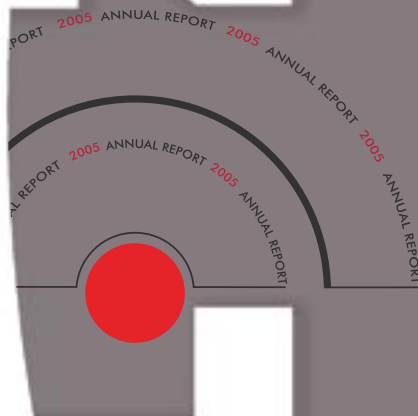




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## REPORT OF THE CHAIRMAN OF THE BOARD



**In 2005 State Joint Stock Company “Latvijas Dzelceļš” (Latvian Railway) worked very successfully in passenger and cargo traffic. 54.86 millions tons of freight were shipped in 2005 and that is 7% more than the previous year. The number of passengers using local train traffic reached 25.5 millions, which is 9% more than the previous year. Other statistical data shows that the company has a long-term development strategy and it cares for its employers - average earnings last year reached LVL 328.**

### HAND IN HAND WITH TIME

There are such achievements that cannot be objectively evaluated with numbers. Last year *Latvian Railway* went through radical changes dictated by real life and demands of EU directives. Reforms were essential for the company for it to be able to work in market liberalisation conditions, to become open, flexible and to be able to react faster changes in railway business. As a result of structural changes three new subsidiary companies were created: *LDZ Infrastructure Ltd*, *LDZ Cargo Ltd* and *LDZ Rolling Stock Service Ltd*. Establishing of these companies was necessary to prevent passenger traffic cross subsidising from cargo traffic incomes, to obtain public procurement for passenger traffic, and to separate the maintaining of infrastructure from other economic activities. Concern consisting of the holding company and seven subsidiary companies was created last year. As a result of restructuring collective body of *Latvian Railway* will be able to fulfil the tasks demanded to it by the Government as a part of development of railway transport sector in future.

### WATER WON'T RUN UNDER STAGNANT STONE

In reference year, new and more active policy of development has been set. In times when competition in transport and logistics sector is growing very fast, it is not allowable to rely only on the convenient geopolitical situation of Latvia and wait that cargoes will come into our seaports. New commercial contacts should be made more active, new collaboration partners searched, new sources of cargo forming forecasted in time, and new routes of cargo flow worked out. Therefore, Department of Logistics was created last year.

Geographical location of Latvia and close economic relations with neighbouring countries in East determine main collaboration partners in transit traffic. These partners are Russian Federation (47% transit cargo), and for last few years also Belorussia is becoming more active collaboration partner (34% transit cargo).

The prospective container traffic project *Baltika Tranzits* is developing and it gave possibility to gain economically profitable cargo traffic. Consequently, a peculiar transit bridge connecting Baltic seaports in Europe with Kazakhstan, Uzbekistan and other Middle Asia and Far East countries like China has been developed.

### INVESTMENTS MEAN DEVELOPMENT

Large investment projects are safe basis for further development, for increasing of transport corridor throughput capacity and for train safety movement. To put these projects in effect, co-funding from the EU ISPA funds and Cohesion fund is available besides our own funds. One of the largest projects that have been completed in 2005, is construction of Reception Yard in Rezekne-2 station. This project allows longer freight trains to be served, thus increasing profitability of cargo transit for 35% or 40 millions tons per year. It means that the competitiveness of this railway junction also is increasing. Rezekne-2 is strategically important transport centre located on intersection of internationally important transport corridors East-West and North-South. Total costs of the project were 10.2 millions Euro, of which 75% are investments of the EU, other are our funds. The following projects continued in 2005: modernisation of the signalling system (89.9 millions Euro), replacing of track turnouts (35.2 millions Euro), reconstruction of railway track in East-West railway corridor (88.9 million Euro) and modernisation of hot-box detectors (15.1 millions Euro). Besides the regular work for maintenance of infrastructure, reconstruction of public buildings (stations and industrial workshops) and modernisation of rolling stock continued.

## MAIN CAPITAL – PEOPLE

*Latvian Railway* is the largest company in Latvia, its staff exceeds 13 000 people. In times when many people seek jobs abroad, *Latvian Railway* is trying to find motivation for railway specialists to stay in Latvia. To motivate the personnel, salaries are raised regularly, each month employees receive additional inflation payments to salaries and other bonuses. A Collective agreement is made in co-operation with Latvian Rail and Transport Industry Trade Union. For example, insurance for each employee was increased up to LVL 1000, in case of an accident or trauma one can receive LVL 500. Other forms of social insurance are also being improved, places of work are being facilitated by raising standards of environment and work safety. In 2005 the Board of *Latvian Railway* accepted a concept of raising wages, where regular principles and mechanism of raising salaries are determined. As a result, salaries were raised up to 22.2%, and the average earnings are LVL 328, but the work will not stop here – in 2006 average earnings must be LVL 400.

The Company is proud with its unique Training Centre and its branch office in Daugavpils. Training Centre does its best to raise competitiveness of each employer in labour market by improving professional skills, giving opportunity for locomotive crews to adapt psychologically for work in their complex profession.

In the year of account 2806 people were taking several courses, and 228 different study and systematic events took place. Training Centre completed technical basis, created Technical instructional class and introduced new study subjects.

## RAILWAY TRANSPORT HAS NO LIMITS

Although Latvia is not located in the central part of Europe, but in the eastern part of it, this is the reason why it can become a strategically important centre in transcontinental shipments. That is why the Company established new contacts with international and regional railway organisations.

