



**LATVIJAS DZELZCEĻŠ**

Dzelzceļa infrastruktūras pakalpojumi



State JSC (VAS) "Latvijas dzelzceļš"

# Sustainability and Annual Report

2016



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**EDVĪNS BĒRZIŅŠ**

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



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## EVENTFUL YEAR WHICH HAS PUT LDZ ON THE GLOBAL MAP

At the beginning of 2016, SJSC (VAS) "Latvijas dzelzceļš" (LDz) adopted a decision to improve good management practice and develop the understanding on social responsibility both within the company and in the entire "Latvijas dzelzceļš" Group, to strengthen sustainable and at the same time innovative thinking in the railway industry, which is rich in traditions, as well as to **commence preparation of non-financial statements of LDz according to the internationally recognized Global Reporting Initiative (GRI) G4 guidelines.**

It must be admitted that 2016 happened to be full of challenges. We probably faced more changes during 2016 than in the last ten years combined. Under the circumstances of growing competitiveness and internationally unstable economic situation, we had to consider not only maintenance of the company's financial indicators, but also further growth and progress, entry into new markets and development of services, taking into account the principle of sustainable development.

We have pursued our commitment, and this is the first year in which LDz has published GRI G4 sustainability report, containing company's data on financial and non-financial performance. During the preparation of this re-

port, we were pleased to admit that, despite the economically challenging circumstances, we have introduced a number of novelties and improved previous approach in the area of corporate governance in 2016, and we keep doing the same this year.

As a confirmation for our movement in the right direction, in 2016 the company achieved a better rating in the **Sustainability Index moving ahead from the silver category to convincing gold for the first time since LDz participates therein.** In addition, a more rapid improvement of results was experienced right in the categories related to the company's management. Furthermore, the performance results of our subsidiary company "LDz Cargo", making its debut in the silver category of the Sustainability Index, thus confirming correct course of progress not only at the level of the company, but of the entire Group, was also a pleasant surprise.

Last year we also received the results of a study on the public image of the largest state capital companies which serves as another recognition in the area of sustainability, management and social responsibility - according to the study, LDz, among other largest state capital companies, was the only one with improved social recognition indicator on an annual basis.



As we were getting ready for the preparation of the GRI report and survey of the company's influencing parties - clients, partners, public institutions and non-governmental organizations - we ascertained they assigned the most significant role to the company's economic impact. This is largely in line with our vision - LDz is not a traditional company aimed at maximization of profit, but an infrastructure manager, a successful activity of which should lead other companies, using this infrastructure, towards development and creation of an additional benefit to national economy.

One of the most essential factors for a successful long-term activity of any company, organization and every human being is reliability to the performed actions. Although in 2016 we faced the aftermath of recession in the industry which commenced a year before, as well as a rather fierce fight for retention of volumes in the area of freight traffic and attraction of new partners, the mentioned sustainability and reputation indicators give hope that we are on the right path.

At the moment, LDz works on preparation of strategic documents essential for the industry and the company, which are to determine further development of the industry and further contribution thereof to the national economy of Latvia. These documents include both the strategy of LDz, multi-annual contract with the state to be determining the cooperation model for the next five years, thus promoting creation and maintenance of infrastructure corresponding to the needs of national economy. //

*However, despite the fact that we are basically discussing infrastructure, we undoubtedly consider the employees, whose number at LDz reaches several thousand and who, within the understanding of LDz, form one of the most essential areas of social and economic impact, as our largest value, since our growth is possible thanks to their contribution only.*

Thanks to the enthusiasm and persistence of LDz specialists, despite the industry precautions, last year we managed to organize a **freight train test ride from Yiwu City in China to Riga**. This route has already been officially included in the map of global logistics, and we keep on creating new partnerships in an effort to develop Eurasian traffic.

LDz is also an active member of the cooperation platform of China and Central and Eastern European countries 16+1. The Ministry of Transport of the Republic of Latvia has undertaken the functions of the Logistics Secretariat therein, thus nationally accenting this development perspective, and in 2016 LDz participated in various events both in China and Latvia, thus promoting the role of this cooperation format for the development of new traffic directions.

Expanding the development geography not only at the level of the company, but also at the level of the entire national economy of Latvia, a strategic decision has been adopted on long-term development in the South-Eastern direction, therefore negotiations on organization of freight container trains from India to Latvia have been commenced. This is a new challenge for LDz providing wide opportunities to develop new routes, because the freight flow from India to Europe crosses Iran, Azerbaijan, Russia, Georgia, and Belarus. This is a very ambitious goal; however, I am certain that Latvia and its transport industry is able to undertake one of the leading roles in this process.

One of our work results last year is also **opening of LDz permanent representation in Minsk, Belarus, for the promotion of business relations with Belarusian Railway and other companies and organizations of transport industry**, compilation of the necessary information on the segments of Belarusian market LDz is interested in and promotion of freight attraction to the transit industry of Latvia. Belarus is one of the most significant partners of LDz; freight from Russia, Ukraine, Kazakhstan, and other Asian countries are delivered to



Latvia via Belarus by railway. Last year, total volume of such freight was 21.7 million tons.

Meanwhile, our experience shows that closer daily distance from partners and their clients leads to a growing potential for cooperation opportunities. Performance results of the first two months of 2017 show that cooperation volume with Belarus has grown on annual basis both in terms of the total volume of freight and number of transported containers. Therefore, the decision on establishment of a representation has proved to be correct and improves the company's positive economic impact.

One of the most essential development projects, the work on which has been commenced in the previous years, is **electrification of the Latvian railway network**; along with the decision adopted by the Cabinet this year, active further progress is expected. This is a significant project for the entire national economy of Latvia, ensuring long-term increase of the export volume in the Latvian transport industry in long-term by increasing the traffic efficiency and decreasing costs. Meanwhile, electrification will provide an opportunity for further reduction of the level of harmful emissions caused by the environmentally friendliest transport - railway.

Electrification of fully functioning transit corridor from Latgale to one of the Latvian ports is planned until 2023 by attracting funding of the European Union, but in the future, depending on the availability of funding - full electrification of the major railway lines. Negotiations on this project are currently in progress also with the partners of our neighbouring countries - especially with Belarusian Railway, which is also planning to implement the electrification of several spans in the next few years.

This project is significant not only in the aspect of competitiveness, it is also a step towards a more environmentally friendly way of thinking and entrepreneurship which we have previously defined as one of our long-term

goals. Therefore, along with the electrification process, work on the development of a hydrogen locomotive is in progress; furthermore, we tend to organize our daily work in such a way as to make LDz as environmentally friendly company as possible. I believe that "green" thinking is the most perspective way of development also in the transport and logistics industry, since many global level manufacturers more and more frequently opt for the logistics partners, which are able to provide the required service causing the least possible harm to the environment.

Meanwhile, this year, **LDz commences three large-scale infrastructure modernization projects in two largest transit hubs** - in Riga and Daugavpils, improving throughput and thus promoting more efficient freight transportation and handling. These projects cause positive effect both on the economic impact of LDz due to the provided opportunity for more efficient development of the industry in general and environmental impact, since additional attention will be paid to the noise reduction and life quality improvement for residents during the implementation of these projects (especially in Daugavpils), and more effective exploitation of infrastructure will result in reduction of the level of harmful emissions.

Along with the improvement of efficiency of freight traffic and positive economic impact of railway, activity of LDz is important also from the viewpoint of the society - users of passenger carriage services. Although LDz itself provides just a minor share of the international passenger carriages and no local carriage in the territory of Latvia, the company's infrastructure used for the passenger carriages - platforms, stations etc. - is constantly maintained and improved within the possible limits. In 2015, a modernization project of passenger infrastructure was completed in railway lines of Jūrmala and Jelgava, resulting in construction of elevated platforms and convenient environmental accessibility, including - for disabled persons, parents with baby carriages, seniors etc. In the next years, it is planned to



continue improvement of infrastructure, yet, it depends on the available funding.

LDz as the manager of public railway infrastructure is indirectly involved also in the international Rail Baltica project. Changes within this project in the nearest future will affect not only Riga Central Station - along with the entry of LDz into new markets of the Asian region, a powerful synergy of railway lines may form with the freight owners providing the most effective way for the carriage of goods via Latvia.

The year of 2017 will be at least as challenging and active as the previous one. Taking into account the economic circumstances, we are quite cautious in relation to any forecasts regarding traffic volumes and financial performance, because a number of new routes and partnerships have just been commenced, and they currently undergo an operational sustainability test. **Meanwhile, freight traffic indicators at the end of last year and the beginning of this year show a slight progress,** raising some hope for the forecasts on annual basis. //

*However, I am certain of an essential conviction we have acquired last year - together we are able to overcome difficulties, find new approaches for a more efficient and more sustainable activity, flexibly respond to market changes and new challenges by active creation of the future of our own and the industry in previously unconsidered directions instead of accommodation to conditions. The main thing - thanks to these challenges, in 2016 LDz and "Latvijas dzelzceļš" Group has commenced to acknowledge itself not only as a player of national or regional level, but as a player of international, even global, level in the transport and logistics industry.*



**AIVARS STRAKŠAS**

Member of the Board, Vice-President of SJSC (VAS) "Latvijas dzelzceļš"



LDZ-1

One of the major tasks of LDz in 2016 was retention of financial stability, solvency and reliability of our partners under the circumstances of constant market changes. I am pleased that both LDz and "Latvijas dzelzceļš" Group have managed to accomplish this, thus confirming that we are able to be as flexible as possible in the railway industry. Without any doubt, no money should be saved on the quality of railway tracks, train traffic organization and other items crucial for safety in the railway industry. However, in positions, which do not affect safety matters we have found a possibility to reduce expenses – we have reduced administrative costs by 19 %, furthermore, LDz has improved operation of the Internal Procurement Bureau, attaining not only clearer procurement organization procedures, but also saving approximately six million euro on the total procurement budget in one year.

As a result, despite the reduction of the turnover of LDz closely related to the decline of freight traffic volumes in 2016, the company

closed the year with a 0.9-million-euro profit, thus proving its financial sustainability even at temporarily negative development scenarios.

Flexibility is undeniably one of the sustainability factors expressing as adaptation to temporary economic conditions at the same time searching for new development opportunities without compromising of quality and destroying of the current system. LDz has proved its ability in this regard last year.

At the same time, it is essential to provide long-term reliability and financial stability. Therefore, work on the development of the Indicative Railway Infrastructure Development Plan, performed by the Ministry of Transport, with active involvement of LDz throughout 2016 by providing detailed and justified information on the current infrastructure, maintenance and modernization needs thereof, as well as the most essential investment projects necessary for the competitiveness of the Latvian transit industry in the future is especially important. //

***The European Commission Directive providing for the necessity to maintain and develop railway infrastructure for the interests of national economy will be met by adopting the Indicative Railway Infrastructure Development Plan, and entering into the multi-annual contract developed on the basis thereof between the Ministry of Transport and the manager of public railway infrastructure (LDz), at the same time the financial balance of the infrastructure managers will be ensured. Thus, the railway and the entire industry will have clearly defined conditions for operation and development for a period of at least five years. This is the most significant work to be completed in 2017.***



**ĒRIKS ŠMUKSTS**

Member of the Board, Vice-President  
of SJSC (VAS) "Latvijas dzelzceļš"



In 2016, as the result of decline in international economic processes and prices of energy resources, the volume of freight transported by means of LDz infrastructure decreased from over 55 million tons in 2015 to 47.8 million tons last year. However, in autumn and especially in the last months of the year volumes of traffic started growing and even exceeded the indicators of the preceding year.

Yet this led to a problem caused by the mutual cooperation capacity of the industry companies - there were periods during which volume of delivered freights exceeded unloading capacity of terminals, thus causing idle standing in the railway infrastructure.

This situation indicated to the necessity not only for efficient organization of daily operations by LDz within the current infrastructure, but also for a sustainable and timely coordinated platform to promote internal industry cooperation. Creation of such a platform was largely commenced by our subsidiary company "LDz Loģistika", and during the influx of coal freight at the beginning of this year, LDz actively cooperated with the Freeport of Riga finding an extraordinary solution for the delivery of freight to Krievu sala, which is currently insufficiently equipped with daily handling facilities. //

***At the same time, attraction of freight from new markets - China, India and countries of Central Asia - is considered to be the most important topicality at the moment, at the same time still developing cooperation with our partners in commonly most important target markets - Russia and Belarus. A good quality infrastructure, which has been essentially improved in the recent years, and new solutions for the development of entirely new LDz routes are at our disposal.***

Looking into the perspective of the upcoming years, electrification of the railway network and Rail Baltica construction projects are considered to be a significant challenge to ensure railway throughput, especially in Riga and the nearby vicinity. It is expected that electrification of the span Krustpils-Šķīrotava and simultaneous re-construction of the Riga Central Station hub will result in significant reduction of infrastructure throughput - in certain periods, freight trains can be affected by reduction of even 80-90 %. However, being aware of this situation, now - at the stage of preparation of both projects - we are working to provide the least possible disturbance to train traffic and timely planning of the necessary re-arrangements.



**AINIS STŪRMANIS**

Member of the Board, Vice-President of the SJSC (VAS) "Latvijas dzelzceļš"



The year of 2016 has been dynamic, active and a changes-oriented year during which great work was accomplished to strengthen company's positions, promote the growth thereof and increase the overall competitiveness of the national transit industry. We have significantly strengthened ties with our cooperation partners by jointly assessing and planning the development of railway infrastructure concentrating on the importance of the synergy of transport industry - railway, ports and road transport.

Notable work has been contributed to prepare and provide successful absorption of the EU funds for the planned railway infrastructure projects - "Electrification of Latvian Railway Network", "Modernization of Riga Railway Hub, Span Sarkandaugava-Mangaļi-Ziemeļblāzma", "Development of Daugavpils Marshalling Yard" and "Development of Daugavpils Acceptance Park and Access Roads". //

***We are efficiently working on attraction of financing for innovative intents of future projects using renewable energy resources and progress in hydrogen technologies.***

At the same time, being aware that information technologies and automation of various processes are playing a growing role in the railway industry, work on the development of LDz IT systems is in progress by introducing

the up-to-date technologies and trying to bond various systems. In view of assumption that the importance of IT in an efficient railway operation will only grow in the future, at the beginning of 2017, previous LDz Information Computing Centre was reformed by transforming it into IT centre and commencing work on improvement of competency thereof and development of new services.

Significant work has been contributed to the exchange of information with the neighbouring railways with an aim to ensure the circulation of electronic transport documents, mainly with Russian and Belarusian railways, in order to use and recognize electronically signed transport documents in various legal spaces.

Notable work has been contributed to the area of the management of LDz real estate - a number of projects related to reconstruction and renovation of real estate sites and improvement of the existing sites have been implemented.

In the future, the commenced path towards the development of the railway industry must be continued as the operation thereof is of national importance. Furthermore, it also promotes proper operation of other industries - railway ensures large-scale orders in construction, transport, communications, ICT and also manufacturing and service industries.



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## INFORMATION ON REPORT

In 2016, SJSC (VAS) "Latvijas dzelzceļš" started preparing and publishing a sustainability report on its performance results in accordance with internationally recognized core requirements of Global Reporting Initiative (GRI) G4 guidelines, including publishing of information on the company's social,

economic and environmental impact, as well as management practice. The vision of influencing parties of the company in respect of areas with the highest or most important company's influence within a wider context had a major role in the process of preparing the report.

|   |  |
|---|--|
| <b>Reporting period</b>                       | 1 January 2016-31 December 2016  |
| <b>Reporting frequency</b>                    | It is planned to draw up an annual sustainability report on the basis of GRI G4 guidelines or the requirements laid down in standards on sustainability reports following thereafter   |
| <b>Publication date</b>                       | 27 April 2017 (in Latvian). The report is available online at <a href="http://parskati.ldz.lv">parskati.ldz.lv</a> in Latvian, English, and Russian, as well as submitted for the publication in GRI database <a href="http://database.globalreporting.org">database.globalreporting.org</a> (in English)  |
| <b>Previous reports</b>                       | During the period from 2014 to 2016, SJSC (VAS) "Latvijas dzelzceļš" has published an annual corporate social responsibility report prepared without taking into account any certain standards   |
| <b>Principles for defining report content</b> | <p>Upon commencing the creation of a sustainability report for the year 2016, SJSC (VAS) "Latvijas dzelzceļš" carried out detailed exploration of the opinions of influencing parties, including representatives of the interests of public institutions, non-governmental sector, clients, partners and employees and other areas and finding out their view on the areas with the highest influence of SJSC (VAS) "Latvijas dzelzceļš" or the highest influence risks in relation to significant sustainability aspects (detailed description of process on page 34). This resulted in the development of the matrix of essential aspects based on the content of this report (page 37).</p> <p>On the basis of this study and matrix, the SJSC (VAS) "Latvijas dzelzceļš" has fully reflected General Standard Disclosures – 43 indicators on the operation of the SJSC (VAS) "Latvijas dzelzceļš" in the sustainability report, as well as provided information on 36 essential aspects (full listing of aspects provided on page 37). The company has included in the report also the information on activities, which in the view thereof, are related to the company's sustainable operation, contribution to society or identification and reduction of certain risks, but which were not pointed out as essential aspects within the study of the influencing parties or which are excluded from GRI G4 guidelines. GRI G4 guideline indicators have been specified next to the relevant sections in the sustainability report.</p> |
| <b>Data acquisition methods</b>               | Information provided by the structures and structural units of SJSC (VAS) "Latvijas dzelzceļš" and data on the company's operations and essential reporting aspects were used in the preparation of the report. Only verified and justified data have been used in the report. Furthermore, a relevant note has been added in case particular data on company's essential areas of influence are not accumulated and analysed.   |
| <b>Auditor's assurance</b>                    | Examination of the sustainability report of SJSC (VAS) "Latvijas dzelzceļš" in accordance with the International Standard on Assurance Engagements 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' (ISAE 3000) has been conducted by the audit company "PricewaterhouseCoopers". The auditor has been selected on the basis of the fact that "PricewaterhouseCoopers" is also the auditor of the financial statements of SJSC (VAS) "Latvijas dzelzceļš".   |
| <b>Contacts</b>                               | Contact information for questions or comments concerning the sustainability report of SJSC (VAS) "Latvijas dzelzceļš" for 2016: <a href="mailto:maris.ozols@ldz.lv">maris.ozols@ldz.lv</a>   |



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The decision on the development of the sustainability report of LDz according to the internationally recognized GRI guidelines was initially adopted at the end of 2013, when the Commission for the Corporate Social Responsibility of “Latvijas dzelzceļš” Group under the leadership of the President of SJSC (VAS) “Latvijas dzelzceļš” was established on the basis of the decision adopted by LDz Council of Presidents.

The Commission for the Corporate Social Responsibility is a structural unit run and approved by the President of LDz supervising the company’s responsibility in the area of corporate social responsibility and sustainability and planning further company’s steps in the area of economic impact, environmental and social aspects through the cooperation of various structural units of the company. The Commission adopts recommending decisions approved by the LDz Council of Presidents. Representatives of the LDz top management, as well as the Development, Technical Management, Financial, Legal and Administrative Affairs, Human Resources, Real Estate, Communication and International Relations, Secu-

rity Directorate, as well as Technical Inspection and Procurement Bureau involved also in the development of sustainability report and content approval co-participate in the Commission for the Corporate Social Responsibility. Besides, representatives delegated by the subsidiary companies of LDz responsible for the implementation of the policy and activities defined at the level of the Group in the operation of companies participate in the Commission.

With the change of the company’s management, as well as the affecting external circumstances (economic situation), decision on the creation of the first GRI report was postponed; however, in 2016, the Commission for the Corporate Social Responsibility decided to commence working on the creation of the first GRI report for 2016 in accordance with GRI G4 guidelines (compliance with Core guidelines).

This report provides information on the leading company of the Group – State Joint-Stock Company “Latvijas dzelzceļš”; an outline of the operation of subsidiary companies is provided on page 19.



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## COMPANY PROFILE

“Latvijas dzelzceļš” (LDz) is a state-owned Joint-Stock Company with 100 % of shares owned by the state, while the Ministry of Transport of the Republic of Latvia is the holder of shares. The task assigned to LDz is to manage the railway infrastructure and logistics services within the interests of the national economy of Latvia. LDz manages, maintains and develops the public railway infrastructure in Latvia. LDz provides services of public railway infrastructure use, freight wagon handling services, wagon technical maintenance and inspection services, electricity distribution and trade services, lease services, information technology services, electronic communication services, as well as principal services.

Legal address of LDz is: Riga, Gogoļa iela 3, LV-1050, but the structural units of the company are located also in other places in Latvia. Most of the company’s operations and therefore the largest number of employees are located in Latgale region, especially in Daugavpils – the second largest city of Latvia. LDz is the leading company of LDz Group. In 2016, the average number of employees in LDz Group was 11,782 persons, and therefore LDz Group is the largest employer in Latvia,

as well as one of the largest taxpayers nationwide. In 2016, taxes in the amount of 94.8 million euro were calculated for the payment to the State budget.

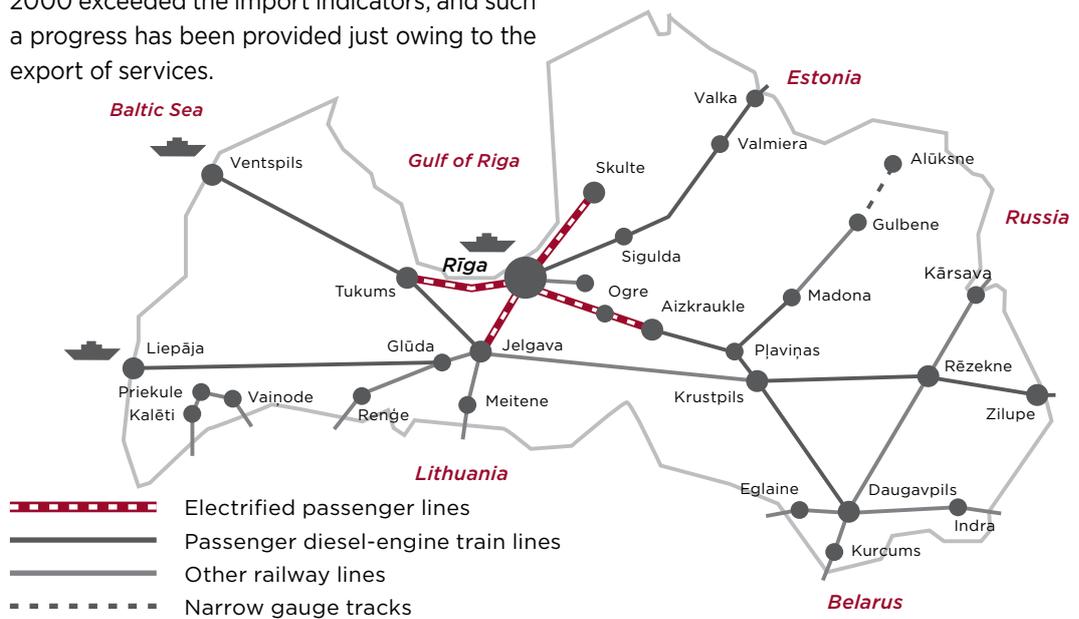
LDz is the manager of the public railway infrastructure in the territory of Latvia, and 68 % of the net turnover in 2016 was the fee paid by the carriers for using the public railway infrastructure. 71 % of this fee was acquired from freight traffic, but merely 29 % – from passenger carriage (including 27 % from the independent state-owned Joint-Stock Company “Pasažieru vilciens”). The aforementioned traffic ratio distinguishes Latvia from majority of the European Union Member States, where public railway infrastructure is basically used for passenger carriage. This is determined by the geographical situation of Latvia and historical development of the transit sector providing freight logistics services from Eastern Europe and Asia to Europe. Traffic in the opposite direction has been also developed in the recent years.

LDz mission is to provide management of the railway infrastructure and logistics services within the interests of the entire society and the national economy of Latvia.



**Export of transport services accounts for approximately 97 % of LDz traffic** (in 2016, railway transport accounted for 333 million euro or 7.8 % of the volume of export services of Latvia). Furthermore, it is to be noted that, at the beginning of 2017, export indicators of the national economy of Latvia for the first time since 2000 exceeded the import indicators, and such a progress has been provided just owing to the export of services.

Russia, Belarus and Kazakhstan should be considered the most significant target markets of LDz; in 2016, transportation volume towards Uzbekistan has increased, while the greatest future expectations are related to the development of traffic in the direction of China and India.



G4-8

The infrastructure managed by LDz includes rail tracks, railway stations and stops, engineering buildings, power supply systems, sig-

nalling, centralization and blocking systems, telecommunication infrastructure and other in the entire territory of Latvia, including:



**137**  
RAILWAY STATIONS



**128**  
STOPS



**1860 km**  
TOTAL OPERATING LENGTH OF RAILWAY LINES



**3170 km**  
EXTENDED LENGTH OF RAILWAY LINES



**251 km**  
TOTAL OPERATING LENGTH OF ELECTRIFIED RAILWAY SPANS



**11**  
TRACTION SUB-STATIONS

Created infrastructure provides opportunity for the passenger and freight operators to provide services to their clients by covering majority of the cities and regional centres of Latvia, including opportunity for convenient reach of the three largest ports of Latvia - Riga, Ventspils and Liepāja - from the Eastern border. Mostly, these ways are used for freight

traffic bulk (coal) and liquid bulk (oil products) cargoes from the countries located eastwards from Latvia. At the same time, railway infrastructure of Latvia is used also for the Greater Riga and regional passenger traffic, and - to a moderate extent - for international passenger traffic to Russia and Belarus.



G4-7

G4-34

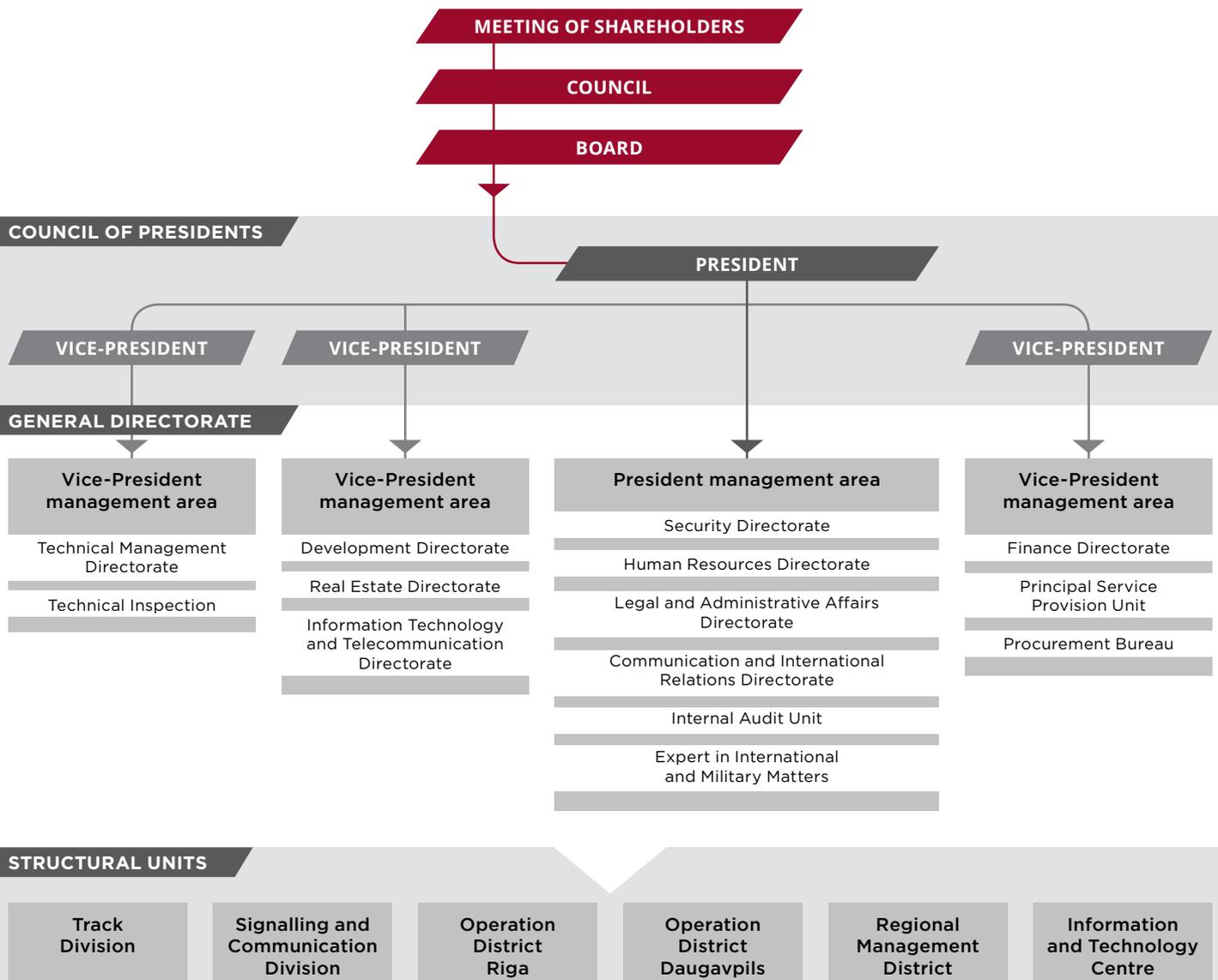
G4-13

## COMPANY MANAGEMENT AND STRUCTURE

Performance of LDz is assessed and further directions of operation are determined by the meeting of shareholders supervising the Council of LDz, established in 2016, which in its turn supervises the Board of LDz. The structure of the company consists of the Council of Presidents consisting of the President and three Vice-Presidents of LDz, and each of them is responsible for certain company's areas of operation.

Company's daily operation is provided by the LDz General Directorate consisting of nine directorates and five structures providing execution of internal audit, procurement and other functions. Whereas, six structural units located both in Riga and Daugavpils and elsewhere in Latvia, perform daily work on railway tracks, at the stations and stops, as well as provide efficient operation of the information systems of the company.

### ORGANIZATIONAL STRUCTURE OF SJSC (VAS) "LATVIJAS DZELZCEĻŠ"





Taking into account the proposal of the Cross-Sectoral Coordination Centre expressed in accordance with the recommendations of the Organization for Economic Cooperation and Development (OECD) and having regard to the Regulations adopted by the Cabinet on 22 July 2016, the Ministry of Transport approved the Council of LDz. Ansis Zeltiņš was appointed the Council President, while the duties of the Members of the Council are performed by Rodžers Jānis Grigulis and Aigars Laizāns (an independent Member of the Council).

In 2016, changes in the composition of the company's Board took place - former Vice-President Edvīns Bērziņš was appointed the Chairman of the Board and the President at the beginning of the year. Positions of the Members of the Board and Vice-Presidents were retained by Aivars Strakšas and Ēriks Šmuksts, but, in the other half of the year, Ainis Stūrmanis, former Chairman of the Board of the company "LatRailNet" of the Group, was appointed the fourth Member of the Board.

G4-7

G4-13

## COUNCIL OF LDZ



**ANSIS ZELTIŅŠ**  
Council President

Appointed in the position of the Council President of LDz in 2016. He has a master's degree in business administration of the University of Salford, Great Britain, and vocational master's/bachelor's degree in sea transport acquired at the Latvian Maritime Academy. Since 2000, he has worked in the area of sea transport at various companies of this sector, including SJSC (VAS) "Latvijas jūras administrācija", as well as in LLC (SIA) "LSC Marine training" and LLC (SIA) "LSC Shipmanagement" - subsidiaries of JSC (AS) "Latvijas Kuģniecība" (Latvian Shipping Company).



**AIGARS LAIZĀNS**  
Council Member

Appointed in the position of an independent Member of the Council of LDz in 2016. He has a doctoral degree in engineering sciences acquired at Latvia University of Agriculture, as well as a master's degree in business administration (MBA) acquired at RTU Riga Business School. Previous professional experience covers the positions of the First Vice-President and Commercial Director of the JSC (AS) "Preses nams", since 2009 - work in the implementation of INTERREG IV A cross-border cooperation projects with specialization in science, environmental protection and promotion of commercialization. Currently holds the positions of a pro-rector at Latvia University of Agriculture, a member of the Senate and Convent, Professor at the Institute of Energetics of the Technical Faculty.



**RODŽERS JĀNIS GRIGULIS**  
Council Member

Appointed as the Member of the Council in 2016. He has a master's degree of social sciences in management sciences acquired at the International Economic Relations Department of the University of Latvia. Furthermore, he has been educated in the area of international transactions, marketing and competition at Sorbonne University in France. He has owned companies operating in the territorial planning, construction and tourism sectors and worked there as the manager of finance, developer of business strategies, logistics and attraction processes of the EU structural funds.



## BOARD OF LDZ



**EDVĪNS BĒRZIŅŠ**

*Chairman of the Board and President*

E. Bērziņš has worked as a Member of the Board of LDz since 2011, but was appointed the Chairman of the Board of LDz in 2016. He has a master's degree in legal science and a vocational master's degree in company and institutional administration (MBA) of the Norwegian-Latvian master's programme "Innovations and Entrepreneurship" (RTU). Previously he has worked as the Head of International Relations Department at the Police Academy of Latvia, Legal Advisor at "Lattelecom", Head of the Legal Department and Member of the Board of JSC (AS) "Latvijas kuģniecība". E. Bērziņš is the Vice-President of the Employers' Confederation of Latvia, Presidium Member and Member of the Council at the Latvian Chamber of Commerce and Industry, Member of RTU Advisory Board, Chairman of Latvia-Belarus and Latvia-Kazakhstan Councils of Business Cooperation, as well as Member of the Councillors' Convent and Member of the Council of the Faculty of Law at Turība University.



**AIVARS STRAKŠAS**

*Member of the Board and Vice-President of LDz*

The Member of the Board of LDz since 2005. He has a master's degree in economics (LUA). He has previously worked as an advisor of the Minister for Agriculture of the Republic of Latvia, Member of the Council of JSC (AS) "Hipotēku un zemes banka", Member of the Council of JSC (AS) "Latvijas Pasts", Chairman of the Council of the Lotteries and Gambling Supervision Inspection and advisor of the Minister for Finance of the Republic of Latvia.



**ĒRIKS ŠMUKSTS**

*Member of the Board and Vice-President of LDz*

He commenced his work at LDz in 1993 as the person of duty of the switch point, since 2008 – a Member of the Board of LDz. He has acquired education at the Leningrad Institute of Railway Transport Engineers. Earlier on, he has graduated Daugavpils Railway Transport Technical School. Previously he was in charge of the Freight Traffic Department of SJSC (VAS) "Latvijas dzelzceļš", from 2007 until 2008 – the Chairman of the Board of the subsidiary company of LDz "LDz Cargo".



**AINIS STŪRMANIS**

*Member of the Board and Vice-President of LDz*

He has been working at LDz Group since 2005, appointed in the Board of LDz in 2016. He has a bachelor's degree of engineering sciences in economics acquired at RTU International Relations and Customs Institute, as well as a qualification of the economist in the specialization of the customs management. He has studied at RTU Management Quality Institute under the master's programme of General Quality Management. Previously he has managed the State Revenue Service Kurzeme Regional Tax Control Department, Ventspils Tax Inspection, as well as other structural units. From 2007 until 2011 – the Chairman of the Board of the subsidiary company of "Latvijas dzelzceļš", LLC (SIA) "LDz infrastruktūra", after that – the Head of the subsidiary company of "Latvijas dzelzceļš", LLC (SIA) "LatRailNet" operating in the field of setting of infrastructure fee and division of capacity of railway infrastructure.



**LDz is the leading company of LDz Group and consists of six subsidiary companies:**

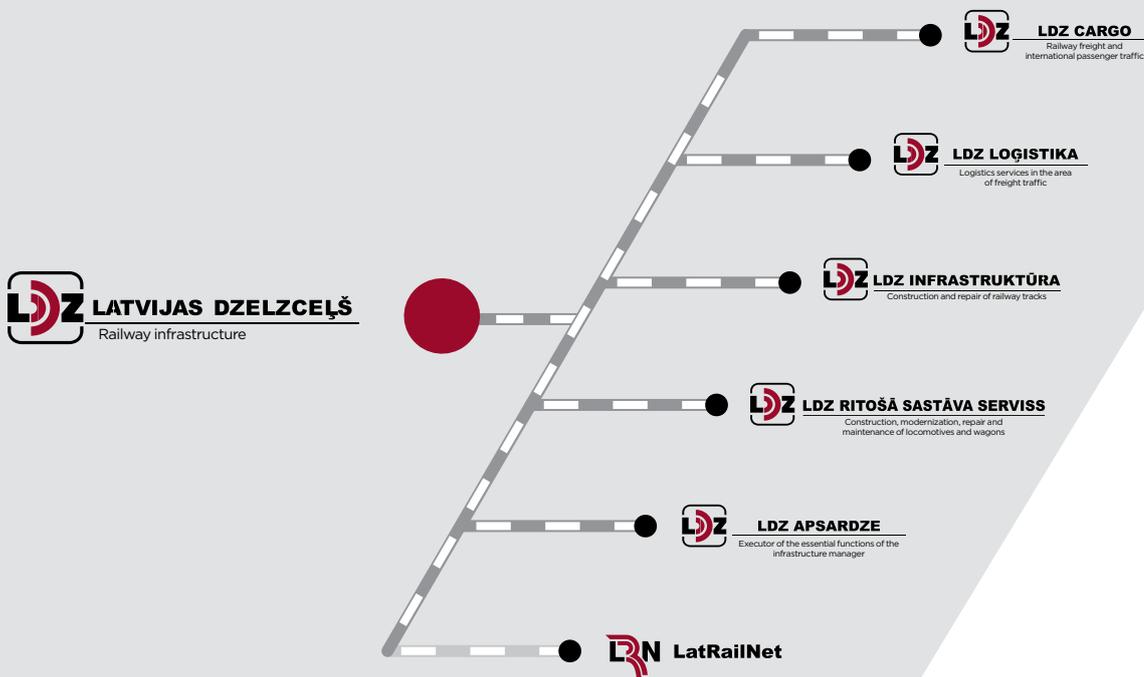
- LLC (SIA) "LDz Cargo" (railway freight and international passenger traffic),
- LLC (SIA) "LDz Loģistika" (logistics services in the area of freight traffic),
- LLC (SIA) "LDz infrastruktūra" (construction and repair works of railway tracks and other railway infrastructure),
- LLC (SIA) "LDz ritošā sastāva serviss" (construction, modernization, repair and maintenance of locomotives and wagons),
- LLC (SIA) "LDz apsardze" (technical and physical railway security),
- JSC (AS) "LatRailNet" (executor of the essential functions of the infrastructure manager).

Structure of the Group was established in

2007 with the aim to separate the functions of passenger and traffic companies from the railway infrastructure management functions, thus separating financial flows and excluding the cross-subsidy risk.

Several changes in the Group have taken place in 2016. Wagon construction company "RVU Baltija" became a subsidiary company of "LDz ritošā sastāva serviss", whereas, in the view of potentially wider opportunities for the development of new freight traffic routes, "LDz Cargo loģistika", former subsidiary company of "LDz Cargo", last year was purchased by LDz and reformed by establishment of a new subsidiary company "LDz Loģistika".

**ORGANIZATIONAL STRUCTURE OF "LATVIJAS DZELZCEĻŠ" GROUP**





G4-7

G4-13

## SUBSIDIARY COMPANIES OF LDz AND PERFORMANCE RESULTS THEREOF IN 2016



**SVETLANA BERGA**  
Chairperson of the Board

**LLC (SIA) "LDz Cargo"** operates in the field of domestic and international freight traffic, as well as international passenger traffic. The company also provides services related to traffic. LLC (SIA) "LDz Cargo" is the largest freight operator in the Baltic States and the fifth largest in the European Union, as well as one of the leading companies of service export in Latvia.

The company continued to strengthen its positions in the bulk and liquid bulk traffic and to pay special attention to attracting new freight from new markets - including towards China. Net operating turnover in 2016 reached 275.5 million euro, whereas profit - 4 million euro.



**VERNERS LŪSIS**  
Chairman of the Board

**LLC (SIA) „LDz Loģistika"** provides freight forwarding and logistics services, including the provision of the unified intermodal cargo service covering the use of various modes of transport and infrastructures, including the provision of "one-stop agency" logistics services for domestic and international carriage. The company is the official agent of the leading Russian intermodal container operator PAS "TransContainer" and the operator of container trains ZUBR and BALTIKA-TRANZIT in Latvia. "LDz Loģistika" provides organization of international, export, import and transit railway traffic in the Baltic States and the CIS countries. The company works in close cooperation with the operators, ports, terminals, as well as other companies providing transportation services both in Latvia and abroad.

Last year, LLC (SIA) "LDz Loģistika" (until July 2016 - LLC (SIA) "LDz Cargo loģistika") focused on organising the freight test train from China to Latvia, marking it on the global map of logistics, as well as continues working on the development of new routes and attraction of freights to the transit industry of Latvia. In 2016, the company arranged its first container train from Yiwu City in China to Riga, and it plans to keep developing the container carriage traffic with other Asian countries, especially India. In 2016, the net operating turnover of "LDz Loģistika" amounted to 13.5 million euro, whereas the profit reached 127 thousand euro.



**JĀNIS CEICĀNS**  
Chairman of the Board

**LLC (SIA) „LDz infrastruktūra"** specializes in construction and renovation of railway tracks. Operation of the company is aimed at the provision of repair services of railway track, railway switches and railway machinery and mechanisms to consumers. Duties of "LDz Infrastruktūra" include repair of railway tracks, replacement of railway switches, repair of railway track machinery and non-standard equipment, as well as welding of rails and transport of continuously-welded rails.

In 2016, the company continued repair works of railway tracks; however, due to large-scale works completed in the previous years, this year the volume of works was significantly lower. In 2016, the company suffered losses of 132 thousand euro, its net operating turnover was 12 million euro.



**EDGARS ABRAMS**  
Chairman of the Board

„LDz ritošā sastāva serviss” provides repair, modernization, maintenance works and equipment of the railway rolling stock, lease and modernization of the main line and marshalling locomotives, as well as storage and sale of fuel to railway carriers and other clients, as well as provides chemical engineering and measurement laboratory services. Company’s structural units include Daugavpils locomotive repair hub with workshop in Rēzekne, Riga locomotive repair hub with workshops in Jelgava and Liepāja, Daugavpils wagon repair hub, Chemical Engineering and Measurement Laboratory in Riga with inspection group in Daugavpils.

In 2016, the company continued renovation of the diesel locomotive fleet –modernization of diesel locomotives 2M62U. Reconstruction of the first locomotive was completed in 2016, and it left for the first run at the beginning of 2017. Furthermore, on 15 June “LDz ritošā sastāva serviss” purchased 75 % of shares and acquired the decisive influence at LLC (SIA) “Rīgas Vagonbūves uzņēmums “Baltija”” becoming the only shareholder of the company. Net turnover of “LDz ritošā sastāva serviss” in 2016 reached 68.5 million euro, profit – 255.7 thousand euro.



**ARNIS MACULĒVIČS**  
Chairman of the Board

**SIA „LDz apsardze”** is one of the leading Latvian security companies with extensive experience in the provision of security services. The company provides services in nearly the entire territory of Latvia – security teams are located in Riga, Rēzekne, Daugavpils, Jēkabpils, Jelgava, Liepāja, and Ventspils. In cooperation with the Kazakhstan company “Samai” railway freight security services are provided from the Baltic States to Kazakhstan.

In 2016, the company retained its position as one of the leading security companies in Latvia, actively developing security services and increasing the number of clients outside LDz Group by 10 %. Net turnover in the reporting year was 6.6 million euro, profit –15 thousand euro.



