



STATE JOINT STOCK COMPANY  
"LATVIJAS DZELZCEĻŠ"



ANNUAL REPORT

2007

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# Report of the chairman of the board



## Final stage of reorganisation

In 2007, the Board of SJSC *Latvijas dzelzceļš (Latvian Railway)* continued its work to implement the essential project of reorganisation. The process of restructuring started already in 1999, and continued in several stages, but just the year 2007 was the most dynamic. On March 29, 2007, the Contract of Reorganisation was signed. The principles of economic activity of SJSC *Latvian Railway* and its subsidiary companies (*LDz Cargo Ltd.*, *LDz infrastruktūra Ltd.* and *LDz ritošā sastāva serviss Ltd.*) were precisely defined. Reorganisation of Latvian Railway came into effect in accordance with the decision of Register of Enterprises of the Republic of Latvia (dated July 4, 2007). On July 5, 2007, *LDz Cargo Ltd.*, *LDz infrastruktūra Ltd.* and *LDz ritošā sastāva serviss Ltd.* started independent economic activity. SJSC *Latvian Railway* continued its economic activity in the management of infrastructure and supervision of seven dependent companies.

According to the result, reorganisation was carried out in a short period of time and was successful. With completion of reorganisation Latvian Railway completely fulfilled demands of the European Union (EU), and created relevant liberalised market of railway transport.

Reorganisation process in many aspects (financial, economical, technological, and personnel aspect) was thoroughly prepared in co-operation with the auditor

*Ernst&Young Baltic, Ltd.*, therefore the whole process passed smoothly. The most important is that railway technological processes were obeyed both in passenger and freight carriages.

To develop and remain competitive, the Board had to make decision regarding further reforms in financial, structural, legal, administrative, and other areas of company's activities. For example, the name of the railway security company was changed *LDz apsardze Ltd.*, and liquidation of the Joint Stock Company *Starptautiskie pasażieru parvadajumi (International Passenger Carriages)* was commenced. Reorganisation of passenger carriages is planned to be completed in 2008. At the end of 2007, shares of *JSC VRC Zaslauks* were contributed to *JSC Pasažieru vilciens (Passenger Train)*. Thus passenger carriages' and electric train maintenance areas are now consolidated.

At large, it can be said that reorganisation of Latvian Railway was prompt and effective; therefore it was possible to draft a new plan of strategic development and long-term business for the future.



L A T V I J A S D Z E L Z C E Ļ Š

## Economic activity

Since July 5, 2007, the main jurisdiction of economic activities of Latvian Railway is the management of infrastructure. Others, for example, repairs of the rolling stock, maintenance of infrastructure, passenger traffic and freight carriages are separated, so that the economic activity and financial policy of subsidiary companies were completely clear and controllable.

To maintain the position in the market of transit, the Board of Latvian Railway repeatedly considered the tariff policy, and decided to put up tariffs. Since *LDz Cargo* Ltd. started independent economical activity, the Board of Latvian Railway delegated creation of tariff policy to this particular subsidiary company. In conditions of liberalisation of railway transport market, *LDz Cargo* Ltd. must have greater independence in solving commercial issues.

In the period of account the priority of the Board of Latvian Railway was to involve in logistics more actively to fulfil orders of the existing clients, as well as to attract new clients in Asia (China), etc. Therefore *LDz Cargo* Ltd. established new subsidiary company *LDz Cargo Logistika* Ltd., the main task of which is to increase transit container freight traffic from China, Kazakhstan to the West and vice versa. Work on development of logistics was carried out, so that it would be possible to rail freight with containers from Europe through Latvian sea ports. In Riga and Liepaja sea ports new container train routes with terminals in Russia (Moscow).

As a result of these events freight traffic became stable, the volume of freight and profit increased. It proves that Latvian Railway has developed well-formed freight transit tariff policy, and has precisely planned and carried out events to remain competitive. In 2007, Latvian Railway carried 52, 16 millions tonnes of freight, which is per 7, 0 % more than in 2006. However, this is not the final result, because Ministry of Transport of the Republic of Latvia puts forward new tasks - the volume of freight in the East-West transit corridor must increase, reaching up to 90 millions tonnes per year. To fulfil this goal, significant investments are planned for modernisation of infrastructure.

## Investments in infrastructure

Increase of transit freight depends not only of successful work of *LDz Cargo* Ltd., but also of freight reception and reloading potentials in Latvian sea ports. Due to the fact that volumes of sea port terminals are limited, Latvian Railway cannot sharply increase the volume of freight. Therefore the Board of Latvian Railway promoted co-operation with sea port councils, paying their attention to necessity to increase the existing volume, as well as to build new terminals.

Modernisation of railway infrastructure in Latvia is the most efficient way to provide passenger and freight train traffic without technological limitations or maintenance inability. Therefore the volumes of freight traffic could be increased, at the same time guaranteeing freight traffic safe for the public and environment.

In 2007, the Board of Latvian Railway continued to supervise realisation of four previously commenced railway infrastructure projects in the East-West transit corridor: replacement of turnouts (780 pieces); modernisation of hot-box detection system (to be completed in 2008); modernisation of signalling systems (1st stage); renovation of railway track in section of the East-West transit corridor (in the length of 260km). International open tender on realisation of the project co-financed by the EU *Modernisation of signalling systems* was completed (total expenses 41 millions Euro). This project must be completed in the end of 2009. Application for co-funding of Cohesion Fund for the project *Construction of the second track in section Riga-Krustpils*, is prepared. It is planned to implement this project from 2008 - 2013. In order Riga railway junction infrastructure could process the potential volume of freight in Riga sea port, more than 50 millions Euros are necessary for reconstruction of railway junction. Therefore also in 2007 the Board of Latvian Railway continued to work on the scheme of development of Riga railway junction, as well as other projects. Preliminary study for the technical assistance project on implementation of GSM-R System was carried out.

## Rolling stock

The tasks set by the Ministry of the Transport will not be performable, if railway will not have modern locomotives, and freight and passenger wagons. Therefore, already in 2005 the Board of Latvian Railway approved concept for modernisation of traction. In 2006 tender took place and modernisation of two diesel locomotives of type 2M62 began. In total within the Traction Modernisation Programme it is planned to reconstruct 30 locomotives. The main task is to enhance capacity of locomotives and to prolong the period of maintenance.

In the period of account *LDz ritošā sastāva serviss* Ltd. commenced independent economic activity. Structural unit *Locomotive maintenance centre* carried out technical service for locomotives, diesel engine locomotives, and track-building machines, purchased, stored and distributed diesel. Structural unit *Wagon repair centre* carried out the main repairs of freight wagon depot, capital repairs of wagons thus prolonging the period of maintenance. In August 2007, correspondence of both structural units to the international quality standard ISO9001:2000 was received.

Taking into account the fast development of container traffic and increase of the volume of containers, in the year of account the Board of Latvian Railway decided to purchase 100 new container platforms not to lose potential freight because of insufficient rolling stock.

Co-operation with the company *TransContainer*, which is a subsidiary company of *Rossijskije železnije dorogi* (Russian Railways), continued.

## The main value – motivated employees

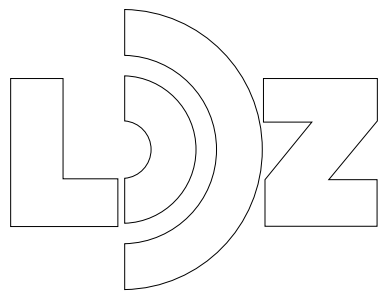
Latvian Railway has the largest number of employees of all companies in Latvia. By the end of 2007 13620 employees worked for the company.

Taking into account the tense situation in labour market, the Board of Latvian Railway admitted the development of personnel policy as the prior activity. The aim is to have the best, motivated railway experts and qualified engineers. For the motivation of the personnel such instruments as regular increase of salaries and additional payments to salaries, and other bonuses were used. In 2007, the average salary in the holding company exceeded 540, 00 Lats per month. In the creation of social dialogue the Board of Latvian Railway has good co-operation with the Trade Union of Railwaymen and Transport Industry. A trade union's and Latvian Railway work group work together to develop the Collective employment contract.

## Corporate traditions

In the period of account, besides the already existing traditions, for example, rewarding of the best workers in the anniversary of foundation of Latvian Railway and on the National Holiday, new traditions were developed. In 2007, new award Honorary Title in two nominations – *Contribution of Life* for veterans and *The Best Treatise* for new experts – was awarded. To motivate employees to create harmonious relationship in work collective, new reward *Vainglory of Latvian Railway* was established. The point of this reward is that nominees are brought forward by employees.





L A T V I J A S D Z E L Z C E Ļ Š

The Board of *Latvian Railway* supports maintenance of historic heritage, organisation of annual summer sports games, common celebration of summer and winter solstice, and other events. In 2007, the Board of Latvian Railway organised sports games in Ugale and Virogna that were organised by Latvian Railway together with Latvia Railwaymen Union and the Trade Union of Railwaymen and Transport Industry. In accordance with the Policy of Support the Board of Latvian Railway continued to aid different associations of disabled, schools, children's homes and charity, as well as culture and sports events. The Board of Latvian Railway considers that the social responsibility should be raised, and railway should be a harmonious part of cultural landscape of Latvia. Therefore, a policy of environment protection has been developed, and in the period of account for realisation of this plan 4 millions Lats were spent. The most important was an environment recovery project for reconstruction of fuel station in Daugavpils.

