga and Daugavpils. Having regard to the increasing focus of LDz on technology, including the use of information technologies in routine work, in 2018, preparatory work was carried out so that in 2019, it would be possible to start training courses for employees – a two-level computer skills training programs (commonly used data processing applications (MS Office, and other widely used programs), as well as using more in-depth expert level data processing and analysis programs).

In 2018, the program LDz Academy for Managers was also continued, in which the middle-level management of LDz and its Group's companies had the opportunity to master knowledge of the Labor Law, staff motivation, strategic and operational planning, stress management, staff psychology and other skills required for a manager. In 2018, this program was completed by 17 participants, but overall 80 employees enrolled in the program in the period from 2013 to 2018.

LDz Training center in cooperation with the structural units and experts of specific fields also enrolls in training programs of the counterparties according to the needs of the structural units and developments. For example, in 2018, training "Designing electrification projects with AutoCAD" was organized for Signaling and Communications Distance and Track Distance specialists. At the end of 2018, negotiations were started regarding the employee training in the field of telecommunications network construction. In January 2019, the employees of Signaling and Communications Distance improved their knowledge enrolling in the training program "The Laws, Cabinet Regulations and Building Standards regulating the construction of telecommunication systems and networks".

Career and performance appraisal

On 7 May 2015, LDz approved the Employee Performance and Competence Appraisal Regulations of VAS "Latvijas dzelzceļš", under which annual appraisals based on a structured questionnaire and interviews are carried out for directors and the deputies of the Directorate General of LDz, the Heads of structural units of the Directorate General and structural units of LDz and their deputies. In 2018, 49 appraisals were carried out for the said employees.

In accordance with the Employee Performance and Competence Appraisal Regulations, HR Directorate of LDz also carries out extraordinary assessments and discussions in case of major career and wage changes, and in case of change of job duties or other significant potential changes. In 2018, such an assessment was performed for 19 employees.

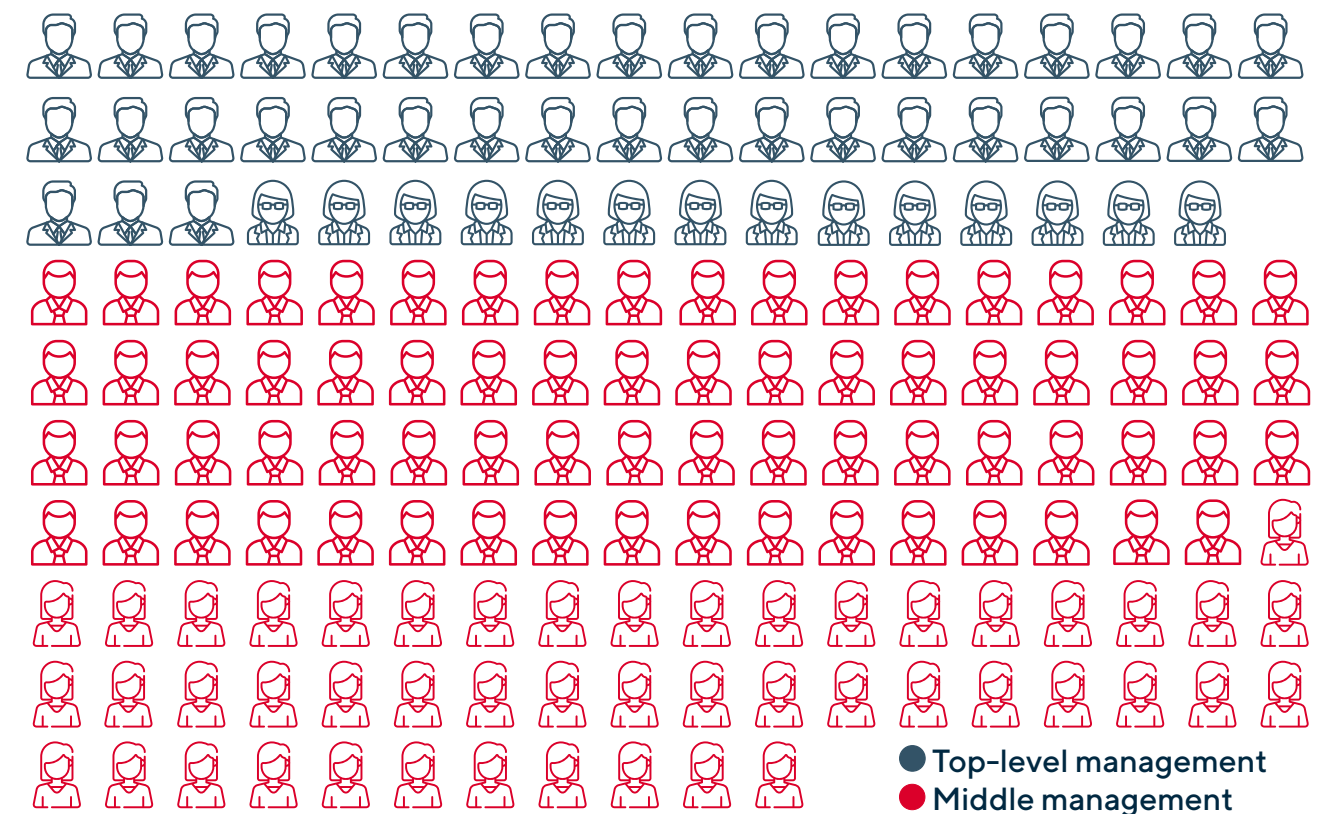
The appraisal of employees of other levels are carried out by the heads of the relevant structures as necessary, however, the company plans to develop standardized competency assessment tools and options, covering an increasingly broader range of employees.

At the same time the HR Directorate has prepared development schemes of the railway occupations (a structure demonstrating how particular railway specialists can develop their careers, what skills they must acquire, what are the career prospects, what are the professional requirements, etc.), but, taking into account the changes to the strategic vision of LDz complemented with the need to hire top-notch technological (including IT) professionals, similar development would be prepared also for other occupations.

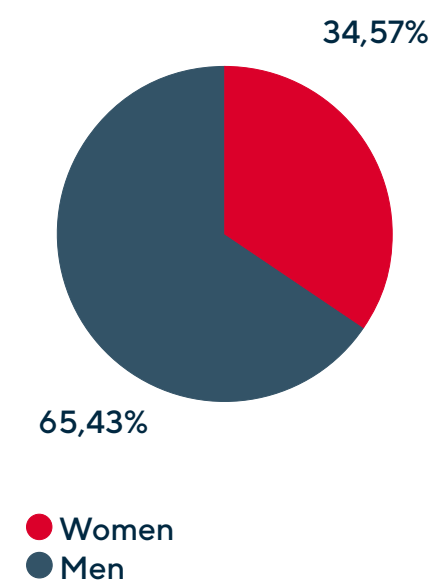
To promote employee appraisal systems and the development of the employees' professional growth at LDz and the companies of the Group through developing both vertical and horizontal career options, Career Management and Recruitment Center was set up at the end of 2018. More information is provided on page 39.

Diversity and equal opportunities

Breakdown of the management-level employees by gender, 2018



Breakdown of employees by gender, 2018



There are no defined gender quotas at LDz, gender equality exists, and staff (including senior and middle management positions) are employed depending on their professional background, skills and experience.

The company has a uniform work remuneration system, which is based on fair and objective criteria. All jobs are classified using a uniform methodology and the amount of wages is determined depending on the severity of the executable work, intensity, complexity, and the specific competence required for the job, the resulting level of responsibility, appropriate educational background for the job, work experience at the relevant area, individual abilities, qualifications, skills and performance (achievement of the objectives set by LDz). The underlying principle of the remuneration system – a similar pay for the same work or work of equal value throughout a single structural unit at LDz as well as across LDz generally. Employee pay is determined depending on the job duties to be performed rather than the gender or location of the employee.

Responsibility towards the general public

LDZ INFRASTRUCTURE CONNECTS THE LARGEST CITIES IN LATVIA AND CROSSES MANY COUNTIES, THEREBY ENSURING EFFECTIVE MOBILITY OPPORTUNITIES TO THEIR CITIZENS, AT THE SAME TIME MAKING THE PUBLIC TO PAY ATTENTION TO SAFETY AND BEHAVIOUR IN THE VICINITY OF THE RAILWAY, THUS THE COMPANY'S INVOLVEMENT AND ROLE IN THE LIFE OF THE LOCAL COMMUNITIES IS SIGNIFICANT.

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LDz is one of the largest companies in Latvia and has a duty to be accountable to the public at large. In the future vision of the company presented in 2018, a major role is attributed to the leadership of LDz in promoting excellence of Latvia, which means a responsible selection of counterparties, projects and activities.

The company participates in the life of local communities, through supporting major initiatives, according to the Donation/Gift policy approved by LDz Group as well as by engaging in public and significant activities in regions where LDz has a great social and economic role.

Engaging the local communities

In 2018, a new Donation (Gift) Policy of LDz stepped into force, narrowing down the areas to be supported while at the same time focusing on the directions of the activity, which are most significant for the community and national development, i.e., support for education and science, health promotion, social welfare and environmental protection projects. The policy defines the limits for cooperation organizations (such as the tax arrears), as well as provides for not granting any donations (gifts) for natural persons.

Under the Donation (Gift) policy and the procedure for reviewing the applications in 2018, LDz granted four donations (gifts), three of which were associated with the help of socially vulnerable groups of the public, but one – support for the foundation "Iespējamā misija" (Mission Possible) to help the training of new teachers, focusing on the teachers of science for Latvian schools. Donation to "Iespējamā misija" was approved by the Ministry of Transport and the Ministry of Finance under the procedure prescribed in the law.

Within the Group, in 2018, five more donations (gifts) were granted to national and regional level organizations, the aim of which is to support socially vulnerable groups of the public, including children.

More information on the donations (gifts) granted in 2018 is available on the **website of LDz** (in Latvian). Important to emphasize, that over the last three years, the amount of the donations (gifts) given by LDz has declined significantly.

The donations received by LDz are also specified on the website, i.e., those are items related to the operation of the railway, as well as visual, written and other evidence transferred to the Latvian Railway History Museum, which functions as part of LDz Communication and International Relations Directorate. In 2018, the Latvian Railway History Museum accepted a donation of 24 articles (14 photos and 10 documents), which document the career of the railway worker, locomotive driver Arvīds Popens (1906–1976) in the railway company.

At the same time, through company's own activity, LDz has been actively involved in the provision of support to Rauda and Medumi special boarding schools, taking into consideration that the Latgale region is particularly important for LDz and that a significant share of LDz employees are employed in that region. Thus the company considers it LDz's duty to support socially vulnerable community groups in this region of Latvia, through systematically focusing on long-term support of the mentioned educational establishments. LDz organizes sports games to the students of these schools, Christmas events as well as provides the opportunity to visit cultural and educational events in Riga.



Impact on the local community

LDz employs over 6,000 nationwide, which means a positive impact on 6,000 families and the welfare thereof. At the same time, drawing on the company's experience, higher activity levels in the particular region during the time of implementing large infrastructure projects have traditionally increased economic activity in other sectors as well, e.g., as in 2015, during the construction of the second track in the unit Krustpils–Skrīveri. Such an activity is expected during the railway network electrification project. During this period, builders will be working along the railway, often attracted from other regions, which means there will be demand for commercial, catering and hospitality services, which would promote the development of small businesses in the region.

Whereas on a daily basis, the company's infrastructure enables an effective functioning of passenger rail transport services, promoting the mobility of people between the largest cities of Latvia. The quality of the infrastructure maintained by LDz in recent years has been rated as "excellent" (in 2018, it was rated with 15.6 points; the lower the number, the better the quality of the rail tracks). Modernization works carried out have played a major role, as a result of which the top quality, competitive rail infrastructure has been created that can be used for all types of transport services. To improve the mobility of the population, LDz together with AS "Pasažieru vilciens" and municipalities has worked out an express train on the line of Valka–Riga, specifically for the section Cēsis–Riga, thus allowing the residents of Cēsis to get to Riga in less than an hour and a half, stopping only at Līgatne, Sigulda and Inčukalns. The possibility of shortening the journey even more is being evaluated, in a similar manner the development of express-train routes in other regions of Latvia are being considered.

Whereas the noise and vibration impacts are considered to cause a potential negative impact on the population, however, LDz has been taking systematic measures aimed at reducing it, as well as it is working with municipalities, drawing their attention to abstaining from planning construction of new residential areas in the vicinity of the railway. In 2018, LDz developed a draft of the action plan for reduction of noise on the railway lines with traffic intensity greater than 30,000 trains a year. Such lines are located in Riga as well as between Riga and Lielvārde. In the beginning of 2019, the public consultation of the draft plan was carried out.

Maintaining and promoting the industrial heritage

One of the obligations LDz owes to the public is safeguarding the industrial heritage of the railway industry and ensuring accessibility to it, which is effected by the Latvian Railway History Museum, the expositions of which are available in Riga and the Jelgava branch of the Museum.

In 2018, the Museum developed a new operational strategy Railway Museum 2030. The strategy puts forward ambitious objectives and tasks, and defines a new mission.

At the end of the year, the Museum received the conclusion of the Ministry of Culture to prolong accreditation of the Museum for the next five years. The Accreditation Commission particularly acknowledged the professional work of the Museum's staff, great team, target-orientation and courage to be different from other museums.

In 2018, the tender for the expansion of the territory of the Museum and development thereof was completed; the contract was awarded to the architect's office NRJA. At the end of the year, the architect's office submitted the minimum construction draft for approval to the Riga City Construction Board. In view of this, the Museum has begun work on a new exposition and the concept of its operation after expansion.

In terms of the stock of the museum, the key task is not only to build and maintain the most professional stock of the railway history in the Baltics, but also to ensure that it is accessible to the widest public. Therefore, work has been started to develop the digital platform of the inventory of the museum, and digitizing of the inventory objects is continued.

In 2018, 152 small and medium-format photos, documents, and printed matter were scanned, in cooperation with the photo agency F64, 50 large format printed matter articles have been digitized, as well as 100 objects currently exposed at the Jelgava branch of the Museum have been photographed. The digital catalogue of the inventory of the museum will be freely available on the Internet on the website of the museum <https://www.railwaymuseum.lv/> and will enable anyone interested to view most of the collection articles not being used in the exposition.

During the reporting period, 104 new articles, including 22 purchased articles were accepted, 58 articles were accepted

upon the examination of the Scientific archive, as well as 24 donations were received. As the most important and valuable item may well be the station attendant's clock dating back from 1930s, i.e., indoor ramp clock that was connected with the outdoor platform clock. The objects documenting the career of a person in the railway company are also considered valuable. In 2018, the Museum received a donation – photographs and documents regarding the locomotive driver's Arvīds Popens (1906-1972) career at the railway company. Personal belongings are valuable museum articles as they carry the evidence of a particular person; innovations as seen through the eyes of the particular person based on his experience tells the story of the railway throughout three significant time periods.

During the year, the specialists of the Museum provided 34 consultations about the topics related to the railway history. During the consultations the stock of materials and the scientific archive (approx. 6,000 articles) have been used by students and school children, journalists, researchers and writers. The articles of the stock of the Railway Museum have served not only for research, but also as a source of inspiration, – for example, for creation of a feature film footage that includes the rail-specific landscape. Advice was given to the artists acting in the film "Pilsēta pie upes" ("The town at the river"), "Dvēseļu putenis" ("The blizzard of souls"), "LIETAS NR. 1918-2018" ("File No. 1918-2018"). The photos kept at the Museum were used in preparing the book "The history of Latvian art. Volume 3." and the pending book dedicated to passenger transport services to be issued by AS "Pasažieru vilciens". The materials of the museum inventory have also been used to prepare information stands. For example, in the Vīpe parish of the Krustpils county, a stand featuring the Trepe station was prepared. The Association of Tourism in Vidzeme prepared informative stands about railways in Vidzeme, etc.

A dozen of articles were deposited from the stock of the Museum during the review period. The articles were mostly loaned to Stāmeriena Centre of culture and the Gulbene History and Art Museum, that organized Railway Light exhibition within the scope of the celebrations of the anniversary "Bānītīm-115" (115th anniversary of the narrow gauge train in Vidzeme region; 30 articles were loaned), and the costume display "The history of railwaymen uniforms over time" (21 articles were loaned). These two activities were based on Latvian Railway History Museum stock articles; during the prepara-

tion of the exhibition, the stock custodians consulted the peers in person as well as through electronic messages. On the day of the event, the director of the Railway History Museum attended the opening ceremony of the exhibition of Railway lamps, providing a glimpse of the diversity in the collection of the articles and the historical use thereof. In 2018, responding to the call by the National History Museum of Latvia and engaging in the preparation of a joint exhibition “A century of Latvia” for the purposes of the exhibition, nine articles was deposited as well as a presentation about Jānis Leimanis and the first railway line Liepāja – Glūda built in the independent Latvia was prepared.

In 2018, work on safeguarding the printed papers and documents, as well as the rolling stock collection was continued, ensuring restoration/renovation of 20 units of the stocks of the museum – maps, diagrams, documents, and vehicles.

The salon wagon No. 00870006 and also the Canadian type wagon not inventoried yet were renovated. The roof of the salon wagon was repaired and the door was restored, whereas the wooden parts of the Canadian type wagons were treated with linseed oil paint.

In 2018, the Museum offered two exhibitions to visitors. As the XXVI General Latvian Song and XVI Dance Festival was approaching, the Facebook gallery was created on the way leading to the Song Festival. This virtual exhibition displayed the activity of the railway over the course of time during the periods of Song and Dance Festivals, it also provided information on the involvement of the railway employees in the festivities.

From 2 August to 15 September, the photo exhibition “The invisible routine of the railway” was available in the exhibition hall of the Railway History Museum. It was prepared in co-operation with two photographers – Olegs Tkačovs and Olga Sitko, giving an insight into the daily work of the railway company, routinely seen only by railway men. The exhibited works originated in the winter months of 2018, visiting a number of railway objects. More than 60 works present the daily routine on the railway and specific occupations. The exhibition provided information on how rail tracks were repaired during night time, how the heavy machinery was moved along the railway, whether there was a “black box” in the train, how wagon marshalling was organized taking care that none of the wagons in a long train stock would be redundant. The exhibi-

Museum and educational programs within the scope of formal education (kids from pre-school establishments and school students):

Seq. No.	Name	Number of events	Number of attendees
1	Class on safety	56	1261
2	Creative workshop “A journey to the past”	77	1133
3	Workshop “Learn about and build a steam locomotive”	23	349
4	Workshop “Life of a station”	35	627

Museum and educational programs as an integral part of lifelong learning:

Seq. No.	Author	Name	Number of attendees	Number of attendees
1	Darja Kovaļova	Creative workshop “The secret is in the details!”	2	61
2	Ieva Pētersone	Summer camp “We are headed in the same direction”, in cooperation with the Latvian National Library	1	12
3	Darja Kovaļova / Jānis Zariņš	Industrial tours	3	125

Thematic events (in the museum):

Seq. No.	Name of the event	Time	Venue	Number of events	Number of participants
1	A different night at the museum	19.05.2018	Viļāni	1	111
2	A different night at the museum	19.05.2018.	Dobele	1	159
3	Museums’ day	19.05.2018.	Riga	1	208
4	Museums’ day	19.05.2018.	Jelgava	1	191
5	Evening talks in the Railway Museum	2018	Riga	1	18
6	Birthday at the Museum	2018	Riga un Jelgava	38	582
7	Tours with a railcar	05.- 09.2018.	Riga	66	359
8	Tournament of the game “Ticket to Ride”	26.08.2018.	Riga	1	41
9	White tablecloth holiday at the Railway Museum	04.05.2018.	Riga	1	60
10	Meeting of the volunteers of the Museum	28.12.2018.	Riga	1	30
11	Opening event of the stickers album “Lokosātime”	28.12.2018.	Riga	1	160



tion was the result of the cooperation between the authors, the companies of LDz Group, the curators of the exhibition Andris Malahovskis, Nora Vrubļevska and the editor Ieva Melgalve.

In 2018, the exhibitions of other curators were also held:

- Laris Strunke "Aiza" (11 April to 11 May)
- The international biennial of ceramics (2 to 26 July)
- The fifth international puppet festival (20 to 23 September)
- Exhibition to celebrate the 30th anniversary of the Association of Designers of Latvia (9 to 13 October)
- The fifth international art fair "ART Riga Fair" (27 November to 2 December)

In the new strategy developed in 2018, the Museum has set an objective of promoting qualitative, rather than quantitative visits to the Museum. Therefore in 2018, it chose not to participate in the traditional Museum Night, during which the Museum was habitually visited by 6,000 people on average. Instead, the Museum hosted an exhibition at the Viļāni and Dobeles stations, where the events were visited by 669 people. The visitors were offered to watch a film, meet and familiarize themselves with the station attendant, to discuss the nature of their work, learn the history of the specific railway line, and take part in creative activities.

In 2018, the Museum was visited by 36,022 people, 475 tours were complete, 191 classes were delivered, 19 other programs or sessions were arranged, among other things the following activities were carried out:

Other aspects of the impact

Supplier social impact assessment

LDz does not perform a detailed assessment of suppliers and counterparties, whereas the **Basic Principles of Business Ethics for Cooperation Partners of LDz Group** are binding on each and every contractual partner of LDz Group who by signing the cooperation agreement confirms that it fully complies with the principles set out in the relevant documents.

Political responsibility

LDz is a state-owned capital company and acts primarily in the interests of the national economy. Its activity is influenced by political decisions and the transport and logistics policy planning documents (e.g., the Transport Development Framework for 2014–2020), as well as the laws and regulations governing the activity of the company (the Law on Railway, as well as the Indicative Railway Infrastructure Development Plan for five years developed and approved by the Cabinet in 2018).

At the same time the company's governance principles provide for a separate operational management of the company and the impact of the State and the Ministry of Transport as a shareholder on the decisions. In 2016, LDz Council was set up (more information is provided on page xx), which monitors the activity of the company, and the shareholder is involved in the activities of the company only to the extent provided for in the law.

As regards political parties – LDz's Donations (Gift) policy bans the company from supporting political parties, organizations and associations.

Liability to customers

In the traditional sense, the customers of LDz are: four freight operators, AS "Pasažieru vilciens" and Lithuanian Railways, with the latter providing passenger transport services on the route Vilnius-Daugavpils, which includes entering the territory of Latvia, as well as certain port companies that use wagon handling services provided by LDz. Cooperation with these customers is governed by the laws and regulations, and the principles laid down on page 51.

