



# SUSTAINABILITY AND ANNUAL REPORT FOR 2019

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

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## 08 ANNUAL REPORT OF SJSC "LATVIJAS DZELZCEĻŠ" FOR 2019

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# Information about the report

THE SUSTAINABILITY REPORT OF SJSC  
"LATVIJAS DZELZCEĻŠ" FOR 2019 HAS  
BEEN PREPARED IN ACCORDANCE WITH  
THE CORE REQUIREMENTS OF THE GRI  
STANDARD.

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**Reporting period**

1 January 2019 to 31 December 2019

**Reporting cycle**

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

**Publication date**

The publication date is 31 August 2020 (in Latvian). The report is publicly available in Latvian and English on the website <http://paskati.ldz.lv/>. Concurrently, the English version is submitted for publication in the international GRI database <http://database.globalreporting.org/>.

**Reporting principles**

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

Based on the survey and matrix, SJSC "Latvijas dzelzceļš" has fully reflected general standard disclosures (38 indicators) in the sustainability report on the activity of SJSC "Latvijas dzelzceļš", as well as provided information on 46 key aspects.

The report also includes information on such activities, which in the company's view, are related to the sustainable activity of the company, contribution to the community or identification and mitigation of certain risks, but which had not been highlighted as key aspects in the survey of the stakeholders or which do not form a part of the GRI standard. In the Sustainability report, the GRI standard indicators or the key aspects defined by the company are marked next to the relevant sections, which are marked with the indicator LDZ-x.

**Data collection methods**

For the preparation of the report is the information provided by the entities and structural units of SJSC "Latvijas dzelzceļš" as well as the data on the company's activity and the key reporting aspects have been used. Only verified and substantiated data have been used in the report. If specific data on a critical business impact area are not accumulated and analysed, this is indicated in the report. The report covers both the financial and non-financial activity of SJSC "Latvijas dzelzceļš" in 2019. It also discloses general information on the activity of the subsidiaries of "Latvijas dzelzceļš" Group. The contents of the report does not fully reflect the activity of the whole Group in the field of sustainability.

**Auditor's assurance**

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

**Contact information**

The contact information in case of questions or comments on the sustainability report of SJSC "Latvijas dzelzceļš" for 2019: [Ella.Petermane@ldz.lv](mailto:Ella.Petermane@ldz.lv)

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## SJSC "Latvijas dzelzceļš"

State joint stock company SJSC "Latvijas dzelzceļš" ("Latvian Railway"/LDz) is a public-use railway infrastructure operator and the dominant company of "Latvijas dzelzceļš" Group. The company provides public railway infrastructure, service station operator services (freight wagon handling, wagon maintenance and inspection services, passenger station and stop services), electricity distribution and trade, real estate rental, information technology, electronic communications, as well as the services of a principal.

The company's registered office is at Gogoļa iela 3, Riga. Its structural units and subsidiaries, however, operate across Latvia: in Daugavpils, Rēzekne, Krustpils, Jelgava, Liepāja and Ventspils, where important railway junctions are located that ensure handling of the freight transit flows and scheduling of the passenger transport.

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

The "Latvijas dzelzceļš" Group (LDz Group) comprises seven dependent subsidiaries (the parent company exercises direct decisive influence in six subsidiaries and indirect decisive influence in one subsidiary). Subsidiaries provide freight and international passenger transportation by rail, rolling stock maintenance, repairs and upgrading services, physical and technical security services, the development and rendering of international multi-modal logistics services. An independent joint stock company "LatRailNet" is part of the Group, which according to the regulation laid down by the European Commission carries out the key railway infrastructure manager's functions and is responsible for setting the track access charges and the allocation of the capacity among the rail network. The sustainability report provides broader information about SJSC "Latvijas dzelzceļš" and includes an overview of the key processes of the LDz Group subsidiaries in 2019.



# Key processes in 2019

The year 2019 was the first year when LDz, as a State capital company, 100% owned by the Ministry of Transport, operated in accordance with the "Indicative railway infrastructure development plan for 2018-2022" approved by the Cabinet of Ministers on 5 November 2018. The Indicative railway infrastructure development plan sets out the government mandate for the infrastructure manager over a five-year period, stipulating which lines, in what quality and with what available capacity must be maintained, as well as - which development projects are to be implemented to meet the needs of the Latvian economy. For the implementation of the Indicative plan, on 9 November 2018, the State represented by the Ministry of Transport entered into a multi-year agreement with the infrastructure manager for the planning and financing of the maintenance and development of the public railway infrastructure managed by SJSC "Latvijas dzelzceļš".

Concurrently, LDz pursues the Medium-Term Operational Strategy 2017-2022 of SJSC "Latvijas dzelzceļš". In addition, in accordance with the Cabinet of Ministers Order No. 212, in order to ensure the funds necessary for the development and renewal of infrastructure in the said period, a special dividend rate of zero was set.

In 2019, LDz celebrated the centenary of the Company's foundation, which was an important moment to reflect back on what had been achieved so far and evaluate the Company's future development trends, challenges and opportunities.

Taking into consideration the situation in the entire Latvian transport and transit sector and the trends in the volume of transported freight, there was a major focus on increasing the efficiency of LDz and reducing costs. In the last quarter of 2019, the work on reviewing all LDz's processes and cost reduction was started, for example, significantly reducing the vehicle fleet used by the administration staff, advertising and representation costs, as well as consultancy related costs.

A review and evaluation of all technological processes was also launched at the end of 2019, taking into consideration existing and projected trends in the freight volumes. Also, at the end of 2019, a reduction of the number of staff employed in the LDz administration was started, concurrently eliminating the duplication of functions and responsibilities and contributing to the efficiency of general processes.

In the concept for the future of the public transport for 2021 – 2030, railway is defined as the backbone of traffic to be supplemented by other modes of transport. Therefore, together with the Ministry of Transport and JSC "Pasažieru vilciens", work has been started on reviewing the efficiency of passenger transport routes, stations and stops. Improving the mobility opportunities of the population, in cooperation with JSC "Pasažieru vilciens", an express train on the route Rīga–Cēsis was launched, which was extended to Valmiera in the autumn of 2019. With the growing popularity of rail transport among the population, there is an ongoing debate regarding the restoration of certain closed routes and the increase in the intensity of traffic. In 2019, LDz continued work on the improvement of passenger infrastructure, including the construction of a pedestrian tunnel in Ogre and commissioning of a modernised platform at the Skrīveri station.

In the forthcoming years, the maintenance and development of passenger-friendly infrastructure, including the accessibility of the environment, the promotion of mobility, and the increase of traffic safety will continue to be on the list of priorities.

Integration in international transit corridors is key for the growth of the Latvian transport and logistics sector, therefore in 2019, together with the companies and organizations of the sector LDz carried on the work aimed at promoting the competitiveness of the multimodal transport corridor. In cooperation with the Ministry of Transport and other companies of the sector, the brand "VIA Latvia" was created, used by the industry to present itself in international transport and logistics events. At the same time, this brand serves as a sign to the existing and prospective counterparties that the Latvian transit and logistics industry is a reliable and significant partner in international transport corridors.



# Railway transportation services in 2019

Although freight by rail in Latvia is carried by a number of commercial companies, the Group company Ltd. "LDZ CARGO", provides the largest volume of cargo freight both at the local and international levels. Freight is also carried by three companies that are not part of LDz Group, i.e., JSC "BALTIJAS TRANŽĪTA SERVISS", JSC "Baltijas Ekspresis" and Ltd. "EURORAILCARGO". Passenger carriage within the country is provided by the State capital company JSC "Pasažieru vilciens", which is not a Group company. International passenger carriage services in the territory of Latvia are provided by Ltd. "LDZ CARGO", including transporting the Ukrainian railway formation train (Kiev-Minsk-Vilnius-Rīga) and the Belarusian railway formation train (Minsk-Rīga). Lithuanian railway company UAB "LG KELEIVIAMIS" provides transport services by the Lithuanian railway formation train (Vilnius-Daugavpils-Vilnius). Also in Latvia, there is a 33-kilometer-long narrow-gauge railway section, where passengers are carried between Gulbene and Alūksne by Ltd. "Gulbenes - Alūksnes bānītis".

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

Participation in international transit corridors is not only a way to promote Latvia's economic growth, but at the same time it also means that the processes that take place in international markets and politics also affect the operating

performance of LDz. The year 2019 clearly proved that the transport and logistics sector in Latvia is not isolated from economic and political decisions in other countries and other sectors of the economy that affect the global transport and logistics sector. The transportation of fossil raw materials (such as oil, oil products, coal) has historically been the main segment of rail freight transportation in Latvia. Last year, there was a global decline in the prices of these raw materials, resulting in a decline in transportation volumes, which had an impact on transportation volumes throughout the Baltic region, including Latvia. In 2019, because of various external economic and political processes, the total volume of cargo transported via LDz infrastructure was 41.5 million tons of cargo – down by 15.8% from 2018, when the volume of cargoes peaked since 2015.

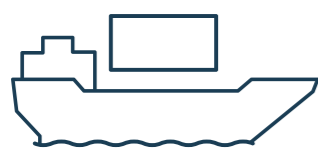
According to the data provided by the Bank of Latvia, in 2019, total exports of railway transport amounted to EUR 295 million, whereas freight transport totalled EUR 244 million. Railway business is closely related to the maritime transport business, where the export services in 2019 amounted to EUR 329 million, thus the total contribution of the sector to Latvia's exports was close to EUR 624 million.

Import cargoes still account for the largest share of freights carried using LDz infrastructure, and the main cargo sending countries are Russia, Belarus, Lithuania, Ukraine and Kazakhstan. Despite the volume of cargoes from Russia fell in 2019, at the same time, the share of Russian cargoes relative to other sending countries has increased. If in 2018, from Russia was imported 30.3 million tons of cargo, accounting for 66.5% of all cargoes, in 2019, the volume of transported cargoes totalled 26.4 million tons, whereas the share of freights was 70.4%.

The second largest volume of traffic was with Belarus, i.e., in 2019, it was 8.1 million tons of import and land transit cargoes (21.7% of the total cargo volumes). Belarus with 1.9 million tons was followed by Lithuania, where compared to 2018, the volume of cargoes increased by 4.5%. However, the largest increase in cargo volumes was achieved by Kazakhstan: 438 thousand tons of cargoes have been imported, which is 45.5% more than in the previous year, representing 1.2% of this country's cargo in relation to other sending countries.



Share of total rail freight carried through the stations near ports in 2019



**55%**

through the Port of Rīga



**32%**

through the Port of Ventspils



**13%**

through the Port of Liepāja

Freight transport was also carried in traffic with Estonia, Uzbekistan, Ukraine and other countries; however, the volume of these cargoes was relatively smaller than with the four leading countries.

Share of freights by country in 2019

Russia	70,4%
Belarus	21,7%
Lithuania	5,0%
Kazakhstan	1,2%
Ukraine	1,1%
Estonia	0,3%
Uzbekistan	0,1%
Other countries	0,2%

In rail transport, an important role is played by the ports through which cargo is shipped to Western Europe and Scandinavia, as well as through which cargo is received for further shipment to the East. The largest volume of cargoes has traditionally been carried through the Port of Rīga. Although the volumes dropped in 2019, the Port of Rīga was still the leader with 18.4 million tons of cargo. The second largest volume has been transported through the port of Ventspils (10.7 million tons), but through the port of Liepāja – 4.1 million tons. The total volume of cargo transported through these three ports in 2019 has decreased by 18.1% (7.3 million tons).

Despite the decline in cargo volumes, the largest share is still accounted for by coal, followed by oil and oil products. Mineral fertilizers are in third place in terms of transportation. Last year, there was a significant increase in timber cargo – 197 thousand tons were transported, i.e., up by 33.1% from 2018.

At the same time, passenger transportation continued to show positive trend. Overall, in 2019, 18.6 million passengers were carried using LDz’s infrastructure, up by 2.1% from the previous year. The largest number of passengers was achieved on domestic routes – 18.4 million, up by 2% from with 2018. There has also been an increase in international traffic, where a total of 180.2 thousand passengers were transported during 2019.



Coal

**17,47 mln.t**



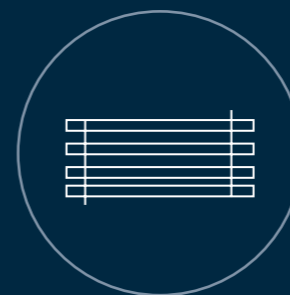
Oil and oil products

**9,40 mln.t.**



Mineral fertilizers

**2,77 mln.t.**



Timber

**1,98 mln.t.**



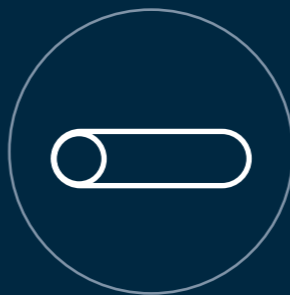
Chemical cargoes

**1,95 mln.t.**



Grain and flour products

**1,82 mln.t.**



Ferrous metals

**1,19 mln.t.**



Ore

**693 thousand t.**



Sugar

**41 thousand t.**



Other cargoes

**3766 t.**

Volumes of transported cargo in 2019

# Management and development of the infrastructure

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

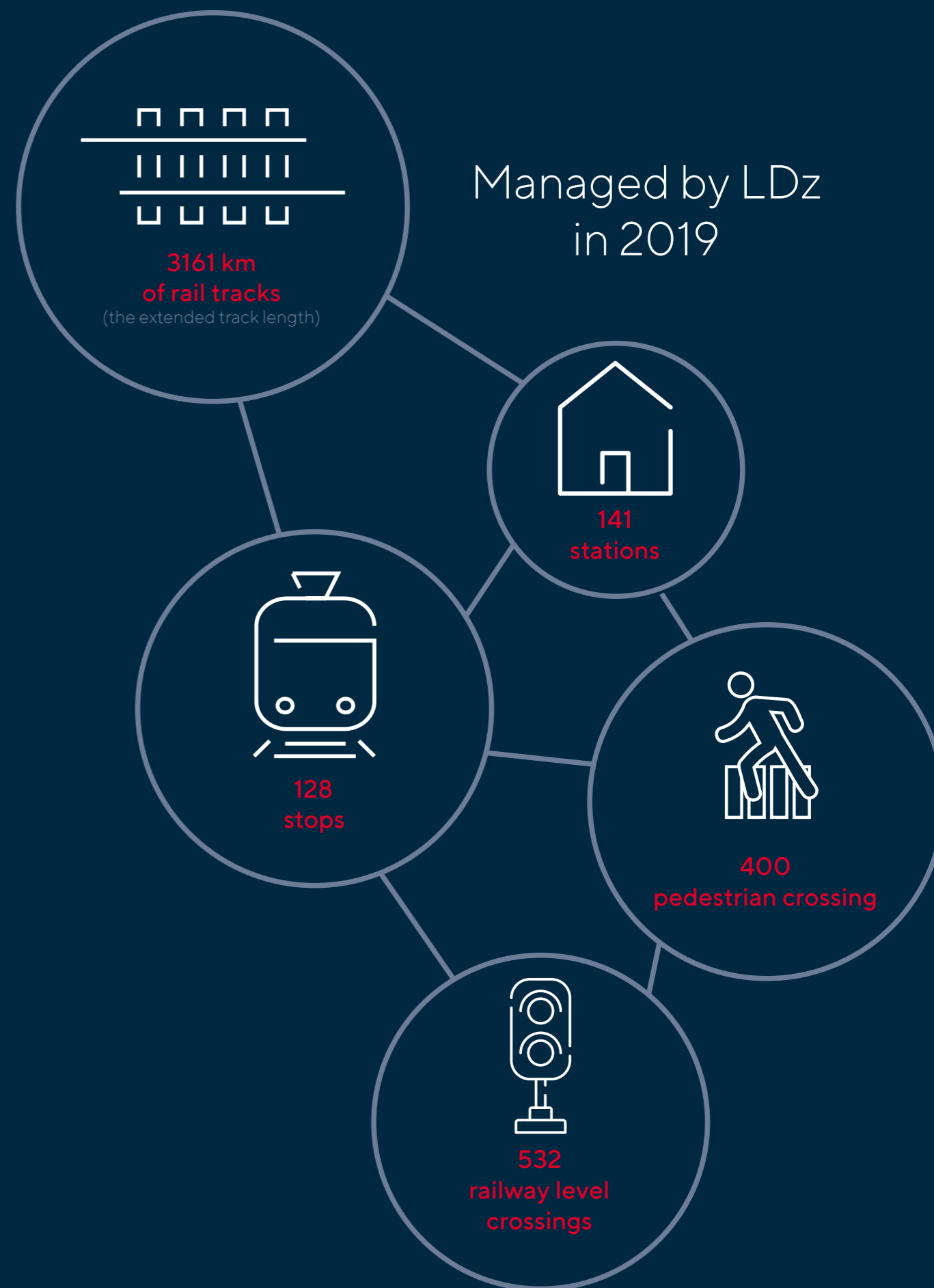
Maintaining, renewing and development of the railway infrastructure is ensured under the multi-annual contract No. L-7392/2018 entered into by and between the Ministry of Transport and LDz 'On planning and financing the maintenance and development of the public use railway infrastructure managed by SJSC "Latvijas dzelzceļš" of 9 November 2018 as well as by the medium-term operational strategy of SJSC "Latvijas dzelzceļš" for 2017-2022.

In 2019, LDz managed 3161 kilometres of railways (the extended track length), of which 1859.6 km were the length in operation.

In Latvia, the railway infrastructure comprises 141 stations, 128 stops, of which 66 stops are intended for passenger embarkation and disembarkation. The maximum train speed is set at 120 km/h for passenger trains and up to 90 km/h for freight trains. The maximum axle load for railway rolling stock is 25 tons, which means that the railway infrastructure in Latvia can handle heavier freight transport (the average weight of one freight train is about 30 000 tons) throughout the railway network.

One of the priorities of LDz is the safety of pedestrians near the railway or railway level crossings, therefore investments are being made to improve safety. In 2018, the number of railway crossings where pedestrian traffic is regulated by sound and traffic lights was increased. The first such traffic light was installed at Sigulda railway station in 2016, while in 2019, three sound and light traffic lights were installed at Majori, Rīgas Street and Smilšu Street and in Rīga, Zārdu Street (Zolitūde).

In 2019, LDz maintained 532 railway level crossings and 400 pedestrian crossings.



# Human resources

The main task of LDz is maintain the railway infrastructure in an appropriate quality, which require professional employees. Although the railway sector, which has a history of more than 150 years in Latvia, is increasingly integrating modern technologies and digitalising its processes, the issue of changing generations and attracting new and progressively-thinking employees is still relevant.

Among the company's employees, the most represented in the 50-59 age group, whereas the average age of employees is 47 years. However, there is a relatively large number of young specialists. With a view to attracting young and advanced professionals, LDz has for years strengthened its cooperation with Latvian higher and vocational education establishments. At the same time, it also plays an important role in motivating existing employees and developing their competencies. Moreover, there is a special programme designed to promote generational change by providing incentives for retirement age employees to pass on their knowledge accumulated during the decades to the young professionals and to retire.

It is not uncommon that railway is associated only with rails and the infrastructure; however, various technological and other processes not directly related to the rails have a significant impact on the quality of LDz's ability to fulfil its primary task.

The railway infrastructure network is located all over the country, ensuring the mobility of the population and the flow of goods both domestically and in transit to and from other countries. Therefore, LDz employs a large number of people throughout Latvia, especially in the largest cities, which are also railway hubs. LDz plays a special role in providing employment in Latgale (Daugavpils and Rēzekne), which both are towns of national importance in terms of the population thereof, as well as important railway freight hubs in traffic with eastern neighbouring countries, as well as farther countries in Asia. Therefore, in the Latgale region, LDz had the largest number of employees, i.e., 1904 employees in 2019.

Over the years, the number of LDz employees has changed. It has gradually decreased, due to both the increasing involvement of modern technologies in daily processes, as well as the economic circumstances and the efficiency of the company's operations. In 2019, the average number of employees employed by LDz was 6345 people. At 31 December 2019, there were 6265 employees.

In its human resources policy, LDz pursues the principles of non-discrimination, employing residents of different ages, genders and nationalities. Despite the opinion that the railway industry is clearly masculine, in 2019, the Company employed 2186 females (34.8% of all employees). For years, this ratio has been minimally changing in one direction or the other. Thus, LDz is one of the few sector companies in the European Union with such a gender ratio.

# Performance results in 2019

Due to changes in international markets, including the declining prices of fossil fuel, there was a significant decrease in incoming and outgoing cargoes in 2019. This also affected LDz's economic performance indicators, as the volumes of transported cargo followed a negative trend, and the second half of the year showed that the situation would not improve significantly.

## Structure of operating income:

# 69,5 %

selling of the infrastructure capacity

# 18,5 %

ancillary services of the infrastructure manager

# 12 %

other revenue

The performance for the third quarter of the year was a loss of EUR 2 million, which suggested that the performance for the year will not be as favourable as a year earlier. The major part of the Company's turnover is made up of revenue from the public railway infrastructure charges paid by carriers, which is calculated on the basis of the number of kilometres travelled by trains. In 2018, freight traffic accounted for 9.99 million train-kilometres, and passenger traffic accounted for 6.12 million train-kilometres. Whereas in 2019, freight traffic accounted for 8.57 million train-kilometres and passenger traffic accounted for 6.14 million train-kilometres.

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

Other revenues include the handling and leasing of freight wagons, electricity distribution, leasing and sale of real estate, as well as information technology services and the services of a principal.

In 2019, SJSC "Latvijas dzelzceļš" paid EUR 74.8 million in taxes to the State budget, but in the foreign trade balance of Latvia, rail transport exports amounted to EUR 295 million. With slight changes in the rating, the company has still been ranked among the top ten most valuable companies in Latvia, according to TOP101 rating, which is compiled jointly by NASDAQ Riga and Prudentia.

This rating has assessed the company's value of EUR 420.04 million and it was ranking No. 8. Whereas among the capital companies owned by the State, LDz ranked No. 4, however, is a leader among the transport, transit and logistics companies. In 2019, the Company's profit was EUR 32 thousand.

Under Section 28, Paragraphs one and two of the Law On Governance of Capital Shares of a Public Person and Capital Companies, the projected share of profit to be paid in dividends and the share of profit to be paid in dividends shall be determined on the basis of the medium-term strategy of the Company. At the same time, the Medium-term operational strategy of LDz for 2017-2022 provides for the importance of determining a different amount of profit to be paid to the State in dividends from the Company's net profit, so that LDz would retain a profit, for using it for the development and renewal of the public railway infrastructure, including creating a reserve that can be used for maintaining the sustainability of the Company's operations and for implementing the contemplated public use railway infrastructure projects.

On 9 November 2018, a Multi-year agreement was entered into by the Ministry of Transport and LDz as the infrastructure manager, on planning and financing of the maintenance and



EUR **183,3** mln.  
net turnover



EUR **32 430**  
profit



EUR **74,8** mln.  
taxes paid



EUR **420,02** mln.  
value of the company



# Accountability for external initiatives

development of the public use railway infrastructure managed by LDz for the period running from 9 November 2018 through to 31 December 2022. According to the plan, the mechanism ensuring the financial equilibrium can function, and investment projects can be implemented if the annual laws on the State budget and on the medium-term budgetary framework for the relevant periods include the decision conceptually adopted by the Cabinet on the 0% share of the Company's net profit distributed as dividends in 2018–2021.

In 2019, a special assessment was received from the Central Statistical Bureau (CSB). At the annual ceremony of the largest Latvian companies TOP 500 hosted by the newspaper "Dienas Bizness" LDz received the special award from CSB for excellent cooperation in providing quality statistics, which is a significant assessment of the quality of information LDz is responsible for, ensuring that everyone has access to accurate and up-to-date statistical data on its economic activities. Openness and co-operation with compilers of statistical data allow creation of an objective picture in the community about the railway sector, its contribution to the national economy and in general – about the influence of the company on the national economic processes.



Demonstrating its responsibility for the sustainable, transparent and sound governance of the Company, in 2019, LDz continued to operate initiatives related to the industry, business, as well as in various initiatives related to sustainable management. Last year, LDz continued to be actively involved in the Responsible Business Week organised by the Institute of Corporate Sustainability and Responsibility, as well as in the assessment of the Sustainability Index, where it received the highest rating, i.e., the Platinum category for the second consecutive year.

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

The knowledge of science subjects is important in the railway sector, therefore, aiming at education and attraction of the new specialists in the future, in the spring of 2019, in cooperation with the foundation "Mission Possible" ("Iespējamā Misija"), LDz launched the project "Latvijas Dzinējspēks", within which was developed a new website ([www.steamup.lv](http://www.steamup.lv)) designed to help students, their parents and teachers in learning STEM (Science, Technology, Engineering, Mathematics) or science

subjects. LDz got involved in this initiative, taking into consideration the disproportion between the science and humanities subject specialists in the Latvian labour market. That is, in recent years, young people have tended to choose to study the humanities. The project aims to inspire and motivate students to view the STEM subjects from a different angle, i.e., as interesting, exciting and useful. In order to stimulate students' interest in science subjects, face-to-face talks "COMPETITIVE" were organized throughout the year in the regions of Latvia, with the participation of people popular with young people – the so-called influencers.

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



# Membership in organisations

## Latvian organisations



### Employers' Confederation of Latvia (LDDK)

The LDDK is the largest organization in Latvia, which brings together the employers and trade unions of the public and private sector and is the social partner of trade unions. The LDDK is a member of The Confederation of European Business or BUSINESSEUROPE, thus it has access to the legislative and social dialogue tools at national as well as European level.

The LDDK is a member of the National Trilateral Cooperation Council (NTCC) and its subsidiary councils where the representatives of the Government, employers and trade unions discuss any major changes required in legislation, as well as economic development areas. LDz specialists are involved in working groups and consultation processes on various issues related to LDz's activities and the general economic environment, such as Labour Law, tax policy, strengthening of international economic cooperation, sectoral competitiveness, etc.



### Latvian Chamber of Commerce and Industry (LTRK)

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



### Latvian Railway Sector Employers' Organization (LDzDDO)

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

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



### Railwaymen Association of Latvia (LDzB)

The Railwaymen Association of Latvia was established in 1920 and was renewed in 1991. Its members include over 1,000 individuals and eight legal entities, including SJSC "Latvijas dzelzceļš" since 2003. The Association has divisions in Rīga, Daugavpils, Rēzekne, Jelgava, Ugāle, Gulbene, Ventspils and Liepāja. The mission of the association is to unite the enthusiasts of Latvian railway industry as well as nationally minded railway patriots, build a sense of togetherness among railwaymen, work for the benefit of Latvia, raise the prestige of the occupation of railwaymen, promote a modern and secure development of the railway industry, while preserving and nurturing its history built over the centuries and developing traditions.

Being the largest employer in the industry, LDz gets involved in the work of the association, as well as in the Days of Engineers hosted by LDz every autumn.

### Latvia – China Business Council

Latvia – China Business Council is a non-governmental organization, founded in response to the increasing interest of various sectors in bilateral cooperation between the two countries, as well as a wider cooperation in the format 16 + 1 and other cooperation formats. The key task of the Council is to promote the development of joint projects, exports and investments. Among the founders of the Council representing Latvia, there are companies representing the providers of transport and logistics services, telecommunications services, wood processing, financial services, real estate, industry, education, electrical engineering services, etc. The organization helps companies establish direct bilateral contacts, while recognising the specifics of the Chinese economy. To bring the businessmen of the two countries closer, the organization is engaged in conducting studies of the hitherto activity of the economic cooperation as well as of the future prospects, through identifying strengths and weaknesses.