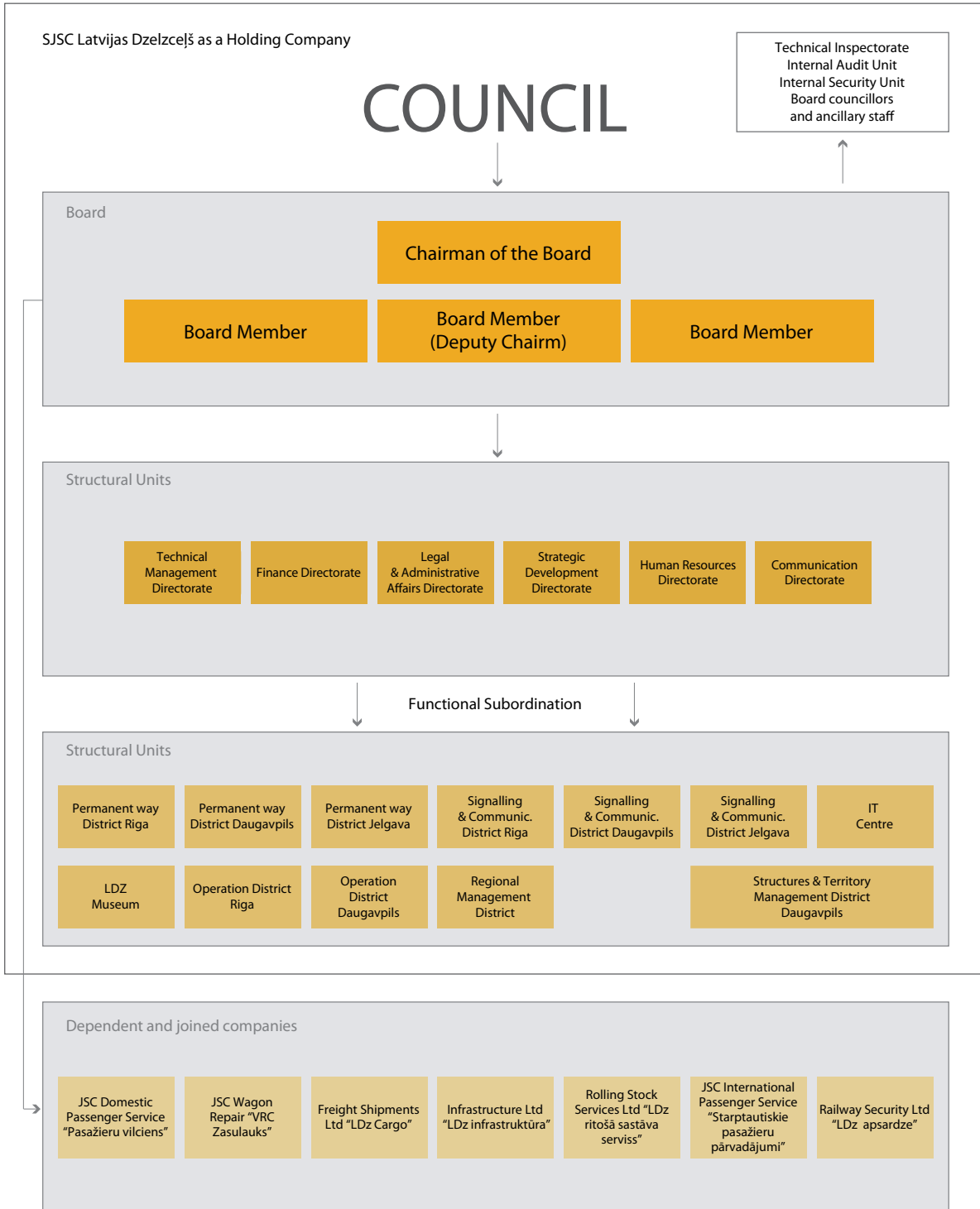
It is also important to educate the society, especially children of school age, regarding the safety on railway. In 2007, co-operation with the Ministry of Education continued. Together with the Ministry Safety lessons for school children were organised.

The Board of Latvian Railway considers that the company has reached the goals set for the year 2007.

**Uģis MAGONIS,**  
*State Joint Stock Company*  
*Latvijas dzelzceļš*  
Chairman of the Board



# SJSC Latvijas Dzelzceļš (Holding Company) Organizational Structure



## Board

Uģis MAGONIS – chairman of the board

Uldis PĒTERSONS

Aivars STRAKŠAS

Andris ŠTEINBRIKS

Staņislavs BAIKO until 11.06.2007.

## Council

Guntis MAČS – chairman of the council

Leonīds LOGINOVŠ

Guntars KRIEVIŅŠ

Imants SARMULIS

Jānis EIDUKS

Kārlis GREIŠKALNS

Arvīds KUCINS

Andrejs NAGLIS

Andrejs POŽARNOVS

Juris ŠMITS

Elmārs ŠVĒDE





# Strategy of development

*In the period of account, basic principles of planning strategic development, accordant to up-to-date management theories and world practice, as well as a long-term development strategy for the company, were worked out.*



## Long-term goals

Long-term business goal of the concern is to become the leading transport company in the Baltic States, which:

- Manages and develops railway infrastructure;
- Provides integrated transport services;
- Is financially persistent and efficient;
- Is a prestigious place of work, and provides up-to-date working environment to employees;
- Constantly develops and uses new knowledge and technologies.

To reach the goal, in the period of account implementation of new structure of the concern was completed, parting freight transit, rolling stock maintenance, and repairs, as well as railway infrastructure business units into separate companies - LDz *ritošā sastāva serviss* Ltd.; LDz *Cargo* Ltd.; LDz *infrastruktūra* Ltd., that completely belong to Latvian Railway. Clear partition of business responsibilities within the concern allows concentration of activity, resources and competences of the separate companies to execute basic duties, and increases possibility to make prompt decision, if situation in the market changes

The main business goal for infrastructure is efficiently organised and managed infrastructure that dynamically develops, basing on modern technologies and long-term prognosis of demand. Priorities of activity of the company are the East-West railway corridor, Riga region and the North-South direction.

In development of the East-West railway corridor the most important tasks are to provide and increase capacity and quality, and competitive charge of infrastructure.

To fulfil these tasks, a long-term investment programme has been developed, in implementation of which additionally to investments of the company, also substantial role is to financing of the EU funds, state, local governments' and private co-operation partners. Proportional participation of the State and local government in financing of railway infrastructure would provide fair competition with road transport (in inland carriages) and railway companies broad (in international market).

Railway is the fastest, the most comfortable and the most environment friendly type of city transport. Goal of the company is to create railway infrastructure that would allow railway carriages to be the main element of Riga region public transport system.

According to strategy of the company, it is planned:

- To develop efficient *park & ride* infrastructure in co-operation with Riga City Council and State Joint Stock Company *Latvijas valsts ceļi* (Latvian State Roads);
- To create juncture with international *airport Riga*;
- To improve quality of customer service, as well as to make railway available to disabled people, building new elevated platforms and renovating the existing stations;
- To invest in environment protection events and to build baffle walls within Riga city. It will also have a positive effect on safety situation, because access to railway tracks beyond stations will be eliminated.

The company sees a long-term perspective of business development in North-West direction, where the project *Rail Baltica* will be implemented.

In the area of carriages, strategic goal of the company is to guarantee safe, high quality environment friendly freight and passenger carriages for a reasonable price.

To fulfil this goal, attention will be paid to:

- development of traction and rolling stock, to:
  - modernise traction, reducing impact on the environment;
  - renovate and supplement wagon park in conformity with prognosis of demand of freight carriages;
  - modernise existing and purchase new passenger trains.
- development and accessibility of services
  - To ensure integrated transport services in freight carriages;
  - To implement new services in passenger carriages;
  - To improve IT services in processes of order and deliveries.

## Development of organisation

In the next couple of years it is planned to pay attention to development and modernisation of organisational and management system, to create up-to-date and highly efficient company, that would be competitive on service and work markets. Separate strategic programme will be developed, in implementation of which attention will be paid to improvement of production and management processes, as well as to implementation of new management methods in subsidiary companies. It is planned to reach quintessential increase of productivity of labour, to increase initiative and responsibility of executives, and to achieve flexibility in decision-making. At the same time high performance quality and safety of railway system must be achieved.



## Investment policy

To reach strategic goals of the company, long-term investment programme has been developed:

- to provide accordance of railway infrastructure technical parameters to the effectual quality and safety standards and demands, and technical regulations of the EU unified railway system;
- to maintain, renovate and develop infrastructure in accordance with prognosis of capacity demand;
- to increase accessibility of public railway infrastructure, and compatibility of it with other types of public transport;
- to improve quality of services as necessary for demands of the market.

The prior sectors for investment, according to long-term development of business, are:

- Development of infrastructure: East-West railway corridor, Riga region transport system and North-West direction. The main goal is to ensure carrying capacity of public use railway infrastructure (freight carriages in East-West railway corridor) to the volume of 58 millions tonnes until the year 2010. The main projects to be implemented, are construction of the second railway track in sections Skriveri – Krustpils and Indra – State Border, and modernisation of signalling system. Similarly, large investments are planned for development of Riga railway junction, By building new stations and railway tracks on the left side of Daugava river, and by modernisation of signalling, power supply, telecommunication systems, and other.
- Development of carriages: renovation of traction and rolling stock, and development of services.

In 2007, implementation of railway infrastructure modernisation projects continued:

- replacement of track turnouts (realisation of the 2nd stage of the project commenced; 360 turnouts planned to replace);
- Modernisation of hot-box detection system;
- Modernisation of signalling systems;
- Renovation of tracks in section of the East-West railway corridor.

In 2007, for implementation of the investment programme, the funds of 24, 7 millions Lats (including 12, 3 millions Lats from the EU Cohesion Fund, 7, 9 millions Lats from the State budget, and 4, 5 millions Lats from Latvian Railway) were disposed.

Strategic priorities of the concern in 2008:

- Development of new types of freight carriages, paying attention to container carriages;
- Development of co-operation with business partners, creating unified system of transport and logistics;
- Development of IT and communication technologies, services and processes; working out and realisation of long-term development plan;
- Rational implementation of compatibility of European railway system and other demands in co-operation with railway companies and organisations from the EU countries.







## Environment protection

Environment protection is one of the priorities of Latvian Railway. Since the year 1998, when Environment policy was approved, each year varied work is planned and carried out in accordance to this policy. The most important are events with double effect, i.e., events resulting in economy of materials and resources, and decreasing risk of pollution. Special attention is paid to safety of carriages and training of employees on environment protection issues.