However, LDz views its liability to customers in a broader sense, paying attention to the population as the users of the infrastructure. This is particularly relevant in the Riga Central Station, which is used not only by railway passengers, but as a place with a significant pedestrian flow during the day.

In accordance with European Parliament and Council Regulation (EC) No. 1371/2007 (23 October 2007) on rail passengers' rights and obligations LDz takes care of public order and security as well as provides inquiry services to passengers. In accordance with Commission Regulation (EU) No. 1300/2014 (2014 November 18) for the technical specification for interoperability relating to rail system accessibility for persons with disabilities and persons with reduced mobility, LDz ensures acceptance and processing of applications for the use of a mobile ramp for passengers with special needs.

When implementing the modernization projects into the existing infrastructure, LDz consults the Association of Disabled People and Their Friends "Apeirons" to ensure environmental accessibility according to the

contemporary standards (the support of the organization was very important in 2015 in the process of finalizing the passenger infrastructure modernization project on the Jurmala and Jelgava lines). The recommendations of the Association will be taken into consideration when implementing modernization projects in the future. Whereas accessibility of the Riga Central Station will be addressed by altering the station within the scope of the project "Rail Baltica", and in this regard, LDz is cooperating with the company "Eiropas Dzelzceļa līnijas".

An indirect impact on customers occurs through carrying out traffic control work, planning and coordinating routes that enable the provision of passenger transport services strictly according to the schedule.

However, one of the most essential aspects of liability is the work carried out by LDz in informing the public about the safety in the vicinity of the railway and crossing rail tracks on foot, by bike or a road vehicle. Though collisions with trains occur significantly less often than car accidents on roads, more often than not they have tragic or even lethal consequences. LDz continued to pay attention to this aspect in 2018, through implementing public awareness campaigns, which underlined the difference in power between trains and human beings. More information about the safety campaigns implemented in 2018 is provided on page 42. Concurrently the company has been making improvements to the infrastructure, to improve safety in the areas where there is the greatest risk to human life (caused by intensive traffic or many parallel tracks to cross).

Customer health and safety

To improve the safety of people in the vicinity of the railway, in 2018, LDz started work at building a range of new crossings and safety mazes, fitting the crossings with lighting and sound alarms as well as fitting railway crossings with automated barriers and video surveillance systems, as well as improving the platforms, pedestrian crossings, and pedestrian paths. All the works started will be completed in 2019.

Among other things, at Salaspils and in the section Torņakalns–Olaine, new pedestrian crossing with warning signs, safety mazes and fencing structures for safer pedestrian traffic over the railway have been built. The existing pedestrian crossings are being rebuilt and renovated in Riga (Jugla), Valmiera, Ventspils and Liepāja. In 23 locations in different regions of Latvia the warning signs “Beware the train” have been set. In three places warning signs informing people about approaching the rail track have been installed. Two railway crossings for vehicles have been equipped with video surveillance systems. In 18 stations passenger platform repair works were carried out.

In the beginning of 2019, pedestrian crossing equipped with light and sound alarm was completed in Jurmala, Majori at Smilšu iela and Rīgas iela. Crossings were fitted with automatic barriers and CCTV systems at Ķegums and Jumprava.

In 2019, alarm systems would be installed at two more pedestrian crossings and two vehicle crossings will be fitted with automatic barriers and CCTV systems.

To improve the safety of pedestrians and reduce the potential risk of accidents on the tracks, pedestrian access to the track in unsuitable places would be restricted – fences will be installed near the stop at Torņakalns territory on the side of O.Vācieša iela, in the section Torņakalns–Zasulauks near the bridge on Altonavas iela – on the side of Mārupes iela, as well as at stops Dubulti and Majori – at Majori secondary school and stadium.

However, to improve the safety level at the Ogre station, in 2020 a tunnel will be built under the railway. The pedestrian tunnel will connect Skolas iela and Mālkalnes prospekts, thus allowing the city’s residents to safely cross the railway.

25
Accidents

16
Lethal consequences

5
Suicide attempts

416-1

At the same time, despite the safety measures taken and regular awareness campaigns about safety in the vicinity of the railway (see more information on p. 42), every year, there are accidents on LDz infrastructure. Accidents are still predominantly due to being uncautious and/or in a hurry without making sure of a safe crossing of the railway, not reacting to the prohibitive signals or being in a drunken state. Mobile smart devices are often to be blamed, lowering a person’s attention at the time of crossing the rail tracks, which can lead to tragic consequences.

In 2018, 25 people got into railway accidents, 16 people perished in the accidents. However, the numbers are lower than a year before, when 32 people suffered in railway accidents, of which 21 people died.

In 2018, there were five suicide attempts on the railway, in four cases, people died, but one person was injured but survived. Whereas suicide is a deliberate action of the person with the intent to cause bodily injury to themselves, in line with the European Commission directive No. 2009/149/EC on European Parliament and Council Directive 2004/49/EC as regards the common safety indicators (27 November 2009), this group of injured people is not further analyzed as part of the total accident statistics. Not including this group of victims, in 2018, 20 people were involved in railway accidents, of which 12 people died. Four of those people died on the pedestrian crossings, two pedestrians and a car driver – on the vehicle crossing, and three more pedestrians were injured on vehicle crossings. Whereas five people perished and four more got injured crossing the railway in unfitted places not suitable for that purpose,. One person was injured, getting in between electric-powered automatic doorway of the train.

Four accidents occurred on railway crossings when a train collided with a car. In three cases there were no victims, one driver of the vehicle died in the accident.

The data summarized by the Technical Inspection of LDz do not show a strong increasing trend of accidents during the dark time of the day or year, but the trend can be observed in the distribution by gender of victims, i.e., 74% of the people involved in the accidents were men and nearly half of them died of the injuries. While the proportion of women involved in the accidents is 26%, most of them perished in the accident.

4
Collisions with road transport on railway level crossings

9
Collisions with people who were crossing the railway in unauthorised places

65
Sudden braking system used to avoid an accident



BEZJĒDZĪGĀKĀ CĪŅA VĒSTURĒ



Skolnieks kapucē

VS

Vilciens Rīga—Cēsis

ESI UZMANĪGS DZELZCEĻA SLIEŽU TUVUMĀ!

Critical infrastructure and security

LDz is not only the manager of the public railway infrastructure, but it also takes care of a number of critical infrastructure objects in which the highest levels of security must be ensured. In accordance with the Cabinet Regulation No.496 "Procedure for Identifying of, Planning and Implementing Security Measures at the Infrastructures of a Critical Importance, Including European Infrastructures of a Critical Importance" of 1 June 2010, the Cabinet Regulation No. 923 "Regulation on the Public Use Railway Infrastructure Objects that are Subject to Compulsory Protection and Safekeeping Procedures" of 18 December 2007 and under the requirements of the Law on National Security, the special protection regime in the infrastructure objects of a critical importance is ensured by Internal Security Division of the Security Directorate of LDz. Monitoring of the compliance of the implemented security measures with the requirements for critical infrastructure protection is carried out by the State Security Service.

The company's Internal Security Division organizes and maintains the measures in accordance with the requirements of the keeping of the State secrets laid down in the Cabinet Regulation No. 21 "Regulations of the protection of the Classified Information of the Official Secrets, the North Atlantic Treaty Organisation, the European Union and foreign institutions" of 6 January 2004, and the Cabinet Regulation No. 417 "Regulation of Industrial Security Certificates" of 10 July 2018. In accordance with the said Regulations, supervision over the compliance of the measures for the protection of official secrets implemented in the company is carried out by the State Security Service and the Constitution Protection Bureau.

LDZ-3

Alongside these tasks the Internal Security Division of LDz is engaged in planning, implementing and maintaining security measures in the railway infrastructure objects, including physical security and pass control points, technical security, fire-alarm and fire-fighting systems, the CCTV and voice messaging systems, restricted access systems (turnstiles, programmable and code keys, biometric data readers) as well as the fencing of the objects and installing an appropriate lighting in the territory.

In 2018, EUR 359,786 were invested in the railway infrastructure protection renewal program project "Safeguarding and safety of railway objects". 27 contracts were entered into with contractors for the performance of certain works. 36 objects managed by LDz have been equipped with security systems or upgraded. Major investments have been made in CCTV, security and fire protection systems. Video surveillance systems have been upgraded on six railway bridges, as well as in one administrative building. New video surveillance recording servers have been installed in the Data Centre of the LDz Information Technology Center.

In 2018, the subsidiary of LDz "LDz Apsardze" the activity of which within the LDz infrastructure is supervised by the Internal Security Department, detained and transferred to the State Police 255 persons (90% of them being heavily drunk in a public place). 74 unauthorized persons were seized/banished from guarded territories.

Services for passengers with special needs

The railway infrastructure in Latvia was mainly built in the 20th century and even in the 19th century, when the term “environmental accessibility”, which is considered a good practice today, did not even exist. Therefore the railway infrastructure still cannot be considered available to everyone, however gradually, through modernization of the infrastructure for passengers, LDz has been taking this aspect into account. The recommendations of the Association of Disabled People and Their Friends “Apeirons” were taken into account when modernisation 16 passenger platforms in Jurmala and Jelgava lines – such as building ramps and slope ramps, ensuring a haptic labelling on the platform, constructing railway crossings, etc. These recommendations are met and followed when building railway crossings equipped with safety mazes in other parts of Latvia.

Certain improvements have been made in the Riga Central Station – electronic boards have been replaced, adjusting the colour the needs of visually impaired people. One ticket office has been equipped with an induction loop for people with impaired hearing, whereas for passengers in wheelchairs help is provided to get on the platform and on the train, which includes the mobile ramp service that must be requested from the Inquiry Service of LDz 48 hours before the planned trip. (This time period complies with the provisions of the EU legislation and is necessary to ensure that the ramp is located in the particular place and attended by a properly trained staff. This much time is also necessary to ensure that an appropriately equipped train is scheduled for the relevant trip by “Pasažieru vilciens”.) It is expected that the need for the service will disappear with the reconstruction of the Riga Central Station within the scope of the “Rail Baltica” project, as well as after AS “Pasažieru vilciens” purchases new electric-powered trains.

The mobile **ramp service** is ensured not only in Riga but in eight more stations outside the capital. In 2018, the Inquiry Service of LDz received at total of 354 applications for the mobile ramp service for passengers with special needs.

LDZ-4

Customer satisfaction

85%

Satisfied with the timeliness and reliability of the rail transport

74%

Satisfied with the appearance and technical condition of stations

72%

Satisfied with the condition of the platforms

86%

Consider the railway transport the safest mode of traffic

Although LDz does not provide inland passenger transport services and its direct contact with customers entails contact with the providers of railway services the matters regarding which are resolved as part of the routine activities, external studies (including the one carried out by “Eurobarometer” in 2018) and the public opinion survey carried out by AS “Pasažieru vilciens”, which also included aspects relating to the availability and quality of the infrastructure, suggested that the respondents were satisfied with the railway transport services (the availability of information, the appropriateness of infrastructure, the timeliness of transport services, etc.).

According to the results of the “Eurobarometer” survey, Latvia boasts the highest satisfaction level (85%) regarding the punctuality and reliability of the railway transport services. It is related to an efficient performance of the passenger transport operator, as well as LDz as the infrastructure manager (its responsibilities including effective traffic planning, timely and fast prevention of problem situations, etc.). A lower rating has resulted from the public satisfaction with the availability of passenger infrastructure (36%), which can be due to the type of the aforementioned historical infrastructure that has undergone a gradual modernization over the last decade.

Whereas according to the results of the survey commissioned by AS “Pasažieru vilciens” and conducted by the research center “SKDS”, 74% of the respondents were satisfied with the appearance of the stations and the technical condition thereof. 72% of the respondents were satisfied with the condition of the platforms, while the rating of the accessibility of WCs at stations has been improving gradually (43% of the respondents indicated that they were satisfied with the availability thereof – compared with 41% a year ago) as well as the availability of bike parking places (34% and 31%, respectively). Moreover, 86% of the respondents generally considered railway transport services the safest mode of transport with the least risk of getting into an accident.

48% of the respondents pointed out to the need to develop the express train routes with fewer stops, which also relates to operations of LDz.

LDZ-5

Development of services

At the end of 2018, with a view to improving the quality of the services provided by the Group, the development and management thereof, as well as carrying out market research and promoting LDz services in various target markets, a new Services and Customer Relations Division was set up, which also incorporates the Customer Relations Division that ensures the work of the LDz Inquiry Service. Currently, LDz provides more than 50 services related to railway infrastructure services (sale of capacity to carriers, object maintenance, wagon handling and technical maintenance, specific repairs, etc.), the services of a principal, electricity trade, rolling stock and real estate services, leasing of various types of equipment, verification of specific measuring devices and other services.

In 2019, the Services and Customer Relations Division will carry out an assessment of the procedures, quality control of services and customer relations practices, structuring an overall set of services provided by LDz to optimize the operation of the company and ensure an appropriate level of customer services.

In 2018, work aimed at evaluating the existing infrastructure services, arranging electricity trading services for natural as well as legal persons was started; the services of a principal are continuously improved, ensuring an effective cooperation with the customs. LDz has been granted the status of an authorized economic operator (AEO), which stands for compliance with the safety and security requirements in organizing supply chains and customs clearance processes. By improving cooperation with the customs authority, in 2018, a new cooperation agreement was entered into which lays down the action on the part of involved persons, the control of goods in container trains and a simplified filling of customs declarations.

In 2018, LDz also performed the analysis of the development of domestic rail services which would contribute to a more efficient use and workload of public rail infrastructure. The development of these services is also the task of the newly established division.

In addition to the services aimed at external customers, LDz has been developing internal services, which include information technology services to the employees of the Group. According to the quality policy and quality management system of LDz Information Technology Centre (ITC), which has been designed based on the international standard ISO 9001 "Quality management systems. Requirements", 92 information technology services were provided within LDz Group

as well as to external customers (such as railway carriers). Agreements have been concluded in respect of all services, other than license management, specifying the quality standards of the provision of services. For 35 out of the 49 services, where the availability of the system is measured, 100% availability was ensured in 2018. In other cases, availability above 99.53% was ensured.

ITC also carries out regular satisfaction surveys of internal and external customers. In 2018, 93.79% of the respondents indicated that they were fully satisfied with the provision of the service or the solution to the problem. 95.24% of the respondents were fully satisfied with the quality of the received service or solution, and 97.85% of the respondents were satisfied with the attitude of the ITC employee (kindness, responsiveness).

The ITC started in 2018 and continued in 2019 the implementation of the LEAN methodology that focuses on the optimization of processes, through minimizing resources as far as possible by eliminating unnecessary operations and losses.

In 2019, recertification of the ITC's quality management systems according to the requirements of ISO 9001:2015 "Quality management systems" would be carried out. Work aimed at the development of the service life cycle regulatory documents and compliance boundaries according to the IT governance good practices "ITIL" would be continued.

Furthermore, new digitization processes that contribute to a more efficient and faster provision of the infrastructure, transport planning and organization services to customers would be ensured by LDz. In 2018, work has been carried out at increasing the use of a secure electronic signature solution to ensure paperless technology in international transport services on the railways of the neighboring countries and in transit. Currently, this option is provided to the railway companies of Russia, Belarus, Lithuania and Estonia, as well as for rail transit transport services to Russia via Belarus, as well as in the opposite direction. Also, in cooperation with the Customs Administration of the State Revenue Service, a notification solution for the control of exports has been implemented to minimize the risks in the export of goods.

To increase the operational efficiency of the company, the Business Intelligence (BI) solution has been developed and implemented for ensuring the reporting of daily operational results (key indicators) as well as the Management accounts portal provided that displays all relevant daily key indicators of the railway company in a single screen display.

For aggregating the geospatial information about the company's railway infrastructure, a solution has been implemented providing for a centralized storage and use of geospatial information (topography of the infrastructure at the scale M1:500, ortho photos at the scale M1:2000, public rail network, infrastructure of electric connections, the RINF and INSPIRE data layers, etc.).

Taking into account the company's focus on more technological developments, a broader implementation of IT solutions for improving various routine work processes will be continued in 2019.

The security of all designed and implemented IT solutions are monitored, controlled and ensured by the Information Technology Security Division of the Security Directorate of LDz. It is responsible for the planning of the IT security requirements and monitoring of the implementation thereof in the Group according to the Law of Information Technology Security, Law on Railway, the Cabinet Regulation No. 100 "Procedure for the Planning and Implementation of the Security Measures of the Information Technology for the Infrastructure of Critical Importance" and Regulation No. 442 "Procedures under which Compliance of the Information and Communication Technology Systems with the Minimum Security Requirements Is Ensured" as well as to other external legislation binding on the Group companies in the field of IT security.

Among other things, IT Security Division carries out an analysis of LDz information system risks, security audits, monitors and advises on the development of the recovery plans for information systems and the related testing thereof (in 2018, 60 system recovery plans were developed), ensures the functioning of the different levels of security of the IT systems, as well as carries out intrusion tests aimed at an early and preventive detection of potential deficiencies and eliminating them.

Overall, in 2018, EUR 604,485 were invested in IT security solutions, the new version of the IT Security Policy was developed, however it will be completed after the adoption of the planned amendments of the Cabinet Regulation No. 442.

Considering the activities of LDz at international level, IT Security Division has been taking an active part in the work of the cyber safety working group of COLPOFER (<http://www.colpofer.org/cfer>).

Data protection

In 2018, not only in Latvia, but also in other parts of the European Union, companies were putting great effort to timely implement the requirements of the General Data Protection Regulation (GDPR).

Within the scope of its operating activity LDz also processes personal data – both within LDz and when cooperating with the subsidiaries of the Group as well as third parties. Given the large number of the employees in the company, as well as the amount and complexity of the information technology systems used for the railway infrastructure, there is a designated personal data protection specialist at the company who organizes and supervises the processing of the personal data at the disposal of the company, registers the personal data processing and advises and provides training to employees.

With a view to formalizing the personal data processing and protection internal regulation at the companies of LDz Group, as well as laying down the technical and mandatory requirements for the organization of personal data processing, while ensuring the security of information resources and systems as well as compliance with the GDPR, the internal regulations governing the protection of personal data in the Group as a whole, provide for the purposes and fields of the processing of personal data and the fundamental principles, the rights, obligations and liability of the employees, the organization of the data processing, the rights and obligations of data specialists.

Also, changes and additions have been made to the internal rules that affect the processing of personal data, in particular with regard to data storage terms and access procedures to such personal data. Employee training was carried out on the processing and protection of personal data.

At the end of 2018, a permanent working group for data protection of natural persons was set up at LDz group, represented by the data protection specialists from all of the Group's companies. This way, the internal regulatory document base in relation with the protection of personal data protection is maintained current and regularly improved in a more efficient way, and a uniform procedure for the protection of personal data processing is established in all companies of the Group, the cooperation model of the companies of the Group in the field of personal data protection is also established resulting in rendering information exchange faster and eliminating deficiencies.

Availability of information

The company reaches out to the population as well as its customers informing them about significant events, its operational performance and trends through media, it also provided comprehensive information on the **website**. Information is also provided on separate websites dedicated to **safety in vicinity to the railway and specific projects** implemented by the company. The company publishes its annual sustainability and annual report on the **website**. Under Section 58 of the Law On Governance of Capital Shares of a Public Person and Capital Companies and the Guidelines for Disclosing Information developed by the Cross-Sectoral Coordination Centre to the shareholders in state-owned capital companies and the **shareholders thereof** (in Latvian), LDz publishes unaudited interim (quarterly) reports and financial statements, information on the members of the company's Council and Board, organizational structures, information on granted donations (gifts), information on the procurements that have been carried out, on the activities aimed at environment protection, anti-corruption, HR management, etc.

The mandatory information required under the Law on Railway is published on the website – **the Network Statement**, documents issued by LDz in respect of the use of the **railway infrastructure** (in Latvian), as well as additional information about the activity and services of the infrastructure manager.

The company also reaches out to the population and builds up two-way communication with the representatives of the public, using the communications tools in social networks, such as Facebook, Twitter, LinkedIn and Instagram.

INDEPENDENT AUDITORS' REPORT



INDEPENDENT LIMITED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT 2018 OF VAS LATVIJAS DZELZCEĻŠ

To the Management of VAS Latvijas Dzelzceļš

We have been engaged by the Management of VAS Latvijas Dzelzceļš to perform an independent limited assurance engagement in respect of the selected Identified Sustainability Information included in VAS Latvijas Dzelzceļš ("the Company") Sustainability report for the year ended 31 December 2018 (the "Sustainability report 2018").

Management's Responsibility

The Management of the Company is responsible for the preparation and presentation of the Identified Sustainability Information, as incorporated in the Sustainability report 2018, in accordance with the requirements of the Core level application of Global Reporting Initiative Guidelines ("GRI Guidelines"), issued by Global Reporting Initiative, a network-based non-profit organization with secretariat based in Amsterdam, the Netherlands. The Management of the Company is also responsible for maintaining adequate records and internal controls that are designed to support the reporting process.