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

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

The key objective of the activities of the LBESVB is to promote the development of reciprocal economic relations between Latvia and Belarus, as well as the development aimed at developing the economy and investments and representing the interests of the members thereof in Latvia and Belarus. The Society is not engaged in politics but is rather a catalyst for those seeking to form mutual business contacts in Latvia or Belarus. The Society has close cooperation with the national regulatory authorities in Latvia as well as Belarus. There is a regular exchange of information with embassies, consulates and public organizations. The LBSEVB often meets entrepreneurs and is building up close contacts with the industry experts.

The management structure of the LBSEVB consists of the board, which is elected from the candidates nominated by the Society. In April 2018, a new board was elected for the term of three years. The representative of LDz is represented on the board, too, i.e., the manager of the representation office of LDz in Belarus – Una Indāne.



### Institute of Corporate Sustainability and Responsibility

The association "The Institute of Corporate Sustainability and Responsibility" (InCSR) was founded in 2011 with a view to strengthening the sustainable development of Latvia, educating the public and raising awareness about responsible and forward-thinking actions and promoting the development of a civil society. The InCSR has developed and organises the annual assessment of companies and organizations, i.e., the Sustainability Index. LDz has also been regularly participating in it since 2011. In 2019, for the second time, LDz was awarded the Platinum category; LDz

has encouraged other Group companies to take part in the Index ("LDZ CARGO", "LDz ritošā sastāva serviss", "LDz apsardze" and "LDZ Loģistika"). As a corporate member of the organization, LDz has been using an opportunity to take part in the seminars and exchange of experience organized by it as a participant as well as delivering lectures, as well as engaging actively in the Responsible Business Week activities organised by the InCSR. The view of the InCSR experts had been of importance when starting to prepare the sustainability reports of LDz according to the GRI guidelines.



#### **Baltic Institute of Corporate Governance (BICG)**

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

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

#### **International organisations**



**The International Union of Railways (UIC)** coordinates cooperation on topical matters between railways worldwide, promoting a smooth operation of the railway system. The organization brings together 194 members globally. The UIC develops standards and promotes innovation in the development of the railways. The members of the organization are being regularly informed about the key developments, documentation and new regulations that enable anticipating legal and technical changes in the industry. Membership in the organization enables a timely planning and integrating of these innovations in the business management processes. LDz has engaged in the working groups that address security, statistics and documentation aspects, as well as in the development of the railway data exchange RailTopoModel, which can play an important role in harmonising the network reporting. Twice a year, LDz participates in the General Assembly and the Security Congress of the UIC.

The key matters on the UIC agenda are the development of

the trans-European rail corridors, the development of the Euro-Asian transport corridor, funding for infrastructure development, the digitalisation of the railways and convenient, connected mobility. Work on developing common standards, research and sustainable development programs, and security issues continues. In 2017, the project management manual was freely available to UIC members.



**Community of European Railway and Infrastructure Managers (CER)** brings together European railway infrastructure companies as well as providers of transport services. The CER represents the interests of its members in shaping EU policies, mainly to support and promote more efficient business and regulatory environment for the sector. Currently, the organization has more than 70 members and associates. LDz is engaged in the work of the CER assistant working groups, as well as in the working groups of the environment and infrastructure matters, customer and cargo shipment matters, the development of the application TAF TSI (the application provides a standardised exchange of information in real time between the railway companies involved in transport process rail companies, such as notifying of delays, cancelled travels and missed connections) and the work teams of HR directors.

The main priorities for the CER and the railway sector are the introduction of the Technical Pillar of the Fourth Railway Package, European rail cooperation on ticketing and data exchange, innovation and digitalisation, including signalling systems and automatically controlled trains, as well as the development of new freight corridors and the improvement of inter-modality terms.



Since 2018, LDz has also been involved in the **activities of the platform for infrastructure managers and performers of essential functions (PRIME) established by the European Commission**. PRIME was launched in 2013 with a view to establishing a single platform for cross-border cooperation between infrastructure managers to develop the trans-European rail network, and participation in PRIME is binding on all European infrastructure managers. Membership in the platform includes cooperation in the development of the core network corridor, the rail freight transport corridors and the implementation of the European Rail Traffic Management System (ERTMS), as well as sharing the experience and best practices in the field of infrastructure management. The European Commission engages in the work of PRIME with a view to directly communicating with railway companies

and identifying industry problems and working together at the solutions. As part of PRIME, twice a year, plenary sessions at executive level are held, as well as activities take place in subsidiary groups at the level of experts (digitization, financial issues, the key performance indicators (KPIs) of the industry, in the field of legislation, security, charge collection, cooperation with the regulator, etc.). LDz had the opportunity to participate in working groups, present its vision and express its position on the issues that are important to the company, thus also participating in the shaping of the EU railway policy. Engaging in the new transport corridors is very important to LDz and the development of transport corridors is one of the key topics on the agenda of PRIME.



LDz participates in the work of **The International Rail Transport Committee (CIT)**. The CIT develops and maintains information on legal publications as well as documents related to the international carriage by rail, formalises the contractual relationship between customers, operators and infrastructure managers, as well as represents the interests of carriers in negotiations with lawmakers.



**Collaboration of Railway Police and Security Services (COLPOFER)** brings together the forces of the railway companies and railway police to formulate a common approach to the safety of the European railway system. The common task of the organization is to protect people, property and assets in the territory of the railway from disruptive and criminal activities. LDz experts take part in the working groups "Preventing terrorism activities" and "Cybersecurity" of the organization, which address the questions about the actions in case of a terrorist attack or a threat thereof, exchange experience of the best multilateral cooperation with government representatives and other railway companies, as well as deal with IT security issues. The conferences are held twice a year, with the participating representatives of LDz.



**European Agency for Railways (The European Union Agency for Railways; EURA)**

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

pre-verification of the ERTMS infrastructure grants.



**OECD International Transport Forum Corporate Partnership Council**

LDz has been participating in the Organization for Economic Cooperation and Development (OECD) International Transport Forum (ITF) since May 2018. Several dozens of other global transport, logistics, industrial and high-tech companies are members of this organization. The ITF and its Corporate Partnership Council is part of the OECD network of organizations, which especially promotes good governance at all levels, thus the invitation to join one of these organizations can be considered a high acknowledgment of the LDz corporate governance practice.

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

The participation in the Corporate Partnership Council of the ITF provides the opportunity for LDz to share its view of the industry's regulatory framework internationally, which is especially important, given the nature of the activity of LDz, on the one hand, being subject to the European regulatory framework, but on the other hand, operating the infrastructure with the track gauge of the Countries of Independent States (CIS), i.e., 1520 mm. Thus, the company has experience in terms of a different regulation and practice in international cooperation formats.



**"RailNetEurope" (Association for facilitating international traffic on railway infrastructure, RNE)**

SJSC "Latvijas dzelzceļš" was admitted as a full-fledged member of the association in May 2019, at the meeting of the General Assembly of the association, held in Warsaw. Becoming a full member of RNE is important for LDz, because in accordance with Latvia's anticipated accession to the North Sea-Baltic Rail Freight Corridor (RFC8) in 2020, LDz will be required to provide opportunities for carrying rail freight in the North Sea-Baltic railway corridor from 10 November 2020.

The Association was established in 2004 to help resolve the problems/challenges faced by the international railway industry. Its main task is to find solutions to the problems faced by RNE members, as well as their customers and counterparties. The tasks of RNE include the promotion of operational international cooperation in the railway sector, as well as providing support for compliance related to the consistency with the European regulatory framework. This means developing harmonized international business processes, templates, manuals and guidelines. RNE's task is also to help the members of the Association deal with the problems of the rapidly changing railway industry in Europe and to promote international rail traffic.

With a view to achieving greater harmonization of the approaches to the implementation of the various transport corridors, all the corridors use the corridor coordination platform offered by the RNE. Operating the corridors through the RNE enables the joint development of harmonised corridor management processes and tools that would benefit freight operators as well as infrastructure managers and capacity allocators, which also form a part of several corridors.

Historically, LDz has had many counterparties also in the former CIS countries. Counterparties from Asian countries are engaged, as well, including one of the most influential economies in the world – China. Therefore, LDz is also actively involved in organizations that unite and regulate the cooperation of 1,520 mm gauge and 1435 mm gauge railways.



**Railway Cooperation Organization (RCO/ОСЖД)** is engaged in developing cooperation in the field of railway transport, forming a single railway space in the Eurasian region and raising the competitiveness of the transcontinental transport. RCO has 29 Member States, seven of them have the status of an observer, and 40 companies have the status of an associate. The State of Latvia is a member of the organization, and LDz is represented in its governance body, i.e., the Conference of Directors General (responsible representatives). Observers and associated companies (e.g., private transport companies, third country railways, candidate country companies, etc.) are not represented at the Conference of Directors General.

The organizational structure consists of five panels and two working groups. LDz experts participate in the working groups and commission meetings organised

by the committee as well as in the annual conference of Directors-General and in the ministerial meeting session. Within the scope of the RCO, as part of the Transport Rights commission, the representatives of LDz actively participate in the development of the Agreement on International Rail Passenger Traffic (SMPS) and the Agreement on International Rail Freight Traffic (SMGS). Furthermore, with a view of promoting the flow of freight transport in the international traffic, matters concerning the provisions for fixating freights and transport of dangerous goods, etc. are considered.



**The Council of the Commonwealth Member State Railway Transport- (Совет по железнодорожному транспорту государств - участников содружества)** coordinates the operation of 1520 mm gauge railways. There are currently 18 Member States in the organization. LDz is an associate member of the Council (members of the Council are members of the Commonwealth of Independent States, but the railways of other countries operate in it as associate members or based on individual agreements).

The executive body of the Council, i.e., The Directorate consists of nine commissions, 15 working groups and five expert groups in various fields. During the time of its existence, the organization has prepared more than 260 agreements, regulations, instructions and other normative documents aimed at the development and technological unity of rail freight and passenger transport. The technical documentation, which LDz Group experts work on within this organization, is related to the provision of train movement, use of wagons, requirements for wagon and locomotive repairs, traffic safety issues, passenger transportation issues in international trains, etc.



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

# Ethics and professional integrity

GOOD CORPORATE GOVERNANCE IS ONE OF THE PREREQUISITES FOR THE LONG-TERM DEVELOPMENT OF LDZ AND THE WHOLE GROUP. MANAGING COMPANY IN ACCORDANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE MEANS OPENNESS AND CLEAR GOVERNANCE MECHANISMS, COMPLIANCE WITH BUSINESS ETHICS, AND AN ENVIRONMENT FREE FROM CORRUPTION RISKS.

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In 2013, the Corporate Social Responsibility (CSR) Commission was established at LDz Group, and one of its tasks was the Code of Ethics development. The Code is binding to all employees of LDz Group, and it contains the general principles of ethical conduct in cooperation with one's peers, employees of other Group companies, counterparties, customers, non-governmental organizations, etc. affected parties. Any employee may report a violation of the Code of Ethics directly or anonymously to the Chairman of the Corporate Social Responsibility Commission.

Good corporate governance also includes defining clear and unambiguous terms for timely prevention of conflicts of interest and their potential impact. To ensure this, on 4 March 2016, the Fraud Prevention Policy of LDz Group was established and approved. On 30 April 2019, its new edition was approved. The aim of the policy is to create an internal control environment that would ensure the prevention of fraud, including corruption, as well as ensure the detection of possible cases of fraud, determine the levels of responsibility for the evaluation of control measures and the examination of possible cases of fraud. The policy defines the internal whistleblowing system throughout LDz Group. The policy complies with the requirements laid down in the Whistleblowing Law and the requirements binding on the Group of the Cabinet Regulations "On the Basic Requirements of the Internal Control System for Prevention of the Risk of Corruption and Conflict of Interest in a Public Institution".

The Fraud Prevention Division of the LDz Security Directorate is responsible for the implementation thereof, the operation and tasks of which arise not only from the approved policy, but also from the Cabinet Regulations No. 630 "Regulations on the Basic Requirements of the Internal Control System for the Prevention of Corruption and Conflict of Interest Risk in a Public Institution", and from the International and National Sanctions Law of the Republic of Latvia.

In 2019, work was carried out on the development of LDz's Risk management policy. The policy is effective from 2 December 2019 and sets out the main principles and allocation of responsibilities for risk management of all Group companies. According to the policy, risk management in the Group is based on the principle of three lines of defence: managing the primary risk (carried out by risk owners or structures and employees, who directly supervise the possibility of occurrence of the respective risk); supervising the risk management process by the risk manager and supervisors of specific risk groups, on which this duty is imposed by the external regulatory framework; providing independent assurance on the course and effectiveness of the risk management provided by the Internal audit division of LDz.

The Group's risks are divided into risk categories aggregating risks that are similar or related in terms of the likely consequences, including security risks, operational risks, financial risks, legal risks and strategic risks.

Aimed at ensuring an effective implementation of risk management in LDz Group, the policy defines the levels of responsibility both in the field of policy monitoring and its daily implementation. Thus, the Council of SJSC "Latvijas dzelzceļš" monitors the establishing and operation of the risk management process at SJSC "Latvijas dzelzceļš" and the Group as a whole, as well as regularly reviews the reports on risk management and the implementation of the mitigation plan provided by the Board. The Board of each company of the Group is responsible for the implementation and successful operation of the risk management process in their company, whereas the risk managers appointed in

each company implement its practical implementation and cooperation with risk supervisors and risk owners in the areas of their responsibility. The overall risk management structure and process is coordinated by the Group's Risk Manager, who oversees the development of policies and amendments thereto, reporting to the Board, providing support to the Group's subsidiaries, and organizing training in the field of risk management.

One of the structural units of LDz is Internal audit division. Under the internal audit work plan approved by the board of LDz, it systematically checks and evaluates the quality, efficiency and consistency of the internal control system of the functions established by LDz and the corresponding processes with the requirements specified in laws and the set strategic and operational objectives. In December 2019, the Board of LDz approved the work plan of internal audit for 2020, which was also approved by the shareholders' meeting of LDz at the beginning of 2020.

In 2019, the audits of the functional, personnel and financial management systems were carried out in the structural units of LDz and in the dependent companies of

#### Numbers of internal audit recommendations in 2019

Priority of the recommendations	Total	Implemented	Not implemented (not relevant)	Not implemented (extended implementation period)	Implementation in progress
High	1	-	-	-	1
Medium	25	13	-	2	10
Low	22	13	-	2	7
Total	48	26	-	4	18



LDz Group, as well as inspections of the implementation of audit recommendations and approved measures to be performed were carried out.

In 2019, the employees of the Audit division carried out 14 audits of the common systems of LDz, seven audits of internal control systems at the structural units of LDz and subsidiaries, as well as 5 thematic audits and inspections. As a result of the audits, specific recommendations were submitted to the heads of the structural units and dependent companies on taking measures aimed at improving and strengthening the internal control system, while reports on the results of these audits were submitted to the members of the management board. In the audits of the structural units of LDz and dependent companies of LDz Group completed in 2019, 20 recommendations were made.

During the reporting period, the internal auditors analysed, assessed and tested the internal control systems of LDz in accordance with the internal audit work plan for 2019 and special management instructions.

Under the approved audit plan, 18 thematic audits were planned for 2020, as well as thematic unbudgeted for audits in accordance with the instructions of the Board or Council of LDz, the Internal Audit Department will also assess the results of the implementation of the audit recommendations.

To implement transparent contract coordination, correspondence organization, personnel management, interdepartmental and interdepartmental issues, as well as other document management solutions, the Document Management System (DPS) is used. Using this system, tracking the progress of each issue and identifying the responsible employees is possible. The DPS is concurrently used to organise the daily processes of employees related to the preparation of reports, business trips, vacations, and organization of tasks. In 2019, 11 854 documents were received at the LDz back office, including 2600 documents that were submitted signed by electronic signature; 1081 documents and 504 orders have been dispatched.

The circulation of information on operational changes in train scheduling, emergencies or other emergencies is ensured on 24/7 basis by telegraph, which continues to play an important role in ensuring railway operations and exchanging operational information with counterparties in the neighbouring countries, including Russia, Belarus, Estonia, Lithuania, etc. national railways.

In recent years, the circulation of telegrams has been improved - it has been moved to the internal electronic information exchange environment. Last year, the VEKTOR system was modernised, telegram search and error traceability were improved, thus creating an opportunity to save on printing materials. Tasked by the management of LDz, in 2020, new solutions for upgrading the circulation of telegrams will be sought.

The storage, description, accounting and availability of documents is ensured by the LDz archive, where in 2019, staff documents (30 files) and documents for temporarily storage (1700 files) have been accepted for storage. 2362 files have been destroyed in accordance with the procedure laid down in the laws. During the year, 123 files were restored during the year, 230 certificates were prepared and issued. During the reporting year, 288 files were prepared and issued for a certain deadline at the request of LDz employees, including copied and scanned files.

Based on the Law on Archives, the nomenclature of LDz files for 2020 has been developed and aligned with the National Archives of Latvia, and starting from 2020, the joint nomenclature of cases of the General Directorate and structural units has been introduced in LDz. In 2019, the preparation of 919 cases for transfer to permanent state storage in the National Archives of Latvia for 2003 and 2004 was agreed and started.

# GOVERNANCE

# 02

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## Governance structure

### Council

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

Since 2016, the activity of the company has been supervised by the Council of LDz, initially composed of three members; but in accordance with the amendments to the Articles of Association of the Council made by the LDz shareholder on June 7, 2019, its composition was supplemented with two independent members, who were selected through a competition. 44 applications for the positions of independent members of the Council were received in the competition. Andris Liepiņš and Reinis Ceplis received the highest assessment of the commission and thus were approved to take office in the Council. The commission for the nomination of the members of the Council consists of experts from the Ministry of Transport, the Interdepartmental Coordination Centre, the Latvian Employers' Confederation and the Latvian Railway and Transport Trade Union.

Since 2 February 2018, Jānis Lange is the Chairman of the Council. He is also the Chairman of the Board of SJSC "Latvijas valsts ceļi". The Council also includes Andris Maldups, Director of the Transit Policy Department of the Ministry of Transport, and three independent members: Aigars Laizāns, Energy Expert and Professor at the Latvia University of Agriculture, Chairman of the Board of Baker Tilly Baltics and a member of the Board of the family health centre "Stārķa ligzda", Chairman of the Board of Ltd. "Good Health" and head of the healthcare product development department at Ltd. "Respectful Consulting" Reinis Ceplis and Andris Liepiņš, who was previously a deputy chairman of the Council of JSC "Latvenergo", chairman of the Board of SJSC "Starptautiskā lidosta "Rīga" (Riga International Airport), as well as chairman of the Board of JSC "Air Baltic Corporation".

The members of the Council are elected for a term of five years.

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



### **JĀNIS LANGE**

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

J. Lange holds a Master's Degree in Economics and Management from the Department of Economics and Management of the University of Latvia. He holds a Bachelor's Degree in Economics from the Department of Economics at the Latvia University of Latvia.

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

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



### **ANDRIS MALDUPS**

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

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

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



## **AIGARS LAIZĀNS**

Member of the Council of  
SJSC "Latvijas dzelzceļš"

term of office  
22. 07. 2016. - 21. 07. 2021.  
an independent member of the  
Council

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

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

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



## **ANDRIS LIEPIŅŠ**

Member of the Council of  
SJSC "Latvijas dzelzceļš"

term of office  
07. 06. 2019. - 06. 06. 2024.  
an independent member of the  
Council

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

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



## **REINIS CEPLIS**

Member of the Council of  
SJSC "Latvijas dzelzceļš"  
term of office  
07.06.2019. - 06.06.2024.  
an independent member of the  
Council

R. Ceplis graduated from the Faculty of Economics of the University of Latvia with a bachelor's degree in economics. He has also obtained a degree of a certified financial analyst from the CFA Institute (USA).

R. Ceplis is a chairman of the council of the audit company "Baker Tilly Baltics" and a member of the board of the family health centre "Stārķa ligzda". He is also chairman of the board of Ltd. "Good Health" and he leads the healthcare product development department of Ltd. "Respectful Consulting".

He has been the head of the Latvian subsidiary of the Finnish public joint stock company JSC "Lassila & Tikanoja PLC" - Ltd. "L&T", the financial director of JSC "ACB", a corporate finance specialist at the investment bank "SUPREMA", a corporate finance specialist of the investment bank "Trasta komercbanka", as well as has led the Listing Department of the Riga Stock Exchange.

# Board

In 2019, there were changes in the composition of the board of LDz in 2019. In August, Edvīns Bērziņš, the incumbent chairman of the Board, who had been managing LDz since 25 February 2016, and Aivars Strakšas, a member of the Board responsible for finance, who has been serving on the Board since 2005, resigned from their positions. After E. Bērziņš and A. Strakšas left the Board, a competition was announced for the positions of the chairman of the Board and a member of the Board.

### **Composition of the Board until 12 August 2019:**

Edvīns Bērziņš, chairman of the Board  
Aivars Strakšas, member of the Board  
Ēriks Šmuksts, member of the Board  
Ainis Stūrmanis, member of the Board

Until the announcement of the results of the competition in the Council of LDz, Māris Kleinbergs was elected the chairman of the Board. Before accepting the new position, he was the Chairman of the Board and CEO of the international logistics company Ltd. "Schenker". Andris Lubāns, who has had many years of experience in the transport sector (he has been chairman of the Board and Secretary General of the Latvian Association of International Road Carriers "Latvijas auto", as well as chairman of the Board of JSC "Pasažieru vilciens"), was elected the new member of the Board.

In 2019, there were changes to the institutional management of LDz Group, i.e., under the decision of the Board of LDz of 17 October 2019, the activities of the Council of Presidents were terminated under the provision that in the future, both the Group and SJSC "Latvijas dzelzceļš" will be managed by a single institution, i.e., the Board.

### **Changes to the composition of the Board**

On 13 March 2020, the Council of LDz made changes to the composition of the Board of LDz. In the future, there will be three Board members instead of the current four, and Māris Kleinbergs was appointed chairman of the Board for the forthcoming five years. Whereas Ainis Stūrmanis who was in charge of the company's development projects was removed from the office of the member of the Board. Until 31 May 2020, Andris Lubāns held the office of a member of the Board. On 1 June 2020, he was replaced by Vita Balode-Andrūsa, who is in charge of the company's financial matters.



## **MĀRIS KLEINBERGS**

Chairman of the Board of  
SJSC "Latvijas dzelzceļš"  
term of office  
13. 03. 2020 - 12. 03. 2025.

**Areas of responsibility: corporate governance, personnel matters, communication, real estate management, development of the company, projects and IT services, environmental protection, service and customer relations**

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

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



## **ĒRIKS ŠMUKSTS**

Member of the Board of  
SJSC "Latvijas dzelzceļš"  
term of office  
02. 12. 2017. - 01. 12. 2022.

**Area of responsibility: technical management matters**

Ē. Šmuksts began his career in railway sector in 1983. He has worked at Lithuanian Radviliski Station of the Baltic Railway as a person on duty of the station and the manoeuvre dispatcher, has been Deputy Station Manager; then was appointed as Deputy Shaul Movement Division of the Baltic Railway. In the director position, he was in charge of the Freight Traffic Department of SJSC "Latvijas dzelzceļš", from 2007 until 2008, he was the Chairman of the Board of the subsidiary of LDz "LDZ CARGO".

Led the SJSC "Latvijas Dzelzceļš" Freight management Board; during 2007 - 2008 was the subsidiary company "LDZ CARGO" Chairman of the Board.



**ANDRIS LUBĀNS**

Member of the Board of SJSC "Latvijas dzelzceļš" term of office 12. 08. 2019. - 31. 05. 2020.

**Area of responsibility: finance matters**

A. Lubāns was the Chairman of the Board and Secretary General of the Latvian Association of International Carriers "Latvijas auto", headed the office of the director of the Riga City Council Traffic Department; from 2014 to 2017 was the Chairman of the Board of JSC "Pasažieru vilciens", but from 2012 to 2014 he led the Road Traffic Department of the Ministry of Transport.

On 1 June 2020 Vita Balode-Andrūsa has taken office as a new member of the Board of SJSC "Latvijas dzelzceļš"; she is responsible for financial matters.

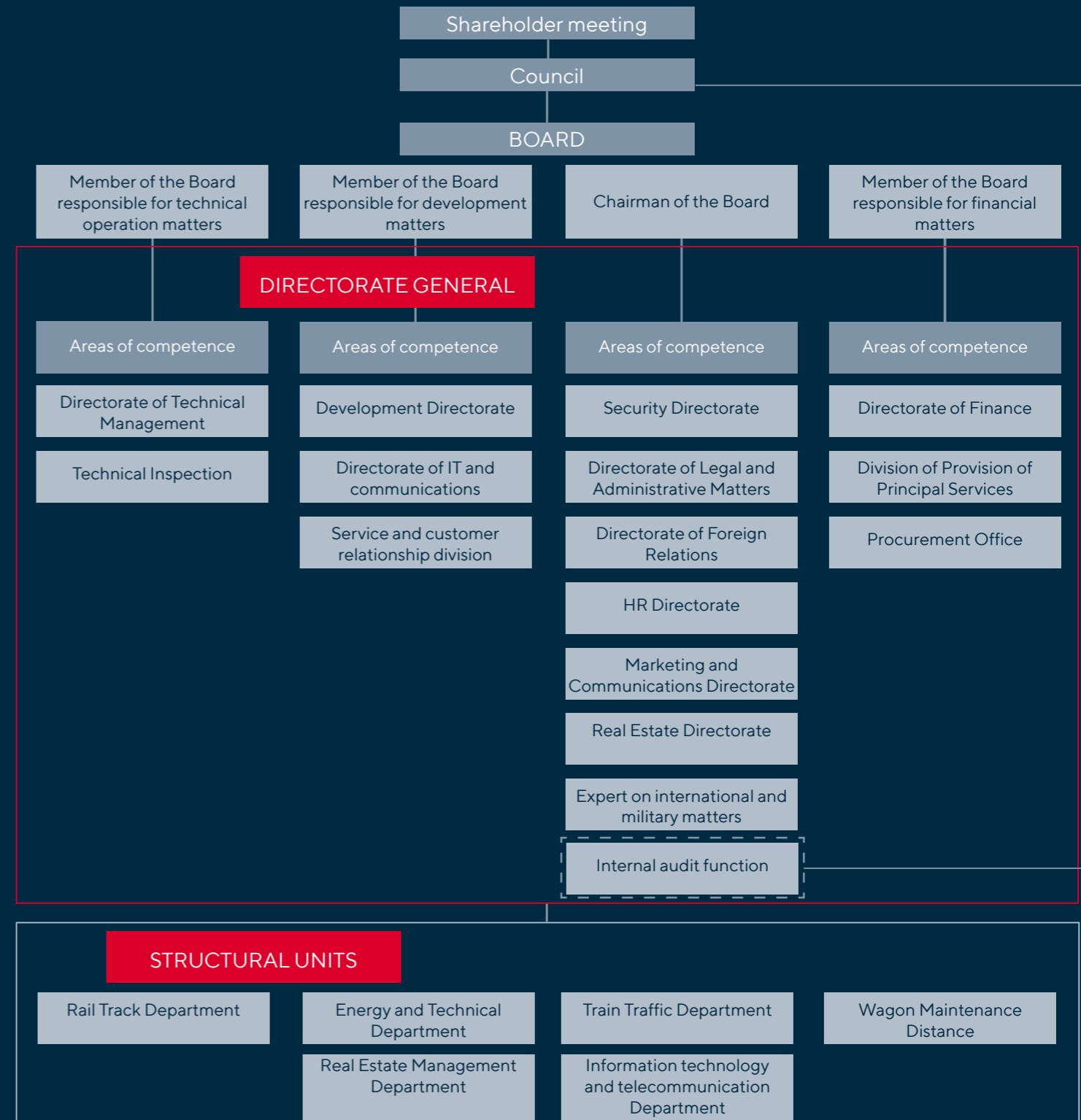


**VITA BALODE - ANDRŪSA**

Member of the Board of SJSC "Latvijas dzelzceļš" term of office 01. 06. 2020. - 31. 05. 2025.