For implementation of events of Environment policy in 2007, concern spent the amount of 3 040 925 Lats, including 1 324 676 Lats in structural units, but 1 716 249 Lats in independent companies. Application of means in the period of account was the following:

- For protection of atmosphere (heating systems and ventilation systems) – 52 162 Lats;
- For water protection and rational use of water, as well as for preservation of hydrological conditions in territories adjacent to railway track (repairs of water supply and sewerage systems, maintenance of water drainage systems) – 379 177 Lats;
- For protection of ground and groundwater (modernisation of diesel-electric locomotives with special devices for elimination of oil product leakage; quality monitoring of ground and groundwater in the territory of Latvian Railway; recovery of polluted ground and groundwater) – 629 853 Lats;

- For waste treatment (utilisation of wasted oil products and polluted ground, as well as collection of unusable devices) – 199 891 Lats;
- For elimination of noise (grinding of rails and turnouts) – 273 896 Lats;
- For providing of train traffic safety and fire protection (maintenance of turnout cleaning devices, maintenance and modernisation of level crossings, cutting out of old dangerous trees and bushes, mowing of grass, combustible waste disposal) – 407 184 Lats;
- For recovery of protective greenery – 6 107 Lats;
- For economy of fuel and energy resources (change of windows in shop floors and offices, modernisation and capital repairs of electric trains, considering environment protection) – 1 077 002 Lats;
- For other events necessary for environment protection – 15 653 Lats

As a result of annual event of implementation of Environment policy, consumption of fuel, electric power, and water has decreased, the volume of emission lessened.

## Quality management and standardisation

In the period of account in the concern a quality management policy was approved. The policy determines basic principles of mutual co-operation on quality management and standardisation issues between the leading company and dependent companies. The goal is to provide unified perception and harmonised management of quality and standardisation for development of the concern.

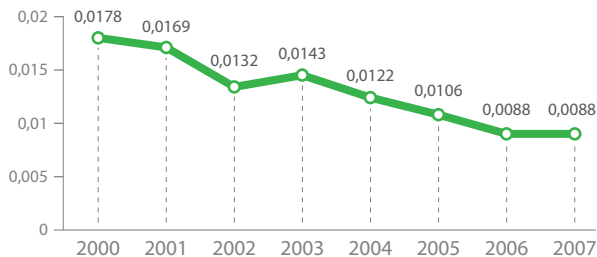
Decision of certification of Quality management system is made, if accordant companies and structural units work with clients; or it is also determined by other demands, for example, participation in international tenders. The following structural units of the company are approval of the fact that they have certified quality management system, in conformity with demands of the international standard ISO 9001:

- Information Technology Centre;
- Railway Repairs Centre in Daugavpils;
- Rail Welding Centre;
- Wagon Repairs Centre in Daugavpils;
- Locomotive Repairs Centre;
- LDz *apsardze* Ltd.;
- JSC VRC *Zasulauks*.

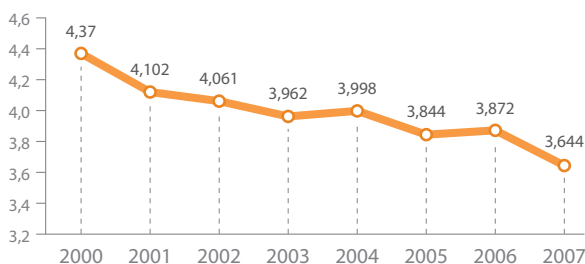
For developing of international standards and technical norms, experts from Latvian Railway were involved in work groups of European Railway Agency (ERA) and Organisation for Cooperation of Railways (OSJD). To operate successfully with the railway transport unified system of 1520 mm width, Latvian Railway as an observer continues to work in the Cross-border Standardisation technical committee *Railway Transport*.

To solve standardisation issues in a national level, technical committee of railway section standardisation LVS/STK39 Railways operates. In the period of account this committee commenced realisation of the National standard project *Passenger platforms in railway lines of 1520 mm width*.

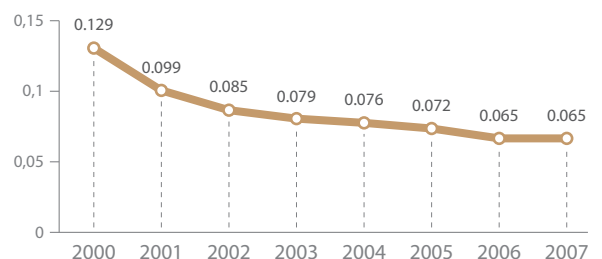
Consumption of diesel 2000-2007 per passenger kilometre (kg)



Consumption of diesel 2000-2007 per 1000 tonne kilometres (kg)

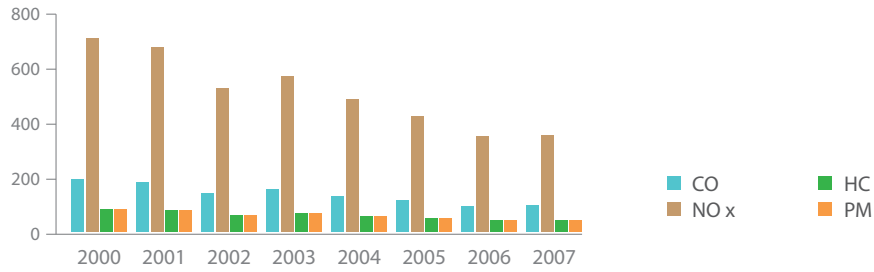


Consumption of diesel 2000-2007 per passenger kilometre (kWh)



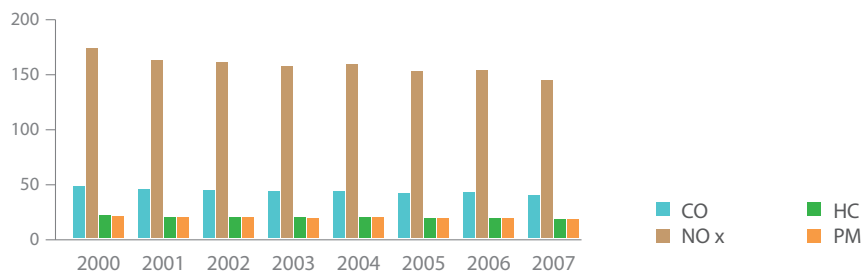


Emission of noxious substances with exhaust of diesel engines  
2000-2007 per 1000 passenger kilometres (g)



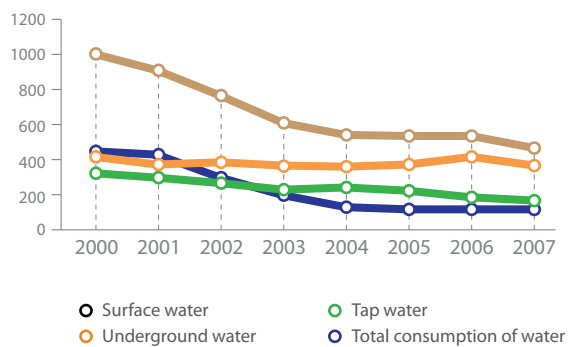
	2000	2001	2002	2003	2004	2005	2006	2007
<b>CO</b>	190,46	180,33	141,24	153,01	130,54	113,42	94,16	95,23
<b>NO x</b>	704,88	669,24	522,72	566,28	483,12	419,76	348,48	352,44
<b>HC</b>	82,77	78,58	61,38	66,49	56,73	49,29	40,92	41,38
<b>PM</b>	81,52	77,4	60,46	65,49	55,88	48,55	40,3	40,76

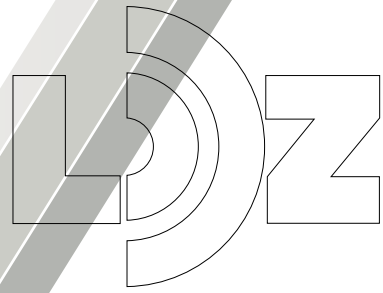
Emission of noxious substances with exhaust of diesel engines  
2000-2007 per 1000 tonne kilometres (g)



	2000	2001	2002	2003	2004	2005	2006	2007
<b>CO</b>	46,759	43,891	43,453	42,393	42,779	41,131	41,43	38,991
<b>NO x</b>	173,052	162,439	160,816	156,895	158,321	152,222	153,331	144,302
<b>HC</b>	20,32	19,074	18,884	18,423	18,591	17,875	18,005	16,945
<b>PM</b>	20,015	18,787	18,599	18,146	18,311	17,605	17,734	16,689

Consumption of water in Latvian Railway 2000-2007 (thousands m3)





LATVIJAS DZELZCEĻŠ



# Policy of staff management

The aim of staff management is to attract, develop and maintain professional and loyal personnel that can ensure qualitative execution of tasks and achievement of business goals.



## Statistics and development of staff

In 2007, 13620 employees worked for Latvian Railway. 38% of the total number of workers were women. The average salary in 2007 in Latvian Railway was 532, 90 Lats.

The main collaboration partners for the preparation of railway experts are Railway Transport Institute in Riga Technical University, Riga Railwaymen School and Latgale Transport and Telecommunication Technical School. According to contracts signed with these educational institutions, Latvian Railway is organising field practice, appoints its experts as a board of experts, and gives the new specialists financial and material support. To popularise profession of railway industry, Latvian Railway participated in Career Days organised by educational institutions, and also took part in organising students' competition supported by Latvian Education Fund.

To improve professional competence, Latvian Railway organised:

- Railwaymen training in working places and structural unit technical;
- Further education programmes in State railway profile educational establishments;
- Training and seminars in the Latvian Railway Training Centre;
- Support to railway experts in acquirement of Secondary professional or university professional education.

## Organising of learning process and further education

According to the concept of development and publishing of Railway technical literature and study aids, commission that was formed in conformity with resolution of the Board of Latvian Railway organised development and publishing of the minimum of literature and study aids necessary for the training and work of railway specialists:

- Broadsheet *Construction of Brakes in Freight Wagon* was published in 2007;
- Text book *Fundamental of Railway Track Construction*;
- Several books of railway technical literature under preparation;
- Projects for an educational film and a poster for electronic catalogue are explored.