**JUSTĪNA HUDENKO**  
Chairperson of the Board

**JSC (AS) “LatRailNet”** executes the essential functions of the public railway infrastructure manager – adopts decisions on division of capacity, train path allocation, including determination and assessment of access and regarding allocation of separate train paths and adoption of decisions on infrastructure fees, including determination and collection of the fee.

In 2016, the management units of several subsidiary companies at LDz Group experienced changes, including the approval of new Chairpersons of Boards at LLC (SIA) “LDz Cargo”, LLC (SIA) “LDz Loģistika”, LLC (SIA) “LDz ritošā sastāva serviss” and JSC (AS) “LatRailNetas part of internal rotations of the Group or attraction of new managers with ability to strengthen competitiveness.



# PERFORMANCE RESULTS

In 2016, performance results of LDz – transport volume and financial performance results – were significantly affected by geopolitical processes and changes in the market situation in the region. In 2016, net turnover of LDz was 192.6 million euro representing 25.2 million euro (11.6 %) below the indicator of 2015. However, the company gained profit in the amount of 0.9 million euro.

The most significant net turnover reduction was related to decrease in transport volume (lower income from freight operators for the use of infrastructure). The structure of operating costs of LDz consisting of a comparatively high proportion of the fixed infrastructure

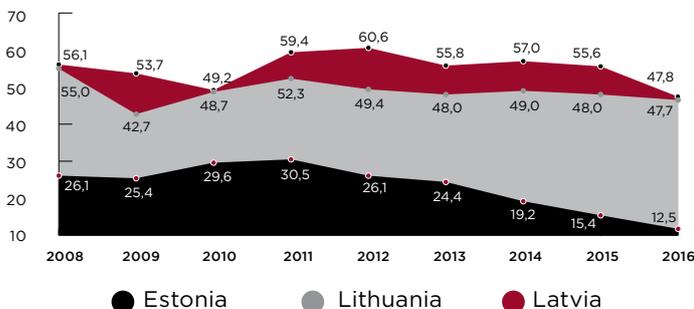
maintenance costs limits the possibilities of cost optimization.

Despite the aforementioned, in 2016, the company managed to reduce administrative costs by 19 %, as well as save approximately 6 million euro in relation to the planned amount of funds as the result of a more efficient operation of the Procurement Bureau.

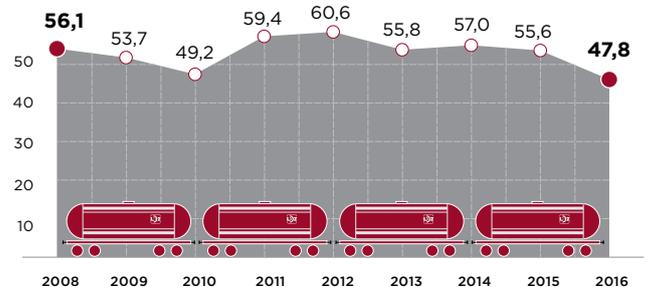
In 2016, LDz infrastructure was used for transportation of 47.8 million tons of freight by travelling 9677 thousand train km and carrying 17.2 million passengers by travelling 6059 thousand train km (including narrow-gauge LLC (SIA) “Gulbenes-Alūksnes bānītis” – 49 thousand train km).

## FREIGHT VOLUMES

Railway freight volumes in the Baltic States 2008 – 2016 (million tons)



Freight volumes transported by means of LDz infrastructure (million tons)



Along with the basic revenue from the fee for the use of the infrastructure received from the operators, it must be taken into account that LDz as a nationally strategic company administers 3377 buildings and structures, as well as a number of buildings, constructions, platforms, squares and engineering communications of lower importance. Thus, the turnover of LDz is made also by the transactions related to the real estate management. In 2016, 632 contracts were administered in total, including 420 contracts for the lease of premises, land and other fixed assets. Net turnover

of LDz in 2017 is forecast in the amount of 188.5 million euro representing 4.1 million euro (2.1 %) below the indicator of 2016. However, LDz and its Group work on attraction of new partners in the main target markets within this year, thus promoting growth of freight volumes and financial results.

At the same time, it must be taken into account that LDz is an infrastructure manager, while the main contributors to freight flow are ports, companies and freight operators operating therein.



G4-10

G4-11

## EMPLOYEES

In 2016, the average number of employees in LDz was 6808, with majority (57 %) falling within the age group between 40 and 60, but one third of the employees worked in Latgale region. LDz is a significant employer at a national level, but especially - looking from the perspective of the comparatively economically less developed Latgale region.

There are no defined gender quotas in LDz, yet gender equality is complied with. The company's employees are employed according to their professional knowledge, skills and experience providing equal opportunities for all employees.

All LDz employees are subject to the provisions of the concluded collective agreement

and additional benefits regardless of their involvement in the Latvian Railway and Transport Industry Trade Union.

### Division of employees by gender:

- 47 people are employed at the top management level representing 0.7 % of the total number of the company's employees;
- 12 women are employed in the company's top management representing 0.5 % of all the women employed in the company, and 35 men representing 0.8 % of all the men working in the SJSC;
- 128 people are employed at the middle management level representing 1.9 % of the company's employees. These employees include 53 (2.24 %) women and 75 (1.7 %) men.

G4-43

G4-45

G4-47

## LDz SOCIAL RESPONSIBILITY

LDz Commission for the Corporate Social Responsibility has developed and, on 27 December 2013, approved "Latvijas dzelzceļš" Group's Policy of Corporate Social Responsibility (CSR) determining four main company's areas of influence largely corresponding to internationally accepted sustainability areas:

ability (CSR) determining four main company's areas of influence largely corresponding to internationally accepted sustainability areas:



### BUSINESS ENVIRONMENT

- Responsible, ethical and fair adoption of decisions
- Balancing of interests of the stakeholders
- Contribution to the development of industry



### EMPLOYEES

- Loyal and motivated professionals
- Safe working environment
- Family-friendly company

## MAIN AREAS OF CSR



### ENVIRONMENT

- Responsibility to the next generations
- Minimization of essential risks



### SOCIETY

- Preservation of the industrial legacy
- Support for creation of active and culturally educated society
- Awareness raising on safety by the railway tracks

Every year, in the first sitting of the year, experts of the CSR Commission develop and approve the Corporate Social Responsibility Activity Plan corresponding to the set areas of

influence for the calendar year, but at the beginning of the next year examines the course of implementation and results thereof.



# IN 2016, ACTIVITIES IMPLEMENTED ACCORDING TO THE AREAS DEFINED IN THE POLICY WITHIN THE FRAMEWORK OF THE CORPORATE SOCIAL RESPONSIBILITY ACTIVITY PLAN IN 2016



BUSINESS ENVIRONMENT

- In 2016, the management and specialists of LDz participated in the **discussion cycle on the introduction of the principles of corporate management at Latvian companies**, organized by the Baltic Institute of Corporate Governance and the Ministry of Justice. Ansis Zeltiņš, Council President of LDz, participated in the conference organized for the closing of the discussion cycle and shared his vision.

- Edvīns Bērziņš, President of LDz, participated in the **Good Management Practice Conference**, organized by the Cross-Sectoral Coordination Centre sharing his experience on the introduction of the top-level transparency at the company (according to the results of study carried out by the Institute of Corporate Sustainability and Responsibility, the transparency index of LDz is equal to 92.9 points out of 100).

- Company's experts participated in the events of **Responsible Business Week** sharing their cooperation experience with the Association of Disabled Persons and Their Friends "Apeirons".

- In 2016, LDz developed and commenced introduction of the **Fraud Prevention Policy**

in all Group's companies (see page 71 for details).

- On 14 September, LDz organized the **annual international industry conference "Global Transport Development Vision. Future Challenges"** with the participation of experts of transport industry and economics from the USA, Great Britain, Russia, the Netherlands, Belarus, and Latvia.

- LDz initiated the formation of the Transport Infrastructure Committee at the Latvian Chamber of Commerce and Industry and, having undertaken the leadership, **developed the industry guidelines** together with other industry companies for united representation of interests in cooperation with decision makers. Within the Committee, LDz also engaged in a discussion of national level Transport Development Guidelines 2014-2020 providing comments and proposals to the Ministry of Transport essential for the development of the industry.

- In an effort to promote the introduction of responsible practice at Latvian companies, LDz engages for the third year in the organization process of **"LDDK Annual Award"** hosted by the Employers' Confederation of Latvia.



CONFERENCE "GLOBAL TRANSPORT DEVELOPMENT VISION. FUTURE CHALLENGES"



SEMINAR HOSTED BY THE ASSOCIATION OF DISABLED PERSONS AND THEIR FRIENDS "APEIRONS" FOR THE SPECIALISTS OF LDz



EMPLOYEES

- In 2016, the annual **employee satisfaction study** was carried out. Results of the survey show that the overall employee commitment index has remained at the level of the previous year, i.e., 78 points. In 2016, indicators of the Group's employee satisfaction rate (+5p) and Colleague motivation (+10p) indexes have grown. Furthermore, the company take pride in the loyalty of employees with 91 % being proud of working at LDz. Employees give the highest appreciation to the fact that the company is a safe, stable place of work providing a wide range of social guarantees. This year, positive assessment for majority of labour safety-related aspects has improved.

- Celebrating the 155th anniversary since the establishment of the first railway line in Latvia, several activities engaging LDz employees were organized. **Railwaymen Fashion Show** should be considered the most remarkable and most interesting event; it took place at the Railway History Museum as part of the Museum Night in May and was repeatedly organized at the Central Railway Station in September.

- The award ceremony of the annual "Railway Pride" presented to the best railway employees was also modified due to the significant anniversary. This time, **dynasties of railwaymen were honoured**. Representatives of such dynasties

are employed in LDz and the companies related therewith in three, four and even five generations. Nine dynasties of railwaymen or 21 railway specialists were awarded in total.

- In 2016, implementation of the **management growth programme** was continued providing training of skills for the most perspective middle-level managers, as well as implementation of the senior programme promoting timely transfer of skills to the latest generations of railwaymen.

- Continuing the tradition, in 2016, the company's employees, as well as the entire LDz Group participated in the **largest people's sport activities of Latvia** - "Lattelecom" Riga marathon, Latvian Cycling Unity Ride, Women's Run, as well as in the "Strong Race" in spring. Every year every employee is welcomed to participate in joint sports activities. Furthermore, LDz employees participated in the sports games organized by the Latvian Union of Rail and Transport Sector (LDzSA) and involving also railway teams from the neighbouring countries. Whereas, LDz employees are provided with an opportunity to participate in the activities organized by **LDzSA sports club "Lokomotive"**, including basketball, volleyball and hockey teams, as well as use beneficial offers at sports centres and other LDzSA cooperation organizations.



LDz EMPLOYEES PARTICIPATE IN THE RAILWAYMEN FASHION SHOW AS PART OF THE MUSEUM NIGHT



SOCIETY

- Cycle of events **“Railway in Latvia - 155”**, within the framework of which the 155th anniversary since the establishment of the first railway line in Latvia Riga-Daugavpils, which is still one of the main railway lines nationwide, was celebrated, should be considered the most important activity of 2016. Within the framework of the cycle of events, LDz gave the society an opportunity to become familiar with railway from a different side than on daily basis. In May, a parade of railway vehicles took place in Riga, Krustpils and Daugavpils, and, as part of the Museum Night, the Historic Railwaymen Fashion Show took place. In September, the book for children “Railway and Trains”, written by Pauls Timrots, as well as the post stamp dedicated to the significant anniversary were presented, and the mentioned fashion show was organised repeatedly, and the annual LDz international conference was also organized.

In November, the opening reception for the book “Illustrated History of Latvian Railway” took place, as well as a cycle of lectures dedicated to the history of the Latvian railway was organized at the Railway History Museum. Whereas, throughout the year, residents were given the opportunity to become familiar

with exactly 155 historical railway sites across Latvia by using the smart phone application “Railway Game. Then and Now.” and create a photo collage in their phones with half of the picture being displayed in the historical appearance of the site, but the other half being shot by the player’s camera in today’s appearance.

- Along with the events related to the 155th anniversary, as every year, LDz also in 2016 organized **three railway traffic safety campaigns**, this time focusing on a new target group - elderly people, who frequently act “as accustomed” in the vicinity of railway or are insufficiently careful, thus causing danger to their lives. A separate campaign with the involvement of popular musicians Arstarulsmirus and Edavārdi was organized to address youth, but at the beginning of winter, attention of the society was drawn to remind of being especially attentive in the vicinity of railway in the dark period of the year. Safety campaigns have been especially highly evaluated also in the annual Baltic Communication Awards competition, where, in March 2017, LDz and the campaign partner, advertising agency “TBWA”, received four awards for the senior and youth campaigns - including two first positions;



BOOK “RAILWAY AND TRAINS” WRITTEN BY A TRANSPORT ENTHUSIAST PAULS TIMROTS



LDz EMPLOYEES PARTICIPATE IN THE RAILWAYMEN FASHION SHOW AT RIGA CENTRAL RAILWAY STATION



EDUCATIONAL BOOK “ILLUSTRATED HISTORY OF LATVIAN RAILWAY” PUBLISHED IN 2016



ENVIRONMENT

- In 2016, LDz commenced a voluminous work on the introduction of the company's energy management system by carrying out an audit at the company's object. At the beginning of 2017, ISO 50001:2012 certificate confirming compliance of the company with the energy management system standard was received.

- Last year, the company's environmental programme was also reviewed, paying greater attention to the noise caused by railway - development of noise maps and pro-

posals for reduction of noise effect is planned for 2017;

- In 2016, LDz and the Group's companies traditionally participated in the Big Clean-up - this time, attention was paid not only to the tidying up of the territories in the vicinity of railways, but also for the improvement of the new railway infrastructure sites. Among other activities, the Board of LDz provided greening of the territory of Imanta station, which was built anew within the framework of the passenger infrastructure modernization project in 2015.



BOARD OF LDz PLANTS DECORATIVE SHRUBS BY IMANTA STATION



LDz TRAINING CENTRE OBTAINS GREENER WORKING ENVIRONMENT IN THE BIG CLEAN-UP

In order to promote improvement of competence of the company's top management, as well as the experts involved in the Commission for the Corporate Social Responsibility on matters related to social responsibility and sustainability, at least four sittings of Commission are held annually involving both discussions on the company's activities in various sustainability aspects and involvement of experts from the Institute of Corporate Sustainability and Responsibility, Baltic Institute of Corporate Management etc. At the same time, the Commission's experts and the company's management participate in external trainings organized by these and other partners, becoming familiar with broader topics related to good management and acquiring knowledge in anti-corruption, environmental management and life-cycle analysis, organization of "green procurement" and other areas.

Commission for the Corporate Social Responsibility examines also the matters related to sustainability risks affecting the possible or existing risks in the environmental management, responsible procurement practice, employees' ethics, anti-corruption and other areas.

It is essential that the company employs separate specialists, whose daily job and remuneration is related to sustainability aspects (for example, Head of the Environmental Management at the Development Directorate, Head of the Personnel Remuneration and Development at the Human Resources Directorate, Sustainability and Social Responsibility Project Manager at the Communication and International Relations Directorate and Head of the Internal Communication Unit etc.)



## ETHICS

The **Code of Ethics** binding to every employee of LDz and its subsidiary companies was adopted at "Latvijas dzelzceļš" Group on 2 December 2014. The Code of Ethics provides for responsible and correct daily action in any situation – both in working environment and in communication with partners and clients. Each new LDz employee is notified of the Code of Ethics and the conditions therein within the scope of the New Employee Day Training. Furthermore, the information is available in the New Employee Manual.

The Code of Ethics provides for reporting on any violations to the Commission for the Corporate Social Responsibility, which is to examine circumstances and substance of the violation and to adopt decision of further action.

In 2016, no complaints regarding violations of the Code of Ethics have been submitted to the Commission.

Continuing the introduction of a good practice in this area, on 4 March 2016, "Latvijas dzelzceļš" group's **Fraud Prevention Policy** was adopted, clarifying the position of the Group's companies in cases related to possible fraud, corruption, conflict of interests, trading in influence etc.

The Fraud Prevention Policy provides for a number of activities developed and introduced in 2016, as well as the work continues in 2017. Furthermore, an anonymous reporting tool has been introduced on LDz external home page ldz.lv and the company's intranet.

Reports received through this tool are examined in the Fraud Prevention Unit established within the company; in case of evidence, decision on further action is taken by involving law enforcement authorities.

G4-56

G4-57

G4-58

G4-12

## SUPPLY CHAINS, PARTNERS

So far, LDz has not analysed its supply chains in detail; however, upon commencement of the sustainability report in accordance with GRI G4 guidelines, a "radar" of influencing parties, including clients, partners and suppliers, has been developed and wherein significant supply chain stages have been identified, whereon detailed information will be analysed in the future (see information on the Radar of Influencing Parties on page 35).

At the same time, being aware of the possible risks, in 2016, work on the development of the basic principles of business ethics for cooperation partners (including suppliers) was commenced within the LDz group's Fraud Prevention Policy (see page 71 for more detailed information); these principles were approved and introduced in practice in 2017, as well as included in all contracts concluded with partners.

## RESPONSIBILITY TO EXTERNAL INITIATIVES

Main values of SJSC (VAS) "Latvijas dzelzceļš" complied with by the company in daily work and cooperation with both internal and external influencing parties are:



G4-14

Taking into account the fact that the company has significant influence on the national economy (the Group managed by the company employs more than 1.3 % of the employees of Latvia and contributes more than 90 million euro to the State budget annually), LDz builds its relations with external influencing parties and their initiatives in a responsible manner.



CLOSING CEREMONY OF SUSTAINABILITY INDEX 2016

G4-15

In 2016, LDz either started or continued participation in several external initiatives, which, in the view of the company's management, provide a broader insight into building a responsible and fair business practice, introduction of a good corporate management and popularization thereof within the society.

- For the sixth year in a row, LDz participated in the Sustainability Index created by the Institute of Corporate Sustainability and Responsibility and for the first time switched from silver to golden category, as well as received the status of the Family-friendliest Merchant conferred by the Ministry of Welfare.
- Within the Responsible Business Week organized by the Institute of Corporate Sustainability and Responsibility, LDz shared its experience of cooperation with the Association of Disabled Persons and Their Friends "Apeirons" gradually developing railway infrastructure available to everyone, as well as participating in the creation and development of the application "Mapeirons" created by "Apeirons", promoting update of the matter of environmental availability in society.

- LDz engaged in the work of the Baltic Institute of Corporate Governance by becoming a member of corporate development, participating in good practice exchange events in the companies "Latvenergo", "airBaltic" etc., as well as by engaging in the educational programme for top managers organized by the institute taking place three weeks in a row in Riga, Tallinn, and Vilnius.
- LDz engaged as a partner in the organization and process of the Annual Award of the Employers' Confederation of Latvia by determining the best employers of 2016 across Latvia and in separate regions thereof, thus promoting the introduction of responsible and fair business nationwide.
- At the top management level, LDz participated in the discussion cycle organized by the Ministry of Justice of the Republic of Latvia and its closing conference on the introduction of a good corporate governance in Latvia according to the principles set by the Organization for Economic Cooperation and Development (OECD).



**Showing responsible attitude towards the representation of interests in matters essential for the company’s development, LDz performed the following activities in 2016:**

- Aktivi Actively engaged in work groups and other advisory mechanisms with the Ministry of Transport of the Republic of Latvia which is currently elaborating the Indicative Railway Infrastructure Development Plan binding to LDz at least for the next five years.
- During the course of development of one of the most significant infrastructure development projects not only in the railway sector, but also nationwide - railway electrification - LDz consulted not only with the responsible institutions of the European Union and the state of Latvia (European Commission, European Investment Bank, European Union level advisory institution JASPERS, Ministry of Transport, Ministry of Economics and Ministry of Finance of the Republic of Latvia etc.), but also with business and other social organizations the members of which will be affected by the planned project (including the Employers’ Confederation of Latvia, Latvian Chamber of Commerce and Industry, Latvian Association of Large Cities, Latvian Transit Business Association, Baltic Association “Transit and logistics etc.).
- LDz initiated the establishment of the Transport Infrastructure Committee within the Latvian Chamber of Commerce and Industry by expanding an active discussion platform for the companies of the industry and promoting update and solution of shared issues thereof at the level of policy planning documents;
- Within the aforementioned Committee, as well as at the company’s level, LDz proposed active work on the development of the interim report of the national level planning document - Transport Development Guidelines - and review thereof providing proposals and comments from the industry.
- For the purpose of promoting international cooperation, LDz engaged in several mutual cooperation formats established by the Employers’ Confederation of Latvia - in the management of Latvia-Belarus and Latvia-Kazakhstan Councils of Business Cooperation.

Along with responsible representation of the company’s and industry interests and promotion of good practice, LDz engaged also in socially significant external initiatives, including active participation in Riga Technical University Development Fund promoting growth of next generation of professionals, as well as participation in strengthening of significant culture activities of national level. Information on all donations (gifts) and the most significant cooperation projects is published on a regular basis on the Group’s homepage ldz.lv, Social responsibility section.



**IN 2016, LDz ACTIVELY ENGAGED IN THE MANAGEMENT OF LATVIA-BELARUS COUNCIL OF BUSINESS COOPERATION ESTABLISHED BY THE EMPLOYERS’ CONFEDERATION OF LATVIA**



## ACTIVITY IN THE INDUSTRY AND SOCIAL ORGANIZATIONS

### Cooperation with organizations of national level

It is essential for LDz and the Group as the largest employer nationwide and company with significant influence on national economy that the business environment it operates in was clear, transparent and based on mutual cooperation. In order to ensure that, the Group actively engages in the work of organizations of entrepreneurs, as well as studies opinions of its cooperation partners and performs improvements in the activities of LDz.

LDz acts in the member status and protects its interests in several non-governmental organizations, including the Latvian Transit Business Association (LTBA), the Employers' Confederation of Latvia (ECL), Latvian Chamber of Commerce and Industry (LCCI) and Latvia-China Business Council. Within the corporate social responsibility, LDz provides introduction of good governance practice at the Group's companies and promotion thereof

in the Latvian business environment. For this purpose, in 2016, the company has joined the Baltic Institute of Corporate Governance and the Institute of Corporate Sustainability and Responsibility.

LDz is represented also in the management of a number of organizations, including the positions of the Vice-President of LDDK and Co-Chairman of Latvia-Belarus and Latvia-Kazakhstan Councils of Business Cooperation taken by Edvīns Bērziņš, President of LDz. E. Bērziņš is also Presidium Member and Member of the Council at the Latvian Chamber of Commerce and Industry, Ainis Stūrmanis, Vice-President of LDz, is Chairman of the LCCI Transport Infrastructure Committee, while Aivars Strakšas, Vice-President of LDz, co-participates in the LCCI National Strategy Council. E. Bērziņš is also Member of the Board of the industry leading association - LTBA.



#### LATVIAN TRANSIT BUSINESS ASSOCIATION (LTBA)

LDz is a member of this organization, and Edvīns Bērziņš, Chairman of the Board of LDz, has been a Member of the Board of LTBA since 2016.

The Association unites the industry participants (infrastructure managers, operators, port companies, logistics companies etc.) jointly resolving matters crucial for industry development. In 2016, during the sittings of the Association, LDz proposed a discussion on railway electrification and other development projects, on railway development plans and cooperation with the state, on the development directions of logistics in the future etc.



#### EMPLOYERS' CONFEDERATION OF LATVIA (ECL)

LDz has been a member of the ECL since 1996, and E. Bērziņš, the Chairman of the Board of LDz, has been the Vice-President of the ECL since 2016, thus being also a member of the National Tripartite Cooperation Council, as well as Co-Chairman of the cooperation formats established by the ECL: Latvia-Belarus and Latvia-Kazakhstan Councils of Business Cooperation and the Tripartite Cooperation Council of Transport and Communication Industry on the employer's part.

In 2016, LDz has participated in the state tax policy discussions within the ECL, consulted with the ECL about the implementation of railway electrification project, as well as promoted international cooperation with the companies from countries of Eastern Europe and Central Asia.



Latvijas Tirdzniecības un rūpniecības kamera

**LATVIAN CHAMBER OF COMMERCE AND INDUSTRY (LCCI)**

LDz has been a member of the LCCI since 2014, and E. Bērziņš, the Chairman of the Board of LDz, has been the Presidium Member and Member of the Council of the LCCI since 2015.

In 2016, the company initiated the establishment of the Transport Infrastructure Committee at the LCCI, thus promoting the establishment of the industry discussion platform and, as part of it, also examining matters crucial for industry development and developing the Guidelines for Transport and Logistics Infrastructure Management approved by the Presidium of the LCCI.



**LATVIA-CHINA BUSINESS COUNCIL**

LDz has been a member of the organization since 2015 and uses contacts and negotiation mechanisms established by the organization for the promotion of cooperation with the market of China, which is essential for the transport and logistics industry of Latvia and participants thereof.

In 2016, a visit of Chinese media to LDz was organized within the framework of this cooperation, as well as Chinese journalists had a chance to become familiar with LDz infrastructure. Furthermore, the company cooperated with the Business Council in meeting the first Chinese container train in Riga and in the events of 16+1 cooperation format related to the cooperation directions of transport industry.



KORPORATĪVĀS ILGTSPĒJAS UN ATBILDĪBAS INSTITŪTS

**INSTITUTE OF CORPORATE SUSTAINABILITY AND RESPONSIBILITY**

LDz has been the corporate member of the institute since 2016 and becomes involved in the operation thereof by participating in the assessment of the annual sustainability index and improving its own performance therein on annual basis, as well as participates in the good practice exchange events organized by the institute (seminars, training, Responsible Business Week etc.).



BALTIC INSTITUTE OF CORPORATE GOVERNANCE

**BALTIC INSTITUTE OF CORPORATE GOVERNANCE**

LDz has been the corporate development member of the institute since 2016 and participates in the good practice exchange events organized by the institute in Latvia and abroad (in 2016, in Sweden), in top management training, public seminars and conferences.

In 2017, the company is planning to participate in the assessment of corporate governance established by the institute.



**RAILWAYMEN ASSOCIATION OF LATVIA (LDzB)**

LDz periodically has been the member of the association since 2003. The association unites more than 1000 railway industry professionals in Latvia, and involvement of LDz therein is quite logical, taking into consideration the high number of industry participants represented therein. The company engages in activities for railway engineers organized by the association, as well as in various public activities aimed at strengthening the railwaymen community.

In 2016, one of the most essential topics discussed at the entrepreneur organizations ECL and LCCI was related to a nationwide planning of the tax policy, and LDz also actively engaged in the discussion of these matters, providing its vision in terms of employment tax, corporate income tax, excise duty etc.

Using the network of the LCCI members and the representation nationwide, upon the initiative of LDz, the Transport Infrastructure Committee was established at the LCCI.

The Guidelines for Transport and Logistics Infrastructure Management were developed in this Committee and presented to the Ministry of Transport of the Republic of Latvia. Furthermore, essential state policy planning documents concerning the industry development were examined within the Committee.

Whereas, within the LTBA, development projects significant for LDz were examined in 2016 (main project – electrification of Latvian railway network), as well as the documents governing the operation of LDz currently under the development (Indicative Railway Infra-



structure Development Plan and the related multi-annual contract between the Ministry of Transport and LDz).

Using the opportunities provided by the Baltic Institute of Corporate Governance (BICG), in 2016, the representatives of LDz management used the opportunity to acquire a management level course of further education in the introduction of good governance, as well as participated in the discussion cycle on the introduction of good governance in Latvia according to the OECD standards jointly organized by the BICG and the Ministry of Justice of the Republic of Latvia.

Both within the previously mentioned organizations, and individually, LDz initiates and organizes public activities in the interests of the entire transport and logistics industry (an-

nual conferences, industry discussions and seminars, round table discussions, involvement in the councils of social organizations and committees etc.) in order to promote the overall exchange and development of industry opinions.

Being a company aimed at continuous development, LDz uses the opportunities to attract the European Union funds modernizing the railway infrastructure and simultaneously reducing the industry impact on the environment and promoting the environmental accessibility. Therefore the company both cooperates with environmental organizations and actively engages in common events with the Association of Disabled Persons and Their Friends "Apeirons" and attracts its experts for the implementation of the new, especially passenger infrastructure projects and education of their own specialists.

### Cooperation with international organizations

In order to promote cooperation with partners in railway industry in western direction and enable integration in the united area of European railways, LDz has engaged in the leading railway organizations of the European Union

- Community of European Railways and Infrastructure Managers (CER), International Union of Railways (UIC), International Rail Transport Committee (CIT) and Collaboration of Railway Police and Security Services (COLPOFER).



**The International Union of Railways (UIC)** coordinates cooperation in topical matters between railways at global level, thereby promoting a coordinated operation of railway systems. The organization unites 194 members from across the globe. The UIC develops standards and promotes development of innovations in railway industry. Members of the organization are regularly informed on the main processes, documentation and new regulations allowing for the forecasting of legal and technical changes in the industry. Participation in the organization provides an opportunity for timely planning of these novations and integration thereof in the business management processes. LDz is currently engaged in work groups dealing with matters of security, statistics and documentation, as well as in the development of the railway data exchange RailTopoModel, which would be especially important in the harmonization of network reports. Twice a year, LDz participates in the UIC General Assembly and Security Congress.



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



**International Rail Transport Committee (CIT)** helps the railways to introduce laws of international rail transport. CIT develops and maintains information on publications and documents of legal content related to international railway traffic, standardizes contractual relations between clients, operators and infrastructure managers, as well as represents interests of the operators in negotiations with legislators.



**European Union Agency for Railways (EURA)** handles matters on introduction of the European Union directives and laws. From 2019, the agency will be an institution authorized by Europe, which will issue uniform EU safety certificates to the operators and permits for operation in more than one country.



**Collaboration of Railway Police and Security Services (COLPOFER)** unites the forces of railway companies and railway police to create a common approach for security in the European railway system. A common task of the organization is protection of humans, properties and assets in the railway territory from destruction thereof and criminal activities.

Taking into account the fact that the majority of freight traffic provided by LDz is related to the CIS countries and that the new Asian routes lead therethrough, LDz is an active participant also in the organizations uniting 1520 mm gauge tracks and railways of Eastern European countries.



**OSJD (ОСЖД)** Organisation for Co-Operation between Railways develops cooperation in the area of railway transport, working on creation of a uniform railway area in the Eurasian region and increasing competitiveness of the transcontinental traffic. Structure of the organization consists of five commissions and two work groups involving also LDz.



**Rail Transport Council (CSŽT/ЦСЖТ)** coordinates the work of 1520 mm gauge track railway administration. Members of the organization mutually resolve both operative matters and matters on future cooperation. CSŽT consists of nine commissions, 15 work groups and five expert groups in various areas. During the operation CSŽT has prepared more than 260 agreements, regulations, instructions and other regulatory documents aimed at the development and technological unity of rail freight and passenger transport.



**Coordination Committee for Trans-Siberian freight carriages (KSTP/КСТП)** – with the main goal of action to increase freight volumes on the Trans-Siberian major line and development of freight traffic on the route Asia-Europe by using railway infrastructure. KSTP unites railway companies, ports, shipping companies, public institutions, operators and forwarders.

**LDz is also a member of the following organizations:**

- Latvian Rail Employer organization
- Daugavpils Council of Directors and Entrepreneurs
- SCRL Bureau Central De Clearing International
- Latvian-Belarusian Economic Relations Promotion Association
- Social Organization “Latvian Association for People Management”
- Latvian Telecommunication Association
- Institute of Internal Auditors
- International Council of Museums
- Latvian Museum Association



G4-18

G4-19

G4-24

G4-25

G4-26

## IDENTIFICATION OF ESSENTIAL ASPECTS, INVOLVEMENT OF INFLUENCING PARTIES

During the development of the Sustainability Report in accordance with GRI G4 guidelines, along with the internal company's view on essential sustainability aspects and the company's contribution thereto, the compa-

ny's influencing parties are involved and the view thereof is studied. LDz commenced the work on studying internal and external influencing parties in autumn 2016 by organizing more than 10 individual and group interviews.

**Methodology, which is applied to determine and depict the essentiality of the aspects, includes five steps:**

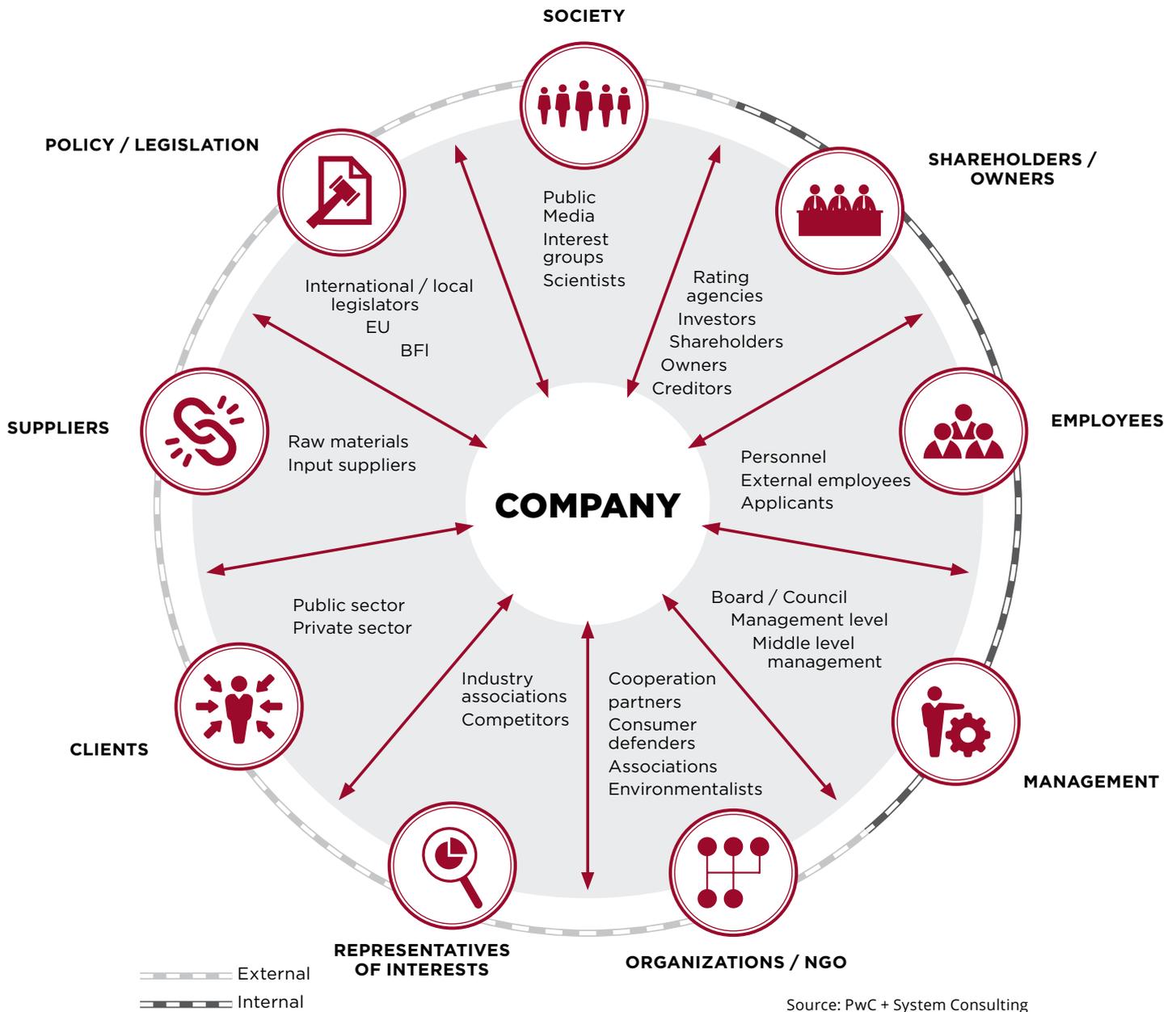
1. Identification of interested parties – determination of the organizations and companies with the highest importance in the process of creation of LDz added value;
2. Identification of potentially essential aspects – study of the aspects specified in GRI G4 guideline materials and selection of the aspects potentially important for the operation of LDz;
3. Identification of truly essential aspects – assessment of potentially essential aspects, determining the most significant ones both for LDz and the identified influencing parties during interviews;
4. Determination of material aspects – identification of the content of the report and determination of boundaries for the essential material aspects;
5. Reporting on the essential aspects in the sustainability report for the year 2016.

At the first stage of the project, in order to assess, which interested parties are significant for consulting, an LDz supply value chain was established – i.e., identifying both the suppliers, clients and other partners with the highest mutual influence with LDz. Applying the study

matrix of influencing parties called “Radar of Influencing Parties” and determining the essential interested parties in the creation of added value from the viewpoint of the supply chain, both internal and external interested parties were identified.



RADAR OF INFLUENCING PARTIES



Taking into account the fact that in accordance with the Law On Governance of Capital Shares of a Public Person and Capital Companies and the procedures by which candidates are nominated for the positions of the members of a board and council in capital com-

panies, in which the state as a shareholder is entitled to nominate members of a board or council, a new management level - LDz Council - was introduced in the company's governance in 2016, cooperation therewith adds the previous circle of influencing parties.



On the basis of the Radar of Influencing Parties, most significant representatives of each party, whose opinions were studied during the process of preparing the GRI report were identified (a more extensive circle of influencing parties is to be covered in the course of preparing subsequent reports).

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

In order to ascertain economic, social and environmental aspects related to the operation of LDz and essential to the influencing parties, research and interviews with all the previously mentioned internal and external influencing parties were conducted.

During the interviews with the influencing parties, their vision about sustainability aspects, which are applied by GRI G4 to companies of all industries, was studied. At the same time, GRI industry guidelines provide for that Road Transport (Highways and Railways) has 25 additional aspects, in relation to which it should be considered, whether information thereon should be included in the sustainability report, since they have been internationally recognized as essential for various influencing parties – especially in the railway industry. These may be considered as a recommendation or proposal of the influencing parties regarding areas the supervision of which or reporting of which is essential to the company.

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

| Sustainability category        | Subjects  |
|--------------------------------|---|
| <b>ENVIRONMENTAL DIMENSION</b> | 1. Sounds and vibration   |
| <b>SOCIAL DIMENSION</b>        | 2. Land use right   |
|                                | 3. Environmental accessibility for disabled persons               |
| <b>OTHER</b>                   | 4. Corporate governance (gender equality in management positions) |

G4-20

G4-21

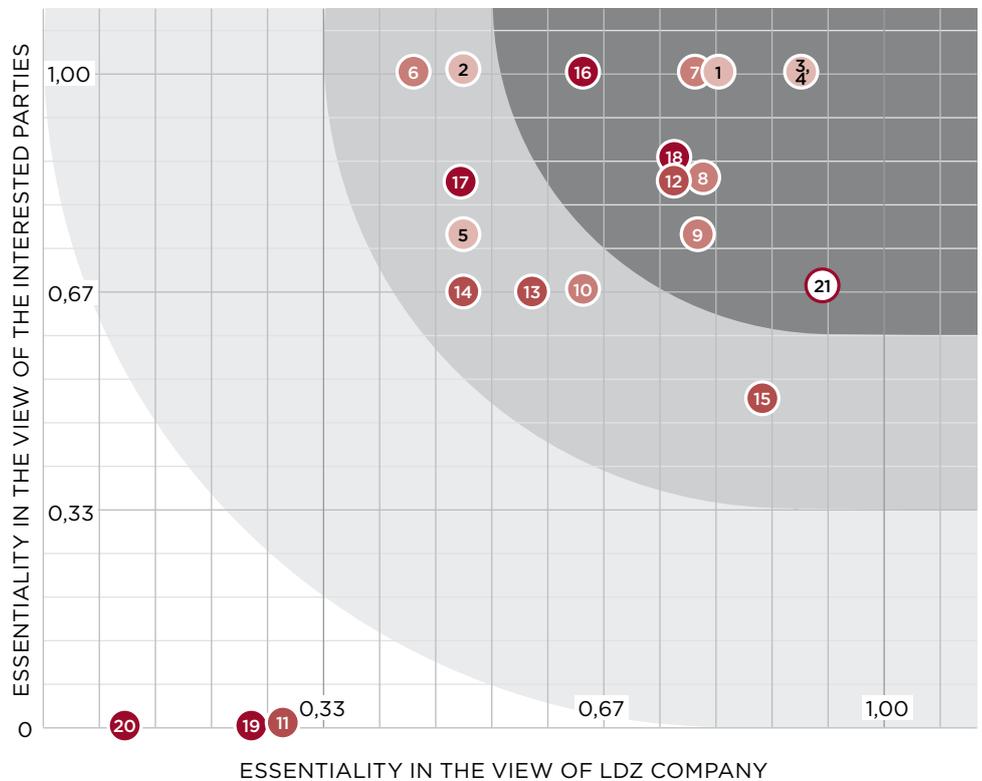
G4-27



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

to the society and working environment were indicated as less essential. At the same time, it should be noted that the summary of interviews shows there are no essential differences in the assessment of internal and external influencing parties, with the exceptions of matters related to very specific areas or internal company's environment, which did not seem essential to the external influencing parties.

### MATERIALITY MATRIX OF ASPECTS



#### ECONOMIC RESPONSIBILITY

1. Company's performance in national economy
2. Value created and distributed by the company
3. Received financial support
4. Indirect economic impact
5. Procurement practice



#### CARE FOR ENVIRONMENT

6. Consumption or resources
7. Energy consumption and **energy efficiency**
8. Emissions, wastewaters, waste, **soil pollution**
9. **Sounds and vibration**
10. Environmental impact of the service



#### EMPLOYEES AND WORKING ENVIRONMENT

16. Long-term strategy for the attraction of employees
17. **Labour safety**
18. Growth of employees
19. Discrimination against employees
20. Company's **corporate governance** (within the context of gender equality)



#### PRODUCT LIABILITY

21. Customer safety



#### SOCIETY

11. Land use right
12. **Environmental accessibility for disabled persons**
13. Anti-corruption measures
14. **Political responsibility**
15. Actions restricting competition



# ECONOMIC IMPACT

G4-DMA

## Management approach

LDz is one of the largest taxpayers and employers nationwide providing essential contribution to the promotion of national economy. In order to participate in the implementation and improvement of the national economic and tax policy, as well as to protect its interests as a company, LDz has engaged in the activities of various non-governmental organizations - Employers' Confederation of Latvia, Latvian Chamber of Commerce and Industry and other. Part of these organizations are the so-called government social partners, which meet members of the Cabinet on a regular basis to discuss matters on the development of national economy. Company's development and contribution to the development thereof are also essential to LDz, therefore LDz uses opportunities to attract

financing of the European Union funds and credit institutions; however, the company has addressed the government on a regular basis calling to channel the company's profit for development, thus promoting not only growth of the company, but also the development of the entire transport industry (employing more than 85 thousand people). Regulatory enactments provide for that 90 % of the annual profit earned by the capital company must be transferred into the State budget; however, an agreement was reached with the government in 2016 that the profit earned in 2015 was channelled for the company's development. In the medium term, such action provides return in terms of taxes both to the State budget, and - in a broader context - national economy in general.