Since 2012, V. Balode-Andrūsa has worked for the Swedish company "Swedavia AB", where she was a member of the company's top management group. Prior to that, she was the route manager for SAS Scandinavian Airlines' eastern market for several years, as well as the CFO in Arlanda Schiphol Development Company.

The organisational structure of SJSC "Latvijas dzelzceļš" until 13 March 2020



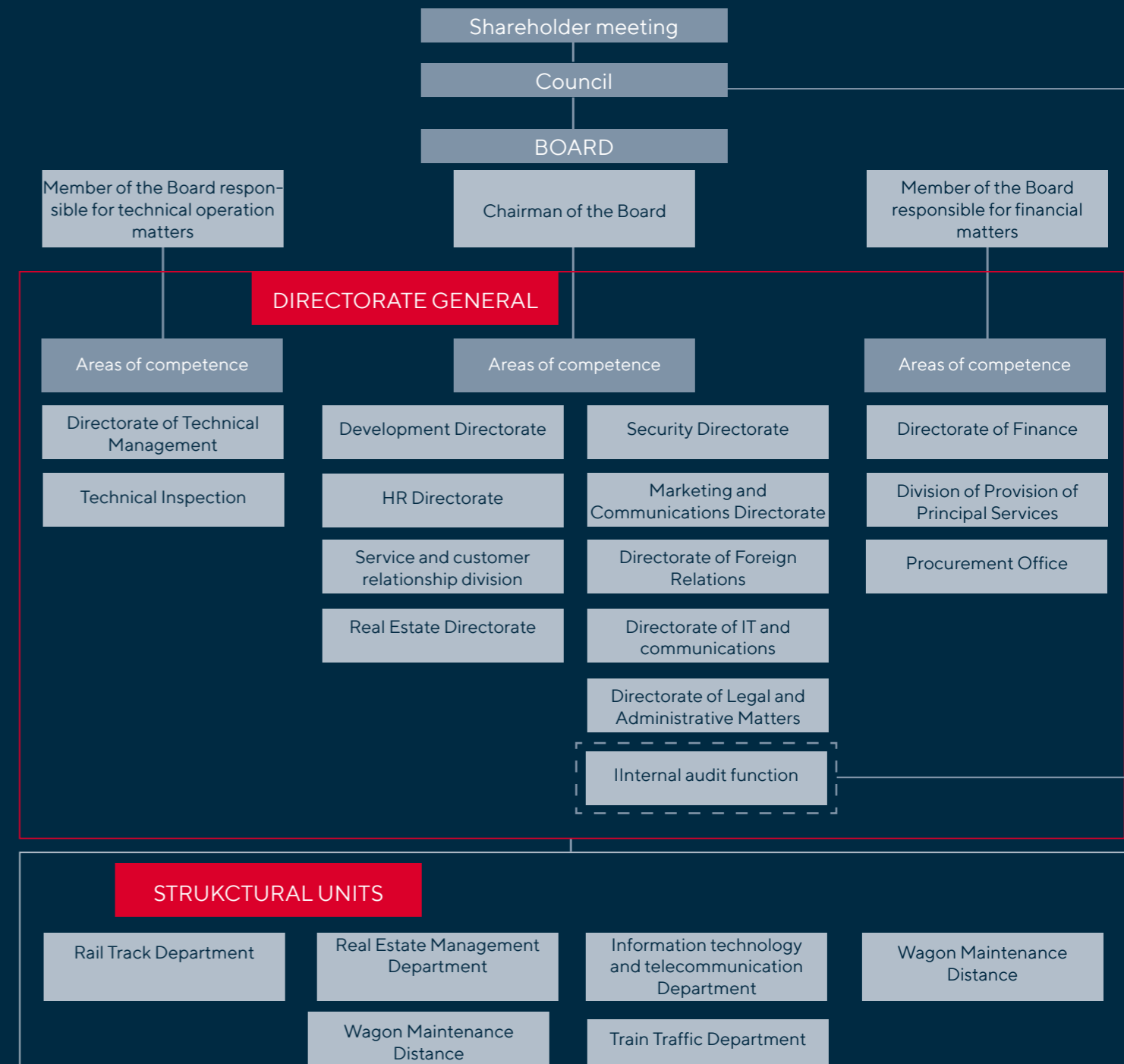
Until 7 February 2020, the remuneration of the members of the Council was determined in accordance with the Law On Governance of Capital Shares of a Public Person and Capital Companies and the Cabinet Regulation No. 791 "Regulations on the number of members of the board and council, maximum monthly remuneration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

The executive body of the LDz Group parent company is the General Directorate of LDz. The General Directorate ensures the execution of the Board decisions as well as the orders and instructions of the Chairman and Members of the Board in accordance with the laws, Cabinet regulations, the Articles of Association of the Company, resolutions of the Shareholders' Meeting, the Council, the Board and other laws and regulations governing and binding on the activities of the Company. It organises the execution of the functions of the Group's governing company, develop strategies, policies, and procedures, the business plan, budgets and other documents regulating the activity of LDz. LDz General Directorate consists of ten directorates and five structures that ensure the performance of internal audit, procurement, service and customer relations, principal services and technical inspection functions. Taking into consideration the strategic importance of LDz in the field of national security, LDz has established the position of an expert in international and military issues.

Several structural units of LDz are responsible for business activities, including daily work on tracks, stations and stops, as well as high-quality maintenance of information systems.

After performed assessment of functions and processes, which was required for the efficient and most productive operation of LDz, at the end of 2019, decisions were made regarding the changes to LDz organizational structure, terminating or reorganizing (including merging) the activities of the individual directorates and structural units.

## The organisational structure of SJSC "Latvijas dzelzceļš" from 13 March 2020





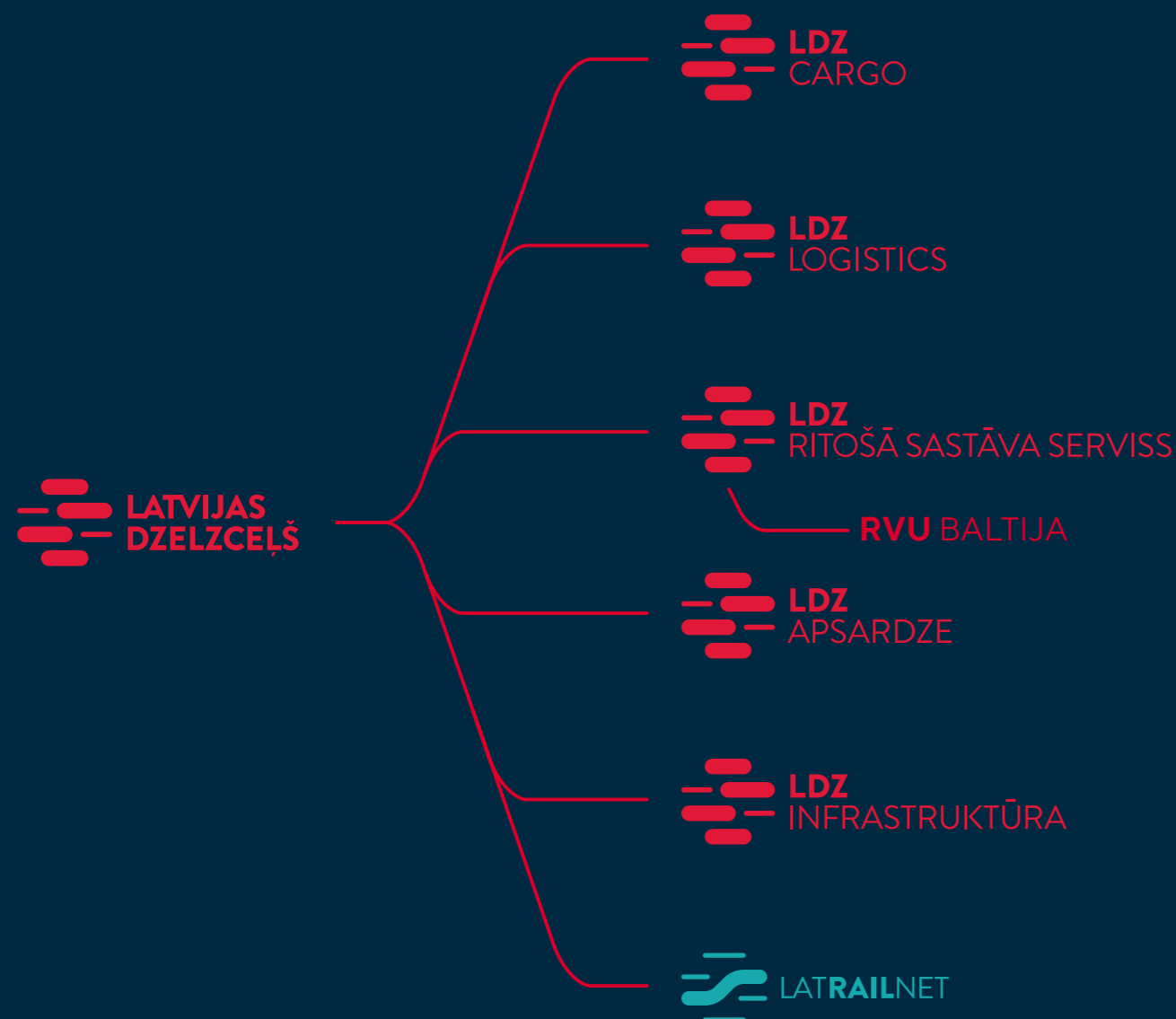
### Changes that look effect on 3 February 2020

- the Technical Management Directorate that will carry on performing the functions previously performed by the Technical Department, the Construction Department, the Design and Investment Department, the Rolling Stock Department, the Emergency and Reconstruction Resources Department of the Technical Inspectorate and, in part, the Technology Department have all been reorganised;
- the Information Technology and Telecommunications Directorate that will perform the functions of information technology and telecommunications administration has been reorganised;
- the Road Distance operation was terminated, and it has been replaced by the Railway Administration taking over the existing functions of the Road Distance, as well as the functions of the Diagnostics, Technology and Mechanisation Division of the Technical Management Directorate;
- the Signalling and Communication Distance operation was terminated, and it has been replaced by the Electrical Engineering Board taking over the existing functions of the Signalling and Communication Distance, as well as the Automation Division, Telecommunications Operation Division and Power Supply Division of the Technical Management Directorate;
- the Traffic Control Distance operation was terminated, and it has been replaced by the Train Traffic Board, taking the existing functions of the Traffic Control Distance, as well as the functions of the Train Control Centre and, in part, the Technology Department;
- the Regional Management Division operation was terminated, and it has been replaced by the Real Estate Management Board, which includes the Technical Operation Division from the Real Estate Directorate.
- the Information Technology Centre operation was terminated, and it has been replaced by the Information Technology and Telecommunications Department taking over the functions of the Information Technology Solutions Division, Information Technology Projects Division and Telecommunications Solutions Division of the Information Technology Centre and the Information Technology and Telecommunications Directorate.

## Performance of the subsidiaries in 2019

LATVIJAS DZELZCEĻŠ GROUP (LDZ GROUP) INCLUDES THE PARENT COMPANY AND SEVEN DEPENDENT SUBSIDIARIES (IN SIX SUBSIDIARIES THE PARENT COMPANY HAS A DIRECT DECISIVE INFLUENCE, WHEREAS IN ONE - INDIRECT DECISIVE INFLUENCE), WHICH PROVIDE FREIGHT AND INTERNATIONAL PASSENGER CARRIAGE BY RAIL SERVICES, ROLLING STOCK MAINTENANCE SERVICES, REPAIRS AND UPGRADING SERVICES, PHYSICAL AND TECHNICAL SECURITY SERVICES, THE DEVELOPMENT AND PROVISION OF INTERNATIONAL MULTIMODAL LOGISTICS SERVICES, AS WELL AS THE PERFORMANCE OF THE ESSENTIAL FUNCTIONS OF THE RAILWAY INFRASTRUCTURE AND IS RESPONSIBLE FOR SETTING THE INFRASTRUCTURE CHARGES AND ALLOCATING CAPACITY FOR RAILWAY TRANSPORT.

## Structure of the Latvijas dzelzceļš group



### Ltd. "LDZ CARGO"

#### SVETLANA BERGA

Chairwoman of the Board  
term of office

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

#### ALEKSANDRS KAZAČKOVŠ

Member of the Board  
term of office

10. 04. 2017. - 17. 08. 2020.

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

In 2019, the company's net revenue amounted to EUR 253.1 million, whereas the performance for the year was a profit of EUR 2.8 million. In 2019, its net turnover fell by EUR 22.2 million from 2018, due to the decrease in the total volume of transported cargo, which makes up 90.2% of the total net turnover.

Despite declining volumes, in 2019, the coal freight volumes made up the largest share of freights, i.e., 42.1% (17.47 million tons of cargo), down by 22.9% from 2018. Historically, oil and oil products have been the second largest category of freights transported via LDz infrastructure, accounting for 22.7% of the total cargo volume, i.e., in 2019, 9.40 million tons of cargo were transported, down by 16% from the last year. Meanwhile, a large increase in volumes occurred in the minerals and timber category, by 25.1% and 21%, respectively, compared to 2018.



Freights carried by Ltd. "LDZ CARGO" make up the largest share of railway transport volumes in Latvia, moreover, its market share has increased from 72% in 2018 to 74% in 2019. Other carriers are: Ltd. "Baltijas Ekspresis" with market share of 17%, and JSC "BALTIJAS TRANZĪTA SERVISS" with 9% market share in 2019.

In 2019, Ltd. "LDZ CARGO" continued to provide container transportation services, the volumes of which have also declined. In 2018, 350 container trains were handled, whereas in 2019, the number fell to 269 container trains. Freights by container trains are carried on several routes. "Baltic Transit IV" on the route Baltic States - Kazakhstan and Central Asian countries. Trains "Rīga-Express" and "Rīga - Moscow" carry freights from the ports of Rīga to Moscow and its surrounding stations and in the opposite direction. The train "ZUBR" carries freights on the route Estonia - Latvia - Belarus - Ukraine (a round trip). Also in 2019, four transit trains from China were handled.

In 2019, the company received the Gold category rating in the Sustainability Index.

#### **Ltd. "LDZ ritošā sastāva serviss"**

##### **GUNTIS INNUSS**

Chairman of the Board  
term of office  
04.09.2019. - 03.09.2024.

##### **VLADIMIRS DERUKS**

Member of the Board  
term of office  
04.09.2019. - 03.09.2024.

##### **SANDIS VĒTRA**

Member of the Board  
term of office  
15.01.2018 - 17.07.2019.

##### **JĀNIS STALIDZĀNS**

Chairman of the Board  
term of office  
18.12.2018 - 04.09.2019.

##### **SERGEJS KARPAČOVŠ**

Member of the Board  
term of office  
22.04.2016. - 04.09.2019

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

In 2019, Ltd. "LDZ ritošā sastāva serviss" had a turnover of EUR 73.95 million, and the performance for the year was a profit of EUR 729 370. Compared to 2018, the financial performance indicators have decreased by EUR 774 279 thousand (turnover) and EUR 2.39 million euros (profit indicators), respectively.

In 2019, the company completed the upgrading programme for the diesel locomotives 2M62UM, launched in 2015, during which 14 locomotives were upgraded, rendering them more powerful, faster, more efficient in terms of operation, as well as more environmentally friendly.

The net turnover of the subsidiary Ltd. "LDZ ritošā sastāva serviss" - Ltd. "RVU Baltija" was EUR 13 938, and the profit was EUR 3285.

In 2019, the company was awarded the Gold category rating of the Sustainability Index.



#### Ltd. "LDZ apsardze"

##### **ARNIS MACULĒVIČS**

Chairman of the Board  
term of office

24.12.2016. - 23.12.2021.

##### **LINDA BALTIŅA**

Member of the Board

01.03.2018. - 19.05.2020.

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

In 2019, the turnover of Ltd. "LDZ apsardze" was EUR 7.21 million, and the profit was EUR 84,413, up by EUR 25 023 from the last year. In 2019, the company was actively engaged in developing the direction of technical security services, increasing the number of customers outside the Group, and, just like in previous years, the number of customers increased by 10%.

With a view to improving business, in recent years, the company has been increasingly offering security services to customers outside LDz Group. In 2019, the company was registered in the Register of Construction Merchants (registration No. 14855).

In 2019, the company was awarded the Silver category rating of the Sustainability Index.



#### Ltd. "LDZ Loģistika"

##### **JŪLIJA VASIĻKOVA**

Chairwoman of the Board  
term of office

14.08.2020. - 13.08.2025.

##### **EDUARDS ČERŅAVSKIS**

Member of the Board

term of office

15.01.2018. - 19.05.2020.

##### **GUNDARS ĀBOLS**

Chairman of the Board

term of office

15.01.2018 - 30.12.2019

The company is principally engaged in marketing and selling of intermodal logistics offers, attracting new customers to the Latvian transit industry and thus promoting the use of public railway infrastructure. To ensure this, active networking is being established within the industry, as well as with other sectors of the economy in the fields of railway transport and multimodal logistics services.

In 2019, the company's net turnover was EUR 30.7 million, down by nearly EUR 3 million from 2018. Compared to 2018, the profit declined by EUR 26 thous. to EUR 627 118.

One of the directions of the company's activities is balancing the customer's needs and operational efficiency, organizing the day-to-day operational service delivery processes in such a way as to better understand and meet customer needs. That is, the principle of "one-stop agency" services is ensured for customers, providing a single point of contact in the chain between the consignor and the consignee, dealing with all the issues of logistics. To achieve this, the company is increasingly integrating information technology into its routine processes, ensuring a full-fledged and convenient customer service.



The company closely cooperates with Ltd. "LDZ CARGO", ports, terminals, as well as other companies that provide transportation services both in Latvia and abroad.

In pursuit of developing its operations, one of the strategic goals of Ltd. "LDZ Loģistika" is to develop a composite cargo handling competence, creating cooperation opportunities with third-party logistics service providers in the LTL (less than a truckload) segment.

With a view to achieve a better organisation of multimodal transportation, in September 2019, Ltd. "LDZ Loģistika" concluded a cooperation agreement with the German railway logistics company "DB Cargo Eurasia" for further cooperation in providing logistics services and carrying out of joint projects.

In 2019, the company was awarded Bronze category rating of the Sustainability Index.

#### **Ltd. "LDZ infrastruktūra"**

##### **ARTIS BĒRZIŅŠ**

Chairman of the Board  
term of office

15. 08. 2018. - 14. 08. 2023.

##### **EGILS FELDMANIS**

Member of the Board  
term of office

10. 01. 2019. - 28. 02. 2020.

The company provides railway machines, tools and mechanism repair services, provides rail welding works and long rail transportation, provides road machinery and equipment services.

In 2019, the net turnover of Ltd. "LDZ infrastruktūra" was EUR 4.1 million, which is slightly less than a year ago (EUR 4.5 million), whereas the profit was EUR 384 269, which significantly exceeded the profit for 2018 (EUR 156 821).

The company has implemented the quality management system ISO 9001, as well as the environmental management system ISO 14001, and they will be maintained at the appropriate quality based on the analysis in the core business: railway construction and repair, replacement of switches, repair of railway machinery, tools and non-standard equipment, track welding, production of transition rails and insulating joints, transportation of long rails.

In 2019, the company participated in the renovation project of the railway section Mažeikiai-Reņģe, leasing the railway repair equipment at its disposal.

In 2020, the company plans to expand its business in renting track machines and other equipment in the Baltic States, Scandinavia, Poland and elsewhere.



### JSC "LatRailNet"

#### JUSTĪNA HUDENKO

Chairwoman of the Board  
term of office  
22. 07. 2016. - 21. 07. 2021.

#### GUNTARS LAPIŅŠ

Member of the Board  
term of office  
08. 08. 2016. - 07. 08. 2021.

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

The activities of the company are governed by the requirements laid down in Section 13.1 of the Railway Law regarding the ensuring of independence of the performer of the essential functions of the infrastructure manager. The company makes decisions on infrastructure charges and capacity allocation in accordance with the principle of equality, as well as the requirements for optimal use of the infrastructure. In performing its functions, JSC "LatRailNet" is obliged to provide all railway carriers (applicants) with equal, fair and non-discriminatory access to the infrastructure.

In 2019, the net turnover of JSC "LatRailNet" from operating activities was EUR 1.4 million, up by EUR 118.4 thousand from 2018. The only source of revenue for JSC "LatRailNet" was the charge for the performance of essential functions of the infrastructure manager.

In 2019, JSC "LatRailNet" made amendments to the calculation of the charge and the charging scheme, defining new market segments, passed decisions on the procedure for calculating and collecting infrastructure charges for international 1,520 mm gauge track traffic, as well as passed decisions on the railway infrastructure charges effective

from 1 July 2019, which provide for the application of charges in accordance with the principle of direct costs in accordance with Section 11, Paragraph two of the Railway Law and EC Regulation 2015/909 of 12 June 2015 on the procedure for calculating costs directly incurred in providing train services. The infrastructure charge is then applied to different market segments, setting the mark-ups for the infrastructure fee consistently in line with the market circumstances.

When approving infrastructure charges, the provision to keep the infrastructure charge at the 2018 level provided for in the Indicative railway infrastructure development plan for 2018–2022, allowing only for an increase at the level of national inflation rates, and by creating such circumstances for the financial balance of the public use rail infrastructure manager to be achieved (fulfilled) with minimal involvement of the public budget funds was taken into consideration, ensuring the best possible use of the business environment, including market capacity to cover the charges for infrastructure use.

JSC "LatRailNet" has been actively following international practices and cooperates with foreign infrastructure managers, the managers of essential functions, industry organisations, higher education establishments, research institutes and other public organisations.

In 2020, JSC "LatRailNet" will formally join the North Sea-Baltic Railway Corridor (RFC8) AS a full-fledged member. In 2020, JSC "LatRailNet" will organise the reception of RFC8 Board, management board and advisory councils.

# Sustainability

Nowadays, sustainable management and operation of companies is getting an increased focus, and these are no longer just words, but also real action aimed at integrating sustainability principles into everyday processes. An independent external expert assessment is highly valuable to assess the progress made so far and to understand what improvements are required.

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

The first major step towards the implementation of the sustainability principles was the establishment of the corporate Social Responsibility (CSR) Commission in 2013. It is composed of specialists from the LDz Directorates-General, as well as representatives from all subsidiaries of LDz. Owing to the work of the Commission, LDz Group developed the code of conduct, activated the activity of the companies making up the Group in the Sustainability Index-2019. In 2019, the dominant company SJSC "Latvijas dzelzceļš" winning, for the second consecutive year the highest award - the Platinum category. Four of its subsidiaries Ltd. "LDZ CARGO", Ltd. "LDZ ritošā sastāva serviss", Ltd. "LDZ apsardze" un Ltd. "LDZ Loģistika" took part in it.

In 2019, the representatives of LDz participated in the work of the 2020 Sustainability index by participating at meetings, as well as providing their proposals aimed at improving the assessment.

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

## UN SDG emblems



# Business environment



## Single industry brand on international markets

In 2018, based on purposeful preparatory work, the companies and organisations of the Latvian Transport and transit sector jointly developed the concept of and approved a visual and technical solution for the overall image of the sector in international exhibitions, fora and other events. The single brand "VIA Latvia" includes the key players of the Latvian Transport and transit industry, who, through pooling their resources, are capable of offering contemporary, top quality, customer-tailored transportation, logistics and e-commerce services to their customers and prospective counterparties in international markets. In April 2019, the new brand "VIA Latvia" was presented at the International Transport and Logistics Exhibition "TransRussia", which was held in Moscow.

## Annual Conference on the challenges of the global transport movement

In mid-September, LDz hosted the International Conference on Global Transport Movement in Riga. The conference was held for the sixth consecutive year and was aimed at discussing the issues of the transit industry in Europe and globally, as well as seeking and finding ways to promote the



international competitiveness of the Latvian transport and transit sector and its contribution to the Latvian economy. Key-note speakers from the European Commission, Latvia, Spain, Switzerland, Germany, France, Russia and China were invited to present the industry news at the conference. In this forum, subject-matter experts discussed the prospects and capabilities of the two gauge tracks, as well as the latest developments in information technology, which currently already have a major impact on the development of the railway industry and will continue to grow in the future.

## Participation in International business forums and exhibitions

In 2019, with a view to presenting the offered logistics services, the representatives of LDz regularly participated in various international business conferences and forums. These events took place in China, Ukraine, Russia, Austria, Sweden and other countries. International exhibitions in China, India, Kazakhstan, Russia and Germany have also been attended. Attendance at these exhibitions and fora is an opportunity to present the offered services to the broadest possible number of players in the transport and logistics sector, taking into consideration the scale of these international exhibitions and the number of Member States.



# Employees

## Latvian transport days in Sweden

In the beginning of December, Latvian transport days were organised in Stockholm and Gothenburg (Sweden), aiming at attracting new customers and promoting the Latvian port and all Latvian transport corridor services for freight transport between Latvia and Scandinavia. The event was organised by LDz in cooperation with the Latvian embassy in Sweden, represented by the LIDA and major Latvian ports. The delegation of the transport sector led by the Minister for Transport Tālis Linkaits comprised Māris Kleinbergs, Chairman of the Board of LDz, Gundars Ābols, Chairman of the Board of Ltd. "LDZ Loģistika", and Svetlana Berga, Chairman of the Board of Ltd. "LDZ CARGO".



## Promoting the professional development of the existing employees

Professional and motivated employees is a key factor in ensuring the sustainable operation of the company. Several years ago, the company launched the LDz Executive Academy programme for middle-level executives, which was also continued in 2019 (more information about the programme – on page 78). For an effective and immediate practical use of the acquired knowledge, the content of the curriculum has been revised and updated. It has a focus on the current developments in the Group, aligning of corporate and individual objectives, and an increased emphasis on change and conflict management.

## Family friendly Company

As part of the Sustainability Index assessment, the policies pursued by the company in the field of the work environment are assessed, as well. Companies that meet the set criteria receive a special award "Family-friendly merchant" from the Ministry of Welfare. In 2019, LDz and its subsidiaries Ltd. "LDZ CARGO" and Ltd. "LDZ ritošā sastāva serviss" received the award. A family-friendly merchant's status is awarded to companies that contribute to the strengthening of the family's values in the community, as well as promoting a living and working environment that is suitable for families.