In 2007, in 178 groups 2106 persons attended training in the Latvian Railway Training Centre. 2041 of them were employees of Latvian Railway and subsidiary companies, and 65 were clients from other companies.

75 programmes for training and seminars were organised. More than one third of the total number of participants studied in further education courses of railway technologists.

Division of training programmes by themes

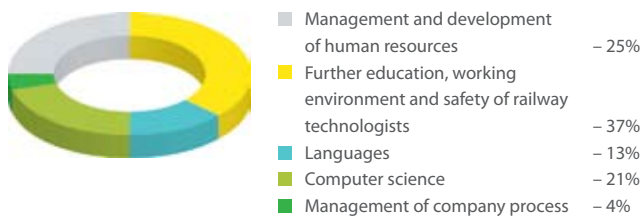
Theme	Programmes	Groups	Participants
Management of company process	4	5	78
Management and development of human resources	24	38	516
Further education, working environment and safety of railway technologists	18	51	794
Languages	13	27	277
Computer science	16	57	441
<b>Total</b>	<b>75</b>	<b>178</b>	<b>2106</b>

The most appreciated courses were *Repair of Rails and Turnouts Using the Method of Melting* developed by the Swedish railway company *Banverket*, and *Maintenance of Long Rail Tracks* developed and read by railway experts of our company Vladimirs Junovics and Vladimirs Cigaks. In Daugavpils branch of the Training Centre such courses were *Structure and Repair of Freight Wagons* and *Structure and Repair of Freight Wagon Brakes*.

To implement the Programme of Professional Development for the Management of Latvian Railway, approved by the Board of the company, training Introduction to Latvian Railway Business Class and Latvian Railway Business Class was organised. 17 employees finished each of these programmes, and another group of 17 people started to take the course in autumn. Course of computer knowledge is in demand, because proportion of several courses of acquiring Financial Information System SAP is increasing; the number of courses for beginners is decreasing.



Division of training programmes by themes



In 2007, the Training Centre co-operated with 53 teachers, 22 of which (or 41,5%) were employees of Latvian Railway. The most active lecturers were Genadijs Zemcovskis, Viktors Kiristovs, Raimonds Kanasevics, Jelena Tretjakova. According to assessment questionnaires the average rating for teachers was 4,7 (in 5 point system).

The main duties of profession psychologist:

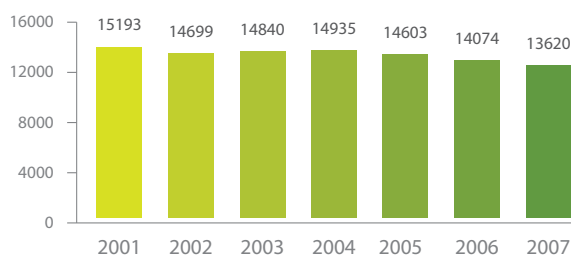
- To create test programmes for train service supervision dispatchers and stationmasters on duty;
- First psychological-physiological assessment of engine drivers and their assistants.

Taking into account criteria of psychological-physiological professional suitability and options of diagnostic of the computerised universal testing complex, a psychological-physiological assessment programme was created. The first stage of implementation of the programme was

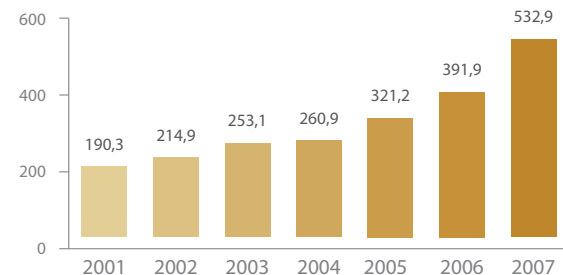
completed. After analysis of results, and in co-operation with the authors of the test programme (company *Neirocom* from the Russian Federation), additional adjustment of the programme to train service supervision dispatchers and stationmasters on duty will be carried out. Information has been gathered also about the number of workers in these professions as potential clients for psychologist until the year 2010.

To draw a conclusion and analyse results of the work of psychologist, as well as to maintain records of employees, special data basis was developed in the Training Centre. Information on the test results, position, age, length of service and other aspects will in future give opportunity for the psychologist to work with employees individually, if necessary.

Number of employees 2001 – 2007



Average salary per month 2001 – 2007





# Freight Shipments

On July 5, 2007, as a result of restructuring of Latvian Railway, "LDz Cargo Ltd" was founded. It is one of the largest railway freight carriers in the Baltic region.



## The main statistic data

Number of clients of the company reaches almost 3000, including freight owners, stevedoring companies and forwarders. LDz Cargo Ltd. co-operates with companies from CIS, Central Asia, Western Europe and Baltic region. The company acts in compliance with SMGS and CIM.

LDz Cargo Ltd. provides inland and international freight shipments on railway, as well as offers auxiliaries involving wagon treatment and attendance in stations, such as shunting works, processing of documents, and other. Shipments on the railway are carried out both East – West and North – South directions.

2963 qualified employees with great experience in freight shipments work in the company. Since the first day of the company until the end of 2007, 2734 employees have been working there. 85,2% or 2329 of these employees are labourers, 263 employees or 9,6% are deskmen, 128 employees (4,7%) work in production, and 15 employees or 0,5% are maintenance staff. Accordingly the increases of inflation rate, in the period of account wages of employees were scaled up.

Company disposes 194 main and shunting locomotives, and 5017 freight wagons, including:

- Covered wagons – 1294;
- Flatcars – 74;
- Gondolas – 1138;
- Tank-wagons for oil and fuel transit – 1219;
- Corn wagons – 643;
- Wagons for cement – 119;
- Transporter wagons – 4;
- Isothermic wagons – 92;
- Fitting platforms for container transit – 417.

Largest part of the total number of wagons (24, 9%) is covered wagons, 23, 7% are tank-wagons, and 21, 9% - gondolas. In 2007, 100 new fitting platforms for container transit were purchased. It is planned to obtain 500 new freight wagons in 2008. Until the year 2011, programme of renovation of freight diesel-electric locomotives will be continued (it is planned to modernise 30 locomotives).

Approximately 85 % of the total volume of freight was carried on the East-West railway transit corridor. In 2007, 44,597 thousand tonnes freight were shipped on this corridor. 70, 5% or 31,433 thousands tonnes of the total volume of shipments were carried in the Latvia – Belarus – Latvia railway line. The rest 29, 5% or 13,164 thousands tonnes were shipped to/from Russia.

In 2007, the total volume of shipped freight increased, thus maintaining competitiveness in the market of railway freight shipments. All the main types of freight were carried – oil and its products, carboniferous, and artificial fertilisers. In total in 2007 company shipped 52,164 thousands tonnes of freight; this is 7% more than in the year 2006.

## Types of freight

In 2007, the volume of corn transit doubled – up to 948 thousands tonnes, which is increased per 96, 9% in comparison with 2006. The third largest increase of volume applies to chemicals – 22, 1%, reaching 1647 thousands tonnes. Container transit increased rapidly. In 2007, the total number of shipped freight was 55, 3 thousands TEU units, which is per 69, 4% more than in 2006.

The number of oil and oil product freight shipments (111, 4%), and ferrous metal freight shipments (114, 9%) increased. 19341 thousands tonnes oil products and 2756 thousands tonnes ferrous metal was shipped. The volume of sugar freights decreased (330 thousands tonnes, which is only 67, 1% of the volume shipped in 2006).

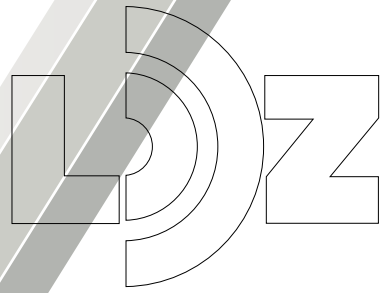
Besides, volume of shipped timber products, coal and artificial fertilisers increased: the volume of shipped timber products increased per 109, 7%; 14 724 thousands tonnes of coal were shipped. The volume of artificial fertilisers reached increase of 101, 7%, which is 5628 thousands tonnes.

Import shipments (including through sea ports) increased up to 108, 7 % (42 775 thousands tonnes), through sea port railway stations per 109, 9%, reaching 37717 thousands tonnes. The total number of export shipments in 2007 was 2356 thousands tonnes, which is 110, 6 % from the volume in 2006. Cargo shipments through sea port railway stations increased per 103, 7% (1324 thousands tonnes). Transit shipments through overland points of entries increased, reaching 104% (total 5034 thousands tonnes). The volume of inland carriages decreased per 16, 8 % (2000 thousands tonnes of freight shipped), which can be explained by the shutdown of sugar-refineries in Latvia.

Transit cargo is mainly shipped through Ventspils, Riga and Liepaja sea ports. Import freight shipped to Ventspils sea port - 18 182 thousands tonnes. Freight shipped to Riga sea port - 17 586 thousands tonnes. Freight shipped to Liepaja sea port - 1949, 50 thousands tonnes. The total volume of import freight shipped to sea ports in 2007 is 37 717 thousands tonnes.

Export shipments from Riga sea port - 713 thousands tonnes, from Ventspils sea port – 246, and from Liepaja sea port - 488 thousands tonnes. In total - 1359 thousands tonnes.

86% of the total volume of shipments is transit shipments. The main co-operation partners are Russian Federation and Belarus. 54, 1% of freight is from Russia, 32, 5% from Belarus. Other freight is shipped from Asia, Europe and the Baltic states. Freight exported from Russia is – coal, oil and oil products, artificial fertilisers, and other. From Belarus – oil products, artificial fertilisers, timber products and metals (13 021, 23 thousands tonnes). Freight exported to Belarus – sugar, chemicals, cotton, and other (239, 81 thousands tonnes). In comparison with 2006, in 2007 the volume of shipments both directions (to and from



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Belarus) is decreased from 16 880 to 15 776 thousands tonnes. In co-operation with the Kazakhstan railway, corn and container freight is shipped, which is 2, 6% of the total volume of freight. 5, 1% freight is shipped from Lithuania, 2, 4% from Ukraine, but the volume of freight shipped to other countries is 3, 4%, for example, to and from Uzbekistan, Estonia, and other.