Identification of the Criteria and Description of the Subject Matter

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

- Organizational profile – *Name of the organization, Activities, brands, products and services, Location of headquarters, Location of operations, Ownership and legal form, Markets served, Scale of the organization, Information on employees and other workers, Supply chain, Significant changes to the organization and its supply chain Precautionary principle or approach, External initiatives, Membership of associations*
- Strategy - *Statement from senior decision-maker*
- Ethics and integrity – *Values, principles, standards and norms of behavior, Mechanisms for advice and concerns about ethics*
- Governance – *Governance structure, Executive-level responsibility for economic, environmental and social topics, Composition of the highest governance body and its committees, Chair of the highest governance body, Nominating and selecting the highest governance body, Key corporate social responsibility activities in 2018*
- Stakeholder engagement – *List of stakeholder groups, Collective bargaining agreements, Identifying and selecting stakeholders, Approach to stakeholder engagement, Key topics and concerns raised*
- Reporting practice – *Entities included in the consolidated financial statements, Defining report content and topic boundaries, List of material topics, Restatements of information, Changes in reporting, Reporting period, Date of most recent report, Reporting cycle, Contact point for questions regarding the report, Claims of reporting in accordance with the GRI Standards, GRI content index, External assurance*
- Economic impact – *Management approach, Direct economic value generated and distributed, Financial assistance received from government, Infrastructure investments and services supported, Significant indirect economic impacts, Management approach (Procurement practices), Management approach (Anti-corruption), Operations assessed for risks related to corruption, Communication and training about anticorruption policies and procedures,*

Confirmed incidents of corruption and actions taken, Management approach (Anti-competitive behavior)

- *Impact on the environment – Management approach, Materials used by weight or volume, Energy consumption within the organization, Energy consumption outside of the organization, Reduction of energy consumption, Biodiversity, Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas, Significant impacts of activities, products, and services on biodiversity, Direct GHG emissions, Reduction of GHG emissions, Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions, Water discharge by quality and destination, Waste by type and disposal method, Significant spills, Transport of hazardous waste, Non-compliance with environmental laws and regulations*
- *Social impact – Management approach, Management approach (Work environment), New employee hires and employee turnover, Benefits provided to full-time employees that are not provided to temporary or part-time employees, Parental leave, Minimum notice periods regarding operational changes, Occupational health and safety management system, Hazard identification, risk assessment, and incident investigation, Occupational health services, Worker participation, consultation and communication on occupational health and safety, Worker training on occupational health and safety, Promotion of worker health, Workers covered by an occupational health and safety management system, Work-related injuries, Work-related ill health, Average hours of training per year per employee, Programs for upgrading employee skills and transition assistance programs, Percentage of employees receiving regular performance and career development reviews, Diversity of governance bodies and employees, Ratio of basic salary and remuneration of women to men, Management approach (Responsibility towards the community), Operations with local community engagement, impact assessments, and development programs, Operations with significant actual and potential negative impacts on local communities, Maintaining and promotion of the industrial heritage, Supplier social assessment, New suppliers that were screened using social criteria, Political contributions, Management approach (Liability to customers), Customer health and safety, Assessment of the health and safety impacts of product and service categories, Customer privacy, Substantiated complaints concerning breaches of customer privacy and losses of customer data, Critical infrastructure and security, Services for passengers with special needs, Customer satisfaction, Service development, Availability of information*

Our responsibilities extend only to the information contained in the signed Sustainability report 2018.

Our responsibility

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the Identified Sustainability Information contained in the Sustainability report 2018 is not stated, in all material respects, in accordance with the reporting criteria.

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

This report, including the conclusion, has been prepared solely for the Management of the Company, to assist the Management in reporting on the Company's sustainability performance and activities. We permit the disclosure of this report within the Sustainability report 2018. To the fullest extent permitted

by law, we do not accept or assume responsibility to anyone other than the Management of the Company, and the Company for our work or this report.

The maintenance and integrity of the Company's website is the responsibility of the management; the work carried out by the assurance provider does not involve consideration of these matters and, accordingly, the assurance provider accepts no responsibility for any differences between the sustainability report 2018 on which the assurance report was issued or the assurance report that was issued and the information presented on the website.

Independence and Quality Control

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

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

Summary of the work performed

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

Our work consisted of:

- Interviewing the management and senior executives to evaluate the application of the GRI guidelines and to obtain an understanding of the control environment related to sustainability reporting;
- Obtaining an understanding of the relevant processes for collecting, processing and depicting data included in Sustainability report 2018;
- Verifying the information included in Sustainability report 2018 through inquiries to the relevant management of the Company;
- Testing data included in the Sustainability report 2018 on a selective basis;
- Inspecting documentation to corroborate statements of management and senior executives in our interviews.
- Comparing the financial data to the 2018 financial statement of VAS Latvijas Dzelzceļš; and
- Evaluating the overall format of the Sustainability report 2018, taking into account the compliance of the disclosed information with the applicable criteria.

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



Limited assurance Conclusion

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

Inherent limitations

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

We have not carried out any work on data reported for prior reporting periods nor in respect of future projections and targets. We have not conducted any work outside of the agreed scope and therefore restrict our opinion to the Identified Sustainability Information.

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 7 December 2018.

This assurance report is intended solely for use of the management of VAS Latvijas Dzelzceļš in respect only to the 2018 Sustainability Report. It should not be used for any other purpose.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board

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

Rīga, Latvija
5 April 2019

FINANCIAL STATEMENTS FOR 2018

08 “LATVIJAS DZELZCEĻŠ” FINANCIAL STATEMENTS FOR 2018

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MANAGEMENT REPORT

08.1

Management report on the operating activity of the state joint stock company Latvijas dzelzceļš in 2018

1. Description of the joint stock company Latvijas dzelzceļš

State joint stock company Latvijas dzelzceļš (hereinafter referred to as "Latvijas dzelzceļš" or "the Company") is one of the largest Latvian companies, which, owing to its business activity, gives a significant contribution to the national economy, ensuring the use of the railway infrastructure for carrying freights and passengers.

Latvijas dzelzceļš is primarily engaged in operating the public-use railway infrastructure. The Company is engaged in operating, maintaining and developing the public railway infrastructure in Latvia. As the manager of the public-use railway infrastructure, Latvijas dzelzceļš currently owns a railway network with the expanded length of 3,161.78 km, including the technological station roads and rail access roads related to them, as well as other infrastructure objects.

The Company is the dominant company of the Latvijas dzelzceļš group (hereinafter referred to as "the Group"). The Group consists of the dominant company and seven dependent companies (in six companies, the dominant company has a direct decisive influence, whereas in one company it has indirect decisive influence), which all together ensure the provision of comprehensive rail industry services to customers.

Latvijas dzelzceļš provides public-use railway infrastructure services, freight wagon handling, technical maintenance and inspection services, electricity distribution and trade services, lease services, information technology services, electronic communications services, and the services of a principal. SIA "LDZ CARGO" is engaged in providing domestic as well as international railway freight transport services, traction services, rolling stock lease services, as well as in organising international passenger transport services. SIA "LDZ infrastruktūra" is engaged

in providing rail track machinery repairs and lease as well as providing rail track welding services. SIA "LDZ ritošā sastāva serviss" is engaged in providing locomotive and rolling stock repair, locomotive crew staffing and upgrading services. SIA "LDZ apsardze" provides physical and technical security services to the Group as well as to other companies and private individuals. SIA "LDZ Loģistika" is engaged in providing forwarding and logistics services, as well as in attracting new freight flows and promoting the rail freight carriage between European and Asian countries. AS "LatRailNet" performs essential functions of the public railway infrastructure manager. It develops and approves the infrastructure charges and decides on allocation of railway infrastructure capacity and on scheduling the trains of a particular carrier. The subsidiary of SIA "LDZ ritošā sastāva serviss" – SIA "Rīgas Vagonbūves uzņēmums Baltija" – was established with a view to developing rolling stock manufacturing in Latvia.

The principal task of the Company is to ensure the operation of the national public-use railway infrastructure and provide secure, top-quality and efficient railway and logistics services to best serve the interests of the Group, the Republic of Latvia, and the national economy.

In terms of the Group's governance, the principal task of Latvijas dzelzceļš is to ensure the development of the Group's business lines and the competitiveness thereof, which would lead to achieving better results than those that could have been achieved if each line of business was operated as a stand-alone entity.

With a view to improving upon the best corporate governance practices and developing an understanding about social responsibility in the Company as well as the Group, and to strengthening sustainable and at the same time innovative mindset in the railway sector, which is rich in traditions, since 2016, Latvijas dzelzceļš has been preparing sustainability reports according to the internationally recognised guidelines set forth in the Global Reporting Initiative (GRI) G4 (currently the GRI standard). As part of assessing the Company's performance in the sustainability area, every year, Latvijas dzelzceļš takes part in the Sustainability Index and in 2018 Latvijas dzelzceļš received the highest assessment – Platinum category. Several of its dependent companies also take part in the Index, including SIA "LDz CARGO" (was awarded the Gold category in 2018) and SIA "LDz ritošā sastāva serviss" (was awarded the Silver category in 2018).

Since 2012, the Company has been taking part in the In-depth Cooperation Programme of the Ministry of Finance aimed at encouraging a closer and more efficient cooperation between taxpayers and the tax administration as well as reducing the administrative burden. As a participant of the In-depth Cooperation Programme and its Gold level member, Latvijas dzelzceļš benefits from statutory exemptions and advantages. The Company has developed and implemented the Tax Risk Management System, which is based on an internationally recognised practice and risk management standards.

In 2018, the average number of employees was 6,439, which is by 55 employees less than in 2017.

2. Operating performance

In 2018, the public-use infrastructure of Latvijas dzelzceļš was used to carry 49,260 thousand tonnes of freight (9,989 thousand train-km) and 18,242 thousand passengers (6,116 thousand train-km, including those run by SIA "Gulbenes-Alūksnes bānītis" – 49 thousand train-km and Lietuvos geležinkeliai AB – 10 thousand train-km). Compared with the previous year, the volume of freight transport has increased by 12.5%, whereas the number of passengers carried has increased by 4.3%. The revenue of Latvijas dzelzceļš was also significantly influenced by the tonne-kilometres run (EUR 17,508 million t km, net). Compared with the previous year, the volume thereof has increased by 16.6%.

During the reporting year, net turnover was EUR 209,431 thousand, an increase of about EUR 29,269 thousand compared to 2017. An increase in net turnover can be observed for the revenue related to the sale of infrastructure capacity and the infrastructure operator's ancillary services. The main source of revenue of Latvijas dzelzceļš being the manager of the public-use railway infrastructure is the track access charge paid by carriers (69.5% of net turnover in 2018).

In 2018, after-tax profit was EUR 4,178 thousand, which was by EUR 19,007 thousand lower than in 2017, however, it should be taken into consideration that in 2017, revenue arose due to derecognition of the deferred tax, as a result of which the profit increased by EUR 22,416 thousand in 2017.

In assessing the financial performance indicators it should be taken into account that co-financing received from European Community funds and State budget co-financing for investment projects is presented under the balance sheet liability item "Deferred revenue" and is charged to profit or loss by reference to the annual depreciation charge parts which

are related to the received financial support and are presented under the profit or loss item "Other operating income", whereas the depreciation of objects (in 2018: EUR 19,867 thousand) is included under the item "Cost of sales". The Company pursues prudent liquidity risk management to ensure that the necessary credit resources are available to meet the Company's liabilities when they fall due. In 2018, the Company's current liabilities exceeded its current assets by EUR 40,359 thousand. Current liabilities include deferred revenue of EUR 19,394 thousand, which is related to the EU and State budget financing of investments in the railway infrastructure, and if related to deferred revenue they are gradually charged to profit or loss, therefore the risk that an outflow of financial assets will be required to meet these liabilities is low. The overall liquidity ratio, excluding deferred revenue from current liabilities, is 0.7. If short-term provisions not related to the cash flow were excluded, the liquidity ratio would be 0.8. The liquidity ratio is also lowered by including provisions and annual leave accruals under current liabilities.

In the light of the foregoing, we believe that the Company's financial position is sound and it is capable of meeting its current liabilities.

At 31 December 2018, the equity of Latvijas dzelzceļš was EUR 318,807 thousand. Compared to the previous year, it has increased by EUR 3,563 thousand. The Company's equity/total assets ratio is 36.3%.

In 2018, the Company's capital expenditure totalled EUR 25,153 thousand. Of these, the most significant projects were:

- EUR 21,186 thousand were invested in renovation, including:
 - with a view to increasing the safety of the train traffic, EUR 16,925 thousand were invested in the renewal of infrastructure (including in such projects as Reconstruction of the railway tracks – capital repairs of types "A" and "B", replacement of switch points, replacement of lengthwise rails with new rails, renewal of energy supply, restoration of automation devices (SCB), etc.) as well as acquisition of the plant and machinery necessary for carrying out the repairs and maintenance of railway tracks;
 - investments in the equipment envisaged for carrying out repair works and for the development of information systems and communications, as well as intangible assets for projects amounted to EUR 3,180 thousand;

- during the reporting period, EUR 1,081 thousand were invested in projects related to the launching of new products: Digitalisation and Optimisation of the Freight Transport Information Flow, acquisition of Security Solution Modules, Traffic Control and Centralisation Improvement, the Document Management System, etc.
- EUR 3,967 thousand have been invested in the development of infrastructure (the construction of optical networks, replacement of information systems, the development of technological and local network, etc.).

3. Objectives and future development

In connection with the changes in the European Union (EU) legislation of the railway sector, specifically the Directive on the Single European Railway Area (2012/34/EU), on 25 February 2016, amendments were made to the Railway Law and in the Cabinet regulations issued on the basis thereof. They provide for the changes regarding the provision of services and the service charging calculation methodology. The Commission Implementing Regulation (EC) 2015/909 on the modalities for the calculation of the cost that is directly incurred as a result of operating the train service has been adopted, and the said approach will change the methodology for calculating the price of the railway capacity sale service. On 30 June 2017, the entity carrying out the essential functions of the public-use rail infrastructure manager approved the Regulations "The Infrastructure Charge Calculation System" and "The Infrastructure Charging System", which among other things lay down the requirements for determining the new charges for the use of the public rail infrastructure for transport, and they would be applied from 1 July 2019.

Under Cabinet Order No. 588 of 6 November 2018, the "Indicative Railway Infrastructure Development Plan for 2018-2022" was approved, whereas on 9 November 2018, the Ministry of Transport and Latvijas dzelzceļš entered into the Multi-annual agreement for maintaining the existing public-use railway infrastructure managed by Latvijas dzelzceļš and planning the development, and ensuring the financial equilibrium for the period from 9 November 2018 to 31 December 2022. Pursuant to Section 9, Paragraph 3 of the Railway Law, the infrastructure manager shall ensure the consistency between the provisions of the Multi-annual agreement and the Business plan, Latvijas dzelzceļš has developed the Business plan for the period up to 2022, which was approved by the Board of Latvijas dzelzceļš on 7 March 2019.

Latvijas dzelzceļš and the national transport and logistics industry directly competes with its nearest neighbouring countries, Lithuania and Estonia, in attracting shipments to the Latvian transit corridor. The effectiveness of infrastructure services will be one of the decisive factors in the outcome of the competition for the carriage of freights by rail. During the validity period of the mentioned documents, projects, which will directly improve service efficiency and security as well as the competitiveness of Latvian transport and logistics industry and contribute to the increase in the volume of freight transport will be the priority projects for Latvijas dzelzceļš.

Despite the geopolitical developments and being aware of the future market trends, Latvijas dzelzceļš will maintain an unchanged strategic direction, through developing a modern, efficient and environmentally-friendly infrastructure and logistics group of companies, ensuring the operation of the railway infrastructure and logistics services in the interests of Latvian community and economy. At the same time, Latvijas dzelzceļš sees more possibilities in the development of new technologies, including IT solutions that will help to successfully implement the above-mentioned strategic objective, increasing the Group's competitiveness.

To increase efficiency, promote the use of environmentally-friendly technologies and increase the international competitiveness of Latvijas dzelzceļš transit corridor, the Company intends to carry out a gradual electrification of the main railway network (main tracks) using alternating current (AC) 25kV. At present, only around 14% of the rail network has been electrified, in contrast to European countries, where the average indicator exceeds 55%. The use of electric traction is an environmentally friendly and economically advantageous solution compared to the use of diesel-pulling, thus after implementing the electrification project, Latvijas dzelzceļš will lay down a long-term basis for the competitiveness of Latvian transport and logistics industry with regard to the nearest neighbouring countries.

As part of the EU fund and the Cohesion policy funds 2014-2020 forecast period Operational programme "Growth and Employment", priority area "Sustainable transportation system", specific support measure 6.2.1, activity 6.2.1.1 "Latvian railway network electrification", implementation of a large project is contemplated (the available Cohesion Fund financing is EUR 346,639 thousand). Within the framework of the pro-

ject electrification of the railway sections Daugavpils-Krustpils, Rzekne-Krustpils and Krustpils-Riga needs to be implemented by 2023. Total project costs have been estimated at EUR 441 million, and the railway line of 314 km in length would be electrified within the scope of the project.

In 2018, the project documentation for the project application was completed. In March 2018, a positive opinion was received from the Central Finance and Contracting Agency, whereas on 28 December 2018, it received a favourable opinion from the independent experts of the EC technical assistance – JASPERS Independent Quality Review. The Project documentation will be further submitted for evaluation with a view to making the final decision on the project approval by the European Commission. Subject to receiving a positive opinion from the EC, a contract with the Central Finance and Contracting Agency for the implementation of the project will be signed. At the same time, in August 2018, the procurement procedure was launched for the implementation of the project, thereby enabling the implementation of the project immediately upon receiving a favourable decision of the European Commission and the signing of the agreement will immediately start implementation of the project.

As part of the EU fund and the Cohesion policy funds 2014-2020 forecast period Operational programme "Growth and Employment", priority area "Sustainable transport system", specific support measure 6.2.1, activity 6.2.1.2 activity "Modernisation and building of railways infrastructure", implementation of several other significant projects is contemplated. The volumes of investments are specified in the "Indicative Railway Infrastructure Development Plan for 2018 – 2022", and in the medium-term strategy of Latvijas dzelzceļš for 2017-2022.

The Company will continue to increase the productivity of the railway staff and their responsibility for the tasks to be carried out, arrange for the necessary training, as well as ensure the implementation of the environmental protection policy and traffic safety. An important role is assigned to the implementation of the Group's Environmental and Energy Management Programme, ensuring the implementation of energy efficiency measures as well as staff training.

In 2019, the work aimed at the development of the Group's long-term development strategy will begin, as well as further

steps will be taken to implement the new visual identity of the Group's companies in Latvia and in the formats of international cooperation, where Latvijas dzelzceļš represents the interests of Latvian transport and logistics industry.

A significant risk that may affect the performance of Latvijas dzelzceļš and the overall performance of the whole Group, is any further mutual sanctions between the EU and Russia as well as the development of Russian ports, as a result of which cargoes may be redirected from Latvian ports, resulting in the reduction in the rail traffic flow.

To reduce the risk associated with dependence on transit cargoes in the East-West direction, Latvijas dzelzceļš intends to strengthen cooperation with its partners in the neighbouring countries, including Russia as well as Belarus. The representative office established by Latvijas dzelzceļš in Belarus in 2017 has helped increase cargo volumes in Latvijas dzelzceļš network, as well as develop alternative business lines, including combined and container train shipments as part of Eurasian shipment routes. The Company sees potential in the development of new transport offers for the convenience of freight owners and, therefore, in cooperation with the Belarusian railway, in 2018, freight express train Minsk-Riga was launched successfully, which, thanks to the effective cooperation between the railway companies as well as successful cooperation with customs and border guard authorities, carries freight from one capital city to the other in less than 24 hours.

With a view to developing new services, in the November and December of 2018, a number of record-breaking long and record-breaking heavy freight trains (above 7,000 tonnes, the average weight of a freight train is approx. 3,000 tonnes, to date the maximum weight has been approx. 6,000 tonnes) were carried along Latvijas dzelzceļš infrastructure. In cooperation with the other institutions, the relevant professionals of the Group have been successful in providing such a service, creating the basis for the development of similar shipments in the future.

The Company also sees the potential for the development of inland freight transport, but this requires cooperation within the sector as well as mechanisms for providing incentives aimed at achieving that freight owners would give preference to rail transport over road.

Considering that the rail infrastructure must be maintained

regardless of transport volumes, whereas the Company's revenue that is used to absorb the infrastructure maintenance costs, directly depends on transport volumes and the fluctuation thereof, Latvijas dzelzceļš will continue to participate in the legislative initiatives of the transport sector, setting as a priority a sustainable rail infrastructure financing model. In 2018, having approved the Indicative Railway Infrastructure Development Plan and upon entering into Multi-annual agreement with the Ministry of Transport, steps have been taken towards development of such a model.

The key risks to which Latvijas dzelzceļš might be exposed over the next operational period is the risk of a declining use of the railway infrastructure, as well as the risk of fluctuating oil, metal and electricity prices. The performance for 2018 shows that Latvijas dzelzceļš has exceeded the budgeted freight volume in the medium-term strategy for 2017-2022 and the financial indicators related to them (47 million tonnes of cargoes were budgeted, whereas 49.3 million tonnes were actually transported; the budgeted profit was around EUR 3.3 million, whereas the actual profit was EUR 4.2 million).

4. Research and development

Latvijas dzelzceļš will continue to build up and maintain the image and role of Latvijas dzelzceļš, taking an active stance on current matters of the transport system and economic development.

In 2018, Latvijas dzelzceļš started work at the draft Action plan for the reduction of noise along railway lines with traffic intensity greater than 30,000 trains a year. The Plan identifies acoustic discomfort zones as well as the anti-noise measures to be taken. The public consultation of the Action plan took place from 21 December 2018 to 21 January 2019.

The professionals of Latvijas dzelzceļš carried on work as part of the working groups of the Ministry of Environment Protection and Regional Development and the Riga City Council, seeking solutions to reduce transport noise and improve acoustic noise situation both in urban environment and outside the city.

In the autumn of 2018, centralised groundwater monitoring network inspection was carried out and samples were taken at stations in Jelgava, Daugavpils, Rēzekne, Krustpils, Riga, and Ventspils. According to the summarised results, the sit-

uation with groundwater has been improving, and no urgent actions are required in this regard. In 2019, the groundwater monitoring wells network would also be implemented in the territories of Torņakalns, Gulbene and Pļaviņas stations.

In connection with the implementation of the solutions based on research and development (R&D) at the end of 2018, Latvijas dzelzceļš participated in the student research and development projects with industries in the framework of the international innovation platform "Demola" coordinated by the University of Latvia. To meet the needs of Latvijas dzelzceļš, students were looking for solutions for replacing the chemical glyphosate with a different solutin, which would be more environmentally friendly, but equally effective kind of weed management in railway partition zones. Weed destruction is an important rail traffic safety factor, however, no methods have been found that would efficiently replace glyphosate. Furthermore, this problem is topical not only in Latvia, but throughout Europe, where the use of glyphosate would be banned in the coming years, whereas the national rail companies of all countries in cooperation with universities and research institutes have been looking for solutions for the substitution thereof, while not reducing the level of road safety and not significantly increasing the weed destruction costs. The idea of using electrodes for destruction of weeds has been developed within the Group, and is being assessed by the Company's environmental experts and technical experts.