# Environment

## Energy efficiency

In 2017, LDz's Energy management system was certified under the ISO 50001 standard. In February 2019, the energy management system was audited by an external auditor in accordance with the ISO 50001:2012 certificate, resulting in a positive audit opinion. To date, no inconsistencies have been identified in the previous audits. Recommendations were received, however, to improve the awareness of employees of the energy efficiency. One of the ways to improve the awareness of employees of a responsible action towards energy practices is the use of the internal communications networks, the intranet and "Railway TV", where various recommendations are published on a regular basis as to how save these resources on a daily basis. For these purposes EUR 347 million are available from the co-financing of the EU Cohesion Fund. According to the results of the analysis carried out by Ernst&Young Baltic, throughout the life cycle of the project (2024 – 2047) the Co2 emissions in the atmosphere caused by railway will decline by 20%.

## Action aimed at reducing rail noise

One of the side effects of train traffic is the emitted noise and vibration, which can have an impact on the environment and the health of the population. In this regard, cooperation between LDz and local authorities is essential. At the same time, the Company also seeks to reduce the environmental impact of noise and vibration. For this matter, in 2019, pursuant to the Cabinet Regulation No.16 "Procedures for assessing and managing noise", LDz developed and approved "Action plan of SJSC "Latvijas dzelzceļš" to reduce noise until 2023". The action plan applies to the territories along the sections of the railway line Rīga Central Railway Station – Torņakalns – Zaslauks and Rīga Central Railway Station – Lielvārde: the Riga agglomeration, as well as Salaspils, Stopiņu, Ikšķile, Ogre, Ķegums and Lielvārde counties.

## Caring for the environment

Every year, as part of the Month of cleanliness, in support of the Great Cleaning Day initiative, the employees of LDz become involved in environment cleaning activities and planting greenery. In recent years, there has been a growing focus on emphasis on planting greenery and improving of

territories, as the amount of waste near railways has been declining. In 2019, the employees of LDz attended the recreation base of the trade union of the employees of the sector "Virogna", with a view to planting a forest, linden trees and oak trees in the territory thereof.

## Elimination of historical pollution

In 2019, work has continued on the measures aimed at containing the historical pollution with oil products according to the approved list of polluted sites. As part of elimination of the pollution, the contaminated soil was collected and disposed of, as well as laboratory tests were carried out on the groundwater, and recovery works were continued on the site "Krauja", the location of the crash in 2012.

## Improvement of the ranking in the rating of the most environmentally friendly companies

Since 2018, LDz has significantly improved its position in the ranking of the most environmentally friendly companies. It has been ranked among the most environmentally friendly companies in the category of the State's large enterprises. According to the assessment carried out by Balticbrands, LDz ranked No. 36 among the "greenest" companies, up by 24 places compared to 2018. In 2019, LDz ranked No. 4 in the category of large State enterprises.



# Community



## 100th LDz anniversary events

In 2019, the SJSC "Latvijas dzelzceļš" celebrated its 100th anniversary. Various events were held throughout the year for different groups of the community. In August, when LDz traditionally celebrated its founding day, a garden festival was arranged in the Railway History Museum, as well as parades of railroad vehicles were held in Rīga, Jelgava and Daugavpils. In autumn, a book on the former railway station buildings "Next stop - home" was published. To mark the centenary of the Battle of Cēsis, LDz through engaging in a project jointly implemented by the Centenary of Latvia bureau and the Estonian War Museum, LDz made it possible for the residents of Cēsis to look at the reconstructed historic Estonian armour train "Freedom".



**DZIESMU  
IEMĀCIES -  
NO VILCIENA  
IZGLĀBIES**

## Educating the population on safe railway level crossings

Every year, marking the International Level Crossing Awareness Day, the LDz launches a safety campaign to remind of the safety near railways and draw the attention of the public to the consequences of not complying with the rules. At the beginning of the summer of 2019, in cooperation with young celebrities, LDz created the song "Learn the song from the Train", aimed at emphasising safe behaviour near railway. Tennis player Aļona Ostapenko, singer Markus Riva, Latvian rally cross car rider Reinis Nitišs, Latvian professional roller-skater inliner Nils Jansons and YouTube blogger Cindy Lo took part in the creation of the song. At the same time, on the International Level Crossing Awareness Day, State police carried out inspections at several locations in Rīga, and new signage marks were placed at the busiest pedestrian crossings and level crossings, as well as a specially trained "railway patrol" reminded of the railway level crossing rules. As part of the safety campaign, LDz implemented the initiative "September - the month of railway safety" in autumn, encouraging the community, especially students returning to school after summer vacation, to be careful and cautious near railway tracks.

A special installation was put in place at the Station square to serve as a warning and reminder to the entire community to comply with safety rules near railway tracks. Later the installation was installed at Majori and Olaine railway stations. During the validity of the initiative, a competition was held for all Latvian school students to popularise the song to the safety campaign. At the same time, a specially trained "railway patrol" was on duty near schools.



### Safety classes at schools

Safe behaviour near railway must be learnt early – at pre-school and school age. Therefore, concurrently with the safety campaigns, LDz specialists attend Latvian educational establishments every year to present the rules of safe behaviour near railways in an attractive manner. Safety classes are also held at the Latvian Railway History Museum. In cooperation with the services responsible for safety and health, LDz participates in various public activities, covering an even wider range of the population. LDz has traditionally responded to the invitation to take part in events such as the exhibition "Children's World" at Ķīpsala, the festival for children and young adults "Come and participate" held at Vērmanes garden, as well as "one day for safety" organised in various towns of Latvia. In 2019, 149 safety classes were

held at schools, which were attended by 4452 participants. 68 classes were organised at the Railway History Museum attracting 1235 participants.

### Promoting studying science subjects at schools

Given the lack of motivation for young people to study science subjects which has led to a disproportion between science and humanities specialists in the labour market, in the spring of 2019, in cooperation with the "Mission Possible" foundation, LDz launched a project titled "Latvia's driving force" and created a website [www.steamup.lv](http://www.steamup.lv), which serves as an assistant for school children as well as for their parents and teachers in the studying science or STEM (Science, Technology, Engineering, Mathematics), subjects. To discuss the benefits of science subjects, a series of talks "Competitive" were held at schools. Guests popular among young people were invited as key-note speakers at the meet-ups to tell how science is used in his profession.

### Gifts (donations)

In supporting major and long-term public interest-aimed projects, LDz follows the Policy of donations (effective from 01.01.2018) approved in 2017, under which the Company may support projects in the fields of education and science, public health promotion, social assistance and environmental protection.

Each project application is analysed by the Marketing Communication Project Commission of LDz Group, which recommends supporting or not supporting the specific project. The final decision is taken by the company management and the boards of the subsidiaries.



**The public image of LDz**

With a view to gauging the public opinion on LDz, a survey of the image of LDz is carried out annually. In 2019, it was carried out by the firm "SKDS". The results of this survey show that 35% of the respondents had a positive opinion about LDz. Compared to the 2018 survey data, the rating of LDz has remained unchanged. It may be observed, however, that it has improved since 2015, the share of respondents who have not been able to provide a specific assessment of the reputation of LDz has been decreasing compared to 2018. In assessing the role of LDz, 74% of the respondents mentioned that the Company was strategically important for Latvian economy, while 57% recognised that it was socially responsible and sustainable.

The image of LDz has also been highly rated by third parties. According to the evaluation carried out by Balticbrands, LDz has improved its position in the top of the most loved brands, moving 27 positions up since 2018, ranking No. 19. In this category, LDz ranks No. 4 in the category of State companies. In the top of the most loved brands, LDz had one of the highest ratings in the category of the social responsibility among all the companies, i.e., No. 44, and ranking No. 2 among the largest State companies.



**LDz brand awareness**

In surveying the public opinion of LDz, the awareness of the new brand of LDz was established, as well. According to the results of the survey, during the year the awareness of the new logo of LDz among the community has grown during the year, i.e., it is recognised by 24% of the population, up by 8% from the end of 2018. The logo was best recognised by the residents of Zemgale and Latgale, as well as among the respondents who use train for commuting. Given that a systematic introduction of the new brand of LDz only began in 2019, and it took place within the scope of the existing budget without making any substantial additional investment, this increase in the brand's visibility is to be positively appreciated.



16% ↑ 24%

Brand awareness



74%

A strategically important company for the Latvian economy



61%

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



57%

Socially responsible and sustainable company

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# STAKEHOLDER ENGAGEMENT

# 03

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

Upon commencing work on the first LDz Sustainability report in accordance with the GRI G4 guidelines, in 2016 the company carried out the stakeholder assessment, mapping and survey, identifying the most relevant aspects to be included in the content of the sustainability report. The process resulted in identifying the key stakeholders, information on which is identified in the figure.

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



## LDz involvement in the law - making activities

In its operations, SJSC "Latvijas dzelzceļš" complies with the provisions of Latvian laws as well as international law. The tasks and objectives of the company's development have also been defined in various policy planning documents. The key documents determining the role of LDz are: Transport Development Guidelines for 2014 - 2020 and the Indicative Railway Infrastructure Development Plan for 2018 - 2022. The Company pursues its medium-term operational strategy for 2017 -2022, and the whole Group pursues the approved strategy of "Latvijas dzelzceļš" for the period until 2030.

Considering the role of LDz in the national economy, the Company's subject-matter experts get involved in the work of various advisory councils, sharing the Company's opinion on the contemplated changes in legislation or activities at Latvian as well as international level. The representatives of LDz, including the Company's management, regularly participate in the work of the Ports, Logistics and Transit Council chaired by the Prime Minister, as well as in the National Tripartite Cooperation Council, the Transport and Communications Tripartite Cooperation Sub-Council and the Logistics Council under the leadership of the Ministry of Transport, bilateral business cooperation councils and inter-governmental intergovernmental commissions with third countries (outside the European Union), such as Belarus, Russia, Kazakhstan and other countries. LDz is a multiannual member of the Latvian Employers' Confederation and the Latvian Chamber of Commerce and Industry, which represent, in an aggregated form, the position of members of the government. These organisations are informed, on a regular basis, about the views on legislative matters concerning the areas of activity of LDz.

## Shareholders/ owners

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

In 2019, three shareholders meetings were convened, during which the LDz 2018 annual report was approved, two independent members of the LDz Council were appointed, as well as changes to the Board of LDz and other relevant issues related to the LDz activity were made.



# Management

The management of the Company is made up of the elected Council of the shareholders' meeting, which is the body supervising the Board and the governing Board of the Council. In 2019, 26 Council meetings were held, during which 117 resolutions were passed, and 59 board meetings were held.

Until 17 October 2019, LDz had the Council of Presidents, which was a collegiate executive body of the board. The Presidents' Council ensured the handling of the Company's daily routine, representation and doing business on behalf of the Company. As this body terminated its activity, the functions thereof were taken over by the Board of LDz.

Planning of operational and Group matters is handled by the committees of LDz Group, where all directors of the General Secretariat as well as heads of the structural units and the CEOs of the Group's subsidiaries work together with the Company's executive management. The meetings of the steering committee take place once a week to discuss the topical issues and exchange information about the developments in the various structures of the Company and Group companies. Other committees handle specific business and cooperation issues of Group companies are discussed pursuant to the field of competence of appropriate committees.

One of the areas of responsibility of directors and heads of structural units is the involvement of middle-level managers in the key areas of the LDz. Regional meetings for middle management are also organised on a regular basis to discuss issues related to the strategic orientation of the company.

# Employees

Employing more than 9000 employees at the Group level, LDz is one of the largest employers in the country. The Group's dominant company employed on average 6345 employees across Latvia in 2019. Given the dispersion of employees across all the regions of the country, ensuring communication so that every employee has direct access to information about the most important processes in the company is key. For many years, the most important information channels at the Company has been the intranet or the magazine "Dzelzceļnieks". In order to ensure an even better flow of information, in 2019, "Dzelzceļa TV" was introduced, which was created to provide employees with direct and operative information about the current developments in the Group. At the end of the year, the "News leaflet" was also launched, which is placed on the notice boards every Thursday in over 300 places available to a wide number of employees throughout Latvia.

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

Considering that the Company's intranet is available only at the workplace or on a computer, an employee portal backing up the intranet has been developed, which can be accessed by logging in with Internet banking access, thus providing access to current information also when being outside the Company.

# Organizations / NGOs

LDz has had long-term cooperation both with non-governmental organizations of the sector and with such organizations, which directly affect the daily operation of LDz.

In matters of employee rights and social protection, LDz's most important counterparty is the Latvian Railway and Traffic Industry Trade Union (LDZSA). LDz Group has entered into a collective agreement with it, which is binding on all employees. The collective agreement came into force in 2017, but amendments thereto were signed in 2019, rendering the document one of the best collective agreements providing for social guarantees for employees in Latvia. The collective agreement and the amendments thereto signed by it provide for a broad range of social guarantees for employees, as well as various measures taken by the employer aimed to improve the work environment and promote employee well-being and motivation.

In 2019, aimed at ensuring a stable and efficient functioning of the railway transport, development of the sector and social protection of employees in the sector, a general agreement of the railway sector, which is a binding document on LDz Group, Latvian Railway and Traffic Industry Trade Union and Latvian Railway Employers' Organization, was extended for five years. This document is a mechanism for cooperation and consultation between the parties involved and is used for addressing issues or decisions that may have a significant impact on the economic situation of the companies or the socio-economic interests of employees.

Outside the railway industry, one of the most important organizations with which LDz has had long-term cooperation is the Association of Disabled People and their Friends "Apeirons". The opinion of the association is taken into consideration on the matters related to improvements of the public railway infrastructure, including adjusting it so to meet the needs of disabled people.

Organisation's opinion was considered in ensuring the operation of mobile lifts for passengers using wheelchairs, as well as additional improvements for the convenience of deaf and hard of sight people. Considering the forthcoming reconstruction of the Rīga Central Station building in connection with the implementation of the Rail Baltica project, no major capital investments in improving the accessibility of the environment are contemplated in the forthcoming years.

In 2019, aimed at promoting young people's interest in science subjects, which is consistent with LDz's need to attract motivated and professional employees in the future, LDz continued cooperation with the foundation "Mission Possible" ("Iespējamā misija"), visiting schools and informing youngsters about the advantages of studying STEM (Science, Technology, Engineering, Mathematics) subjects.

Although the activities of LDz and its subsidiaries have an impact on the environment, so far there have been no significant disagreements with environmental protection organizations. Aimed at reducing the impact of operations on the environment, LDz regularly takes measures related to environmental protection, eliminates historical pollution, as well as seeks ways to reduce the amount of harmful emissions. Also, each infrastructure development project is subject to an environmental impact assessment, while in cooperation with subject-matter experts in science, solutions are sought to reduce noise and vibration and to replace harmful substances used in the management of railway compartment lanes with more environmentally friendly solutions. Implementing climate-responsible actions, LDz annually participates in the World Wide Fund for Nature's "Earth Hour" campaign, by switching off the lighting of the railway bridge over the Daugava in Rīga. In August 2019, in response to the initiative by LDz, the ambassador of the environmental protection, i.e., Noah's train of the international coalition "Rail Freight Forward" arrived in Rīga. The Rail Freight Forward aims to achieve 30% of total freight transport carried by rail in Europe by 2030 instead of the current 18%.

# Representatives of interests

In order to represent the interests of the industry, LDz has been involved in various cooperation formats of importance to the industry, where one of the most important is the Ports, Logistics and Transit Council. The Ports, Logistics and Transit Council has an important role to play in promoting the development of the sector and in coordinating national policies for the development and operation of ports, as well as infrastructure issues, in order to ensure the harmonious and balanced development of the transit corridor. LDz has been engaged in the council, which is key for the sector, discussing various development projects and law-making initiatives. Whereas at the international level, LDz has been involved in the activities of the Advertising Commission of the Ports, logistics and transit council, which is responsible for promoting the industry at international exhibitions and fora, where the industry is represented at the stand "VIA Latvia".

Although for LDz, as an infrastructure manager, there are no competitors in Latvia, the railway operators of other countries are also analysed as a stakeholder of the representatives of interests. In the field of freight transport, LDz competes in transit corridors for freight transport, especially in the Baltic region.

In the near future, the developers of the Rail Baltica project RB Rail and European Railway Lines will become an important counterparty and, consequently, a stakeholder. One of the most important issues in this cooperation format will be the transformation project of the Rīga Central Railway Station, where there will be both 1520 mm and 1435 mm (European gauge) gauge railway lines in parallel.

# Customers

The basis for cooperation with customers – users of public infrastructure is the charge calculated and determined by the LDz subsidiary JSC "LatRailNet" for the use of public railway infrastructure. In accordance with Section 11, Paragraph two of the Railway Law, the infrastructure charge shall be determined in accordance with the direct costs of the provision of train traffic services. Service charges are set per freight kilometre for freight, passengers (separately for electric trains, diesel trains and international trains) and narrow gauge trains.

In 2019, JSC "LatRailNet" passed the decision on the indexation of the amount of infrastructure charges from 1 February 2020, increasing the infrastructure charges approved by the company by 2.57%. The decision on the increase was made in connection with the projected increase of the consumer price index and wage index by 2.5%, and the estimated increase in the producer price index by 2.7%, making up an aggregate cost indexation rate of 2.57%. The specified infrastructure charges for different types of transportation are available on the [website](#) of JSC "LatRailNet"

In addition, in November 2019, the decision "On determination of charges for the performance of essential functions for the period from 8 December 2019 to 12 December 2020" was passed, laying down the charges for the services provided by JSC "LatRailNet" in the next train annual schedule. The decision is available on the [website](#).

Domestic passenger transportation in Latvia is provided by JSC "Pasažieru vilciens" and Ltd. "Gulbenes – Alūksnes bānītis", international freight carriage services in the territory of Latvia are provided by the subsidiary of LDz Ltd. "LDZ CARGO" and UAB "LG Kieruiams" (on the route Vilnius-Daugavpils).

# Suppliers

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

Port terminal operators and companies, providers of technological process services that use wagon handling services, as well as recipients of other services provided by LDz (distribution and trade of electricity, leasing of real estate) are also considered as customers.

Although cargo owners and passengers may not be regarded as direct customers, LDz aims to improve the convenience for these two categories, for example, by upgrading the passenger infrastructure, as well as ensuring the continuous operation of the railway information service. The customers of LDz include several thousand recipients of the electricity service. This service is essential in places where other operators do not have access to the distribution network. At the end of 2019, LDz had 4 578 electricity connections for households and 940 connections for legal entities, including 195 for internal structures of LDz Group and 745 for external customers.

LDz also provides customers with service point services and additional services that do not form a part of the public railway infrastructure - wagon handling services at destination stations (manoeuvring services).

As a subject of the Public Utilities Procurement Law, LDz must comply with the requirements of the said law as regards the procurement procedures. Suppliers must therefore be selected in the procurement tenders and negotiated procedures. In 2019, 304 procurement procedures were arranged, and 422 procurement contracts were awarded. More information about the activities of LDz Procurement office is provided on page 67.

During the term of co-operation, adhering to the general principles of business ethics of the "Latvijas dzelzceļš" Group are binding on the suppliers of LDz and its prospective counterparties. The general principles of business ethics as well as the possibility for the responsible employees of LDz to anonymously report on possible cases of fraud, corruption or conflicts of interest (Whistle-blower's report) was been created to proactively prevent the likelihood that its partners and suppliers include such legal entities which evade taxes, disrespect the principles of the work environment or environmental protection, fair commercial practices, and at the same time to provide a mechanism for controlling its employees engaging in business relations with counterparties.

# Society

When managing the public access railway infrastructure in the country, LDz is responsible not only for ensuring that the infrastructure is maintained to an appropriate quality standard for the provision of freight transport, but also for ensuring that it is safe and appropriate for passenger transport and accessible to various categories of the population. Thus, the railway network plays an important role in ensuring the mobility of the population and promoting employment, connecting the regions and largest cities of Latvia with the capital city thereof and enabling the residents to commute to their destinations conveniently and in a relatively short time.

The development of the passenger infrastructure is planned based on the "Indicative Railway Infrastructure Development Plan for 2018-2022", which was approved by the Cabinet at the end of 2018. In order to determine the public opinion, the representatives of the public are often involved in the initial planning stage of projects. In 2019, a debate related to the upgrading of the passenger infrastructure was held, ascertaining the opinion of the active members of the public on the elements of the infrastructure.

Considering that the society is one of the significant stakeholders of LDz, daily communication is key, which is implemented through various information channels. The public is informed about current developments related to the Company's economic activities or processes both through traditional media (press, TV, radio and Internet media), as well as through social networks Twitter, Facebook, Draugiem.lv, Instagram and LinkedIn.

The employees responsible for public relations get actively involved in communication with the population, answering questions both on social networks and by e-mail, as well as providing answers in cooperation with the employees of the railway information service. In 2019, the Inquiry Service of LDz, in cooperation with the call centre service provider Transcom, handled 68 222 calls regarding domestic and international passenger carriage services, electricity supply to customers, issues related to the core business of LDz Group and the operation of level crossings. 2 200 e-mails were received and answered to the e-mail [uzzinas@ldz.lv](mailto:uzzinas@ldz.lv). Approximately 4 200 meter readings received by e-mail were processed in connection with the provision of electricity services.

With a view to supporting publicly important education and science, health promotion, social assistance and environmental protection projects, LDz observes both the requirements of state regulatory enactments and is guided by the developed Gift (donation) policy.

The Marketing Communication Project Commission of LDz Group is responsible for the review and further progress of the received project applications, while the final decision is made by the boards of LDz and its subsidiaries.

Information on the support provided in 2019 and previous years and its recipients is available on the [LDz website](#).

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# PERFORMANCE INDICATORS

04

102-46  
102-47  
102-48

# Identification of the key aspects

Starting work on the preparation of the first GRI report in 2016, LDz conducted an impact assessment, taking more than 10 individual and group interviews. To determine which stakeholder representatives to be interviewed, a chain of LDz supply values has been established – identifying suppliers, customers and other partners who exercise the greatest mutual influence on LDz. Both internal and external stakeholders have been identified using a stakeholder identification matrix and identifying key stakeholders in the value chain from the supply chain perspective. The opinion of these stakeholders formed the basis for gathering information on developments in 2019, as well.

The information included in the report is also prepared based on the Company's view of the most important aspects of sustainability.

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

## Steps to identify key aspects:

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

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

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

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

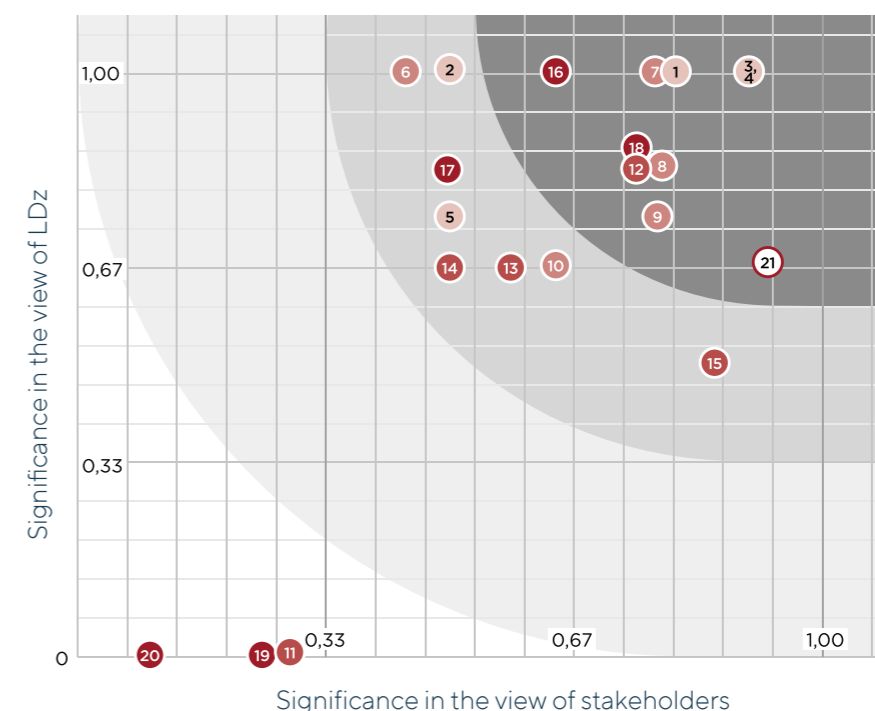
(Highways and railways).

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

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

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

5. A new survey of stakeholders is contemplated to be carried out on the relevant aspects for the 2020 sustainability report purposes, specifying the scope of their interests, changes to the scope of the Company's areas of influence and expanding the sample of the stakeholders included in the survey.



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

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



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# ECONOMIC IMPACT

# 05

## The role of LDz in promoting export services of the sector

The "Latvijas dzelzceļš" Group has many counterparties in the countries which attach great importance to whether the company in the transport and logistics sector has a private or public share capital, and state capital companies tend to gain more confidence. Being a public capital company and at the same time a company of significance for the national economy, through engaging in international transport corridors, LDz contributes to the competitiveness of the industry at international level, thus contributing to the economy of the country. Competitiveness in external markets is strengthened by participating in international exhibitions and fora, attracting new counterparties not only at LDz Group level, but also for the Latvian transport and logistics sector as a whole.

Meanwhile, the development of the whole sector depends on the cooperation and unity of the market participants. The "VIA Latvia" brand, with which representatives of the industry participate in international exhibitions, proves the contributions aimed at strengthening the unity. In April 2019, at the exhibition "TransRussia", the official opening of the common brand and stand was held. The creation of the brand supports the objective uniting the whole industry – the provision of efficient and competitive services on international markets.

## Development of services, ensuring efficiency

The largest share of the turnover of LDz, or 69.5%, in 2019, was made up by revenues from the sale of infrastructure capacity, accounting for 19.1% of the total operating revenue of the infrastructure manager's ancillary services. The calculation of infrastructure usage charge is the responsibility of the subsidiary of LDz JSC "LatRailNet" and it is effected from the second half of 2019 in accordance with the fee calculation scheme developed by the company (Until then, the charge was calculated in accordance with the Public Utilities Regulatory Commission approved by the Public Utilities Regulatory Commission methodology).

The revenue from ancillary services consists of the revenue from distribution and sale of electricity services, leasing and sale of real estate and other non-transport services.

Using the latest information technology capabilities, SJSC "Latvijas dzelzceļš" provides its customers with the drafting of a full cycle documents in e-environment for the organization of freight transportation with all neighbouring countries of Latvia – Russia, Belarus, Lithuania and Estonia. This solution provides for a full electronic exchange of information on transport. In turn, the Automated Transport Operational Management System allows carriers to maintain a container and wagon database, provide technological documents, draft them according to the plan, as well as determine the location of locomotives and estimate the time of arrival of the cargo at its destination.

# Economic performance

THE ECONOMIC VALUE OF ANY COMPANY IS DIRECTLY RELATED TO ITS FINANCIAL PERFORMANCE INDICATORS, I.E., ITS VALUE RISES WHEN FINANCIAL PERFORMANCE HAS AN UPWARD TREND.