### Container traffic

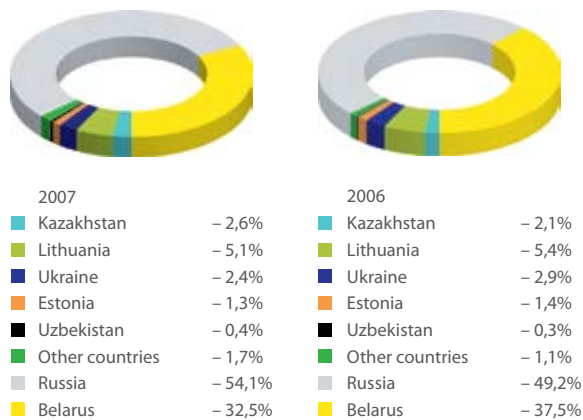
Taking into account the transport development tendencies in the world, the prior type of carriages to LDz Cargo Ltd. is container traffic. In total 55,334 TEU units were shipped, including 23 205 TEU units through sea-ports.

Container train *Baltika – Transit* regularly provided container freight shipments from the Baltic States to Central Asia. The volume of freight shipped with this train in 2007 increased per 214%. Now the discussion with co-operation partners regarding attraction of freight to this container train line also from other countries in Central Asia region is open. In 2007, 32, 6 TEU units of the total number of container carries on railway were shipped to Kazakhstan; 21, 7 thousands TEU units with train *TransBaltica*.

In 2007, container train started to run in line Riga – Moscow. First container freight was received from China, forwarding them to the Western Europe. Container freight is distributed in logistics centre in Jekabpils.

According to changes in international market of shipments, also the tariff policy of LDz Cargo Ltd. was changed. Calculation system for pricing was simplified; therefore the new tariff policy is understandable to clients. It is precisely defined what for, why, and how much to pay. Tariffs for import, export and international carriages were increased per 8 – 15 %.

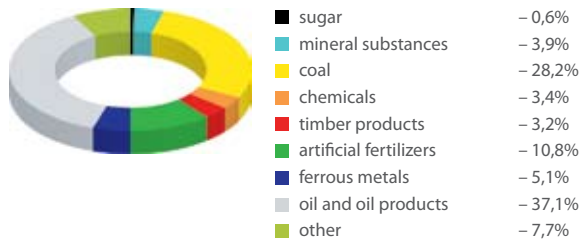
Proportion of freight volume forwarded by different countries in import and overland transit



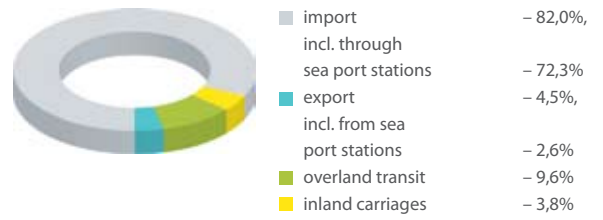


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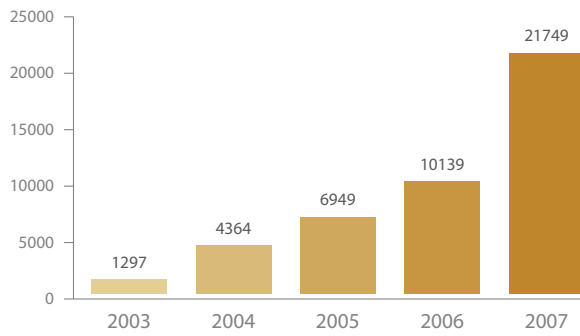
Proportion of carried freights in 2007



Freight shipments in 2007



Number of containers carried with container train Baltika-Tranzit (number of containers in TEU units)





# Inland passenger carriages

Joint Stock Company Passenger Train provides passenger carriages on railway with electric trains and diesel-engine trains.



In the period of account passenger carriages in short-distance traffic with electric trains were carried out in four railway sections: Riga – Skulte, Riga – Aizkraukle, Riga – Jelgava and Riga – Tukums.

Routing of passengers with diesel-engine trains is provided between different regions of Latvia and the capital city. Passenger carriages with diesel-engine trains are provided in eight railway sections: Riga – Sigulda – Valmiera – Lugazi, Riga – Gulbene, Riga – Krustpils, Riga – Krustpils – Rezekne – Zilupe, Riga – Krustpils – Daugavpils, Riga – Jelgava – Renge and Riga – Jelgava – Liepāja. Carriages in the section Riga – Ergli are closed from January 1st, 2008. Resolution on restoration of the traffic in this section will be made after evaluation of economic justification of passenger carriages.

In 2007, Joint Stock Company *Pasažieru vilciens* (Passenger Train) took several measures to improve passenger service:

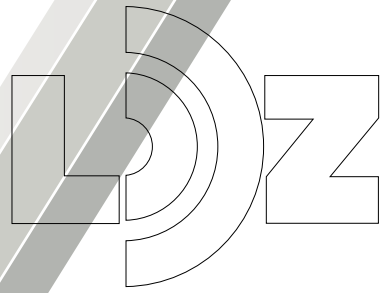
- In September 14, 2007, within the framework of the National Programme of European Regional Development Fund *Development of Riga City Passenger Carriages 2005 – 2013*, first two modernised electric trains were put into operation. In total in 2007, 33 wagons or 7 four-wagon electric trains and 5 motorcars were modernised. Project *Modernising of the Existing Trains* anticipates modernisation of 68 electric train wagons until the year 2008 (total costs 13, 7 millions Lats). Part of the total costs will be covered by the European Regional Development Fund. A higher level of passenger comfort and safety, and up-to-date engine-driver cabin is provided in the modernised electric trains.
- In 2007 modernisation of electric train wagons was commenced. The project was financed by ERDF, and implemented by Joint Stock Company VRC *zasulauks*.
- Reconstruction of diesel-engine train wagons (total costs 1 378 940 Lats) and electric train wagons (total costs 4 630 490 Lats) was carried out. All expenses was the funds of Joint Stock Company *Pasažieru vilciens*.

- On May 24, 2007, diesel-engine train of improved comfort went from Riga to Rezekne. Route of this train since May 27, is the following: Liepāja – Riga – Rezekne and Rezekne – Riga – Liepāja. There are 210 seats in this train; television receivers and espresso are in each wagon. Since this train is an express train, time spent on the way is shorter that in regular trains.
- Work on another important project of the National Programme of European Regional Development Fund *Purchase of New Electric Trains. Feasibility Study* continued. Goal of this project is to work out a strategy of implementation of rolling stock for new electric trains, taking into account all aspects of maintenance, servicing, infrastructure, safety, environment and public demands.
- It was agreed with Riga City Council upon passenger carriages within the territory of Riga (order of local governments).

As a result of the mentioned events, the number of passengers in 2007 continued to increase (27, 430 millions passengers).

Number of passengers carried by JSC Passenger Train 2005 – 2007 (thousands)

	2005	2006	2007
Electric trains	22547	23880	23930
Diesel-engine trains	2965	3085	3065



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# International passenger traffic

International passenger traffic in Latvia on railway is provided by State Joint Stock Company Latvian Railway together with Joint Stock Company Starptautiskie pasažieru pārvadājumi (International Passenger Traffic) and collaboration partner L-Ekspressis.



In 2007 the ratios of international passenger traffic were the following:

- 0,388 millions passengers carried;
- in comparison with the year 2006, the number of passengers carried has decreased per 3%;
- the turnover of passengers is 93,7 millions passengers/kilometre;
- in comparison with the year 2006, the turnover of passengers has decreased per 5,4%.

For international passenger carriages six passenger trains formed in Latvia are used. Two trains in line Riga – Moscow, besides these, one train in each of the following lines: Riga – Saint Petersburg, Riga – Gomel, Riga – Truskavec, Riga – Simferopol (in summer period). But in schedule of trains for the period 2007 – 2008 train Riga – Gomel was not appointed.

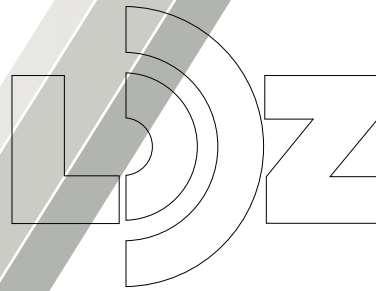
In transit route Vilnius - Saint Petersburg (that crossed the territory of Latvia), train formed in Lithuanian railway was sent.

In 2007, 0,048 millions inhabitants and guests of Latvia (which is per 11052 passengers or 18, 7% less than in 2006) chose international passenger traffic. In the period of account the turnover of passengers in inland traffic was 10, 7 millions passengers/kilometres. (In 2006 the number was 13, 2 millions passengers/kilometres, which is 18, 9% less than the previous year). In comparison with 2006, the average distance in the territory of Latvia in international passenger trains has decreased per 5,0 km (239,5 km).

Inland passenger carriages 2005 – 2007

Passenger carriages (thousands of people)	2005	2006	2007	2007 % con	
				2006	2005
total	378	400	388	97,0	102,6
of which:					
number of passengers departed from Latvia	170	177	165	93,2	97,1
number of passengers arrived to Latvia	176	186	173	93,0	98,3
transit	32	37	50	135,1	156,3





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# Development of infrastructure

Technical Management Department of Latvian Railway is responsible for organisation of train traffic, railway infrastructure (including maintenance of railway tracks, engineering structures, automatic and semi-automatic signalling systems, railway communications, wireless communications, power supply and contact network and other facilities in accordance with the Regulations on Railway Technical Operation.

Technical Management Department is also responsible for development of real estate and infrastructure of Latvian Railway.

The operational length of the main track is 2166,2 km.