G4-EC1

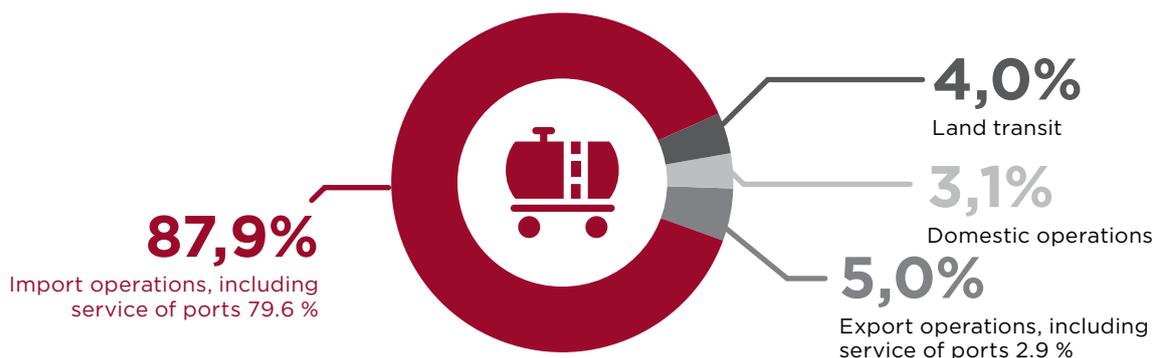
## Created economic value

In 2016, 47.8 million tons of freight were transported by using the infrastructure of LDz, including the mere share of 3.1% of domestic traffic. The rest of cargoes were sent or received abroad, accordingly reflecting the significant role of LDz in the field of Latvian export of services.

In 2016, nearly 2.4 million tons or 83.7 % as opposed to 2015 were transported in the field of export traffic. Domestic carriage accounted for 1.5 million tons or 88.6 % in comparison with the total volume of 2015. 42 million tons were transported in the field of import traffic representing 87.1 % in comparison to 2015, when 48 million tons were transported.

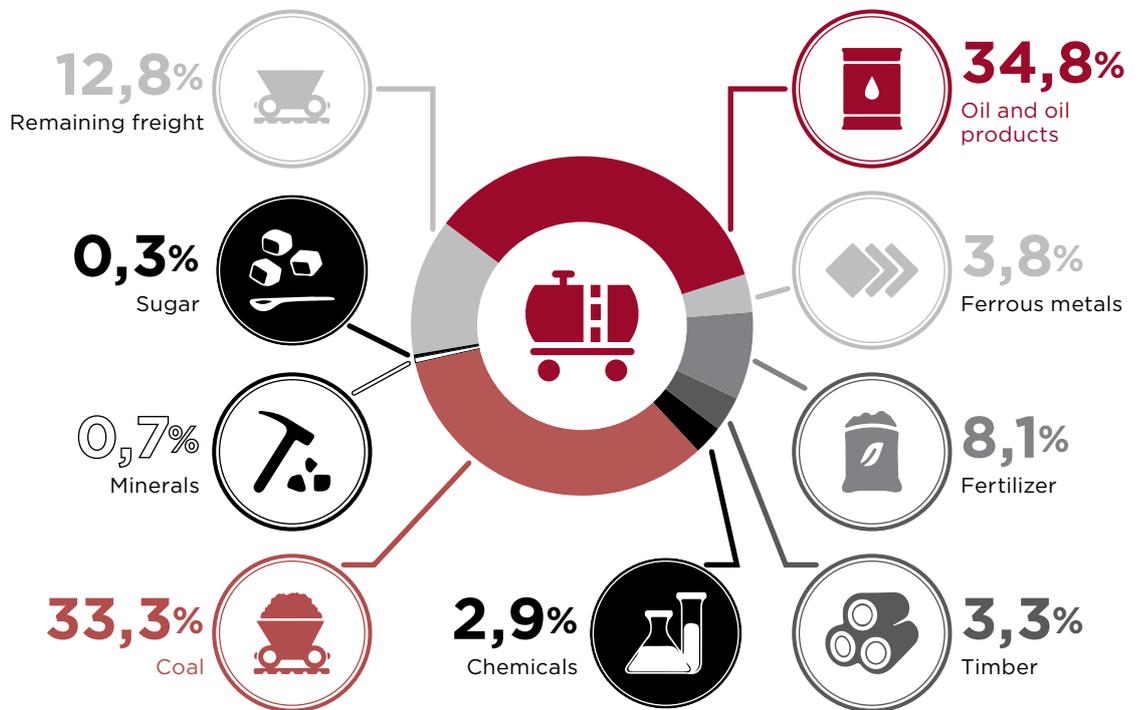
In comparison with the previous year, in 2016, the total volume of transported freight declined due to economic and geopolitical changes on the market; however, a more rapid growth of volumes was observed in the last months of the year. From October, freight volume exceeded the freight volume of the respective period in 2015. In October 2016, 4.2 million tons of freight were transported (+2.8 %), in November - 4.46 million tons (+7.6 %) and in December - 4.9 million tons of freight (+1.5 %). Similar tendency continues in the beginning of 2017.

## BREAKDOWN OF FREIGHT TRANSPORT IN 2016





PROPORTION OF TRANSPORTED FREIGHT IN 2016



Last year the highest percentage in increase was observed in transport of ferrous metals - 1.8 million tons which is by 43.1 % more than in 2015, when the volume of transported ferrous metals accounted for 1.3 million tons.

16.6 million tons or 76.4 % in comparison with the total amount in this traffic segment in 2015 were transported in the oil product sector.

The volume of the transported timber has reached 1.6 million tons during the year representing 4.9 % over the indicator of 2015. Whereas, the volume of sugar transport was 144 thousand tons representing 16.1 % over the indicator of the year before.

According to the research on the impact of the railway industry on other industries, carried out by the auditing company "Ernst&Young Baltic" in 2014, **railway industry creates the multiplier effect on economics.** Upon decrease or increase of the turnover of railway traffic by one million euro, the turnover of all the remaining industries decreases or in-

creases by 2.4 million euro. These are indirect and induced effects (LLC (SIA) "Ernst&Young Baltic" partner Guntars Krols in the interview to Juris Paiders, journalist of "Neatkarīgā Rīta Avīze", 27 April 2015).

LDz is a responsible company significant for the national economy of Latvia, which reacts both to the nationwide economic processes, as well as the processes taking place abroad, but causing direct impact on the economics of Latvia and LDz. Company's progress now requires more than development of local markets in the Baltic States, Europe and Eastern European region - it must look further by studying and acquiring more extensive business opportunities.

Therefore, in 2016, significant work was completed in terms of developing traffic from Asia by organizing the first freight test train from Yiwu City in China, as well as first steps were taken towards developing economic connections with the countries of Central Asia and India in order to establish freight train traffic.



MEETING OF CONTAINER TRAIN JIWU-RIGA AT RIGA CENTRAL STATION ON 5 NOVEMBER 2016

Taking into account the great activity of the aforementioned countries in industrial sectors, it is expected that through cooperation with the new target markets, container train traffic will experience active development. First results of this work are already reflected in the data of LLC (SIA) "LDz Loģistika" on container volume transported to and from the countries of Central Asia. The highest percentage of growth is in the sector of received containers - only 426 containers were sent to Latvia in 2015, whereas this number grew by 108 % to 885 containers in 2016.

In addition, the number of containers sent from Latvia by "LDz Loģistika" has increased by 93 % - 5892 containers were sent in 2016, while this number was 3049 in 2015.

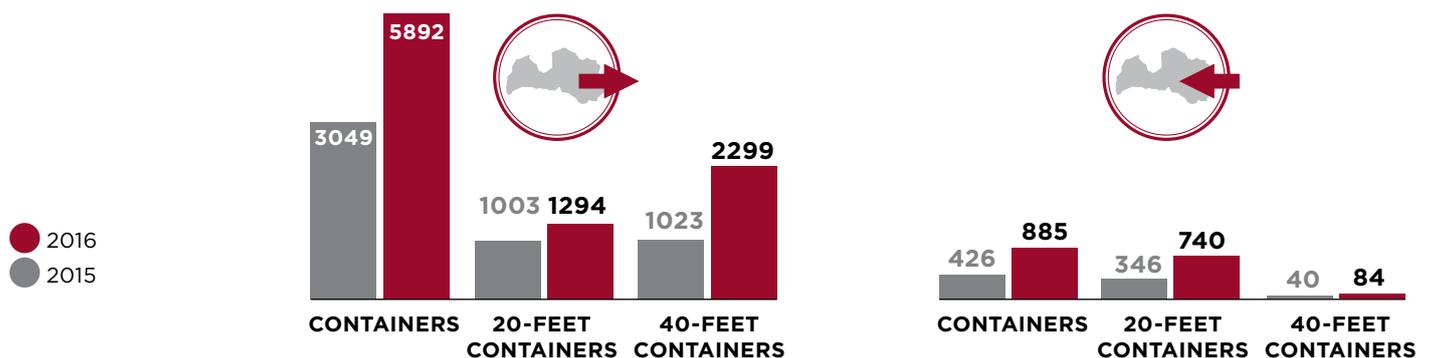
In the sector of containers sent from Central Asia to Latvia, the highest growth is among 20-foot containers. In total 740 containers were received in 2016, while a year

before - 346 containers. In the sector of containers sent from Latvia last year, the number of 20-foot containers reached 1294 (a year before - 1003).

At the same time, in the sector of 40-foot containers in 2016, "LDz Loģistika" received 84 containers (in 2015 - 40), but sent from Latvia 2299 containers (previously - 1023).

Growth in the volume of transported freight can be explained by rapid development of the manufacturing industry in the Central Asia region (Uzbekistan, Kazakhstan, and Turkmenistan), thereby providing the clients of LLC (SIA) "LDz Loģistika" with a beneficial route for the delivery of manufacturing equipment from Europe through the ports of Latvia and further on by rail to the final recipient. Last year, mainly textile industry machinery, as well as poultry farming equipment and hothouses were transported in containers through railway infrastructure.

CONTAINER TRAFFIC OF THE LLC (SIA) "LDz LOĢISTIKA"





Performance results of SJSC (VAS) “Latvijas dzelzceļš” have a very strong impact on the national economy of Latvia – the company employs more than 6800 people.

The economic value created by LDz reached 224.9 million euro in 2016, consisting of the company’s operating income – 192.6 million euro, other operating income – 27.8 million euro, income from participation in related or other companies – 4.3 million euro and revenue from financial operation 0.2 million euro.

Costs consisted of the prime cost of pro-

vided services – 198.6 million euro (including remuneration – 71.1 million euro), administration expenses – 14.7 million euro, other costs of economic activities – 3.1 million euro and financial costs – 2.2 million euro.

The amount of taxes and duties paid in 2016 accounts for 67.2 million euro. Profit for the reporting year – in the amount of 0.9 million euro.

G4-EC4

### State involvement – ensuring availability of the EU co-funding for railway investment projects

Being one of the largest taxpayers, employers and promoters of economic growth nationwide, it is important for LDz to provide good quality services and take care of the safety of railway infrastructure and compliance thereof with international safety standards. In an effort to take care of the improvement of infrastructure, the financing available within the scope of the European Union funds is also attracted.

So far, LDz has implemented various projects and will keep doing this by using the fi-

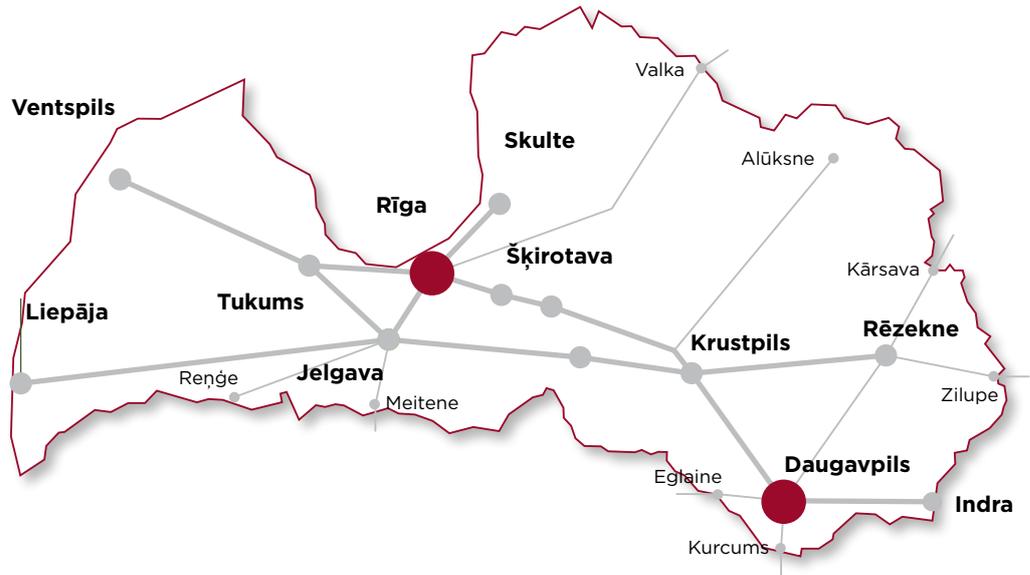
ancial means available as part of the EU Cohesion Fund and other financial instruments. The EU Cohesion Fund was established to finance large-scale infrastructure development projects, including – in the transport industry.

Funds of the Trans-European Transport Networks or TEN-T are also used to implement projects – for example, to develop electrification sketch designs of the Latvian railway network and reconstructing the railway tracks of Rail Baltica corridor located in the territory of Latvia.

### Implementation of several large-scale projects has been commenced in the EU funds 2014-2020 programming period.

Implementation of the following projects is planned within the action programme “Growth and Employment”, priority axis “Sustainable Transport System”, specific support goal 6.2.1 “Provision of Competitive and Environment-friendly TEN-T Railway Network Promoting Safety, Quality and Capacity Thereof”, measure 6.2.1.2 “Modernization and Construction of Railway Infrastructure”:

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



### Modernization of Riga railway hub, span Sarkandaugava–Mangaļi–Ziemeļblāzma

The necessity of modernization has been identified in the span Mangaļi–Ziemeļblāzma, which is a single-track span, although the line Rīga–Skulte, in which it is located, is a double-track span. District Mangaļi–Ziemeļblāzma is one of the narrow points of the railway line Riga–Skulte. Construction of the second rail track in the span Sarkandaugava–Mangaļi–Ziemeļblāzma, as well as modernization of the centralization of micro-processors aimed at the improvement of the processing capacity of Riga railway hub, significant reduction of the narrow points of the hub and improve-

ment of efficiency are the tasks to be accomplished as part of the modernization project of Riga railway hub, span Sarkandaugava–Mangaļi–Ziemeļblāzma.

Total foreseeable costs of the modernization of Riga railway hub account for 25.0 million euro. Co-funding of the EU Cohesion Fund (85 %) has been attracted for the implementation of the project.

It is planned to complete the project by 2023.

### Development of Daugavpils Marshalling Yard

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

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

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

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

It is planned to complete the project by 2023.



## Development of Daugavpils Reception Park and access roads

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

thereof on the extra-urban connecting railway tracks.

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

It is planned to complete the project by 2023.

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

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

Efficient management of train traffic requires strict integration between the alarm

and communication systems, traffic planning and control systems, which are to provide operative decision-making in relation to train traffic organization, as well as to allow for more rational train traffic planning.

The estimated amount of investments required to introduce uniform train traffic planning and management system accounts for 21.3 million euro.

## Modernization of railway passenger service infrastructure

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

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

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

Indicative costs of the project account for 24.2 million euro, and, at the same time, implementation of the project depends on availability of public financing.



### Electrification of Latvian railway network

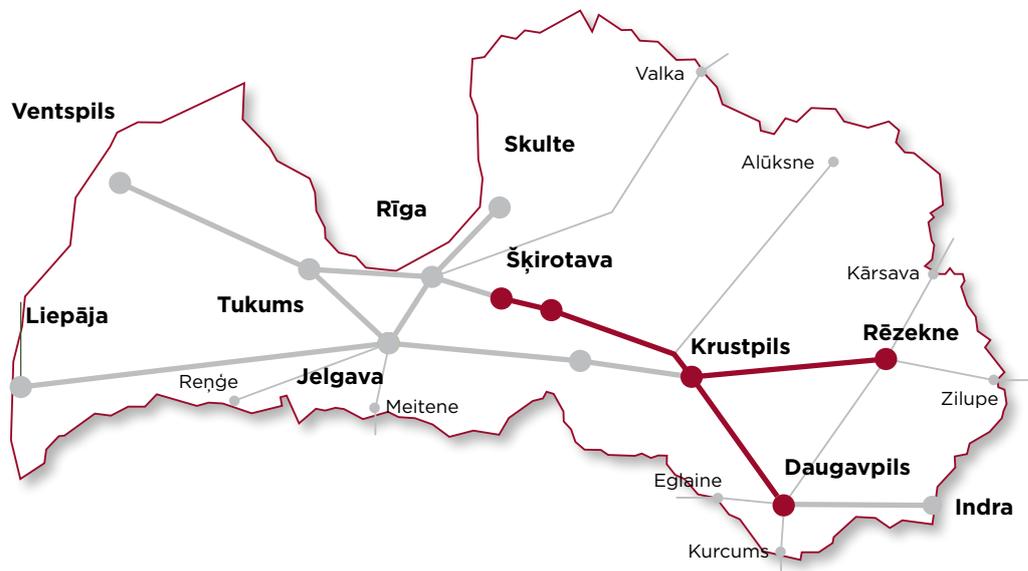
In order to improve efficiency of traffic, promote use of environment-friendly technologies and improve international competitiveness of the transit corridor of Latvian railway, SJSC (VAS) "Latvijas dzelzceļš" is planning to implement full electrification of the main railway network (main railway tracks) with 25 kV alternate current technology, including reconstruction of the current electrified railway network, replacing 3.3 kV system with 25 kV system. Currently locomotives powered by electric traction can be used for the suburban passenger traffic; freight traffic is entirely ensured by using only diesel-powered locomotives.

Taking into account the fact that implementation of the large project is planned within the European Union Fund and Cohesion Fund Planning Period for 2014-2020, action programme "Growth and Employment" (approved by the European Commission on 11 November 2014), specific measure 6.2.1.1 "Electrification of Latvian Railway Network" (CF financing available for the measure is 346,639,348 euro), and the implementation must be accomplished by 2023, the entire electrification plan of the railway network has been divided into independently func-

tional phases, the implementation of which is planned consecutively by assessing the technical conditions of implementation thereof, synergy with other essential projects and availability of funds. Spans of the railway network electrification, which may qualify for the goal of the measure 6.2.1.1, include electrification of railway network spans used most intensively for freight traffic and electrification of which will result in significant decrease of CO<sub>2</sub> emissions caused by railway traffic in Latvia.

In addition to the effect of the project on national economy, the project provides essential contribution to reduction of CO<sub>2</sub> and NOx emissions, as well as will contribute to the achievement of nationwide energy efficiency goals.

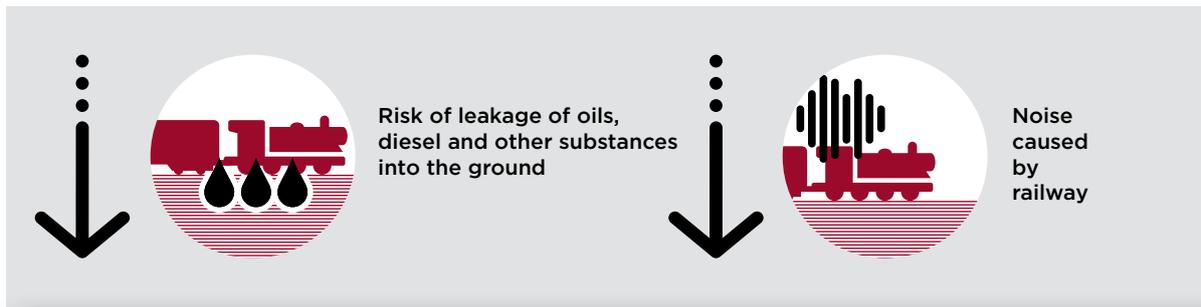
The project is an essential contribution to regional development, since implementation of the project mainly affects residential territories located outside Riga, thus providing additional income to local residents as the result of project implementation, also creating additional workplaces during the construction period, as well as decreasing the unemployment rate.



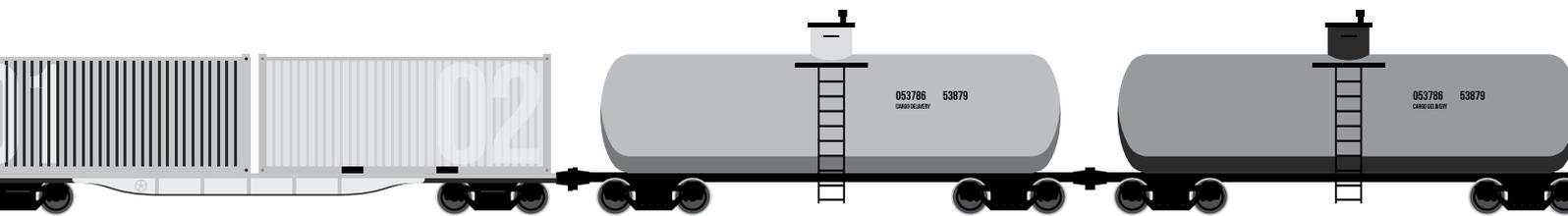
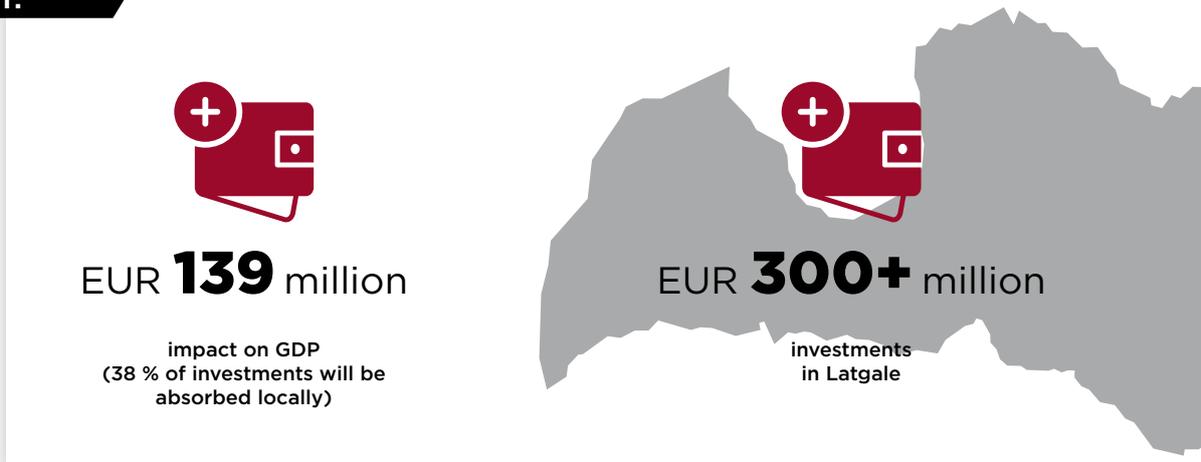


BENEFITS OF ELECTRIFICATION

ENVIRONMENTAL IMPACT:



ECONOMICAL IMPACT:



FOR FREIGHT OPERATORS:



Planned financing within the scope of the EU Cohesion Fund: 454 million euro.  
LDz financing: not less than 80 million euro.



In order to promote competitiveness along with the introduction of innovations in the railway industry, LDz is convinced that the up-to-date tendencies of science must be used to achieve operational development. Therefore, the project "Construction of marshalling hydrogen locomotives and filling station" has been commenced with the support of the EU financing by using the funds available in the programme "Connecting Europe Facility". Modernization of three LDz marshalling locomotives ČME3M is planned within the project, ensuring powering thereof by alternative fuel - hydrogen. Furthermore, the project provides for establishment of multi-fuel (CNG, H<sub>2</sub>) locomotive filling infrastructure, which could be used also by road transport (buses, trucks and cars) and development of the certification

process of hydrogen-powered locomotives. Arrangement of the hydrogen filling station is planned in Riga, at Šķīrotava Station.

Total indicative costs of the project account for: -15 million euro. Deadline for the implementation of the project: 2017-2020.

**During the previous EU funds programming period (2007-2013)**, nine projects were implemented by using the EU Cohesion Fund and investing 254.1 million euro in modernization and development of railway infrastructure, including financing of the EU Cohesion Fund in the amount of 191.8 million euro, financing of the State budget - 6.9 million euro and co-funding of LDz - 55.4 million euro.

#### PROJECTS IMPLEMENTED IN THE PLANNING PERIOD FOR 2007-2013:

| Project  |              | million EUR  |             |
|--|--------------|--------------|-------------|
| Modernization of signalling, telecommunications and power supply systems in the district Bolderāja 1-Zasulauks | 13,9         | 11,4         | 2,5         |
| Modernization of the main data transmission network  | 14,2         | 8,8          | 5,4         |
| Modernization of the railway passenger infrastructure  | 15,6         | 15,4         | 0,2         |
| Reconstruction of the hump at Šķīrotava Station  | 39,6         | 23,7         | 15,9*       |
| Modernization of the signalling system in Liepāja Station including rail reconstruction                        | 25,2         | 19,4         | 5,8         |
| Reconstruction of railway tracks   | 45,8         | 33,7         | 12,1        |
| Replacement of railway switches - delivery of switches   | 16,2         | 13,5         | 2,7         |
| Modernization of centralization at Šķīrotava Station   | 42,4         | 13,5         | 2,7         |
| Construction of station Bolderāja 2 with the connecting track to the terminals of Krievu sala                  | 41,2         | 29,9         | 11,3        |
| <b>TOTAL:</b>  | <b>254,1</b> | <b>191,8</b> | <b>62,3</b> |

\* - including State budget funds 6.9 million



EU



LDz

Investments have resulted in significant improvement of the condition and quality of the railway infrastructure - at the beginning of 2017, the length of railway tracks on which

trains must reduce speed due to railway track quality was less than 65 km (this indicator was approximately 167 km a year before).



### State involvement in industry development

In 2016, along with the attraction of financing for the implementation of infrastructure projects, in accordance with the following European Commission directives

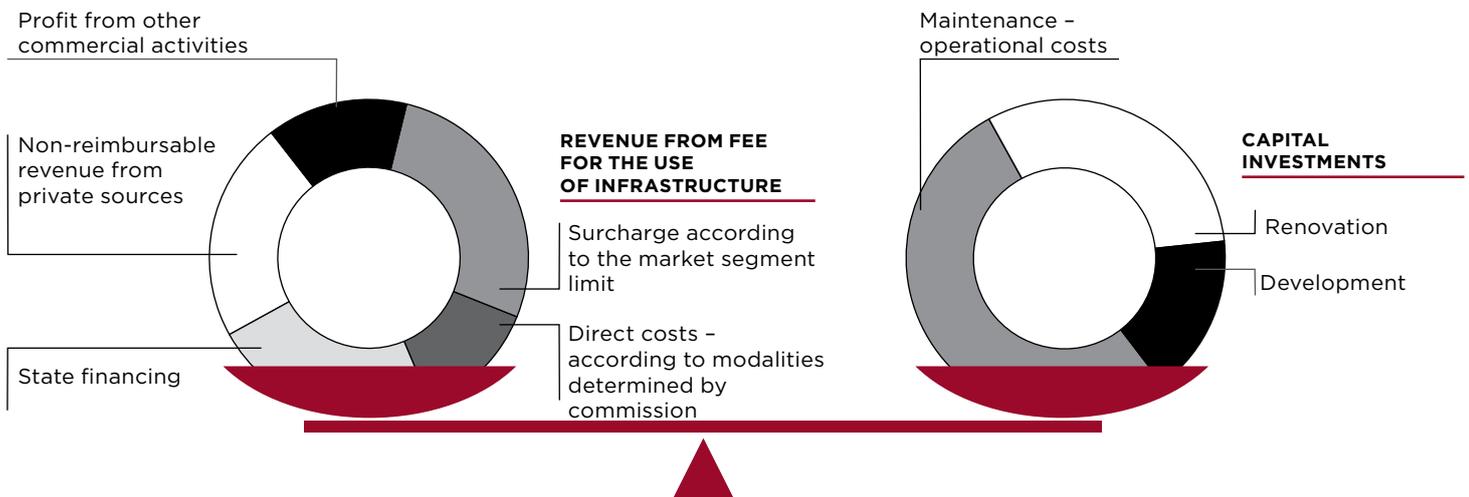
- 2008/57/EC on the interoperability of the rail system within the Community,
- 2008/110/EC amending Directive 2004/49/EC on safety on the Community's railways,
- 2012/34/EU establishing a single European railway area,
- 2009/149/EC amending Directive 2004/49/EC of the European Parliament and of the Council as regards Common Safety Indicators and common methods to calculate accident costs, amendments in the Railway Law were adopted.

Based on these amendments, the Ministry of Transport started **elaborating the Indic-**

**ative Railway Infrastructure Development Plan**, which is to determine the state railway infrastructure requirements for the next five years and serve as basis for the multi-annual contract to be concluded in 2017 between the Ministry of Transport and LDz as the manager of the public railway infrastructure.

The plan and contract will clearly define the requirements for the maintenance of infrastructure, as well as the matter on what public railway infrastructure maintenance costs may be covered by LDz, including such costs in the fee for the use of the infrastructure thereof, and what costs are to be covered from other sources and what will be the procedures for the provision of financial balance of LDz as the manager of public railway infrastructure.

### PROVISION OF FINANCIAL BALANCE OF THE MANAGER OF INFRASTRUCTURE





G4-EC7

G4-EC8

### Impact of infrastructure development

Infrastructure managed by LDz includes railway tracks, railway stations and stops, engineering structures, power supply systems,

signalling, centralization and blocking systems and telecommunication infrastructure etc., including:



**137**  
RAILWAY STATIONS



**128**  
STOPS



**1860 km**  
TOTAL OPERATING LENGTH OF RAILWAY LINES



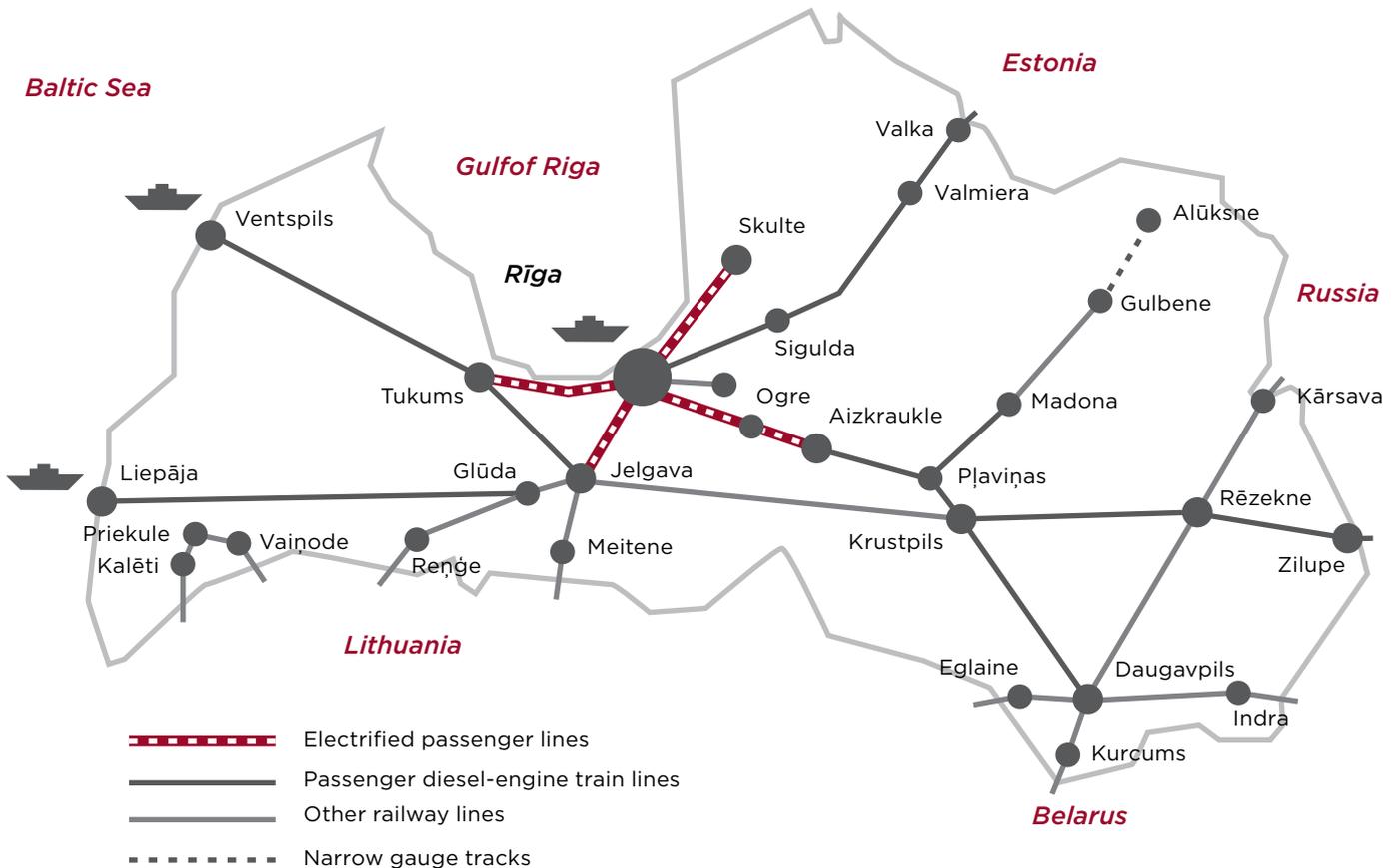
**3170 km**  
EXTENDED LENGTH OF RAILWAY LINES



**251 km**  
TOTAL OPERATING LENGTH OF ELECTRIFIED RAILWAY SPANS



**11**  
TRACTION SUB-STATIONS



The created infrastructure provides an opportunity for passenger and freight operators to provide services to their clients by covering the majority of cities and regional centres of Latvia, including convenient access to the three largest ports of Latvia-Riga, Ventspils

and Liepāja - from Eastern border. Mostly, these ways are used for freight traffic dominated by bulk (coal) and liquid bulk (oil products) cargoes from the countries located eastwards from Latvia. At the same time, railway infrastructure of Latvia is also used for the



Greater Riga and regional passenger traffic, and - to a moderate extent - for international passenger traffic to Russia and Belarus.

Cadastral survey of partition zones of the State railway infrastructure and title registration of the surveyed land under State ownership in the name of the Ministry of Transport at the State Land Register was continued in 2016. According to the conducted surveys, 987 land units of the total area of 15,186 ha is administered in the railway partition zone. 848 ha of

land or 5.6 % of all land units were surveyed in 2016, while the total amount of area subject to cadastral survey accounts for 66 % or 10,063 ha of the total area. Cadastral survey will not apply to railway lines with closed traffic, therefore 85 % of the railway partition zone where the traffic is open has been actually surveyed.

The total amount of buildings subject to cadastral survey in 2016 accounts for 125, while 302 buildings were registered at the State Land Register.

G4-EC8

### Indirect economic impact

There is no comprehensive study at the disposal of LDz on indirect economic impact of the company and the development projects implemented in recent years. The study at the disposal of the industry shows that the contribution to national economy of each ton of freight which has entered Latvia is equal to approximately 14 euro. At the same time, the data at the disposal of the Bank of Latvia show that the export of railway transport services has accounted for 333 million euro or nearly 8 % of the total amount of the export of services of Latvia in 2016.

In 2014, a study by auditing company "Ernst&Young" contained a calculation that should the national economy of Latvia lose a part or even all the transit freights transported by Russia by means of LDz infrastructure and a

part of the Belarusian freights, the possible economic impact should be measured in the amount of 1.1-1.9 % of the GDP, 1-1.7 % of employment and tax loss in the amount of 1.5-2.6 % in the State budget.

Being aware of the fact that all the aforementioned data are oriented towards specific topics or incomplete and taking into account the company's strategic role in the development of national economy and potential contribution to industries not related with the transportation industry, this year, LDz is planning to conduct a study together with cooperation partners about the direct, indirect, as well as induced economic impact caused by the company and the industry. LDz will include results of the study also in the next year's report.

LDZ-2

### LDz procurement policy

For the purpose of saving funds, as well as making procurement procedures more transparent and reduction of risks, LDz structural unit - Procurement Bureau - has been established, and the bureau's competence and authorization in organization of procurements are being constantly expanded.

From 1 January 2016, procurements of specific goods or services with the expected contractual price exceeding 117,592.71 euro, are

organized by LDz Procurement Bureau. These procedures apply also to the procurements related to purchase, supply and repair of traction, rolling stock, specialized machinery and spare parts and equipment thereof (including tools), construction services and supply of oils, lubricants, gas and fuel.

Besides, since January 2016, the Procurement Bureau is responsible for the organization of procurements at SJSC "Latvijas



dzelzceļš” with the expected contractual price exceeding 22,000 euro, VAT excluded. At the end of 2016, competence of this structural unit was expanded by determining that the Procurement Bureau is responsible also for the procurements of LLC (SIA) “LDz infrastruktūra” if the estimated contractual price exceeds 22,000 euro, VAT excluded.

For the purposes of assessment of the operational efficiency and quality, the Procurement Bureau is obliged to summarize and assess economy indicators of the funds of LDz Group budget at the completion of procurement procedures. In 2016, successful operation of LDz Procurement Bureau resulted in the economy of 6.279 million euro in comparison with the planned procurement budget of LDz Group.

The list of goods and services for the procurements of which LDz Procurement Bureau is responsible is expanded on regular basis.

In the pursue of transparent and professional organization of procurements and reduction of non-compliances, the Procurement Bureau practises the so-called “four eyes principle” which means examination of documents both at horizontal and vertical level. Furthermore, procurement procedures are distributed taking into account the personnel’s workload and qualification in the specific area of procurements. Furthermore, the Procurement Bureau organizes weekly personnel meetings to discuss novelties related to regulatory enactments, listen to the experience of colleagues and topical problems of the procurement process.

In the course of organizing procurements, LDz Procurement Bureau complies with the requirements laid down in regulatory enact-

ments and LDz internal regulatory enactments; furthermore, procurements are organized according to the necessity and by assessing the priority of the particular procurement. Procurements are timely planned, simultaneously foreseeing merging of several similar procurements, as well as providing for the possibility to split the procurement in several parts.

Special attention is paid also to the circle of applicants by determining mandatory criteria to be complied with to be eligible to participate in the procurements announced by LDz. Applicants, which have been found guilty of criminal offences of corruptive nature, significant violation of employment rights, violation of competition rights, insolvency proceedings of which have been declared, the economic activity of which has been suspended or discontinued, legal proceedings against which have been initiated regarding the bankruptcy over the last three years, as well as which have tax debts are excluded from the procurement procedure.

It is foreseeable that, in the nearest future, LDz Procurement Bureau in cooperation with LDz Fraud Prevention Unit will improve regulations of LDz Group in the area of procurements to reduce potential risks in areas related to the risk of fraud, corruption, conflict of interests etc.

LDz Procurement Bureau has participated in the discussion devoted to the new Law On the Procurement of Public Service Providers by providing opinions on specific matters, including a suggestion to provide for the payment of a deposit in case of anyone wants to contest the procurement result, thus reducing risks that unfounded complaints could hinder the progress of works.



# ENVIRONMENTAL IMPACT

G4-DMA

## Management approach

Responsibility is one of the basic values of LDz. Railway is one of the most environment-friendly modes of transport with emissions accounting for not more than 6-8 % of the total amount of hazardous emissions caused by transport. Furthermore, railway promotes prosperity and development of economics and society both historically and today. Responsible and careful attitude towards the environment and care for the improvement of the quality of life of the society are the most significant priorities of LDz.

Environmental Policy binding to the entire Group and corresponding Environmental and Energy Management Programme have been developed in LDz..

During the daily organization of the company's work, environmental protec-

tion matters are also considered so that the company would cause the lowest possible environmental impact. During the process of planning and implementing infrastructure development projects aimed at the improvement of traffic safety, intensification of train movement, as well as enhancement of processes, LDz sees the reduction of company's environmental impact as one of the most significant criteria.

In order to preserve a clean environment for future generations, care for the environment is promoted also during everyday work within seemingly insignificant processes. LDz promotes both sorting and transfer of waste for recycling and introduces efficient energy management and strives for resource economy.

G4-EN15

G4-EN15

G4-EN16

G4-EN23

G4-EN24

G4-EN27

G4-EN29

G4-EN34

## Care for the environment

Railway is one of the most environment-friendly modes of transport, namely, with the emissions accounting for just approximately 8 % of the total CO<sub>2</sub> emissions caused by transport industry.

However, LDz performs regular calculations of greenhouse gas emissions (CO<sub>2</sub>, NO<sub>x</sub>, PM) caused by locomotives. In addition, data on fuel consumption and mileage are used for the calculation of emissions. These data are annually submitted to the International Union of Railways (UIC), while CO<sub>2</sub> calculations are submitted also to the State Railway Administration.

According to the performed calculations, CO<sub>2</sub> emissions caused by the rolling stock of LDz in 2016 accounted for 150,612

tons, which is the lowest volume since 2013.

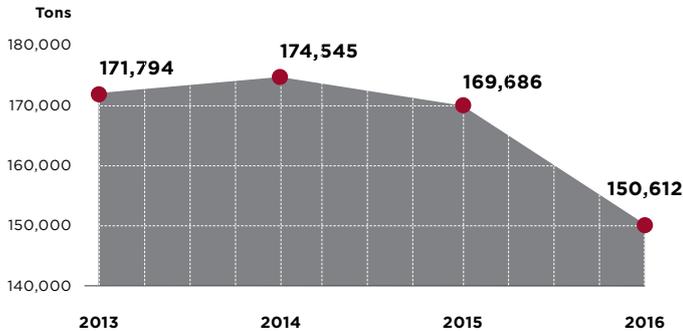
Reduction in volume is related to reduction of freight volumes, as well as training of freight train drivers about a more efficient driving manner. Furthermore, the level of emissions is affected by diesel consumption.

LDz will keep taking care of the preservation of the environment also in the future, and electrification of railway network and development of hydrogen marshalling locomotive will play a significant role in this process. The use of hydrogen-powered locomotives will reduce environmental impact and the level of hazardous emissions. Electrification of railway network will also promote significant reduction of CO<sub>2</sub>, NO<sub>x</sub> and other emissions.



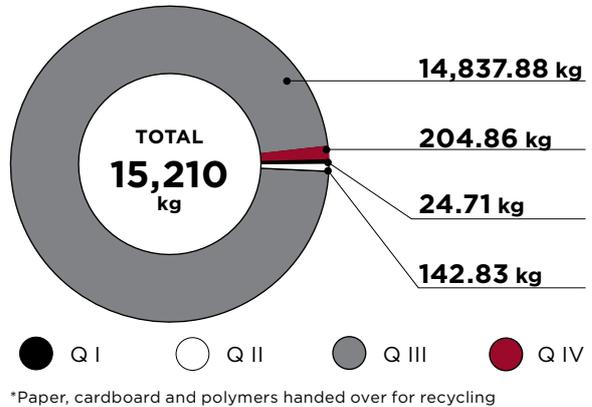
### CONTROL AND REDUCTION OF HAZARDOUS EMISSIONS

CO<sub>2</sub> emissions from the rolling stock of LDz



### WASTE MANAGEMENT

Volume of waste transferred to the JSC (AS) "Zaļais punkts" in 2016



### Waste management

In terms of environmental pollution, the matter on the volume of generated waste and effective management thereof is topical in Latvia, therefore separate collection of paper/waste paper has been introduced at LDz. Collection of scrap metal and selling thereof for recycling is also provided separately. Whereas, in order to provide management of the imported packing and environmentally

hazardous goods according to the applicable legislation on the environment and regulatory enactments, LDz has concluded a contract with JSC (AS) "Latvijas Zaļais punkts". Training of company's employees on identification and registration of packing and environmentally hazardous goods was conducted in cooperation with JSC (AS) "Latvijas Zaļais punkts" in 2016.