201-1  
201-4  
205-1  
205-2  
205-3  
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Given the global geopolitical situation, competition in the international transit business, falling demand for coal, oil and its products in the European Union, political decisions on a global, local and regional scale, the volume of cargo transported through the LDz infrastructure decreased in 2019, hence income has also decreased, which had a consequential impact on the economic value of the company.

In 2019, LDz did not receive financing from either the structural funds of the European Union or State funding for infrastructure projects. However, in the past year, preparatory works were carried out for the implementation of the projects co-financed by the EU Cohesion Fund and construction of a pedestrian tunnel at Ogre station has been started. The State budget financing of EUR 2 million was granted for the implementation of this project at the end of 2018. The constructed tunnel is expected to be commissioned in the autumn of 2020.

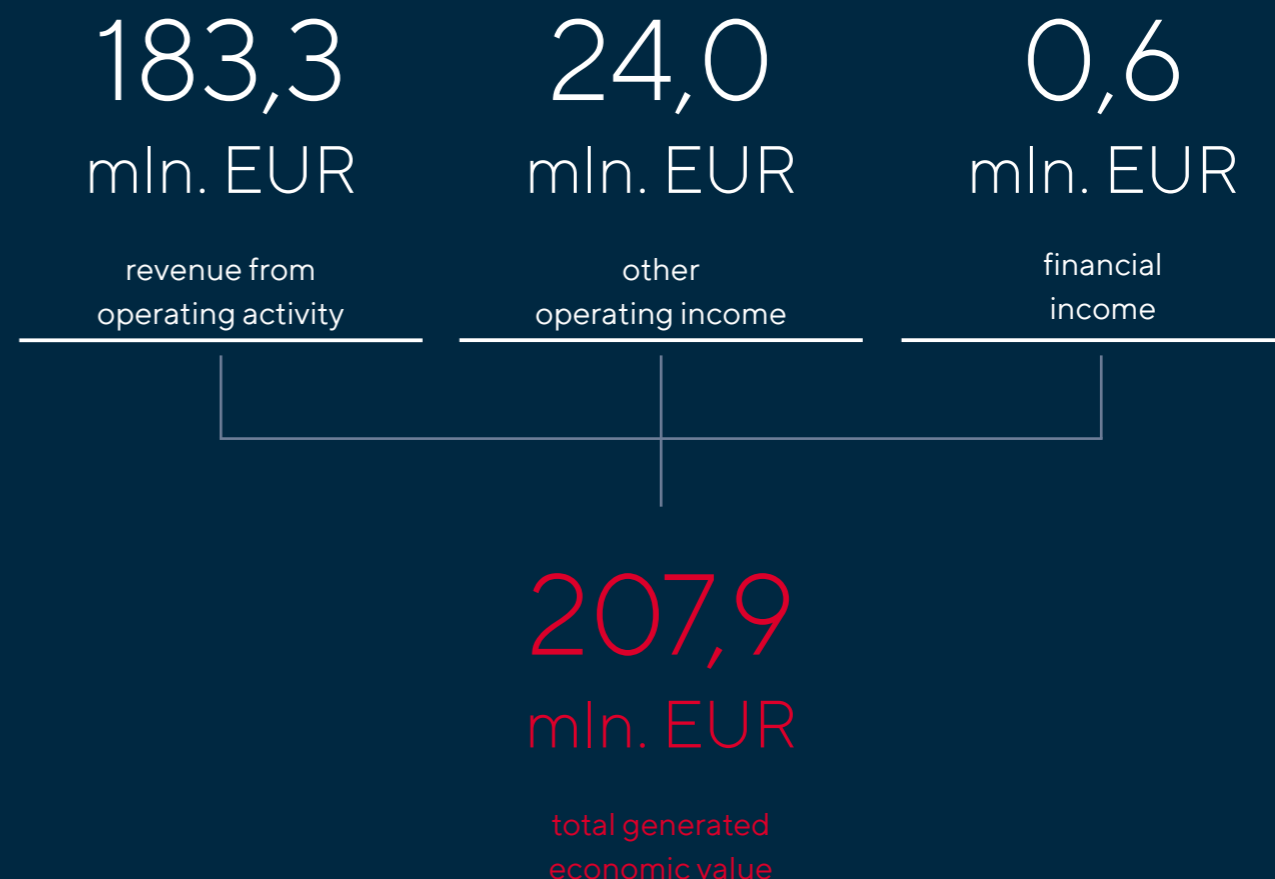
# Generated and distributed economic value

The total income generated by LDz in 2019 was EUR 207.9 million, which consists of revenue from operating activity of EUR 183.3 million, other operating income of EUR 24.0 million and financial income of EUR 0.6 million. In 2019, the total economic value generated by the Company declined by EUR 30 million from 2018.

The cost of provided services was EUR 200.3 million. In the cost of sales structure, a large share (EUR 91.6 million) is the employees' remuneration and related social security contributions. The cost of materials, fuel and electricity amounted to EUR 19.9 million, whereas administration costs totalled EUR 16.1 million.

In 2019, EUR 74.8 million were paid in taxes, including EUR 32.0 million of national social insurance mandatory contributions, EUR 14.9 million of personal income tax, EUR 27.0 million of value added tax and EUR 0.6 million of property tax.

On 28 January 2020, under its Order No. 35, the Cabinet ruled that "Latvijas dzelzceļš" shall not pay dividends from the profit for 2018, whereas the profit share of EUR 2 922 272 shall be used for the development and restoration of public railway infrastructure of the State joint stock company SJSC "Latvijas dzelzceļš", including for the formation of a reserve that may be used for the implementation of public transport infrastructure projects contemplated by the State joint stock company "Latvijas dzelzceļš" in accordance with the medium-term operational strategy of the capital company for 2017 – 2022 and the profit share in the amount of EUR 1,255,492 shall be used to finance the public rail infrastructure in the passenger segment in 2019 (see page 7 for the reason).



# Investment in infrastructure and development

CARRYING OUT OF THE PRINCIPAL ACTIVITY – MANAGEMENT OF PUBLIC ACCESS RAILWAY TRANSPORT INFRASTRUCTURE MEANS THE OBLIGATION TO MAINTAIN IT TO THE APPROPRIATE QUALITY STANDARD, IN ACCORDANCE WITH THE LAWS AND REGULATIONS OF THE REPUBLIC OF LATVIA AND THE EUROPEAN UNION.

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203-2

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The results of the regular inspections show that the quality of the rail tracks in Latvia meets the rating "excellent". In 2019, the rail track score assessment for one kilometre was 19.2 points. A major role in improving the quality was played by the infrastructure upgrading works carried out in recent years, resulting in the creation of a quality, competitive rail infrastructure that can be used for both freight and passenger transport.

In 2019, LDz invested EUR 16.4 million in infrastructure renovation, capacity expansion and acquisition of a new equipment, whereas EUR 2.2 million were invested in regular repair of the rail tracks.

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In 2019, the amount of capital expenditure in the "Expanding Infrastructure Capacity and Restoring Infrastructure" programme was EUR 11.48 million. The implementation of this program includes:

- "A" type capital repairs of rail tracks (repairs are carried out with new materials) at the section Niedrica – Indra.
- "B" type capital repairs of rail tracks (repairs are carried out with new and previously used materials) in sections of Dubulti-Sloka, Jelgava-Glūda, Čiekurkalns-Rīga Krasta, as well as in Daugavpils sorting park.
- In 2019, capital repairs were carried out on six railway level crossings of EUR 94.25 million. Repair works have been carried out on railway works level crossings in Skrīveri, Zolitūdes Street crossing in Rīga, as well as on the crossings in the Ķemeri –Tukums2 and Tukums2-Slampe sections.
- In 2019, several crossings were equipped with a video surveillance system, including in Salaspils, Ventspils, Jelgava, Jāņmuiža and Rīga.
- In recent years, LDz has been replacing rail tracks with new rail tracks by improving the quality of the tracks and with a view to reducing noise resulting from train traffic. In 2019, a total of 3618 kilometres of long-track rails were replaced. The replacements were carried out in sections stages Jugla-Garkalne, Torņakalns-Jelgava, Ludza-Istalsna, Kandava-Zvāre and Zvāre – Tukums II.

In 2019, after various refining calculations, savings were achieved on several infrastructure restoration project:

- In replacing 27 switch points, savings resulted based on the specified switch gear installation scheme. As a result, upper materials – access rails and insulating rails with metal composite lining have been placed on the accesses to switches, resulting in savings of EUR 28 984 in the budget allocated for the project.
- As a result of carrying out the programme of capital repairs of engineering structures, the restructuring of the reinforced concrete bridge over the culvert section at Usma-Spāre, specifying the amount of repairs, has managed to save EUR 10 983.

Structural Funds of the European Union also provide finance for the upgrading of the railway infrastructure. Although no such works were carried out in 2019, the preparatory work for the implementation of large-scale projects for the upgrading of the Rīga hubs has been continued, including the procurement for the upgrading project for the Sarkandaugava – Mangaļi – Ziemeļblāzma section of the Rīga railway hub.

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

# Projects of the EU Funds 2014-2020 programming period

With a view to improving the quality of railway infrastructure for passenger and freight transport and thus contributing to the national economy, LDz implements large-scale infrastructure upgrading projects by attracting funds from the structural funds of the European Union. In 2019, preparatory works for the activity 6.2.1.2. "Upgrading and construction of the railway infrastructure" of the specific support objective 6.2.1 "Ensuring a competitive and environmentally friendly TEN-T rail network by promoting its safety, quality and capacity" of the priority direction "Sustainable transport system" of the programme "Growth and jobs" for the activities to be supported:

- Upgrading of the Sarkandaugava – Mangaļi – Ziemeļblāzma section of the Rīga railway hub section;
- Upgrading of the railway passenger service infrastructure.

While in 2019, the preparatory works for the project "Electrification of the Latvijas dzelzceļš network" of the specific support objective 6.2.1. "To ensure a competitive and environment friendly TEN-T railway network, promoting the safety, quality and capacity thereof" of the Cohesion Fund 2014-2020 programming period, were continued, in March 2020, the decision was made to terminate the project. Having assessed the project implementation effectiveness, it was concluded that this project was budgeted for a turnover of 45-55 million freight tonnes, however, in the current and projected freight transport circumstances the implementation of the electrification project will not be economically justified and result in an additional financial burden on the State budget and the users of the infrastructure.

After reviewing the priorities of the LDz projects, the feasibility and urgency of the implementation thereof, it was decided to postpone the implementation of the project "Daugavpils Sorting Station Development: Construction" and include it in the proposals for attracting EU funds in the next EU fund programming period 2021 - 2027.

In accordance with the LDz Board decision on 18.03.2020, the Project No.6.2.1.2 / 16 / I / 003 "Development of Daugavpils Reception Park and Access Roads" for the 2016-2020 EU funds planning period, has been terminated.

## **Upgrading of the Sarkandauga-Mangaļi-Ziemeļblāzma section of the Rīga railway hub**

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

The estimated total cost of the project is EUR 25 million. Co-financing of the EU Cohesion Fund (85%) has been attracted for the implementation of the project.

At the end of 2019, a contract for construction works was awarded to the winner of the procurement tender, i.e., the association of persons "Belam-Leonhard Weiss" in the amount of EUR 21.95 million (excluding VAT).

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

### Upgrading of the railway passenger infrastructure (stage 2)

Based on the public transport development plan, SJSC "Latvijas dzelzceļš" plans to upgrade 48 stations and stops, following such principles: a complete upgrading in the directions Rīga-Tukums II and Rīga – Jelgava, and, taking into account passenger turnover, upgrade the largest stations in the direction Zemitāni – Skulte and Rīga – Krustpils in the amount of the available financial resources.

Upgrading the railway passenger infrastructure involves the development of increased passenger platforms with special equipment, the installation of a single information reporting system and video surveillance, as well as the development of infrastructure related to the passenger service – pedestrian crossings and walkways within the boundaries of the public railway land portion.

The target groups of the project are public transport passengers, carriers, municipalities and society as a whole. Upgrading of the railway passenger infrastructure will ensure safe and convenient services for all categories of passengers, including passengers with special needs, safe and convenient services on passenger platforms, as well as access to passenger infrastructure facilities, boarding on the train and disembarkation, and a safe train traffic within stations.

Funding from the EU Cohesion Fund (85%) would be attracted. Investments of EUR 26.515 million are budgeted for the implementation of the project.

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

### Project "Creating an Interoperable Railway System in the Baltic States" co-financed by the Innovation and Networks Executive Agencies (INEA)

SJSC "Latvijas dzelzceļš" (LDz) and SJSC "Eesti Rauttee" (ER) have signed a Grant Agreement with the Innovation and Networks Executive Agency (INEA) on the implementation of the project "Creating an Interoperable Railway System in the Baltic States".

The project aims to replace the existing automated transport operational management system (APOVS) with a new system and implement the amendment of TAF TSI Regulation 1305/2014 (its amendment to the TAF TSI Regulation 2018/278) and TAP TSI Regulation 454/2011.

Within the scope of the project, the introduction of a new technological model on the railways of Latvia and Estonia is envisaged in accordance with the laws of the Fourth Railway Package of the EU.

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

One of the activities is the launching of the Operational Transport Management System (OPVS) LDz, which will be used as a prototype for an analogous ER system. Furthermore, the project includes the functionality required for Rail Freight Corridor North Sea – Baltic (RFC8):

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

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

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



# Property management and efficiency improvement

For maintaining the railway infrastructure and carrying out business, LDz owns a significant amount of real estate (structures, buildings) across the territory of Latvia. In 2019, LDz had 2,095 buildings in its balance sheet, of which 302 buildings were lease for use by external tenants (including JSC "Pasažieru vilciens" and the dependent companies of LDz), with an area of 24.4% of the total area of LDz.

LDz has in its possession a public use railway land portion with a total area of 15 055 ha (this area includes both the track sections that are being operated and lines where there is currently no train traffic, which are to be maintained by LDz until the Cabinet decides on the closure of the railway unit).

In order to ensure the efficient operation of the Company and to prevent an inefficient the use of resources, the Company regularly assesses the expediency of using the real estate under its possession. In cases where the property is not necessary for providing the principal activity of LDz, it is leased, disposed of or dismantled (subject to assessing the technical condition of the object). Station buildings in the closed railway units where the train traffic is closed are disposed of. In 2019, four real estate objects were sold for EUR 55 343, including two residential houses, a former station building "Ieriķi" and section No. 10 of the Saldus station access road.

Transactions in real estate are one of the ways generating additional revenue for LDz, which is not related to the Company's principal business, i.e., the management of the railway infrastructure of public use. In 2019, for commercial purposes, 150 premises lease agreements, 22 premises and land loan agreements, 46 rental agreements and one cooperation agreement were newly concluded. Leasing premises and land to external tenants has generated revenue

of EUR 1.87 million, up by 7% from 2018. Revenue from leasing premises and land to the dependent companies of LDz (EUR 1.25 million) declined by 1,5%, which is due to the optimisation carried out by companies and the assessment of the necessity of objects to carry out the principal activity. In turn, leasing income amounted to EUR 28.24 thousand.

In 2019, a survey of the customers of electricity and real estate rental services was carried out, giving customers the opportunity to express their views on availability and quality of the services and communication opportunities. The questionnaires were distributed to 3271 customers of the SJSC "Latvijas dzelzceļš". The surveyed clients expressed high assessment of the communication opportunities and competence of the employees of LDz.

In 2019, with an increasing popularity of the so-called "green railways", i.e., cycling and hiking routes along dismantled tracks, LDz entered into a loan agreement with several municipalities for the use of the land and the engineering infrastructure for the development of "green railways". Such agreements have been entered into with the Amata, Gulbene, Balvi, and Cēsis county municipality, Jaunpiebalga, Vecpiebalga and Rauna county council, Viļaka country council for the Green way train traffic in the section Ieriķi – Vecumi of the closed line. Transferring of the former line for management by the municipalities will enable LDz to save resources for maintenance and management of the closed line.

In 2020, there is an ongoing debate with Ērgļi, Ogre and Ropaži municipalities on the transfer of the former railway lines to transform them into "green railways".

The duties of LDz also include the maintenance of the buildings and structures owned by it in the appropriate technical condition, which also means carrying out repair and renovation works in the facilities where it is necessary. In 2019, capital repairs were carried out in the buildings of the Garoza and Tukums-2 station buildings, whereas the repairs of the Gulbene station were completed in 2018. A ramp has been built at the Pārogre station building to ensure accessibility of the environment for people with disabilities, while the Pļaviņas station building has its roofing replaced and facade repaired. In a number of station buildings the waiting halls and the ticket offices of JSC "Pasažieru vilciens" have been repaired last year.

# Indirect economic impact

Ensuring freight and passenger transport using the railway infrastructure, which generates the largest share of LDz's revenue, represents a direct contribution to the sector. At the same time, railway infrastructure has an impact on a number of other sectors of the economy and the entire national economy as a whole. According to the annual data on the foreign trade balance compiled by the Bank of Latvia, in 2019, the railway industry contributed EUR 295 million to the export of services, of which EUR 244 million were in the freight segment. The railway industry in Latvia is also closely related to ports and maritime transport. Together with these sectors, the impact on the Latvian economy amounted to EUR 624 million in 2019.



Being one of the largest employers in the country, SJSC "Latvijas dzelzceļš" has an indirect impact on the trade and services sector. In particular, at the level of the Group's dominant company, over 6000 people are employed; whereas at the level of the whole Group, over 9000 people are employed. Employees receive monthly remuneration to meet their daily needs. Thus, there is a positive impact on several sectors.

An indirect economic impact also results from the payments (EUR 20.4 million in 2019) to the State budget in the form of social security contributions. This money, together with other taxes, form the budget of other sectors (such as medicine, education, and defence).

The impact also results from the average remuneration of the company, which was on average EUR 1211.2 (gross) in 2019, while overall in Latvia, the average remuneration was EUR 1076 before taxes (gross). Consequently, the average amount of remuneration paid by LDz in 2019 was by EUR 135 (11.1%) higher than in the country as a whole.

There is another very important impact on the mobility of the population – maintaining the railway infrastructure throughout the country. The population has the opportunity to commute from one region and city to another for both work and tourism purposes. Consequently, a positive impact results on the employment as well as on the tourism sector. According to the statistical data, in recent years, railway transport is becoming more popular in Latvia: in 2019, 18.6 million passengers were carried using the LDz infrastructure, which is up by 2.1% from 2018. In addition, the majority of them 18.4 million – were carried in domestic traffic. Most often the passengers used electric trains to commute locally, which means that the greatest mobility of the population by railway was in the Rīga and Pierīga regions. At the same time, international tourism is also being promoted. Although fewer trains are used for international tourism compared to other modes of transport, in this area there was a 3.8% increase in 2019 compared to 2018.

In the implementation of various projects related to the renovation and upgrading of the infrastructure, the construction industry, i.e., suppliers of raw materials as well as the employers of the construction sector, has a positive benefit. Given that the upgrading of the infrastructure is also related to information technologies, contribution is also made to the IT sector.

# Procurement practices

LDz is a public capital company that qualifies as a public service provider, therefore procurement procedures are organised in accordance with the Law on Procurement of Public Service Providers, the Procurement Guidelines approved by the Procurement Monitoring Bureau for public service providers, as well as the procurement rules developed by the Company and the Group. LDz is responsible for the organisation, supervision and coordination of procurement procedures throughout the Group. The duty of this structural unit is to plan for purchases, collect orders, prepare and organise procurement procedures, as well as ensure the legal monitoring of processes and other functions for conformity to the laws and regulations.

When organising procurement procedures, respecting the principles of transparency and openness, as well as to ensure compliance with anti-corruption practices is key, thus proactively preventing the possibility of applicants with questionable reputation taking part in them. In organising its daily procurement activities, the Procurement Office cooperates with the Fraud Prevention division of LDz. In addition, each procurement agreement contains references to the general principles of business ethics applicable to the counterparties of LDz and the possibility of using the whistle-blower mechanism in case of doubt. In organising procurement procedures, the main principles, which LDz Procurement Office adheres to, are openness, free competition of suppliers, equal and fair treatment of suppliers, by setting the same requirements and evaluation criteria for all, as well as an effective use of resources.

Furthermore, to prevent potential internal risks related to the organisation of procurement, the categories of staff, directly or indirectly related to the organisation of procurement, undergo training and assessment on a regular basis. These are internal contractors, specification developers, organizers of procurement, members of the procurement commission, as well as the persons who draft and sign the contracts.

In 2019, LDz Procurement Office organised 328 procurement procedures in total and concluded 422 procurement contracts. By organising procurement procedures, financial savings of EUR 10.09 million have been achieved.

Given that one of LDz's values is care for the environment, this principle manifests itself not only in everyday technological processes, but also in other areas, including the procurement policy. In particular, certain procurement procedures apply so-called "green procurement", i.e., purchasing or procurement of environmentally friendly solutions with a view to minimising the harmful effects on the environment. Adhering to the "green procurement" principle, energy-efficient luminaires, bulbs and lamps are purchased for the work premises; impregnated wooden sleepers, switches and bridge beams are purchased for the restoration of track infrastructure. In addition, the technically obsolete fleet is being gradually replaced.

LDz complies with the requirements of the Law on Procurement of Public Service Providers, LDz's procurement procedures may include domestic as well as foreign suppliers.

# Anti-corruption measures

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

The Fraud Prevention Policy implemented by LDz is related to the statutory regulatory framework – The Whistle-blower's Law and the Cabinet Regulation "Regulation on the general requirements for the internal control system for prevention the risk of corruption and conflicts of interest in public person institutions". The policy is also related to the Code of Ethics of LDz Group, which defines the basic principles of professional ethics and behaviour of employees of the Group.

In order to test the knowledge of employees exposed to the risk of corruption, at the end of 2018 and beginning of 2019, these employees were required to complete a test for understanding the Fraud Prevention Policy and the Code of Ethics. The results of the test made it possible to understand the most typical mistakes made by employees in their answers, which served as the basis for making changes to the policy documents. In addition, further information on this topic was added to the Company's intranet.

On 1 May 2019, the Whistle-blower's Law came into force, aiming to promote whistleblowing in cases of violations and ensure the development of the whistle-blower mechanisms and putting them in place. According to the law, every company and institution employing over 50 people has to put in place an internal whistleblowing system. Such a mechanism existed in LDz before the law came into force and was used as an opportunity to report a potential case of corruption or fraud anonymously, confidentially or report disclosing one's identity. The functionality of the tool has been enhanced with the

adoption of the new law. It is now possible to report potential cases of fraud (corruption)/money laundering as well as submit a whistle-blower's report. In addition, in accordance with the requirements of the law, a mechanism has been developed for accepting, registration and checking the reports submitted by whistle-blowers and the necessary communication with the whistle-blower.

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

In 2019, 24 reports on possible fraud were received through one of the information channels, including LDz's intranet or website, of which five cases were examined thoroughly (information provided to the Council of LDz in one case). No whistle-blower reports were received in 2019.

At the same time, in order to ensure ethical conduct on the part of the counterparties, the Group has developed and implemented the [Principles of Business Ethics for its counterparties](#), which has been in force since 2017. This document was developed to promote the adherence to the principles of good governance and socially responsible business practices in Latvia. These basic principles are binding on each counterparty of the Group's companies.

Since March 2019, LDz Group has been implemented the information system "Sanctions", which is intended to ensure compliance with the requirements of the Law on International and national sanctions within the Group. The notifications received from the information system "Sanctions" about a counterparty being listed in the sanctions lists are analysed on a daily basis, informing the responsible employees of LDz Group about the results in certain cases. Employees are regularly advised on the companies of the Group on sanctions matters.

LDz provides equal, non-discriminatory access to its infrastructure for all railway carriers in accordance with the Railway Law.

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# ENVIRONMENTAL IMPACT

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IN RECENT DECADES, THE ISSUE OF STOPPING CLIMATE CHANGE HAS GLOBALLY BECOME INCREASINGLY URGENT. AS A RESULT OF HUMAN ECONOMIC ACTIVITY, THE VOLUME OF GREENHOUSE GASES (GHG) HAS BEEN INCREASING, RESULTING IN AN ANNUAL INCREASE IN THE GLOBAL WARMING. THIS LEAVES NEGATIVE EFFECTS ON THE CLIMATE – MELTING GLACIERS, RISING SEA LEVELS, FLOODING AND DROUGHTS IN REGIONS WHERE EXTREME WEATHER HAS NOT BEEN EXPERIENCED. ALTHOUGH THE RESULTS OF A SUCCESSFULLY IMPLEMENTED CLIMATE POLICY WILL MANIFEST THEMSELVES AFTER MANY DECADES, ACTION TOWARDS IT MUST BEGIN NOW, WHICH LDZ IS WELL AWARE OF.

Although railway is one of the most environmentally friendly modes of transport, producing eight times less carbon emissions per ton-kilometre than other modes of transport, this sector also forms a part of the impact of human activity on the environment and climate as a whole.

Passengers and freight across the territory of Latvia using mainly diesel traction, which results in GHG emissions entering the atmosphere. In Latvia, 14% of the entire railway network is electrified. In the Rīga vicinity, mainly passengers are carried, using an environmentally friendly mode of commuting. Noise results from the operation of the railway, which can have an impact on the environment and people who have been historically living near the railway, or have themselves chosen to purchase property near the railway. Being aware of the environmental and climate impact of the operation of the railway, LDz aims to reduce its negative impact, as well as has been looking for more environmentally friendly solutions in the railway sector.

Developing of an environmental management system by LDz was a key step towards reducing the impact. LDz developed it on the basis of the standard EN ISO 14001. Since 2017, LDz has been implementing a certified energy management system in accordance with the standard LVS EN ISO 50 001:2012 "Energy management systems. Requirements and guidance for use (ISO 50 001:2011)". In accordance with the requirements of the standards and demonstrating the responsibility of LDz to the environment, the Environmental Policy, the Energy Government Policy and the related Environmental and Energy Management Programme have been implemented across the whole Group. The Environmental and Energy Management Programme of SJSC "Latvijas dzelzceļš" lays down the most significant environmental aspects until 2020. LDz has identified the following most significant environmental aspects – energy efficiency, noise, historical oil product pollution and hazardous waste.

The LDz specialists responsible for the implementation and monitoring of environmental and energy management programmes carry out an annual assessment of the tasks and objectives contained in the programme and, if necessary, encourage amendments to promote a more responsible environmental action.

# Environmental impact of investment and development projects

Prior to implementing any investment project, LDz assesses its potential impact on the environment, i.e., such a requirement is part of the investment planning and control regulation of LDz Group, in place since November 2018. According to the regulation, development or investment projects must comply with the main strategic objectives of LDz, which comprise the development of environmentally friendly and efficient rail transport.

Environmental impact is assessed also on relatively small investment and development projects.



# Energy management

The energy management system of LDz was certified in 2017 according to ISO 50001:2011 standard. On 10 February 2020, according to the requirements of the standard, the certification of the energy management system of LDz was carried out repeatedly, during it no inconsistencies with requirements of the standard were identified. Certificate registration number is 10.16-54.4/01., the field of certification: services of the public railway infrastructure manager and management of real estate of SJSC "Latvijas dzelzceļš". According to the energy management system, electricity consumption (kWh), heat consumption (kW/m<sup>2</sup>) and fuel consumption (l/100km) are the largest consumers of the resources, which is regularly monitored.