In 2018, the experts of Latvijas dzelzceļš continued work at the implementation of the pilot project, which was identified within the scope of the cross-industry hackathon organised by the Latvian Information Technology Cluster. Within the scope of the project, a potential solution for the use of security technology would be developed to make railway crossings safer to the users thereof and the operator of the infrastructure in case of sudden and unexpected obstacles on crossings and/or at the critical proximity thereof. A pilot project is being implemented in cooperation with SIA "Datakom".

Considering the challenges of the forthcoming years in attracting skilled labour, Latvijas dzelzceļš has been not only developing continuing training opportunities offered by the Company's Training centre, but in recent years, in cooperation with the Riga Technical University, it has launched several new specialised railway ecosystem and railway telecommunications training programmes. These programmes will

not only enable developing of the technological capacity in the Company and the Group, but also to ensure specialists necessary for the maintaining of the future electrified railway infrastructure.

5. Foreign branches and representative offices

In 2012, the Company established a representative office in the capital of Russia – Moscow. The representation office carries out sales promotion and marketing activities. On 24 January 2017, the representative office of Latvijas dzelzceļš was opened in the capital of Belarus – Minsk. The Company does not have any foreign branches.

6. Events after the date of preparation of the 2018 financial statements

Since the end of the reporting period there have been no such events that would significantly affect the performance of Latvijas dzelzceļš for 2018.

7. Proposals for the distribution of the Company's profit

Under Section 28, Paragraphs one and two of the Law On Governance of Capital Shares of a Public Person and Capital, the foreseeable share of profit to be disbursed in dividends and the profit share to be disbursed in dividends shall be determined based on the medium-term operational strategy of the capital company. The Board of the capital company, based on the medium-term business strategy, must prepare a proposal on the expected profit to be paid in dividends, and submit the proposal to the shareholders.

According to VAS Latvijas dzelzceļš Medium-Term Operational Strategy for 2017-2022, which was approved by the Council of Latvijas dzelzceļš under the Council decision No. PA 1.2./11-1, section 17 of 8 November 2018, it is critical to ensure that for the strategy operation period, the share of dividends payable to the State from the Company's net profit would be different, leaving the profit at the disposal of Latvijas dzelzceļš and redirecting it to the development and restoration of public-use railway infrastructure, including the creation of reserves, which can be used to maintain the sustainability of Latvijas dzelzceļš and to implement the budgeted public-use railway infrastructure projects.

The opinion provided in the letter No. 1.2-5.1/159-IP by the Cross-Sectoral Coordination Centre of 30 November 2017 on the Medium-Term Operational Strategy of VAS Latvijas

dzelzceļš for 2017-2022 supported the application of a different profit share to determine the distributable share of profit. Under Cabinet Order No. 588 of 6 November 2018, the "Indicative Railway Infrastructure Development Plan for 2018-2022" was approved, whereas on 9 November 2018, the Ministry of Transport and Latvijas dzelzceļš entered into the Multi-annual agreement for the maintenance of the existing public-use railway infrastructure managed by Latvijas dzelzceļš and the planning of development, and ensuring the financial equilibrium for the period from 9 November 2018 to 31 December 2022.

The mechanism of ensuring the financial equilibrium of the manager of the public-use railway infrastructure provided for in the Plan may function and such investment projects may be implemented subject to the Cabinet's conceptually adopted decision that the share of profit payable by Latvijas dzelzceļš to the State in dividends is 0% of the Company's net profit for the years 2018-2021 (the Cabinet Order No. 212 "On the Variable Share of the Profits Payable by the state joint stock company Latvijas dzelzceļš for the 2018-2021 reporting years" of 15 May 2018) would be incorporated into the annual Bill On the State Budget and the Bill On the Medium-Term Budgetary Framework in the relevant periods.

On 7 February 2019, the Law on the Budget and Financial Management was amended, according to paragraph 82 of the Transitional provisions of which, in 2019, the Bill on the Medium-Term Budgetary Framework Bill would be required only for 2020, 2021, and 2022, and the Cabinet shall submit it to the Parliament (Saeima) concurrently with the Bill On the State Budget for 2020. Thus, the decision regarding a different share of the profit of Latvijas dzelzceļš disbursable in dividends for 2018 would be made at the time of making decision on the budget for 2019.

Riga, 21 March 2019

Chairman of the Board	E.Bērziņš
Member of the Board	A.Strakšas
Member of the Board	Ē.Šmuksts
Member of the Board	A.Stūrmanis

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

08.2

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

The financial statements of VAS Latvijas dzelzceļš on pages 117 to 146 have been prepared on the basis of the accounting records and source documents, and present fairly the Company's financial position at 31 December 2018, and its performance and cash flows for 2018.

The above-mentioned financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the EU, using the going concern principle. In preparing the Company's financial statements, the Management made prudent and reasonable judgements and estimates.

The Company's Management is responsible for maintaining proper accounting records, safeguarding the Company's assets, and for preventing and detecting fraud and other irregularities in the Company. The Management is also responsible for compliance with the laws of the Republic of Latvia.

Riga, 21 March 2019

Chairman of the Board	E.Bērziņš
Member of the Board	A.Strakšas
Member of the Board	Ē.Šmuksts
Member of the Board	A.Stūrmanis

INDEPENDENT AUDITOR'S REPORT

08.3



To the shareholders of VAS "Latvijas dzelzceļš"

Our opinion

In our opinion, the accompanying financial statements set out on pages 117 to 146 of the accompanying annual report give a true and fair view of the financial position of VAS "Latvijas Dzelzceļš" (the Company) as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2018,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Reporting on other information

Management is responsible for other information. Other information comprises: the Management Report, as set out on pages 3 to 10 of the accompanying annual report, the Statement of Management Responsibility, as set out on page 11 of the accompanying annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information included in the annual report, which includes the Management Report and the Statement of the Management's Responsibility.



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

As regards the Management's report we also performed the procedures required under the Law on Audit Services. These procedures include an assessment as to whether the Management Report has been prepared in accordance with the requirements of the Law on Annual Financial Statements and the Consolidated Financial Statements.

Based on our audit procedures carried out in the course of our audit, in our opinion, in all material respects:

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

In addition, taking into consideration the information and understanding about the Company obtained in the course of our audit, we have a duty to report in case if we have identified significant inconsistencies in the Management Report and the Statement of the Management's Responsibility. Nothing requiring reporting in this respect has come to our attention.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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



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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

ILANDRA LEJIŅA
MEMBER OF THE BOARD

TERĒZE LABZOVA-CEICĀNE
CERTIFIED AUDITOR IN CHARGE
CERTIFICATE NO. 184

RIGA, LATVIA
21 MARCH 2019

FINANCIAL STATEMENTS

08.4

COMPREHENSIVE INCOME STATEMENT FOR 2018

		(EUR)	
	Note	2018	2017
Revenue	4	209 430 996	180 161 702
Cost of sales	5	(200 150 681)	(191 174 607)
Gross profit or loss		9 280 315	(11 012 905)
Administrative costs	6	(15 929 280)	(15 136 835)
Other operating income	7	27 838 899	30 051 607
Other operating expenses	8	(4 515 762)	(4 058 146)
Income from investments:		1 342 994	2 517 608
- in the share capital of subsidiaries	9	567 354	2 207 058
- in the share capital of other companies	10	775 640	310 550
Financial income	11	653 213	578 638
Adjustments related to impairment of long-term and short-term financial investments	15; 17	(12 328 137)	-
Financial costs	11	(2 164 478)	(2 171 373)
Profit before corporate income tax		4 177 764	768 594
Corporate income tax	12	-	22 415 773
Profit for the reporting year		4 177 764	23 184 367
Profit for the reporting year and comprehensive income attributable to the shareholders		4 177 764	23 184 367

Notes on pages 120 to 146 form an integral part of these financial statements.

Chairman of the Board	E. Bērziņš	Riga, 21 March 2019
Member of the Board	A. Strakšas	
Member of the Board	Ē. Šmuksts	
Member of the Board	A. Stūrmanis	

The annual report was prepared by the Financial Directorate of VAS Latvijas dzelzceļš:
Deputy Finance Director, Head of the Finance Division S. Gasjūna

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

(EUR)			
ASSETS	Note	31.12.2018.	31.12.2017.
LONG-TERM INVESTMENTS			
Property, plant and equipment	13	653 885 752	689 561 879
Intangible assets	14	1 423 784	1 282 412
Advance payments for property, plant and equipment		4 108	745 231
Investment in the share capital of subsidiaries	15	114 421 718	126 339 736
Loans to affiliated companies	16	47 961 358	44 510 858
Other securities and investments	17	84 108	494 227
TOTAL LONG-TERM ASSETS		817 780 828	862 934 343
CURRENT ASSETS			
Inventories	18	7 096 358	6 699 158
Trade and other receivables	19	7 259 110	6 282 560
Receivables from affiliated companies	37	10 625 710	9 545 760
Corporate income tax	12	974	-
Cash and cash equivalents	20	34 797 659	19 701 435
TOTAL CURRENT ASSETS		59 779 811	42 228 913
TOTAL ASSETS		877 560 639	905 163 256

(continued on the next page)

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

(EUR)			
EQUITY AND LIABILITIES	Note	31.12.2018.	31.12.2017.
EQUITY AND LIABILITIES			
EQUITY			
Share capital	21	256 720 375	256 720 375
Reserves	22	34 294 995	11 725 503
Retained earnings brought forward		23 613 416	23 613 416
Profit or loss for the reporting year		4 177 764	23 184 367
TOTAL EQUITY		318 806 550	315 243 661
LIABILITIES			
NON-CURRENT LIABILITIES			
Provisions	23	162 078	177 426
Borrowings from credit institutions	24	165 409 358	175 139 053
Other borrowings	25	2 203 567	2 320 571
Trade payables		486 263	486 263
Deferred revenue	26	290 353 805	307 638 803
TOTAL NON-CURRENT LIABILITIES		458 615 071	485 762 116
CURRENT LIABILITIES			
Borrowings from credit institutions	24	34 695 612	33 109 177
Other borrowings	25	117 004	117 004
Provisions	23	3 460 852	6 921 703
Trade and other payables		28 654 400	29 833 978
Payables to affiliated companies	37	3 687 637	4 393 161
Taxes and mandatory national social insurance contributions	27	10 017 857	9 394 029
Deferred revenue	26	19 505 656	20 388 427
TOTAL CURRENT LIABILITIES		100 139 018	104 157 479
TOTAL LIABILITIES		558 754 089	589 919 595
TOTAL EQUITY AND LIABILITIES		877 560 639	905 163 256

Notes on pages 120 to 146 form an integral part of these financial statements.

Riga, 21 March 2019

Chairman of the Board E.Bērziņš

Member of the Board A.Strakšas

Member of the Board Ē.Šmuksts

Member of the Board A.Stūrmanis

The annual report was prepared by the Financial Directorate of
VAS Latvijas dzelzceļš:

Deputy Finance Director, Head of the Finance Division S. Gasjūna

STATEMENT OF CHANGES IN EQUITY

(EUR)

	Share capital	Reserves	Retained earnings brought forward	Profit/loss for the reporting year	Total equity
for 2017					
At 01.01.2017.	256 720 375	10 844 505	23 613 416	880 998	292 059 294
Loss for 2016 transferred to prior year retained earnings	-	-	880 998	(880 998)	-
Profit transferred to reserves	-	880 998	(880 998)	-	-
Profit for the reporting year	-	-	-	23 184 367	23 184 367
At 31.12.2017.	256 720 375	11 725 503	23 613 416	23 184 367	315 243 661
for 2018					
At 01.01.2018.	256 720 375	11 725 503	23 613 416	23 184 367	315 243 661
The profit for 2017 was transferred to prior year retained earnings	-	-	23 184 367	(23 184 367)	-
Profit transferred to reserves	-	22 569 492	(22 569 492)	-	-
Payments for the use of State capital from the profit for 2017	-	-	(614 875)	-	(614 875)
Profit for the reporting year	-	-	-	4 177 764	4 177 764
At 31.12.2018.	256 720 375	34 294 995	23 613 416	4 177 764	318 806 550

Notes on pages 120 to 146 form an integral part of these financial statements.

Chairman of the Board E.Bērziņš

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Deputy Finance Director, Head of the Finance Division S. Gasjūna

Riga, 21 March 2019

STATEMENT OF CASH FLOWS FOR 2018
(USING THE INDIRECT METHOD)

(EUR)

	Note	2018	2017
OPERATING CASH FLOW			
Profit before corporate income tax		4 177 764	768 594
Adjustments:			
Depreciation of and other impairment adjustments for property, plant and equipment		27 207 694	29 575 257
Amortization of and other impairment adjustments for intangible assets	14	553 045	562 451
Provisions created	23	(3 476 199)	(6 923 339)
Loss/(gain) on foreign exchange rate fluctuations	7; 8	24 246	(321 866)
Income from investments in the share capital of affiliated companies and other companies	9; 10	(1 342 994)	(2 517 608)
Impairment adjustments of long-term financial investments		12 328 137	-
Other interest and similar income	11	(653 213)	(578 638)
Interest and similar expenses	11	2 164 478	2 171 373
Cash flow from operating activities before adjustments in the working capital		40 982 958	22 736 224
(Increase)/decrease of prepayments and receivable		(2 826 596)	4 681 460
(Increase)/decrease in inventories		(410 794)	2 508 271
Increase in trade and other payables		3 078 779	13 052 363
Gross cash flows from operating activity		40 824 347	42 978 318
Interest expense		(2 183 542)	(2 176 118)
Corporate income tax expense		(71 411)	-
Net cash flow from operating activity		38 569 394	40 802 200
CASH FLOW FROM INVESTING ACTIVITY			
Acquisitions of property, plant and equipment and intangible assets		(29 541 403)	(23 490 712)
Proceeds from sale of property, plant and equipment and intangible assets		12 925 382	72 210
Loans issued		(7 774 245)	(18 100 000)
Proceeds from the repayment of loans		5 941 807	5 124 286
Interest received		683 397	546 833
Dividends received		1 051 117	3 582 896
Net cash flow from investing activity		(16 713 945)	(32 264 487)

(continued on the next page)

STATEMENT OF CASH FLOWS
FOR 2018 (CONTINUED)

		(EUR)	
	Note	2018	2017
Cash flow from financing activity			
Borrowings received		24 965 917	34 657 780
Subsidies, grants, gifts or donations received		2 000 000	590 003
Expenses for repayment of borrowings		(33 109 177)	(31 187 796)
Dividends paid		(614 875)	-
Net cash flow from financing activity		(6 758 135)	4 059 987
Gain/ (loss) on foreign exchange rate fluctuations		(1 090)	142
Increase in cash and cash equivalents during the reporting year		15 096 224	12 597 842
Cash and cash equivalents at the beginning of the reporting year		19 701 435	7 103 593
Cash and cash equivalents at the end of the reporting year	20	34 797 659	19 701 435

Notes on pages 120 to 146 form an integral part of these financial statements.

Riga, 21 March 2019

Chairman of the Board

E.Bērziņš

Member of the Board

A.Strakšas

Member of the Board

Ē.Šmuksts

Member of the Board

A.Stūrmanis

The annual report was prepared by the Financial Directorate of
VAS Latvijas dzelzceļš:
Deputy Finance Director, Head of the Finance Division S. Gasjūna

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE COMPANY

Name of the Company	LATVIJAS DZELZCEĻŠ
Legal status of the company	State joint-stock company
Registered office	Gogoļa iela 3, Rīga, LV-1050
Uniform registration number	40003032065
Date of registration in the Register of Enterprises	01.10.1991.
Date of registration in the Commercial Register	10.09.2004.
Place of registration	Rīga
Date of issue of the merchant's registration certificate	10.09.2004.
Shareholder	Latvijas Republika (100%)
Shareholder's representative	Latvijas Republikas Satiksmes ministrija Gogoļa ielā 3 Rīgā, LV-1743
Principal activity (NACE Rev. 2).	42.12 Construction of railways and underground railways 52.21 Service activities incidental to land transportation
Shareholder	Republic of Latvia (100%)
Shareholder's representative	The Ministry of Transport of the Republic of Latvia Gogoļa iela 3, Rīga, LV-1743
Pārraudzības institūcija	Sabiedrības padome
Council	Jānis LANGE – Chairman of the Council from 02.02.2018. Aigars LAIZĀNS – Chairman of the Council from 29.08.2017 until 01.02.2018, Member of the Council from 02.02.2018. Andris MALDUPS – Member of the Council from 06.11.2017 to 01.02.2018, Member of the Council from 02.02.2018.
Board	Edvīns BĒRZIŅŠ – Chairman of the Board from 25.02.2016. Aivars STRAKŠAS – Member of the Board (appointed to the office for a new term from 28.08.2017) Ēriks ŠMUKSTS – Member of the Board (appointed to the office for a new term from 02.12.2017) Ainis STŪRMANIS – Member of the Board from 18 July 2016.
Name of the auditor, registered office and the sworn auditor in charge	SIA PricewaterhouseCoopers uniform registration No.40003142793 Certified auditor commercial company licence No. 5 issued by LACA Kr. Valdemāra iela 21-21 Rīga, LV-1010 Latvia Sworn auditor in charge Terēze Labzova-Ceicāne Certificate No. 184
Reporting year	1 January 2018 to 31 December 2018

2. ACCOUNTING AND MEASUREMENT PRINCIPLES

These financial statements present the financial position of Latvijas dzelzceļš as a stand-alone company. The financial position of the Group (the state joint stock company Latvijas dzelzceļš and its subsidiaries) is presented in the consolidated financial statements.

The financial report covers the period from 1 January 2018 to 31 December 2018. The publishing of these financial statements was approved by the Company's Board on 21 March 2019. The financial statements are approved by the shareholders' meeting convened by the Board of Latvijas dzelzceļš upon receiving the auditor's opinion and the report of the Council.

2.1 Accounting and measurement principles

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Having regard to the EU approval procedure, the standards and interpretations, which have not been adopted for application in the EU have been presented in this Note too, because the relevant standards and interpretations may have an impact on the Company's financial statements in the future periods, should they be adopted.

The financial statements have been prepared on a historical cost basis.

The financial statements have been prepared using the going concern principle.

The Company's performance for 2018 was an after-tax profit of EUR 4,178 thousand. At 31 December 2018, the Company's current liabilities exceeded its current assets by EUR 40,359 thousand. Current liabilities include deferred revenue of EUR 19,394 thousand, related to the investments funded by EU projects and State budget financing in the railway infrastructure, and they are gradually charged to profit or loss, therefore the risk that an outflow of financial assets will be required to meet these liabilities is low. The overall liquidity ratio was 0.6, but if deferred revenue was excluded from current liabilities, it would be 0.7. If short-term provisions, which are not related to the cash flow, were also excluded, the liquidity ratio would be 0.8. Cash flows from the Company's operating activities are positive. In the light of the above circumstances, we are of the opinion that the Company is financially sound and capable of meeting its current liabilities.

To prepare the financial statements in accordance with IFRS, the Management used certain estimates and assumptions that affect the balances of the items in the stand-alone statements, as well as contingent liabilities. Future events may affect the assumptions based on which the relevant estimates were made. Any effect of the changes in estimates is reflected in the financial statements as soon as they are identified. Although these estimates have been prepared on the basis of comprehensive management information at the Management's disposal about current events and actions, the actual results may differ from these. Key assumptions and judgments are described in Note 3.

Several new standards and interpretations have been published, and they will become effective in fiscal periods beginning 1 January 2018 or later, and are applicable to the Company's activities:

- IFRS 9 "Financial instruments" (effective for the reporting periods beginning 1 January 2018 or later).

- The Company has opted to apply the practical exemptions provided for in the standard, without changing the comparatives and presenting the impact of the implementation of the whole standard as an adjustment to retained earnings at 1 January 2018.

Classification and measurement:

- The Company's Management has reviewed the classification applicable to financial assets as at 1 January 2018.
- All of the Company's debt instruments that were previously reported as Loans and receivables, were classified as financial assets at amortised cost, because the Company's business model does not provide for the trading thereof, in addition, the contractual cash flows consist solely of payments of the principal and interest.
- As of 2018, such equity instruments, which were previously classified by the Company as Available for sale, will be measured at fair value through profit or loss (FVTPL), without applying an option to measure equity instruments at fair value through other comprehensive income (FVOCI).
- All of the Company's financial liabilities, which were previously classified as Other financial liabilities should be classified as financial liabilities at amortised cost.
- The change of the classification has not led to significant changes to the measurement basis of financial assets or financial liabilities.

Impairment of financial assets

- IFRS 9 introduces a new model for impairment recognition – the expected credit loss (ECL) model. The model is a three stage approach, based on changes in the credit quality of financial assets, compared with the initial recognition.
- The Company's financial assets that are subject to impairment, are all financial assets at amortised cost. Estimating the ECL, the Company's Management concluded that the provisions, which would be additionally required on 1 January 2018, are not material in the context of the Company's financial statements, therefore the effect of IFRS 9 on the opening balances is zero.

- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
- The new standard introduces the main principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. If there are individual goods or services that are offered as a bundle, any sale of an individual service or good must be recognised as an individual transaction, and any discounts on the contract price must generally be allocated to each element of the transaction. For transactions with a variable consideration for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the validity term of the contract.
- Pursuant to the transition rules of IFRS 15, the Company has opted to use a simplified transition method, disclosing the impact of the transition as an adjustment to retained earnings at 1 January 2018.
- The Company's Management has analysed the implementation of IFRS 15 and concluded that in 2018, the implementation of the standard had no significant impact on the Company's financial statements, because the Company does not provide compound services, nor does it offer any significant discounts or compensations of other kind, furthermore, it does not incur

any costs related to the attraction of customers, and the contracts do not contain any financing elements.