Other types of waste are also collected and transferred for recycling. The volume of waste transferred for recycling to LDz General Directo-

rate (waste is transferred for recycling to the LLC (SIA) "Dīlers"):

|   |   |  |                     |                |
|---|---|--|---------------------|----------------|
|   |   |  |                     |                |
| <b>16,246 t</b>                                       | <b>3,63155 t</b>                          | <b>0,129 t</b>                           | <b>0,713 t</b>      | <b>1,134 t</b> |
| WASTE CONTAINING OIL PRODUCTS (ABSORBENTS, EMULSIONS) | EEI (ELECTRICAL AND ELECTRONIC EQUIPMENT) | WASTE CONTAINING HG, BULBS CONTAINING HG | LEAD-ACID BATTERIES | USED OILS      |

\* Excluding DNRAI data



## Reduction of air and groundwater pollution

In order to prevent groundwater and air pollution caused by locomotives, regular ground and groundwater monitoring is provided in Riga, Ventspils, Jelgava, Krustpils, Indra, and Daugavpils, while air quality is tested in Rēzekne in accordance with the requirement of the State Environmental Service. No violation reports related to non-compliance with the environmental protection requirements have been drawn up for LDz. In order to reduce ground pollution caused by locomotives, a regular survey of sites where oil product absorbing mats at the marshalling yard is ensured.

One case involving drip of oil was registered in 2016. Company's responsible responded operatively and eliminated pollution and the reasons thereof. Such situations are exceptions, and they are not related to systematic problems.

LDz actively performs all the necessary actions to prevent potential environmental pollution risks; however, during the economic activity, there is a risk related to creation of the remains of hazardous waste. Main types of hazardous waste are related to oil products, which may penetrate ground. Other waste containing oil products, faulty wooden railway sleepers and waste of electrical and electronic equipment should also be considered as hazardous waste.

## Noise and vibration

When residing nearby railway lines, noise and vibrations caused by the movement of the rolling stock on rails must be taken into consideration, especially in places with intensive freight traffic.

Last year, several submissions on the noise caused by railway traffic and requests for elimination thereof were received from residents. Mostly, such submissions were received from residents, who had recently purchased an apartment – frequently in newly erected buildings – nearby the railway line, therefore, LDz is

### **LDz implements ground protection measures including installation of soil protection devices (fibreglass baths and oil product absorbing mats) at the locomotive stopping areas.**

- Fibreglass baths have been installed at the border station Indra (at the stopping area of the locomotives owned by the Belarusian railway) and at the station Rēzekne, where equipping of locomotives takes place.
- Fibreglass baths for the parking of wagons damaged in emergency situations and pumping of hazardous cargo have been installed in Rēzekne and Riga (Šķīrotava).
- Two areas (110 metres in total) at Šķīrotava Station have been equipped with oil product absorbing mats, absorbing oil products and preventing penetration thereof into soil.
- Fibreglass baths are surveyed by LLC (SIA) "Ūdensnesējs", but replacement of the mats depending on absorption capacity thereof is provided by LDz track division.

Within the context of environmental protection, LDz has adopted a decision on gradual replacement of wooden railway sleepers of the railway tracks by reinforced concrete sleepers, thus, the amount of the wooden sleepers exploited on the railway tracks since 2008 has been reduced from 28.23 % to 8 %.

planning to pay special attention to cooperation with local governments in 2017 to promote sustainable and responsible territorial planning with the understanding of unavoidable risks.

At the same time, in the effort to reduce the noise, LDz provides grinding of railway tracks, welding of continuously-welded rails, compression of ballast layer and compression of sleepers. Such actions correspond to one of the LDz priorities – use of the new technologies for the maximum possible reduction of the negative impact of noise.



New version of the Law On Pollution (effective from 30.06.2016) stipulates that the infrastructure manager must draw up strategic noise maps and an action plan for noise reduction nearby railway lines.

LDz will draw up strategic noise maps for railway lines with the annual traffic intensity exceeding 30,000 trains in 2017, and dedicate the year of 2018 for the development of a detailed action plan for the reduction of noise caused by railway and the impact thereof.

MEASURES TAKEN FOR THE NOISE REDUCTION 2012-2016:



Reconstruction of railway tracks  
**15 km**



Replaced and welded by thermite welding sets of switches  
**88**



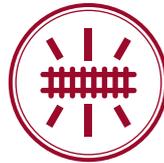
**4** overhauls of level crossings



Adjustment of **1307** railroad switches by land compression



Compression of sleepers **390 km** of railway track



Grinding of railway tracks in the length of **9,75 km**

Clean-up of the environment

Besides environmental protection activities related to the company's basic operation, every year LDz as an environmentally responsible company engages in the Big Clean-up. Several thousand of LDz employees clean up the territories adjacent to the railway, as well as help other people, for example, pensioners, who have retired from railway industry, to clean up their household territory, chop wood and perform other works. Besides, in 2016, LDz employees worked within the Big

Clean-up not only in the railway territories, but also at the Children's Clinical University Hospital Gaiļezers site and Parents' house of Torņakalns site. With the participation of Edvīns Bērziņš, President of LDz, trees and decorative shrubs - decorative purple crab apples and Japanese meadowsweets were planted at Imanta railway station in the Big Clean-up. Furthermore, environmental clean-up works continue not only on the day of the Big Clean-up, but also at other times.



RAILWAYMEN PARTICIPATE IN THE BIG CLEAN-UP EVERY YEAR



G4-EN3

G4-EN4

G4-EN6

### Energy efficiency

Certification of energy management system ISO 50001:2012 was commenced at LDz in 2016 - the largest energy sources, including power supply, heat and use of fuel for the marshalling locomotives were assessed. LDz complies with the Energy Efficiency Law developed by the Ministry of Economics and other regulatory enactments providing of the reduction of the annual consumption of the average specific thermal energy by 2020 down to 150 kWh/m<sup>2</sup>.

The amount of electric power used for railway needs reached 43.5 million kWh in 2016 representing 8.8 % over the indicator of 2015. Increase of consumption can be explained by putting of freight station Bolderāja 2 into service, increase in heating of switches directly related to weather conditions and other technological processes.

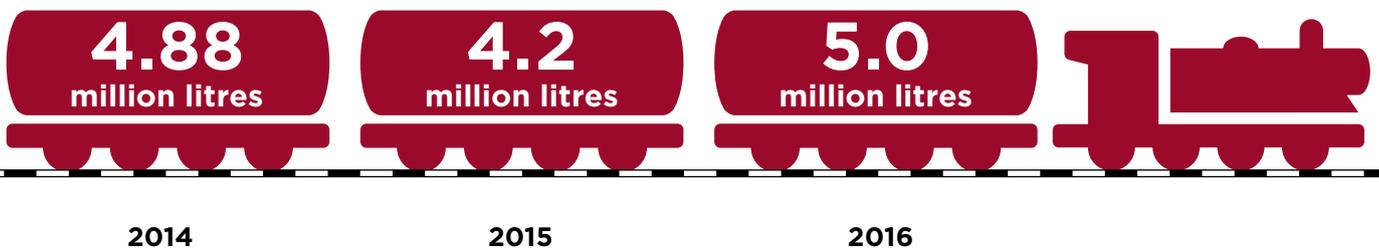
Furthermore, internal information campaign on electricity saving measures in the office was commenced at SJSC (VAS) "Latvijas dzelzceļš" General Directorate in 2015. Placing of stickers on every office door, posters by elevators and in the staircases and similar measures were implemented within the campaign. Employees are called to climb the

stairs instead of using of elevators, thus both following healthier lifestyle and saving electricity necessary for the powering of elevators. Besides, everyone is reminded to switch off electric devices - computers, printers, lamps etc., when leaving the office. In 2016, taking into account the fact that energy audit and measurements thereof were carried out at the same time, precise results of this campaign have not been measured yet, but, in the last quarter of 2015, campaign resulted in reduction in electricity consumption at General Directorate by 4.5 % in relation to the same period last year.

Reduction in consumption of electricity at the company is considered an essential aspect for the future, and it is planned to continue work with the employees of both General Directorate and other structures promoting their understanding about consumption of electricity, habits thereof and impact on the organization's sustainability.

Furthermore, marshalling locomotives owned by LDz are the main fuel consumers, whereas the consumption level depends on the volume of marshalling works and technical condition of marshalling locomotives.

#### TOTAL DIESEL CONSUMPTION OF MARSHALLING LOCOMOTIVES:





G4-EN1

### Material use

LDz uses mineral resources – sand-gravel and broken stones – for the repair works and construction of railway tracks. Taking into consideration the fact that the volume of materials used depends on the volume of repair works and construction of railway tracks, volumes of extraction of these mineral resources

have significantly reduced during the last three years, thus reducing impact of LDz on reduction of natural resources.

In the course of selecting materials, LDz always assesses environmental factors and economic profitability.

#### MATERIAL USED FOR THE RENOVATION OF RAIL TRACKS:

2014  
↓  
2016



**179 thousand tons**  
↓  
**8.63 thousand tons**

SAND AND GRAVEL



**18.84 thousand tons**  
↓  
**5.42 thousand tons**

BROKEN STONE

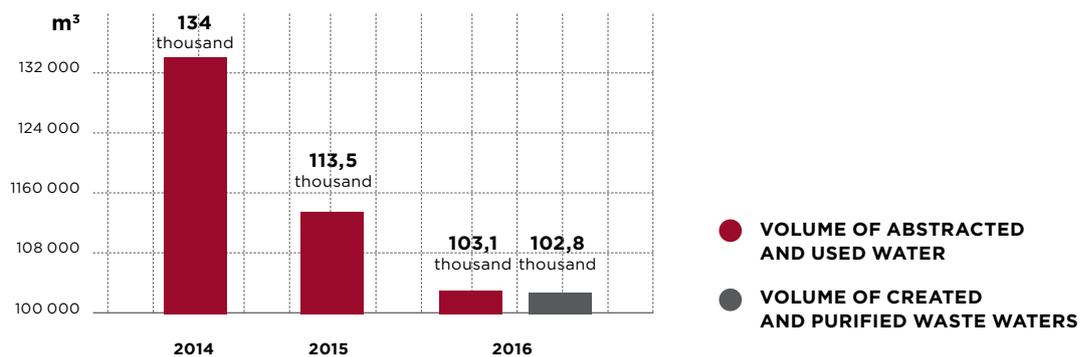
G4-EN8

### Water supply

Water supply to LDz is provided by various merchants from various sources, for example, from the centralized water supply system, as

well as water is supplied from artesian wells. In 2016, the company commenced purification of waste waters suitable for re-use.

#### VOLUME OF ABSTRACTED AND USED WATER



LDZ-3

LDz promotes responsible attitude towards the environment, therefore, in the course of implementing the procurement policy, the company tries to comply with the so-called “green procurement” principle, which means that goods and services are purchased in such a way as to cause the least possible impact on the environment; furthermore, life-cycle costs of the product are taken into account.

LDz carefully complies with the requirements laid down in the regulatory enactments of the Republic of Latvia governing the field of material processing. Thus, environmental impact is reduced, sustainable development of the society is promoted, as well as more efficient use of the company’s resources is provided.



## SOCIAL IMPACT

G4-DMA

### Management approach

Most essential value of LDz is created by the company's employees. By this LDz understands that loyal and motivated professionals are employed at the company, which provides safe working environment and conditions for professional growth. LDz is aware of the fact that full development of an employee requires support of such employee's off-hour activities as sports, health and family. Evaluating the company's contribution to actions oriented to effective coordination of professional and family life, the Ministry of Welfare of the Republic of Latvia assigned to the company the

status of Family Friendly Merchant within the scope of the Sustainability Index Assessment in 2016.

Majority of LDz employees are represented in one of the largest and most powerful Latvian unions - Latvian Railway and Transport Industry Trade Union (LDzSA), thus providing greater voting rights in decision on matters essential to LDz, as well as providing all employees with equal possibilities to receive additional support and benefits for good and loyal work for the company.

G4-LA1

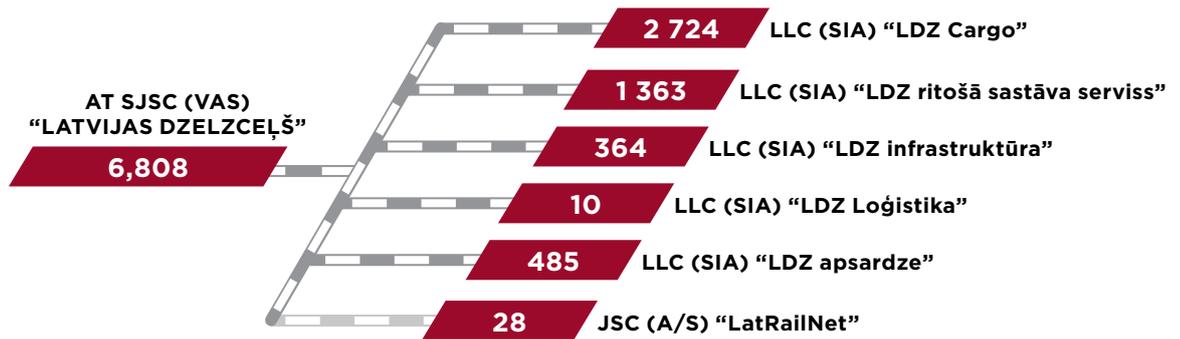
### Employees

In 2016, the average number of employees in LDz was 6808, while in the Group overall - 11,782. There are no defined gender quotas at LDz; however, gender equality is complied with.

#### AVERAGE NUMBER OF EMPLOYEES IN 2016



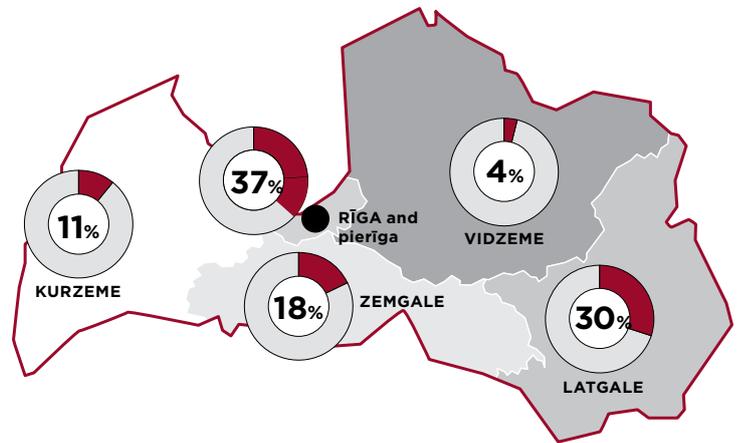
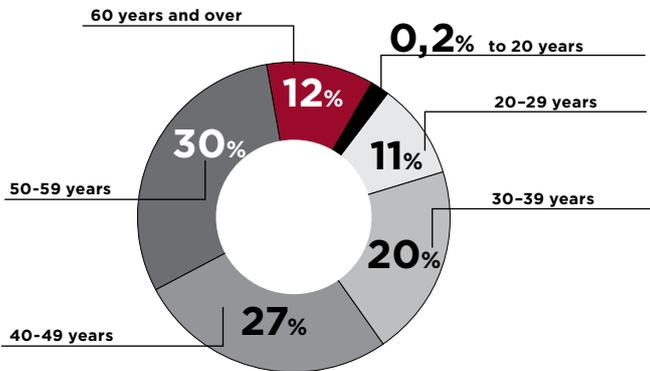
**11,782**  
TOTAL IN THE  
GROUP





AGE STRUCTURE OF EMPLOYEES %

EMPLOYEES IN REGIONS %



Information on other types of parameters, for example, minorities, is not accumulated and summarized. The company's employees are employed according to their professional knowledge, skills and experience providing equal opportunities for all employees.

LDz is a significant employer at national level, but especially - looking from the perspective of the comparatively economically less developed Latgale region, where approximately one third of all LDz employees are employed.

In addition to remuneration for work, LDz employees receive additional payment for work on holidays, night shifts, as well as outdoor work in the winter season, if the average daily air temperature is below - 10 degrees Celsius and work outdoors in hot

weather, if the average daily air temperature in the daytime exceeds + 28 degrees Celsius. Furthermore, depending on the number of years of service from 5 years, additional days off to the annual vacation are granted. Days off with the average wage are granted also in relation to significant events in the employees' personal life - significant jubilees (50 and 60 years), graduation of an educational institution and receiving of a diploma, first day of school for the parents of children in school age, as well as for the employees with at least two children aged up to 12. Collective agreement provides for various compensations and benefits - in relation to birth of a child, severe disease or death of close relatives, as well as severance pays. Employees are provided with constitution of provisions for additional pension, and, furthermore, employees are insured every year.

G4-LA4

Relations between employees and the management

Due to safety reasons, basic functions of LDz - maintenance and development of railway infrastructure, as well as train traffic management - are strictly regulated and require major responsibility. Therefore exchange of information and relations between employees and the management are very crucial.

Taking into account the fact that employees of LDz Group hold more than 400 various positions in total, there are also various information exchange channels.

One of the most essential information exchange channels, as well as ways for the em-



employees to affect processes within the company, is employees' union. Relations between LDz employees and the management are regulated by the collective agreement concluded between LDz and LDzSA providing for significant social protection. Representatives of trade unions participate in the procurement procedure of working clothes on a regular basis in order to assess compliance thereof with the needs of employees, as well

as to assess the risks in the working environment.

Furthermore, the head of LDzSA participated in the selection commission of candidates for the position of Chairman of the Board of LDz, when the company's shareholder organized competition for the position of the current Chairman of the Board of the company.

### Internal communication

Employees are notified of their direct professional duties by official documents, whereas, several information channels are available to the employees regarding ongoing processes within the company, development plans, industry information, as well as matters non-related to work:

- printed internal LDz **weekly magazine "Latvijas Dzelzceļnieks" [Latvian Railwayman]**, issued in 600 copies and distributed in the company's and Group's structural units across the entire territory of Latvia, thus being available to all the employees of LDz Group;
- For the convenience of employees and better awareness of processes within the company, as well as for mutual communication, **internal website or intranet has been significantly**

**improved.** These efforts were also highly appreciated in 2016/2017 by the USA company "Nielsen Norman Group", which named LDz intranet as one of the top ten globally at its 17th annual competition for intranet solutions. Development of the new LDz intranet was commenced in 2014, and its functionality is under constant improvement process following the newest tendencies in the area of information technologies and taking into account the recommendations of the employees. The new intranet version significantly facilitates everyday work of employees, since internal information site with the backup portal of employees has been created with wide content on the company's operation and internal processes, furthermore intranet can be used also from outside of the working premises - from any smart device;



WEEKLY MAGAZINE "LATVIJAS DZELZCEĻNIEKS"



LDz RECEIVES THE AWARD FOR ONE OF THE BEST COMPANY INTRANETS GLOBALLY



- Taking into account the tight professional connections of the industry employees, informal information exchange channels play a very significant role, including participation in common sports and leisure activities organized by LDz or LDzSA, professional festivity of employees on the day of foundation of LDz on 5 August celebrated at all structural units of LDz across Latvia, national holidays celebrated also within the company, and the awarding ceremonies of the best employees dedicated to the celebration days.

Additionally, LDz as a socially responsible state capital company, which behaves es-

pecially responsibly to its obligations with the employees, social partners (for example, employees' union), as well as legislative acts in the area of labour law, informs the employees on possible changes, which might impact their employment within the company.

Although there is no formal definition of the period, within which such information should be provided, in the employee satisfaction study carried out in 2016, 89 % of the employees of LDz ascertain they have been timely informed on changes of any kind directly concerning the performance of work.



**LDz AWARDS RAILWAY DYNASTIES – FAMILIES EMPLOYED BY RAILWAY IN SEVERAL GENERATIONS**

### Bank of Ideas

For the purpose of promoting more active involvement of employees in the development of the company and raising understanding about sustainability development goals of the company, in 2017, the company created the

initiative platform “Bank of Ideas” where employees may submit their proposals or opinions on potential technological or other improvements and also on further development of the company.



G4-LA5

G4-LA7

G4-LA8

### Labour safety

LDz operates in a specific industry, where complicated working conditions must be taken into consideration, therefore significant attention is daily paid not only to safety of clients, but also to labour safety of the company's employees. For the purpose of safe and organized working environment, Labour Protection System and Labour Protection Policy have been developed in order to provide the employees with safe and healthy working conditions, as well as to promote motivation, loyalty and dedication of the employees.

Last year, 71 sites were inspected in the structural units of LDz. Active consulting with the employees is practised during the survey of workplaces in order to involve them in the improvement of working environment and working conditions. 60 trustees of union entitled to carry out inspection at workplaces regarding compliance thereof with legislative standards and good practice are employed at LDz.

Mandatory health checks of all company's employees, whose work is related to special conditions or whose working environment contains harmful factors, are organized in order to take care of the occupational health.

In order to improve the employees' knowledge on matters related to a safe working

environment, regular training on matters of labour protection are organized. It should be taken into account that working in the zone of railway tracks, which is an area of increased danger requires high qualification and adequate competence, attention and responsibility. Before the employee is given a permit for independent work, he/she is obliged to acquire rules of safe behaviour in the zone of railway tracks. For this purpose, labour protection training and instruction system is operated within the company, according to which the employee learns theory and practice at the place of work acquiring the basics of his/her profession, passes knowledge and skill tests and in-service training under the supervision of experienced employee.

Knowledge according to the profession of the railway specialist and in labour protection are tested at least every three years routine knowledge test on basic issues of the railway technical operation and labour protection for the railway specialists was organized in 2016.

Additional health protection for the employees is provided by LDz co-funding for the purchase of health insurance policies, furthermore, in accordance with the collective agreement, each employee is paid monthly





G4-LA6

benefit in the amount of 20 euro for the health improvement or sports activities. Collective agreement applies to all LDz employees regardless of whether they are members of LDzSA or not.

14 workplace accidents have been registered in LDz Group in 2016, and two of them resulted in severe health disorders. Number of accidents has significantly decreased in comparison with 2015, when 24 accidents took place due to the factors of working environment, including 3 fatal and 5 resulting in severe health disorders.

In 2016, 5 cases were registered, when locomotive drivers applied sudden braking to hit the Group's employees. All the employees involved were dressed in appropriate high visibility clothing, which is the only personal mean of protection for the reduction of hitting risk by the rolling stock. However, it should be admitted that LDz employees still violate labour protection instructions and use to wear outdated high visibility protective clothing or one non-compliant with LVS EN 471 standard. Company's labour protection specialists work

and provide informative work to reduce the number of such cases.

In 2016, the State Labour Inspectorate carried out 25 surveys of workplaces, including the ones in cases of occupational diseases. Occupational disease was diagnosed to 6 Group's employees, with whom legal labour relations were terminated, since their health condition was not compliant with the work to be done. In 2016, employees have been paid 3400 euro in total for the submitted "A" sick-leave certificates, total period of incapacity of work accounted for 1480 days, including 601 days of incapacity of work for the employees, who were injured in 2015.

LDz is interested to increase the employees' awareness of the labour safety, therefore the company both engages in external initiatives (for example, projects and activities organized by the Employers' Confederation of Latvia) and internally promotes regular information exchange on labour safety aspects, analyses actual incidents, tendencies and provides the employees with accordingly adjusted preventive information.

G4-LA10

## Training and educational opportunities

It is important for LDz as one of the largest employers in Latvia not only to promote economic development, but also to contribute in the growth of its employees. The company takes care of its employees' knowledge and education, since it provides stable operation and serves as foundation for further development.

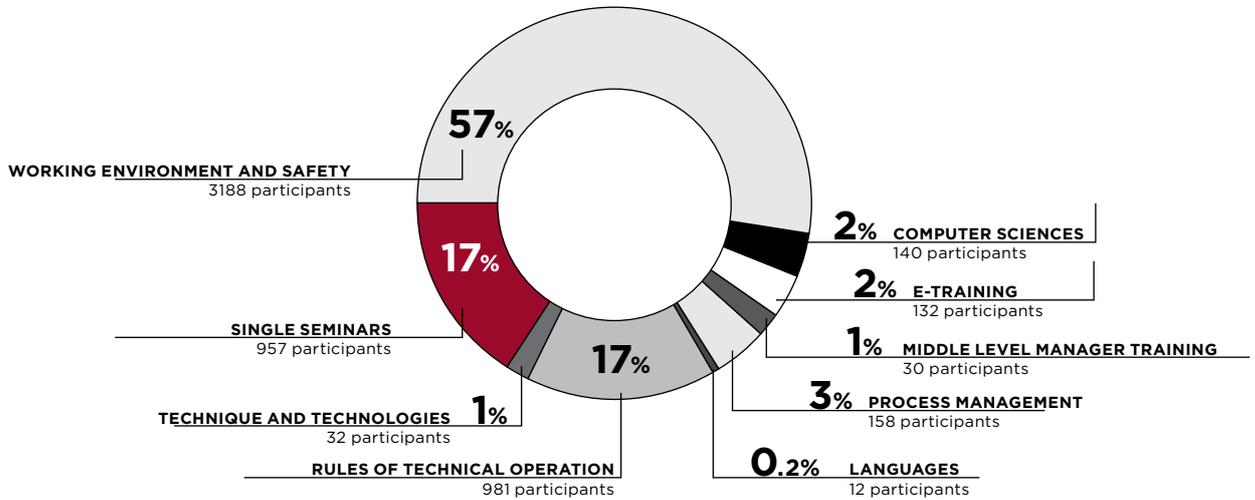
In order to provide improvement of competences of LDz employees, LDz Training Centre was established on 2 October 1997. On 24 January 2014, it received the Certificate of Registration of Educational Institution issued by the State Education Quality Service of the Republic of Latvia and became the institution of further vocational education "LDz Mācību centrs" ["LDz Training Centre"]. The Training Centre is used for the acquirement of

new knowledge not only by LDz employees, but also by the personnel employed by the Group's subsidiaries.

In 2016, 6241 persons in total were educated in various courses and seminars of LDz Training Centre, including 5623 LDz employees and 576 employees of subsidiaries. Training was organized for 609 groups, and majority of employees acquired new knowledge in the area of working environment and safety, as well as the Rules of technical operation, which are essential for the railway industry, however, other knowledge and skills necessary for work were also acquired. In total 30 employees were educated as part of the middle level managers' growth programme organized by the third year in a row.



TRAINING PARTICIPANTS IN 2016



LDz employees can acquire professional skills also in other educational institutions accredited by the Republic of Latvia. 18 employees commenced part-time studies in RTU Faculty of Mechanical Engineering, Transport and Aeronautics, Institute of Transport under the programme “Railway electricity systems” in 2016, while 15 employees acquire profession of railway track technician under the programme “Railway transport”.

Last year, in cooperation with Riga Technical University, Institute of Transport, Riga State Technical School and Daugavpils Technical School, training practice at LDz was organized for 233 students of these educational institutions. Whereas, in cooperation with the foundation “Rīgas Tehniskās universitātes Attīstības fonds” [Riga Technical University Development Fund], competition for acquirement of practical skills and granting of promotional scholarships took place for the students of Riga State Technical School, Daugavpils Technical School and Riga Technical University, Institute of Transport.

LDz also thinks about transfer of knowledge of representatives of strategically important and irreplaceable professions to the new generation of LDz employees, providing also for material incentives to the employees involved in research. Especially developed procedures provide for that an employee with accumulated knowledge, experience and skills, who has reach or is about to reach the official retirement age, provides training of the potential successor by transferring his/her knowledge and skills required for the commencement of performance of the professional duties related to the position concerned.

Senior programme introduced in 2015 promotes successful change of generations without losing any competence accumulated within the company. Six LDz employees, who had successfully transferred their knowledge to the future professionals, retired within the framework of this programme in 2016.

There is no discrimination of employees in the company based on race, gender, age and belonging to minorities or any other groups. Furthermore, the company’s remuneration policy provides for equal treatment to all employees of certain level of education and skills. There are no quotas related to gender in LDz management structure. Selection of both the

managing and line personnel is provided according to the applicable labour law, good practice and in accordance with professional criteria. Selection of the company’s current top management was provided by a selection commission established especially for this purpose and led by the company’s shareholder - the Ministry of Transport.



## PRODUCT LIABILITY DIMENSION

G4-DMA

### Management approach

One of the main values of LDz followed in the daily work is safety. Every day, the company takes care to prevent risk situations on railway to protect both users of railway infrastructure and LDz employees frequently working in complicated conditions from unsafe situations and accidents.

LDz is a strategically important company supervising the highest number of critical in-

frastructure sites nationwide, therefore LDz pays attention both to the improvement of passenger safety against unfair individuals and the danger, which may potentially be caused by railway infrastructure used by the passengers on daily basis - buildings and platforms of the stations. Therefore the company introduces new safety solutions and also constantly takes care of maintenance and improvement of infrastructure, where necessary.

G4-PR1

Internal monitoring system of traffic safety, which is a periodical complex of preventive measures for the monitoring and improvement of traffic safety system has been introduced in LDz Group. Main instruments of the system include examinations of the traffic safety condition, inspections of railway infrastructures and rolling stock, various checks, technical revisions of the determined Company's structures, technical trainings of railway specialists and traffic safety instructions.

Thinking about the improvement of safety in order to prevent the impact of criminal underworld on railway passengers, in 2016, planned modernization of video surveillance

system was commenced providing for gradual replacement of analogous video systems by new IP systems. New video systems provide better resolution and level of detail, as well as integration options with other systems.

Last year, video system of the Central Railway Station was modernized, and more than 100 IP video cameras were installed, furthermore, modernization of the video system under the supervision of was commenced.

Approximately 1000 video cameras are used for the security and monitoring of railway infrastructure sites at the moment, including 600 IP or modern video cameras.





Last year, many major objects were equipped with fire alarm and security systems.

Taking into account the aggravation of criminal situation at the Central Railway Station (activation of homeless, minor offenders, thieves and robbers), LDz management adopted decision on improvement of the order at the station. Concluding a contract with the LDz subsidiary company "LDz Apsardze", the company is responsible for order at the railway station since February 2016. Last year, security service has detained approximately 700 offenders in relation to various offences and transferred them to law enforcement officers.

In the effort of care for safe railway infrastructure, last year, LDz continued modernization and repair works of the buildings and sites under its supervision. 55 projects in total have been implemented within the framework of the investment programme in 2016 for the total amount of 1,499,954 euro.

The most significant works include overhauls of the station buildings, including overhauls of station squares and territory improvement. Overhaul was carried out at Sakstagals, Ludza and Elkšķene Stations, improvement of station buildings was carried out at Babīte Station, while overhaul of station square was carried out at Ikšķīle Station. Total amount of overhauls accounted for 183,694 euro. This year, overhaul will be continued at Sakstagals and Ludza Railway Stations, while design works for the improvement of Dzintari station will be performed.

Last year, overhaul of Skrīveri Station and the platform of Ikšķīle Station was completed.

Several additional measures were completed within the framework of implementation of the EU fund project "Modernization of railway infrastructure" in 2016 - movement of the building and toilet facilities of Vaivari railway station, connection of water supply and sewage to stations Imanta, Asari, Babīte, Meluži, Vaivari and Pumpuri. Total investments - 370,456 euro.

## Development of information technologies

Taking into account the fact that operation of the railway industry depends on efficient, accurate and coordinated operation of various systems, as well as gradually increased impact of information technology on the traffic management and mutual communication of the industry companies, the structural unit in charge of the company's IT area, LDz Information computation centre (ISC; since the beginning of 2017 - IT centre) performed significant operational improvements in 2016. Among them, various improvements in process efficiency were performed, as well as resource savings were provided and service of internal and external clients was improved.

On 23 July 2016, ISC management system was assessed and recognized as compliant with the requirements of the standard ISO 9001:2015 "Quality Management Sys-

tems" in the following fields: maintenance of information systems, provision of data centre services, service of computer equipment and peripheral equipment, user support and consulting. New process "Risk Management" was introduced for the purpose of systematic risk analysis, monitoring and control of performance of the planned measures resulting in prevention of the possible danger to processes, services and projects.

Furthermore, multi-level monitoring system was connected for the interaction control of information systems. It is essential that a number of systems are operated at LDz in the following areas - e-mail, Active Directory, APOVS (Automated transport operative management system), BISK (Warning issuance system), LEIS (Locomotive operation information system), SAVS (Station automated man-



agement system), DPS (Document management system), etc.

Meanwhile agreements at the level of service provision have been concluded with clients for the following information technology services - APOVS (Automated transport operative management systems), SPDB (Station plan database systems), DKDS (Railway freight electronic declaration systems), DPS (Document management systems), PV AM-MAS (processing of route sheets of drivers of JSC (AS) "Pasažieru vilciens" passenger trains).

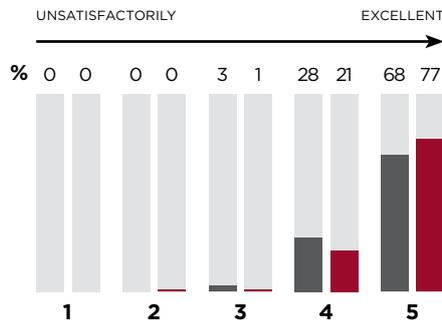
Last year, more stable operation of information systems was provided in comparison with 2015. Preventive activities have resulted in decrease in number and duration of interruptions of operation of the information systems caused by unscheduled and critical incidents.

Furthermore, IT centre carries out regular satisfaction study of the service users. Overall results of the study have improved in comparison with 2015, and IT centre continues its work on the improvement of client service.

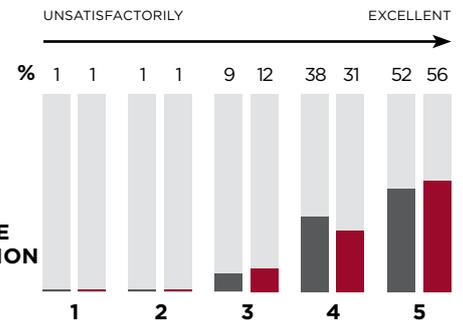
SATISFACTION STUDY OF ITC SERVICE USERS IN 2015 AND 2016



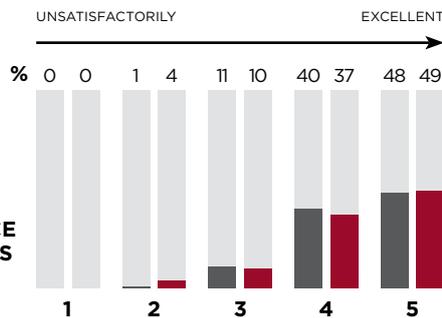
CLIENT SERVICE CULTURE



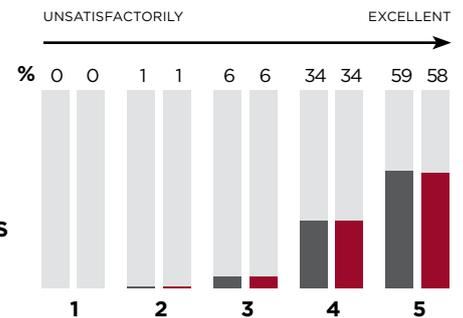
NOTIFICATION ON THE COURSE OF THE APPLICATION SOLUTION



TIME OF PERFORMANCE OF APPLICATIONS



COMPETENCE OF SPECIALISTS



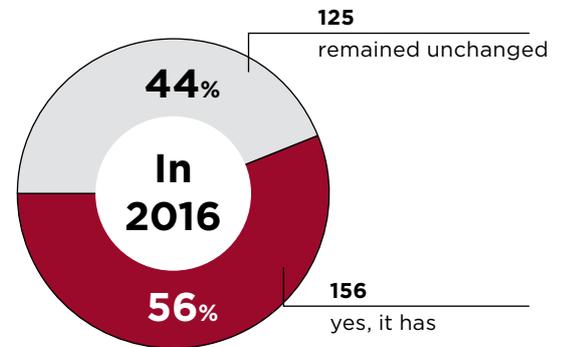
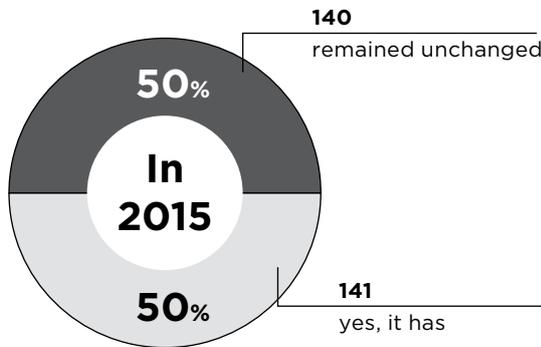
Results of satisfaction study of the ITC service users in 2016 in comparison with 2015 (in 5-point scale, where 1 - unsatisfactorily, 5 - excellent)

■ 2015 ■ 2016

It is essential that in 2016, the ratio of "excellent" assessment by clients in the criteria of client service culture (+ 8 %), notification on the course of the application solution (+ 4 %) and time of performance of applications (+ 1 %) has improved.



### Opinion of users on matter: "Has the quality of client service improved during the last year?"



Number of the users of IT centre services, who consider that client service quality has improved has also grown by 6 % in 2016.

In 2016, IT centre has saved 238.9 euro in relation to the planned budget, among other things, by optimizing use of materials, electricity costs, equipment and electrical equipment repair costs, as well as information system maintenance costs etc.

It is essential that last year a reorganization was carried out resulting in transfer of part of the functions of LDz Unified service and assistance service (VPPD) to the unit of IT service, which is now supposed to provide uniform, centralized contact point for the reception of applications regarding IT, management, electricity supply and telecommunications 24/7.

### Accidents on rails

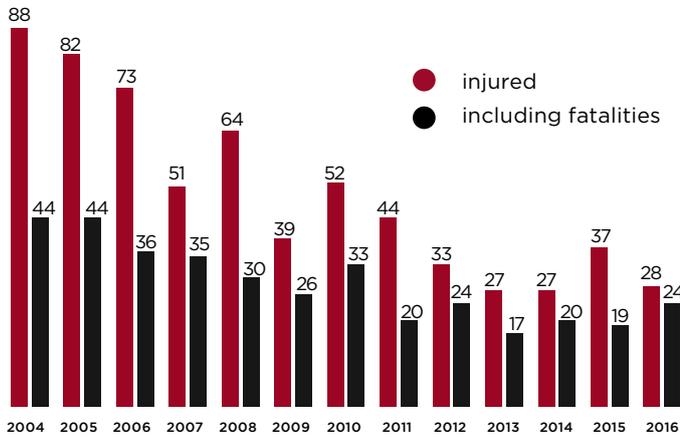
When analysing the statistical data on accidents on rails, it should be concluded that individuals are mostly injured at railway stations and spans, while accidents on pedestrian crossings and level crossings are much less frequent. According to the accident investigation results it should be concluded that one of the main reasons is unconscious and irresponsible action of individuals themselves by crossing the railways at inappropriate and unequipped points ignoring the prohibiting signals of level crossings, as well as the signals of trains and locomotive drivers. One of

the reasons is also consumption of alcohol promoting injury risk, when individuals step in front of a train, sit or sleep on or between the rails. There are some cases, when individuals intentionally rush under the train wheels to commit suicide.

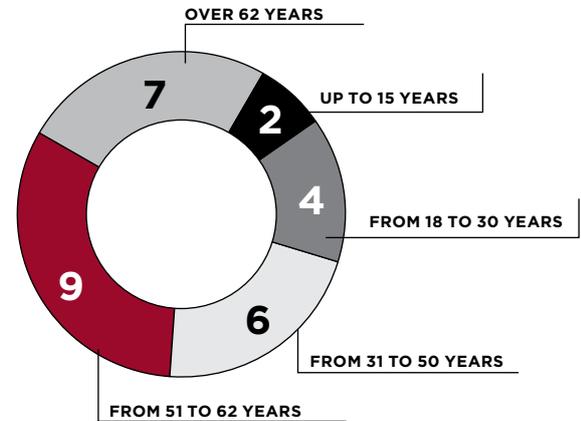
Every year, the State Technical Inspection receives a security report describing the measures implemented to improve safety level in the previous year. According to the reports, the number of accidents shows a decreasing trend.



ACCIDENTS ON RAILWAY TRACKS



NUMBER OF ACCIDENTS BY AGE GROUPS



G4-PR1

PUBLIC SECURITY

For the purposes of improvement of the safety of residents, LDz introduces also new solutions, unprecedented in Latvia - in 2016, the first regulated pedestrian crossing across the railway tracks was built at Sigulda station. This crossing is equipped with traffic lights and audio signal. Such a solution for the improvement of security was introduced taking into account that traffic lights are used as traffic regulator also in street traffic.

Every year, LDz as a manager of the public railway infrastructure organizes railway level crossing inspection commissions comprising all the parties involved in the resolution of maintenance and security matters. Security

improvement measures provided for during the commissions are included in the work plans, when responsible persons and deadlines for fulfilment are determined.

Security of pedestrians in the vicinity of railway lines is a matter concerning not only LDz - this area requires close cooperation with local governments, the territories of which is crossed by the railway infrastructure. LDz works on the audit of the railway crossing points aimed at assessment on the points and types of measures to be implemented for the improvement of security of pedestrians. Results of the audit will provide opportunity for more detailed understanding and search of solutions for higher security level, where the current level is not sufficient. In 2016, LDz concluded a contract with Ogre District local government by agreeing on cooperation in development of double-level crossing solutions thus improving security level in the vicinity of railway. The concluded cooperation contract provides for that the local government will carry out a study on possible technical solutions, as well as develop the designing task and technical design for the construction and equipment of crossings by announcing a corresponding procurement.



FIRST TRAFFIC LIGHT-REGULATED PEDESTRIAN CROSSING ACROSS RAILWAY



## PUBLIC DIMENSION

G4-DMA

### Management approach

Taking into account the significant role of the company nationwide, LDz feels responsible for contribution to the development of the society according to its area of activity and competence. Thus, the company's operation is focused on three main aspects:

- Raising of awareness on security by the railway tracks, which is one of the company's values, furthermore, role of security does not depend on freight volume or other economic factors;
- Preservation of the industrial legacy;
- Provision of support in creation of active and educated society.

In order to reduce number of accidents (especially fatal) on railway tracks, as well as to raise the common public awareness **of security on railway, every year, LDz organizes three public information campaigns**, addressing the most significant target audiences and risk groups. Campaigns are traditionally focused on three essential periods:

- 1) vasaras beginning of summer, when the International Day of Safe Railway Crossing is celebrated in cooperation with the International Union of Railways (UIC), European Commission and other institutions in more than 40 countries across the globe;
- 2) beginning of school year, when flow of pedestrians (especially school age youth) intensifies;

3) in the first months of winter, when the weather is dark and visibility is additionally makes visibility more difficult.

In 2016, special attention was paid to the audiences of youth and seniors considered to be the main risk groups in the vicinity of railway within the framework of the campaigns. According to the statistical analysis of LDz and opinion polls, seniors insufficiently estimate their reacting abilities in dangerous situations, while youth frequently pays insufficient attention to the vicinity by listening to the music in headphones, watching in their telephones etc. instead. Public TV channels, radio, press and social networks are used as message channels during the campaigns. Opinion poll carried out in the assessment phase shows that messages of the campaign in 2016 reached more than 40 % of the target audience across Latvia, which is a higher indicator than the average one in social campaigns (around 38 %).

Railway security campaigns confirms the social liability of LDz and have been highly appreciated - two of the security campaigns of 2016 aimed at addressing of youth and seniors have received "Baltic Communications Awards" in four categories.