The current Environment and Energy Management Programme of LDz Group is valid until 2020 (inclusive), therefore in 2020, work at the development of a new policy document will begin, expected to be developed for the period 2021-2027.

The measures of energy efficiency improvement for the buildings owned by LDz are implemented during routine or major repairs of buildings, including changing windows, doors, roofs, as well as in some cases warming walls and changing heating systems. Since 4 March 2016, the real estate development and management programme of SJSC "Latvijas dzelzceļš" effective until 2030 has been in force. With regard to energy efficiency measures, the programme provides for reducing the specific consumption of energy resources in real estate, improving the energy efficiency of real estate, as well as reducing the consumption of electricity and water during the operation and managing of real estate. The baseline for the consumption of heat supply has been set at 150 kWh/m<sup>2</sup>.

# Pollution reduction

In the field of environmental protection, pollution reduction and prevention, LDz engages in three main activities: elimination of historical pollution, monitoring of environmental quality at major railway hubs and taking additional measures aimed at reducing the sources of environmental pollution.

The environmental policy is binding on the whole LDz Group, therefore subsidiaries also are required to implement environmentally-friendly solutions in their daily activities. In 2019, the upgrading programme of the main diesel locomotives 2M62UM launched in 2014 was completed. During these years, all in all 14 two-section diesel locomotives have been upgraded.

# Noise and vibration

Noise and vibration are the key aspects identified in the Environmental and energy management policy. According to the Cabinet Regulation No. 16. "Noise Assessment and Management Procedures", in 2019, LDz developed and approved the document "Action Plan for Noise Reduction by 2023 of SJSC "Latvijas dzelzceļš". The action plan has been developed for noise reduction on the railway lines with traffic intensity of over 30 000 trains a year, which includes the areas crossed by the railway line sections Rīga Central Railway station – Torņakalns – Zaslauks and Rīga Central Railway station – Lielvārde: Rīga agglomeration, Salaspils, Stopiņi, Ikšķile, Ogre, Ķegums and Lielvārde counties.

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

An assessment of the benefits of the planned measures has been carried out in order to identify those noise reduction measures, which would bring about the greatest benefits to public health. The priority for the implementation of the planned measures is given in line with the equivalence of their costs to public health benefits. That is to say, first of all, taking such measures, the benefits of which related to the reduction of noise pollution levels will outweigh the investments necessary for the implementation of the measures, as well as subject to the priority procedures.

The construction of anti-noise walls and screens requires financial resources. Therefore, implementing these solutions requires seeking opportunities for attracting public funding, including EU funds by LDz as well as municipalities in the territories of which certain discomfort zones exist. If public funding is attracted, LDz's anti-noise measures will be implemented through a thorough assessment of synergies with ongoing and planned railway upgrading and development projects aimed at avoiding overlapping projects and unsustainable use of funds. The involvement of the relevant local authorities in a common agreement on the validity of the solutions and their implementation is also essential. In 2019, as part of routine track infrastructure maintenance works related to noise reduction, track levelling and gable installation were carried out. In the reporting year, a long track of 19 kilometres has been installed to reduce noise and vibration.



# Materials

In carrying out the repair works of the railway infrastructure, the materials of certain categories, such as sand and gravel, crushed stone, wooden and reinforced concrete sleepers are used every year. The amount of materials used depends on the amount of the budgeted and actual repairs (see page 51 for a detailed list of materials used, see).

Due to the specifics, the LDz does not use recyclable materials for the repairs of the railway infrastructure.

### Water consumption

For business consumption and for daily consumption by employees, LDz uses the water supplied by merchants from centralised water supply systems, as well as water from the extraction systems owned by the company, including boreholes. LDz has concluded 34 agreements with municipal utility companies, as well as two agreements with the Freeport of Rīga Authority to ensure water supply and wastewater management.

Owing to efficient management, the amount of water consumed in 2019 decreased compared to 2018, i.e., it reached 100 597 cubic meters, while the amount of the generated waste water was 104 280 cubic meters.

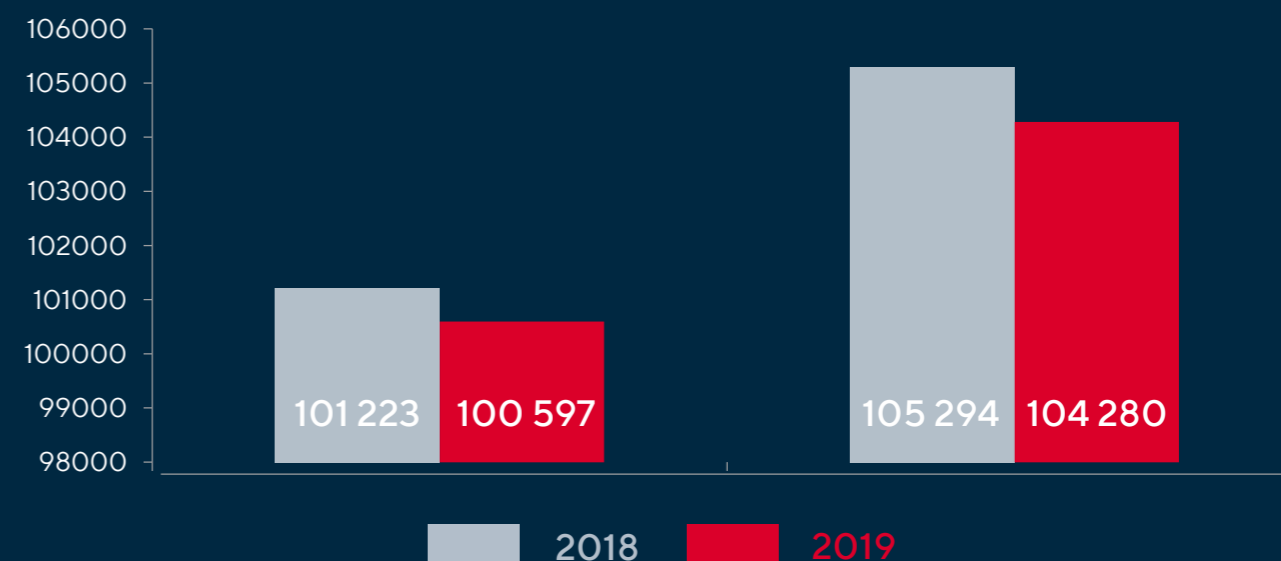
## Water consumption, m<sup>3</sup>



volume of consumed water



volume of wastewater



# Energy consumption

One of the prerequisites for the sustainable development of companies and the national economy as a whole is the improvement of energy efficiency. LDz is among those companies that are required by the Law on Energy Efficiency to implement at least three energy efficiency improvement methods with the highest-rated energy savings or the highest economic return. With the aim of becoming more energy efficient, LDz aims to reduce both electricity and thermal energy volumes. In this field, certain tasks have been defined at the level of management of the Company, and employees undergo training, raising their awareness of the ways to use available energy resources responsibly.

## Thermal energy

Taking the measures related to the insulation of buildings owned by LDz and upgrading of heating systems, in the heating season of 2018/2019, it has been possible to achieve a decrease in heat consumption compared the indicators of the heating season 2017/2018. Total heat consumption in the heating season 2018/2019 was 139 kWh per square meter, which was down by 1.75% from the previous season, thus reaching the set target of 150 kWh/m<sup>2</sup>. Although the overall indicators have achieved this goal, only the Rīga region corresponds to it, while the Jelgava and Daugavpils regions are expected to improve their indicators.

Seq. No.	Region	Heating season			
		2015/2016.	2016/2017.	2017/2018.	2018/2019.
1.	Rīga region	162,2	132,00	129,41	123,62
2.	Jelgava region	146,9	168,00	160,42	155,62
3.	Daugavpils region	168,7	167,50	156,38	163,46
<b>Total LDz</b>		<b>158,0</b>	<b>148,5</b>	<b>141,5</b>	<b>136,06</b>

302-1  
302-2  
302-4

## Electricity consumption

LDz uses electricity to carry out its business activity (production processes, provision of indoor and outdoor lighting, operating office electrical appliances). Reducing electricity consumption in the field of real estate operation and management is one of the tasks laid down in the Environmental and Energy Management Programme. In 2019, electricity consumption was 37 879.1 kilowatt hours (kWh) for railway needs, operational and capital expenditure aimed at the infrastructure development, which was down by 4.5% from 2018.

In 2019, the LDz Training Centre in Rīga and the Daugavpils branch organised two training workshops on energy management matters. In addition, information on the methods of responsible use of energy resources available to them in everyday life (use of office equipment, indoor lighting, operation of air conditioners and provision of heat in the premises) regularly published on the Company's intranet.

## Upgrading of locomotives

Locomotives consume vast energy resources, so their upgrading is the most effective way of extending their useful life and increase energy efficiency. However, the upgrading of manoeuvre locomotives requires sizeable financial resources. Since 2019, the fuel consumption of shunting locomotives has been excluded from the Environment and Energy Management Programme because they have been sold to the subsidiary of LDz Ltd. "LDZ CARGO". Concurrently, the issue of more energy-efficient locomotives remains on the agenda at the level of the whole group. This is proved by the upgrading programme of the main diesel locomotives 2M62UM carried out by Ltd. "LDZ ritošā sastāva serviss", which ended in 2019. Locomotives have become more efficient after their upgrading, while the amount of emissions and oil consumption have decreased.



**53 497 259 kWh**  
electricity distribution services provided to other users in 2019

**40 132 772 kWh**  
to users external to the Group

**6 055 400 kWh**  
to household users

**7 309 047 kWh**  
to the subsidiaries of LDz

**18 290 789 kWh**  
electricity trade service to external users in 2019

**4 926 302 kWh**  
to users external to the Group

**6 055 440 kWh**  
to household users

**7 309 047 kWh**  
to the subsidiaries of LDz

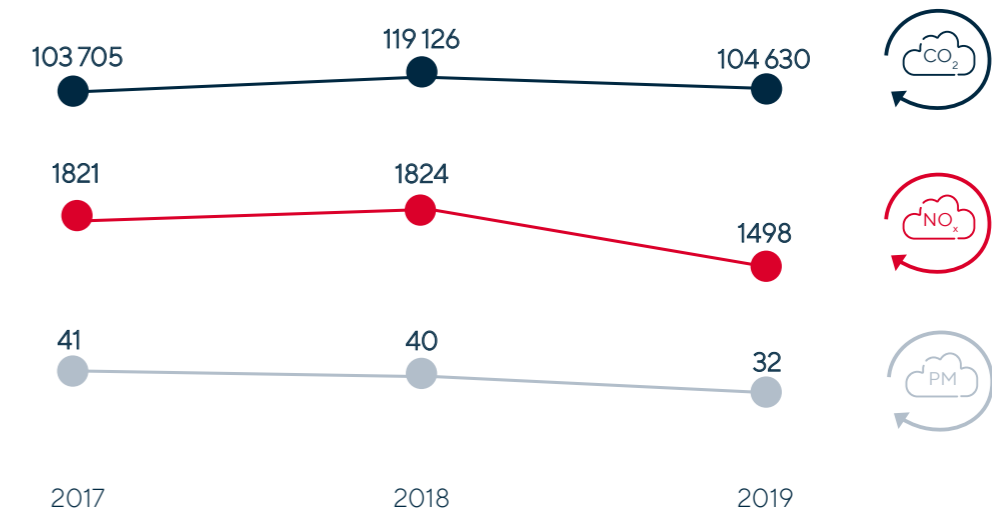
# Preserving biodiversity

Latvia is unique in terms of its natural diversity and valuable habitats, which must be taken care of so that they do not disappear as a result of the human economic activity. A number of such valuable habitats held as the property of LDz are at risk of extinction and for the conservation of which the European Union is particularly responsible, given the proportion of their natural distribution in the EU. As a result of the project "Census of the nature" implemented by the Nature Conservation Authority, it has been established that LDz owns habitats at Ropaži, Valka, Ventspils county and Ventspils city. Information on the data collected during the Nature Census is available in the natural data management system OZOLS, which is compatible with the State Unified Geospatial Information Portal.

For its part, LDz regularly ensures lawn mowing and biomass collection in these habitats, while in places where the territory overlaps with the adjacent properties, the method recommended by experts is implemented - grazing.

# Emissions

Emissions p.a., in tons



Greenhouse gases (GHGs) are one of the biggest threats to the global climate. The effects of pollution caused by this human economic activity are felt globally, and according to climate experts unless no action is taken, the consequences will be increasingly intense, with negative effects on the economy as well as the community as a whole.

According to the Latvian National Inventory Report for 1990–2016, rail transport accounts for only 6.9% of the total amount of GHG emissions in the transport sector, however, any amount of emissions has a negative impact on the environment, so responsible and sustainable companies must contribute to reduction in emissions.

One of the solutions to reduce emissions is the upgrading of locomotives and the electrification of lines. Between 2014 and 2019, 14 main diesel locomotives 2M62UM were upgraded and gradually put in operation. The upgraded locomotives are more efficient and economical, resulting in a reduction in both fuel consumption per 100 kilometres and emissions.

At the same time, it should be pointed out that emissions are proportionally dependent on traffic volumes, which decreased by 15.8% in 2019 compared to 2018.

# Waste management and groundwater monitoring

The railway infrastructure management activities result in various types of waste that are categorised as follows:

1. municipal waste in stations, offices and other objects related to the Company's activity, which, depending on the location of the objects, is transferred to the waste management company authorised to do business in the territory of the respective municipality. The volume of transferred municipal waste is not accounted for separately, but it is specified in the contracts;
2. disposable or recyclable waste resulting from office activities – household appliances units, computer equipment, waste paper;
3. waste and/or pollution generated by the Company's business activities (including soil contamination and waste generated in the repair and construction process).

Although on a daily basis, much of the information is circulated electronically, various printed materials are used. Often these materials represent a large part of the total amount of household waste. However, used paper can have a second life – it is a good raw material for the production of recyclable paper, which significantly reduces the amount of waste entering landfills. Used paper is accepted free of charge by Ltd. "Līgatnes papīrs", with which LDz has concluded a contract for the transfer of waste paper. In 2019, 11 980 kilograms of used paper were transferred for recycling.

The business activity of LDz also results in hazardous waste. Contracts have been concluded on collection and disposal with merchants specialising in the field.

In 2019, the LDz Information Technology Centre responsible for the office equipment disposed of seven tonnes of worn-out equipment, including monitors, printers, system units, batteries and accumulators for disposal. In 2019, the replacement of fluorescent lamps with LED lighting continued. As a result, 2016 bulbs were disposed of. Similarly, 2.52 tonnes of car tyres and 8660 kilograms of asbestos-containing materials were disposed of. In 2019, there has been a slight decrease in the amount of generated and treated wastewater:

## Volume of produced and cleaned waste water, m<sup>3</sup>

2016	105 259
2017	103 121
2018	105 294
2019	104 280

Soil contamination with oil products is an environmental aspect of LDz, which has formed historically, so-called historical pollution, and is a problem in certain places, mainly such as fuel and heating fuel bases and locomotive staffing points, wagon technical maintenance points, parking areas for diesel locomotives and diesel train wagons, places at stations (parking or separate tracks) where petroleum products are handled or diesel locomotives standing before the exit signals. After the emergence of LDz Group, the historically polluted sites and potentially contaminated sites are owned and possessed by various companies of the Group.

Soil and groundwater are monitored at the stations where the impact thereof on the environment and directly on the soil and groundwater is the greatest. Such supervision is carried out in Ventspils, Rīga, Jelgava, Daugavpils, Krustpils, Rēzekne and Mangalji. In 2019, the soil and groundwater monitoring network was established in the territories of Gulbene, Pļavinas and Torņakalns stations. Groundwater monitoring wells are installed in the border station with Belarus "Indra", as well as in the above mentioned Krauja, where remediation works are carried out. In 2019, the number of groundwater monitoring wells was increased to 107. In the reporting year, the results of monitoring of soil and groundwater quality showed a slow but steady improvement in soil and groundwater quality, which means that the content of oil products tends to decrease.

Due to the business activity of LDz, the main cause of such pollution is the constant insignificant leakage (dripping, soaking) of oil products from the rolling stock. Currently, 165 locomotive parking places are identified that are at risk of contamination (including the places where dangerous goods are pumped from a damaged tank into an undamaged). 143 of them are at high risk, posing a threat to the environment.

In 2019, work was also carried on limiting the historic pollution with oil products, according to the list of polluted sites approved in 2018:

- Saldus – 50 tons of contaminated soil was collected and disposed of;
- Skrunda – maintenance works on the groundwater monitoring network were carried out and laboratory analyses of samples have been carried out;
- Višķi – a procurement procedure for Stage II works aimed to collect and dispose of pollution of petroleum products has been announced. The submitted price bids were significantly higher than the contract price and therefore the procurement was terminated;
- Krauja – work aimed to eliminate the consequences of the crash were continued. In 2019, laboratory tests of groundwater were carried out, and one ton of oil products and water emulsion has been collected using vacuum pumping.

# Activity in accordance with the laws and regulations governing environmental protection

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

In connection with the polluting activity permits (category B) granted to LDz in 2019, a plan for the survey of permits for polluting activities (category B) was developed, within the scope of which the sites of stations and parks were surveyed, ascertaining the compliance thereof with the terms and conditions of the permits, consistency with the actual situation and the existence and quality of the relevant documents. Based on this survey, at the beginning of 2020, the results of the survey of the polluting activities (category B) carried out in 2019 were reviewed, summarising the main observations and conclusions, as well as further actions aimed at improving the actual situation.

In 2019, a review of five B permits was carried out: Rēzekne II Park Station and Rēzekne II A Park, Ventspils Station, Jelgava Station, Bolderāja Station "Bolderāja I Park" and Mangaļi Station.



# SOCIAL IMPACT

# 07

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Given the scope, regional coverage and employment of LDz, its social impact can be assessed in three essential aspects: LDz as one of the country's largest employers, LDz as a maintainer of the passenger infrastructure and LDz as a shaper of mobility and quality living environment.

Employing over 6000 people in the structures of SJSC "Latvijas dzelzceļš" and over 9000 employees within the whole Group, LDz is considered an important player in promoting the national employment, creating a direct impact on a large part of society.

In Latvia, LDz manages a network of public use railway infrastructure, which is located throughout the territory of the country, connecting various regions and cities. Thus, LDz is responsible for the infrastructure that ensures the mobility of the population, promoting their economic activity, education and tourism opportunities. Concurrently, the rail infrastructure has a negative effect. Every year, a number of people suffer injuries or die in collisions with a train, which also has a negative impact on the environment. Being aware of these consequences, the Company seeks to mitigate the negative side effects and contributes to the development of local communities.

Managing the railway infrastructure also implies an obligation to take care of the maintenance of passenger infrastructure to an adequate quality standard, upgrading thereof, implementation of safety solutions and the provision of accessibility to all groups of the community. In the field of freight transport, LDz is obliged to ensure quality customer service, transparency of services, data protection, as well as digitization and efficiency of processes.

# Work environment

Being one of the largest employers in Latvia, at the Group level and at the level of the Group's dominant company, LDz employs people in the whole territory of the country, providing employment opportunities for people of different ages, ethnicities and genders. Given these three factors, LDz is responsible for ensuring that social guarantees are provided to all employees, for attracting new specialists and changing generations, taking care that seniors are motivated to pass on their accumulated knowledge to their new peers. Professional employees are also important for the further development of the Company, therefore regular investments in the growth of employees, acquiring the necessary skills in connection with the use of modern technologies in everyday processes is necessary. Equally important is the motivation of employees to become more versatile and flexible, to develop different skills not limited only to their profession.

The ageing population is one of the topical issues in Latvia. At LDz, too, a large number of employees are aged over 40. The average age of the Company's employees is 47.6 years. The problem of generational replacement in the railway sector is a topical issue only in Latvia, but globally.

The Company has a significant impact on promoting the prosperity of the regions, since the maintenance and management of railway infrastructure employs people in the whole territory of Latvia. Although most employees work in Rīga and Rīga region, an important role is played by the promotion of employment in Latgale and Zemgale regions, where 30% and 17% of LDz employees are employed, respectively. In 2019, 38% of the employees worked in Rīga and its vicinity, while 4% of the total number of LDz employees were employed in Vidzeme.

In pursuing the work environment policy, LDz has three main directions: the creation of stable, predictable and supportive work environment, the improvement of professional qualifications of the new specialists and the involvement of employees in the planning of development of the Company.

In order to ensure a stable, predictable and supportive working environment, LDz cooperates with the Latvian Railwaymen and Traffic Industry Trade Union. LDz Group has concluded a collective bargaining agreement with it, the terms of which apply to every employee regardless of their membership in the union. The collective bargaining agreement provides for a wide range of social guarantees for employees, as well as



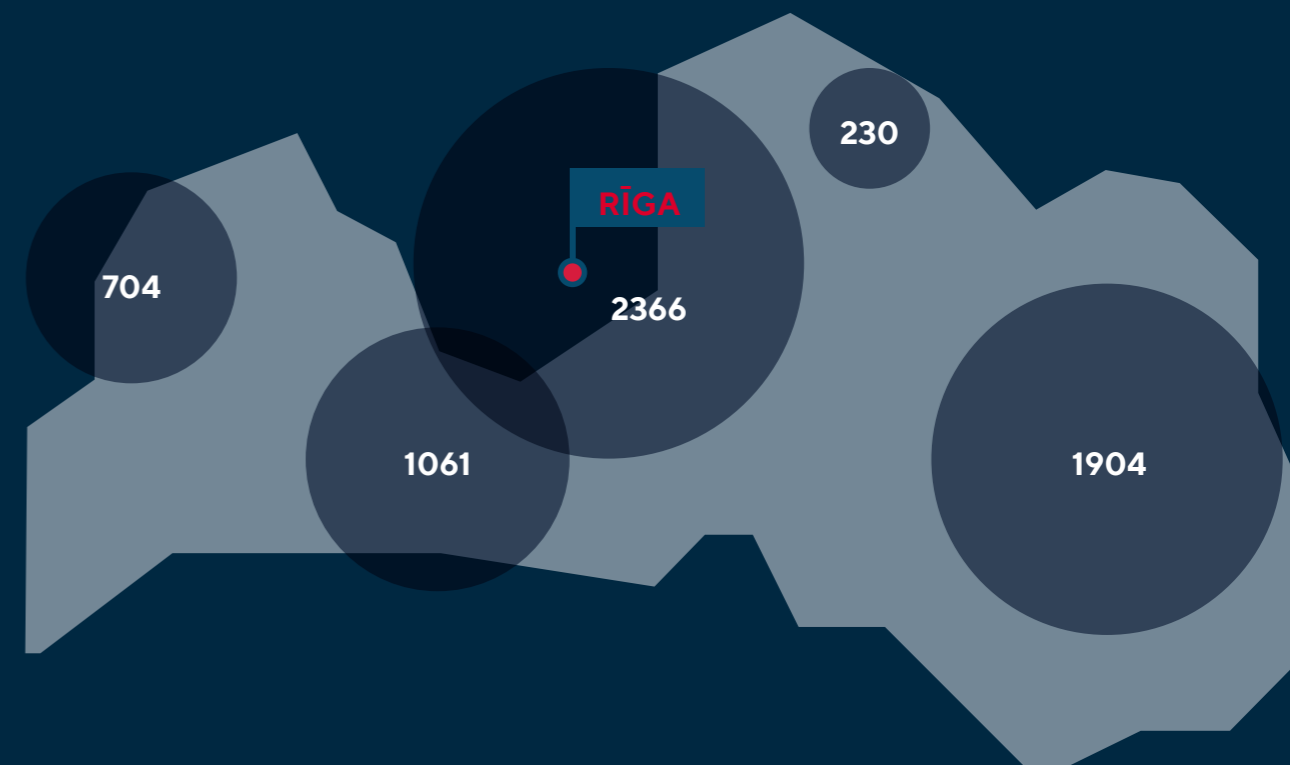
various measures that improve the work environment provided by the employer and promote the well-being and motivation of the worker. In 2019, amendments to the collective bargaining agreement came into force with additional measures improving the working environment.

New specialists are attracted and raising of the qualification of the existing employees is carried out in cooperation with higher and vocational education establishments, which prepare the future engineering specialists. Long-term cooperation partners in this field are Rīga Technical University, as well as vocational education establishments in Rīga and Daugavpils. LDz Training Centre plays a major role in improving the competence of the existing employees. For pursuing career development opportunities at the Group level, the Centre for Career Management and Personnel Selection has been operating since 2018, charged with the task of ensuring continuous professional development of employees, as well as to organise the employee succession processes and recruitment of new employees.

The railway industry in Latvia has had a history of nearly 160 years. Undeniably, the Company's internal culture and communication have also been influenced by political ideologies, including vertical or hierarchical working relationships prevailing in the Soviet era. However, by recognising every employee as an asset, which may contribute to the growth of the Company, LDz is increasingly focusing on the involvement of employees in improving everyday processes, encouraging employees to provide their proposals and ideas.



## Employee distribution by regions 2019



**6265**

number of employees  
at 31 December 2019

**46,7 years**

average age  
of employees

### Labour turnover

In 2019, the average number of employees of the Company was 6345 people (the number of employees on the last date of each month divided by 12). In recent years, the number of employees has tended to decline due to the results of the assessment of functions and the effectiveness of various technological processes, the restructuration carried out, as well as the increasing integration of modern technologies into everyday processes. As a result, there is no need for such a large number of labour as entrusting certain processes to technology is rendered possible. At the end of the year, the Company employed 6265 people.



530

new  
hires

53

retired  
employees

In certain areas of activity of the Company, new specialists are hired annually, i.e., such who have mastered modern technologies, are familiar with the latest trends, thus contributing to the implementation of the goals set by LDz, i.e., to become an advanced and effective company. In 2019, 530 new employees started employment at LDz (8.46% of the total number of employees). Along with attracting young professionals, the issue faced by the Company is succession planning, being aware that the Company has a relatively large number of employees of pre-retirement and retirement age. To promote the succession of generations already in 2014, the Regulation on ensuring the succession of employees of SJSC "Latvijas dzelzceļš" was approved, which provides for motivating mechanisms for seniors to pass on their knowledge accumulated over the years to new employees in order to subsequently retire. In 2019, 53 of the Company's employees retired, which was the smallest number of retired employees in LDz in the past four years. Since 2014, the proportion of employees of retirement age has gradually decreased, so in 2019, there was a relatively small number of employees of this age group who terminated their employment relationship with LDz.

One of the tasks of the Centre for Career Management and Personnel Selection is attracting young professionals through organizing and engaging them in career selection activities arranged for by other organizations. In 2019, 47 students from various educational establishments took part in the "Shadow day" of LDz employees organised by Junior Achievement Latvia. In turn, 167 students of primary school age took part in the "Open Doors Week" tours.



214

school pupils engaged in  
career days

### Social guarantees

On 1 February 2017, the collective bargaining agreement was concluded between LDz Group and the Latvian Railwaymen and Traffic Trade Union came into force, providing for additional social guarantees and benefits in addition to the provisions set out in the Labour Law. Since the time the agreement came into force, it has been supplemented and improved several times. In the spring of 2019, amendments to the collective bargaining agreement came into force, providing for improvements in the day-to-day lives of employees.