- Amendments to IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018). The amendments do not introduce changes to the standard basic principles, but rather explain the application of these principles. The Company’s Management has assessed the implications of the implementation of IFRS 15 concluding as a result that in 2018, it will not have a material effect on the Company’s financial statements.
- Amendments to IFRS 2 “Share-based payment – classification and measurement” (effective for accounting periods beginning 1 January 2018 or later).
- Amendments to IFRS 4 – IFRS 9 “Financial instruments”, applied together with IFRS 4 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2018 for the companies that have opted to apply the temporary relief, or as of the moment when IFRS 9 is applied, using the overlapping approach).
- Annual IFRS improvements 2014 – 2016 (effective for annual periods beginning on or after 1 January 2018 (amendments to IFRS 1 and IAS 28)). These amendments include changes to the following standards:
 - IFRS 1 “First-Time Application of IFRS”;
 - IAS 28 “Investments in associates and joint ventures”.
- Amendment to IAS 40 “Investment property” – Reclassification of investment properties (effective for annual periods beginning 1 January 2018 or later).
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019).
 - The new standard lays down the principles for recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made within a particular term, they also include the financing component. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as was required under IAS 17. Instead, IFRS 16 introduces a uniform lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities from all leases with a term of more than 12 months, other than where the underlying asset is of low value; and (b) the depreciation charge of the lease assets separately from interest on lease liabilities. Accounting by lessors under IFRS 16 is largely similar to the requirements laid down in IAS 17. Consequently, lessors continue to classify lease agreements as operating or finance leases, and different accounting is maintained depending on the classification.
 - The Company intends to apply the standard starting from 1 January 2019, applying the simplified approach provided for in transition provisions of IFRS 16. Consequently, comparatives will not be adjusted, whereas the value of the right to use the asset will correspond to the lease liability (adjusting by the amount of prepayments or other accrued costs, where necessary).

- The Company’s Management has estimated the impact of the implementation of the new standard and found that due to IFRS 16, total assets and liabilities have increased by EUR 9,272 thousand. The results of the impact assessment may still be adjusted because the work on the automation of the accounting for lease transactions in the SAP system, as well as work on the assessment of the lease agreements is being continued.
- IFRIC 23 “Uncertainty over income tax treatments” (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 9 “Financial instruments” – Prepayment instruments with negative compensation (effective for annual periods beginning 1 January 2019 or later).
- Amendments to IAS 28 “Long-term investments in associates and joint ventures” (effective for annual periods beginning 1 January 2019 or later have not yet been approved for use in the EU).
- Annual IFRS improvements for 2015–2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). These amendments include changes to the four standards:
 - IFRS 3 – “Business combinations”;
 - IFRS 11 – “Joint agreements”;
 - IAS 12 – “Income taxes”;
 - IAS 23 – “Borrowing costs”. Amendments to IAS 23 were made to provide for that specific borrowings, the purpose of which was financing the creation of a particular asset, may be excluded from total liabilities for the purpose of capitalising borrowing costs only until the relevant asset is completed.
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).
- Changes to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020, not yet endorsed in the EU).
- Amendments to IFRS 3 “Definition of a business” (effective for annual periods beginning on or after 1 January 2020, not yet endorsed in the EU).
- Amendments to IAS 1 and IAS 8 “Definition of material” (effective for annual periods beginning on or after 1 January 2020, not yet endorsed in the EU). The amendments explain the definition of “material” and the application thereof, consolidating the guidelines previously scattered in various standards within a uniform definition. In addition, the explanations that were previously available together with the definition have been complemented. In addition, the amendments ensure a uniform definition of materiality throughout the IFRS framework. Information is material if the omission of it, or an erroneous or false presentation thereof may have reliable consequences on decisions made by the basic users of the general purpose financial statements on the basis of the financial statements that provide information about a specific reporting unit.

- IFRS 17 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2021, not yet endorsed in the EU).
- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” (date of entry into force is not specified yet, not yet endorsed by the EU).

The Company’s Management has decided not to apply the new standards and interpretations before the date of their entry into force. The Company’s Management is of the opinion that the implementation of the new standards, amendments and interpretations, except for IFRS 16, will not have a material impact on the Company’s financial statements.

2.2 Foreign currency revaluation

Functional and presentation currency

The financial statements are presented using the currency of the economic environment, in which the Company operates (functional currency). Financial statement items are reported in the official currency of the Republic of Latvia – euro (EUR), which is the functional currency of the Company.

Foreign currency transactions and balances

All transactions denominated in foreign currencies are converted into euro at the exchange rate set by the European Central Bank prevailing on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in euro at the rate set by the European Central Bank ruling at the end of the last day of the reporting year.

Foreign currency gains or losses are recognised in the profit or loss.

Foreign	exchange	rates
Foreign currency	EUR at 31.12.2018	EUR at 31.12.2017
USD	1,14500	1,1993
CHF	1,12690	1,17020
RUB	79,71530	69,39200

Intangible assets

Intangible assets primarily consist of software licences initially recognised at cost. Estimated useful life for each type of intangible assets is specific and finite. Further intangible assets are carried at cost, net of accumulated amortisation and accumulated impairment losses.

Subsequent costs are capitalised by increasing the existing value of an intangible asset, or recognised as a separate intangible asset only if the Company expects that future economic benefits will flow to the Company, and these costs can be measured reliably. Other costs are expensed when they occur.

Intangible assets are amortised using the straight-line method to write down their cost over their estimated useful lives. Amortisation is charged to profit or loss for the relevant period. Generally, intangible assets are amortised over a five-year term.

2.4 Property, plant and equipment

Items of property, plant and equipment are recognised in accordance with the acquisition cost method, as described below, less accumulated depreciation and any accumulated impairment, if such is required.

Acquisition cost includes the costs directly attributable to the acquisition of the property, plant and equipment. The cost of the assets constructed internally consists of materials and direct labour costs, as well as any other costs directly associated with bringing the property, plant and equipment to a working condition for the intended purpose, and the costs of demolition and removal of the plant and machinery, and the renewal of the site where the item of the plant and machinery should be located. The cost of software, which is closely linked to the system’s functionality and may not be separated from it, is capitalised as a component part of this equipment.

The Company capitalises property, plant and equipment items, the value of which exceeds EUR 300 and the useful life of which exceeds one year. Investments in the leased assets are capitalised and presented as property, plant and equipment.

If the useful lives of individual property, plant and equipment items are different, they are listed as separate components of fixed assets. The estimated residual value of property, plant and equipment and useful lives are reviewed, and adjusted if appropriate, at the reporting date of each year.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Other subsequent costs from maintenance and repair are charged to profit or loss when incurred.

Gain or loss on disposal of property, plant and equipment is calculated as the difference between the asset’s book value and proceeds from its sales in the relevant period and is charged to the profit or loss of the relevant period.

When the book value of a property, plant and equipment item is higher than its recoverable value, the value of the relevant property, plant and equipment item is immediately written down to its recoverable value (see Note 3).

Depreciation

The depreciation of property, plant and equipment is calculated using the straight-line method. Depreciation is charged to profit or loss.

Depreciation of leasehold improvements is calculated over the shorter of the asset’s estimated useful life or the lease term depending on the asset’s category into which leasehold improvement is falling into. Land is not depreciated.

Depreciation of the Company’s property, plant and equipment is calculated for each class of assets using their residual values by applying the depreciation rates specified for each asset.

Property, plant and equipment	Useful life
Buildings and structures	10-130 years
Perennial plantations	40 years
Railway rolling stock – carriages for technological needs and freight transportation	22-40 years
Railway rolling stock – locomotives, diesel-powered trains, and technological equipment	5-40 years
Rail track machines	30 years
Computing equipment, communications means, copiers and related equipment	3-10 years
Other property, plant and equipment	5-28 years

Unfinished construction

Such assets, which are not ready for their intended use or which are being installed are classified as “Fixed assets under construction”. The historical cost of assets under construction includes borrowing costs incurred during the period of construction, and other direct expenditure, related to the relevant object until putting it into operation. The historical cost of the relevant property, plant and equipment is not increased by the borrowing costs in the periods, in which no active construction works of an asset under construction are taking place.

When assets have been brought to a working condition for their intended use, they are reclassified to an appropriate category of property, plant and equipment and depreciated. Assets under construction are reviewed for impairment on a regular basis.

2.5 Impairment of tangible and intangible assets

All of the Company’s tangible and intangible assets (other than land and the museum inventories) have a definite useful life. Depreciable assets are reviewed for impairment whenever any events and circumstances indicate that their book value may not be recoverable.

An impairment loss is recognised in the amount equal to the difference between the book value of the asset and its recoverable amount. Recoverable amount is the higher of the relevant asset’s fair value less selling costs of disposal and its value in use. To determine the impairment, the assets are grouped at the lowest level, for which there is an identifiable cash flow (cash generating units). Impairment losses are charged to profit or loss.

An impairment loss recognised in previous periods is reviewed at each balance sheet date to determine whether or not there is evidence that the impairment has decreased or no longer exists. An impairment loss is reversed if changes are made to the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent the book value of the relevant asset does not exceed their book value, less depreciation that would have been charged had an impairment loss not been recognised.

2.6 Financial instruments

Accounting policy effective as of 1 January 2018

Classification of financial instruments

As of 1 January 2018, the Company’s financial instruments consist of financial assets (financial assets at amortised cost, financial assets at fair value through profit or loss) and financial liabilities (financial liabilities at amortised cost).

The classification of debt instruments depends on the Company’s financial asset management business model that has been put in place, as well as whether the contractual cash flows consist solely of Payments of Principal and Interest (SPPI). If a debt instrument is being held to collect cash flows, it can be carried at amortised cost subject to meeting the SPPI requirements. Such debt instruments, which meet the SPPI requirements and are held in the portfolio with a view to collecting cash flows from assets as well as selling them, may be classified as FVOCI. Financial assets, the cash flows from which do not meet the SPPI requirements, must be measured at FVTPL (e.g., derivative financial instruments). Embedded derivatives are not separated from financial assets but they are included under financial assets, subject to the SPPI requirements.

Equity instruments are always measured at fair value. However, the Management may make an irrevocable choice to charge the change in fair value in comprehensive income, unless the instrument is held for trading. If an equity instrument is held for trading, changes in fair value must be reported in the profit or loss.

Recognition and derecognition

Financial assets are recognised when the Company has become a contracting party and has met the terms of the transaction, i.e. at the date of the trade.

Financial assets are derecognised when the contractual rights of the Company to receive cash flows from the financial assets expire or where the Company transfers the financial asset to another party, or transfers substantially all risks and rewards incidental to ownership. As part of the operating activity, acquisition and selling of financial assets are accounted for at the transaction date, i.e., at the date when the Company decides to buy or sell the asset.

Financial liabilities are derecognised when the obligation underlying the liability is revoked, cancelled or expires.

Measurement

At initial recognition financial instruments are measured at their fair value. For the financial assets and financial liabilities carried at amortised cost, at initial recognition, the fair value is adjusted for transaction costs that are directly attributable to the relevant financial instrument.

Financial assets at fair value through profit or loss

This category includes the Company’s equity instruments that make up Other securities and investments. These investments are carried under Long-term assets unless the Management intends to sell them within 12 months from the reporting year date. The fair value of these financial assets is determined based on the Company’s Management’s estimates, made based on the financial information about these investments. Fair value changes are charged to profit or loss.

Dividends from investments are recognised in the profit or loss when the Company acquires legitimate rights to them.

Financial assets at amortized cost

Financial assets at amortised cost are debt instruments with fixed or determinable payments, which are not held for trading and the future cash flows from which consist solely of principal and interest payments. Financial assets at amortised cost include Trade and other receivables, Related party receivables and Cash and cash equivalents. Financial assets at amortised cost are classified as short-term assets, if the term to maturity is one year or less. If the maturity term is longer than one year, then they are shown as long-term assets. Short-term receivables are not discounted.

Financial assets at amortised cost are initially recognised at fair value and subsequently are measured at amortised cost, using the effective interest rate method, less provisions for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on current accounts and short-term deposits with original maturities of up to 90 days, and short-term highly liquid investments that can be easily converted into cash and are not subject to a substantial risk of changes in value.

Impairment of financial assets at amortised cost

IFRS 9 introduces a new model for recognition of impairment – the expected credit loss (ECL) model. The model has a three stage approach, based on changes in the credit quality of financial assets, compared with that at the initial recognition. In practice, the new requirements will mean that at the initial recognition of a financial asset the Company will be required to recognise immediate losses, which will be equal to 12-month ECL, even if the financial assets do not have any impairment signs (for trade receivables it will be measured as lifetime ECL). In the event of a significant increase in credit risk, the impairment will be measured using the lifetime ECL of the asset, rather than the 12-month ECL. The model provides for operational simplifications for trade receivables.

The Company has applied operational simplifications permitted by IFRS 9 in relation to the measurement of trade receivables – trade receivables are grouped by reference to the credit quality thereof and days outstanding, applying the ECL rates to each relevant group. The ECL rates are estimated based on the last three years of payment history, adjusting the indicator taking into account the present information as well as future prospects.

Related party receivables, as well as loans issued to related parties are categorised into a separate group, the ECL of which is calculated taking into account not only the past experience, but also the credit rating and future development prospects of the ultimate beneficiary thereof (the Republic of Latvia). Loans issued to subsidiaries are regarded as assets with such credit risk, which has not increased significantly since initial recognition, therefore the credit losses expected within the next 12 months would be included in the ECL calculation.

A provision for impairment is accounted for in a separate provision account and losses are recognised in the profit or loss. If in the period following the recognition of the impairment, the loss amount decreases and the amount of such reduction can be objectively related to an event after the recognition of the impairment (for example, improving of the debtor's credit

rating), the reversal of the previously recognised impairment losses is recognised in the profit or loss.

Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise Borrowings from credit institutions, Other borrowings, Trade payables and Other payables, as well as Related-party payables.

Financial liabilities at amortised cost are initially recognised at their fair value. In subsequent periods, financial liabilities at amortised cost are measured at amortised cost, using the effective interest rate. Financial liabilities at amortised cost are classified as current liabilities if the term to maturity is one year or less. If the maturity term is longer than one year, then they are presented as non-current liabilities.

Borrowings

Borrowings are initially recognised at fair value, net of the costs related to the receiving of borrowings. Subsequently, borrowings are measured at amortised cost using the effective interest rate method. The difference between the amount of funds received, less borrowing related costs and the loan value to be amortised is gradually charged to profit or loss, using the effective interest rate on the loan. This difference is recognised under financial costs.

Borrowings are classified as current liabilities, except when the Company has irrevocable rights to defer settlement of the liability for at least 12 months after the balance sheet date.

Offsetting financial assets and liabilities

Financial assets and liabilities are mutually offset and reported in the balance sheet at net value if there are legal rights to carry out such offsetting, and the settlement shall occur at net values or transferring the asset and paying for the liability simultaneously.

Accounting policies that were in force until 31 December 2017

The Company's financial instruments consist of financial assets (available-for-sale investments, loans, receivables and cash and cash equivalents) and financial liabilities (loans, trade and other payables).

Financial assets

Financial assets comprise investments in the share capital of other companies, receivables, cash and cash equivalents and issued loans. The classification depends on the purpose of the acquisition of financial assets. The Company determines the classification of a financial asset at the initial recognition thereof and reviews the classification at each reporting date.

Financial assets are derecognised when the Company's contractual right to receive cash flows from the financial assets expire or where the Company transfers the financial asset to another party, or transfers substantially all risks and rewards incidental to ownership. As part of the operating activity, acquisition and selling of financial assets are accounted for at the transaction date, i.e., at the date when the Company decides to buy or sell the asset.

All of the Company's financial assets are non-derivative financial assets that are not traded on an active market. They are presented under current assets, except for assets with a repayment period of longer than 12 months of the end of the reporting period. Whereas they are classified as long-term investments.

Available-for-sale investments

Available-for-sale investments are non-derivative financial instruments which cannot be classified into any other category. These investments are presented under Long-term assets unless the Management intends to sell them within 12 months of the reporting year date. Equity instruments that are not traded on the stock exchange and the fair value of which cannot be determined precisely, are measured at their original cost less the decrease in value. Dividends from investments are recognised in the profit or loss when the Company acquires a legitimate right to them.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, nor are they held for trading. Loans and receivables consist of trade and other receivables. Short-term receivables are not discounted.

Receivables and loans are initially recognised at fair value and subsequently are measured at amortised cost, using the effective interest rate method, less provisions for impairment. Provisions for impairment are created when there is objective evidence that the Company will not be able to recover the receivables in full at the originally specified maturity dates. Significant financial difficulties of the debtor, the probability that bankruptcy proceedings or re-organization will be started, as well as defaulting of payments or violations are signs that the value of trade receivable has impaired. Provision for impairment is the difference between the book value of the asset and the estimated future cash flows determined by discounting at the original effective interest rate. A provision for impairment is accounted for in a separate provision account and losses are recognised in the profit or loss.

If in the period following the recognition of the impairment the loss amount decreases and the amount of such reduction can be objectively related to an event after the recognition of the impairment (for example, improving of the debtor's credit rating), the reversal of the previously recognised impairment losses is recognised in the profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on current accounts and short-term deposits with original maturities of up to 90 days, and short-term highly liquid investments that can be easily converted into cash and are not subject to a substantial risk of changes in value.

Financial liabilities

Financial liabilities comprise borrowings, trade payables and other liabilities.

Liabilities

Liabilities are initially recognised at their fair value. In the future periods, payables are presented at amortised cost, using the effective interest rate. If the maturity term of the liability is less than a year, it is classified as current liabilities. If the payment period is longer than one year, liabilities are presented under non-current liabilities.

Borrowings

Borrowings are initially recognised at fair value, net of the costs related to the receiving of borrowings. Subsequently borrowings are measured at amortised cost, using the effective interest rate method.

The difference between the amount of funds received, less borrowing related costs and the loan value to be amortised is gradually charged to profit or loss, using the effective interest rate. The difference is recognised under financial costs.

Borrowings are classified as current liabilities, except when the Company has an irrevocable right to defer the settlement of the liability for at least 12 months after the balance sheet date. Financial liabilities are derecognised when the obligation underlying the liability is revoked, cancelled or expires.

2.7 Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of the Company's business, less estimated costs to complete and sell. Acquisition costs are determined using the weighted average inventories measurement method for diesel and fuel, and using the FIFO (first in, first out) method for other inventory items.

If necessary, provisions for an impairment loss are created for obsolete, slow-moving or damaged inventories. Inventories that are not used for more than one year, are fully provided for. The amount of provisions is charged to profit or loss.

2.8 Share capital and payments for the use of the State capital (dividends)

The Company's share capital consists of common shares. All of the Company's shares are dematerialised shares. The nominal value per share is one euro.

Dividends or payments for the use of the State capital disbursement to the Company's shareholder are presented as liabilities in the financial statements in the period when the Company's shareholder approves the amount of the dividends.

2.9 Other reserves

After the approval of each annual report, the shareholders' meeting shall make the decision on the distribution of the profit for the year. Some part of the Company's after-tax profit may be transferred to reserves, based on the decision of the shareholders' meeting of the Company. For this purpose, equity comprises the item "Other reserves". The use and distribution of other reserves lies within the competence of the shareholders' meeting.

2.10 Unused annual leave accruals

Unused annual leave accruals are calculated by multiplying the number of unused leave days outstanding at the end of the year with the average daily wage for the last six months and adding the employer's share of mandatory national social insurance contributions.

2.11 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount may be reliably estimated.

When the Company expects some or all of a provision to be reversed, the reversal shall be recognised as a separate asset only when the reversal is virtually certain. Expenses related to the creation of provisions are presented in the profit or loss, net of the recovered amounts.

2.12 Corporate income tax and deferred tax for the reporting year

Until 2018, income tax consisted of corporate income tax and deferred tax for the reporting year. Income tax was presented in the profit or loss.

On 1 January 2018, the new Corporate Income Tax Law (passed on 28.07.2017) came into force. It no longer provides for inclusion of the difference between financial and tax depreciation in the tax base as well as of the changes in provisions. Thus in 2017, deferred tax was derecognised, and it was accounted for as income from corporate income tax in the profit or loss.

Corporate income tax for 2018 was calculated in accordance with the tax law in force at the end of the reporting period. According to the effective law, the tax rate is 20 per cent of the calculated tax base divided by the factor of 0.8 prior to the application of the tax rate. Corporate income tax, calculated from the profit distributed in dividends, is charged to profit or loss, whereas in other cases it is presented as Other operating costs.

2.13 Revenue recognition

Revenue is the remuneration received in the course of carrying out the principal activities. Revenue is measured at the transaction price provided for in contracts. The transaction price is the amount that the Company expects to receive after transferring the control over the goods or services, other than the amounts collected on behalf of third-parties (e.g. value added tax). The transaction price is reduced by the received discounts or other bonuses granted to the buyer. Specific criteria for the recognition of the Company's revenue by type of revenue is listed below.

The Company does not have any such contracts with a customer, which would have provided for the settlement period of more than one year, therefore the Company does not make adjustments to reflect changes in the value of money over time. In addition, the terms of settlement do not provide for a variable remuneration.

Revenue from sales of goods is recognised upon transferring control, i.e., at the time when the Company has supplied the goods to the customer and the latter has accepted them, and it is probable that the receivable is recoverable.

Revenue from provision of services is recognised in the financial period when the services were provided, taking into consideration the total service provided and total contractual service, if applicable.

The Company provides the following services:

Public use railway infrastructure using services – ensuring access to the railway infrastructure; which is provided by the infrastructure operator without discriminating any carrier. In 2018, revenue from use of railway infrastructure services was calculated pursuant to the actually run train-kilometres and recognised in the reporting period when the train traffic occurred, applying the fee for the use of the public use railway infrastructure carriage train kilometres determined by AS LatRailNet, the operator of the main functions of the public use railway infrastructure.

Ancillary services provided by the infrastructure operator – handling of freight trains, which may include bundling of trains, technical maintenance and inspection of wagons. Revenue is recognised in the period when the services are provided.

Lease services – the Company leases out buildings, constructions, land and other such property, plant and equipment items, which are not needed for its business, primarily to other carriers and other companies and organizations related to the operations of the railway infrastructure. Leasing out of the unused space located in the railway infrastructure objects reduces the cost of the provision of principal services. As a result, the competitiveness of the principal services improves, as does the efficiency of the object usage. Revenue is recognised in the period when the services are provided.

Electricity distribution services – electricity distribution and sales services to individuals and legal entities as well as dependent subsidiaries, and the purchase of electrical power for the electrical traction of passenger trains. Power distribution (traction substations and contact network) needed for a passenger rail traction purpose is included in the cost of infrastructure and is excluded from electricity distribution services. Latvijas dzelzceļš provides individuals with general services fulfilling its obligations laid down by the Electricity Market Law, the Law on Regulators of Public Services and Rulings of the Cabinet No. 50 "Rules on Selling and Use of Electricity". Latvijas dzelzceļš acts as a principal provider of services, thus revenue and related costs are recognised on a gross basis. Revenue is calculated as a function of the rates and actual kilowatt hours used during the period when consumed.