**RAILWAYMEN FASHION SHOW WITHIN THE CYCLE OF EVENTS "RAILWAY IN LATVIA - 155"**

In the area of preserving the industrial legacy and promotion thereof, a cycle of events "Railway in Latvia - 155" is considered as one of the most significant activities related to public awareness and involvement in 2016. In 2016, 155 years turned since the first railway was transferred for public use in the territory of Latvia on 12 September 1861. In honour of this event, LDz implemented the cycle of events across Latvia throughout the year, furthermore, everyone had an opportunity to participate in the game called "Railway game. Then and now", where, by downloading a specially developed mobile application to the mobile phone and travelling around Latvia, participants of the game could take photographs of railway sites creating a photo collage with picture of the particular site in the past and today. (See page 23 for the cycle of events related to "Railway in Latvia - 155")

In order to promote positive Group's reputation in society, LDz has introduced Gift (Donation) Policy, the implementation of which has been entrusted to the Marketing Communication Project Commission. According to the aforementioned policy and the decisions adopted by the commission, gift (donation) contracts without compensation are concluded. Support areas are -promotion of edu-

cation, health protection, promotion of social help, environmental protection, promotion of science, culture and art projects and sports events.

Information on all supported projects is published on LDz Home page on regular basis in social responsibility section, where both the greatest cooperation projects, and particular donations are specified, including beneficiaries and granted funds:

<https://www.ldz.lv/lv/content/realiz%C4%93tie-projekti>.

Among other things, in 2016, the following cooperation projects should be considered as the most significant ones: support to the foundation "Rīgas Tehniskās universitātes Attīstības fonds" for the project for the promotion of education - improvement of the creative laboratory of railway engineers providing more efficient process of studies at Riga Technical University, as well as the project for the promotion of help - "Integral art festival Come beside".

LDz dissociates itself from donations to political parties and unions thereof, religious organizations, organizations with unclear reputation, as well as from support of entertainment and business trips of individuals. Furthermore, individual applications of natural persons are not supported.



G4-SO4

On 4 March 2016, the Fraud Prevention Policy of "Latvijas dzelzceļš" was adopted, clarifying position and action of the Group's companies in cases related to possible fraud, corruption, conflict of interests, trading in influence etc.

The Fraud Prevention Policy provides for a number of specific activities developed and introduced during 2016, as well as the work continues in 2017, including the following:

- The Fraud Prevention Unit consisting of three persons has been established under LDz Security Directorate, and this unit has commenced regular monitoring of fraud risks, assessment of risks and analysis of the possible violations or problem situations;
- Online anonymous reporting form has been created on LDz external home page ldz.lv and LDz intranet (in three languages -Latvian, English and Russian), and anyone possessing information or reasonable suspicions regarding unfair or prohibited actions within the meaning of Fraud Prevention Policy performed by LDz employees may report. Verification of this information will be provided by the Fraud Prevention Unit, and results will be reported to the Board of LDz to be taking decision on further action. In 2016, four reports were received;
- On 8 December 2016, Council of Presidents of LDz has adopted Fraud Risk Assessment Guidelines, in accordance with which the Fraud Prevention Unit will carry out detailed risk analysis in the entire LDz Group;
- Two significant documents have been developed and will be approved by the Council of Presidents of LDz in the first quarter of 2017 - the Code of Ethics of the Cooperation Partners and new section in the contracts with partners, where the partner, regardless of the selection procedure, will be obliged to provide confirmation of its compliance with the determined basic principles of business ethics, as well as of commitment to report to the specified LDz contacts any received information on possible fraud, corruption, conflict of interests or such, where an employee of LDz Group is involved. Partners will have an opportunity to include in the contracts similar contacts for reporting their employees;
- A training system for the inclusion of information on the Fraud Prevention Policy and mechanisms thereof in the training of LDz employees (for example, New employee day training, middle level managers' growth programme etc.) will be developed in 2017.



G4-SO11

### Complaint mechanisms

There exist several mechanisms at the company for the society, partners or company's employees to report on issues they are worried about or which require solutions:

#### ON POSSIBLE CASES OF FRAUD, CORRUPTION, CONFLICT OF INTERESTS AND OTHER MATTERS

by addressing the Head of LDz Fraud Prevention (Security Director) or the Fraud Prevention Unit in person or via external report form on the external homepage ldz.lv or on LDz intranet

#### ON INTERNAL COMPLAINTS OR CLAIMS RELATED TO COMPANY'S ACTIVITY

by addressing LDz Client Relations Division (until November 2016 - Uniform application and service division or inquiry service, which was reorganized at the end of the year by transferring inquiries for outsourcing and establishing new internal division monitoring the outsourcing work and handling the received complaints and claims);

Number of calls handled in 2016: **212,923**

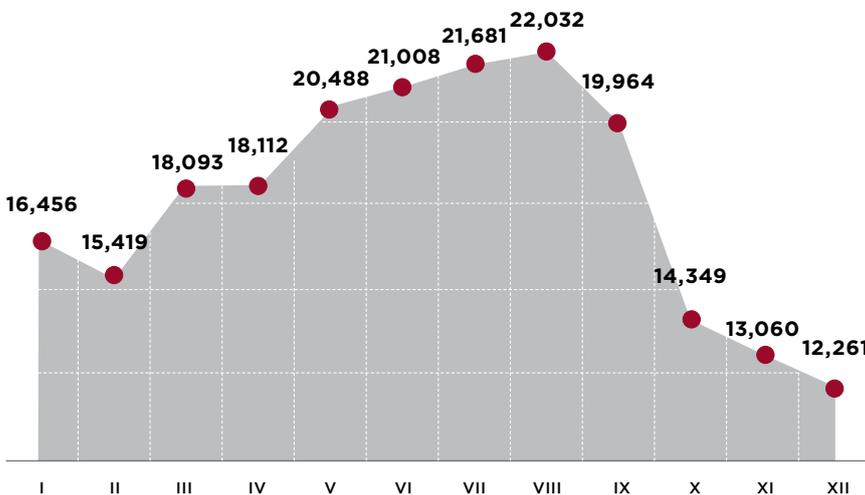
matters related to LDz: **4000**

questions on international traffic: **9845**

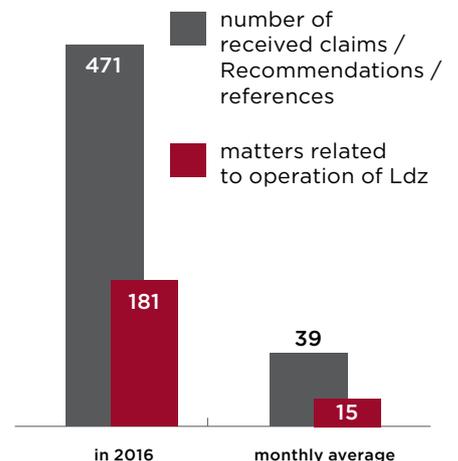
other calls apply to passenger traffic provided by the operator of JSC (AS) "Pasažieru vilciens", a company outside the Group; however, LDz provides information on such matters, too.

If an official submission or letter is addressed to LDz, a complaint or claim is delegated to the responsible directorate or structural unit for further examination thereof and action. For example, in 2016, several letters were received regarding noise level in the vicinity of railway in places with intensive traffic; these letters were examined and comments were provided, as well as options of further action were considered by LDz Development Directorate.

NUMBER OF HANDLED CALLS BY MONTHS IN 2016



NUMBER OF RECEIVED CLAIMS / RECOMMENDATIONS / REFERENCES





G4-SO6

### Political responsibility

LDz is a state-owned company of strategic importance, which is one of the most significant pillars of the transport industry nationwide, therefore the most significant development projects and strategic direction is coordinated and supervised by LDz Council and the Ministry of Transport as LDz shareholder. Created structure reduces possibility of political influence, since several management and supervision levels are involved in coordination of decisions.

For the purpose of further reduction of risks of political influence or any other kind

of negative influence, the Ministry of Transport is working on the development of Indicative railway infrastructure development plan, on the basis of which LDz and the state will conclude a multi-annual contract on maintenance and development of infrastructure. This plan unequivocally and clearly defines the priorities of the development of infrastructure of Latvian railway, infrastructure quality indicators, criteria, amount and sources of financing. Political impact on selection and implementation of prior development projects is reduced to minimum through such a multi-annual contract.

MM6

### Land use right

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

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

LDZ-4

### Environmental accessibility

Possibility of movement by train is used by large part of society on daily basis, including disabled people, therefore LDz introduces improvements at stations to make movement by train more accessible and more convenient also for this part of society. Cooperation is implemented by two largest non-governmental organizations representing the rights of disabled persons - "Apeiron" and "Sustento".

Since 2011, LDz offers the mobile elevator service to access rolling stock for disabled persons and persons with reduced mobility (PRM), but, if necessary - also a wheelchair. This service is currently available at nine stations: Riga, Daugavpils, Rēzekne II, Jelgava, Krustpils, Dubulti, Saulkrasti, Sigulda and Vairi.

Other kind of infrastructure has also been improved -there are toilet facilities equipped

for PRM at Riga passenger station, as well as two elevators, two escalators, three stairs to access platforms are equipped with diagonal elevators, one ticket counter has been equipped with inductive loop system as hearing assistant. Riga passenger station has been equipped with audio -visual information system facilitating reception of topical information to persons with visual and hearing impairments. In cooperation with the organizations representing PRM, warning and information signs at the stations have been renewed and improved.

Various improvements have been made also at other railway stations and stops. So far, modernization of railway passenger infrastructure has been completed at 26 stations and stops providing railway passenger access infrastructure according to the requirements of disabled persons -elevated passenger plat-



forms have been constructed, equipped with ramps, relief and contrasting zone along the edge of the platform, audio and visual posting system has been arranged in the directions of Tukums and Jelgava. Toilet facilities have also been specially equipped at several stations.

LDz co-participated in the development of mobile application "Mapeirons", audit of Riga passenger station has been carried out to

receive recommendations for the access improvements, and Sigulda station has also been surveyed to assess, whether the implemented improvements comply with PRM requirements and guidelines.

Improvement of PRM information on reception possibilities of Access service is planned in 2017 by creating a video on how to apply for and receive this service.



**INDEPENDENT LIMITED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT OF  
SJSC (VAS) LATVIJAS DZELZCEĻŠ FOR 2016**

**To the Management of SJSC (VAS) “Latvijas Dzelzceļš”**

We have concluded a contract with the Management of SJSC (VAS) “Latvijas Dzelzceļš” on performance of independent limited assurance in relation to sustainability information identified by SJSC (VAS) “Latvijas Dzelzceļš” (hereinafter – the Company) and contained in the Sustainability Report 2016 (hereinafter – Sustainability Report 2016).

*Management’s Responsibilities*

The Management of the Company is responsible for drafting and depicting the identified sustainability information within the Company’s Sustainability Report 2016 according to the Global Sustainability Reporting Guidelines G4 by applying core approach issued by the network-supported non-profit organization Global Reporting Initiative with the established secretariat in Amsterdam, the Netherlands. The Management of the Company is responsible for the maintenance of such accounting and internal controls which ensure the process of report compilation.

*Subject and Reporting Criteria*

The Management of the Company has prepared the Sustainability Report according to the Global Sustainability Reporting Guidelines (criteria of the report). Limited assurance is provided in respect of the following identified sustainability information:

- Company profile – Company’s management and structure, Council of LDz, Board of LDz, subsidiary companies of LDz and performance results thereof in 2016, Performance results, Employees, LDz social responsibility, Ethics, Supply chains, Responsibility to external initiatives, Activity in the industry and social organizations;
- Economic impact – Management approach, Created economic value, State involvement – provision of availability of the EU co-funding for railway investment projects, State involvement in the development of the industry regulatory basis, Impact of infrastructure development, Indirect economic impact, LDz procurement policy;
- Environmental impact – Management approach, Care for the environment, Waste management, Reduction of air and groundwater pollution, Noise and vibrations, Clean-up of the environment, Energy efficiency, Use of materials, Water supply;
- Social impact – Management approach, Employees, Relations between employees and the management, Internal communication, Bank of Ideas, Labour safety, Training and educational opportunities
- Public dimension – Management approach, Complaint mechanisms, Political responsibility, Land use right, Environmental accessibility;
- Product liability dimension – Management approach, IT development, Accidents on railway tracks, Public safety.

Our responsibility is limited only to the information included in the signed Sustainability Report 2016.

*PricewaterhouseCoopers LLC (SIA), K. Valdemāra iela 19, Rīga, LV-1010, Latvia, LV40003142793  
Phone: +371 6709 4400, Fax: +371 6783 0055, www.pwc.lv*



#### *Auditor's Responsibilities*

We are responsible for an independent conclusion we are expressing on whether, on the basis of our reviews, such circumstances or facts have come to our attention, which would give us a reason to believe that the identified sustainability information contained in the Sustainability Report 2016 is not disclosed in all material respects according to the report criteria.

The review was carried out in accordance with the International Standard on Assurance Engagements No. 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board. According to the standard, we are obliged to follow the norms of ethics, plan and carry out the review in such a manner as to obtain limited assurance on the identified sustainability information according to the requirements of the concluded contract.

The present report, containing our conclusions, has been prepared solely for the Management of the Company to provide assistance in complying with the reporting responsibility on Company's sustainability actions and activities. Hereby we allow to include the present limited assurance report in the Sustainability Report 2016.

We do not take and we disagree to take any responsibility for our work or this report within the limit of the applicable law in relation to any third parties, except for the Management of the Company and the Company. Maintenance of the Company's homepage and fairness of the information reflected thereon is the responsibility of the Management of the Company; the provider of limited assurance is not obliged to assess these considerations and, accordingly, the provider of assurance does not bear any responsibility for any differences between the identified sustainability information included in the Sustainability Report 2016, for which a limited assurance report was provided, and the information published on the homepage.

#### *Extent of Performed Procedures*

The extent of the procedures performed by us included random review of the respective identified sustainability information. During the preparation of the identified sustainability information, we performed also assessment of significant management considerations and judgements. The Global Sustainability Reporting Guidelines were applied to assess the identified sustainability information.

We performed the following procedures:

- Interviewed the management and senior managers to assess the application of the Global Sustainability Reporting Guidelines and to obtain understanding on internal control environment in relation to sustainability reporting;
- Assessed the processes of acquirement, summarization and presentation of the identified information included in the report;
- Verified the information included in the Sustainability Report 2016 by interviewing the respective representatives of the Company management;
- Carried out random review of the information included in the report;
- Examined documents to confirm assertions of the management and senior managers acquired during the interviews;
- Compared financial information with the Annual Report 2016 of SJSC (VAS) "Latvijas Dzelceļš";
- Assessed the general format of the sustainability report, taking into account compliance of the presented information with the applicable criteria.

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



#### *Independence and Quality Control*

We have complied with the requirements of independence and other requirements related to ethics included in the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. These requirements are based on the main principles related to fairness, objectivity, professional competence and appropriate accuracy, as well as confidentiality and professional action.

We apply international standard on quality control No. 1 to our activity and maintain accordingly comprehensive quality control system including policies and procedures documented therein and providing compliance with the requirements of ethics, professional standards, as well as appropriate legal requirements.

#### *Existing Limits*

Non-financial data are more exposed to the existing limits than financial data taking into account both their substance and the methods applied for the determination, calculation, selection or estimates of such data. Good quality interpretation of data compliance, significance and accuracy is exposed to subjective assumptions and judgements.

We have not performed any procedures in relation to the data reported in previous periods or future plans and goals.

We have not performed additional procedures beyond the initially determined volume of work, therefore we limit our report in relation to the identified sustainability information.

#### *Limited assurance conclusion*

On the basis of our review, no such circumstances or facts have come to our attention, which would give us a reason to believe that the identified sustainability information has not been prepared in all material respects according to the report criteria.

#### *Restriction of use*

This report has been prepared by PricewaterhouseCoopers LLC (SIA) ("PwC") for the company according to the contract concluded on 21 March 2017 between SJSC (VAS) Latvijas Dzelzceļš and PwC.

This certification report is intended solely for the Company management in relation to the Sustainability Report 2016. It may not be used for any other purposes or submitted to any other third party.

PricewaterhouseCoopers LLC (SIA)  
Commercial Company of Sworn Auditors  
License No. 5

Ilandra Lejiņa  
Responsible Sworn Auditor  
Certificate No. 168  
Member of the Board  
Riga, Latvia  
7 July 2017



Company  
Profile

Performance  
Indicators

Annual  
Report



# ANNUAL REPORT OF SJSC (VAS) “LATVIJAS DZELZCEĻŠ” 2016



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# MANAGEMENT REPORT ON ECONOMIC ACTIVITY OF SJSC “LATVIJAS DZELZCEĻŠ” IN 2016

## 1. Characterization of State Joint-Stock Company “Latvijas dzelzceļš”

State Joint-Stock Company “Latvijas dzelzceļš” (hereinafter – “Latvijas dzelzceļš” or the Company) is one of the largest companies in Latvia providing a significant contribution to the national economy by ensuring use of railway infrastructure for freight traffic and passenger transport. In 2016, export of freight traffic accounted for 64.8 % in the distribution of revenue from fee for the use of railway infrastructure by market segments.

Main type of economic activity of Latvijas dzelzceļš is management of the public railway infrastructure. The Company manages, maintains and develops public railway infrastructure in Latvia. Latvijas dzelzceļš as the manager of public railway infrastructure currently owns a network of railway tracks of the extended length 3170 km, including the technologically related station tracks and access tracks, as well as other infrastructure objects.

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

“Latvijas dzelzceļš” provides public railway infrastructure services, handling services of freight wagon formations and wagon technical maintenance and inspection services, electricity distribution and trade services, lease services, information technology services, electronic communication services, as well as principal services.

LLC (SIA) “LDZ CARGO” operates local and international railway freight traffic, provides traction services, freight wagon use services, as well as organizes international passenger transport.

LLC (SIA) “LDZ infrastruktūra” ensures construction and overhaul of railway tracks.

LLC (SIA) “LDZ ritošā sastāva serviss” ensures repair of locomotives and wagons, equipment and modernization of locomotives. LLC (SIA) “LDZ apsardze” provides physical and technical security services to the Group’s companies and other enterprises, as well as natural persons.

JSC (AS) “LatRailNet” is the performer of the essential function of the manager of railway infrastructure. This company develops and approves scheme for the calculation of fee for the access to public railway infrastructure and fee discounts, distributes the capacity of railway infrastructure, as well as adopts decisions on assignment of trains of specific operator. LLC (SIA) “LDZ Loģistika” provides freight forwarding and logistics services, as well as attracts new freight flows and promotes railway freight traffic between the European and Asian countries. LLC (SIA) “Rīgas Vagonbūves uzņēmums “Baltija””, a subsidiary company of the LLC (SIA) “LDZ ritošā sastāva serviss”, was established with the purpose to develop manufacturing of wagons in Latvia. No active economic activity is performed at the moment.

The main task of the Company is to ensure state public railway infrastructure according to the needs of national economy and the development thereof, interests of stable traffic,



as well as environmental protection requirements.

The main task of "Latvijas dzelzceļš" in the area of the Group's management is provision of the development and competitiveness of the Group's business directions achieving bet-

## 2. Economic performance results

For the first time, "Latvijas dzelzceļš" as a separate company prepares financial statements for 2016 in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union (EU).

In 2016, public infrastructure of "Latvijas dzelzceļš" was used to transport 47,819 thousand tons of freight by travelling 9677 thousand train km and to carry 17,228 thousand passengers by travelling 6059 thousand train km (including LLC (SIA) "Gulbenes-Alūksnes bānītis" - 49 thousand train km). In comparison with the previous year, freight traffic in tons has decreased by 14.1%, while the volume of transported passengers has retained at the level of previous year.

Net turnover for the reporting year is 192,572 thousand euro (EUR) representing 25,227 thousand euro or 11.6% below the indicator of 2015. Most significant decrease in net turnover can be observed in relation to the revenue related to freight volume. The main source of income of "Latvijas dzelzceļš" as the manager of public railway infrastructure is the fee paid by the operators for the use of public railway infrastructure (accounting for 68.5% of the annual net turnover in 2016).

In 2016, the Company gained net profit in the amount of 881 thousand euro. It was significantly affected by the adjustment of fair value of the fixed assets according to the requirements of IFRS, which resulted in increase of costs, while profit decreased by 2,298 thousand euro. Furthermore, profit was affected by decrease of freight volume, but the Company has successfully saved funds in

ter results than it would be possible for each direction operating separately.

In 2016, average number of employees is 6808, and this number has decreased by 203 in comparison with 2015.

the areas, where costs may be decreased in proportion to the amounts of economic activity, as well as through the improvement of efficiency.

When assessing financial indicators, it must be taken into account that the co-funding for investment projects received from the European Community funds and the state are indicated in the liabilities item of the balance sheet called "Next period income" and written off according to the parts of the write-off amounts of depreciation of the established objects for the current year applicable to the received financial support and reflected in the income statement item called "Other operating income", while depreciation of the objects (in 2016 - 19,146 thousand euro) are included in the item "Production costs of goods sold". Taking into account the fact that the aforementioned depreciation was not included in the supporting costs of infrastructure use, years of 2015 and 2016 reflects gross losses. Such registration has been performed according to Cabinet Regulation No. 775 of 22.12.2015, Regulations On Application of the Law On Annual Financial Statements and Consolidated Financial Statements, effective from 2016. Infrastructure fee was set in accordance with the Methodology for the Calculation of Fee for the use of public railway infrastructure for transportations approved by the Public Utilities Commission (PUC).

Financial indicators are affected also by the changes in registration according to the IFRS, for example, inclusion of provisions and accrued obligations for leaves in the current liabilities decreases liquidity indicators.



The Company operates prudent liquidity risk management, providing availability of corresponding credit resources for timely meeting of the obligations. On 31 December 2016, Company's current liabilities exceeded its current assets by 52,013 thousand euro. Current liabilities include next period income in the amount of 19,208 thousand euro related to investments of the EU projects and State budget in public railway infrastructure, therefore no funds for meeting of these obligations are provided in the reporting year. Total liquidity indicator is 0.4, but, excluding next period income from short-term obligations, this indicator is 0.6. Whereas, additionally excluding short-term provisions non-related to cash flow, liquidity indicator is 0.7. In view of the previously mentioned circumstances, we believe that the Company has managed to provide financial balance in 2016 despite the decrease of freight volume.

The amount of the equity of "Latvijas dzelzceļš" as at 31 December 2016 was 292,059 thousand euro. In comparison with the end of the previous year, this amount had increased by 881 thousand euro. The ratio of the Company's equity to the total assets is 32.0 %.

Total amount of the Company's capital investments completed in 2016 reached 27,077 thousand euro. Most significant projects include:

- In renovation of railway tracks, works were carried out in the amount of 19,593 thousand euro. "A" type overhaul was carried out

in the distance of 23.14 km, while "B" type overhaul - in the distance of 30.8 km. In order to increase safety of train traffic, technological equipment for the repair and maintenance of railway tracks, diagnostics and repair of the rolling stock, as well as equipment for further development of information and communication means was purchased in the reporting period in the amount of 1790 thousand euro.

- Expansion of data transmission networks at the sites in Riga and Daugavpils, expansion of VoIP (Voice over Internet Protocol) telephony systems in Riga, as well as expansion of WI-FI system has been carried out within the framework of renovation of technological and local networks. Construction designing works of optical networks and connection of data transmission lines in the district Riga-Lugaži has been implemented. During the reporting period, works have been carried out for the total amount of 1037 thousand euro.
- In the area of real estate management, renovation of the building of Ventspils station was carried out, underground tank relays were installed at the centralization post in Ventspils, modernization of heating systems was carried out in the administrative and technical buildings of "Latvijas dzelzceļš". In accordance with the annual plan, overhauls of technological and station buildings, change of the type of heating and replacement of external engineering networks and other construction works were carried out. During the reporting period, works have been carried out for the amount of 2388 thousand euro.

### 3. Goals and further development

Several changes in the regulation of the railway industry have taken place, as well as policy planning documents essentially affecting the Group's operation and further development have been adopted:

- Directive on Establishing a Single European Railway Area (2012/34/EU);

- Sustainable Development Strategy of Latvia until 2030;
- National Development Plan of Latvia for 2014-2020;
- Transport Development Guidelines for 2014-2020;
- Amendments to the Railway Law and the Cabinet Regulations issued on the basis thereof.



In relation to changes in the regulation of railway industry in the EU and, particularly, to the Directive on Establishing a Single European Railway Area (2012/34/EU), on 25 February 2016, amendments were made in the Railway Law and Cabinet Regulations were issued on the basis thereof. These changes provide for changes in relation to provision of services and methodology for the calculation of service price. Directive's Implementing Regulation 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 it will change the methodology for the calculation of price for the service of sale of the railway capacity. The new methodology must be introduced from 1 January 2019. The Railway Law stipulates that the Ministry of Transport will develop the Indicative Rail Infrastructure Development Strategy (Plan). At the moment of compilation of the report, the Ministry of Transport has prepared draft indicative rail infrastructure development strategy (plan) and established a work group including also representatives of "Latvijas dzelzceļš" aimed at improvement of plan according to the requirements laid down in Section 9, Paragraph two of the Railway Law. Approval of the Plan by the Cabinet is planned in 2017. Manager of public railway infrastructure will develop business plan based on the draft indicative rail infrastructure development strategy (plan) and including investment and financial programme, and provide consequence of the provisions of contractual agreement and plan of commercial activity. According to the amendments of the Railway Law, conclusion of multi-annual contract is provided to determine the indicators of infrastructure volume and quality between the manager of infrastructure and the Ministry of Transport, as well as to provide for adequate funds.

Importance of container freight traffic in the Baltic Sea region grows. The largest ports of Latvia have identified in the development programmes the development of freight terminals required for handling of container freights.

Development projects of the ports of Latvia and work with clients in freight handling process will play more significant role. Efficiency of infrastructure services will be one of the decisive factors in the competition for freight handling between railway and road transport operators. Projects directly increasing efficiency of services and safety, thus promoting increase of freight volumes, as well as increasing competitiveness of transport industry as a whole will be prior for "Latvijas dzelzceļš". Therefore, it is important for "Latvijas dzelzceļš" to cooperate with ports by adjusting infrastructure, range of the provided services and costs.

Regardless of the processes of geopolitical events and being aware of further market development tendencies, "Latvijas dzelzceļš" retains unchanged vision of strategic development - to keep the leading position in the transport industry of the Baltic States by developing a modern, efficient and environment-friendly infrastructure and logistics group of companies and mission - to provide management of railway infrastructure and logistics services in the interests of the entire society and national economy of Latvia. For the purpose of achievement of the set goals, the Company purchased LLC (SIA) "LDZ Loģistika" in 2016 and set a task for this company to work on development of offer of multi-modal traffic for the freight owners and servicing logistics companies in close cooperation with operators, ports, terminals, stevedore companies and other industry companies. Strategic task of LLC (SIA) "LDZ Loģistika" is marketing and sales of the multi-modal traffic by attracting new clients to the transit industry of Latvia, thus promoting use of public railway infrastructure.

LLC (SIA) "LDZ Loģistika" has commenced work on the industry development concept and company's business strategy.

In order to increase the traffic efficiency, promote use of environment-friendly technologies and increase the international competitiveness of the transit corridor of "Latvijas dzelzceļš", the Company is planning electrification of the



main railway network (main tracks) by using 25 kV alternate current technology.

Taking into account the fact that implementation of a large project is planned within the framework of the specific support measure 6.2.1.1 “Electrification of Latvian Railway Network” (Cohesion Fund (CF) financing available for the measure is 346,639,348 euro), and the implementation must be provided by 2023, implementation of the project in the spans Daugavpils–Rēzekne–Krustpils–Riga is planned by the end of 2023. Electrification spans of railway network, which may qualify for the goal of the measure 6.2.1.1, includes electrification of the spans of railway network, which are most intensively used for freight traffic and the electrification of which would result in significant reduction of the amount of CO<sub>2</sub> emissions created in Latvia in railway traffic.

Implementation of several significant projects is planned within the framework of the specific support goal 6.2.1 “Provision of competitive and environment-friendly TEN-T railway network promoting its safety, quality and capacity”, measure 6.2.1.2 “Modernization and construction of railway infrastructure”, of the prior direction “Sustainable transport system” of the operational programme “Growth and employment” for the EU Funds and Cohesion Policy Funds, planning period for 2014-2020 (available Cohesion Fund co-funding is 107,288 thousand euro).

Reconstruction and renovation of the most significant railway hubs will provide increase in handling capacity of railway districts, thus promoting timely and regular freight flow, simultaneously improving problematic spans of railway infrastructure and stabilizing operation thereof, thus improving safety. The following projects are at the stage of implementation at the moment: “Modernization of Riga railway hub, span Sarkandaugava-Mangaļi-Ziemeļblāzma”, total costs whereof amount to 25 million euro, including CF co-funding (85 %); “Development of Daugavpils Marshalling Yard”, total costs whereof amount to 36.6 million euro, incl. CF co-funding (85 %); “Devel-

opment of Daugavpils Acceptance Park and Access Roads”, total costs whereof amount to 43.5 million euro, incl. CF co-funding (85 %).

Besides the previously mentioned projects, preparation and implementation of the project “Introduction of Uniform Train Traffic Planning and Control Information System” is planned. Introduction of uniform train traffic planning and management information system will unify several currently separately functioning control systems.

There is a requirement from the passenger operators - to improve service quality and accessibility of the passenger infrastructure - stations and stops. Comfort level for the railway passengers will be increased, as well as accessibility and safety of railway transport, construction of elevated platforms will be continued, and accessibility of railway transport will be provided to the persons with reduced mobility.

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

Significant risk, which may affect performance results of “Latvijas dzelzceļš” and the entire Group as a whole, is the changing political and economic environment in the market of the Eastern region, as well as the development of Russian ports resulting in diversion of freights away from Latvian ports.

In order to reduce risk related to dependence on transit freight traffic in Eastern-Western directions, “Latvijas dzelzceļš” is planning to strengthen cooperation with the partners of the neighbouring countries, as well as to develop alternative directions of operation, including combined traffic and Northern-Southern direction. “Latvijas dzelzceļš” will continue its participation in the legislative initiatives related to the area of transport by setting creation of sustainable railway infrastructure funding model as a priority.



Main risks the Group might face in the next period of activity, is the risk of decrease of the volume of the transported freights, risk

of fluctuation in the price of oil, metal and electricity, as well as capability to finance the planned investment projects.

#### 4. Research and development measures

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

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

Furthermore, in order to decrease significantly the greenhouse-gas emission sources in Latvia and promote transition to alternative energy sources, as well as to create preconditions for the development of new services and market, the Company in cooperation with partners from Czech Republic and Canada has commenced work on the development of hydrogen marshalling locomotive model. Project application was submitted in February 2017 to the competition for financing of Connecting Europe Facility. Planned total costs of this project are EUR 15 million, and work on the feasibility study project is in progress, thus creating preconditions for the attraction of co-funding for further implementation of the project.

According to the applicable Energy Efficiency Law, introduction of Energy Management System ISO 50001:2012 in the Company has been commenced in 2016, enabling consumption of energy resources in the Company to be identified, goals for improvements to be set and results of the benefit to be assessed.

A study project has been commenced in cooperation with Riga Technical University, within the framework of which recommendations on repairs and usable materials for cracks in reinforced concrete sleepers, delamination and other defects will be developed. Analysis of the defects of reinforced concrete sleepers and manufacturing and testing of reinforced concrete prototype will be provided within the framework of the project.

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

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

#### 5. Branches and representations abroad

In 2012, the Company’s representation was established in Moscow, the capital of Russia. Representation carries out sales promotion and marketing activities in the area of traffic.

On 24 January 2017, representation of “Latvijas dzelzceļš” was opened in Minsk, the capital of Belarus.

The Company has no foreign branches.



## 6. Events after the date of drawing-up of the annual report 2016

On 17 January 2017, the Cabinet supported further progress of the electrification project of railway network prepared by the Ministry of Transport and "Latvijas dzelzceļš" and providing for the implementation of the first phase of the electrification of railway network in the

direction of Riga from Daugavpils and Rēzekne via Krustpils. The Company is planning to prepare documentation of project application for the submission to the European Commission until September 2017.

## 7. Proposals regarding use of the Company's profit

In accordance with Section 94, Paragraph one, Clause 2, Section 56, Paragraph one and Section 28, Paragraphs one and two of the Law On Governance of Capital Shares of a Public Person and Capital Companies, and Paragraph 5 of Cabinet Regulation No. 806 of 22.12.2015, Procedures, by Which State Capital Companies and Public Private Capital Companies, Where the State Is a Shareholder, Forecast and Determine the Share of Profit to

Be Paid In Dividends and Make Payments In the State Budget For the Use of State Capital, in order to provide retention of competitiveness, sustainable development and implementation of investment projects of State Joint-Stock Company "Latvijas dzelzceļš", the Company's management proposes to determine a different rate for the share of profit to be paid as dividends in the amount of 0 %.

Riga, 22 March 2017

**E. Bērziņš**  
Chairman of the Board

**A. Strākšas**  
Member of the Board

**Ē. Šmuksts**  
Member of the Board

**A. Stūrmanis**  
Member of the Board



## ANNOUNCEMENT ON THE RESPONSIBILITY OF THE BOARD

The Company's Board (hereinafter - the Management) is responsible for the preparation of the Company's financial statements.

The financial statements of SJSC (VAS) "Latvijas dzelzceļš" from page 90 to page 141 has been prepared on the basis of the accountancy entries and supporting documents, and presents a fair view on the Company's financial condition as at 31 December 2016, performance results for 2016 and cash flows.

The referred to financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS)

Riga, 22 March 2017

approved by the EU, on the going concern basis. Decisions adopted and observations made by the Management during the preparation of the Company's financial statements have been prudent and reasoned.

The Company's Management is responsible for the ensuring an appropriate accounting system, preservation of the Company's assets, as well as for detection and prevention of fraud and other violations committed at the Company. The Management is responsible for compliance with the requirements of the law of the Republic of Latvia.

**E. Bērziņš**  
Chairman of the Board

**A. Strākšas**  
Member of the Board

**Ē. Šmuksts**  
Member of the Board

**A. Stūrmanis**  
Member of the Board



## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholders of SJSC (VAS) "Latvijas Dzelzceļš"**

#### **Report on the Audit of the Financial Statements**

##### **Opinion**

In our opinion, the accompanying financial statements contained in the annual report on pages 90 through 141, give a true and fair view on the financial position of SJSC (VAS) "Latvijas Dzelzceļš" (hereinafter – the Company) as at 31 December 2016, and of its financial performance and its cash flows for the year which ended on 31 December 2016 in accordance with the International Financial Reporting Standards (IFRSs).

##### ***Key Audit Matters***

Financial statements contain the following:

- statement on financial situation as at 31 December 2016,
- statement of comprehensive income statement for the year closing on 31 December 2016,
- statement on changes in equity for the year closing on 31 December 2016,
- statement on cash flows closing on 31 December 2016, and also
- notes to financial statements including a summary of significant accounting principles.

##### **Basis for Opinion**

We conducted our audit in accordance with the International Standards on Auditing (ISAs) recognized in the Republic of Latvia. 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 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 requirements of the Code of Ethics for Professional Accountants developed by the International Ethics Standards Board for Accountants (the IESBA Code) and the independence and ethics requirements for auditors applicable to the audit of financial statements carried out by us in the Republic of Latvia. We have followed the remaining principles of ethics laid down in these requirements and the IESBA Code.

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

The Company's management is responsible for other information. Other information consists of

- Management Report contained on pages 79 through 85 of the attached annual report,
- Notice on the Management's responsibility provided on page 86 of the accompanying annual report,

but it excludes financial statements and our auditor's report thereon.

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*PricewaterhouseCoopers LLC (SIA), Kr. Valdemāra iela 21-21, Rīga, LV-1010, Latvia, LV40003142793  
Phone: +371 6709 4400, Fax: +371 6783 0055, www.pwc.lv*



Our opinion on the financial statements does not apply to other information included in the annual report, and we do not provide any kind of certification thereon, except as specified in our report's chapter *Other reporting requirements in accordance with the requirements laid down in the laws of the Republic of Latvia*.

In relation to the audit of financial statements our responsibility is to familiarize ourselves with other information and assess, whether such other information is significantly different from the information contained in financial statements or our knowledge acquired during the course of audit and whether it contains significant discrepancies of other kind.

If, on the basis of the performed work and taking into account the information and understanding on the Company and the operational environment thereof acquired during the course of the audit, we come to a conclusion that other information contains significant discrepancies; it is our responsibility to report on such circumstances. No reportable circumstances have come to our attention.

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

The Management is responsible for the preparation of financial statements providing a true and fair view in accordance with the International Financial Reporting Standards approved in the European Union, as well as for the maintenance of such internal controlling system as required in the opinion of the Management for the preparation of financial statements without any significant discrepancies, caused due to fraud or mistake.

During the preparation of financial statements, the Management is obliged to assess the Company's ability to continue the activity, as necessary, providing information on circumstances related to the Company's ability to continue the activity and application of the going concern assumption, unless the management is planning the Company's liquidation or winding-up, or it has no other real alternative than the Company's liquidation or winding-up.

Those charged with governance for the Company, are responsible for the supervision of the preparation process of the Company's financial statements.

#### **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 entity's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Make conclusion on conformity of the going concern assumption applied by the management and, on the basis of the acquired audit evidence, on whether there is a significant uncertainty in relation to events or circumstances, which may cause significant doubt on the Company's ability to continue activity. If we conclude there is significant uncertainty, the auditor's report pays attention to the information provided in the financial statements on such circumstances or, if such information has not been provided, we provide modified opinion. Our conclusions are based on audit evidence obtained before the date of the auditors' report. However, the Company may suspend the activity under the influence of future events or circumstances.
- 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 are required to 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.

#### **Other Reporting Requirements Pursuant to the Requirements Laid Down in the Laws and Regulations of the Republic of Latvia**

Additionally, in accordance with the law On Audit Services, our duty is to provide opinion, whether the Management Report has been prepared in accordance with the requirements laid down in the Law on the Annual Financial Statements and Consolidated Financial Statements.

On the basis of the procedures carried out within our audit solely, in our opinion:

- Information provided in the Management Report for the reporting year the financial statements have been prepared for corresponds to financial statements, and
- The Management Report has been prepared in accordance with the requirements laid down in the Law on the Annual Financial Statements and Consolidated Financial Statements.

PricewaterhouseCoopers LLC (SIA)  
Commercial Company of Sworn Auditors  
License No. 5

Ilandra Lejiņa  
Responsible Sworn Auditor  
Certificate No. 168

Board Member

Riga, Latvia  
22 March 2017



## STATEMENT OF COMPREHENSIVE INCOME 2016

(EUR)

| PARAMETER  | 2016               | 2015                |
|--|--------------------|---------------------|
| Revenue  | 192,572,239        | 217,799,590         |
| Production cost of goods sold  | (198,593,999)      | (231,143,956)       |
| <b>Gross profit or loss</b>  | <b>(6,021,760)</b> | <b>(13,344,366)</b> |
| Administrative expenses  | (14,746,007)       | (18,202,779)        |
| Other operating income   | 27,785,002         | 37,302,882          |
| Other operating costs  | (3,122,662)        | (5,144,989)         |
| Income from participation:   | 4,306,590          | 1,889,582           |
| in capital of subsidiary companies   | 4,057,000          | 1,732,542           |
| in capital of other companies  | 249,590            | 157,040             |
| Financial revenue  | 277,196            | 80,162              |
| Financial costs  | (2,187,457)        | (2,152,401)         |
| <b>Profit before corporate income tax</b>  | <b>6,290,902</b>   | <b>428,091</b>      |
| Corporate income tax   | (5,409,904)        | (1,754,184)         |
| <b>Profit or loss for the reporting year</b>   | <b>880,998</b>     | <b>(1,326,093)</b>  |
| <b>Other comprehensive income/(losses) for the reporting year</b>  | <b>-</b>           | <b>-</b>            |
| <b>Profit or loss and comprehensive income or losses for the reporting year attributable to the shareholders</b> | <b>880,998</b>     | <b>(1,326,093)</b>  |

Notes on pages 96 to 141 are an integral part of these financial statements.  
Riga, 22 March 2017

**E. Bērziņš**  
Chairman of the Board

**A. Strākšas**  
Member of the Board

**Ē. Šmuksts**  
Member of the Board

**A. Stūrmanis**  
Member of the Board

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

**S. Gasjūna**  
Deputy Financial Director, Head of Financial Unit

**STATEMENT OF THE FINANCIAL POSITION ON 31 DECEMBER 2016**

(EUR)

| <b>ASSETS</b>  | <b>31.12.2016</b>  | <b>31.12.2015</b>  | <b>01.01.2015</b>  |
|--|--------------------|--------------------|--------------------|
| <b>NON-CURRENT INVESTMENTS</b>                       |                    |                    |                    |
| Fixed assets   | 714,782,578        | 740,631,815        | 597,867,472        |
| Intangible investments                               | 1,488,572          | 1,529,644          | 1,508,081          |
| Advance payments for fixed assets                    | 749,520            | 743,926            | 31,28,814          |
| Participation in the capital of subsidiary companies | 126,339,736        | 125,701,736        | 125,701,736        |
| Loans to related companies                           | 29,158,575         | -                  | -                  |
| Other securities and investments                     | 494,227            | 494,227            | 494,227            |
| <b>TOTAL NON-CURRENT INVESTMENTS</b>                 | <b>873,013,208</b> | <b>869,101,348</b> | <b>756,700,330</b> |
| <b>CURRENT ASSETS</b>                                |                    |                    |                    |
| Inventories  | 9,763,744          | 10,111,881         | 21,353,744         |
| Trade receivables and other receivables              | 9,836,683          | 6,247,869          | 7,195,850          |
| Receivables from related companies                   | 14,081,642         | 6,494,586          | 11,331,430         |
| Corporate income tax                                 | -                  | 485,535            | 1,165,276          |
| Cash and cash equivalents                            | 7,103,593          | 48,657             | 53,828,715         |
| <b>TOTAL CURRENT ASSETS</b>                          | <b>40,785,662</b>  | <b>23,388,528</b>  | <b>94,875,015</b>  |
| <b>TOTAL ASSETS</b>                                  | <b>913,798,870</b> | <b>892,489,876</b> | <b>851,575,345</b> |

(CONTINUED ON NEXT PAGE)

Notes on pages 96 to 141 are an integral part of these financial statements.