Simultaneously, agreement on life and health insurance of employees has been signed. This insurance covers severe illnesses. In addition, in co-operation with the trade union, health insurance is available to the employees and their relatives, topped by other additional benefits aimed at improving health of the employees.

At present, the collective bargaining agreement provides for the following guarantees for every employee of the Company:

- Additional payment for the work performed by the employee in addition to his direct duties, for training apprentices, for work under special circumstances (e.g., high noise, vibration, work at the height, etc.);
- Paid additional annual leave days for a certain number of years of employment with the Company (5, 10 and 15 years, respectively);
- For work under special conditions and accidents additional leave days are granted to employees who have participated in the liquidation of the consequences of the Chernobyl nuclear power plant accident or performed duties of soldiers in the Afghan war or other military conflicts within the framework of compulsory military service;
- Additional paid annual leave days on the occasion of the employee's 50th or 60th birthday, in case of marriage of the employee or his children, in case of graduation of an educational establishment, on the first day of the school year (for employees whose children start school in grades 1-4), as well as in case of death of the employee's spouse, parents or children. A monthly additional day of rest is granted to employees who have two or more children under 12 years old;

- An allowance for the purchase of school supplies at the beginning of the school year for children of LDz employees – school pupils of grades 1 to 4;
- Support to the employee or his relatives due to the consequences of accidents or their consequences;
- Bearing of the costs of moving for the employee and his family members and, if necessary, compensation up to a certain limit for the purchase of a place of residence, if the employee is transferred to another city, parish, region in the interests of the Company.

### Use of parental leave

According to statutory provisions, in connection with the birth of a child, employees can use a parental leave, and it can be used by both young mothers and fathers. In 2019, 46 employees, including 16 men and 30 women, were on a parental leave. Conversely, 65 employees have resumed work after the parental leave period.



46

employees on parental leave

65

employees returned from parental leave

### Communication with employees

Informing employees about the most important developments in the Company, news in the industry, as well as various opportunities for employees, is one of the factors contributing to attracting employees. Daily communication with employees LDz is provided through various channels. The oldest of them is the magazine "Latvijas Dzelzceļnieks", which has been published since 1992. Initially, the publication was in the form of a weekly newspaper. In 2019, it came out once a month. Since 2014, the Company has rolled out intranet or intranet, where not only current information about developments in the company and industry is available, but also a catalogue of employee contacts, documents necessary for work, regulatory enactments, application forms, salary calculator, and other necessary information. The intranet content is also dubbed on the employee portal, which is also available outside the company – one can log in using their online banking data.



In the spring of 2019, "RailwayTV" was launched, its task being to provide information on the latest developments in the Group, answer the questions of interest to employees - to provide an information channel that delivers all the information without intermediaries. "Railway TV" is available in the intranet and on screens arranged in places where the flow of people occurs. In turn, at the end of the year, a new communication channel was created - the Info Page, which is issued once a week. By placing the Info Page on message boards in over 300 places with a busy flow of employees throughout Latvia, prompt and direct information is provided to every employee. At the same time, employees are encouraged to engage themselves in the formation of its content, reporting on current developments, sending their observations, as well as suggestions to the Internal Communication Division, which is responsible for the dissemination of information at LDz as well as the Group as a whole.

# Occupational safety

In the field of occupational safety, LDz Group adheres to the statutory requirements as well as to the Occupational Safety Policy, designed to ensure a work environment that is safe for the life and health of employees. The implementation of occupational safety policy and the general directions of action are laid down by the Technical Inspectorate of LDz, which coordinates the departments, carries out their supervision and control, as well as provides recommendations and guidance for the improvement of occupational safety.

Work in the railway sector is associated with increased risk factors, in particular for employees whose daily duties are related to activities in the railway track area. Therefore, in order to avoid potential risks to health and life, strictly following safe working procedures, monitoring the movement of rolling stock and use high visibility protective clothing is a requirement. The statutory framework provides that LDz professions related to traction, maintenance of railway infrastructure, maintenance of rolling stock, management of train movements are subject to mandatory health check-ups. As a result, there are increased requirements for health condition and training for the staff.

It is the duty of every employee to comply with the requirements of the statutory and internal regulatory documents regarding occupational safety. According to the Occupational Safety Training System, every new hire is trained and instructed on occupational safety requirements when starting work at LDz, and must demonstrate his commitment to compliance with them by their signature. Employees who master specific railway professions get theoretical and practical on-the-job training at the workplace. Before they are issued with a permit to work independently, their knowledge of occupational safety and in the field of technical operation of the railway is tested. LDz Training Center organises training on a regular basis.

The Occupational Safety Department of the LDz Technical Inspectorate and occupational safety specialists of the structural units organize both planned and ad-hoc

inspections of the work environment on a regular basis, the purpose of which is to verify the use of safe working methods and compliance of the work environment with safety requirements. In 2019, the specialists of the Technical Inspectorate and the occupational safety staff of other structural units carried out 726 inspections at workplaces, 203 of which were ad-hoc inspections. All employees have familiarised themselves with the results of the assessment of the risk factors for the work environment.

Owing to the specificity of the work, occupational diseases are identified annually for employees of LDz. Workers in certain professions associated with heavy physical manual labour, lifting weights, moving, as well as forced labour postures are exposed to the risk. Most often, occupational diseases are diagnosed for track fitters, diesel locomotive drivers and wagon repairers - repairers. The most common diagnosis of occupational diseases is spondylosis, which is a chronic deforming disease of the spine, most often in the lumbar region. 20 occupational disease diagnoses were confirmed in 2019, not changing significantly on a yearly basis.

Given the circumstances of increased danger, LDz employees may get injuries during the performance of their job duties. 11 accidents were investigated in 2019, two of which have had severe consequences.

## Work environment inspections carried out in LDz structural units in 2019:

Inspections	Technical inspection	Occupational safety specialists in the structural unit	
		Scheduled	Without prior notice
Road distance	21	83	45
Signalling and communication distance	6	129	23
Regional management unit	12	229	120
Movement control distance	4	11	4
Wagon maintenance distance	6	22	11

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The analysis of the circumstances and causes of accidents in 2019 resulted in the conclusion that in nine cases (82% of the total number of accidents) various types of falls became an injury factor for employees. Employees fall from the folding ladders, while moving through the workplace area, as a result of awkward movements or tripped over an object. Most of the falls occurred in winter conditions, when ice, snow and rain significantly increase the risk of slipping. Non-compliance with the regulatory documentation and technological processes of occupational safety represent other causes of accidents.

In the reporting period, losses due to accidents for LDz as an employer amounted to EUR 3286, while the total sick leave days of employees amounted to 493 days. The statutory legislation lays down an obligation for the employer to compensate employees for a sickness leave of not less than 80% of the average monthly earnings of the employee, starting from the first day of sick leave for work for the first 10 calendar days.

**Accidents at the workplace in 2015 - 2019:**

		2015	2016	2017	2018	2019
Number of accidents		10	7	4	7	11
Gender of employees	women	4	3	1	1	1
	men	6	4	3	6	10
Age of employees	20-30	2	0	0	0	2
	31-40	1	2	2	3	3
	41-50	1	3	1	3	3
	51-60	2	1	1	1	1
	over 60	4	1	0	0	2



# Training and education

ATTRACTING QUALIFIED EMPLOYEES AND PROMOTING THE PROFESSIONAL DEVELOPMENT OF THE EXISTING EMPLOYEES THROUGH CONTINUOUS IMPROVEMENT OF THEIR KNOWLEDGE IN THEIR DIRECT FIELD OF ACTIVITY, AND MASTERING NEW SKILLS ENABLING THEM TO IMPROVE THEIR PERFORMANCE AS WELL AS PURSUE THEIR HORIZONTAL CAREER AT THE COMPANY, IS ONE OF THE CORNERSTONES OF HUMAN RESOURCE DEVELOPMENT OF LDZ.

404-1  
404-2  
404-3

LDz has long been cooperating with Latvian educational establishments - Rīga Technical University (RTU), Rīga and Daugavpils vocational training competence centres - vocational schools. The LDz Training Centre is also being developed, which already provides various educational programmes for LDz's employees as well as external customers of the industry.

In cooperation with RTU, the Bachelor of Professional Higher Education programme "Railway Transport" was supplemented with new subjects in the field of logistics. A new specialization in the programme "Railway Transport Logistics" was created.

In total, 453 employees attended training courses organised by educational establishments in 2019 raising their professional qualification.

- In 2019, at the Transport Institute of the Mechanical Science, Transport and Aeronautics Faculty of RTU, using the part-time day studies format, 41 employees studied and 15 employees graduated from the study programme "Railway electrical systems", 22 employees studied and 15 employees graduated from the study programme "Railway Transport", and 4 employees started their studies in the program "Occupational Safety".
- In 2019, 13 employees of the Vocational Training Competency Centre "Rīga State Technical College" received the qualification of a railway track network technician under the vocational secondary education programme "Railway transport".
- 13 employees acquired the qualification of a railway track network technician in the vocational secondary education programme "Railway transport" run at the Vocational Training Competence Centre "Daugavpils tehnikums".
- In 2019, in cooperation with the Transport Institute of the Mechanical Science, Transport and Aeronautics Faculty of RTU, Rīga and Daugavpils technical vocational schools, training practice was organised for 212 students and students of these educational establishments
- 17 LDz employees developed their professional qualifications in the training courses held at the Belarus State Transport Institute.
- The competition for mastering and enhancing practical skills for LDz, organised in cooperation with the foundation "Rīga Technical University Development Fund", has now become a tradition. In 2019, railway specialties students as well as students from RTU Transport Institute, Rīga and Daugavpils vocational schools took part in it. The scholarship contest was organised in two rounds. In the first round, 30 scholarships worth EUR 285 were available for mastering practical skills in the period from 15 July to 25 August. In the second round, students were able to qualify for 24 monthly incentive grants paid in the period from September 2019 to June 2020. The amount of these scholarships was EUR 95 and EUR 110 depending on the study programme. In 2019, the competition for mastering practical skills and promoting scholarships for the students of RTU information technology specialties was organised for the first time.

### Activities of the LDz Training Centre

In 2019, the vocational continuing education establishment "LDz Training Centre" (LDz Training Centre) continued to develop. With a view to more effectively organizing a qualitative training process, ensuring maintaining and improvement of professional competences of railway industry employees and increasing the level of professional education, LDz Training Centre has also paid considerable attention to the professional development of its own teaching staff. Therefore, purposeful work has been carried out on improving the quality of education, including improving the quality of the teaching environment and educational process, as well as improving the professional competences of the teachers.

In the first half of 2019, in cooperation with the Rēzekne Academy of Technology, 11 teachers of the Training Centre - LDz specialists - underwent a 72-hour professional competence improvement training programme, obtaining the certificate "Organization and management of the pedagogical process".

In cooperation with the State Education Content Centre, the staff and teachers of LDz Training Centre engaged in the project of the European Social Fund "Effective management of vocational education institutions and improvement of staff competence", which was aimed at ensuring an effective management of vocational education institutions and the development of professional competence of the staff involved. Within the scope of this project, the employees of LDz Training Centre improved their knowledge in the 32-hour professional competence development programme "Andragogija - the principles and practices of adult education", gaining a broader understanding of the needs of adult education, determination of their motivation, as well as creating a positive learning environment.

Trained railway industries employees at LDz Training Centre in 2019:

**5534**  
total number  
of students

including

**5144**  
employees of LDz

**354**  
employees of the  
subsidiaries of  
the Group

**57**  
external  
customers

By improving the training offer, in cooperation with the specialists of LDz Road network, a 160-hour professional development education programme "Maintenance and repairing of tracks" was developed; it is intended for purposeful, qualitative and effective improvement of the knowledge of road network workers, improving their qualifications and promoting their career growth. The relevance of the education programme has been evidenced by the licence issued by the Education Quality Service (licence ID P\_1400).

At the end of the year, the process of implementation and accreditation of the professional development education program "General level knowledge programme for employees responsible for the civil safeguarding of the object" (160 academic hours) was launched. This educational programme was acquired by eight LDz and six employees of the dependent companies of the Latvijas dzelzceļš Group. The implementation of the programme was highly appreciated by the State Service of Education Quality – including the performance of the teaching staff, the material resources and the highly developed learning environment. The programme of vocational development education was accredited for the maximum term, i.e., six years.

In order to ensure the safety of railway traffic, maintain and improve the technical operational knowledge of railway specialists, in 2019, the LDz Training Centre along with the implementation and creation of vocational development education programmes and in cooperation with the Technical Inspectorate, developed, tested and improved the database of the issues of the technical operation of the railway intended for training and examination of the railway specialists of SJSC "Latvijas dzelzceļš". The recurring testing of the railway specialists in accordance with the requirements laid down in the Cabinet Regulation No. 360 "Regulation on Railway Specialists" of 2 May 2006 is carried out; the functionality of the database of questions of renewal of the qualification of the first class wagon repairers (repairers) in the system "Moodle" has been established and ensured.

In 2019, a priority of LDz Training Centre was training on ensuring train traffic safety and creating and maintaining a safe work environment. 4539 participants have undergone training in the areas "Work environment and safety" and "Rules for the technical operation of railways", representing 82% of all trainees. LDz Training Centre continuously pays special attention to the education of employees and the development and improvement of educational programmes in this field.

With a view to increasing work efficiency of the employees working with large data arrays, collecting and analysing data, as well as provide a more in-depth processing of data at expert level, in 2019, training aimed at improving knowledge and skills in information processing technologies was arranged.

In order to provide LDz employees with flexible, available to all and personalised training opportunities as well as opportunities to acquire, maintain, improve and evaluate knowledge and skills remotely, in 2020, LDz Training Centre will continue to improve its e-learning environment and implement effective digital tools.

#### **LDz Academy of Managers**

In 2019, the "LDz Academy of Managers" programme aimed at middle-level managers was also continued. For the acquired knowledge to be effective and immediately applicable in practice, reviewing and updating of the content of this educational programme was carried out reviewed and updated. The programme is focused on the current developments in the Group, alignment of corporate and individual goals, with an increased emphasis on the change and conflict management. Lecturers with extensive practical experience and recognition from the academic sector are engaged. In 2019, 18 employees graduated from the "Academy of Managers".

From 2013 to 2019, 98 participants have been trained in the middle managers education programme – they are employees of both LDz and its dependent companies.





### Career assessment and development activities

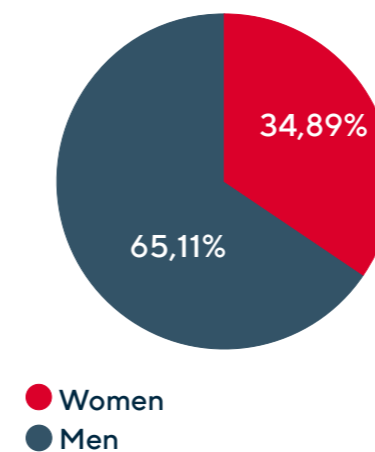
The employees of LDz have ample opportunities to build their careers both within the dominant Company and the whole Group by raising the category of their existing job position or by changing jobs. During 2019, 32 career/development interviews were held, and, accordingly, transfers of employees between the companies of the Group were affected. In addition, 25 trainee development interviews were organised and three trainees conducted career growth interviews, who, demonstrating their competence and interest, were recruited to the LDz Information Technology Centre (ITC).

Information technologies are playing an increasingly important role in ensuring the day-to-day processes of every company. It is therefore important both to attract new professionals in this field and to promote the professional development of the existing employees. For this reason, the ITC Career Scheme was established in 2019 so that managers and ITC employees had the possibility of aligning their work performance and competences with the Company's capabilities and wishes, as well as for new employees to assess their knowledge, competence, skills and successfully plan their own career development either in vertical or horizontal direction. Concurrently, a presentation of the ITC career growth for new and existing employees has been created demonstrating the career development potential throughout the ITC and in specific parts thereof, specifying the requirements for each job position.

In 2020, LDz HR Directorate plans to organise professional improvement activities for the teaching staff of Riga and Daugavpils vocational school, as well as together with RTU Transport Institute to continue working on the development of a new study programme.

# Diversity management and equal opportunities

Employee analysis by  
gender, 2019



In its activities LDz applies equal treatment for gender, age or regional dispersion. All employees (including senior and middle managers) are employed based on their professional knowledge, skills and experience.

In 2019, LDz employed 2186 women (34.89% of the total number of employees) and 4079 men (65.1% of the total number of employees). LDz is one of the European railway companies employing such a high share of women. 14 females (0.64% of the total female staff) and 46 men (1.1% of the total male staff) had senior management positions. In mid-level management, the share of women in the whole Company was 2.3%: 51 women and 60 men (1.5% of the total male staff).

LDz has put in place a single remuneration system based on fair and objective criteria. All positions are classified according to a common methodology and the amount of salary is determined depending on the severity, intensity, complexity of the work to be performed and the amount of responsibility related to competence of the particular job position, education qualifying for the job position, work experience in the relevant field, individual abilities, qualifications, skills and work performance.

# Responsibility towards the general public

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

413-1  
413-2  
LDZ-2  
414-1  
415-1

LDz represents an industry that plays an important role in everyday life. One of the Company's values is responsibility – towards the environment and for the quality of the life of the community, as well as engaging in the activities of local communities, supporting areas and events of importance to society. As a railway infrastructure manager, LDz has a responsibility for public safety, which means not only an obligation to improve railway level crossing options, but also to educate the public in the field of safety.

### Engaging local communities

Providing support to local communities is governed by the Gifts (Donations) policy of LDz Group, in which the key directions of activity for the community and development of the country are defined, such as support for education and science, health promotion, social assistance and environmental protection projects. Support is not provided to organizations with tax arrears and individuals.

In 2019, five organisations operating in the field of education and social protection were supported financially by the Group. Information about the supported projects and organizations receiving support is available on [LDz website](#). The donations received by LDz have also been reported on the website. In 2019, the Latvian Railway History Museum received 124 items as gifts.

### Impact on the local community

Being one of the largest companies and at the same time, the manager of the public railway infrastructure in Latvia, LDz has a direct impact on the local community. In Latvia, LDz employs over 6000 people, and over 9000 employees at the Group level, a large share of them – in the regions of Latvia. Consequently, the Company has an impact on the national employment. In turn, the railway infrastructure provides opportunities for the mobility of the country's population, which affects both employment and education opportunities.

To improve mobility opportunities, the express train Rīga–Cēsis started operation since the summer of 2019, with the route extended to Valmiera in December. LDz developed the route in cooperation with JSC "Pasažieru vilciens" and local authorities. Given the growing interest in express train routes, LDz, for its part, is capable of providing all the necessary conditions for establishing such express train routes. In such cases, the decision of the Road Transport Directorate is necessary, based on the proposal of the Public Transport Council and the carrier (JSC "Pasažieru vilciens").

LDz is also aware of the negative impact of its principal activities on the community, namely noise and vibration produced by rail transport, which may affect the health of the people who live near the railway. In order to reduce the impact of noise and vibrations, LDz developed and approved LDz Action Plan for Noise Reduction by 2023". The action plan was developed for noise reduction along the railway lines with traffic intensity of more than 30 000 trains per year, which includes areas crossed by the railway line sections: Rīga Central Railway station – Tornakalns – Zaslauks and Rīga Central Railway Station – Lielvārde: Rīga agglomeration, Salaspils, Stopiņi, Ikšķile, Ogre, Ķegums and Lielvārde counties.

### Preservation of the industrial heritage of the sector

The Latvian Railway History Museum plays a major role in preserving the industrial heritage of the railway industry. Its main exhibition is located in Rīga, on Uzvaras bulvāris 2a, while in Jelgava there is a branch of the museum. The museum provides an insight into the history of railways in Latvia as well as the largest collection of broad-track rolling stock in the Baltics.

The museum operates based on its bylaws and the medium-term development strategy until 2030.

The Railway History Museum has a very broad collection, which is regularly replenished both by receiving gifts and purchasing various items for the museum itself. Therefore, in order to ensure the availability of museum collections to a wider public, a digital catalogue of collections was developed in 2019 and its operation was launched in a test mode.

During the reporting period, the stock has been replenished, 19 items were purchased, the total value of which amounted to EUR 755. In the form of a gift, the collection has been supplemented with 124 items, four of which were presented by the machine-instructor of LDz subsidiary Ltd. "LDZ CARGO" Sergejs Tretjakovs. To ensure the preservation of collections, 20 items from the collection of printed works and one item from the collection of rolling stock was restored. The museum's specialists have also provided 30 consultations to railway history researchers and interested persons.

People are interested in the history of the railway industry, which is supported by the number of visitors to the museum



in 2019, i.e., over 40 thousand people. Among the exhibitions, people were mostly interested in the railway industry, and the annual railroad model exhibition "Liliputija", visited by 4543 people in 2019. This exhibition was particularly important in connection with the implementation of the first round of the largest railway model in the Baltics and the opening of temporary traffic. Of the exhibitions, the greatest interest in 2019 was the unique exhibition of miniature buildings "Alfred's Houses" organised by the museum, which was on display for almost a month in the small hall of the museum. 6701 people visited it.

#### Museum 2019

**40327**  
visitors

**7**  
exhibitions  
(21 422 visitors)

**654**  
tours and  
classes  
(9405 visitors)

The museum is also instrumental at educating the public about the historical heritage and educating the children's audience about safe behaviour near the railway. Several hundred tours and educational classes are organised annually. In 2019, the tour "History of Vehicles in Latvia" was visited by 3789 people. A lot of visitors attended creative classes "Learn how to and build a steam locomotive" (1154 visitors) and "Journey to the past" (1006 visitors). The safety classes at the museum were attended by 1435 children

Other curators also use the opportunity to hold exhibitions in the museum's premises. In 2019, there was an opportunity to visit four such exhibitions:

- Photo exhibition "Hanseatic Way", organised by the Society for Cultural Development and Cooperation of Belarus.
- Puppet art exhibition "Bird Garden of the Paradise", organised by the foundation "Museum of Puppet Art".
- Exhibition "Metal and ornaments", organised by the National Cultural Centre of Latvia.
- Exhibition "ART RIGA FAIR 2019", organised by "Happy Art Museum".

An exhibition in honour of the centenary of the Company - "The next stop is Home", which was created together with a book about the "life" of several railway stations that have been closed down after they ceased to serve their basic purpose - was held by SJSC "Latvijas dzelzceļš"

Traditionally, the museum has been participating in the annual Museum Night Activities. With a view to diversifying the experience of visitors, since 2018 the events have been held at various railway sites in Latvia. In 2019, "Other Museum Night" was organised at the Brocēni, Ķegums and Olaine stations, where the staff of the museum told the visitors about the history of the stations. During the event the former employees of the stations shared their experience.

To entertain various groups of visitors – families with children, enthusiasts of industrial and railway heritage, tourists, the Latvian Railway History Museum offered a variety of activities, including events for families, creative workshops, industrial hiking, camps, and evening debates. In 2019, the following events took place:

- Urban sketching – a creative workshop led by artists Agnese Aliena and Maša Zurikova;
- The spring vacation cycle "Railway, graphics, text" held in Rīga and Jelgava;
- May 4 holiday "Come to the museum and bring a cake!"
- Industrial hiking "From locomotive depot to the aggressive crow" in Jelgava;
- Industrial hiking to Bolderāja;
- Summer camps for children. In 2019, for the first time, the museum organised a full-day camp. The topics of the camp were "On the Road with the Northern Express" and "5 days to the edge of the world";
- Walking by vehicles on Thursday evenings of August – excursions for individual visitors;
- Festival of the train platform for companions - Museum celebrates its 25th anniversary!
- Railway objects – interactive map [www.dzelzcelaobjekti.lv](http://www.dzelzcelaobjekti.lv) and bringing together of companions;
- Talk evening at the Railway Museum "The first electric tram in Latvia" with Jaroslav Dorenski 21.11.2019;
- Silkscreen printing workshop held at the Railway Museum;
- Christmas at the Railway Museum held on 27 – 28 December 2019 was an event for children and their moms, dads, grandmothers and grandfathers. A feeling of creative and lustful pursuits and festivities throughout the day;
- Digital platform of the collections of the museum – development and launching of activities [www.railwaymuseum.lv/lv/museum-items](http://www.railwaymuseum.lv/lv/museum-items)
- Implementation of the first round of the largest railway layout in the Baltics and opening of temporary traffic;
- At the exposition of Jelgava and Rīga the programme was implemented on the Birthday at the museum.

# Other aspects of the impact

## Supplier social impact assessment

LDz does not carry out a detailed assessment of the impact of suppliers and counterparties, but the general ethical principles of its counterparties developed by the company are binding on any contracting party of LDz Group, which, by signing a cooperation agreement, confirms that they fully comply with the principles laid down in the document. In turn, in order to verify that the potential counterparty is not included in the Latvian and international sanctions lists, since March 2019, the Group uses the information system "Sanctions", which contains the most current information about the companies included in the sanctions lists and organizations.

## Political responsibility

As a public capital company, LDz is bound by the provisions of the national laws and EU legislation, covering both freight and passenger transport, as well as the maintenance of railway infrastructure. The Company's activities are also influenced by political decisions and transport and logistics policy planning documents, such as the Transport Development Guidelines 2014-2020. Since autumn 2018, LDz is also bound by the Indicative Plan for the Development of Railway Infrastructure approved by the Cabinet for five years.

Concurrently, in terms of management of the Company, the operational management function and the impact on decision-making by the shareholder represented by the Ministry of Transport is segregated. The Council of LDz was established in 2016, consisting of five people since 2019. The Council oversees the activities of the Company, and the shareholder is involved in the activities of the company only in accordance with the procedure laid down by law.

The Gifts (Donations) policy prohibits the Company from supporting political parties, organisations and the associations thereof.

# Responsibility to customers

As a railway infrastructure manager in Latvia, LDz has four customers in the field of freight transport, while there are three passengers in the field of passenger transport, i.e., JSC "Pasažieru vilciens", Ltd. "LDZ CARGO" and Lithuanian railway company UAB "LG Keleiviams", which provides transportation on the route Vilnius-Daugavpils. In a broader sense, the people commuting by train on a daily basis as well as people visiting railway stations are considered the customers of LDz.

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

Latvian railway infrastructure intended for passengers is not new; the existing infrastructure has been upgraded and improved technically. LDz provides accessibility to the environment for all groups of the community. In this regard, the engagement of various public organisations in the implementation of the best solutions is key. The association of disabled people and their friends "Apeirons" has been a long-term cooperation regarding the matters related to ensuring access to the infrastructure for people with disabilities. The recommendations of the association have been taken into consideration when upgrading passenger infrastructure on Jūrmala and Jelgava lines, as well as implementing smaller environmental accessibility projects. Environmental accessibility at Rīga Central Station has been provided for people with impaired hearing through creating induction loops at ticket offices.

# Customer health and safety

According to a survey carried out by "Eurobarometer" the results of which were published in September 2018, the population of Latvia in relation to passenger transport by rail reported a high assessment of the accuracy and reliability of the trains (85% of the respondents gave a positive rating). Domestic passenger transport services are provided by JSC "Pasažieru vilciens". However, train traffic is closely related to LDz as a company maintaining the infrastructure and the obligation to manage the movement of trains, as well as to plan and coordinate routes. Also, in 2019, electric train traffic departed and arrived within the scheduled time in 98.8% of cases, diesel train traffic - in 97.6% of cases, while international trains have run exactly according to the schedule in 96.1% of cases.