## Basic units of railway infrastructure

No.	Basic unit	Unit	Total
1.	Extended lengths of railway tracks, incl.: main tracks station tracks spur tracks	km	3586,2
		km	2567,0
		km	830,8
		km	188,4
2.	Turnouts complete	set	3113
3.	Engineering technical buildings: bridges culverts	pieces	591
		pieces	981
4.	Level crossings	level crossings	541
5.	Train traffic management system: - automatic blocking - semi-automatic blocking - electric centralisation of stations	km	1063,7
		km	837,7
		station	163
6.	Main communication cables	km	3145,5
7.	Wireless communications	km	1870,2
8.	6,10 kV high-tension grid lines	km	1401,0
9.	Communication networks	km	257,4

Railway infrastructure is maintained by 6 structural units: 3 track divisions and 3 signalling and communication (electro-technical) divisions.

The main tasks of Technical Management Department and its structural units in the year 2007 were:

- Maintenance of infrastructure in good technical condition to ensure safe train traffic at the settled speed;
- Improvement of maintenance technology;
- Precise and accurate planning of investments in conditions when state budget funds for infrastructure are not anticipated;
- Acquiring and implementation of the newest technologies;
- Efficient technology of acquiring investment.

In 2007, the following reconstruction (modernisation, capital repairs) and maintenance works were carried out:

### – Reconstruction (modernisation):

- Modernisation of hot-box detection system in the East-West railway corridor – 1847 ths Lats;
- Modernisation of Signalling System in the East-West railway corridor – 426,3 ths Lats;
- Modernisation of track turnouts and ALSN system due to modernisation of signalling system – 152,1 ths Lats;
- Reconstruction of railway tracks (5 km) – 3695,4 ths Lats;
- Modernisation of electrification devices – 462,5 ths Lats;
- Highlighting of railway bridge over Daugava in Riga – 340,0 ths Lats;
- Modernisation of park D in Daugavpils passenger station – 325,5 ths Lats;
- Modernisation of hill moderator in Daugavpils station – 159,5 ths Lats.

### – Renovation (capital repairs):

- Capital repairs of B type railway tracks (15,2 km) – 1360,6 ths Lats;
- Replacement of 140 complete sets of track turnouts – 6562,1 ths Lats;
- Repair of engineer-technical buildings and embankment – 25,1 ths Lats;
- Replacement of damaged long tracks on I category tracks (12,9 km) – 838,0 ths Lats.





**- Maintenance:**

- Operating reconstruction of railway track (42,4 km) – 354,2 ths Lats;
- Replacement of old rails with new rails (1,7 km) – 106,4 ths Lats;
- Faceting of rails – 226,3 ths Lats;
- Repair of track machines – 260,5 ths Lats;
- 40318 wooden sleepers replaced;
- Operating repair of SCB equipment – 331,0 ths Lats;
- Operating repair of communications – 104,0 ths Lats;
- Operating repairs of power supply equipment – 150,5 ths Lats.

**The most significant projects in development and renovation of infrastructure in 2007:**

- Continued implementation of the following projects:
  - Renovation of railway tracks in the East-West railway corridor;
  - Replacement of track turnouts in the East-West railway corridor;
  - Modernisation of hot-box detection system in the East-West railway corridor;
  - Modernisation of Signalling System in the East-West railway corridor.

**The most significant projects in 2008:**

- Renovation of railway tracks in the East-West railway corridor (105 km) – 28740 ths Lats;
- Replacement of 139 complete sets of track turnouts in the East-West railway corridor – 6838 ths Lats;
- Modernisation of hot-box detection system in the East-West railway corridor – 545 ths Lats;
- Modernisation of Signalling System in the East-West railway corridor – 208 ths Lats.





# Traffic safety

*In the field of train traffic safety Directives of the European Parliament and European Council regarding safety on Community's railways are adapted.*

According to the Directive 2001/16/EK on mutual availability of European regular railway system, first events to develop technical specifications were carried out in 2007. According to demands of Regulations No 91/2003 and 1191/2003, and Directive 2004/49/EC, reports of railway accidents are submitted to the Central Statistical Bureau and European Railway Agency. Matters of cooperation with the European Union are discussed with the support of the State Railway Technical Inspectorate of the Republic of Latvia.

Experts of the Technical Inspection of Latvian Railway continued cooperation with the Railway Transport Council of CIS and Baltic States to work out regulations on train traffic safety. The most important documents that are approved: *Outline of preparation of locomotive crews for work on the railway territories of the neighbouring countries* and *Outline and criteria of technical demands for the use of technical means in 1520 mm space*.

In July 2007 reorganisation of Latvian Railway was completed. Priorities during the reorganisation were to follow the reorganisation process, to preclude

deterioration of levels of train traffic safety and labour protection, as well as to maintain unitary train traffic safety and labour protection system. When Latvian Railway became a concern, new traffic safety supervision and labour protection management systems in structural units and dependent companies were worked out and implemented. Regular training for railway experts is included, because in the railway transport system traffic safety depends on human factors. Although the volume of freight shipments has increased, the number of violation of safety regulations has decreased in comparison with the year 2006.

The aim of the new labour protection policy of Latvian Railway is to facilitate organisation and maintaining of safe and harmless environment, and to prevent accidents. Examination of work places and evaluation of risks were carried out. Risks were evaluated according 5 point evaluation method; therefore it was possible to set priorities and to plan preventive events to improve safety in the concern.





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# Maintenance and development of the real estate

Technical Operations Unit of the Technical Management Department organised renovation of property units according to the budget of the Latvian Railway for the year 2007.



Capital repair was carried out in the following property units:

1. According to the technical project *Capital repair of Jelgava station building* capital repair of Jelgava station building continued. Renovation of stairs, porches and inner utilities, as well as archives' premises on the second floor was carried out (total costs of works 0,140 millions Lats without VAT).
2. Installation of gas in boiler-house of Zaslauks station was carried out, including development of technical project, construction of external and internal culvert and setting-up of boiler-house technical equipment (0,240 millions Lats without VAT).
3. Television surveillance systems were installed in the premises of Riga passenger station and on platforms (0, 480 millions Lats without VAT).

For renovation of property units 1,695 million Lats without VAT were allocated

1,195 millions Lats were allocated for the regional management district. Renovation of railway infrastructure property units, as well as improvement of household and working conditions of railwaymen was a priority. The most significant renovation works have been carried out in:

- MRC office building in Tornakalns station;
- MRC post in Riga, Rusina Street 2;
- Valmiera station building;
- MRC post in park J of Skirotava station;
- Vecumnieki station building;
- MRC post in Jelgava station.

To prepare for heating season, thermal knots in DC post of Lacupe station, Zemitani station building and Liepaja station were modernised. In Jelgava, Pasta Street 56 heating main was renovated. Casement windows that were in poor condition were replaced in Kandava and

Zvare station buildings. Significant funds were invested to improve technical condition of property units. Renovation of water-pipes and sewerage was carried out in Kegums and Dzintari station buildings, and in Nafta station building in Ventspils. Roof covering was replaced in Jumprava train stop, as well as in Lilaste, Kegums, Vangazi and Skrunda station buildings. Fire safety alarm was installed in Bolderaja and Lacupe station buildings.

To improve comfort for passengers, renovation works were carried out on platforms in Jaunolaine and Balozi. According to request of the Joint Stock *Pasažieru vilciens* (Company Passenger Train), platforms in Saulkalne and Ikskile train stops were lengthened. The building of Ikskile train stop was entirely renovated: facade, roof covering and renovation and re-planning of interior cost 0, 49 millions Lats. Atgazene train stop was restored after arson.

## Registration of real estate

In 2007, the Real Estate Registration Unit in collaboration with the State Land Service and regional governments continued to clarify the content of real estate (land, buildings) under possession of Latvian Railway, organised land survey and registration in the Real Estate Information System, and continued consolidation of hold in Land Register. It is important to provide the structural subdivisions of Latvian Railway with the necessary information regarding any property unit of Latvian Railway and respective cartographic information. Until now information registered in the Land Register about the real estate of Latvian Railway is deficient and contradictory. Changes can be done only in accordance with requirements of the normative acts of the Republic of Latvia. Notwithstanding frequentative proposal of the Government to simplify the process, adjustment of hold has not expedited. Contrariwise, this process has become more complicated and expensive.

## Consecution of adjustment of hold

Data of the Latvian Railway Real Estate Information System (REIS) in January 1, 2008

Competence	Amount according to REIS	Area according to cadastre, ha	Surveyed, amount	Surveyed area, ha	Property units registered in Land Register	Area registered in Land Register, ha
Ministry of Transport	1220	15600	69	886	62	633.4807
Latvian Railway	11	1.761	11	1.761	11	1.761





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## Consecution of adjustment of hold of buildings

Data of the Latvian Railway Real Estate Information System (REIS) in January 1, 2008

Competence	Amount of buildings registered in cadastre	Amount of buildings on the balance	Amount of buildings registered in Land Register
Latvian Railway	898	1998	143

Real Estate Registration Unit supervises the propriety of real estate tax set by local governments, and controls record-keeping of payments. Gradually the information from SAP data base is transferred to the REIS data base. Information about the real estate of Latvian Railway is maintained in accordance with the Law on Cadastre; therefore information on the real estate can be quickly prepared and submitted to the Ministry of Transport or other institutions when demanded by the Government.

To relieve the process of adjustment of hold, in the Real Estate Registration Unit, in collaboration with the Ministry of Transport, Latvian Geospatial Information Agency, local governments and land surveying companies, huge data base is created and constantly supplemented. Structural units of Latvian Railway can access the cadastral map of the state, topographical maps of the state (scale 1: 50 000; 1: 10 000), topographical plans of separate territories (scale 1:2000 and 1: 500), as well as orthophoto. Cartographical information is used not only to manage the real estate, but also to plan and design railway tracks and for construction of railway infrastructure. Wide accessibility of cartographic information will essentially expedite adjustment of hold and will ease the management of property.