## STATEMENT OF THE FINANCIAL POSITION ON 31 DECEMBER 2016 (CONTINUED)

(EUR)

| ASSETS   | 31.12.2016         | 31.12.2015         | 01.01.2015         |
|--|--------------------|--------------------|--------------------|
| <b>EQUITY AND LIABILITIES</b>                                      |                    |                    |                    |
| <b>EQUITY</b>  |                    |                    |                    |
| Share capital (equity capital)                                     | 256,720,375        | 256,720,375        | 256,720,375        |
| Reserves   | 10,844,505         | 8,777,315          | 1                  |
| Retained earnings of the previous years                            | 23,613,416         | 27,006,699         | 32,676,247         |
| Profit or loss for the reporting year                              | 880,998            | (1,326,093)        | 5,039,166          |
| <b>TOTAL EQUITY</b>  | <b>292,059,294</b> | <b>291,178,296</b> | <b>294,435,789</b> |
| <b>LIABILITIES</b>   |                    |                    |                    |
| <b>NON-CURRENT LIABILITIES</b>                                     |                    |                    |                    |
| Deferred income tax liability                                      | 22,415,773         | 17,005,869         | 15,251,685         |
| Provisions   | 178,176            | 1,083,797          | 705,669            |
| Borrowings from credit institutions                                | 173,752,632        | 161,453,887        | 122,492,361        |
| Other loans  | 2,437,574          | 2,554,578          | 2,671,582          |
| Accounts payable to suppliers and contractors                      | 486,263            | 3,807,007          | 7,696,295          |
| Income of the next periods   | 329,670,887        | 318,618,331        | 275,603,483        |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                               | <b>528,941,305</b> | <b>504,523,469</b> | <b>424,421,075</b> |
| <b>CURRENT LIABILITIES</b>   |                    |                    |                    |
| Borrowings from credit institutions                                | 31,187,797         | 24,833,991         | 22,749,231         |
| Other loans  | 117,004            | 117,004            | 117,003            |
| Provisions   | 13,844,292         | 20,765,107         | 24,933,137         |
| Accounts payable to suppliers and contractors, and other creditors | 16,744,921         | 21,559,931         | 44,348,973         |
| Debts to subsidiary companies                                      | 2,967,099          | 5,795,663          | 5,770,292          |
| Corporate income tax   | -                  | -                  | -                  |
| Taxes and mandatory state social insurance contributions           | 8,728,973          | 7,057,126          | 7,231,784          |
| Income of the next periods   | 19,208,185         | 16,659,289         | 27,568,061         |
| <b>TOTAL CURRENT LIABILITIES</b>                                   | <b>92,798,271</b>  | <b>96,788,111</b>  | <b>132,718,481</b> |
| <b>TOTAL LIABILITIES</b>   | <b>621,739,576</b> | <b>601,311,580</b> | <b>557,139,556</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                | <b>913,798,870</b> | <b>892,489,876</b> | <b>851,575,345</b> |

Notes on pages 96 to 141 are an integral part of these financial statements.  
Riga, 22 March 2017

**E. Bērziņš**  
Chairman of the Board

**A. Strākšas**  
Member of the Board

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

**S. Gasjūna**  
Deputy Financial Director, Head of Financial Unit



## STATEMENT OF CHANGES IN EQUITY

(EUR)

|  | Fixed capital      | Reserves          | Retained earnings of the previous years | Retained earnings for the reporting year | Total equity       |
|--|--------------------|-------------------|---|--|--------------------|
| <b>for 2015</b>  |                    |                   |   |  |                    |
| By 01.01.2015  | 256,720,375        | 1                 | 32,676,247                              | 5,039,166                                | 294,435,789        |
| Peļņa pārvietota uz iepriekšējo gadu nesadalīto peļņu                                | -                  | -                 | 5,039,166                               | (5,039,166)                              | -                  |
| Peļņa ieskaitīta rezervēs  | -                  | 8,777,314         | (8,777,314)                             | -  | -                  |
| Maksājumi par valsts kapitāla izmantošanu  | -                  | -                 | (1,931,400)                             | -  | (1,931,400)        |
| Pārskata gada peļņa  | -                  | -                 | -                                       | (1,326,093)                              | (1,326,093)        |
| <b>31.12.2015.</b>   | <b>256,720,375</b> | <b>8,777,315</b>  | <b>27,006,699</b>                       | <b>(1,326,093)</b>                       | <b>291,178,296</b> |
| <b>for 2016</b>  |                    |                   |   |  |                    |
| <b>31.12.2015.</b>   | <b>256,720,375</b> | <b>8,777,315</b>  | <b>27,006,699</b>                       | <b>(1,326,093)</b>                       | <b>291,178,296</b> |
| Losses for 2015 have been transferred to the retained earnings of the previous years | -                  | -                 | (1,326,093)                             | 1,326,093                                | -                  |
| Profit transferred to reserves   | -                  | 2,067,190         | (2,067,190)                             | -  | -                  |
| Profit for the reporting year  | -                  | -                 | -                                       | 880,998                                  | 880,998            |
| <b>31.12.2016.</b>   | <b>256,720,375</b> | <b>10,844,505</b> | <b>23,613,416</b>                       | <b>880,998</b>                           | <b>292,059,294</b> |

Notes on pages 96 to 141 are an integral part of these financial statements.  
Riga, 22 March 2017

**E. Bērziņš**  
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Annual Report has been prepared by the  
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**S. Gasjūna**  
Deputy Financial Director, Head of Financial Unit

**CASH FLOW STATEMENT FOR 2016 (UNDER THE INDIRECT METHOD)**

(EUR)

|  | 2016                | 2015 adjusted        |
|--|---------------------|----------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>   |                     |                      |
| <b>Profit before corporate income tax</b>  | <b>6,290,902</b>    | <b>428,091</b>       |
| <b>Adjustments:</b>  |                     |                      |
| Depreciation of fixed assets and other downward value adjustments  | 32,793,986          | 44,884,835           |
| Amortisation of intangible investments and other downward value adjustments  | 588,371             | 583,564              |
| Establishment of provisions  | (7,826,436)         | (3,902,212)          |
| Foreign currency exchange rate loss  | 80,695              | 676,485              |
| Income from participation in the equity capital of related and other companies   | (4,306,590)         | (1,889,582)          |
| Other interest and similar income  | (277,196)           | (80,162)             |
| Interest payments and similar expenses   | 2,187,457           | 2,152,401            |
| <b>Profit before adjustments on changes in current assets and short-term creditors</b>   | <b>29,531,189</b>   | <b>42,853,420</b>    |
| (Increase) / decrease of balance of the next period expenses and receivables   | (4,156,630)         | 8,555,757            |
| Decrease of balance of inventories   | 244,832             | 107,066              |
| Decrease of account balance payable to suppliers, contractors and other creditors  | (5,628,190)         | (12,320,232)         |
| <b>Gross operating cash flow</b>   | <b>19,991,201</b>   | <b>39,196,011</b>    |
| Interest expenses  | (2,244,867)         | (2,210,142)          |
| Expenses for corporate income tax payments   | -                   | (485,535)            |
| <b>Net cash flow from operating activities</b>   | <b>17,746,334</b>   | <b>36,500,334</b>    |
| <b>Cash flow from investing activities</b>   |                     |                      |
| Investments in equity capital of related companies, subsidiary companies or acquisition of shares or capital shares of other companies | (638,000)           | -                    |
| Acquisition of fixed assets and intangible investments   | (30,240,453)        | (190,033,013)        |
| Proceeds from sale of fixed assets and intangible investments  | 42,882              | 516,746              |
| Subsidies, grants, gifts or donations received   | 32,794,112          | 60,262,171           |
| Loans issued   | (34,832,656)        | (1,437,031)          |
| Interest received  | 240,123             | 70,501               |
| Dividends received   | 3,397,602           | 1,733,282            |
| <b>Net cash flow from investing activities</b>   | <b>(29,236,390)</b> | <b>(128,887,344)</b> |

(CONTINUED ON NEXT PAGE)

**CASH FLOW STATEMENT FOR 2016 (UNDER THE INDIRECT METHOD) (CONTINUATION)**

(EUR)

|  | 2016              | 2015                |
|--|-------------------|---------------------|
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                                   |                   |                     |
| Loans received   | 43,377,183        | 63,280,764          |
| Expenses for the repayment of loans  | (24,833,690)      | (22,749,230)        |
| Dividends paid   | -                 | (1,931,400)         |
| <b>Net cash flow from financing activities</b>                               | <b>18,543,493</b> | <b>38,600,134</b>   |
| <b>Result of foreign currency exchange rate fluctuations</b>                 | <b>1,499</b>      | <b>6,818</b>        |
| <b>Increase/ (decrease) of cash and equivalents in the reporting year</b>    | <b>7,054,936</b>  | <b>(53,780,058)</b> |
| Balance of cash and cash equivalents at the beginning of the reporting year  | 48,657            | 53,828,715          |
| <b>Balance of cash and cash equivalents at the end of the reporting year</b> | <b>7,103,593</b>  | <b>48,657</b>       |

Notes on pages 96 to 141 are an integral part of these financial statements.  
Riga, 22 March 2017

**E. Bērziņš**  
Chairman of the Board

**A. Strākšas**  
Member of the Board

**Ē. Šmuksts**  
Member of the Board

**A. Stūrmanis**  
Member of the Board

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

**S. Gasjūna**  
Deputy Financial Director, Head of Financial Unit



## 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 (VAS)   |
| Address  | 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 Certificate of Registration  | 10.09.2004  |
| Supervisory institution                                      | Company's Council   |
| Council.   | <p>Edvīns BĒRZIŅŠ – Member of the Board (appointed for a new term of office from 14.01.2014), Chairman of the Board from 25.02.2016.</p> <p>Aivars STRAKŠAS – Member of the Board (appointed for a new term of office from 29.08.2014), (Acting Member of the Board from 07.08.2015 until 24.02.016)</p> <p>Ēriks ŠMUKSTS – Member of the Board (appointed for a new term of office from 02.12.2014)</p> <p>Ainis Stūrmanis – Member of the Board from 18.07.2016</p> |
| Auditor's name and address and responsible Certified Auditor | <p>LLC (SIA) "PricewaterhouseCoopers"<br/> Uniform Reg. No. 40003142793<br/> Commercial Company's License No. 5<br/> issued by Latvian Association of Certified Auditors<br/> K. Valdemāra iela 21-21<br/> Rīga, LV-1010<br/> Latvia<br/> Responsible Certified Auditor Ilandra Lejiņa<br/> Certificate No. 168</p>   |
| Reporting year   | 1 January 2016-31 December 2016   |



## 2. ACCOUNTING AND ASSESSMENT PRINCIPLES

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

Financial statements comprise the period from 1 January 2016 to 31 December 2016. These financial statements have been approved for publication by the Company’s Board on 22 March 2017. Financial statements are approved at the shareholders meeting convened by the Board of the State Joint-Stock Company “Latvijas dzelzceļš” after the reception of auditor’s opinion and the Council’s report.

### 2.1. Accounting and assessment principles

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

This is the first financial statements of the State Joint-Stock Company “Latvijas dzelzceļš” as a separate company prepared in accordance with IFRS. For the period until 31 December 2015, financial statements were prepared in accordance with the Law On the Annual Financial Statements of the Republic of Latvia. Whereas, preparation of the consolidated financial statements of the group of companies in accordance with IFRS was commenced in 2011, therefore the separate report contains values previously used for the use of consolidated financial statements by applying requirements of the IFRS 1 “First-time Adoption of International Financial Reporting Standards”. Adjustments made according to the requirements of the IFRS are described in detail in Note 4. Other changes in the accounting policy are specified in Note 5.

Financial statements have been prepared under the original cost accounting method.

Financial statements have been prepared on the going concern basis.

The Company has closed the year of 2016 with profit in the amount (after taxes) of 881 thousand euro. In December 2016, the Company’s current liabilities exceeded the current assets by 52,013 thousand euro. Current liabilities include next period income in the amount of 19,208 thousand euro related to the investment of funds of the EU and the State budget in railway public infrastructure, therefore funds for meeting of these liabilities should not be provided for in the reporting year. Indicator of total liquidity is 0.4, but, with the exclusion of next period income from the current liabilities, this indicator is 0.6. Whereas, after exclusion of current provisions non-related to cash flow, liquidity indicator is 0.7. Having regard to all the previously mentioned circumstances, we consider that the Company has managed to provide financial balance in 2016 despite the decrease of the freight volume.

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



The following new and amended IFRS and interpretation thereof have come into effect in 2016:

- Amendments to IFRS 11 “Agreement on co-operation” on acquisition of ownership interest in a joint action (apply to the reporting periods commencing on 1 January 2016 or later);
  - Amendments to IAS 16 “Fixed assets” and IFRS 38 “Intangible investments” - explanation on allowed methods for calculation of depreciation and amortisation (apply to the reporting periods commencing on 1 January 2016 or later);
  - Amendments to IFRS 16 “Fixed assets” and IAS 41 “Agriculture” on fruit plants (apply to the reporting periods commencing on 1 January 2016 or later);
  - Amendments to IAS 27 “Separate financial statements” - application of the method of equity in separate financial statements (apply to the reporting periods commencing on 1 January 2016 or later);
  - Amendments to IAS 1 “Presentation of financial statements” on initiative of the presentation of the information to be disclosed (apply to the reporting periods commencing on 1 January 2016 or later);
  - Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure on participation in other companies” and IAS 28 “Associated companies and joint ventures” - application of consolidation exception of investment companies (apply to the reporting periods commencing on 1 January 2016 or later);
  - Annual IFRS improvements 2014 (apply to the reporting periods commencing on 1 January 2016 or later). These amendments include changes in 4 standards:
    - IFRS 5 “Non-current assets held for sale and discontinued operations”;
    - IFRS 7 “Financial Instruments: Disclosures” with the consequent amendments in IFRS 1;
    - IAS 19 “Employee benefits”;
    - IAS 34 “Interim financial statements”.
  - Amendments to IAS 19 “Employee benefits” in relation to plans of certain benefit (approved for application in the EU for to the reporting periods commencing on 1 February 2015 or later);
  - Annual IFRS improvements 2012 (apply to the reporting periods commencing on 1 July 2014 or later, approved for application in the EU for to the reporting periods commencing on 1 February 2015 or later). These amendments include changes in 6 standards:
    - IFRS 2 “Share-based Payment”;
    - IFRS 3 “Business Combination”;
    - IFRS 8 “Operating segments”;
    - IAS 16 “Fixed assets” and IAS 38 “Intangible investments”;
    - IAS 24 “Related party disclosures”.
- Several new standards and interpretations have been published, and they entered into force in the financial periods commencing on 1 January 2017 or later, or these standards and interpretations have not been approved for application in the European Union:
- IFRS 9 “Financial instruments” (apply to the reporting periods commencing on 1 January 2018 or later);
  - IFRS 15 “Revenue from contracts with purchasers” (apply to the reporting periods commencing on 1 January 2018 or later);
  - Amendments in IFRS 10 “Consolidated financial statements” and IAS 28 “Associated companies and joint ventures” - sales or asset transfer operations between the investor and its associated company or joint venture (date for the entry into force has not been set yet, not adopted in the EU at the moment);



- Amendments to IFRS 16 “Lease” (apply to the reporting periods commencing in January 2019 or later, not adopted in the EU at the moment);
  - Amendments to IAS 12 “Income taxes” - recognition of deferred tax for unrealised losses” (applicable to reporting periods commencing on 1 January 2017 or later, not adopted in the EU at the moment);
  - Amendments to IAS 7 “Cash flow statement”
    - on the initiative of the information to be disclosed (apply to the reporting periods commencing on 1 January 2017 or later, not adopted in the EU at the moment);
  - Amendments to IFRS 15 “Revenue from contracts with purchasers” (apply to the reporting periods commencing on 1 January 2018 or later, not adopted in the EU at the moment);
  - Amendments to IFRS 2 “Share-based Payment” (apply to the reporting periods commencing on 1 January 2018 or later, not adopted in the EU at the moment);
  - Amendments to IFRS 4 “Insurance contracts” - application of IFRS 9 “Financial instruments” to IFRS 4 “Insurance contracts” (apply to the reporting periods commencing on 1 January 2018 or later, not adopted in the EU at the moment);
  - Annual IFRS improvements 2016. These amendments include changes in three standards:
    - 12.SFPS IFRS 12 “Disclosure on participation in other companies” (apply to the reporting periods commencing on 1 January 2017 or later, not adopted in the EU at the moment);
    - IFRS 1 “First-time Adoption of International Financial Reporting Standards” (apply to the reporting periods commencing on 1 January 2018 or later, not adopted in the EU at the moment);
    - IAS 28 “Associated companies and joint ventures” (apply to the reporting periods commencing on 1 January 2018 or later, not adopted in the EU at the moment).
  - IFRIC 22 “Prepayment in foreign exchange transactions” (apply to the reporting periods commencing on 1 January 2018 or later, not adopted in the EU at the moment);
  - Amendments to IAS 40 “Investment properties” - re-classification (apply to the reporting periods commencing on 1 January 2018 or later, not adopted in the EU at the moment).
- The Company’s management assesses the impact of these standards on the Company’s financial statements.

## 2.2. Foreign currency revaluation

### Accounting and reporting currency

Items of financial statements are accounted in the currency of the economic environment of the Company’s operation (accounting currency). Items of financial statements are presented in the official currency of the Republic of Latvia: euro (EUR), which is the Company’s reporting currency.

### Transactions and balances in foreign currencies

All transactions in foreign currency are recalculated in euro according to the euro foreign exchange reference rate published by the European Central Bank at the beginning

of the day of transaction. If the European Central Bank has not published euro foreign exchange reference rate for the particular foreign currency, the foreign currency exchange rate in relation to euro published on the internet resource of financial information provider recognized by the world’s financial market - Financial Times - is used for the recalculation of this currency. Monetary assets and liabilities in foreign currency on the last day of the reporting year are indicated after recalculation thereof in euro in accordance with the foreign currency exchange rate applicable in accountancy according to the



foreign currency exchange rate published by the European Central Bank or Financial Times, which is valid at the end of the last day of the reporting year.

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

### Foreign currency exchange rates

| Foreign currency | EUR 31.12.2016 | EUR 31.12.2015 |
|------------------|----------------|----------------|
| USD              | 1.05410        | 1.08870        |
| CHF              | 1.07390        | 1.08350        |
| RUB              | 64.30000       | 80.67360       |

### 2.3. Intangible investments

Intangible investments mostly consist of software licences. Initially, these investments are recognized in the acquisition costs. Determined and limited time of use applies to intangible investments. Further, intangible investments are presented in the acquisition value, less the accrued depreciation and losses from the decrease in value.

Further expenses are capitalized by increasing the value of the existing intangible investment or recognized as separate intangible

investment only in case, if the Company can expect economic future benefits and these expenses can be reliably determined. Remaining expenses are written-off in income statement at the moment of arising thereof.

Depreciation of intangible investments is calculated under the linear method in order to write off the acquisition value thereof during the life cycle, and it is included in the income statement of the respective period. Basically, intangible investments are used up in 5 years.

### 2.4. Fixed assets

Fixed assets are recognized under the acquisition cost method, as described below less the accrued depreciation and any accrued depreciation in value, if necessary.

Costs directly attributable to the acquisition of fixed asset are included in the acquisition costs. Value of self-made fixed assets consists of material price and direct labour costs, as well as any other costs directly attributable to provision of fixed asset in operational condition for the intended purpose and dismantling

and removal costs of fixed assets, and restoration of the place of location of the fixed asset. Acquisition costs of such software, which are directly related to functionality of equipment and may not be separated, are capitalized as part of this equipment.

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



In case of different lifetimes of separate parts of fixed assets, they are accounted as separate parts of fixed assets. Estimated residual values and lifetimes of fixed assets are reviewed and in case adjusted on every date of reporting year.

Further costs are included in the balance-sheet value of fixed asset or recognized as a separate fixed asset only in case, when there is a high possibility that the future benefits related to this item will flow into the company and expenses of this item can be reliably determined. Other current repair and maintenance costs of fixed assets are included in the income statement of the period of incurring.

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

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

### Depreciation

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

Investments in the leased fixed assets are depreciated in the shortest of periods between the lease period or lifetime of a similar fixed asset according to rates applied to the category including investments in the leased fixed assets. Depreciation of land is not calculated.

Depreciation amount for the Company's fixed assets in the reporting period is calculated from the residual value of each fixed asset applying certain lifetime to the relevant fixed asset.

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

### Construction work in progress

Assets, which are not ready for the intended use or are in the installation process at the moment of acquisition, are classified as “Costs of unfinished building objects”. Initial value of unfinished building objects is increased during the period by costs of

loans and other direct costs related to the respective objects until putting thereof into service. Initial value of the relevant fixed asset is not increased by costs of loans in the periods, when no active development works of the unfinished building objects are carried out.



At the moment, when unfinished building objects are ready for the intended use, they are re-classified in the according category of fixed assets, and calculation of depreciation is

commenced. Unfinished building objects are evaluated on regular basis for indications of impairment.

## 2.5. Impairment of tangible and intangible assets

Lifetime has been set to all the Company's tangible and intangible assets (except for land and museum inventories). Value of the assets exposed to depreciation is reviewed every time, when events and circumstances show on possible irretrievability of the balance-sheet value thereof.

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

earning units) may be identified. Losses from impairment are recognized in the income statement.

Losses from impairment of assets recognized in the previous periods are reviewed on every date of balance-sheet for any evidence on decrease or non-existence of losses. Losses from impairment are cancelled in case of changes in estimates used for the determination of the recoverable amount. Losses from impairment are cancelled only in such amount, for which balance-sheet value of the relevant asset does not exceed the balance-sheet value less depreciation, which would be determined, if losses from impairment would not be recognized.

## 2.6. Financial instruments

The Company's financial instruments consist of financial assets (investments, loans, receivables and cash and cash equivalents available for sale) and financial liabilities (borrowings, accounts payable to suppliers and other creditors).

### Financial assets

Investments in capitals of other companies, receivables, cash and cash equivalents and granted loans are presented in the composition of financial assets. Classification depends on purpose of acquisition of financial asset. The Company determines classification of financial assets at the moment of the initial recognition thereof and reviews the classification on every review date.

Review of financial assets is discontinued at the moment of termination of the Compa-

ny's contractual obligations to the cash flow caused by the financial assets or if the Company transfers financial asset to some other party, or by transferring the most significant risks of asset and the remuneration to be received from the asset. Acquisition and sale of financial assets within the basic activity is accounted on the day of trade, i.e., on the date, when the Company decides to purchase or sell the asset.

All the Company's financial assets are non-derivative financial assets not quoted on active market. They are included in the current assets, except for the assets with the repayment period longer than 12 months, counting from the end of the reporting period. These, in their turn, are classified as long-term investments.



### **Investments available for sale**

Investments available for sale are non-derivative financial instruments, which may not be classified in any other category. These investments are presented in the composition of non-current assets, unless the investment falls due or the Management is planning sale thereof within 12 months from the day of the reporting year. Capital instruments not quoted in the Exchange, the fair value of which may not be determined precisely, are evaluated according to the initial acquisition costs thereof, less impairment. Dividends from investments are recognized in the income statement at the moment, when legitimate rights thereto arise to the Company.

### **Loans and receivables**

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

Receivables and loans are initially recognized in the fair value and further presented in the depreciated acquisition value by applying the effective interest rate method, less provisions for impairments. Provisions for impairments are provided in cases, when there is objective evidence that the Company will not be able to receive debts in full value according to initially set repayment deadlines. Significant financial difficulties of debtor, possibility of initiation of bankruptcy proceedings or reorganization, as well as failure to meet the payment liabilities or violations are indicators that value of receivables has decreased. Provision for impairment is the difference between the asset's balance-sheet value and the current value of the estimated future cash flow determined by discounting with the initial valid interest rate. Provision for impairment is included in separate provisions account, and losses are recognized in income statement.

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

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances of current accounts and short-term deposits with the initial maturity shorter than 90 days, and highly liquid short-term investments, which may be easily converted to cash in case of necessity and which are not exposed to significant impairment risk.

### **Financial liabilities**

Borrowings, accounts payable to suppliers and other creditors are presented in the composition of financial liabilities.

### **Creditors**

Accounts payable to creditors are initially recognized in the fair value. In the further periods, accounts payable to creditors are reflected in the depreciated acquisition value by applying effective interest rate. Creditors are classified as current liabilities, if the payment term is one year or less. If the payment term exceeds one year, creditors are presented as non-current liabilities.

### **Borrowings**

Initially, borrowings are recognized in the actual value, less the costs related to reception of borrowing. In the further periods, borrowings are presented in the depreciated acquisition value by applying effective interest rate.

Difference between the received amount of funds, less the costs related to reception of borrowing and the clearance value of borrowing, is gradually included in the income statement by applying effective borrowing interest rate. This difference is recognized in the composition of financial costs.



Revenue are classified as current liabilities, except for the cases, when the Company has irrevocable right to postpone settlement of liabilities for at least 12 months after the date of the balance-sheet.

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

## 2.7. Inventories

Inventories are accounted in the lowest value between prime cost or net sales value. Net sales value consists of the sales price of inventories set during the normal Company's operation, less completion and sales costs of inventories. Acquisition value is set by applying the average weighed inventories assessment method for fuel FIFO (first in -first out)

method for the remaining components of inventories.

In case of necessity, provisions for impairment are constituted for the impairment of outdated, low rate turnover or damaged inventories. The amount of provisions is included in the income statement.

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

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

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

## 2.9. Other reserves

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

"Other reserves" have been constituted in the composition of equity for this purpose. Use and distribution of the remaining reserves is within the competence of the meeting of shareholders.

## 2.10. Costs of accrued, but not taken leaves

Costs of accrued, but not taken leaves are calculated by multiplying the number of days of not taken leave by the end of the reporting

year by the daily average remuneration for the last six months.



## 2.11. Provisions

Provisions are recognized, when legal or constructive liabilities have occurred to the Company due to past activities, and it is expected that meeting of these liabilities will require outflow of resources including economic benefits from the Company, and when amount of liabilities can be evaluated sufficiently reliably.

If the Company predicts that expenses necessary for making the provisions will be partly or fully repaid, the repayment of these expenses is recognised as a separate asset solely if it is practically clear that these expenses will actually be repaid. Expenses related to any provisions are reflected in the income statement by subtracting the recovered amounts.

## 2.12. Corporate income tax for the reporting year and deferred corporate income tax

Income tax consists of the tax calculated for the reporting year and deferred. Income tax is presented in the income statement.

Corporate income tax is calculated in accordance with the tax law valid at the end of the reporting period. Current law provides for tax rate 15 per cent.

Deferred tax is fully accumulated under the liabilities method in relation to all temporary differences between the values of assets and liabilities in financial statements and values thereof for the tax calculation purposes.

Tax rate (and law) expected in periods, when temporary differences will equalize on the basis of tax rates set on the date of the balance-sheet.

Temporary differences result mainly from use of different depreciation rates of intangible investments and fixed assets, as well as from outdated, low rate turnover or damaged inventories and accrued premiums. In cases, when the total result of the deferred tax calculation should be reflected in the assets section of the balance-sheet, it is included in the financial statements only in case, when recovery thereof is surely expected.

## 2.13. Revenue recognition

Revenue is the total value of services provided during the year, less given discounts and value added tax. Revenue is evaluated in the actual value of the remuneration received or to be received. The Company recognizes revenue, when the amount thereof may be credibly estimated, when inflow of economic benefits into the Company is credible as well as by complying with specific criteria applying to each of the Company's actions described below.

The Company provides the following services:

- Services related to use of public railway infrastructure - provided access to railway infrastructure by the infrastructure manager to all operators without exceptions. Revenue from services related to use of public railway infrastructure is calculated by applying fee for use of public railway infrastructure in train kilometres approved by the executor of the essential functions of the manager of public railway infrastructure JSC (AS) "LatRailNet", set in accordance with the fee setting methodology approved by the PUC according to the number of actually ridden kilometres, and recognized in the reporting period of the actual train traf-



fic. Methodology for the calculation of fee for the use of public railway infrastructure for traffic has been approved by the Decision No. 1/21 adopted by the Council of PUC on 21 September 2011.

- Additional services provided by the infrastructure manager - handling of freight wagons with and without formation of trains, technical maintenance and inspection of wagons. Revenue is recognized in the period, when the services are provided.
- Lease services - the Company leases out the buildings, structures, land and other fixed assets, which are not necessary for the basic activity, first - to operators and other business companies and institutions related to operation of railway system. Only vacant areas and sites, which are not necessary for the basic activity, are offered on the free market. Leasing out of the unused areas located at the railway infrastructure sites to external clients decreases prime cost of the basic service. This results in increase of competitiveness of the basic service, furthermore, efficiency of the use of sites improves. Revenue is recognized in the period, when the services are provided.
- Electricity sales services - provision of electricity distribution and trade services for natural persons, legal entities, dependant subsidiary companies and electricity procurement for the electric traction of passenger trains. Costs of distribution of electricity (traction sub-stations and contact networks) for the needs of traction of passenger trains are included in the fee for the use of traffic by public railway infrastructure and are excluded from this service. For electricity consumers "Latvijas dzelzceļš" provides electricity sales services by meeting the

obligations provided for by the Energy Law, Law On Regulators of Public Utilities and Cabinet Regulation No. 50, Regulations Regarding the Trade and Use of Electricity. "Latvijas dzelzceļš" operates as the primary service provider, thus revenue and costs are recognized in gross value. Revenue is calculated by multiplying the tariff by the number of consumer kilowatt-hours and recognized in the period of consumption.

- Principal services include submission of the entry summary declaration, drawing up of transit declaration, meeting of liabilities related to payment of customs debt into the State budget. Revenue is recognized in the period of provision of the services.
- Electronic communication services - data and electronic message transmission services, leased line services, services related to access to electronic communications network infrastructure, public fixed electronic communications network voice telephony services and interconnection services. Revenue is recognized by the actual network use in the relevant reporting period.
- Information technology services - include services related to information systems of freight and passenger traffic, train traffic, as well as business support, control and management information systems. Revenue is recognized in the period of provision of the services.
- Other services - These services include management services for the dependent companies, sale of self-produced thermal energy, management services and various other small-scale services for legal entities and natural persons. Revenue is recognized in the period of provision of the services.



### Interest income

Interest income are recognized under the inventories method by applying the effective interest rate. Interest revenue from cash and cash equivalents are classified as financial income.

### Income from penalties

According to the precautionary principle, contractual penalties, including late payment interest for delayed payments, are recognized in revenue only after reception thereof.

## 2.14. Lease agreements

### Operating lease

Lease transactions according to which the lessor retains significant part of the risk and remuneration characteristic to property rights are classified as operating lease.

#### The Company is the lessor

Assets leased out in the operating lease are presented in the composition of fixed assets in the acquisition value, less depreciation. Depreciation is calculated under the linear method. Lease revenue from operating lease and the prepayments received from clients are included in the income statement of the relevant lease period under the linear method.

The Company leases out the buildings, structures, land and other fixed assets, which are not necessary for the basic activity. Insignificant part of buildings and land is leased out, therefore these fixed assets are not re-classified into investment properties.

There are no significant irrevocable payments or income of operating lease arising from transactions, where the Company is the lessor.

#### The Company is the lessee

Payments made in accordance with the operating lease contract are presented in the income statement in the period of the

### Income from dividends

Income from dividends is recognized, when legal right thereto arises.

relevant lease contract under the linear method.

#### Financial lease - the Company is the lessee

Financial lease transactions, within which the Company is transferred all risks and remuneration arising out of the property rights to the lease object, are recognized in the balance-sheet as fixed assets for the amount, which complies with the fair value of the leased property at the beginning of lease, or, if such value is lower, with the current value of the minimum rent payments with the relevant reflection in short-term and non-current liabilities. Payments of financial lease are distributed between financial costs and decrease of liabilities so that permanent interest rate for the balance of liabilities was provided for in each period. Financial costs are included in the income statement.

If there are sufficient justifiable grounds for believing that the respective lease object will pass to the lessee at the end of the lease period, lifetime of the relevant asset is assumed as the expected time of use. In all the other cases, depreciation of capitalized leased assets is calculated under the linear method, in the estimated lifetime of the assets or in the lease period, whichever is shorter.



## 2.15. State co-funding and EU funds

State co-funding and EU funds are recognized in the fair value thereof at the moment, when there is sufficient assurance in reception thereof and it may be credibly ascertained that the Company will be able to fulfil all the provisions related to reception of these funds.

State co-funding attributable to assets (fixed assets) and the EU funds are presented in the balance-sheet item "Next period income" and periodically recognized in the income statement in proportion with the depreciation of the relevant assets (fixed assets) during their lifetime.

## 2.16. Related parties

State, members of the Council and Board of the Company, their close relatives and the companies, in which the aforementioned per-

sons have control or significant influence, are considered as related parties.

## 2.17. Events after balance sheet date

Financial statements reflect such events after the end of the reporting year, which provide additional information on the Company's financial position on the date of preparation of the balance sheet (adjusting

events). If events after the end of the reporting year are not adjusting, they are reflected in the notes to the financial statements only if they are crucial.

## 2.18. Employee benefits

### Social insurance and pension plan contributions

The Company makes social insurance contributions for the state pension insurance in the state funded pension scheme in accordance with the Latvian law. State funded pension scheme is a fixed-payment pension plan, in accordance with which the Company is obliged to make payments in the amount defined in law. The Company does not face additional legal or constructive liabilities to make additional payments, if the state funded pen-

sion scheme is not able to meet its liabilities in relation to the employees. Social insurance contributions are recognized as costs by applying the principle of provisions and included in employee costs. In accordance with the Regulations of the Cabinet Regulation No. 747 of 22.12.2015, Regulations Regarding the Distribution of State Social Insurance Contribution Rate by State Social Insurance Types for 2016, 69.99 % (in 2015: 71.55 %) of the mandatory state social insurance contributions are paid to finance the contribution pension system determined by the state.

## 2.19. Investments in capitals of subsidiary and associated companies

Investments in capitals of subsidiary and associated companies are accounted in the acquisition amount thereof, less the losses caused by impairment.

The Company recognized the income only in case, if it receives a share of profit from its subsidiary or associated company after the acquisition date. Received amounts exceed-



ing this profit are considered as recovery of investments and registered as impairment of the investment's acquisition value.

In case of objective evidence on impairment in the balance-sheet value of the investment in subsidiary or associated company, losses caused by such impairment are calculated as difference between the investment

balance-sheet value and its recoverable value. Recoverable value is set as the highest of these two indicators – fair value of investment, less sales costs, and value of use. Losses from the impairment in value of the investment may be reversed, if estimates used for the determination of impairment have changed since the last recognition of losses caused by impairment.

### 3. SIGNIFICANT ASSUMPTIONS AND JUDGEMENTS

In order to prepare financial statements in accordance with the IFRS, significant assumptions must be made. Besides, during the preparation of reports, the Management must make assumptions and judgements applying the accounting policy selected by the Company.

Preparation of financial statements in accordance with IFRS requires use of estimates and assumptions affecting the values of assets and liabilities presented in financial statements and the information provided in notes on the date of financial statements, as well as the revenue and expenses recognized during the reporting period. Actual results may differ from these estimates. Areas, which may be potentially most affected by assumptions, are the Management's assumptions and calculations by determining the recoverable value of assets and amount of provisions as described below.

#### **Lifetime of fixed assets**

On the end date of each reporting period, the Company assesses the remaining lifetime of the fixed assets thereof. According to the latest evaluations carried out by the Company's Financial Directorate, the current lifetime corresponds to the period of actual use of the Company's fixed assets.

#### **Fair value of fixed assets as implied costs**

Detailed information on the evaluation of fair value and the Management's assumptions is provided in Note 4.1.

#### **Provisions**

When evaluating the amount of provisions, the Management grounds on estimates regarding the possible amount of liabilities, as well as the term of the possible meeting of the liabilities. If these events do not realise or realise in different way, amount of actual costs may differ from the estimated. More detailed information on assumptions in relation to provisions is provided in notes No. 25.

## 4. TRANSITION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

### 4.1. Description of the impact of first application of the IFRS on financial reports

These are the first financial statements of State Joint-Stock Company "Latvijas dzelzceļš" prepared in accordance with the IFRS. The financial statements for the period until 31 December 2015 was prepared in accordance

with the Law On the Annual Financial Statements of the Republic of Latvia.

Meanwhile consolidated financial statements of the Group in accordance with the



IFRS are prepared since 2011, therefore the values previously used for the preparation of consolidated financial statements applying requirements of the IFRS 1 “First-time Adoption of International Financial Reporting Standards” were used in the Company’s report on the transition date (1 January 2015).

Accounting and evaluation principles outlined in Note 2 were applied during the preparation of these financial statements for 2016, as well as during the preparation of comparative indicators for 2015 and presentation of opening balances on 1 January 2015. (transition dated to the IFRS).

When preparing the opening balance in accordance with the IFRS, the Company adjusted balances presented in the financial statements prepared in accordance with the Law On the Annual Financial Statements (LAFS). Explanations for the performed adjustments, impact thereof on the Company’s financial statements and application of the IFRS 1 “First-time Adoption of International Financial Reporting Standards” (IFRS 1) were provided in this note and the relevant explanatory tables.

#### **4.2. Comparison between the Company’s financial statements prepared in accordance with the LAFS and the Company’s financial statements prepared in accordance with the IFRS.**

IFRS 1 provides for that the Company shall present the adjustments made in the equity, statement of comprehensive income, statement of the financial position and cash flow statement for the relevant periods.

First-time adoption of the IFRS did not affect the joint Company’s cash flows, as well as the cash flows from operating action. Item “Received subsidies, grants, gifts or donations” was re-classified from financing to investment cash flow in the amount of EUR 60,262,171 in 2015. Separate comparison for the cash flow statement is not provided.

When preparing these financial statements, the Company presented on the date of transition to the IFRS opening assets and liabilities in the same amounts as in the consolidated financial statements on 1 January 2015.

On 1 January 2009, the group opted for the option allowed by the IFRS 1 to present the fair value of fixed assets as implied costs. Thus, the Company has applied the same value to fixed assets on 1 January 2015 as in the Group’s financial statements on that date.

Exemption of investments in subsidiary companies, jointly managed companies and associated companies was applied to all business mergers before 1 January 2015.

Mandatory exceptions from retroactive application of other IFRS are as follows:

- Finanšu Exception of de-recognition of financial assets and financial liabilities does not apply to the Company’s operation;
- Exception of hedge accounting does not apply to the Company’s operation;
- Estimates made on the transition date in accordance with the IFRS do not differ from the estimates made in accordance with the LAFS.

Adjustments made to meet the requirements of the IFRS 1, are specified in the tables below:

- Adjustments of equity on 1 January 2015;
- Adjustments of equity on 31 December 2015;
- Adjustments of statement of comprehensive income for 2015;
- Adjustments of statement the financial position on 1 January 2015;
- Adjustments of statement the financial position on 31 December 2015.

**SUMMARY OF ADJUSTMENTS OF EQUITY**

(EUR)

|  | Note | 01.01.2015         | 31.12.2015         |
|--|------|--------------------|--------------------|
| <b>Equity in accordance with the LAFS</b>  |      | <b>267,429,090</b> | <b>267,564,880</b> |
| Application of fair values of fixed assets as implied costs thereof                  | 4.1. | 32,676,247         | 28,665,865         |
| Adjustment of deferred tax from revaluation of fixed assets in implied costs thereof | 4.1. | (4,874,697)        | (4,274,444)        |
| Adjustment of deferred tax from re-classification of provisions for leaves           |      | (794,851)          | (778,005)          |
| <b>Equity in accordance with the IFRS</b>  |      | <b>294,435,789</b> | <b>291,178,296</b> |

**STATEMENT OF THE FINANCIAL POSITION ON 1 JANUARY 2015**

(EUR)

| Note                                     | LAFS               | Adjustments       | IFRS               |
|--|--------------------|-------------------|--------------------|
| <b>Assets</b>                            |                    |                   |                    |
| Fixed assets                             | 565,191,225        | 32,676,247        | 597,867,472        |
| Intangible investments                   | 1,508,081          | -                 | 1,508,081          |
| Advance payments                         | 31,128,814         | -                 | 31,128,814         |
| Non-current financial investments        | 126,195,963        | -                 | 126,195,963        |
| Current assets                           | 94,875,015         | -                 | 94,875,015         |
| <b>Total assets</b>                      | <b>818,899,098</b> | <b>32,676,247</b> | <b>851,575,345</b> |
| <b>Liabilities</b>                       |                    |                   |                    |
| Share capital                            | 256,720,375        | -                 | 256,720,375        |
| Other reserves                           | 1                  | -                 | 1                  |
| Retained earnings of the previous years  | -                  | 32,676,247        | 32,676,247         |
| Retained earnings for the reporting year | 10,708,714         | (5,669,548)**     | 5,039,166          |
| Provisions (in non-current liabilities)  | 30,937,816         | (30,232,147)*     | 705,669            |
| Deferred income tax liability            | 9,582,137          | 5,669,548**       | 15,251,685         |
| Other non-current liabilities            | 408,463,721        | -                 | 408,463,721        |
| Provisions (in current liabilities)      | -                  | 24,933,137*       | 24,933,137         |
| Other current liabilities                | 102,486,334        | 5,299,010*        | 107,785,344        |
| <b>Total liabilities</b>                 | <b>818,899,098</b> | <b>32,676,247</b> | <b>851,575,345</b> |

\* On 1 January 2015 and further dates of the relevant reporting year, re-classification of the share of provisions from the balance-sheet item "Provisions" to current creditors' liabilities, which in accordance with the Law on the Annual Financial Statements were previously presented in separate balance-sheet item, which is neither in non-current nor in current section, was provided. Accrued leave costs in the amount of EUR 5,299,010 and provision for the amount of maintenance of public railway infrastructure in the amount of EUR 24,933,137 were classified in the composition of the accrued current liabilities on the basis of the foreseen realisation periods in accordance with the requirements of the IFRS. Due to amendments in the Law on the Annual Financial Statements, re-classification of accrued leave costs caused additional liabilities of deferred tax in the amount of EUR 794,851.

\*\* Adjustment of retained earnings and deferred tax according to revaluation of fixed assets to the fair value by the implied costs thereof (EUR 4,874,697) and re-classification for the provisions for leaves (EUR 794,851).



## STATEMENT OF THE FINANCIAL POSITION ON 31 DECEMBER 2016

(EUR)

| Note                                     | LAFS               | Adjustments       | IFRS               |
|--|--------------------|-------------------|--------------------|
| <b>Assets</b>                            |                    |                   |                    |
| Fixed assets                             | 711,965,950        | 28,665,865        | 740,631,815        |
| Intangible investments                   | 1,529,644          | -                 | 1,529,644          |
| Advance payments                         | 743,926            | -                 | 743,926            |
| Non-current financial investments        | 126,195,963        | -                 | 126,195,963        |
| Current assets                           | 23,388,528         | -                 | 23,388,528         |
| <b>Total assets</b>                      | <b>863,824,011</b> | <b>28,665,865</b> | <b>892,489,876</b> |
| <b>Liabilities</b>                       |                    |                   |                    |
| Share capital                            | 256,720,375        | -                 | 256,720,375        |
| Other reserves                           | 8,777,315          | -                 | 8,777,315          |
| Retained earnings of the previous years  | -                  | 27,006,699        | 27,006,699         |
| Retained earnings for the reporting year | 2,067,190          | (3,393,283),**    | (1,326,093),       |
| Provisions (in non-current liabilities)  | 27,035,604         | (25,951,807),*    | 1,083,797          |
| Deferred income tax liability            | 11,953,420         | 5,052,449**       | 17,005,869         |
| Other non-current liabilities            | 486,433,803        | -                 | 486,433,803        |
| Provisions (in current liabilities)      | -                  | 20,765,107*       | 20,765,107         |
| Current liabilities                      | 70,836,304         | 5,186,700         | 76,023,004         |
| <b>Total liabilities</b>                 | <b>863,824,011</b> | <b>28,665,865</b> | <b>892,489,876</b> |

\* Re-classification of the share of provisions from the balance-sheet item "Provisions" to current creditors' liabilities: on the basis of the foreseen realisation periods, in accordance with the requirements of the IFRS, provision for the maintenance of public use railway in the amount of EUR 20,765,107, which in accordance with the Law on the Annual Financial Statements was previously presented in separate balance-sheet item, which is neither in non-current nor in current section, was re-classified.

\*\* Adjustments made to the profit for the reporting year for 2015 apply to increase of fixed assets depreciation, as well as to decrease of the deferred tax costs arising from the fair value as application of the implied costs to fixed assets and re-classification of provisions for leaves.