One of the priority aspects of responsibility in the daily work of LDz is informing and educating the public about safety near railways and crossing the railway. Several people die in collisions with the train every year. To reduce the number of collisions, giving regular reminders about the danger factors are necessary. Public awareness and education campaigns are held annually at several times of the year, i.e., before summer vacations, before schools resume in autumn, when days become shorter and spotting and hearing trains becomes more difficult. Last year, the attention of the young audience was attracted to safety issues with the song "Learn the song, save yourself from the train", which was sung by "influencers" that are popular among young people. Young people also had an option to participate in the competition to win the opportunity to sing this song together. In autumn, more attention was paid to the habits of motorists when crossing railway level crossings. For several years, intensive educational work with the children's audience has been carried out, i.e., the employees of LDz attended schools and the Latvian Railway History Museum to deliver "Safety Classes", telling children in an attractive way about safe behaviour near railways.

At the same time, LDz makes annual investments in the infrastructure to improve railway level crossings, especially where there is a higher risk to human lives.

About 30 people are injured or killed in train collisions annually. Although this number is lower than the number of fatalities on the roads, however, reducing the number of the injured and killed people is one of priorities of LDz. One of the ways is to improve the infrastructure, making it railway level crossings safer for pedestrians, cyclists and road transport. During the reporting period, the railway has been fenced in several places, pedestrian crossings equipped with traffic lights and sound alarms, and railway level crossings were improved.

In 2019, to improve pedestrian safety, three pedestrian crossings were equipped with sound and light alarm system, or traffic lights, which signal about a train approaching. These have been installed at Majori, Rīgas Street and Smilšu Street, as well as in Zolitūde, Zārdu Street. Also in 2020, pedestrian crossings were equipped with traffic lights planned to be installed in Rīga, O.Vācieša Street and Ogre, Vidzemes Street. In order to discourage people from crossing the railway in unforeseen places, the installation of fences along the railway will continue.

#### Fences along the railway have been installed at:

- Torņakalns station (on the side of O. Vācietis Street);
- Section Torņakalns - Zaslauks (near Altonavas Street Bridge);
- Section Priedaine - Dubulti (near Majori High School);
- Dubulti station (near the police building, at Dubultu prospekts 2).

Also in 2019, several railway level crossings were equipped with video surveillance systems and automatic barriers.

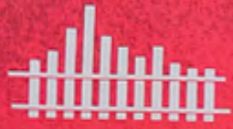
#### Video surveillance systems have been installed at:

- Cēsis - Jāņmuiža (97 km.);
- Jelgava - Cena (41 km.);
- Ķegums (45 km. 10.);
- Jumprava (63 km. 9.);
- Salaspils station (19 km.);
- Bulduri (17 km.)

#### Railway level crossings have been equipped with automatic barriers at:

- Cēsis - Jāņmuiža (97.km);
- Jelgava - Cena (41.km);
- Ķegums (45.km);
- Jumprava (63.km).





**DZIESMU  
IEMĀCIES –  
NO VILCIENA  
IZGLĀBIES**



**LATVIJAS  
DZELZCEĻŠ**

**KAD SLIEDES  
PRIEKŠĀ, UZMANIES,  
NO TELEFONA  
ATSAKIES,  
UZ ABĀM PUSĒM  
PASKATIES  
UN ABĀM AUSĪM  
IEKLAUSIES!**



**DZIESMU  
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**PATS SAVAS SPĒJAS APZINIES,  
KUR NEDRĪKST, PĀRI NEDODIES!  
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TAD VILCIENS SĀNĀ NETRIEKSIES.**

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In 2020, there are plans to install automatic barriers and video surveillance systems railway level crossings at Cēsis (Poruka Street and Valmieras Street), Rīga (Krustabaznīcas Street), Krustpils Station and Liepāja Station.

One of the most ambitious projects launched in 2019 was aimed at improving pedestrian safety, i.e., the construction of a pedestrian tunnel under the Ogre railway, which will connect Mālkalnes Prospekts and Skolas Street. Construction works began in 2019 and are expected to be completed in the autumn of 2020. The construction of the pedestrian tunnel will ensure a safe railway crossing for the population and guests of Ogre, taking into account the intensive traffic of freight and passenger trains through the city and the large number of tracks. Construction works are carried out by the general partnership "BMGS-Viadukts", the contract with which provides for the pedestrian tunnel to be accepted in operation at the end of November 2020.

**Accidents on the railway**

As a result of information campaigns, the number of injured people and fatalities in collisions with trains has been declining in recent years. However, tragic accidents do occur as a result of deliberate actions or carelessness of people, most often resulting in fatal consequences. According to the statistical data compiled by LDz, in 2019, there were 29 accidents. Six people were injured, and 23 people died in collisions with a train. The total number of fatalities in 2019 is slightly higher than in 2018, when 25 accidents were reported. Some of the collisions occurred on crossings and railway level crossings; six accidents occurred on pedestrian crossings (one injured, five people died) and three accidents on railway level crossings (one injured and two died).

Occasionally, there are collision between road vehicles and trains. There were seven such collisions in 2019, with no casualties. All collisions occurred in violation of the road traffic rules by the vehicle drivers.

The analysis of the circumstances of the accident, led to the conclusion that most often they occur as a result of the carelessness of the people who do not notice the approaching train before crossing the railway tracks. Some accidents have been reported where a person had been standing too close to a moving rolling stock, as well as standing, sitting or lying on the railway tracks. In a number of cases, the use of smart devices and headphones during the crossing of railway tracks contributed to the accidents; often the collision occurred when crossing

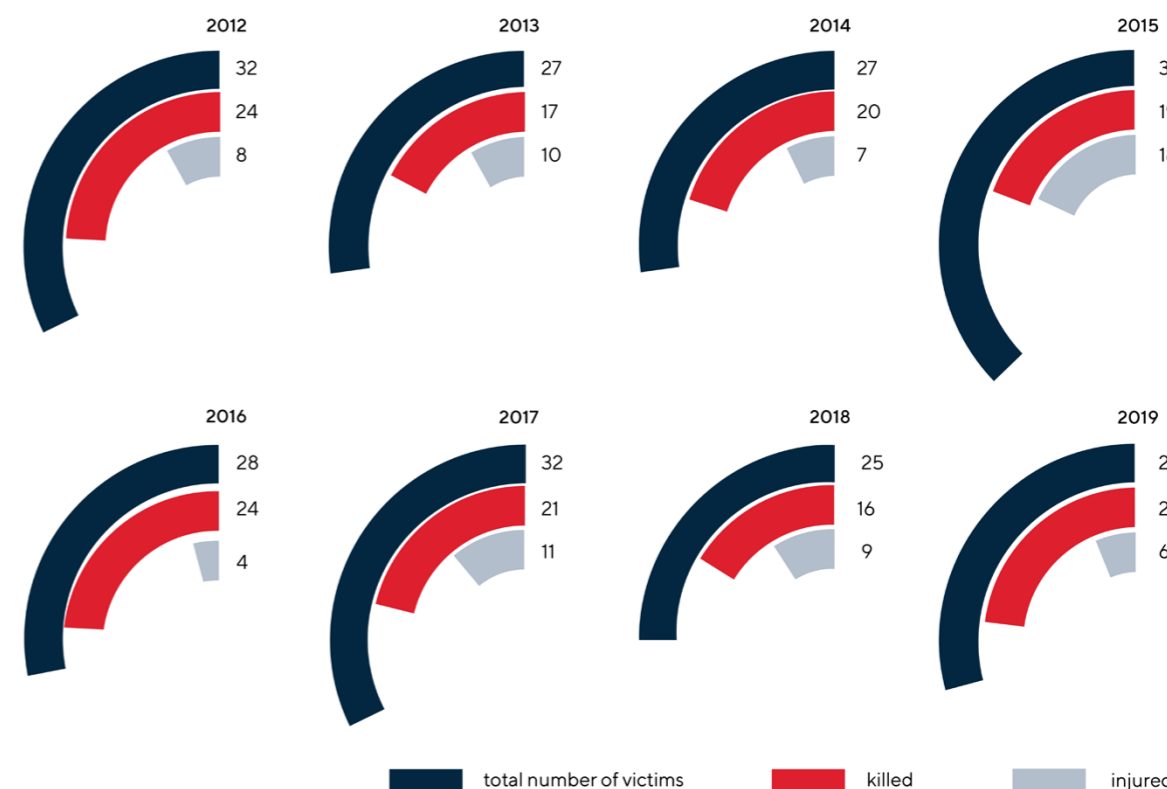
the railway in a drunk state. In 2019, a young person's reckless wandering on the roof of an electric train ended tragically, while another was injured when he moved between the carriages during the manoeuvring of the train.

As a result of a deliberate action, 10 train collisions (suicides) have occurred. Taking into account that pursuant to European Commission Directive 2009/149/EC of 27 November 2009 on Directive 2004/49/EC of the European Parliament and of the Council as regards common safety indicators a suicide is characterised as a deliberate act by a person with intent to cause bodily harm, these victims are disregarded for accident statistics purposes.

**Age distribution of accidents victims:**

Age group	Number of accidents
Up to 15 years	1
15 - 18 years	2
18 - 30 years	7
31 - 50 years	10
51 - 62 years	5
Over 62 years	4

**Dynamics of accidents victims**



# Critical infrastructure and security

Maintenance of public railway infrastructure in Latvia is a matter of national security. LDz is responsible for a number of critical infrastructure facilities (objects), and the Company is obliged to ensure the highest level of security in these facilities.

Under the Cabinet Regulation No. 496 "Procedures for the Planning and Implementation of Critical Infrastructure, including European Critical Infrastructure, and Security Measures" of 1 June 2010, the Cabinet Regulation No. 923 "Regulations on Mandatory Protected Railway Infrastructure Objects of the State Public Use and Procedures for their Safeguarding" of 18 December 2007 and the requirements of the National Security Law, a special protection regime in critical infrastructure facilities is ensured by the Internal Security Section of the LDz Security Directorate. The State Security Service Monitoring monitors the compliance of the implemented security measures with the requirements for safeguarding the critical infrastructure. The Internal Security Department organises and maintains, in accordance with the requirements of the company, the measures aimed at safeguarding of the national secrets, which are set out in the Cabinet Regulation No. 21 "Regulation on the Protection of Classified Information of State Secrets, North Atlantic Treaty Organization, European Union and Foreign Institutions" of 6 January 2004, and the Cabinet Regulation No. 417 "Regulation on Industrial Safety Certificates" of 10 July 2018. Under the said regulations, the State Security Service and the Office for Protection of the Constitution monitor compliance with the requirements of state secrets protection measures put in place by the company.

The duties of the internal security staff include taking and maintaining security measures at the railway infrastructure facilities, ensuring physical security and operation of pass control points, technical security, firefight/fire systems, video surveillance and voice surveillance notification systems, restricted access systems and fencing of the facilities. In 2019, 51 facilities were equipped or upgraded with security systems. Major investments were made in video surveillance, security and fire safety systems: new video surveillance systems were upgraded or installed in Pieosta Park in Ventspils, LDz administration building, Ikšķile station, Rīga – Goods station (Preču stacija) and two facilities in Daugavpils. In addition, a new central regional video surveillance recording server has been installed in Daugavpils. In total, 936 LDz facilities have technical security.

In 2019, investments of EUR 340 970 were made to implement the project "Safeguarding and security of the facilities of LDz". Contracts with a value of EUR 255 510 were completed, two more contracts with a total value of EUR 85 459 mature in 2020.

For safety of the railway infrastructure purposes, 202 persons were detained during the reporting period and transferred to the State Police. The reasons for detention were:

- Thefts – 5 persons;
- Taking pictures or filming the facilities and infrastructure of LDz – 13 persons;
- Damaging or demolishing the facilities and infrastructure of LDz – 11 persons;
- Accessing the railway bridges – 24;
- Detentions for violations of the public order – 149.

# Services for people with disabilities

The train is also used in everyday life by people with special needs, including those who move in a wheelchair. LDz is therefore obliged to ensure that this category of people has access to the railway infrastructure, i.e., stations, platforms, as well as can get on the trains. As for environmental accessibility, it should be noted that most of the railway infrastructure was built in the early 20th century, when the issue of environmental accessibility was not on the agenda. As the issue of environmental accessibility for everybody gains increasing importance, solutions for people with disabilities are gradually being implemented in the railway sector.

During the previous EU programming period, in upgrading 16 passenger infrastructure facilities along Jūrmala and Jelgava lines, the recommendations of the Association of Disabled People and their friends "Apeirons" in the construction of ramps, in the creation of tactile markings on the platform, building railway crossings and in other areas were taken into account. These recommendations have also been considered for building safe railway level crossings in other places in Latvia (e.g., labyrinths put in place). Also, the upgrading of 48 stations and stops on four railway lines (Rīga-Jelgava, Torņakalns-Tukums II, Zemitāni-Skulde and Rīga-Krustpils) will provide for environmental accessibility for all groups of society

In previous years, electronic scoreboard notifications at Rīga Central Station have been adapted for visually impaired people. One domestic passenger ticket office is equipped with an induction loop for the convenience of the people using hearing aids. For passengers in wheelchairs assistance

is provided when they need to get on the platform and on the train, including a mobile lift service. With a view to continuing to improve the accessibility of the environment, in September 2019, the "Meeting Place" was established at Rīga Central Station, where, upon prior application, the applicant is provided with assistance to get to the platform and on the train. A "meet-up point" has been equipped with two chairs and an audio console, which is connected to the railway free inquiry phone - 80001181. Furthermore, taking into account complaints received from persons with strollers about the difficulties of get on and from the apron at the central station of Rīga, an agreement has been reached that the employees of LDz subsidiary - LTd. "LDZ apsardze" will provide assistance to these people.

The mobile lift service must be applied for to the LDz Inquiry service and must be done 48 hours before the planned trip. (This period of time corresponds to the requirements laid down in EU laws and regulations and is necessary to ensure that the hoist is located in a particular place, the presence of adequately trained personnel. JSC "Pasažieru vilciens" requires this much time to ensure the dispatch of a properly equipped train in the given route. In 2019, 241 applications for the mobile lift service were received from disabled passengers. In order to minimise the likelihood of human errors, in 2019, the ITTPAS system was used to register applications, which also sends an automatic reminder to the responsible employees before execution of the service.

# Customer satisfaction

**76%**  
satisfied with the appearance of the stations and their technical condition

**68%**  
satisfied with the condition of the platforms

In cooperation with the research center "SKDS" conducts a survey of the image of LDz, where, among other things, the satisfaction of the population with the passenger infrastructure is surveyed. Data from a survey conducted in the autumn of 2019 suggest that generally, over a half of respondents are generally satisfied with stations. 76% of the respondents expressed satisfaction with the appearance of station buildings and stop points, their technical condition, and an equally large number of the respondents admitted that they are satisfied with the appearance and technical condition of the platforms. 68% of the respondents were satisfied with the apron equipment, while safety at stations and their territory was assessed as good by 61% of respondents. (See more information on page 40 of the survey).

# Service development

One of the basic principles of growth and competitiveness of businesses is the provision of quality services to customers and counterparties. LDz provides over 50 services to customers, including capacity sales to carriers, wagon handling, customs operations, electricity sales, real estate rental and others. Aimed at improving the scope of the provided services, the Service and Customer Relations Section was established at the end of 2018, including the Customer Relations Division, which ensures the work of the LDz Inquiry Service.

Equally as important is the development of internal services, in particular the information technology services provided by the LDz Information Technology Centre (ITC). For all services except licence management, SLA-service level agreement has been concluded and quality indicators have been set: the time for incident execution in 90% of cases within one calendar month and the level of availability of the information system (for services on the maintenance of information systems). In 2019, the average timeliness of the processing of incident applications was 99%. In 2019, of 57 services, for 43 services the availability of information systems was 100%, while for the rest – around 99%.

Aimed at providing feedback to customers and implement the necessary improvements, the ITC conducts a customer satisfaction survey to find out how customers rate the terms of service/needs and problem resolution, the quality of the received service or problem solution, as well as the employee responsiveness when engaging in the provision of the service or problem-resolving. Most often, customers provided the highest rating – 95% of the respondents gave the answer "Satisfactory".

# Data protection

By improving the provision of services in accordance with the instructions given by customers, in 2019, the service "Information about freight wagons (by the consignee's code)" was supplemented with a new information item "WEIGHT" and the content of the item "Weight of the transit declaration".

In carrying out its activities, ITC complies with the international standard ISO 9001 "Quality Management Systems. Requirements". On 22 July 2019, the ITC management system was booked in accordance with the requirements of ISO 9001:2015 for the following areas of activity: maintenance of information systems, maintenance of workplace infrastructure, user support and consultation. Similarly, in 2019, the implementation of the LEAN methodology, which focuses on the optimisation of processes, minimisation of resources as much as possible, omitting unnecessary actions and losses in processes, was continued. The processes "Maintenance of Workplace Infrastructure" and "Change Management" were reviewed. The ITC introduced the "Release Management" process, which lays down a common procedure for creating/delivering one or more changes in the IT service and tested before being implemented into the production environment.

To improve the security of the employees' email, ITC made changes to the size of the email mailbox in accordance with security policy and software standards, setting limits on the emails received. The changes resulted in turned off using limitless email volume, thus eliminating the security risks associated with receiving unlimited spam. Before setting the limit, the Company had 1 299 "limitless" electronic mailboxes.

LDz processes personal data in cooperation with other companies of LDz Group, as well as with third parties.

Since the entry of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data into force on 25 May 2018, LDz has identified the existing personal data protection and processing processes and registration of the processing activities (which is regularly updated). Detailed information on the data protection policy implemented by the Company is published on the website of LDz, under [Protection of personal data](#) section.

In connection with the protection of personal data, LDz Group has developed internal regulations defining the purposes and areas of personal data processing, general principles, rights, duties and responsibilities of employees, data processing organisation, and rights and obligations of data specialists. In addition, the existing internal procedures in the field of data protection have been developed or changed, including the duties of processing and protection of employees' data laid down in internal law.

The Company employs a certified data protection specialist who is responsible for data protection and whose duties include regular monitoring of the processing and protection of personal data, consultation of employees, approval of the processing contracts and external correspondence, provision of answers to data subjects, and training of employees. LDz Group's has also set up a working team on data protection of natural persons, in which all data protection specialists of the Group are represented. The aim of creation of the working group is to effectively improve the legal and organizational processes for the protection of personal data in "Latvijas dzelzceļš" Group in accordance with the requirements of the external legislation. Concurrently, a common model

of cooperation in the field of personal data processing has been established between the companies of the Group, which accelerates the exchange of information, which all data protection specialists receive, thus ensuring simultaneous receipt of information from data subjects.

Since the entry into force of the General Data Protection Regulation, LDz has carried out two audits by the Internal Audit Section of LDz on the data processing process across the Group. The audit of the processing and protection of personal data is also carried out within the scope of the general financial audit of the Group, which is carried out by an independent external auditor company.

Continuing work on improving the personal data protection policy, a new version of the "Latvijas dzelzceļš" data protection policy for natural persons has been submitted for approval in December 2019.

#### Major changes in the Data Policy:

- The rights, duties and responsibility of employees have been updated and clarified;
- A more stringent obligation for employees to get the approval of issuing the documents/information containing personal data to third parties has been imposed, the relevant standard clause must be included in documents when the data is transferred to third parties;
- Arranging data processing within the Group;
- Adjustments to the rights and duties of specialists;
- Cooperation of specialists and procedures for the continuity of performance of functions has been specified;
- The procedures for preventing, detecting, investigating and reporting data breaches have been substantially updated and changed;
- Violation registration form has been developed;
- The principles and procedures for assessing the impact of personal data protection risk have been developed;
- The procedure and standard form of the data processing assessment on the impact on data protection has been developed, which did not exist before because previously the assessments were carried out pursuant to the requirements of external legal provisions.

Concurrently with the e-signature module, integration with the e-address database of the Ministry of Environmental Protection and Regional Development, which is used to send and receive the documents of LDz, using the official electronic e-mail address, has been developed. In relation to the implementation of the official e-address, a full cycle of the electronic document flow (preparation, approval and signing with a secure signature) has been developed for foreign business trips, foreign and domestic business trip advance settlements, orders and acceptance-transfer certificates.

In April 2019, the Privacy policy of individuals of LDz Group companies was approved. The main objective of the policy is to explain to data subjects (customers, visitors, business partners, etc.) what data of natural persons are passed on to Group companies, why the data are passed to Group companies, the legal basis for processing the data, the security conditions that are complied with for data protection purposes, etc. The Privacy policy has been posted on the external website of each company that is part of the Group.

During the reporting year, one data protection incident has been identified and reported to the management. The incident has been investigated, non-compliance was immediately eliminated and measures were taken to prevent incidents of this nature from happening again in the future. The violation was qualified as minor, with no significant consequences for the rights and freedoms of the data subjects, so there was no need to inform the Data State Inspectorate and data subjects about the incident.

# Availability of information

Information about the current developments at LDz, i.e., business performance activities and changes is published on the Company's website [www.ldz.lv](http://www.ldz.lv), where mandatory public information is available in accordance with the Railway Law, i.e., an overview of the network and the documents issued by LDz regarding the use of the railway infrastructure, as well as more information on the activities and services of the infrastructure manager.

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

At the same time, information on the issues related to safety near railway and safety campaigns organised by the Company is regularly published on a specially created website [www.dzirdiredzidzivo.lv](http://www.dzirdiredzidzivo.lv). One of the most important social responsibility projects in 2019 was the promotion of science subjects at schools. For this purpose, the website [www.steamup.lv](http://www.steamup.lv), was created, which serves as an assistant for students, their parents and teachers in studying science subjects.

Following up on the trends in the community, communication through social networks is maintained, which is a way to achieve a two-way communication with the community. For this purpose, LDz profiles have been created on Facebook, Twitter, LinkedIn, Instagram and Draugiem.lv.



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# INDEPENDENT AUDITORS`REPORT

## Independent Limited Assurance Report on the Sustainability Report 2019 of VAS Latvijas dzelzceļš

### To the Management of VAS Latvijas Dzelzceļš

We have been engaged by the Management of VAS Latvijas Dzelzceļš to perform an independent limited assurance engagement in respect of the selected Identified Sustainability Information included in VAS Latvijas Dzelzceļš ("the Company") Sustainability report for the year ended 31 December 2019 (the "Sustainability report 2019").

#### Management's Responsibility

The Management of the Company is responsible for the preparation and presentation of the Identified Sustainability Information, as incorporated in the Sustainability report 2019, in accordance with the requirements of the Core level application of Global Reporting Initiative Guidelines ("GRI Guidelines"), issued by Global Reporting Initiative, a network-based non-profit organization with secretariat based in Amsterdam, the Netherlands. The Management of the Company is also responsible for maintaining adequate records and internal controls that are designed to support the reporting process.

#### Identification of the Criteria and Description of the Subject Matter

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

- Organizational profile – *Name of the organization, Activities, brands, products and services, Location of headquarters, Location of operations, Ownership and legal form, Markets served, Scale of the organization, Information on employees and other workers, Supply chain, Significant changes to the organization and its supply chain Precautionary principle or approach, External initiatives, Membership of associations;*
- Ethics and integrity – *Values, principles, standards and norms of behaviour, Mechanisms for advice and concerns about ethics;*
- Governance – *Governance structure, Executive-level responsibility for economic, environmental and social topics, Composition of the highest governance body and its committees, Chair of the highest governance body, Nominating and selecting the highest governance body, Key corporate social responsibility activities in 2019;*
- Stakeholder engagement – *List of stakeholder groups, Collective bargaining agreements, Identifying and selecting stakeholders, Approach to stakeholder engagement, Key topics and concerns raised;*
- Reporting practice – *Entities included in the consolidated financial statements, Defining report content and topic boundaries, List of material topics, Restatements of information, Changes in reporting, Reporting period, Date of most recent report, Reporting cycle, Contact point for questions regarding the report, Claims of reporting in accordance with the GRI Standards, GRI content index, External assurance;*
- Economic impact – *Management approach, Direct economic value generated and distributed, Financial assistance received from government, Infrastructure investments and services supported, Significant indirect economic impacts, Management approach*

*(Procurement practices), Management approach (Anti-corruption), Operations assessed for risks related to corruption, Communication and training about anticorruption policies and procedures, Confirmed incidents of corruption and actions taken, Management approach (Anti-competitive behaviour);*

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

Our responsibilities extend only to the information contained in the signed Sustainability report 2019.

#### Our responsibility

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the Identified Sustainability Information contained in the Sustainability report 2019 is not stated, in all material respects, in accordance with the reporting criteria.

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



engagement to obtain assurance on the Identified Sustainability Information as per the terms of our engagement.

This report, including the conclusion, has been prepared solely for the Management of the Company, to assist the Management in reporting on the Company's sustainability performance and activities. We permit the disclosure of this report within the Sustainability report 2019. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of the Company, and the Company for our work or this report.

The maintenance and integrity of the Company's website is the responsibility of the management; the work carried out by the assurance provider does not involve consideration of these matters and, accordingly, the assurance provider accepts no responsibility for any differences between the sustainability report 2019 on which the assurance report was issued or the assurance report that was issued and the information presented on the website.

#### Independence and Quality Control

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

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

#### Summary of the work performed

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

Our work consisted of:

- Interviewing the management and senior executives to evaluate the application of the GRI guidelines and to obtain an understanding of the control environment related to sustainability reporting;
- Obtaining an understanding of the relevant processes for collecting, processing and depicting data included in Sustainability report 2019;
- Verifying the information included in Sustainability report 2019 through inquires to the relevant management of the Company;
- Testing data included in the Sustainability report 2019 on a selective basis;
- Inspecting documentation to corroborate statements of management and senior executives in our interviews;
- Comparing the financial data to the 2019 financial statement of VAS Latvijas Dzelzceļš; and
- Evaluating the overall format of the Sustainability report 2019, taking into account the compliance of the disclosed information with the applicable criteria.



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

#### Limited assurance Conclusion

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

#### Inherent limitations

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

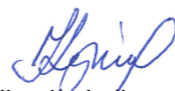
We have not carried out any work on data reported for prior reporting periods nor in respect of future projections and targets. We have not conducted any work outside of the agreed scope and therefore restrict our opinion to the Identified Sustainability Information.

#### Restriction of Use and Distribution


This report has been prepared by PricewaterhouseCoopers SIA ("PwC") for VAS Latvijas Dzelzceļš under the terms of the contract between the VAS Latvijas Dzelzceļš and PwC, dated 11 December 2019.

This assurance report is intended solely for use of the management of VAS Latvijas Dzelzceļš in respect only to the 2019 Sustainability Report. It should not be used for any other purpose.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

  
Ilandra Lejiņa  
Member of the Board

Rīga, Latvija  
15 July 2020

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

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# ANNUAL REPORT

08

## SJSC "Latvijas dzelzceļš" annual report for 2019

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In the second half of 2019, SJSC "Latvijas dzelzceļš" has started to implement a wide range of activities in order to significantly increase the company's efficiency, review and optimize the company's organizational and technological processes, as well as ensure financial stability. Also in 2020, process improvement and work on the development and implementation of the entire business model of the "Latvijas dzelzceļš" Group will be continued.

The report on economic activity in 2019 is available at [SJSC "Latvijas dzelzceļš" website](#).

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