# International co-operation

*On the level of international co-operation our company bears double responsibility. Geographically, from one side we are under the influence of European Union, which means that we must obey its law and directives, although the width of railway tracks in the majority of the Union countries is 1435 mm; from the other side – both historically and technologically, we must work with the 1520 mm railway.*

*Now our task is to maintain good neighbourly relations with partners in east and west, to continue the work of railway width compatibility, as well as to have Latvian Railway transit corridor marked out in the European Union railway map.*

## Participation in international organisations

Since 1992, State Joint Stock Company Latvian Railway actively participated in the work of Organisation for Cooperation of Railways (OSJD), in which 27 countries are represented. Beside these, in this organisation several railways and companies take part as observers. Since 1992, Latvian Railway as an observer takes part in the work of Railway Transport Council, but since 1996, the company is the associated participant of the council. This status gives railway more possibilities to affect decisions, but does not restrict the freedom of action in execution of decisions. Since 2000, Latvian Railway is the resident participant in the council of international Trans-Siberian transport co-ordination, and within the council actively co-operates with more than 40 railway administrations, shipping companies, seaports, as well as organisations of freight operators and forwarders. The number of participants in the council increases each year, and it witnesses of its influence in transit traffic. Since 1992, Latvian Railway is an active member of International Union of Railways (UIC). The headquarters of this union is located in Paris. Statistics generalised in the end of 2006, shows that UIC unites more than 160 railway administrations and companies worldwide. Representatives of Latvian Railway regularly participate in assemblies, conferences and work group meetings organised by UIC.

To favour closer co-operation with railways in the European Union, Latvian Railway in 2003 joined the Community of European Railway and Infrastructure Companies (CER), the headquarter of which is located in Brussels. In the year of account representatives of Latvian Railway participated in different events organised by CER, including the work of General Assembly. Also several meetings of the top managers and specialists of Latvian Railway with the management of CER in Riga, Brussels, Paris and Berlin have taken place.

Since 2000, Latvian Railway is the participant of International Railway Transport Committee (CIT). CIT unites more than 300 structures involved in railway transport; among these: railway companies, infrastructure operators, shipping companies and road transport companies in states, where COTIF (Convention concerning International Carriage by Rail) is used. To solve railway traffic safety issues more successfully, using European experience, in September, 1999, Latvian Railway admitted into COLPOFER (French: Collaboration des services de police ferroviaire et de sécurité). In 2006, Latvian Railway participated in the work of COLPOFER General Assembly in Berlin.

The leading international partners of Latvian Railway are railway administrations in the Federation of Russia, Belarus, Lithuania, Estonia, Ukraine, Kazakhstan, Germany and Poland.



## International Co-operation Eastwards

Our experts actively participate in five committees and two resident work groups of Organisation for Cooperation of Railways (OSJD). In comparison with the previous year, in 2007 activity in the resident work group in Committee of Passenger Carriages and Committee of Coding and Information Technologies increased. Latvian Railway actively participated in research of reorganisation of OSJD structure and the audit of OSJD documentation. Our company is the leading executive in the work on eight subjects of OSJD committees and work groups.

In 2007, Latvian Railway organised work group meeting on development of OSJD normative acts, expert meeting on dimensions of the rolling stock, and interim work group meeting on the audit of Agreement on International Freight Traffic (SMGS).

In 2007, management of Latvian Railway and experts participated in the 45th sessions of Railway Transport Council in Moscow, in 46th proceeding in Astana, and in 47th proceedings in Baku. Decisions on essential issues of operation and development of organisation were made. Between the proceedings our experts participated in the work of different committees and work groups. In 2007, resident work group meeting on the issues of classification and coding was held in Latvia.

In November 2007, in Switzerland, plenary session of Trans-Siberia Traffic Co-ordination Council was held. Representatives of LDz Cargo Ltd. also participated.

In 2007 we have repeatedly participated in the events of exchange of experience in Georgia, Kazakhstan and Azerbaijan regarding restructuring. In the year of account due to changes in the structure of Latvian Railway, the work of the concern with international railway organisations and foreign railway companies was refined.

In September 2007 preparatory work on the International Regional Railway Forum *Strategic Partnership1520* started. Taking into account the fact that railway executives from CIS, the Baltic States, Poland and Finland took part in this forum, it is an approval that our company gains international acknowledgement.

## International Co-operation Westwards

In 2007, representatives from Latvian Railway regularly participated in general assemblies and conferences regarding staff management and environmental aspects, organised by UIC.

In the period of account experts from Latvian Railway participated in the work of general assembly and work groups (involving infrastructural, economical and customs issues) of the Community of European Railway and Infrastructure Companies.

In order the EU could provide unitary railway traffic system and interoperability with different member states,



the issue of railway technical harmonisation has been reviewed in the level of legislation. Taking into account the fact that Latvia is the EU member state, and that it must meet directives, problem regarding compatibility of European 1435 mm and our 1520 mm railway systems becomes a burning question. This is why our experts actively participate in several work groups organised by CER, co-operates with the European Railway Agency, OSJD and UIC, as well as organise meetings with railway experts of those countries working with railway tracks of 1520 mm width.

For several years meetings of general managers of the Baltic State railway companies are organised. In March 2007 such meeting was held in Riga.

To participate in business discussions, international conferences and seminars, exhibitions, work group meetings, and congresses, 360 employees of the company last year went to business trips to 39 countries (in 2006, 299 employees went to business trips to 34 countries).

It is also very important for experts to participate in many international transport exhibitions and conferences in Moscow, St. Petersburg, Vilnius, Astana, Berlin, Munich, Paris, Rome, and Stockholm. For those international meetings held in Riga, we have received approval from, example, CER.





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# History museum of Latvian Railway

*Railway transport in the territory of Latvia exists already 147 years. It develops together with time, leaving behind cultural heritage.*

In 1991 history museum of the Latvian Railway commenced purposive preservation, research and demonstration of railway history. With time one by one reveals a new page in railway history, thus making a story of railway development in Latvia.

## Collection

Maintenance and preservation of collection of the museum is managed by two treasurers and one renovator. Collection is supplemented mainly with items and documents received from private persons, structural units of State Joint Stock Company *Latvijas dzelzceļš* (Latvian Railway), as well from people interested in railway. 484 items were obtained in 2007, and it gave opportunity to find out about several subjects, such as Railway Regiment of Defenders, Latvian Railwaymen Society, persons, as well as to supplement information about the history of rolling stock and railway lines. A special acquisition for the museum is locomotive (600 mm L-width M1 series) from Jelgava workshop in Riga depot, where it was kept in inappropriate conditions. Handing over the locomotive to the museum by the end of the year was a result of insistent and successful work of museum together with the new Latvian Railway subsidiary company Rolling Stock Service *rietošā sastāva serviss* Ltd. To improve the work of museum collection, a special worker was hired to finish digitalisation of the existing photography and postal cards' collection. The worker also started to digitalise documents and printed materials. This work will improve accessibility and preservation of the collection.

In 2007, museum successfully continued to work with the Rolling Stock collection, carrying out investigation of items, supplement of collection, and reconstruction of several rolling stock units. In 2007, restoration of shunting diesel-electric locomotives TGM 3<sup>b</sup> – 2804 and TGM 1 – 532, and mover M<sub>k</sub><sup>2</sup>15 – 885 were completed. Restoration of wooden parts in baggage car built in 1930ties was completed. On September 20, after restoration, railcar TD 5 was tested on the railway track in the territory of the museum. New co-operation partners are found for restoration works. These companies (that are not railway maintenance companies) carry out more qualitative restoration that meets demands of the museum. Therefore, authenticity and preservation of the collections can be ensured. Preparation of technical works and supervision of restoration is done by renovator of the museum and head expert. Members of Latvian Railwaymen Society and enthusiasts are involved to do this work.

## Exposition and exhibitions of the museum

In co-operation with limited liability company Hes, staff of the museum completed organisation of the structural plan and design solution for the 1st part of the permanent exhibition *Rolling Stock of Latvian Railway 1860–1940*. Process of the work took more time than it was planned, but the result satisfies both museum experts and artist, because all materials, items, documents and photos available to museum and railway enthusiasts were used for the exhibition. By the end of the year preparation and processing of materials for exposition commenced. Animation explaining the structure of steam locomotive was created.

Exhibition *Acquisitions of Railway Museum 2002–2007* was open on August 30 (which is birthday of the museum) to show dynamic and diversity of development of the museum collection. Themes of this exhibition are railway staff, social life, railway companies, stations and railway network maps. In Aspazija House in Jurmala, exhibition about 130 years of railway line Riga-Tukums was open. For this exhibition materials and items from the museum collection were used.

## Research work and social activities of the museum

The main theme of the research work is history of the rolling stock units, because it is planned to create basic exposition, to survey and to see materials that are accessible. These materials now can be found in some companies in Latvia and the Baltic States, in archives and libraries. Another very important theme of research is railway policy, events in the 1920ties and 1930ties, and railway staff. Two experts carry out the research work, and this is the factor that impacts the poor volume of the research work.

There is constant stability in attendance of the museum, which indicates successful publicity and interest of society in railway history. The number of visitors has not increased rapidly; it is the same as the previous year. In 2007, 9514 people visited the museum. The number of tourists has increased; also school groups that have visited the museum tend to initiate other groups from the same school attend the museum. There are problems in Jelgava Railway museum, because due to rise in the ticket price, school children refuse to visit the museum or choose not to use tour guide services. The most attended event was the





international campaign Long Night of Museums, during which museum exposed 8 rolling stock units. Visitors were allowed to get into locomotives, engine rooms, electric train wagons, prisoner wagon and wagon built in 1930ties. Children could enjoy the ride with a railcar. In total on this day 2505 people visited the museum.

In the course of the year experts of the museum consulted school children, students, historians, press, and other, therefore it can be assumed that museum is used as a source of trustworthy information.

Co-operation with other Latvian Railway structures responsible for the image of the company is developing successfully. Several Latvian Railway structures use collection of the museum and expert consultations. Museum is actively involved in making the image and brand of the company. In the course of the year a number of important events were organised, such as anniversary of Latvian Railway, presentation of the new railway track renovation equipment, 75th anniversary of Railway Trade Union.

Staff of the museum visited Aukstaitija narrow gauge railway museum in Lithuania, where they had an opportunity to go from Panevezys to Surdegis station (that was open in October after restoration) on a 1st class wagon lead by diesel engine locomotive TU-2.