**STATEMENT OF COMPREHENSIVE INCOME IN 2015**

(EUR)

|  | LAFS                | Adjustments         | IFRS                |
|--|---------------------|---------------------|---------------------|
| Revenue  | 217,799,590         | -                   | 217,799,590         |
| Production cost of goods sold  | (227,929,551)       | (3,214,405)         | (231,143,956)       |
| <b>Gross profit</b>  | <b>(10,129,961)</b> | <b>(3,214,405)</b>  | <b>(13,344,366)</b> |
| Administrative expenses  | (18,202,779)        | -                   | (18,202,779)        |
| Other operating income   | 40,192,117          | (2,889,235)**       | 37,302,882          |
| Other operating costs  | (7,238,247)         | 2,093,258           | (5,144,989)         |
| Income from participation in the capital of companies and securities, and loans which make long-term investments | 1,889,582           | -                   | 1,889,582           |
| Financial costs, net   | (2,072,239)         | -                   | (2,072,239)         |
| <b>Profit before corporate income tax</b>  | <b>4,438,473</b>    | <b>(4,010,382)</b>  | <b>428,091</b>      |
| Corporate income tax   | (2,371,283)         | 617,099             | (1,754,184)         |
| <b>Profit for the reporting year</b>   | <b>2,067,190</b>    | <b>(3,393,283)</b>  | <b>(1,326,093)</b>  |
| <b>Comprehensive income for the reporting year</b>   | <b>2,067,190</b>    | <b>(3,393,283)*</b> | <b>(1,326,093)</b>  |
| <b>Comprehensive income for the reporting year attributable to the shareholders</b>                              | <b>2,067,190</b>    | <b>(3,393,283)</b>  | <b>(1,326,093)</b>  |

\* Adjustments to the profit of reporting year for 2015 apply to the increase of fixed assets depreciation, as well as to decrease of the deferred tax costs arising from the fair value as application of the implied costs to fixed assets.

\*\* Adjustments to other operating income and costs respectively were made by offsetting revenue and costs related to exclusion of long-term investment object and sale of inventories.

**5. CHANGE OF ACCOUNTING POLICY**

Along with the transition to the IFRS, "Latvijas dzelzceļš" switched to application of the linear method for the purposes of calculation of fixed assets depreciation from 01.01.2016. Change of policy provides fairer reflection of balances, because, on the basis of the historical experience, fixed assets physically deteriorates gradually and do not comply with the substance of degressive method, which was applied previously and when depreciation is written off more rapidly in the first years of operation of the fixed asset.

According to IFRS, upon change of the accounting policy, it is to be applied retrospectively by adjusting the comparative information of the equity and other items for previous

periods, as if it had been effective in the previous reporting periods.

Retrospective application of change of accounting policy in relation to calculation of fixed assets depreciation under the linear method is impossible, because the Company has more than 80 thousand fixed assets, the retrospective application of which requires significant estimates of amount, which is impossible to calculate objectively taking into account movement of the fixed assets. Therefore, the Company has applied condition of Clause 25 of the IFRS 8 allowing for skipping of retrospective reflection, if calculation is not possible.

**6. REVENUE**

(EUR)

| Types of activity   | 2016               | 2015               |
|---|--------------------|--------------------|
| Fee for the use of public railway infrastructure                    | 131,982,449        | 150,835,972        |
| Additional services of the infrastructure manager                   | 32,170,614         | 36,138,099         |
| Lease services  | 7,341,028          | 8,572,419          |
| Electricity sales services  | 7,146,882          | 7,252,909          |
| Information technology services                                     | 4,572,460          | 4,329,741          |
| Principal services  | 3,292,696          | 3,778,578          |
| Specific services related to servicing and repair of infrastructure | 569,330            | 1,433,706          |
| Electronic communication services                                   | 682,426            | 922,219            |
| Other services  | 4,814,354          | 4,535,947          |
| <b>Total</b>  | <b>192,572,239</b> | <b>217,799,590</b> |

**7. PRODUCTION COST OF GOODS SOLD**

(EUR)

| Elements of the production cost of the goods sold       | 2016                      | 2015               |
|---|---------------------------|--------------------|
| Wage  | 71,131,072                | 75,916,461         |
| Mandatory state social insurance contributions          | 16,625,806                | 17,724,423         |
| Materials and fuel                                      | 10,451,150                | 11,057,583         |
| Electricity   | 10,720,741                | 10,674,587         |
| Depreciation of fixed assets and intangible investments | 50,624,535 <sup>*1)</sup> | 70,183,375         |
| Other selling expenses                                  | 39,040,695 <sup>*2)</sup> | 45,587,527         |
| <b>Total</b>  | <b>198,593,999</b>        | <b>231,143,956</b> |

\*1) Depreciation of fixed assets and intangible investments includes shares of the amounts of routine depreciation write-offs of the objects constituted for the co-funding received from the EU funds and the state (EUR 19,146,442) applying to the received financial support.

\*2) Other costs include payment for the services provided by the Commercial Company of Certified Auditors LLC (SIA) "PricewaterhouseCoopers":

(EUR)

|                                       | 2016   | 2015   |
|---------------------------------------|--------|--------|
| On the annual report audit            | 63,703 | 56,203 |
| On carrying out of other expert tasks | 84,460 | 218    |

**8. ADMINISTRATION COSTS**

(EUR)

| Types of activity  | 2016              | 2015              |
|--|-------------------|-------------------|
| Wage   | 9,998,281         | 12,110,249        |
| Mandatory state social insurance contributions                                     | 2,316,421         | 2,565,174         |
| Materials, fuel, electricity   | 173,596           | 225,919           |
| Depreciation of fixed assets and intangible investments                            | 405,821           | 869,173           |
| Other selling expenses   | 1,851,888         | 2,432,264         |
| <b>Total</b>   | <b>14,746,007</b> | <b>18,202,779</b> |
| including remuneration to the members of the Board and the Council* of the Company | 393,277           | 236,824           |
| including wage   | 318,211           | 211,097,          |
| mandatory state social insurance contributions (employer's contributions)          | 75,066            | 25,727            |

\* The Council of SJSC (VAS) "Latvijas dzelzceļš" was established on 22.07.2016.

**9. OTHER OPERATING INCOME**

(EUR)

| Types of activity  | 2016              | 2015              |
|--|-------------------|-------------------|
| Profit from sale of inventories  | 118,533           | 4,048,754         |
| Losses from sale of fixed assets   | 436,594           | 215,751           |
| Penalty and late payment interest  | 189,097           | 112,561           |
| Revenue from social infrastructure   | 285               | 521               |
| Gradual recognition of next period revenue   | 19,146,442        | 28,156,081        |
| Adjustment of provisions for doubtful receivables                                  | -                 | 14,947            |
| Adjustment of provisions for materials unused for longer than a year (see Note 20) | 16,034            | -                 |
| Adjustment of other provisions   | 7,351,846         | 4,324,553         |
| Other income   | 526,171           | 429,714           |
| <b>Total</b>   | <b>27,785,002</b> | <b>37,302,882</b> |



## 10. OTHER OPERATING COSTS

(EUR)

|  | 2016             | 2015             |
|--|------------------|------------------|
| Losses from liquidation of fixed assets                              | 1,988,529        | 2,683,379        |
| Fluctuations of foreign exchange rates                               | 80,695           | 676,485          |
| Currency exchange  | 5,013            | 14,712           |
| Penalty and late payment interest                                    | 6,182            | 6,072            |
| Social infrastructure maintenance costs                              | 24,489           | 24,892           |
| Costs directly not related to economic activity *1)                  | 806,076          | 862,234          |
| Adjustment of provisions for doubtful receivables                    | 86,748           | -                |
| Adjustment of provisions for materials unused for longer than a year | -                | 303,842          |
| Adjustment of provisions for possible losses from litigation         | -                | 363,323          |
| Adjustment of other provisions (see Note 25)                         | 10,691           | 14,805           |
| Other expenses   | 114,239          | 195,245          |
| <b>Total</b>   | <b>3,122,662</b> | <b>5,144,989</b> |
| *1) including:   |                  | (EUR)            |
| <b>Type of costs</b>   | <b>2016</b>      | <b>2015</b>      |
| Donations  | 106,500          | 132,996          |

## 11. REVENUE FROM PARTICIPATION IN SUBSIDIARY AND ASSOCIATED COMPANIES

(EUR)

|  | 2016         | 2015      |
|--|--------------|-----------|
| Dividends received from the subsidiary companies of "Latvijas dzelzceļš" | 4,057,000*1) | 1,732,542 |
| *1) Dividends received in 2016 for the previous reporting year from:     |              |           |
| LLC (SIA) "LDZ CARGO"  | 2,840,624    |           |
| LLC (SIA) "LDZ ritošā sastāva serviss"                                   | 1,065,288    |           |
| LLC (SIA) "LDZ infrastruktūra"   | 132,599      |           |
| JSC (AS) "LatRailNet"  | 16,270       |           |
| LLC (SIA) "LDZ apsardze"   | 2,219        |           |

## 12. INCOME FROM SECURITIES AND LOANS, WHICH MAKE LONG-TERM INVESTMENTS

(EUR)

|   | 2016    | 2015    |
|---|---------|---------|
| Dividend income                                   | 249,590 | 157,040 |
| incl. Belarusian - Latvian joint venture "MIRIGO" | -       | 740     |
| LLC (SIA) "STREK"                                 | 249,590 | 156,300 |

**13. FINANCIAL COSTS, NET**

(EUR)

|                             | 2016               | 2015               |
|-----------------------------|--------------------|--------------------|
| <b>Financial revenue</b>    | <b>277,196</b>     | <b>80,162</b>      |
| Bank interest               | 266                | 509                |
| Other interest income       | 276,930            | 79,653             |
| <b>Financial costs</b>      | <b>(2,187,457)</b> | <b>(2,152,401)</b> |
| Bank interest               | (2,143,419)        | (2,152,280)        |
| Other interest costs        | (44,038)           | (121)              |
| <b>Financial costs, net</b> | <b>(1,910,261)</b> | <b>(2,072,239)</b> |

**14. CORPORATE INCOME TAX**

The Company calculates corporate income tax in accordance with the laws of the Republic of Latvia.

**CORPORATE INCOME TAX OVERPAYMENT FOR THE REPORTING YEAR**

(EUR)

|                                     | 2016           | 2015             |
|-------------------------------------|----------------|------------------|
| <b>Overpayment on 1 January</b>     | <b>485,535</b> | <b>1,165,276</b> |
| Paid in the previous reporting year | -              | 485,535          |
| Offset for other taxes              | (485,535)      | (1,165,276)      |
| <b>Overpayment on 31 December</b>   | <b>-</b>       | <b>485,535</b>   |

**EXPENSES OF THE CURRENT CORPORATE INCOME TAX**

(EUR)

|   | 2016             | 2015             |
|---|------------------|------------------|
| Increase of deferred corporate income tax liabilities | 5,409,904        | 1,754,184        |
| <b>Total</b>  | <b>5,409,904</b> | <b>1,754,184</b> |

Corporate income tax differs from the theoretical tax amount, which would arise, if the interest rate provided for in the law was applied to the Company's gross profit:

(EUR)

|  | 2016      | 2015     |
|--|-----------|----------|
| Profit before corporate income tax                                 | 6,290,902 | 428,091  |
| Theoretically calculated corporate income tax, 15 %                | 943,635   | 64,214   |
| Permanent differences, 15 %*                                       | 943,635   | 64,214   |
| <b>Expenses of the corporate income tax for the reporting year</b> | <b>-</b>  | <b>-</b> |

\* Permanent differences mainly consist of reduction of the taxable income, since the amount of depreciation calculated under the linear method and included in costs is lower than the allowed deductions for tax purposes, as well as the received dividends.



## DEFERRED CORPORATE INCOME TAX

## MOVEMENT OF DEFERRED TAX:

(EUR)

|   | Depreciation of<br>fixed assets | Other accrued<br>costs | Total             |
|---|---------------------------------|------------------------|-------------------|
| <b>01.01.2015</b>                       | <b>15,400,088</b>               | <b>(148,403)</b>       | <b>15,251,685</b> |
| Costs/(revenue) in the income statement | 1,801,981                       | (47,797)               | 1,754,184         |
| <b>31.12.2015</b>                       | <b>17,202,069</b>               | <b>(196,200)</b>       | <b>17,005,869</b> |
| Costs/(revenue) in the income statement | 5,409,102                       | 802                    | 5,409,904         |
| <b>31.12.2016</b>                       | <b>22,611,171</b>               | <b>,(195,398)</b>      | <b>22,415,773</b> |

## NETO ATLIKTĀ NODOKĻA SAISTĪBAS

(EUR)

|   | 31.12.2016        | 31.12.2015        | 01.01.2015        |
|---|-------------------|-------------------|-------------------|
| Deferred net tax assets to be equalized in 12 months                | (195,398)         | (196,200)         | (148,403)         |
| Deferred net tax liabilities to be equalized in more than 12 months | 22,611,171,       | 17,202,069        | 15,400,088        |
| <b>Total deferred net tax liabilities</b>                           | <b>22,415,773</b> | <b>17,005,869</b> | <b>15,251,685</b> |



## 15. FIXED ASSETS

(EUR)

|  | Plots of land  | Buildings, structures and railway tracks, perennial plantings | Long-term investments in leased fixed assets | Railway transport technological equipment, machines and rolling stock | Computing devices and equipment thereof, means of communication, photocopiers and equipment thereof | Other fixed assets | Costs of unfinished construction objects | Total (EUR)          |
|--|----------------|---|--|---|---|--------------------|--|----------------------|
| <b>Implied value on 01.01.2015</b>         | <b>808,997</b> | <b>863,916,669</b>  | <b>2,513,144</b>                             | <b>240,083,348</b>  | <b>30,359,523</b>   | <b>27,187,720</b>  | <b>53,255,813</b>                        | <b>1,218,125,214</b> |
| Acquisition and completion of fixed assets | 31,500         | 120,747,661   | -  | 64,635,536  | 2,132,460   | 2,684,267          | 26,095,046                               | 216,326,470          |
| Re-classified                              | -              | (241,247)   | -  | 700,000   | 681,940   | (1,140,693)        | -  | -                    |
| Write-off of fixed assets                  | (10,245)       | (12,899,773)  | -  | (2,634,731)   | (499,064)   | (481,073)          | (282,796)                                | (16,807,682)         |
| <b>Initial value on 31.12.2015</b>         | <b>830,252</b> | <b>971,523,310</b>  | <b>2,513,144</b>                             | <b>302,784,153</b>  | <b>32,674,859</b>   | <b>28,250,221</b>  | <b>79,068,063</b>                        | <b>1,417,644,002</b> |
| <b>Accrued depreciation on 01.01.2015</b>  | <b>-</b>       | <b>445,899,822</b>  | <b>270,007</b>                               | <b>131,043,202</b>  | <b>22,370,924</b>   | <b>20,165,862</b>  | <b>-</b>                                 | <b>619,749,817</b>   |
| Calculated depreciation                    | -              | 42,472,109  | 225,888                                      | 21,099,838  | 4,222,140   | 2,452,880          | -  | 70,472,855           |
| Re-classified                              | -              | 791,412   | -  | 1,922,494   | (1,708,928)   | (1,004,978)        | -  | -                    |
| Write-off of depreciation                  | -              | (10,160,905)  | -  | (2,356,359)   | (491,092)   | (469,361)          | -  | (13,477,717)         |
| <b>Accrued depreciation on 31.12.2015</b>  | <b>-</b>       | <b>479,002,438</b>  | <b>495,895</b>                               | <b>151,709,175</b>  | <b>24,393,044</b>   | <b>21,144,403</b>  | <b>-</b>                                 | <b>676,744,955</b>   |
| <b>Impairment on 01.01.2015</b>            | <b>-</b>       | <b>273,728</b>  | <b>-</b>                                     | <b>48,534</b>   | <b>-</b>  | <b>938</b>         | <b>184,725</b>                           | <b>507,925</b>       |
| Impairment reversal                        | -              | (35,103)  | -  | (19,927)  | -   | (938)              | (184,725)                                | (240,693)            |
| <b>Impairment on 31.12.2015</b>            | <b>-</b>       | <b>238,625</b>  | <b>-</b>                                     | <b>28,607</b>   | <b>-</b>  | <b>-</b>           | <b>-</b>                                 | <b>267,232</b>       |
| <b>Residual value on 01.01.2015</b>        | <b>808,997</b> | <b>417,743,119</b>  | <b>2,243,137</b>                             | <b>108,991,612</b>  | <b>7,988,599</b>  | <b>7,020,920</b>   | <b>53,071,088</b>                        | <b>597,867,472</b>   |
| <b>Residual value on 31.12.2015</b>        | <b>830,252</b> | <b>492,282,247</b>  | <b>2,017,249</b>                             | <b>151,046,371</b>  | <b>8,281,815</b>  | <b>7,105,818</b>   | <b>79,068,063</b>                        | <b>740,631,815</b>   |



(EUR)

|   | Plots of land  | Buildings, structures and railway tracks, perennial plantings | Long-term investments in leased fixed assets | Railway transport technological equipment, machines and rolling stock | Computing devices and equipment thereof, means of communication, photocopiers and equipment thereof | Other fixed assets | Costs of unfinished construction objects | Total (EUR)          |
|---|----------------|---|--|---|---|--------------------|--|----------------------|
| <b>Initial value on 01.01.2016</b>            | <b>830,252</b> | <b>971,523,310</b>  | <b>2,513,144</b>                             | <b>302,784,153</b>  | <b>32,674,859</b>   | <b>28,250,221</b>  | <b>79,068,063</b>                        | <b>1,417,644,002</b> |
| Acquisition and completion of fixed assets    | -              | 43,044,516  | -  | 54,258,679  | 3,054,275   | 1,726,943          | (74,793,473)                             | 27,290,940           |
| Re-classified                                 | -              | 26,257  | 25,400                                       | (1,200,757)   | 1,123,533   | 25,567             | -  | -                    |
| Write-off of fixed assets                     | -              | (6,024,263)   | -  | (9,770,052)   | (619,049)   | (433,710)          | -  | (16,847,074)         |
| <b>Initial value on 31.12.2016</b>            | <b>830,252</b> | <b>1,008,569,820</b>  | <b>2,538,544</b>                             | <b>346,072,023</b>  | <b>36,233,618</b>   | <b>29,569,021</b>  | <b>4,274,590</b>                         | <b>1,428,087,868</b> |
| <b>Accrued depreciation on 01.01.2016</b>     | <b>-</b>       | <b>479,002,438</b>  | <b>495,895</b>                               | <b>151,709,175</b>  | <b>24,393,044</b>   | <b>21,144,403</b>  | <b>-</b>                                 | <b>676,744,955</b>   |
| Calculated depreciation                       | -              | 33,363,976  | 75,785                                       | 13,429,788  | 2,479,585   | 1,093,633          | -  | 50,442,767           |
| Re-classified                                 | -              | 66,524  | 8,663  | (117,534)   | 28,088  | 14,259             | -  | -                    |
| Write-off of depreciation                     | -              | (3,837,580)   | -  | (9,068,323)   | (554,155)   | (422,374)          | -  | (13,882,432)         |
| <b>Accrued depreciation on 31.12.2016</b>     | <b>-</b>       | <b>508,595,358</b>  | <b>580,343</b>                               | <b>155,953,106</b>  | <b>26,346,562</b>   | <b>21,829,921</b>  | <b>-</b>                                 | <b>713,305,290</b>   |
| <b>Impairment on 01.01.2016</b>               | <b>-</b>       | <b>238,625</b>  | <b>-</b>                                     | <b>28,607</b>   | <b>-</b>  | <b>-</b>           | <b>-</b>                                 | <b>267,232</b>       |
| Recognized (impairment) / impairment reversal | -              | (238,625)   | -  | (28,607)  | -   | -                  | -  | (267,232)            |
| <b>Residual value on 01.01.2016</b>           | <b>830,252</b> | <b>492,282,247</b>  | <b>2,017,249</b>                             | <b>151,046,371</b>  | <b>8,281,815</b>  | <b>7,105,818</b>   | <b>79,068,063</b>                        | <b>740,631,815</b>   |
| <b>Residual value on 31.12.2016</b>           | <b>830,252</b> | <b>499,974,462</b>  | <b>1,958,201</b>                             | <b>190,118,917</b>  | <b>9,887,056</b>  | <b>7,739,100</b>   | <b>4,274,590</b>                         | <b>714,782,578</b>   |



Throughout the reporting period and in the comparative periods, land registered in the name of the Ministry of Transport in the area of 15,501 hectares (mostly railway partition zone, which forms part of public railway infrastructure and is intended for the arrangement of railway infrastructure objects to provide the development and safe operation of railway infrastructure) was transferred to the Company for use.

In 2016, the Company has not purchased any fixed assets through financial leasing. See also Note 27.

Capitalized share of wage is included in the fixed assets purchase costs in the amount of EUR 47,512 in 2016 (in 2015 – EUR 108,217). Amount of funds used for renovation, modernization and purchase of fixed assets, intangible investments, as well as construction of new objects in 2016: EUR 30,240,453 (in 2015 – EUR 190,033,013).

## 16. INTANGIBLE INVESTMENTS

|  | Licenses and rights |                    |
|--|---------------------|--------------------|
|  | 2016                | 2015               |
| <b>Initial value at the beginning of the year</b>        | <b>7,514,942</b>    | <b>6,979,046</b>   |
| Additions  | 486,333             | 605,127            |
| Re-classified  | 60,966              | -                  |
| Excluded   | (16,422)            | (69,231)           |
| <b>Initial value at the end of the year</b>              | <b>8,045,819</b>    | <b>7,514,942</b>   |
| <b>Accrued depreciation at the beginning of the year</b> | <b>5,985,298</b>    | <b>5,470,965</b>   |
| Calculated depreciation                                  | 588,371             | 583,564,           |
| Excluded   | (16,422),           | (69,231)           |
| <b>Accrued depreciation at the end of the year</b>       | <b>6,557,247</b>    | <b>5,985,298</b>   |
| <b>Residual value at the beginning of the year</b>       | <b>1,529,644</b>    | <b>1,508,081</b>   |
| <b>Residual value at the end of the year</b>             | <b>1,488,572</b>    | <b>1,,529,644,</b> |



## 17. PARTICIPATION IN THE CAPITAL OF ASSOCIATED COMPANIES

| SUBSIDIARY COMPANIES   |  |
|--|--|
| <b>LLC (SIA) "LDZ CARGO"</b>   |  |
| Uniform registration number  | 40003788421  |
| Address  | Dzirnavu iela 147, k-1, Riga, LV-1050                        |
| Share of ownership, %  | Owner of 100 % shares SJSC (VAS) "Latvijas dzelzceļš"        |
| Reporting year   | 01.01.2016-31.12.2016  |
| <b>LLC (SIA) "LDZ ritošā sastāva serviss"</b>  |  |
| Uniform registration number  | 40003788351  |
| Address  | Gogoļa iela 3, Riga, LV-1050                                 |
| Share of ownership, %  | Owner of 100 % shares SJSC (VAS) "Latvijas dzelzceļš"        |
| Reporting year   | 01.01.2016-31.12.2016  |
| <b>LLC (SIA) "LDZ infrastruktūra"</b>  |  |
| Uniform registration number  | 40003788258  |
| Address  | Gogoļa iela 3, Riga, LV-1050                                 |
| Share of ownership, %  | Owner of 100 % shares SJSC (VAS) "Latvijas dzelzceļš"        |
| Reporting year   | 01.01.2016-31.12.2016  |
| <b>LLC (SIA) "LDZ apsardze"</b>  |  |
| Uniform registration number  | 40003620112  |
| Address  | Zasas iela 5-3, Riga, LV-1057                                |
| Share of ownership, %  | Owner of 100 % shares SJSC (VAS) "Latvijas dzelzceļš"        |
| Reporting year   | 01.01.2016-31.12.2016  |
| <b>JSC (AS) "LatRailNet"</b>   |  |
| Uniform registration number  | 40103361063  |
| Address  | Dzirnavu iela 16, Riga, LV-1010                              |
| Share of ownership, %  | Owner of 100 % shares SJSC (VAS) "Latvijas dzelzceļš"        |
| Reporting year   | 01.01.2016-31.12.2016  |
| <b>LLC (SIA) "LDZ Loģistika"</b>   |  |
| Uniform registration number  | 40003988480  |
| Address  | Dzirnavu iela 147, k-2, Riga, LV-1050                        |
| Share of ownership, %  | Owner of 100 % shares LLC (SIA) "LDZ CARGO"                  |
| Reporting period   | 01.01.2016-10.08.2016  |
| Share of ownership, %  | Owner of 100 % shares SJSC (VAS) "Latvijas dzelzceļš"        |
| Reporting period   | 11.08.2016.-31.12.2016                                       |
| <b>Subsidiary company of LLC (SIA) "LDZ ritošā sastāva serviss" - LLC (SIA) "Rīgas Vagonbūves uzņēmums "Baltija"</b> |  |
| Uniform registration number  | 40103419565  |
| Address  | Grēdu iela 4a, Riga, LV-1019                                 |
| Share of ownership, %  | Owner of 25 % shares LLC (SIA) "LDZ ritošā sastāva serviss"  |
| Reporting period   | 01.01.2016-26.06.2016  |
| Share of ownership, %  | Owner of 100 % shares LLC (SIA) "LDZ ritošā sastāva serviss" |
| Reporting period   | 27.06.2016 -31.12.2016                                       |



## PARTICIPATION IN THE CAPITAL OF ASSOCIATED COMPANIES

(EUR)

| Subsidiary company                         | LDz shares, % | 31.12.2016         | 31.12.2015         | 01.01.2015         |
|--|---------------|--------------------|--------------------|--------------------|
| LLC (SIA) "LDZ CARGO"                      | 100           | 80,492,369         | 80,492,369         | 80,492,369         |
| LLC (SIA) "LDZ ritošā sastāva serviss" *1) | 100           | 29,351,905         | 29,351,905         | 29,351,905         |
| LLC (SIA) "LDZ infrastruktūra"             | 100           | 15,523,088         | 15,523,088         | 15,523,088         |
| SLLC (SIA) "LDZ apsardze"                  | 100           | 298,803            | 298,803            | 298,803            |
| JSC (AS) "LatRailNet"                      | 100           | 35,571             | 35,571             | 35,571             |
| LLC (SIA) "LDZ Loģistika"                  | 100           | 638,000            | -                  | -                  |
| <b>Total</b>                               | <b>x</b>      | <b>126,339,736</b> | <b>125,701,736</b> | <b>125,701,736</b> |

\*1) LLC (SIA) "LDZ ritošā sastāva serviss" is the holder of 100 % shares at LLC (SIA) "Rīgas Vagonbūves Uzņēmums "Baltija"", with the value of EUR 516,714 as at 31.12.2016.

## INDICATORS OF THE SUBSIDIARY COMPANIES FOR 2016

(EUR)

| Meitas sabiedrība                      | LDz shares, % | profit / (losses) for 2016 | profit for 2015  | Equity             |                    |
|--|---------------|----------------------------|------------------|--------------------|--------------------|
|  |               |                            |                  | 31.12.2016         | 31.12.2015         |
| LLC (SIA) "LDZ CARGO"                  | 100           | 3,993,571                  | 2,868,849        | 125,979,494        | 124,826,547        |
| LLC (SIA) "LDZ ritošā sastāva serviss" | 100           | 255,747                    | 47,084           | 41,062,155         | 41,871,696         |
| LLC (SIA) "LDZ infrastruktūra"         | 100           | (131,771)                  | 640,903          | 17,451,347         | 17,715,717         |
| LLC (SIA) "LDZ apsardze"               | 100           | 14,963                     | 101,216          | 591,799            | 579,055            |
| JSC (AS) "LatRailNet"                  | 100           | 22,877                     | 12,731           | 88,658             | 82,051             |
| LLC (SIA) "LDZ Loģistika"              | 100           | 126,954                    | 141,278          | 766,541            | 639,587            |
| <b>Total</b>                           | <b>x</b>      | <b>4,282,341</b>           | <b>3,812,061</b> | <b>185,939,994</b> | <b>185,714,653</b> |

On 18 July 2016, "Latvijas dzelzceļš" purchased 142,287 capital shares at LLC (SIA) "LDZ Cargo loģistika" from its subsidiary company LLC (SIA) "LDZ CARGO" (nominal value of each - EUR 1, balance-sheet value accordingly - EUR 142,287) accounting together for 100 % of its equity capital at the market price of EUR 638,000 according to the evaluation of an independent valuator. After acquisition of the subsidiary company, the name thereof was changed to LLC (SIA) "LDZ loģistika".

"Latvijas dzelzceļš" Group (hereinafter - the Group) manages public railway infrastructure, provides railway transport services and services related thereto.

Composition of the Group: parent company of the Group - State Joint-Stock Com-

pany "Latvijas dzelzceļš" (hereinafter - "Latvijas dzelzceļš" or the Company), LLC (SIA) "LDZ CARGO", LLC (SIA) "LDZ ritošā sastāva serviss", LLC (SIA) "LDZ infrastruktūra", LLC (SIA) "LDZ apsardze", JSC (AS) "LatRailNet", LLC (SIA) "LDZ Loģistika", as well as LLC (SIA) "Rīgas Vagonbūves Uzņēmums "Baltija"" - subsidiary company of LLC (SIA) "LDZ ritošā sastāva serviss".

The main task of "Latvijas dzelzceļš" in the area of the Group's management is to ensure development and competitiveness of the Group's business directions, achieving better results than it would be possible for each direction operating separately. In order to implement this task, a uniform strategy and goals of the Group have been elaborated providing an optimum division of production and



investment resources among the business directions and the Group's companies, coordination of decision-making and efficient control of the implementation thereof. "Latvijas dzelzceļš" represents Group's interests at an international level.

"Latvijas dzelzceļš" provides public use railway infrastructure services, freight wagon handling services, wagon technical maintenance and inspection services, telecommunication and information technology services, electronic communication services, electricity distribution and trade services, as well as principal services.

LLC (SIA) "LDZ CARGO" operates domestic and international railway freight traffic, traction provision services and wagon lease, as well as organizes international passenger transport.

LLC (SIA) "LDz ritošā sastāva serviss" provides repair, modernization, technical service and maintenance of locomotives and wagons, as well as fuel sales and equipment services.

LLC (SIA) "LDZ infrastruktūra" provides construction and overhauling of railway tracks, as well as replacement of railway switches.

LLC (SIA) "LDz apsardze" provides physical and technical security services to the Group's companies and other companies, as well as natural persons.

JSC (AS) "LatRailNet" sets the fee for the use of public railway infrastructure and distributes capacity of railway infrastructure, as well as adopts decisions on assignment of trains of particular operator.

LLC (SIA) "LDZ Loģistika" provides freight forwarding and logistics services, attraction of new freight flows and promotes railway freight traffic between European and Asian countries.

LLC (SIA) "Rīgas Vagonbūves Uzņēmums "Baltija"" - subsidiary company of LLC (SIA) "LDz ritošā sastāva serviss" - was established with the purpose to develop the manufacture of wagons in Latvia. No active economic activity is performed at the moment. At the beginning of the year, LLC (SIA) "LDz ritošā sastāva serviss" owned 25 % shares at the company LLC (SIA) "Rīgas Vagonbūves Uzņēmums "Baltija"", but in 2016 the Company purchased the remaining capital shares gaining 100 % control.

## 18. LOANS TO RELATED COMPANIES

In 2016, two long-term loan contracts were concluded between SJSC (VAS) "Latvijas dzelzceļš" and LLC (SIA) "LDz ritošā sastāva serviss" for the financing of the commenced

modernization of fourteen double-section 2M62U series diesel locomotives for the total loan amount of 32,259 thousand euro.

## 19. OTHER NON-CURRENT FINANCIAL INVESTMENTS

(EUR)

| Name of the Company                       | Shares, % | Book value     |                |                |
|---|-----------|----------------|----------------|----------------|
|   |           | 31.12.2015     | 31.12.2015     | 01.01.2015     |
| Belarusian Latvian joint venture "MIRIGO" | 3.0       | 420,245        | 420,245        | 420,245        |
| LLC (SIA) "STREK"                         | 5.84      | 73,982         | 73,982         | 73,982         |
| <b>Total:</b>                             | <b>x</b>  | <b>494,227</b> | <b>494,227</b> | <b>494,227</b> |



Accurate determination of the fair value of long-term financial investments is not possible, therefore they are evaluated according to the initial acquisition costs. Estimates carried

out by the management show that the fair value of these investments does not deviate significantly from the book value thereof.

## 20. INVENTORIES

(EUR)

| Name of the Company                                    | 31.12.2016        | 31.12.2015        | 01.01.2015        |
|--|-------------------|-------------------|-------------------|
| Railway surface materials                              | 8,523,728         | 9,056,633         | 19,753,872        |
| Spare parts  | 397,312           | 350,596,          | 379,921           |
| Other materials  | 1,561,813         | 1,433,530         | 1,740,395         |
| Fuel and combustibles                                  | 163,704           | 171,759           | 199,048           |
| Other inventories and work in progress                 | 240,778           | 238,988           | 116,291           |
| <b>Gross book value</b>                                | <b>10,887,335</b> | <b>11,251,506</b> | <b>22,189,527</b> |
| Provisions for materials unused for longer than a year | (1,123,591)       | (1,139,625)       | (835,783)         |
| <b>Balance sheet value</b>                             | <b>9,763,744</b>  | <b>10,111,881</b> | <b>21,353,744</b> |

## 21. TRADE RECEIVABLES AND OTHER RECEIVABLES

(EUR)

|                                     | 31.12.2016        | 31.12.2015       | 01.01.2015       |
|-------------------------------------|-------------------|------------------|------------------|
| Trade receivables                   | 8,473,457         | 4,967,197        | 5,674,690        |
| Doubtful receivables                | 489,812           | 428,014          | 451,073          |
| Other liabilities                   | 1,363,226         | 1,280,672        | 1,521,160        |
| <b>Gross book value</b>             | <b>10,326,495</b> | <b>6,675,883</b> | <b>7,646,923</b> |
| Provisions for doubtful receivables | (489,812)         | (428,014)        | (451,073)        |
| <b>Balance sheet value</b>          | <b>9,836,683</b>  | <b>6,247,869</b> | <b>7,195,850</b> |

### Movements of provisions for doubtful receivables:

(EUR)

|   | 2016           | 2015           |
|---|----------------|----------------|
| Provisions for doubtful receivables at the beginning of the year  | 428,014        | 451,073        |
| Decrease of provisions due to recovery of debts                   | (32,368)       | (52,992)       |
| Decrease of provisions due to write-off of debts                  | (24,950)       | (8,112)        |
| Constituted additional provisions                                 | 119,116        | 38,045         |
| <b>Provisions for doubtful receivables at the end of the year</b> | <b>489,812</b> | <b>428,014</b> |



## 22. CASH AND CASH EQUIVALENTS

(EUR)

|                  | 31.12.2016       | 31.12.2015    | 01.01.2015        |
|------------------|------------------|---------------|-------------------|
| Cash in the bank | 7,102,986        | 47,749        | 53,827,655        |
| Cash on hand     | 593              | 868           | 1,057             |
| Cash in transit  | 14               | 40            | 3                 |
| <b>Total</b>     | <b>7,103,593</b> | <b>48,657</b> | <b>53,828,715</b> |

## 23. EQUITY CAPITAL

### Company's registered and paid share capital

Equity capital of "Latvijas dzelzceļš" is EUR 256,720,375 consisting of two hundred and fifty-six million seven hundred and twenty thousand three hundred and seventy-five shares of the nominal value EUR 1.00 (one euro) per each.

The Republic of Latvia is the owner of all the shares, and these shares are fully paid. The Ministry of Transport is the holder of state capital share at the Joint-Stock Company. All Company's shares are equally entitled to receive dividends, liquidation quota and the right to vote at the meeting of shareholders.

### Payments for the use of state capital (dividends)

The Company is obliged to calculate the share of profit to be paid in dividends for the

reporting year and to set it in the amount of certain per cent from net profit in accordance with Section 94, Paragraph one, Clause 2, Section 56, Paragraph one and Section 28, Paragraphs one and two, of the Law On Governance of Capital Shares of a Public Person and Capital Companies and Paragraph 5 of Cabinet Regulation No. 806 of 22.12.2015, Procedures, by Which State Capital Companies and Public Private Capital Companies, Where the State Is a Shareholder, Forecast and Determine the Share of Profit to Be Paid In Dividends.

In accordance with Cabinet Order No. 380 of 07.07.2016, Regarding the Share of Profit of the State Joint-Stock Company "Latvijas dzelzceļš" to be Paid to the State in Dividends for 2015, the Company was not obliged to make payments to the State budget for the use of state capital from the net profit for 2015.

## 24. OTHER RESERVES AND RETAINED EARNINGS

Reserves consist of profit brought forward, which, in accordance with the owner's decision, has been directed to other reserves to ensure Company's development. Profit brought forward has been adjusted by an adjustment

of fair value of fixed assets according to the requirements of the IFRS. Company's reserves and procedures for the use of retained earnings of the previous years are defined at the Company's shareholders meeting.



## 25. PROVISIONS

(EUR)

|   | 31.12.2016        | 31.12.2015        | 01.01.2015        |
|---|-------------------|-------------------|-------------------|
| Provisions for possible losses from litigation        | -                 | 915,425           | 552,102           |
| Other accruals  | 178,176           | 168,372           | 153,567           |
| <b>Total non-current share</b>                        | <b>178,176</b>    | <b>1,083,797</b>  | <b>705,669</b>    |
| Provisions for public railway infrastructure services | 13,843,405        | 20,765,107        | 24,933,137        |
| Other accruals  | 887               | -                 | -                 |
| <b>Total current share</b>                            | <b>13,844,292</b> | <b>20,765,107</b> | <b>24,933,137</b> |
| <b>Total</b>  | <b>14,022,468</b> | <b>21,848,904</b> | <b>25,638,806</b> |

## Movement of provisions by types of provisions in 2016

(EUR)

|   | 01.01.2016        | Increase of provisions | Use of provisions   | 31.12.2016        |
|---|-------------------|------------------------|---------------------|-------------------|
| Provisions for public railway infrastructure services | 20,765,107        | 13,843,405             | (20,765,107)        | 13,843,405        |
| Provisions for possible losses from litigation        | 915,425           | -                      | (915,425)           | -                 |
| Other accruals  | 168,372           | 10,691                 | -                   | 179,063           |
| <b>Total</b>  | <b>21,848,904</b> | <b>13,854,096</b>      | <b>(21,680,532)</b> | <b>14,022,468</b> |

## Movement of provisions by types of provisions in 2015

(EUR)

|   | 01.01.2015        | Increase of provisions | Use of provisions   | 31.12.2015        |
|---|-------------------|------------------------|---------------------|-------------------|
| Provisions for public railway infrastructure services | 24,933,137        | 20,765,107             | (24,933,137)        | 20,765,107        |
| Provisions for possible losses from litigation        | 552,102           | 363,323                | -                   | 915,425           |
| Other accruals  | 153,567           | 14,805                 | -                   | 168,372           |
| <b>Total</b>  | <b>25,638,806</b> | <b>21,143,235</b>      | <b>(24,933,137)</b> | <b>21,848,904</b> |

In 2016, the provisions constituted for the funding of public railway infrastructure were reduced by EUR 6,921,702, retaining in the amount of EUR 13,843,405. Provisions were reduced by taking into account amendments to the Railway Law, effective from 10 March 2016, and the planned documents of related regulatory documents, according to which, norms of the European Parliament and Council Directive 2012/34/EU of 21.11.2012 are transposed into national law.

In 2016, provisions for possible losses from litigation were written off, since court judgments entered into force in these proceed-

ings, and the Company has no liabilities to possible costs on 31 December 2016.

Provisions for costs related to industrial injuries were constituted in accordance with Cabinet Regulation No. 378 of 23.08.2001, Procedure for the Calculation, Funding and Payment of Compensation for the Damage Caused Within Employment. Provisions are calculated according to the actual annual payments of compensations for damage assuming that such payments are to be provided for three years. Calculated provisions for industrial injury payments have increased by EUR 9804.



## 26. BORROWINGS FROM CREDIT INSTITUTIONS

(EUR)

|  | 31.12.2016         | 31.12.2015         | 01.01.2015         |
|--|--------------------|--------------------|--------------------|
| Long-term borrowings from credit institutions    | 173,752,632        | 161,453,887        | 122,492,361        |
| Short-term borrowings from credit institutions   | 31,187,797         | 24,833,991         | 22,749,231         |
| <b>Total borrowings from credit institutions</b> | <b>204,940,429</b> | <b>186,287,878</b> | <b>145,241,592</b> |

Borrowings have been taken from JSC (AS) "Swedbank", Nordea Bank AB Latvian Branch, JSC (AS) "DNB Banka", JSC (AS) "SEB banka", JSC (AS) "Danske Bank" Latvian Branch, European Investment Bank, Northern Investment Bank and OP Corporate Bank plc Latvian Branch. Borrowings in the total amount of EUR 43,377,183 were taken and borrowings in the total amount of EUR 24,833,690 were repaid during the reporting period.

"Latvijas dzelzceļš", its subsidiary companies and Nordea Bank AB Latvian Branch have concluded a Group account contract and an overdraft contract with the available limit of 60,000 thousand euro and actual limit of

40,000 thousand euro. Overdraft contract expires in 2019.

"Latvijas dzelzceļš" has not pledged any of the properties upon reception of the borrowings.

The following state guarantees for the Company's borrowings are in the records of the Treasury (creditor: European Investment Bank):

- guaranteed contractual amount - EUR 7,003,827, credit balance on 31.12.2016: EUR 933,844;
- guaranteed contractual amount - USD 27,128,982, credit balance on 31.12.2016: USD 3,617,198.

## Amount of repayment and interest rates on 31 December 2016:

|              | Borrowing, EUR     | Interest rate                 |
|--------------|--------------------|-------------------------------|
| EUR          | 228,044            | Daily EUR LIBOR + 1.65 %      |
|              | 40,760,136         | 1M EURIBOR + 0.49 % to 1.45 % |
|              | 116,907,041        | 3M EURIBOR + 0.13 % to 1.61 % |
|              | 43,613,658         | 6M EURIBOR + 1.05 % to 1.8 %  |
| USD          | 2,081,772          | 5.55 %                        |
|              | 1,349,778          | 3M USD LIBOR + 0.13 %         |
| <b>Total</b> | <b>204,940,429</b> |                               |

## Amount of repayment and interest rates on 31 December 2015:

|              | Borrowing, EUR     | Interest rate                 |
|--------------|--------------------|-------------------------------|
| EUR          | 2,964,573          | Daily EUR LIBOR + 1.65 %      |
|              | 49,169,463         | 1M EURIBOR + 0.49 % to 1.45 % |
|              | 80,850,905         | 3M EURIBOR + 0.13 % to 1.4 %  |
|              | 48,319,198         | 6M EURIBOR + 1.05 % to 1.8 %  |
| USD          | 3,023,417          | 5.55 %                        |
|              | 1,960,322          | 3M USD LIBOR + 0.13 %         |
| <b>Total</b> | <b>186,287,878</b> |                               |

**27. OTHER BORROWINGS**

(EUR)

|  | 31.12.2016       | 31.12.2015       |
|--|------------------|------------------|
| Settlements for the property rights in accordance with the contract on construction (expansion) of the optic telecommunications network in Liepāja-Jelgava-Rīga-Valka railway districts *1), including: long-term part | 2,437,574        | 2,554,578        |
| including debts repayable in over five years after the end of the reporting period   | 1,969,558        | 2,086,562        |
| debts maturing in over one year, but not later than five years after the end of the reporting period   | 468,016          | 468,016          |
| short-term part  | 117,004          | 117,004          |
| <b>Total</b>   | <b>2,554,578</b> | <b>2,671,582</b> |

\*1) The contract was concluded in 2013 for the total amount of EUR 2,925,089 until 2038.