Principal's services include submission of import summary declaration, the paperwork related to the customs procedure – transit clearance, and temporary storage. Revenue is recognised in the period when the services are provided.

Electronic communications services – data and electronic message transmission services, leased line services, services related to the access to electronic communications network infrastructure. Revenue is recognised based on the actual usage of network capacity during respective reporting period.

Information technology services – include services related to the information systems of freight and passenger transport, train traffic, as well as business support, control and management information systems. Revenue is recognised in the period when the services are provided.

Other services – these services include management services to dependant companies, selling of self-produced heating, facility management services, and various other small-scale services for legal entities and individuals. Revenue is recognised in the period when the services are provided.

Interest income

Interest income is recognised on an accruals basis, using the effective interest rate. Interest income from cash and cash equivalents is classified as financial income.

Income from fines

Under the prudence principle, contractual fines, including late payment interest for the liabilities past the due date are recognised in revenue only after the receipt thereof.

Dividend income

Dividend income is recognised when a legitimate right to them arises.

2.14 Lease contracts

Operating lease

Lease transactions where the lessor retains a significant portion of the risks and rewards incidental to ownership are classified as an operating lease.

The Company as a lessor

Assets that are leased under an operating lease, are presented under Property, plant and equipment, less depreciation. Depreciation is calculated on a straight-line basis. Lease income from operating leases and prepayments received from customers are included in the profit or loss in the corresponding lease period on a straight-line basis.

The Company leases the buildings, land and other plant and equipment not used in its business. An insignificant part of buildings and land is leased, therefore these fixed assets are not reclassified as investment property.

There are no significant payments under non-cancellable operating leases or income arising on the transactions where the Company is a lessor.

The Company as a lessee

Payments made under the operating lease agreement are presented in the profit or loss in the relevant lease agreement period on a straight-line basis.

Finance leases – the Company as a lessee

Finance leases, under which all the risks and rewards incidental to the ownership of the lease object are transferred to the Company, are recognised in the balance sheet as fixed assets at the amount at the inception of the lease corresponding to the fair value of the leased property, or, if less, the present value of minimum lease payments with presentation under current and non-current liabilities. Finance lease payments are divided into finance costs and reduction of the liability, to achieve a constant rate of interest on the remaining balance of the liability. Financial costs are charged to profit or loss.

If there are sufficient grounds to consider that at the end of the lease period the lease object will transfer into the lessee's possession, the useful life of the asset is assumed to be identical to the anticipated term of its use. In all other cases, the depreciation of capitalised leased assets is calculated using the straight-line method over the estimated useful life of the asset or the lease period, whichever of the following periods is shorter.

2.15 State budget co-financing and EU financing

State-budget co-financing and EU financing are recognised at fair value when there is a sufficient reliance that they will be received and it can be credibly claimed that the Company will be able to fulfil all the terms and conditions related to the receiving of these funds.

The co-financing and EU financing attributable to the assets (property, plant and equipment) are presented as the balance sheet item "Deferred revenue" and periodically recognised in the profit or loss pro rata to the depreciation of the relevant assets (property, plant and equipment) over their useful life.

2.16 Related parties

Related parties include the State, the members of the Council and the Board of the Company, their close relatives, and companies in which they exert significant influence or control.

2.17 Events after the balance sheet date

Such events after the end of the reporting year are presented in the financial statements, which provide additional information on the Company's financial position at the balance sheet date (adjusting events). If events after the balance sheet date are not adjusting events, they are disclosed in the notes to the financial statements only if material.

2.18 Employee benefits

Social insurance and pension plan contribution

The Company makes social insurance payments for state pension insurance and state funded pension system in accordance with the Latvian law. The State-funded pension scheme is a fixed contribution pension plan, under which the Company must make defined payments as required under the law. The Company does not incur any additional legal or constructive obligations to make further payments if the State-funded pension scheme is unable to settle their obligations towards the employees. Mandatory national social insurance contributions are recognised as an expense on the accrual basis, and are presented under staff costs. Under the Cabinet Regulation No. 786 "Regulation on the apportionment of the national social insurance contribution rate by type of national social insurance" of 19 December 2017, in 2018 the defined level of social insurance contributions to be used for the state-funded pension scheme was 71.87% (71.99% in 2017).

2.19 Investments in the share capital of subsidiary and affiliated companies

Investments in the share capital of subsidiary and associated companies are carried at cost less any impairment losses.

The Company recognises income only if it has received a share of profit from its subsidiary or associated company. The amounts received in excess of the profit are considered the recov-

ery of an investment and are accounted for as a reduction of the investment.

When there is an objective evidence that the book value of the investment in the subsidiary of associated company has declined, losses from impairment are calculated as the difference between the book value of investment and its recoverable value. Loss from impairment of investment can be reversed if after the most recent time when the impairment loss was recognised, there has been a change in estimates that were used to determine the reduction in value.

3. KEY ASSUMPTIONS AND JUDGMENTS

The preparation of the financial statements in accordance with IFRS requires making significant assumptions. It also requires Management to make its assumptions and judgments, applying the accounting policies selected by the Company.

Preparation of the financial statements in accordance with IFRS requires making estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of information at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results might differ from those estimates. The areas that are the most affected by assumptions are management assumptions and calculations, used in determining the recoverable amount of the assets and the amount of provisions.

Useful life of property, plant and equipment

At the end date of each reporting period, the Company reviews the remaining useful life of the asset. Based on the most recent assessment carried out by the Financial Directorate of the Company, the current useful life of the Company's property, plant and equipment is appropriate to the actual life thereof.

Provisions

When determining the provisions, the Management uses estimates on contingent liabilities as well as the term during which the said liabilities might realise. If the events do not occur or occur in a different manner, the actual costs may differ from the estimated costs. More detailed information on the assumptions underlying the provisions is provided in Note 23.

4. REVENUE

	(EUR)	
Types of activities	2018	2017
Fee for the use of the public-use of railway infrastructure	145 525 701	124 602 446
Infrastructure management services	40 004 195	29 558 602
Lease services	5 302 279	6 574 923
Electricity sale services	6 648 198	6 754 454
IT services	4 392 726	4 547 896
Services of the principal	1 746 631	1 835 387
Specific services related to infrastructure maintenance and repairs	648 347	604 291
Electronic communications services	601 558	647 168
Other services	4 561 361	5 036 535
Total	209 430 996	180 161 702

5. COST OF SALES

	(EUR)	
Breakdown of cost of sales	2018	2017
Remuneration	74 261 615	69 159 212
National social insurance mandatory contributions	17 811 324	16 217 830
Materials, fuel for heating and fuel	10 123 670	10 053 691
Electricity	9 542 722	9 833 482
Depreciation of property, plant and equipment and amortisation of intangible assets	48 070 211 ^{*1)}	48 423 370
Fee for manoeuvre work	9 148 150	5 058 307
Security guard services	4 568 282	4 372 783
Information system maintenance costs	3 157 973	3 197 358
Lease payment	2 597 171	2 466 178
Property and equipment current repair costs	2 264 183	1 952 249
Utility service rates	1 762 926	1 734 620
Fee for the locomotive and crew work	1 180 373	883 614
Real estate tax	593 928	590 535
Other costs	15 068 153 ^{*2)}	17 231 378
Other costs	200 150 681	191 174 607

*1) The depreciation of property, plant and equipment and intangible assets includes depreciation charges for the objects created with the co-financing received from EU funds and from the State budget (EUR 19,866,639), which relate to the received financial support (see Note 26).

*2) Other expenses include the fees for the services provided by the sworn auditor company SIA PricewaterhouseCoopers:

(EUR)

	2018	2017
Audit of the financial statements	54 000	54 000
Other expert services	12 643	25 625

6. ADMINISTRATIVE COSTS

	(EUR)	
	2018	2017
Remuneration	11 062 979	10 180 373
National social insurance mandatory contributions	2 644 199	2 379 393
Materials, diesel and fuel, electricity	200 930	180 169
Depreciation of property, plant and equipment and amortisation of intangible assets	557 317	470 286
Other costs	1 463 855	1 926 614
Total	15 929 280	15 136 835
of these – remuneration to the <i>Company's</i> Board and Council members	604 702	567 146
<i>Including, remuneration</i>	<i>487 310</i>	<i>458 893</i>
<i>national social insurance mandatory contributions (employer's contribution)</i>	<i>117 392</i>	<i>108 253</i>

7. OTHER OPERATING INCOME

	(EUR)	
	2018	2017
Profit from inventory sales	1 905 936	1 506 683
Profit from sale of property, plant and equipment	1 541 134	63 085
Gains on exchange rate fluctuations	-	321 866
Penalties and late charges	151 196	151 676
Revenue from social infrastructure	363	285
Gradual recognition of deferred revenue	19 866 639	20 377 184
Adjustment of provisions for bad debts	-	1 338
Adjustment of other provisions (see Note 23)	3 476 199	6 923 339
State budget allocation to compensate for losses	285 795	229 682
Financing for the implementation of the environment-based training project	15 848	-
Other income	595 789	476 469
Total	27 838 899	30 051 607

8. OTHER OPERATING EXPENSES

(EUR)

	2018	2017
Loss on disposal of property, plant and equipment and unfinished construction	770 256	1 825 742
Losses on exchange rate fluctuations	24 246	-
Currency conversion	19 969	3 262
Penalties and late charges	4 168	12 508
Social infrastructure maintenance costs	6 291	6 424
The costs provided for in the collective agreement of <i>Latvijas dzelzceļš Group</i> , etc. ^{*1)}	824 672	682 235
Adjustment of provisions for bad debts	554 269	-
Adjustment of the provisions for materials not used for more than a year (see Note 18)	550 651	910 149
Annual leave accruals	1 218 629	53 633
Corporate income tax	70 437	-
Other costs	472 174	564 193
Total	4 515 762	4 058 146

^{*1)} of these:

(EUR)

Type of cost	2018	2017
Donations	38 960	7 700

9. INCOME FROM INVESTMENTS IN THE SHARE CAPITAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

(EUR)

	2018	2017
Dividends received from the subsidiaries of <i>Latvijas dzelzceļš</i>	567 354 ^{*1)}	2 207 058

^{*1)} ^{*1)}Dividends received in 2018 for the previous financial year from:

(EUR)

SIA "LDZ CARGO"	415 974
SIA "LDZ ritošā sastāva serviss"	34 173
SIA "LDZ Loģistika"	81 413
SIA "LDZ infrastruktūra"	25 892
SIA "LDZ apsardze"	8 619
AS "LatRailNet"	1 283

10. INCOME FROM INVESTMENTS THE SHARE CAPITAL OF AFFILIATED AND OTHER COMPANIES

(EUR)

Dividend income	2018	2017
SIA „STREK”	775 580	310 550
Belarusian-Latvian joint venture <i>MIRIGO</i>	60	-
Total	775 640	310 550

11. FINANCIAL COSTS, NET

(EUR)

	2018	2017
Financial income	653 213	578 638
<i>Bank interest</i>	379	846
<i>Other interest income</i>	652 834	577 792
Financial costs	(2 164 478)	(2 171 373)
<i>Bank interest</i>	(2 164 478)	(2 171 373)
Financial costs, net	(1 511 265)	(1 592 735)

12. CORPORATE INCOME TAX

The Company calculates corporate income tax in accordance with the laws of the Republic of Latvia.

Overpaid corporate income tax for the reporting year

(EUR)

	2018	2017
Overpaid at 1 January	-	-
Calculated for the reporting year	(70 437)	-
Paid in the reporting year	71 411	-
Overpaid at 31 December	974	-

Current corporate income tax

(EUR)

	2018	2017
Decrease in the deferred tax liability	-	(22 415 773)
Total	-	(22 415 773)

13. PROPERTY, PLANT AND EQUIPMENT

	Land plots	Buildings, structures and perennial plantations	Railway tracks	Long-term leasehold property improvements	Property, plant and equipment and devices	Computers and fixtures, communications equipment, copiers and equipment	Other property, plant and machinery	Unfinished construction site costs	Total (EUR)
Historical cost at 01.01.2018	830 252	197 710 956	826 059 672	2 538 544	347 897 854	38 358 350	30 219 917	2 415 614	1 446 031 159
Acquisitions and creation of plant, property and equipment	-	3 625 910	14 534 427	9 577	1 485 946	2 420 448	1 362 035	1 030 649	24 468 992
Reclassified	-	(604)	-	-	(10 530)	-	11 134	-	-
Disposals of property, plant and equipment	-	(243 137)	(3 679 419)	-	(38 812 315)	(831 774)	(245 447)	-	(43 812 092)
Historical cost at 31.12.2018	830 252	201 093 125	836 914 680	2 548 121	310 560 955	39 947 024	31 347 639	3 446 263	1 426 688 059
Accumulated depreciation at 01.01.2018	-	110 304 479	427 779 481	656 256	166 672 205	28 565 793	22 491 066	-	756 469 280
Depreciation charge	-	3 497 099	29 593 972	75 913	10 962 650	2 790 774	1 209 284	-	48 129 692
Reclassified	-	(573)	-	-	(10 534)	-	11 107	-	-
Depreciation on disposals	-	(197 132)	(3 104 664)	-	(27 425 582)	(828 871)	(240 416)	-	(31 796 665)
Accumulated depreciation at 31.12.2018	-	113 603 873	454 268 789	732 169	150 198 739	30 527 696	23 471 041	-	772 802 307
Net book value at 01.01.2018	830 252	87 406 477	398 280 191	1 882 288	181 225 649	9 792 557	7 728 851	2 415 614	689 561 879
Net book value at 31.12.2018	830 252	87 489 252	382 645 891	1 815 952	160 362 216	9 419 328	7 876 598	3 446 263	653 885 752

	Land plots	Buildings, structures and perennial plantations	Railway tracks	Long-term leasehold property improvements	Property, plant and equipment and devices	Computers and fixtures, communications equipment, copiers and equipment	Other property, plant and machinery	Unfinished construction site costs	Total (EUR)
Historical cost at 01.01.2017	830 252	197 486 453	811 083 367	2 538 544	346 072 023	36 233 618	29 569 021	4 274 590	1 428 087 868
Acquisitions and creation of plant, property and equipment	-	623 474	18 699 074	-	2 883 676	2 541 973	1 119 663	57 396	25 925 256
Reclassified	-	(234 191)	-	-	234 191	-	-	-	-
Disposals of property, plant and equipment	-	(164 780)	(3 722 769)	-	(1 292 036)	(417 241)	(468 767)	(1 916 372)	(7 981 965)
Historical cost at 31.12.2017	830 252	197 710 956	826 059 672	2 538 544	347 897 854	38 358 350	30 219 917	2 415 614	1 446 031 159
Accumulated depreciation at 01.01.2017	-	106 802 894	401 792 464	580 343	155 953 106	26 346 562	21 829 921	-	713 305 290
Depreciation charge	-	3 656 198	29 091 593	75 913	11 777 041	2 620 218	1 116 223	-	48 337 186
Reclassified	-	(11 013)	-	-	11 013	-	-	-	-
Depreciation on disposals	-	(143 600)	(3 104 576)	-	(106 895)	(400 987)	(455 078)	-	(5 173 196)
Accumulated depreciation at 31.12.2017	-	110 304 479	427 779 481	656 256	166 672 205	28 565 793	22 491 066	-	756 469 280
Net book value at 01.01.2017	830 252	90 683 559	409 290 903	1 958 201	190 118 917	9 887 056	7 739 100	4 274 590	714 782 578
Net book value at 31.12.2017	830 252	87 406 477	398 280 191	1 882 288	181 225 649	9 792 557	7 728 851	2 415 614	689 561 879

Throughout the reporting period and in comparable periods the land with an area of 15,144 hectares registered on the name of the Ministry of Transport was transferred into use to the Company (mostly it is the railway land partition area that forms a part of the public-use railway infrastructure and is intended for the deployment of rail infrastructure objects to ensure the development of the railway infrastructure and a safe operation thereof).

In 2018, the Company did not use finance leases to acquire fixed assets. See Note 25.

The capitalised part of salaries is included in the cost of property, plant and equipment EUR 1,741,446 in 2018 (in 2017: EUR 67,067). In 2018, EUR 29,541,403 were invested in the renovation, upgrading and acquisition of property, plant and equipment, as well as the construction of new objects (in 2017: EUR 23,490,712).

14. INTANGIBLE ASSETS

(EUR)

Licences and rights	2018	2017
Historical cost at the beginning of the year	8 402 110	8 045 819
Additions	693 060	356 291
Reclassified	2 091	-
Disposals	(61 087)	-
Historical cost at the end of the year	9 036 174	8 402 110
Accumulated depreciation at the beginning of year	7 119 698	6 557 247
Depreciation charge	553 045	562 451
Reclassified	734	-
On disposals	(61 087)	-
Accumulated depreciation at the end of the year	7 612 390	7 119 698
Net book value at the beginning of the year	1 282 412	1 488 572
Net book value at the end of the year	1 423 784	1 282 412

15. INVESTMENT IN THE SHARE CAPITAL OF SUBSIDIARIES

SIA "LDZ CARGO"

Uniform registration number	40003788421
Registered office	Dzirnavu iela 147, k-1, Rīga, LV-1050
Shareholding, %	100% shareholder – VAS Latvijas dzelzceļš
Reporting year	01.01.2018. – 31.12.2018.

SIA "LDZ ritošā sastāva serviss"

Uniform registration number	40003788351
Registered office	Gogoļa iela 3, Rīga, LV-1050
Shareholding, %	100% shareholder – VAS Latvijas dzelzceļš
Reporting year	01.01.2018. – 31.12.2018.

SIA "LDZ infrastruktūra"

Uniform registration number	40003788258
Registered office	Gogoļa iela 3, Rīga, LV-1050
Shareholding, %	100% shareholder – VAS Latvijas dzelzceļš
Reporting year	01.01.2018. – 31.12.2018.

SIA "LDZ apsardze"

Uniform registration number	40003620112
Registered office	Zasas iela 5-3, Rīga, LV-1057
Shareholding, %	100% shareholder – VAS Latvijas dzelzceļš
Reporting year	01.01.2018. – 31.12.2018.

AS "LatRailNet"

Uniform registration number	40103361063
Registered office	Dzirnavu iela 16, Rīga, LV-1010
Shareholding, %	100% shareholder – VAS Latvijas dzelzceļš
Reporting year	01.01.2018. – 31.12.2018.

SIA "LDZ Loģistika"

Uniform registration number	40003988480
Registered office	Dzirnavu iela 147, k-2, Rīga, LV-1050
Shareholding, %	100% shareholder – VAS Latvijas dzelzceļš
Reporting year	01.01.2018. – 31.12.2018.

The subsidiary of SIA "LDZ ritošā sastāva serviss" SIA "Rīgas Vagonbūves uzņēmums "Baltija""

Uniform registration number	40103419565
Registered office	Turģņeva iela 14, Rīga, LV-1050
Shareholding, %	100% shareholder – SIA LDZ ritošā sastāva serviss
Reporting year	01.01.2018. – 31.12.2018.

Investments in the share capital of affiliated companies

(EUR)

Subsidiary	LDz daļas, %	31.12.2018.	31.12.2017.
SIA "LDZ CARGO"	100	80 492 369	80 492 369
SIA "LDZ ritošā sastāva serviss" ^{*1)}	100	29 351 905	29 351 905
SIA "LDZ infrastruktūra" ^{*2)}	100	3 605 070	15 523 088
SIA "LDZ apsardze"	100	298 803	298 803
AS "LatRailNet"	100	35 571	35 571
SIA "LDZ Loģistika"	100	638 000	638 000
Kopā	x	114 421 718	126 339 736

*1) SIA "LDZ ritošā sastāva serviss" is the sole shareholder of SIA "Rīgas Vagonbūves Uzņēmums "Baltija"".

*2) Long-term financial investments in the share capitals of subsidiaries have been measured in the books of Latvijas dzelzceļš at cost, less accumulated impairment, if such has been identified. Impairment is determined as a difference between the carrying value and recoverable value. To optimise the resources of the Latvijas dzelzceļš group and reduce the costs of carrying out works, on 1 January 2018, Latvijas dzelzceļš took over significant functions of SIA LDZ infrastruktūra, and from that moment it has been carrying out the planned railway renewal works, which were carried out by SIA LDZ infrastruktūra previously. Since in 2018, there were changes in the business of SIA LDZ infrastruktūra; the cost of long-term financial investments equalling their carrying cost of EUR 15,523,088, carried in the books of Latvijas dzelzceļš significantly exceeded the recoverable value of SIA LDZ infrastruktūra. Under International Accounting Standard 36 "Impairment of Assets" the recoverable value is the highest of the fair value less selling costs and value in use. The assessment was made assuming that SIA LDZ infrastruktūra will operate in the future according to the Management's understanding of the cash flows expected over the future years. The recoverable value of these investments was determined to be EUR 3,605,070, as a result of which an impairment of the long-term financial investment of EUR 11,918,018 has been recognised.

Performance indicators of subsidiaries for 2018

(EUR)

Subsidiary	LDz share-holding,%	Profit for 2018	Profit for 2017	Equity	
				31.12.2018.	31.12.2017.
SIA "LDZ CARGO"	100	1 957 344	12 585 475	138 109 553	136 568 183
SIA "LDZ ritošā sastāva serviss"	100	3 128 120	1 529 946	45 558 174	42 464 227
SIA "LDZ infrastruktūra"	100	156 821	775 238	18 357 514	18 226 585
SIA "LDZ apsardze"	100	59 390	31 710	666 797	616 027
AS "LatRailNet"	100	7 051	4 659	87 646	81 878
SIA "LDZ Loģistika"	100	652 724	163 795	1 438 170	866 859
Total	x	5 961 450	15 090 823	204 217 854	198 823 759

Latvijas dzelzceļš group manages the public use railway infrastructure, provides railway transport services and services related to them.

The Group consists of: the Group's dominant company i.e., state joint stock company "Latvijas dzelzceļš", SIA "LDZ CARGO", SIA "LDZ ritošā sastāva serviss", SIA "LDZ infrastruktūra", SIA "LDZ apsardze", SIA "LDZ Loģistika", AS "LatRailNet", as well as the subsidiary of SIA "LDZ ritošā sastāva serviss" – SIA "Rīgas Vagonbūves Uzņēmums "Baltija"".