Museum continues to use its premises as a place to organise diversiform events, thus positioning the museum as an active participant of culture life, and also receiving additional funds that are used to ensure better function of the museum. In the course of the year the number of organised events has increased. Diversity of these events is wide – art exhibitions, concerts, theatricals, presentations, and seminars.

# Projects supported by State JSC Latvijas dzelzceļš (Latvian Railway) in 2007



- 1 / Latvian Association of Foster Families
- 2 / Rauda Special Boarding School
- 3 / Medumi Special Boarding School
- 4 / Irlava Children's Home
- 5 / Association For Latvian Children with Physical Disabilities
- 6 / Open Public Foundation "Children's Health Our Future"
- 7 / Latvia Children's Fund
- 8 / Orphan Association "Saules bērni"
- 9 / Latvia Orphan Foundation
- 10 / Association "Children And Youth Trust Phone"
- 11 / Disabled person Valdis Abolins
- 12 / Latvia Osteoreflexotherapy Association
- 13 / State Blood Donor Centre, Latgale branch
- 14 / Riga Disabled Persons Association "Možums"







LATVIJAS DZELZCEĻŠ

- 15 / Engineer Jānis Linters Foundation
- 16 / Bauska Disabled Persons Association
- 17 / Deaf Supporting Foundation "Klusums"
- 18 / Association "Rīgas vēsturiskās mūzikas un dejas centrs"
- 19 / Association "Kultūrizglītība un sports"
- 20 / Youth Department of Daugavpils City Council
- 21 / The State Puppet Theatre
- 22 / Railway Transport Institute of Riga Technical University
- 23 / Riga Railwaymen School
- 24 / Latgale Transport and Telecommunication Technical School
- 25 / Vidzeme University College
- 26 / Latvia Fencing Federation
- 27 / Latvian Deaf Sports Federation





# Latvian railway lines



LATVIJAS DZELZCEĻŠ



# Financial report

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**Certified public accountant's report  
to the Shareholder of the State JSC "Latvijas dzelzceļš"**

We have audited the accompanying financial statements of the State JSC "Latvijas dzelzceļš" for the year 2007, on the basis of which the condensed financial report has been derived. The audit was performed in accordance with the International Standards on Auditing as issued by the International Federation of Accountants. Our report dated 10 June 2008 expressed the independent auditor's unqualified opinion on the basic financial statements from which the condensed financial report has been derived.

In our opinion, the information set forth in the accompanying condensed balance sheets is fairly stated in all material respects in relation to the basic financial statements from which the condensed financial report has been derived.

For a more complete view about the financial situation and results of the State JSC "Latvijas dzelzceļš" business activities during the report period as well as the contents of our audit, the condensed financial report should be read in context with the complete financial statements on the basis of which the condensed financial report has been derived, as well as with our report about the complete financial statements.



Sandra Vilcāne  
Certified Public Accountant, Certificate No.30,  
Director

Rīga,  
19 June 2008





# Balance of State JSC "Latvijas dzelzceļš" as at 31 December 2007 (in LVL)

ASSET	31.12.2007.	01.01.2007.
1.Long-term investments	233 985 214	216 955 603
1.1. Intangible investments	675 237	743 573
1.2. Capital assets	213 161 015	203 372 242
1.3. Long-term financial investments	20 148 962	12 839 788
2. Current assets	27 751 066	21 148 423
2.1. Inventories	13 949 143	12 602 443
2.2. Debtors	12 777 249	6 779 279
2.3. Cash	1 024 674	1 766 701
<b>Balance</b>	<b>261 736 280</b>	<b>238 104 026</b>
LIABILITIES		
1.Shareholder's equity	128 380 360	108 253 020
1.1. Share capital	90 168 321	90 168 321
1.2. Reserves	17 794 514	16 179 938
1.3. Retained profit of the previous years		830 000
1.4.Retained profit of the year of account	20 417 525	1 074 761
2. Accruals	9 660 308	12 978 642
3. Creditors	123 695 612	116 872 364
3.1. Long-term creditors	89 256 016	72 878 573
3.2. Short-term creditors	34 439 596	43 993 791
<b>Balance</b>	<b>261 736 280</b>	<b>238 104 026</b>

Chairman of the Board

U. Magonis

Member of the Board, Deputy Chairman of the Board

U.Pētersons

Member of the Board

A.Strakšas

Member of the Board

A.Šteinbriks

# Profit or loss statement of State JSC "Latvijas dzelzceļš" for the year 2007 (in LVL)

*(method of turnover costs)*

1.	Net turnover	178 616 238
2.	Costs of production of sold output	(143 231 364)
<b>3.</b>	<b>Gross profit or loss (from turnover)</b>	<b>35 384 874</b>
4.	Administration expenses	(16 760 694)
5.	Other income from economic activities	29 721 640
6.	Other costs of economic activities	(22 159 757)
7.	Income from securities and loans, that form long-term investments	906
8.	Other interest and related income	46 210
9.	Interest payments and related expenses	(2 612 412)
<b>10.</b>	<b>Profit or loss prior to extraordinary items and taxation</b>	<b>23 620 767</b>
11.	Extraordinary income	3 211
12.	Extraordinary costs	(59)
<b>13.</b>	<b>Profit or loss prior to taxation</b>	<b>23 623 919</b>
14.	Enterprise income tax	(2 975 884)
15.	Deferred enterprise income tax	(1 185)
16.	Other taxes	(229 325)
<b>17.</b>	<b>Profit or loss of the period of account after taxation</b>	<b>20 417 525</b>

Chairman of the Board



U. Magonis

Member of the Board, Deputy Chairman of the Board



U. Pētersons

Member of the Board



A. Strakšas

Member of the Board



A. Šteinbriks

**Certified public accountant's report  
to the Shareholder of the State JSC "Latvijas dzelzceļš"**

We have audited the accompanying financial statements of the State JSC "Latvijas dzelzceļš" for the year 2007, on the basis of which the condensed consolidated financial report has been derived. The audit was performed in accordance with the International Standards on Auditing as issued by the International Federation of Accountants. Our report dated 19 June 2008 expressed the independent auditor's unqualified opinion on the basic financial statements from which the condensed consolidated financial report has been derived.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets is fairly stated in all material respects in relation to the basic financial statements from which the condensed consolidated financial report has been derived.

For a more complete view about the financial situation and results of the State JSC "Latvijas dzelzceļš" business activities during the report period as well as the contents of our audit, the condensed consolidated financial report should be read in context with the complete financial statements on the basis of which the condensed consolidated financial report has been derived, as well as with our report about the complete financial statements.



Sandra Vilcāne  
Certified Public Accountant, Certificate No.30,  
Director

Rīga,  
19 June 2008





# Consolidated balance of State JSC "Latvijas dzelzceļš" as at 31 December 2007 (in LVL)

ASSET	31.12.2007.	01.01.2007.
1.Long-term investments	240 212 855	217 718 522
1.1. Intangible investments	1 153 661	801 949
1.2. Capital assets	238 645 153	216 320 432
1.3. Long-term financial investments	414 041	596 141
2. Current assets	45 256 570	24 982 920
2.1. Inventories	23 037 638	13 095 814
2.2. Debtors	12 511 060	7 936 928
2.3. Short-term financial investments	226 388	
2.4. Cash	9 481 484	3 950 178
<b>Balance</b>	<b>285 469 425</b>	<b>242 701 442</b>
LIABILITIES		
1. Shareholder's equity	139 125 581	110 927 757
1.1. Share capital	90 168 321	90 168 321
1.2. Adjustment reserve of long-term investments	11 627	
1.3. Reserves	18 136 382	16 179 938
1.4. Retained profit of the previous years	2 297 508	1 527 699
1.5. Retained profit of the year of account	28 290 205	2 848 923
1.6. Minority interests	221 538	202 876
2. Accruals	9 137 573	9 694 719
3. Creditors	137 206 271	122 078 966
3.1. Long-term creditors	94 102 477	74 917 641
3.2. Short-term creditors	43 103 794	47 161 325
<b>Balance</b>	<b>285 469 425</b>	<b>242 701 442</b>

Chairman of the Board



U. Magonis

Member of the Board, Deputy Chairman of the Board



U. Pētersons

Member of the Board



A. Strakšas

Member of the Board



A. Šteinbriks

# Consolidated profit or loss statement of State JSC "Latvijas dzelzceļš" for the year 2007 (in LVL)

(method of turnover costs)

1.	Net turnover	262 480 188
2.	Costs of production of sold output	(208 612 053)
<b>3.</b>	<b>Gross profit or loss (from turnover)</b>	<b>53 868 135</b>
4.	Selling costs	(197 281)
5.	Administration expenses	(23 450 521)
6.	Other income from economic activities	12 563 166
7.	Other costs of economic activities	(6 840 825)
8.	Income from securities and loans, forming long-term investments	906
9.	Other interest and related income	97 484
10.	Interest payments and related expenses	(2 612 642)
<b>11.</b>	<b>Profit or loss prior to extraordinary items and taxation</b>	<b>33 428 422</b>
12.	Extraordinary income	3 249
13.	Extraordinary costs	(59)
<b>14.</b>	<b>Profit or loss prior to taxation</b>	<b>33 431 612</b>
15.	Enterprise income tax	(4 482 052)
16.	Deferred enterprise income tax	(242 664)
17.	Other taxes	(230 514)
18.	Minority interests	(186 177)
<b>19.</b>	<b>Profit or loss of the period of account after taxation</b>	<b>28 290 205</b>

Chairman of the Board



U. Magonis

Member of the Board, Deputy Chairman of the Board



U. Pētersons

Member of the Board

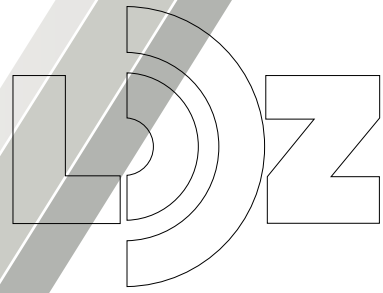


A. Strakšas

Member of the Board



A. Šteinbriks



L A T V I J A S D Z E L Z C E Ļ Š







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