**28. NEXT PERIOD INCOME**

(EUR)

|   | 31.12.2016         | 31.12.2015         | 01.01.2015         |
|---|--------------------|--------------------|--------------------|
| Long-term part of the next period income (EU funds and State budget funds)  | 329,670,887        | 318,618,331        | 275,603,483        |
| <b>Total non-current share</b>  | <b>329,670,887</b> | <b>318,618,331</b> | <b>275,603,483</b> |
| Short-term part of the next period income (EU funds and State budget funds) | 19,208,171         | 16,659,246         | 27,568,004         |
| Other next period income  | 14                 | 43                 | 57                 |
| <b>Total current share</b>  | <b>19,208,185</b>  | <b>16,659,289</b>  | <b>27,568,061</b>  |
| <b>Total next period income</b>   | <b>348,879,072</b> | <b>335,277,620</b> | <b>303,171,544</b> |

Next period income mostly consists of the EU funds and State budget funds received for the development of railway infrastructure.

**Movement of the EU project funds in 2016**

| Income of the next periods | Balance on 31.12.2016 | Received In the reporting year |                    | Re-classified (moved) | Adjustment      | Decrease in the amount of fixed assets depreciation | Balance on 31.12.2016 |
|----------------------------|-----------------------|--------------------------------|--------------------|-----------------------|-----------------|---|-----------------------|
|                            |                       | ES funds                       | State budget funds |                       |                 |   |                       |
| Long-term part             | 318,618,331           | 28,767,054                     | 4,027,058          | (21,695,367)          | (46,189)        | -   | 329,670,887           |
| Short-term part            | 16,659,246            | -                              | -                  | 21,695,367            | -               | (19,146,442)  | 19,208,171            |
| <b>Total</b>               | <b>335,277,577</b>    | <b>28,767,054</b>              | <b>4,027,058</b>   | <b>-</b>              | <b>(46,189)</b> | <b>(19,146,442)</b>                                 | <b>348,879,058</b>    |

**Movement of the EU project funds in 2015**

| Income of the next periods | Balance on 31.12.2015 | Received In the reporting year |                    | Re-classified (moved) | Decrease in the amount of fixed assets depreciation | Balance on 31.12.2015 |
|----------------------------|-----------------------|--------------------------------|--------------------|-----------------------|---|-----------------------|
|                            |                       | ES funds                       | State budget funds |                       |   |                       |
| Long-term part             | 275,603,483           | 60,060,025                     | 202,146            | (17,247,323)          | -   | 318,618,331           |
| Short-term part            | 27,568,004            | -                              | -                  | 17,247,323            | (28,156,081)  | 16,659,246            |
| <b>Total</b>               | <b>303,171,487</b>    | <b>60,060,025</b>              | <b>202,146</b>     | <b>-</b>              | <b>(28,156,081)</b>                                 | <b>335,277,577</b>    |

**EU funds and State budget funds received for projects in 2016**

(EUR)

| Title of the project   | ES funds          | State budget funds |
|--|-------------------|--------------------|
| <b>Project 3DP/3.3.2.1.0/13/IPIA/SM/002</b><br>Modernization of railway passenger infrastructure   | 5,429,932         | -                  |
| <b>Project CCI2009LV161PR001</b><br>Construction of second railway track in Skrīveri-Krustpils   | 4,717,082         | -                  |
| <b>Project 3DP/3.3.1.2.0/13/IPIA/SM/003</b><br>Modernization of centralization of Šķīrotava Station  | 3,342,549         | -                  |
| <b>Project 3DP/3.3.1.2.0/10/IPIA/SM/002</b><br>Construction of station Bolderāja 2 with the connecting track to the terminals of Krievu sala                 | 2,988,024         | -                  |
| <b>Project 3DP/3.3.1.2.0/10/IPIA/SM/001</b><br>Reconstruction of hump at Šķīrotava Station   | 2,370,000         | 685,578            |
| <b>Project 2007-LV-27060-P</b><br>Reconstruction of railway track in Rail Baltica corridor in Latvia   | 2,234,673         | 3,341,480          |
| <b>Project 3DP/3.3.1.2.0/14/IPIA/SM/001</b><br>Reconstruction of railway tracks  | 2,156,435         | -                  |
| <b>Project 3DP/3.3.1.2.0/13/IPIA/SM/005</b><br>Modernization of signalling system and reconstruction of railway track at Liepāja station                     | 1,940,075         | -                  |
| <b>Project 3DP/3.3.1.2.0/13/IPIA/SM/001</b><br>Replacement of railway switches – delivery of switches  | 1,349,659         | -                  |
| <b>Project 3DP/3.3.1.2.0/10/IPIA/SM/003</b><br>Modernisation of signalling, telecommunication and power supply systems in the district Bolderāja 1-Zasulauks | 1,135,500         | -                  |
| <b>Project 3DP/3.3.1.2.0/13/IPIA/SM/004</b><br>Modernization of main data transmission network   | 883,531           | -                  |
| <b>Project 2011-LV-93133-S</b><br>Development of sketch design of LDz network electrification  | 219,594           | -                  |
| <b>Total</b>   | <b>28,767,054</b> | <b>4,027,058</b>   |

**EU funds and State budget funds received for projects in 2015**

(EUR)

| Title of the project   | ES funds          | State budget funds |
|--|-------------------|--------------------|
| <b>Project 3DP/3.3.1.2.0/13/IPIA/SM/003</b><br>Modernization of centralization of Šķīrotava Station  | 16,716,523        | -                  |
| <b>Project 3DP/3.3.1.2.0/13/IPIA/SM/005</b><br>Modernization of signalling system and reconstruction of railway track at Liepāja Station                     | 10,139,622        | -                  |
| <b>Project 3DP/3.3.1.2.0/10/IPIA/SM/002</b><br>Construction of station Bolderāja 2 with the connecting track to the terminals of Krievu sala                 | 8,224,035         | -                  |
| <b>Project 3DP/3.3.2.1.0/13/IPIA/SM/002</b><br>Modernization of railway passenger infrastructure   | 6,914,681         | -                  |
| <b>Project 3DP/3.3.1.2.0/10/IPIA/SM/003</b><br>Modernisation of signalling, telecommunication and power supply systems in the district Bolderāja 1-Zasulauks | 5,957,597         | -                  |
| <b>Project 3DP/3.3.1.2.0/13/IPIA/SM/001</b><br>Replacement of railway switches, delivery of switches   | 4,724,555         | -                  |
| <b>Project 3DP/3.3.1.2.0/14/IPIA/SM/001</b><br>Reconstruction of railway tracks  | 4,613,479         | -                  |
| <b>Project 3DP/3.3.1.2.0/13/IPIA/SM/004</b><br>Modernization of main data transmission network   | 2,769,533         | -                  |
| <b>Project 3DP/3.3.1.2.0/10/IPIA/SM/001</b><br>Reconstruction of hump at Šķīrotava Station   | -                 | 202,146            |
| <b>Total</b>   | <b>60,060,025</b> | <b>202,146</b>     |



## 29. TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

(EUR)

| Type of tax                                    | Tax overpayment (-) liabilities (+) 01.01.2015 | Tax overpayment (-) liabilities (+) 31.12.2015 | Calculated        | Paid                | Tax liabilities (+) 31.12.2016 |
|--|--|--|-------------------|---------------------|--------------------------------|
| Corporate income tax                           | (1,165,276)                                    | (485,535)                                      | -                 | 485,535*            | -                              |
| Mandatory state social insurance contributions | 3,495,483                                      | 3,399,725                                      | 27,888,725        | (27,325,688)        | 3,962,762                      |
| Personal income tax                            | 2,224,498                                      | 2,095,098                                      | 14,619,723        | (14,459,591)        | 2,255,230                      |
| Property tax                                   | -  | (129)  | 597,842           | (597,713)           | -                              |
| Natural resources tax                          | 11,352   | 3,247  | 6,918             | (7,588)             | 2,577                          |
| Value added tax                                | 1,497,928                                      | 1,556,517                                      | 26,149,242        | (25,202,931)        | 2,502,828                      |
| Import duty                                    | -  | -  | 2,619             | (2,619)             | -                              |
| Company Car tax                                | -  | 42   | 34,318            | (31,182)            | 3,178                          |
| State duty of business risk                    | 2,523  | 2,497  | 29,608            | (29,707)            | 2,398                          |
| <b>Total</b>                                   | <b>6,066,508</b>                               | <b>6,571,462</b>                               | <b>69,328,995</b> | <b>(67,171,484)</b> | <b>8,728,973</b>               |
| <b>Tax overpayment</b>                         | <b>(1,165,276)</b>                             | <b>(485,664)</b>                               | -                 | -                   | -                              |
| <b>Tax liabilities</b>                         | <b>7,231,784</b>                               | <b>7,057,126</b>                               | -                 | -                   | <b>8,728,973</b>               |

\*Repaid overpayment of corporate income tax from the State budget.

Tax liabilities arise in December 2016. As at 31.12.2016 "Latvijas dzelzceļš" did not have any delayed payments in the budget.

## 30. FINANCIAL RISK MANAGEMENT

Company's most significant financial instruments are borrowings from the banks, other borrowings cash and deposits in the banks, as well as receivables and payables. Main purpose of these financial instruments is to ensure financing for Company's economic activities. Besides, the Company has several other financial assets and liabilities, for example, trade receivables and trade payables arising directly from the economic activities thereof.

The Company is exposed to market, credit and liquidity risks in relation to the financial instruments thereof.

Financial risk management is provided by the Financial Directorate and Financial Committee of "Latvijas dzelzceļš". Company's financial instruments are divided in the following categories:

(EUR)

| Type of tax  | 31.12.2016         | 31.12.2015         | 01.01.2015         |
|--|--------------------|--------------------|--------------------|
| <b>Loans and receivables</b>   |                    |                    |                    |
| Trade receivables and other debtors, except for advance payments                           | 51,713,674         | 11,461,783         | 17,006,120         |
| Cash and cash equivalents  | 7,103,593          | 48,657             | 53,828,715         |
| <b>Investments available for sale</b>  |                    |                    |                    |
| Non-current financial investments  | 126,833,963        | 126,195,963        | 126,195,963        |
| <b>Total financial assets</b>  | <b>185,651,230</b> | <b>137,706,403</b> | <b>197,030,798</b> |
| <b>Other financial liabilities in the depreciated purchase value</b>                       |                    |                    |                    |
| Borrowings from credit institutions  | 204,940,429        | 186,287,878        | 145,241,592        |
| Other borrowings   | 2,554,578          | 2,671,582          | 2,788,585          |
| Trade payables and other creditors, except for advance payments (including long-term part) | 19,666,075         | 30,232,939         | 57,167,215         |
| <b>Total financial liabilities</b>   | <b>227,161,082</b> | <b>219,192,399</b> | <b>205,197,392</b> |

**Market risk**

Market risk is a risk that changes in market factors, for example, changes in foreign currency exchange rate, interest rates and prices of goods will affect the Company's revenue or value of financial instruments owned thereby. Market risk includes currency risk and interest rate risk.

**Interest rate risk**

Interest rate risk is a risk to suffer losses in relation to changes in interest rates of the Company's assets and liabilities. The Company is exposed to the risk of changes in market interest rates in relation to long-term liabilities thereof with applied varied interest rate.

All Company's borrowings are with variable interest rates, except for one borrowing taken at the end of the 90-ties with applied fixed interest rate.

See Note 26 for detailed description of the interest rates of borrowings. The Company manages risk of changes in interest rates by regular evaluation of the interest rates of borrowings available on the market. If lower interest rates than the current ones are available, the Company considers the financial benefit gained as the result of refinancing.

The Company's management has decided not to use derivative financial instruments for the management of interest rate risks.

**Sensitivity of interest rates**

The table below reflects the sensitivity of the Company's gross profit to the justifiably possible changes in interest rates at the end of each specified reporting period, if all the remaining variable amounts remain unchanged. The Company's equity is not affected, except for the result for the reporting year.

|         | 2016  |                              | 2015  |                              |
|---------|---|------------------------------|---|------------------------------|
|         | Increase/ decrease of base rate (base points) | Impact on gross profit (EUR) | Increase/ decrease of base rate (base points) | Impact on gross profit (EUR) |
| EURIBOR | (+100)  | (2,015,089)                  | (+100)  | (1,813,041)                  |
|         | (-100)  | 2,015,089                    | (-100)  | 1,813,041                    |
| LIBOR   | (+50)   | (17,158)                     | (+50)   | (25,919)                     |
|         | (-50)   | 17,158                       | (-50)   | 25,919                       |

**Currency risk**

Currency risk is a risk to suffer losses due to unfavourable changes in currency exchange rates in relation to assets and liabilities in currencies. Currency risk the Company is exposed to mainly arises from the economic activities thereof - revenue and costs are denominated in different currencies from borrowings in foreign currencies. The Company's trade receivables are expressed mainly in euro, while bank loans are expressed in euro and US dollars. Detailed distribution of financial instruments by foreign currencies is provided in Note 33.

The main instrument for the currency risk management used by the Company is identifi-

cation and use of funds in foreign currency for meeting of liabilities in foreign currencies.

The Company's management has decided not to use derivative financial instruments for the management of currency risks.

**Currency sensitivity**

The table below reflects the sensitivity of the Company's gross revenue to the justifiably possible changes in currency exchange rates in relation to its monetary position, if all the remaining variable amounts remain unchanged. The Company's equity is not affected, except for the result of the reporting year.



|           | 2016                              |                              | 2015                              |                              |
|-----------|-----------------------------------|------------------------------|-----------------------------------|------------------------------|
|           | Changes in currency exchange rate | Impact on gross profit (EUR) | Changes in currency exchange rate | Impact on gross profit (EUR) |
| US dollar | (+5%)                             | 164,000                      | (+5%)                             | 231,000                      |
|           | (-5%)                             | 164,000                      | (-5%)                             | 231,000                      |

### Credit risk

Credit risk is a risk that the business partner might fail to meet its liabilities towards the Company, causing significant financial losses thereto. The Company is exposed to the credit risk arising directly from the economic activities thereof - mainly from trade receivables, and credit risk in relation to the Company's financing activities - mainly cash deposits in banks.

### Trade receivables

The Company manages the credit risk of trade receivables in accordance with the Group's policies. Solvency of purchasers and clients is evaluated before conclusion of contracts. The Company secures itself against credit risk by receiving prepayment from the clients.

The Company constantly monitors the balances of receivables to decrease the possibility of irrecoverable debts. The possible decrease of value of trade receivables is constantly analysed.

The Company has not received pledges as security of trade receivables.

On 31 December 2016, the Company had four clients (in 2015: three clients), each of

which owed to the Company more than 700 thousand euro, thus, accounting for approximately 94.3 % (in 2015: 79.5 %) of the total amount of receivables. Without considering the debts of subsidiary companies with due date after 31 December 2016, two clients had debts exceeding 700 thousand euro, thus, accounting for approximately 32.6 % of the total amount of receivables.

The Company has not developed an internal credit rating system for the evaluation of receivables.

### Cash deposits

The credit risk arising from the Company's cash deposits in banks is managed by the Group's Financial Committee in accordance with the Group's Financial management policy. In accordance with this policy, the Company's available resources are allowed to be invested only in deposits or money market funds. Prior to placement of funds in the banks (deposits or current accounts), the Group's Financial Committee evaluates the credit ratings of banks and the offered interest rates.

The Company's cash balances in the banks according to the bank credit ratings assigned by Moody's:

(EUR)

| Credit rating | 31.12.2016       | 31.12.2015    | 01.01.2015        |
|---------------|------------------|---------------|-------------------|
| Aa2           | 2,183,775        | 40,645        | 3,789,243         |
| Aa3           | 4,914,476        | 756           | 19,703,473        |
| A1            | -                | -             | -                 |
| A2            | 4,617            | 6,222         | 1,194,772         |
| A3            | 118              | 122           | 197               |
| No rating*    | -                | -             | 29,139,970        |
| <b>Total</b>  | <b>7,102,986</b> | <b>47,745</b> | <b>53,827,655</b> |

\*Ratings were not assigned to the Treasury in 2014.



The Company is exposed to credit risk, as reflected in the table below:

(EUR)

|  | 31.12.2016        | 31.12.2015        | 01.01.2015        |
|--|-------------------|-------------------|-------------------|
| Cash and cash equivalents  | 7,103,593         | 48,657            | 53,828,715        |
| Trade receivables and other receivables (gross total), except for advance payments and prepayments | 23,044,911        | 11,889,797        | 17,457,193        |
| <b>Total</b>   | <b>30,148,504</b> | <b>11,938,454</b> | <b>71,285,908</b> |

The following information is additionally revealed in relation to credit risk:

(EUR)

|  | 31.12.2016        | 31.12.2015        | 01.01.2015        |
|--|-------------------|-------------------|-------------------|
| <b>Financial assets, which are not past due and for which no provision for impairment is constituted</b>             |                   |                   |                   |
| Debts, which are not past due, including   | 26,017,691        | 10,612,801        | 69,571,496        |
| Cash and cash equivalents  | 7,103,593         | 48,657            | 53,828,715        |
| Trade receivables  | 18,914,098        | 10,564,144        | 15,742,781        |
| <b>Analysis of age structure for financial assets with past due and without constituted provision for impairment</b> |                   |                   |                   |
| Up to 3 months   | 3,638,711         | 877,585           | 1,192,342         |
| From 3 to 12 months  | 2,290             | 20,054            | 70,997            |
| <b>Total financial assets without constituted provision for impairment</b>   | <b>29,658,692</b> | <b>11,510,440</b> | <b>70,834,835</b> |
| <b>Financial assets with constituted provision for impairment (full)</b>   | <b>489,812</b>    | <b>428,014</b>    | <b>451,073</b>    |
| <b>Total</b>   | <b>30,148,504</b> | <b>11,938,454</b> | <b>71,285,908</b> |

### Liquidity risk

Liquidity risk is a risk that the Company will not be able to meet its own financial liabilities within the set time limit.

The Group's Financial Committee manages the liquidity risk by maintaining corresponding cash reserves and providing sufficient financing by using the granted credits, credit lines, financial leasing etc., as well as constantly monitoring the projected and actual cash flows and coordinating maturity structure of financial assets and liabilities.

The Company prepares long-term cash flow forecast for a year and operative cash flow forecast for one week to ensure sufficient amount of funds at the Company's disposal for the financing of the expected operating costs, meeting financial liabilities and provision of necessary investments.

The Company's current liabilities include next period income related to investments of the EU project funds in the public railway infrastructure resulting in excess of current liabilities of the current assets and negative impact on liquidity indicator. It must be taken into account that outflow of financial funds to cover these liabilities will not be necessary. Liquidity indicator is decreased also by the presentation of provisions in current liabilities. Upon exclusion of the aforementioned liabilities, liquidity indicator is 0.7. In view of the previously mentioned circumstances, we believe that the Company has managed to provide financial balance in 2016 despite the decrease of freight volume, therefore, the Company will be able to cover current liabilities thereof and retain financial stability.

The following tables reveal the analysis of the Company's financial liabilities by due dates



on the basis of non-discounted amounts of financial liabilities provided for in contracts, including interest payments:

(EUR)

| On 31 December 2016  | Up to 3 months    | 3 to 12 months    | 1 to 5 years       | Over 5 years      | Total              |
|--|-------------------|-------------------|--------------------|-------------------|--------------------|
| Borrowings from credit institutions  | 7,358,449         | 25,963,826        | 119,185,232        | 61,015,053        | 213,522,560        |
| Other liabilities (including remaining borrowings, trade payables and other creditors) | 14,122,581        | 5,174,235         | 954,279            | 1,969,558         | 22,220,653         |
| <b>Total</b>   | <b>21,481,030</b> | <b>31,138,061</b> | <b>120,139,511</b> | <b>62,984,611</b> | <b>235,743,213</b> |

(EUR)

| On 31 December 2015  | Up to 3 months    | 3 to 12 months    | 1 to 5 years       | Over 5 years      | Total              |
|--|-------------------|-------------------|--------------------|-------------------|--------------------|
| Borrowings from credit institutions  | 6,163,690         | 20,660,701        | 121,092,051        | 45,529,636        | 193,446,078        |
| Other liabilities (including remaining borrowings, trade payables and other creditors) | 21,268,483        | 5,274,453         | 4,275,023          | 2,086,562         | 32,904,521         |
| <b>Total</b>   | <b>27,432,173</b> | <b>25,935,154</b> | <b>125,367,074</b> | <b>47,616,198</b> | <b>226,350,599</b> |

(EUR)

| On 01 January 2015   | Up to 3 months    | 3 to 12 months    | 1 to 5 years      | Over 5 years      | Total              |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| Borrowings from credit institutions  | 5,822,686         | 18,949,619        | 88,912,618        | 38,505,029        | 152,189,952        |
| Other liabilities (including remaining borrowings, trade payables and other creditors) | 44,201,161        | 5,386,762         | 8,164,307         | 2,203,570         | 59,955,800         |
| <b>Total</b>   | <b>50,023,847</b> | <b>24,336,381</b> | <b>97,076,925</b> | <b>40,708,599</b> | <b>212,145,752</b> |

### 31. FAIR VALUE CONSIDERATIONS

IFRS 13 provides for the hierarchy of evaluation techniques on the basis of whether observable market data are used in the evaluation technique or market data are not observable. Observable market data are acquired from independent sources. If market data are not observable, evaluation technique reflects the Company's assumptions on market situation.

This hierarchy provides for that observable market data must be used, if available. During the revaluation, the Company takes into account corresponding observable market prices, if possible.

Fair value - amount receivable in case of sale of the asset or payable in case of meeting of liabilities in a normal transaction between market participants on the date of evaluation of the asset or evaluation of liabilities.

The purpose of determining the fair value, even if the market is not active, is determination of the transaction price, at which market participants would agree to sell the asset or undertake liabilities on the particular evaluation date under the current market conditions.

Several methods are applied to determine the fair value of financial instrument:



quoted prices or evaluation technique including observable market data and based on internal models. On the basis of hierarchy of fair value, all evaluation techniques have been distributed in 1st level, 2nd level and 3rd level.

Fair value hierarchy level of financial instrument must be determined as the lowest level, if significant part of the value thereof consists of the lowest level data.

Classification of financial instrument in fair value hierarchy has two phases:

1. Classification of data of each level to determine fair value hierarchy;
2. Classification of the financial instrument itself on the basis of the lowest level, if significant part of the value thereof consists of lower level data.

#### **Quoted market prices - 1st level**

Evaluation technique in 1st level includes use of quotation prices not corrected on active market of identical assets or liabilities, when quotation prices are easily available and price represents the actual market situation for transactions under the circumstances of fair competition.

#### **Evaluation technique involving the use of market data - 2nd level**

In the models used in evaluation technique in 2nd level, all the most significant data are directly or indirectly observable from the side of assets or liabilities. Model includes use of market data other than the quoted prices included in the 1st level - directly observable market data (i.e., price), or indirectly observable market data (i.e., acquired from price).

#### **Evaluation technique involving the use of market data, which are not based on observable market data - 3rd level**

In the evaluation technique, when market data not based on observable market data (unobservable market data) are used, data are classified in 3rd level. Data, which are not easily accessible on the active market, are considered unobservable market data due to complexity of non-liquid market or financial instrument. 3rd level data are usually determined on the basis of observable market data of similar character, historical observations or through analytic approaches.

Such financial assets and liabilities are included in 3rd level:

- Assets: Cash and cash equivalents: EUR 7,103,593; net trade receivables EUR 9,836,683; net receivables from related companies: EUR 14,081,642.
- Liabilities: Borrowings from credit institutions EUR 204,940,429; trade payables EUR 17,231,184; payables to related companies: EUR 2,967,099; other liabilities: EUR 2,554,578.

#### **Assets and liabilities with presented fair value**

Book value of liquid and short-term (maturity period not exceeding three months) financial instruments, for example, cash and cash equivalents, short-term deposits, short term trade receivables and trade payables approximately correspond to the fair value thereof.

Fair value of borrowings from credit institutions, financial lease liabilities and other non-current liabilities is evaluated by discounting future cash flows applying market interest rates. Since the interest rates applied to the borrowings from credit institutions, financial lease liabilities and other non-current liabilities are mostly variable and do not differ significantly from market interest rates, as well as the risk premium applicable to the Company has not significantly changed, fair value of non-current liabilities approximately correspond to the fair value thereof.



### 32. CAPITAL MANAGEMENT

The Republic of Latvia owns 100 % shares of SJSC (VAS) "Latvijas dzelzceļš".

The Company's goals in relation to capital management is to provide the Company's capability to continue operation and provide the return on capital set by the meeting of shareholders. The state of Latvia as the only owner of the Company's capital is entitled to adopt decisions related to increase and decrease of the Company's capital, payment of dividends or direction thereof for the Company's development.

Within the context of the capital management, the Companies evaluates relation

of the borrowed capital to the total capital. The Company's management policy of financial risks does not provide for the minimum or maximum amount of this indicator. Credit contracts concluded with banks provide for financial indicator the Company is obliged to comply with during the validity period of the contract, if the indicators are not met, during the preparation of the annual report, letters are received from the banks that the creditor will not demand early repayment of funds. When drawing up short-term and long-term financial plan and budget, the Company takes into account the financial conditions set by the banks in relation to the relation of the borrowed capital to the total capital.

(EUR)

| Type of tax  | 31.12.2016         | 31.12.2015         | 01.01.2015         |
|--|--------------------|--------------------|--------------------|
| Borrowings from credit institutions and other borrowings | 207,495,007        | 188,959,460        | 148,030,177        |
| Payables (including taxes)                               | 28,927,256         | 38,219,727         | 65,047,344         |
| Other liabilities  | 385,317,313        | 374,132,393        | 344,062,035        |
| <b>Total liabilities</b>                                 | <b>621,739,576</b> | <b>601,311,580</b> | <b>557,139,556</b> |
| Equity   | 292,059,294        | 291,178,296        | 294,435,789        |
| <b>Total liabilities and equity</b>                      | <b>913,798,870</b> | <b>892,489,876</b> | <b>851,575,345</b> |
| Relation of the borrowed capital to the total capital    | 68%                | 67%                | 65%                |
| Relation of equity to total liabilities                  | 47%                | 48%                | 53%                |

### 33. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY CURRENCIES

The table below reflects the Company's financial instruments by currencies on 31 December 2016:

(EUR)

|   | EUR                | USD<br>EUR       | Other<br>currencies<br>EUR | Total<br>EUR       |
|---|--------------------|------------------|----------------------------|--------------------|
| Trade receivables and other debtors, except for advanced payments | 22,555,098         | 1                | -                          | 22,555,099         |
| Cash and cash equivalents   | 7,103,050          | 521              | 22                         | 7,103,593          |
| <b>Total financial assets</b>                                     | <b>29,658,148</b>  | <b>522</b>       | <b>22</b>                  | <b>29,658,692</b>  |
| Borrowings from credit institutions                               | 201,508,879        | 3,431,550        | -                          | 204,940,429        |
| Other loans   | 2,554,578          | -                | -                          | 2,554,578          |
| Trade payables and other creditors, except for advance payments   | 19,605,706         | 29,721           | 30,648                     | 19,666,075         |
| <b>Total financial liabilities</b>                                | <b>223,669,163</b> | <b>3,461,271</b> | <b>30,648</b>              | <b>227,161,082</b> |



The table below reflects the Company's financial instruments by currencies on 31 December 2016:

(EUR)

|  | EUR                | USD<br>EUR       | Other<br>currencies<br>EUR | Total<br>EUR       |
|--|--------------------|------------------|----------------------------|--------------------|
| Trade receivables and other debtors, except for advance payments | 11,461,783         | -                | -                          | 11,461,783         |
| Cash and cash equivalents  | 37,953             | 10,313           | 391                        | 48,657             |
| <b>Total financial assets</b>                                    | <b>11,499,736</b>  | <b>10,313</b>    | <b>391</b>                 | <b>11,510,440</b>  |
| Borrowings from credit institutions                              | 181,304,139        | 4,983,739        | -                          | 186,287,878        |
| Other loans  | 2,671,582          | -                | -                          | 2,671,582          |
| Trade payables and other creditors, except for advance payments  | 30,164,753         | 51,934           | 16,252                     | 30,232,939         |
| <b>Total financial liabilities</b>                               | <b>214,140,474</b> | <b>5,035,673</b> | <b>16,252</b>              | <b>219,192,399</b> |

The table below reflects the Company's financial instruments by currencies on 1 January 2015:

(EUR)

|  | EUR                | USD<br>EUR       | Other<br>currencies<br>EUR | Total<br>EUR       |
|--|--------------------|------------------|----------------------------|--------------------|
| Trade receivables and other debtors, except for advance payments | 17,006,120         | -                | -                          | 17,006,120         |
| Cash and cash equivalents  | 53,824,867         | 3,496            | 352                        | 53,828,715         |
| <b>Total financial assets</b>                                    | <b>70,830,987</b>  | <b>3,496</b>     | <b>352</b>                 | <b>70,834,835</b>  |
| Borrowings from credit institutions                              | 139,282,943        | 5,958,649        | -                          | 145,241,592        |
| Other loans  | 2,788,585          | -                | -                          | 2,788,585          |
| Trade payables and other creditors, except for advance payments  | 57,091,128         | 47,856           | 28,231                     | 57,167,215         |
| <b>Total financial liabilities</b>                               | <b>199,162,656</b> | <b>6,006,505</b> | <b>28,231</b>              | <b>205,197,392</b> |

### 34. CAPITAL INVESTMENT LIABILITIES

The Company plans to continue making capital investments in fixed assets and intangible investments also in the next reporting year, including:

- most important contracts which have been concluded, but not yet completed:

(EUR)

| Name of business partner, subject of contract  | Contract date | Time of performance of contract | Contractual amount EUR |
|--|---------------|---------------------------------|------------------------|
| <b>LLC (SIA) "Infotrust"</b><br>Information systems of railway freight traffic indicators<br>Movement of "DISKOR" to uniform data warehouse and development of freight traffic indicator analytics | 15.03.2016.   | 31.03.2017.                     | 148,570                |
| <b>LLC (SIA) "LVS Building"</b><br>Renovation of the railway station building, dismantling of lavatory facilities and territorial improvement  | 10.11.2016.   | 30.06.2017.                     | 94,500                 |
| <b>Latvian-Lithuanian joint venture "Viadukts" LLC (SIA)</b><br>Reconstruction works of reinforced concrete bridge in the span of "Ventspils-Tukums", connection "Sabile-Kandava" km 78+945        | 08.08.2016.   | 30.06.2017.                     | 90,932                 |



In 2016, no significant transactions have been approved, for which contracts should be concluded next year.

#### Establishment of fixed assets and costs of unfinished building objects

(EUR)

| Name of unfinished building objects   | Balance of unfinished building objects on 31.12.2016 | Planned costs for 2017 | Planned date for putting into service |
|---|--|------------------------|---------------------------------------|
| Sketch design for the electrification of LDz network  | 1,913,222  | -                      | 2020                                  |
| Electronization and optimization of circulation of information related to freight traffic and — Freight traffic management IS | 1,417,506  | 217,950                | 2019                                  |
| Other unfinished building objects   | 943,862  | 1,302,670              | 2017                                  |
| <b>Total</b>  | <b>4,274,590</b>                                     | <b>1,520,620</b>       | <b>x</b>                              |

### 35. POSSIBLE TAX LIABILITIES

Tax institutions are entitled to conduct an accounting audit at any time in three years after the taxation year and additionally calculate tax liabilities and penalties. The Company's management is not aware of any circumstances, which may cause potentially significant liabilities in the future.

### 36. FUTURE LEASE PAYMENTS

In 2016, the Company's costs in relation to the concluded operating lease contracts are EUR 3,511,824, in 2015 — EUR 3,712,316. Retention of costs for 2017 at the level of 2016 is planned.

Early termination of the other operating lease contracts cannot significantly affect the Company's financial position and performance results.

### 37. FUTURE LEASE REVENUE

Operating lease revenue in 2016 was EUR 5,980,114. During the period of 1-5 years, it is planned to receive the lease revenue at the level of 2016.

### 38. NUMBER OF PERSONS EMPLOYED BY THE COMPANY

The average number of persons employed by the Company was 6808 in 2016 (in 2015 — 7011).

### 39. TRANSACTIONS WITH RELATED PERSONS

The Company has transactions with the Ministry of Transport (the holder of 100 % of the Company's shares) and other commercial companies the shares of which are owned by the state. The largest transactions have been concluded with JSC (AS) "Pasažieru vilciens" (fee for the use of public railway infrastructure for inland passenger transport, purchase of subscriber tickets) in total of EUR 48,778,535 (in 2015 — EUR 48,539,326) and SJSC (VAS) "Latvenergo" (purchase of electricity) in total of EUR 12,955,449 (in 2015 — EUR 12,988,751). Mutual transactions are related to basic activities of the relevant parties.



(EUR)

| Business partner                       | 2016<br>Goods/services |                        | 2016<br>Goods/services |                        |
|--|------------------------|------------------------|------------------------|------------------------|
|  | Sold/provided          | Purchased/<br>received | Sold/provided          | Purchased/<br>received |
| LLC (SIA) "LDZ CARGO"                  | 111,658,481            | 9,660,083              | 122,988,311            | 13,583,346             |
| LLC (SIA) "LDZ ritošā sastāva serviss" | 2,646,969              | 3,571,960              | 2,387,164              | 3,843,856              |
| LLC (SIA) "LDZ infrastruktūra"         | 1,367,501              | 11,773,330             | 4,030,090              | 24,317,292             |
| LLC (SIA) "LDZ apsardze"               | 330,113                | 4,464,846              | 354,913                | 4,509,594              |
| JSC (AS) "LatRailNet"                  | 70,425                 | 1,198,395              | 76,955                 | 1,197,877              |
| LLC (SIA) "LDZ Loģistika"              | 64,616                 | -                      | 35,598                 | -                      |

**Receivables from related companies:**

(EUR)

| Subsidiary company   | 31.12.2016        | 31.12.2015         | 01.01.2015        |
|--|-------------------|--------------------|-------------------|
| LLC (SIA) "LDZ CARGO"                                      | 4,260,227         | 3,480,821          | 9,070,292         |
| LLC (SIA) "LDZ ritošā sastāva serviss"                     | 9,654,088         | 2,872,003          | 1,505,043         |
| LLC (SIA) "LDZ infrastruktūra"                             | 117,421           | 95,876             | 713,861           |
| LLC (SIA) "LDZ apsardze"                                   | 36,380            | 33,771             | 31,176            |
| JSC (AS) "LatRailNet"                                      | 7,515             | 7,563              | 8,414             |
| LLC (SIA) "LDZ Loģistika"                                  | 6,011             | 4,552              | 2,644             |
| <b>Total</b>   | <b>14,081,642</b> | <b>6,494,586,,</b> | <b>11,331,430</b> |
| including receivables arisen in December of reporting year | 14,081,642        | 6,472,716          | 11,310,836        |

**Amounts owed to related companies:**

(EUR)

| Subsidiary company   | 31.12.2016       | 31.12.2015       | 01.01.2015       |
|--|------------------|------------------|------------------|
| LLC (SIA) "LDZ CARGO"                                      | 829,008          | 1,034,757        | 1,466,601        |
| LLC (SIA) "LDZ ritošā sastāva serviss"                     | 235,274          | 300,562          | 401,528          |
| LLC (SIA) "LDZ infrastruktūra"                             | 1,383,875        | 3,772,217        | 3,314,223        |
| LLC (SIA) "LDZ apsardze"                                   | 518,942          | 688,127          | 587,940          |
| <b>Total</b>   | <b>2,967,099</b> | <b>5,795,663</b> | <b>5,770,292</b> |
| including receivables arisen in December of reporting year | 2,966,140        | 2,940,928        | 5,057,701        |



#### 40. EVENTS AFTER THE END OF THE REPORTING YEAR

During the period since the end of the last day of the reporting year, there have been no events which would significantly affect the Company's financial position as at 31 December 2016.

On 17 January 2017, the Cabinet supported further progress of the electrification project of railway network prepared by the Ministry of Transport and "Latvijas dzelzceļš" and providing for the implementation of the first phase of the electrification of railway network in the direction of Riga from Daugavpils and Rēzekne via Krustpils. The Company is planning to prepare the project application documents for submission to the European Commission until September 2017.

#### 41. PROPOSALS FOR USE OF THE COMPANY'S PROFIT

In accordance with Section 94, Paragraph one, Clause 2, Section 56, Paragraph one and Section 28, Paragraphs one and two of the Law On Governance of Capital Shares of a Public Person and Capital Companies and Paragraph 5 of Cabinet Regulation No. 806 of 22.12.2015, Procedures, by Which State Capital Companies and Public Private Capital Companies, Where the State Is a Shareholder, Forecast and Determine the Share of Profit to Be Paid In Dividends and Make Payments In the State Budget For the Use of State Capital, in order to provide retention of competitiveness, sustainable development and implementation of investment projects of State Joint-Stock Company "Latvijas dzelzceļš", the Company's management proposes to set a different rate for the share of profit to be paid in dividends in the amount of 0 %.



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**CONSOLIDATED  
ANNUAL REPORT OF SJSC (VAS)  
“LATVIJAS DZELZCEĻŠ” 2016**



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**CONSOLIDATED INCOME STATEMENT FOR 2016**

(BY THE FUNCTION OF EXPENSES)

(EUR) '000

| PARAMETER   | In 2016       | In 2015       |
|---|---------------|---------------|
| Revenue   | 351,121       | 420,163       |
| Production cost of goods sold   | (340,409)     | (407,610)     |
| <b>Gross profit</b>   | <b>10,712</b> | <b>12,553</b> |
| Administrative expenses   | (24,461)      | (28,605)      |
| Other operating income  | 37,015        | 38,560        |
| Other operating costs   | (13,914)      | (15,968)      |
| Losses from participation in the capitals of the Group's associated companies | -             | (30)          |
| Income from long-term investments   | 250           | 157           |
| Financial revenue   | 1             | 1             |
| Financial costs   | (2,295)       | (2,385)       |
| <b>Profit before corporate income tax</b>                                     | <b>7,308</b>  | <b>4,283</b>  |
| Corporate income tax  | (6,253)       | (3,700)       |
| <b>Profit for the reporting year</b>  | <b>1,055</b>  | <b>583</b>    |

Riga, 22 March 2017

**E. Bērziņš**  
Chairman of the Board**A. Strākšas**  
Member of the Board**Ē. Šmuksts**  
Member of the Board**A. Stūrmanis**  
Member of the BoardAnnual Report has been prepared by the  
Finance Directorate of State JSC (VAS) "Latvijas dzelzceļš":**S. Gāsjūna**  
Deputy Financial Director, Head of Financial Unit

## NOTE

Guidelines for the preparation of the condensed consolidated financial statements. These condensed consolidated financial statements consisting of a consolidated statement of the financial position as at 31 December 2016, a consolidated income statement and a consolidated statement of comprehensive income for the reporting year which ended on 31 December 2016, have been prepared based on the respective information of the audited consolidated financial statements of SJSC "Latvijas dzelzceļš" for 2016, without making any changes thereto. The audited consolidated financial statements are available at the administration department of SJSC "Latvijas dzelzceļš". Consequently, these condensed consolidated statements correspond to the consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 2016**

(BY THE FUNCTION OF EXPENSES)

(EUR) '000

| PARAMETER  | In 2016        | In 2015        |
|--|----------------|----------------|
| <b>Profit for the reporting year</b>   | <b>1055</b>    | <b>583</b>     |
| Other income:  |                |                |
| Items not to be re-classified in the income statement:   |                |                |
| Write-off of the revaluated fixed assets   | (11,024)       | (4,887)        |
| Deferred tax directly recognized in other income from the revaluated fixed assets  | 1,653          | 733            |
| <b>Other losses for the reporting year</b>   | <b>(9,371)</b> | <b>(4,154)</b> |
| <b>Comprehensive losses for the reporting year</b>   | <b>(8,316)</b> | <b>(3,571)</b> |
| <b>Profit and comprehensive losses for the reporting year attributable to the shareholders of the Group's parent company</b> | <b>(8,316)</b> | <b>(3,571)</b> |

Riga, 22 March 2017

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION ON 31 DECEMBER 2016**

(EUR) '000

| <b>ASSETS</b>  | <b>31.12.2016</b> | <b>31.12.2015</b> |
|--|-------------------|-------------------|
| <b>NON-CURRENT INVESTMENTS</b>                       |                   |                   |
| Fixed assets   | 908,066,          | 935,873           |
| Intangible investments                               | 1,559             | 1,636             |
| Advance payments for fixed assets                    | 756               | 746               |
| Non-current financial investments                    | 494               | 494               |
| Participation in the capital of associated companies | -                 | 115               |
| Long-term trade receivables                          | -                 | 200               |
| <b>TOTAL NON-CURRENT INVESTMENTS</b>                 | <b>910,875</b>    | <b>939,064</b>    |
| <b>CURRENT ASSETS</b>                                |                   |                   |
| Inventories  | 34,355            | 29,835            |
| Trade receivables and other receivables              | 18,180            | 16,771            |
| Corporate income tax                                 | 1,875             | 905               |
| Cash and cash equivalents                            | 61,084            | 28,209            |
| <b>TOTAL CURRENT ASSETS</b>                          | <b>115,494</b>    | <b>75,720</b>     |
| <b>TOTAL ASSETS</b>                                  | <b>102,6,369</b>  | <b>1,014,784</b>  |

(CONTINUED ON NEXT PAGE)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION ON 31 DECEMBER 2016**

(CONTINUED)

(EUR) '000

| LIABILITIES  | 31.12.2016      | 31.12.2015       |
|--|-----------------|------------------|
| <b>EQUITY AND LIABILITIES</b>                                      |                 |                  |
| <b>EQUITY</b>  |                 |                  |
| Attributable to the shareholders of the Group's parent company:    |                 |                  |
| Share capital (equity capital)                                     | 256,720         | 256,720          |
| Non-current assets revaluation reserve                             | 46,973          | 56,344           |
| Reserves and retained profit brought forward                       | 52,272          | 42,318           |
| Comprehensive income for the reporting year                        | 1,055           | 583              |
| <b>TOTAL EQUITY</b>  | <b>357,020</b>  | <b>355,965</b>   |
| <b>LIABILITIES</b>   |                 |                  |
| <b>NON-CURRENT LIABILITIES</b>                                     |                 |                  |
| Deferred income tax liability                                      | 36,752          | 30,523           |
| Provisions   | 178             | 1,084            |
| Borrowings from credit institutions                                | 177,334         | 167,167          |
| Other loans  | 2,438           | 2,555            |
| Accounts payable to suppliers and contractors                      | 491             | 3,875            |
| Income of the next periods   | 329,671         | 318,618          |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                               | <b>546,864</b>  | <b>523,822</b>   |
| <b>CURRENT LIABILITIES</b>   |                 |                  |
| Borrowings from credit institutions                                | 33,399          | 28,872           |
| Other loans  | 117             | 124              |
| Provisions   | 15,187          | 21,820           |
| Accounts payable to suppliers and contractors, and other creditors | 38,738          | 52,544           |
| Corporate income tax   | -               | 1,335            |
| Taxes and mandatory state social insurance contributions           | 15,836          | 13,642           |
| Income of the next periods   | 19,208          | 16,660           |
| <b>TOTAL CURRENT LIABILITIES</b>                                   | <b>122,485</b>  | <b>134,997</b>   |
| <b>TOTAL LIABILITIES</b>   | <b>669,349</b>  | <b>658,819</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                | <b>1026,369</b> | <b>1,014,784</b> |

Riga, 22 March 2017

**E. Bērziņš**  
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Deputy Financial Director, Head of Financial Unit



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**LATVIJAS DZELZCEĻŠ**

Dzelzceļa infrastruktūras pakalpojumi

Gogoļa iela 3, Rīga, Latvia, LV 1547

Phone: +371 67233743

E mail: info@ldz.lv

**On matters related to the annual report  
please contact SJSC (VAS) "Latvijas dzelzceļš"**

Media Relations Manager Māris Ozols

Phone: +371 27895497

E mail: maris.ozols@ldz.lv