In terms of the Group's governance, the principal task of Latvijas dzelzceļš is to see to the development of the Group's business lines and their competitiveness, by achieving better results than those that could have been achieved if each line of business was operated as a stand-alone entity. To achieve this, a uniform strategy and objectives have been developed for the Group to ensure the best allocation of production and investment resources between the lines of business and the Group's companies, aligning of the decision-making process and exercising an effective control over its implementation. Latvijas dzelzceļš represents the Group's interests at international level.

Latvijas dzelzceļš provides public access railway infrastructure services, freight wagon treatment services at stations, freight wagon technical maintenance and inspection services, electricity distribution and trade services, lease services, information technology services, electronic communications services, and the services of a principal.

SIA "LDZ CARGO" is engaged in providing domestic as well as international railway freight transport services, traction services, railcar rental services, as well as in organising international passenger transport services.

SIA "LDZ ritošā sastāva serviss" is engaged in providing locomotive and railcar repair, locomotive staffing and upgrading services, as well as sales of fuel and equipment.

SIA "LDZ infrastruktūra" is engaged in providing rail track machinery repairs and lease as well as providing rail track welding services.

SIA "LDZ apsardze" provides physical and technical security services to the Group as well as other companies and private individuals.

AS "LatRailNet" determines the fee for the use of the public-use railway infrastructure and allocates the railway infrastructure capacity as well as makes decisions on the scheduling of the trains of a particular carrier.

SIA "LDZ Loģistika" is engaged in providing forwarding and logistics services, as well as in attracting new freight flows and promoting railway freight transport between European and Asian countries.

The subsidiary of SIA "LDZ ritošā sastāva serviss" – SIA „Rīgas Vagonbūves Uzņēmums „Baltija”” was founded with a goal of developing wagon manufacturing in Latvia.

16. LOANS TO RELATED COMPANIES

In 2018, Latvijas dzelzceļš issued a long-term loan of EUR 7,774,245 to SIA "LDZ ritošā sastāva serviss" for financing the upgrading of the diesel locomotives.

17. OTHER LONG-TERM FINANCIAL INVESTMENTS

(EUR)

Name of the Company	Shareholding (%)	NBV	
		31.12.2018.	31.12.2017.
Belarusian-Latvian joint venture MIRIGO	3,0	10 126 ^{*1)}	420 245
SIA "STREK"	5,84	73 982	73 982
Total	x	84 108	494 227

*1) Because the Company's performance indicators have deteriorated in recent years, and positive development trends are not anticipated, the fair value of financial investments was determined, and the value of investment in Belarusian-Latvian joint venture "MIRIGO" was reduced accordingly by EUR 410,119. There have been no other changes during the year.

The fair value of other long-term financial investments is determined using the cash flow analysis and financial indicators for the year 2017, i.e. using market data that is not observable on the market (Level 3 fair value measurements).

18. INVENTORIES

(EUR)

	31.12.2018.	31.12.2017.
Road superstructure materials	7 161 864	6 212 534
Spare parts	351 431	299 274
Other materials	1 848 850	1 838 944
Diesel and fuel	238 748	146 620
Other inventories and work in progress	79 856	235 526
Gross book value	9 680 749	8 732 898
Provisions for materials that have not been used for more than a year	(2 584 391)	(2 033 740)
Book value	7 096 358	6 699 158

19. TRADE AND OTHER RECEIVABLES

(EUR)

	31.12.2018.	31.12.2017.
Trade receivables	5 582 073	4 841 989
Doubtful receivables	802 962	473 698
Other receivables	1 677 037	1 440 571
Gross book value	8 062 072	6 756 258
Provisions for doubtful debts	(802 962)	(473 698)
Book value	7 259 110	6 282 560

Provisions for doubtful debts – movement table

(EUR)

	2018	2017
Provisions for doubtful debts at the beginning of the year	473 698	489 812
Decrease in provisions due to the recovery of debts	(47 004)	(47 999)
Decrease in provisions due to the write off of debts	(225 005)	(14 776)
Additional provisions created	601 273	46 661
Provisions for doubtful debts at the end of the year	802 962	473 698

An estimate of the expected value of the impairment of receivables by their risk features and days outstanding was made (detailed information is provided in Note 28). The expected loss rates are based on historical repayment indicators, which were specified as the bad debts/ relevant revenue ratio over the past 36 months (counting from either 31 December 2018 or 1 January 2018). The historical loss ratios were adjusted to disclose the current and anticipated information on macroeconomic factors that affect the ability of customers to make settlements with the Company. The GDP forecasts are considered to be the most significant factor because it has the most direct effect on the changes in bad debts.

According to the calculations, at 31 December 2018 and at 1 January 2018, the provisions created for such trade receivables that have not defaulted on payment deadlines or have been outstanding for less than 6 months have been immaterial, therefore their value in the financial statements is zero.

Similar calculations were also made for related party receivables, loans issued to related parties, other receivables, as well as for cash and cash equivalents, however, these calculations were based not on a historical experience but rather on the default rates of external credit rating agencies for similar borrowers or borrower groups. Such an approach was chosen because the Company has no historical data regarding losses for these financial asset groups. The results of the calculations suggest that the credit quality of the said assets is good, therefore the expected credit losses at 31 December 2018 and 1 January 2018 are not significant, therefore their value in the financial statements is zero.

Under the Company's accounting policies, usually provisions of 100% for expected credit losses are made for trade receivables that have been outstanding for more than 6 months, making adjustments only to present the potential recovery of such debts.

20. CASH AND CASH EQUIVALENTS

(EUR)

	31.12.2018.	31.12.2017.
Cash in bank	34 794 404	19 700 264
Cash in hand	2 050	781
Cash in transit	1 205	390
Total	34 797 659	19 701 435

21. SHARE CAPITAL

The Company's registered and paid share capital

The share capital of Latvijas dzelzceļš is EUR 256,720,375, consisting of two hundred and fifty-six million seven hundred and twenty thousand three hundred and seventy-five shares, with a nominal value per share of EUR 1 (one euro).

The Republic of Latvia is the shareholder of all shares, and they are fully paid-up. The Ministry of Transport is the sole shareholder of the state capital shares. All of the Company's shares carry the same rights to dividends, liquidation quota and voting rights in the shareholders' meeting.

Payments for the State capital (dividends)

The Company is required to calculate and determine dividends payable as a profit share to be disbursed for the reporting year under Section 94, Paragraph one, Clause 2, Section 56, Paragraph one, Section 28, Paragraphs one and two of the Law On Governance of Capital Shares of a Public Person and Capital, and Paragraph 5 of the Cabinet Regulation No. 806 "Procedure under which State-Owned Capital Company and Public Private Capital Companies in which the State is a Shareholder Makes a Forecast and Determines the Profit Share to be Distributed in Dividends and Makes Payments to the State Budget for the Use of the State Capital" of 22 December 2015.

Under the Cabinet order No. 376 "On the share of profits payable in dividends by the State joint stock company Latvijas dzelzceļš to the State for 2017" of 8 August 2018, the amount of dividends payable was set at EUR 614,875 (approx. 2.65%) of the net profit for 2017, and the net profit EUR 22,569,492 for 2017 was redirected to the implementation of the budgeted public-use railway infrastructure projects of the State joint stock company Latvijas dzelzceļš in accordance with the Company's medium-term operational strategy for 2017 - 2022.

22. OTHER RESERVES AND RETAINED EARNINGS

Reserves consist of the prior period retained earnings, which by the decision of the shareholder were transferred to other reserves for ensuring the development of the Company. Prior period retained earnings have been adjusted by the fair value adjustments of property, plant and equipment according to IFRS requirements. The procedure for using the Company's reserves and the prior retained earnings is determined by the Company's shareholders' meeting.

23. PROVISIONS

(EUR)

	31.12.2018.	31.12.2017.
Other provisions	162 078	177 426
Total non-current portion	162 078	177 426
Provisions for public-use railway infrastructure services	3 460 852	6 921 703
Total current portion	3 460 852	6 921 703
Total	3 622 930	7 099 129

Provisions movement table by type of provision in 2018

(EUR)

	01.01.2018.	Decrease in provisions	31.12.2018.
Provisions for public railway infrastructure services	6 921 703	(3 460 851)	3 460 852
Other provisions	177 426	(15 348)	162 078
Total	7 099 129	(3 476 199)	3 622 930

Provisions movement table by type of provision in 2017

(EUR)

	01.01.2017.	Decrease in provisions	31.12.2017.
Provisions for public railway infrastructure services	13 843 405	(6 921 702)	6 921 703
Other provisions	179 063	(1 637)	177 426
Total	14 022 468	(6 923 339)	7 099 129

In 2018, the provisions created for the financing of the public-use railway infrastructure were reduced by EUR 3,460,851 with the remaining balance of EUR 3,460,852. Reduction in provisions was made due to amendments to the Railway Law that became effective on 10 March 2016, and the amendments of the regulatory documents related to them, based on which the provisions of the EU Parliament and the Council Directive 2012/34/EU of 21 November 2012 were transposed in the national law.

Cost accruals for production injuries have been made in accordance with the Cabinet Regulations No. 378 "The Procedure for Calculation and Disbursement of Work Injuries Incurred" of 23 August 2001. Provisions are created by reference to the actual cost of injuries during the year, assuming that the payments would need to be ensured for three years. Calculated provisions for production injuries have declined by EUR 15,348.

24. BORROWINGS FROM CREDIT INSTITUTIONS

	31.12.2018.	31.12.2017.
Non-current borrowings from credit institutions	165 409 358	175 139 053
Current loans from credit institutions	34 695 612	33 109 177
Total borrowings from credit institutions	200 104 970	208 248 230

Borrowings were issued by “Swedbank” AS, Nordea Bank AB, Luminor Bank AS Latvian branch, “SEB banka” AS, North Investment Bank, OP Corporate Bank plc and OP Corporate Bank branch in Latvia. During the reporting period, borrowings for a total amount of EUR 24,965,917 were received and EUR 33,109,177 were repaid.

Latvijas dzelzceļš and its subsidiary companies had entered into a Group pool account with AS Luminor Bank Latvian branch as well as an overdraft agreement with the available limit of EUR 60,000 thousand and the current limit of EUR 40,000 thousand.

Latvijas dzelzceļš has not pledged its property against borrowings.

Outstanding borrowings (principals) and interest rates at 31 December 2018:

Currency of the borrowing	Borrowing, EUR	Interest rate
EUR	22 131 377	1M EURIBOR + 1,33%
	124 022 249	3M EURIBOR + 0,69% līdz 1,61%
	53 951 344	6M EURIBOR + 1,05% līdz 1,8%
Total	200 104 970	

Outstanding borrowings (principals) and interest rates at 31 December 2017:

Currency of the borrowing	Borrowing, EUR	Interest rate
EUR	30 472 716	1M EURIBOR + 1,089% līdz 1,33%
	123 376 998	3M EURIBOR + 0,13% līdz 1,61%
	52 890 471	6M EURIBOR + 1,05% līdz 1,8%
USD	914 865	5,55%
	593 180	3M USD LIBOR + 0,13%
Total	208 248 230	

Movement table of the outstanding borrowings

	2018	2017
Balance of the borrowings at the start of the reporting period	208 248 230	204 940 429
Received during the reporting period	24 965 917	34 703 328
Repaid during the reporting period	(33 109 177)	(31 187 796)
Gains/losses on exchange rate fluctuations	-	(207 731)
The balance of borrowings at the end of the reporting period	200 104 970	208 248 230

25. OTHER BORROWINGS

	31.12.2018.	31.12.2017.
Settlement for the property title under the contract for the construction of the optical telecommunications networks (expansion) in sections Liepāja – Jelgava – Rīga – Valka railway * 1) incl.: non-current portion	2 203 567	2 320 571
<i>Including, liabilities due after more than five years after the end of the reporting period</i>	<i>1 735 551</i>	<i>1 852 555</i>
<i>liabilities due after more than one year but not later than five years after the end of the reporting period</i>	<i>468 016</i>	<i>468 016</i>
current portion	117 004	117 004
Total	2 320 571	2 437 575

*1) The Contract was entered into in 2013 for the total amount of EUR 2,925,089, maturing in 2038.

26. DEFERRED REVENUE

	31.12.2018.	31.12.2017.
The non-current portion of deferred revenue (EU fund and State budget funds)	290 237 333	307 638 803
Other deferred revenue	116 472	-
Total non-current portion	290 353 805	307 638 803
Current portion of deferred revenue (EU and State budget funds)	19 394 416	19 859 585
Other deferred revenue	111 240	528 842
Total current portion	19 505 656	20 388 427
Total deferred revenue	309 859 461	328 027 230

The majority of deferred revenue is the EU funds and State budget funds received for the development of railway infrastructure.

EU and State budget financing movement table in 2018

(EUR)

Deferred revenue	At 01.01.2018	Reclassified (transferred)	State budget funds received	Decrease in the depreciation charge of property, plant and equipment	At 31.12.2018
Non-current portion	307 638 803	(19 401 470)	2 000 000	-	290 237 333
Current portion	19 859 585	19 401 470	-	(19 866 639)	19 394 416
Total	327 498 388	-	2 000 000	(19 866 639)	309 631 749

In 2018, financing was received from the priority measure of the State budget – the national public-use railway infrastructure object – for the construction of the pedestrian tunnel at the Ogre station aimed at improving the level of security in railway stations in the vicinity of intensive pedestrian and train traffic.

EU and State budget fund movement table in 2017

(EUR)

Deferred revenue	At 01.01.2017	Reclassified (transferred)	State budget funds received	Decrease in the depreciation charge of property, plant and equipment	At 31.12.2017
Non-current portion	329 670 887	(21 028 598)	(1 003 486)	-	307 638 803
Current portion	19 208 171	21 028 598	-	(20 377 184)	19 859 585
Total	348 879 058	-	(1 003 486)	(20 377 184)	327 498 388

27. TAXES AND MANDATORY NATIONAL SOCIAL INSURANCE CONTRIBUTIONS

(EUR)

Type of tax	Overpaid tax (-) liabilities (+) 31.12.2017	Calculated	Paid	Overpaid tax (-) liabilities (+) 31.12.2018
Corporate income tax	-	70 437	(71 411)	(974)
Corporate income tax from non-residents	-	3 220	(3 220)	-
National social insurance mandatory contributions	3 298 868	30 925 243	(30 547 468)	3 676 643
Personal income tax	1 856 494	14 451 187	(14 462 408)	1 845 273
<i>incl. in Belarus</i>	-	7 811	(6 504)	1 307
Real estate tax	(152)	595 345	(595 207)	(14)
Natural resources tax	3 161	4 751	(4 980)	2 932
Value added tax	4 232 701	32 827 953	(32 576 749)	4 483 905
Import duty	-	2 507	(2 507)	-
Vehicle operation tax	375	52 899	(52 305)	969
Company vehicle tax	150	31 047	(25 348)	5 849
Business risk stamp duty	2 280	28 029	(28 023)	2 286
Total	9 393 877	78 992 618	(78 369 626)	10 016 869
Overpaid tax	(152)			(988)
Tax liability	9 394 029			10 017 857

The tax liability arose in December 2018. At 31.12.2018, Latvijas dzelzceļš had no tax debts.

28. FINANCIAL RISK MANAGEMENT

The Company's most significant financial instruments are borrowings from banks, other borrowings, cash and deposits with banks as well as receivables and payables. The main purpose of these financial instruments is to ensure financing to the Company's operating activity. The Company has several other financial assets and liabilities, such as receivables and payables to suppliers and contractors arising directly from business activity.

The Company is exposed to market, credit and liquidity risks in connection with its financial instruments.

Financial risk management is ensured by the Finance Directorate and Financial committee of Latvijas dzelzceļš.

The Company's financial instruments are subdivided into the following categories.

	(EUR)
	31.12.2018.
Financial assets at amortized cost	
Trade and other receivables, except advances	64 169 141
Cash and cash equivalents	34 797 659
Financial assets at fair value through profit or loss	
Long-term financial investments	84 108
Total financial assets	99 050 908
Financial liabilities at amortised cost	
Borrowings from credit institutions	200 104 970
Other borrowings	2 320 571
Trade payables, payables to contractors and other payables, except advances (including non-current portion)	22 279 960
Total financial liabilities	224 705 501
	(EUR)
	31.12.2017.
Loans and receivables	
Trade and other receivables, except advances	58 898 607
Cash and cash equivalents	19 701 435
Available-for-sale investments	
Long-term financial investments	494 227
Total financial assets	79 094 269
Other financial liabilities at amortised cost	
Borrowings from credit institutions	208 248 230
Other borrowings	2 437 575
Trade payables, payables to contractors and other payables, except advances (including non-current portion)	22 437 905
Total financial liabilities	233 123 710

Market risk

Market risk is the risk that changes in market risk factors, e.g. changes in foreign currency rates, interest rates and goods prices will affect the Company's revenue or the value of financial instruments owned by it. Market risk includes currency risk and interest rate risk.

Interest rate risk

Interest rate risk is the risk of incurring losses related to the changes in the interest rates applicable to the Company's assets and liabilities. The Company is exposed to market interest rate change risk in relation to its non-current liabilities, to which a variable interest rate is applied. All of the Company's borrowings have variable interest rates. For a detailed description of the interest rates on the borrowings, see Note 24. The Company manages the risk of changes in interest rates through regular monitoring of the market borrowing rates available on the market. If lower than existing interest rates are available, the Company shall assess the financial benefit of re-crediting.

The Company does not use derivative financial instruments for interest rate risk management purposes.

Sensitivity of interest rates

In the table below, the Company's sensitivity of profit before tax to reasonably possible changes in interest rates at the end of the reporting period is shown, if all other variables remain unchanged. The Company's equity, other than the performance for the reporting year, would not be affected.

	2018		2017	
	Increase/decrease in the base rate (basis points)	Impact on profit before taxes (EUR)	Increase/decrease in the base rate (basis points)	Impact on profit before taxes (EUR)
EURIBOR	(+100)	(2 001 050)	(+100)	(2 067 402)
	(-100)	2 001 050	(-100)	2 067 402
LIBOR	(+50)	-	(+50)	(7 540)
	(-50)	-	(-50)	7 540

Currency risk

Currency risk is the risk of incurring losses due to adverse exchange rate changes related to assets and liabilities denominated in foreign currencies. Currency risk to which the Company is exposed, mainly arises from its operating activities, as revenue and costs are denominated in different currencies from borrowing in foreign currencies. The Company's trade receivables are mainly denominated in euro, while borrowings from banks are denominated in euro and USD. A detailed breakdown of financial instruments by currency is provided in Note 31.

The main foreign currency (FX) risk management instrument used by the Company is the monitoring of the assets held in FX and use thereof for meeting the liabilities denominated in foreign currencies.

The Company's Management has decided not to use derivative financial instruments to manage currency risks.

Sensitivity of currencies

In the table below the Company's sensitivity of profit before tax to reasonably possible changes in interest rates at the end of each reporting period, if all other variables remain unchanged, is presented. There is no impact on the Company's equity, other than the result for the financial year.

	2018		2017	
	Changes to currency exchange rates	Impact on profit before taxes (EUR)	Changes to currency exchange rates	Impact on profit before taxes (EUR)
US dollar	(+5%)	158	(+5%)	63 497
	(-5%)	(158)	(-5%)	(63 497)

Credit risk

Credit risk is the risk that the counterparty might not meet their obligations owed to the Company, resulting in significant financial losses. The Company is exposed to credit risk arising directly from its operating activities – mostly trade receivables, and credit risk in connection with the Company's financing activities – mainly cash deposits with banks.

Trade receivables

The Company manages the credit risk of trade receivables in accordance with the Group's policies. The solvency of customers is ascertained before entering into contracts with them. The Company manages the credit risk through demanding prepayments from its customers.

The Company continuously monitors the balances of receivables to reduce the likelihood of bad debts arising. The potential impairment of trade receivables is continuously monitored.

The Company has not received any pledges as a collateral for trade receivables.

At 31 December 2018, the Company had four customers (in 2017: three customers), which each owed more than EUR 700 thousand to the Company and accounted for approx. 90.8% of the total receivables (in 2017: 84%). Disregarding the receivables due from subsidiaries which had not matured at 31 December 2018, over EUR 700 thousand were owed by two customers, accounting for 25.9% of the total receivables.

The Company has not developed an internal credit rating system for the assessment of trade receivables.

During 2018, there have been no significant changes in the expected credit losses with regard to trade receivables.

Receivables are written off only when recovering of them is not expected. The indicators that point to the impossibility of recovering receivables include, among other things, inability of the debtor to agree on the repayment schedule, which is complemented by the debtor's insolvency, bankruptcy or liquidation.

Cash deposits

Credit risk arising from the Company's cash deposits with banks, is managed by the Group's Financial Committee in accordance with the Group's Financial management policy. Under the said policy the Company may invest its free resources only in deposits or money market funds. Before deploying funds in banks (current or deposit accounts), the Group's Financial Committee assesses the bank's credit rating and offered interest rates.

The Company's cash balances with banks by credit ratings assigned by the Moody's agency are: (EUR)

Credit rating	31.12.2018.	31.12.2017.
Aa2	7 605 319	-
Aa3	184	19 689 193
A1	-	10 723
Baa1	25 188 823	-
No rating*	2 000 078	348
Total	34 794 404	19 700 264

*No ratings are assigned to the State Treasury and VAS Latvijas Pastis (a State-owned company).

The Company is exposed to credit risk, as presented in the following table:

	31.12.2018.	31.12.2017.
Cash and cash equivalents	34 797 659	19 701 435
Trade and other receivables (gross amount), except advances and prepayments	64 972 103	59 372 305
Total	99 769 762	79 073 740

In addition, information is disclosed regarding the credit risk:

	(EUR)	
	31.12.2018.	31.12.2017.
Financial assets, which have not been defaulted and for which no provisions for impairment have been made		
Current receivables, including	98 801 111	78 462 323
Cash and cash equivalents	34 797 659	19 701 435
Trade receivables	64 003 452	58 760 888
Age structure analysis of financial assets that are overdue, but for which no provisions for impairment have been made		
Up to 3 months	139 599	118 525
From 3 to 12 months	26 090	19 194
Total financial assets for which no provisions for impairment have been made	98 966 800	78 600 042
Financial assets, for which provisions for impairment (in full) have been created	802 962	473 698
Total	99 769 762	79 073 740

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Group’s Financial Committee manages liquidity risk by maintaining sufficient cash reserves and providing sufficient financing, using the assigned loans, lines of credit, finance lease, etc., as well as constantly monitoring forecast and actual cash flows and matching the age structure of financial assets and liabilities.

The Company prepares a long-term cash flow forecast for the year and operating cash flow forecast for one week, to ensure that the Company has sufficient cash to finance the expected operating costs, meet financial obligations and make the necessary investments.

The Company’s performance for 2018 was an after-tax profit of EUR 4,178 thousand. At 31 December 2018, the Company’s current liabilities were greater than its current assets by EUR 40,359 thousand. Current liabilities include deferred revenue of EUR 19,394 thousand, related to the investments funded by EU projects and State budget financing of the railway infrastructure, and they are gradually charged to profit or loss, therefore the risk that an outflow of financial assets will be required to meet these liabilities is low. The overall liquidity ratio is 0.6, whereas disregarding deferred revenue, the liquidity ratio is 0.7. Disregarding also short-term provisions, which are not related to the cash flow, the liquidity ratio would be 0.8. Cash flows from the Company’s operating activities are positive. In the light of the above circumstances, we are of the opinion that the Company is financially sound and capable of meeting its current liabilities.

In the tables below, the Company’s financial liabilities are presented broken down by their maturity date, based on the amounts of undiscounted financial obligations provided for in agreements, including interest payments:

	(EUR)				
At 31 December 2018	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings from credit institutions	8 710 352	28 311 995	112 945 715	57 716 561	207 684 623
Other liabilities (including other loans, trade payables and other payables)	15 464 204	6 446 497	954 279	1 735 551	24 600 531
Total	24 174 556	34 758 492	113 899 994	59 452 112	232 285 154

	(EUR)				
At 31 December 2017	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings from credit institutions	8 520 828	26 767 997	127 573 203	54 996 445	217 858 473
Other liabilities (including other loans, trade payables and other payables)	16 840 778	5 227 868	954 279	1 852 555	24 875 480
Total	25 361 606	31 995 865	128 527 482	56 849 000	242 733 953

29. FAIR VALUE CONSIDERATIONS

IFRS 13 lays down the value measurement technique hierarchy, based on whether the measurement technique uses observable market data or no market data are observable. Observable market data are obtained from independent sources. If market data are not observable, the value measurement technique reflects the Company’s assumptions about the market situation.

The said hierarchy requires that observable market data must be used, if they are available. In carrying out revaluation, the Company takes into consideration the relevant observable market prices, if possible.

Fair value is an amount that would be received upon selling an asset or pay in settlement of a liability in an ordinary course between market players at the date of measurement of the relevant asset or liability.

The purpose of the fair value measurement, even in inactive markets, is to arrive at the price at which market participants would be willing to sell the asset or assume the liability at the measurement date under current market conditions. To determine the fair value of a financial instrument, several methods are used: quoted prices or a valuation technique that includes observable market data and is based on internal models. Based on the fair value hierarchy, all measurement techniques are subdivided into Level 1, Level 2, and Level 3.

The fair value hierarchy level of a financial instrument must be determined as the lowest level, if a substantial part of the value is made up of lower level data.

In the fair value hierarchy, financial instruments are grouped into two stages:

- 1. Group the data of each level to determine the fair value hierarchy;
- 2. Classify financial instrument, based on the lowest level inputs used in determining the significant portion of its fair value.

Quoted market prices – Level 1

For the measurement technique of Level 1, the quotation prices for identical assets or liabilities on an active market are used when the quotation prices are readily available and the relevant price represents the actual market situation for fair business competition. The Company does not have financial instruments measured at Level 1.

Value measurement technique when market data are used – Level 2

In the models used for the measurement technique of Level 2, all essential data are used which are directly or indirectly observable on part of the assets or liabilities. The model uses market data other than the quoted prices of Level 1, but which can be observed directly (i.e., the price), or indirectly (i.e., are derived from the price). The Company does not have Level 2 financial instruments.

Value measurement technique when market data not based on observable market data are used – Level 3

When the measurement technique using unobservable market data is used, such financial instruments are classified as Level 3. Not observable market data are deemed to be such data that are not readily available in an active market due to an illiquid market or the complexity of the financial instrument. Level 3 data are primarily determined on the basis of similar observable market data, historical observations or using an analytical approach.

The following financial assets and liabilities are included in Level 3:

	31.12.2018.	31.12.2017.
Assets:		
Cash and cash equivalents	34 797 659	19 701 435
Loans to affiliated companies	52 285 103	47 258 575
Other securities and investments	84 108	494 227
Trade receivables, net	5 582 073	4 841 989
Net receivables due from affiliated companies	6 301 965	6 798 043
Total	99 050 908	79 094 269
Liabilities:		
Borrowings from credit institutions	200 104 970	208 248 230
Trade payables	18 592 323	18 044 744
Payables to affiliated companies	3 687 637	4 393 161
Other liabilities	2 320 571	2 437 575
Total	224 705 501	233 123 710

Assets and liabilities for which fair value is disclosed

The carrying amount of liquid and short-term financial instruments (with maturity of up to 3 months), for example, cash and cash equivalents, short-term deposits, short-term trade payables and trade receivables approximates their fair value.

The fair value of bank loans, finance lease liabilities and other long-term liabilities is measured by discounting future cash flows and applying market interest rates. As interest rates applied on loans from credit institutions, finance lease liabilities and other long-term liabilities are variable and do not significantly differ from market rates, and as the risk margin applicable to the Company has not changed significantly, the fair value of long-term liabilities approximates their net book value.

30. CAPITAL MANAGEMENT

The Republic of Latvia is the 100% shareholders of VAS Latvijas dzelzceļš.

The Company’s objectives in relation to capital management is to ensure the Company’s ability to continue its business and earn the return on capital as determined by the shareholder meetings of the relevant companies. The Latvian Government, as the sole shareholder of the Company, has the right to take decisions regarding increase or reduction of the Company’s share capital, the payment of dividends or using them for the development of the Company.

In the context of capital management the Company assesses its debt-capital ratio. The Company’s financial risk management policy does not provide for a minimum or maximum amount for this ratio. The loan agreements entered into with banks lay down the financial indicators that the Company must adhere to throughout the term of the agreement; if the said indicators are not met, then, while preparing the annual report, letters are requested from banks to provide evidence that the lender will not demand an early repayment of the loan. Preparing long-term and short-term financial plans and budgets, the Company takes into consideration the financial terms required by banks with regard to debt-capital ratio.

	31.12.2018.	31.12.2017.
Borrowings from credit institutions and other borrowings	202 425 541	210 685 805
Liabilities (including taxes)	42 846 157	44 107 431
Other liabilities	313 482 391	335 126 359
Total liabilities	558 754 089	589 919 595
Equity	318 806 550	315 243 661
Total liabilities and equity	877 560 639	905 163 256
Debt - capital ratio	64%	65%
Equity and total liabilities ratio	57%	53%

31. BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY CURRENCY

In the table below, the Company's financial instruments are broken down by currency at 31 December 2018:

	EUR	USD	Other currencies	Total
		EUR	EUR	EUR
Trade and other receivables, except advances	64 169 141	-	-	64 169 141
Cash and cash equivalents	34 791 649	5 951	59	34 797 659
Total financial assets	98 960 790	5 951	59	98 966 800
Borrowings from credit institutions	200 104 970	-	-	200 104 970
Other borrowings	2 320 571	-	-	2 320 571
Trade payables, payables to contractors and other payables, except advances	22 259 099	3 618	17 243	22 279 960
Total financial liabilities	224 684 640	3 618	17 243	224 705 501

In the table below, the Company's financial instruments are broken down by currency at 31 December 2017:

	EUR	USD	Other currencies	Total
		EUR	EUR	EUR
Trade and other receivables, except advances	58 898 604	3	-	58 898 607
Cash and cash equivalents	19 698 374	3 040	21	19 701 435
Total financial assets	78 596 978	3 043	21	78 600 042
Borrowings from credit institutions	206 740 185	1 508 045	-	208 248 230
Other borrowings	2 437 575	-	-	2 437 575
Trade payables, payables to contractors and other payables, except advances	22 412 147	14 999	10 759	22 437 905
Total financial liabilities	231 589 907	1 523 044	10 759	233 123 710

32. CAPITAL INVESTMENT COMMITMENTS

In the coming year, the Company expects to make capital investments in property, plant and equipment and intangible assets, of which:

- the largest contracts entered into but not yet completed are:

Name of the counterparty Subject of the contract	Contract date	Contract performance due date	Contractual amount in EUR
SIA "LDZ infrastruktūra" Construction of the elevated platform at the Skrīveri station	18.08.2017.	28.02.2019.	450 495
SIA "KATISS" reconstruction of the contact network at the Ogre and Šķirotava stations.	31.10.2017.	30.06.2019.	274 644
SIA "Belam – Rīga" Designing of optical networks for the railway station "Glūda-Reņģe- national border"	18.12.2018.	18.08.2019.	134 535

- major approved transactions where agreements are not yet concluded during the reporting year:

Name of the counterparty Subject of the contract	Type of procurement procedure, date	Contract performance due date	Bid amount in EUR
General partnership "BMGS – Viadukts" Construction of the pedestrian tunnel at Ogre station	Open tender 19.09.2018	20.11.2020.	1 489 999

The cost of the construction of property, plant and equipment and unfinished construction objects

(EUR)

Name of the unfinished construction object	BV of unfinished construction object at 31.12.2018	Budgeted costs in 2019	Expected commissioning date
Improving Traffic control and centralisation (in addition to KIGAS) project	877 805	196 321	2019.gads
Digitalisation and optimisation of the freight transport information flow, Traffic control management IS	674 328	198 758	2019.gads
Construction of the optical networks	416 063	303 245	2020.gads
Construction on the elevated platform at the Skriveri station	354 078	96 422	2019.gads
Capital repairs of station buildings	219 688	155 191	2019.gads
Developing the uniform Latvijas dzelzceļš Data warehouse	211 384	152 678	2019.gads
Replacement of the APIKS system to C-KNIS	201 397	479 145	2019.gads
Replacement of the type of heating and construction of sanitary systems in real estate objects	170 211	24 305	2019.gads
Renewal of rail track – "B" type capital repairs	90 225	74 938	2019.gads
Restoration of the energy system	70 705	143 684	2019.gads
Renovation of IT&T networks	47 892	113 401	2019.gads
Development of Latvijas dzelzceļš museum	45 701	936 374	2020.gads
Capital repairs of external engineering networks	33 965	-	2019.gads
Other unfinished construction objects	32 821	417 003	2019.gads
Total	3 446 263	3 291 465	x

33. CONTINGENT TAX LIABILITIES

The tax authorities may, at any time, carry out the audit of accounting records within a period of three years from the end of the relevant tax year and assess additional tax liabilities and fines. The Company's Management is not aware of any such circumstances that might lead to possible significant future obligations.

34. FUTURE LEASE PAYMENTS

In 2018, the Company's costs related to the concluded operating lease agreements amounted to EUR 4,090,585 (in 2017: EUR 3,511,484). (It's expected that in 2019, the costs will remain at the 2018 level.)

An early termination of operating lease agreements may not have a significant impact on the Company's financial position and its performance.

35. FUTURE LEASE INCOME

In 2018, revenue from operating lease was EUR 4,153,264. Revenue from operating lease during the term of 1-5 years is expected to remain at the 2018 level.

36. NUMBER OF EMPLOYEES EMPLOYED BY THE COMANY

The average number of employees employed by the Company in 2018 was EUR 6,439 (in 2017: EUR 6,494).

37. RELATED PARTY TRANSACTIONS

The Company engages in transactions with the Ministry of Transport (100% shareholder of Latvijas dzelzceļš) and other commercial companies, the shareholder of which is the State. It has had the largest transactions with AS "Pasažieru vilciens" (fee for the public use of the railway infrastructure for domestic passenger services, electricity distribution and sales, premise rent, purchasing of subscribers' tickets) for EUR 50,952 thousand (in 2017: EUR 48,492 thousand) and VAS "Latvenergo" (purchasing of electricity) for EUR 8,536 thousand (in 2017: EUR 11,885 thousand). The mutual transactions are related to the principal activities of the relevant parties.

Transactions with subsidiaries:

(EUR)

Counterparty	2018		2017	
	Goods/services		Goods/services	
	Sold/ provided	Purchased/ received	Sold/ provided	Purchased/ received
SIA „LDZ CARGO”	132 764 577	12 090 739	94 606 923	7 024 609
SIA „LDZ ritošā sastāva serviss”	3 162 228	3 744 732	3 209 387	2 738 891
SIA „LDZ infrastruktūra”	729 780	4 167 880	1 429 064	12 660 363
SIA „LDZ apsardze”	388 489	5 061 848	404 452	4 747 407
AS „LatRailNet”	63 153	1 240 877	74 375	1 198 524
SIA „LDZ Loģistika”	278 172	-	137 781	-
SIA „Rīgas Vagonbūves uzņēmums “Baltija””	3 197	-	1 750	-

Receivables due from related parties:

(EUR)		
Subsidiary	31.12.2018.	31.12.2017.
Short-term receivables		
SIA „LDZ CARGO”	5 925 667	3 009 757
SIA „LDZ ritošā sastāva serviss”	4 599 537*	6 284 797
SIA „LDZ infrastruktūra”	35 544	187 906
SIA „LDZ apsardze”	33 018	38 888
AS „LatRailNet”	5 655	11 446
SIA „LDZ Loģistika”	25 957	12 664
SIA „Rīgas Vagonbūves uzņēmums “Baltija””	332	302
Total	10 625 710	9 545 760
Of which arose in December of the reporting year:	6 301 760	6 798 043
Long term loans		
SIA „LDZ ritošā sastāva serviss”	47 961 358*	44 510 858

*Latvijas dzelzceļš has issued a long-term loan to SIA “LDZ ritošā sastāva serviss” for financing the upgrading of diesel locomotives for the total amount of EUR 52,285,103, whereof the current portion was EUR 4,323,745.

Amounts due to related companies:

(EUR)		
Subsidiary	31.12.2018.	31.12.2017.
SIA „LDZ CARGO”	1 368 307	492 249
SIA „LDZ ritošā sastāva serviss”	305 495	221 701
SIA „LDZ infrastruktūra”	1 425 892	3 198 281
SIA „LDZ apsardze”	587 943	480 930
Total	3 687 637	4 393 161
Of which arose in December of the reporting year:	3 687 210	4 392 734

38. EVENTS AFTER THE END OF THE REPORTING YEAR

In the period since the last day of the reporting year there have been no such events, which would significantly affect the Company’s financial position at 31 December 2018.

39. PROPOSALS FOR USING THE COMPANY’S PROFIT

Under Section 28, Paragraphs one and two of the Law On Governance of Capital Shares of a Public Person and Capital, the foreseeable share of profit to be disbursed in dividends and the profit share to be disbursed in dividends shall be determined based on the medium-term operational strategy of the capital company. Based on the medium-term business strategy, the Board of the capital company shall draw up a proposal for the expected profit distributable in dividends, and submit the proposal to the shareholders.

The medium-term operational strategy for 2017–2022 of VAS “Latvijas dzelzceļš”, which was approved by the Council of Latvijas dzelzceļš under the Council decision No. PA 1.2./11-1, section 17 of 8 November 2018, for the period of the operation of the strategy, the share of dividends payable to the State from the Company’s net profit, retaining the profit at the disposal of Latvijas dzelzceļš and using it for the development and restoration of the public-use railway infrastructure, including the setting up of a reserve, which can be used to maintain the sustainability of the Company and to implement the budgeted public-use railway infrastructure projects.

The application of a different profit share to determine the distributable share of profit was supported in the opinion provided in the letter No. 1.2-5.1/159-IP of Pārresoru koordinācijas centrs of 30 November 2017 on the medium-term business strategy of VAS Latvijas dzelzceļš for 2017–2022.

Under Cabinet Order No. 588 of 6 November 2018 “Indicative railway infrastructure development plan for 2018–2022” was approved, whereas on 9 November 2018, the Ministry of Transport and Latvijas dzelzceļš entered into the Multi-annual agreement for the maintenance of the existing public-use railway infrastructure managed by Latvijas dzelzceļš and the planning of development, and ensuring the financial leverage for the period form 9 November 2018 to 31 December 2022.

The mechanism of ensuring the financial stability of the operator of the public use railway infrastructure specified in the Plan may function and such investment projects may be implemented if the Cabinet’s conceptual decision that the share of the profit payable by Latvijas dzelzceļš to the State in dividends is 0% of the net profit of Latvijas dzelzceļš in the years 2018–2021 (the Cabinet Order No. 212 On variable share of profit of state joint stock company for the 2018–2021 reporting year), is incorporated in the annual bill on the State Budget and in the bill On the Medium-Term Budgetary Framework for the relevant periods.

On 7 February 2019, the Law on the Budget and Financial Management was amended, under paragraph 82 of the Transitional provisions, in 2019, the Bill on the Medium-Term Budgetary Framework Bill is required only for 2020, 2021, and 2022, and the Cabinet shall submit it to the Parliament (Saeima) concurrently with the Bill for the 2020 State Budget. Thus, the decision on a different share of the profit of Latvijas dzelzceļš to be disbursed in dividends for 2018 shall be made, when making decision regarding the 2019 budget.

Riga, 21 March 2019

Chairman of the Board	E. Bērziņš
Member of the Board	A. Strakšas
Member of the Board	Ē. Šmuksts
Member of the Board	A.Stūrmanis

The annual report was prepared by the Financial Directorate of VAS Latvijas dzelzceļš:
Deputy Finance Director, Head of the Finance Division S. Gasjūna

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR 2018

	(EUR '000)	
	2018	2017
Revenue	365 044	318 638
Cost of sales	(343 112)	(320 571)
Gross profit or (loss)	21 932	(1 933)
Administrative costs	(25 668)	(24 616)
Other operating income	31 821	33 628
Other operating expenses	(11 076)	(6 277)
Income from long-term investments	776	311
Financial income	3	2
Adjustments related to impairment of long-term and short-term financial investments	(410)	-
Financial costs	(2 225)	(2 272)
Profit or (loss) before corporate income tax	15 153	(1 157)
Corporate income tax	(745)	32 334
Profit for the reporting year	14 408	31 177

Basis of preparation of the condensed consolidated financial statements.

These condensed consolidated financial statements, comprised of the consolidated statement of financial position as at 31 December 2018, consolidated statement of profit or loss and consolidated statement of comprehensive income for the year ended 31 December 2018, were prepared based on the information included into audited consolidated financial statements of VAS Latvijas dzelzceļš for 2018 without any adjustments being made to it. Audited consolidated financial statements are available with the administration of VAS Latvijas dzelzceļš. Accordingly, these condensed consolidated financial statements are in line with consolidated financial statements..

Riga, 21 March 2019

Chairman of the Board	E.Bērziņš
Member of the Board	A.Strakšas
Member of the Board	Ē.Šmuksts
Member of the Board	A.Stūrmanis

The annual report was prepared by the Financial Directorate of VAS Latvijas dzelzceļš: Deputy Finance Director, Head of the Finance Division S.Gasjūna

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 2018

(EUR '000)

	2018	2017
Profit for the reporting year	14 408	31 177
Other income:		
Items that will not be reclassified to profit or loss:	(5 194)	4 377
<i>Disposals of revalued of property, plant and equipment</i>	<i>(5 194)</i>	<i>-</i>
Deferred income tax on revalued property, plant and equipment re-recorded directly in other comprehensive income	-	4 377
Other comprehensive income for the reporting year	9 214	4 377
Total comprehensive income for the year	9 214	35 554
Total net profit and comprehensive income for the year attributable to the shareholders of the Group's parent company	9 214	35 554

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

(EUR '000)

ASSETS	31.12.2018.	31.12.2017.
LONG-TERM INVESTMENTS		
Property, plant and equipment	861 199	895 784
Intangible assets	1 467	1 360
Advance payments for property, plant and equipment	387	745
Long-term financial investments	84	494
TOTAL LONG-TERM INVESTMENTS	863 137	898 383
CURRENT ASSETS		
Inventories	18 541	24 244
Trade and other receivables	19 886	14 779
Corporate income tax	28	446
Cash and cash equivalents	89 904	72 883
TOTAL CURRENT ASSETS	128 359	112 352
TOTAL ASSETS	991 496	1 010 735

Riga, 21 March 2019

Chairman of the Board E.Bērziņš

Member of the Board A.Strakšas

Member of the Board Ē.Šmuksts

Member of the Board A.Stūrmanis

The annual report was prepared by the Financial Directorate of
VAS Latvijas dzelzceļš: Deputy Finance Director, Head of the Finance
Division S.Gasjūna

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018 (continued)

	(EUR '000)	
EQUITY AND LIABILITIES	31.12.2018.	31.12.2017.
EQUITY AND LIABILITIES		
EQUITY		
Attributable to the shareholders of the Group's Parent company:		
Share capital	256 720	256 720
Long term investment revaluation reserve	46 156	51 350
Reserves and retained earnings b/f	89 082	53 327
Total comprehensive income for the year	14 408	31 177
TOTAL EQUITY	406 366	392 574
LIABILITIES		
NON-CURRENT LIABILITIES		
Deferred tax liability	745	-
Provisions	162	177
Borrowings from credit institutions	165 409	176 527
Other borrowings	2 204	2 321
Trade payables	486	486
Deferred income	290 354	307 639
TOTAL NON-CURRENT LIABILITIES	459 360	487 150
CURRENT LIABILITIES		
Borrowings from credit institutions	36 110	35 114
Other borrowings	117	117
Provisions	4 521	8 486
Trade and other payables	49 568	52 096
Corporate income tax	-	2
Taxes and mandatory national social insurance contributions	15 948	14 808
Deferred income	19 506	20 388
TOTAL CURRENT LIABILITIES	125 770	131 011
TOTAL LIABILITIES	585 130	618 161
TOTAL EQUITY AND LIABILITIES	991 496	1 010 735

Riga, 21 March 2019

Chairman of the Board	E.Bērziņš
Member of the Board	A.Strakšas
Member of the Board	Ē.Šmuksts
Member of the Board	A.Stūrmanis

The annual report was prepared by the Financial Directorate of
VAS Latvijas dzelzceļš: Deputy Finance Director, Head of the Finance
Division S.Gasjūna