In April 7 and 8, 2005, after initiative of the Community of European Railway and Infrastructure Companies (CER) and in co-operation with European Investment Bank, a conference on railway funding was held in Riga. More than 50 participants, including ministers of transport from the EU countries and railway executives, took part in the conference. *Latvian Railway* co-operates with International Union of Railways (UIC) that unites more than 150 organisations world-wide already since 1992, and since 2000 *Latvian Railway* co-operates with International Railway Transport Committee (CIT). The Company realises open discussions and active co-operation with different cross border and public organisations that are interested in development of railway transport.

Traditionally *Latvian Railway* has lasting contacts with countries in the East. These are good contacts with the Organisation for Railway Co-operation, with Railway Transport Council, International Co-ordinating Council on Transsiberian Transportation. *Latvian Railway* successfully co-operates with such partners as railway companies from Russian Federation, Belorussia, Lithuania and Estonia. In 2005 269 specialists of the company were sent on business trips to 37 countries.

## CORPORATE TRADITIONS

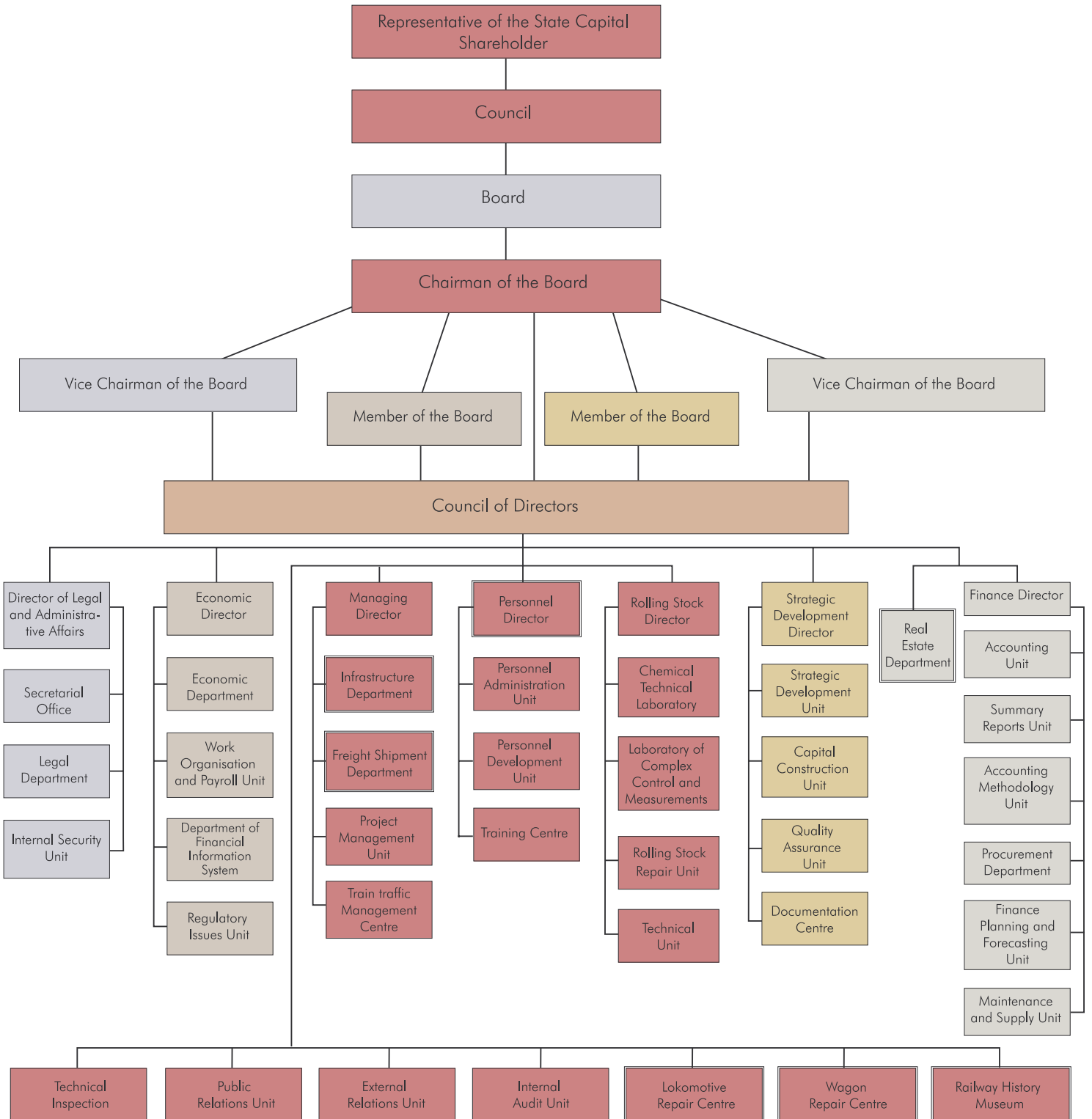
Specific features of railway industry influence also corporate relations inside the company. Collective body of *Latvian Railway* is as a united society having railwaymen dynasties, collective celebrations and that can not only work, but also relax. For example, in August 5, 2005 *Latvian Railway* celebrated its anniversary and several events were dedicated to it: sporting holidays in Latgale and Kurzeme, honouring of veterans and awarding of the best employees in The *Latvian Railway* history museum. In honour of the anniversary, rolling stock exposition was opened in the museum. For building of railway tracks and platforms in the territory of the museum and for landscaping the surrounding of the museum *Latvian Railway* spent approximately 100 thousand Lats.

Traditionally *Latvian Railway* does not invest only in leisure activities, professional development and organising of cultural events for its employees. There is also a concept of donation. In 2005 LVL 16155 were granted to 53 different organisations, for example, Children's Home of Irlava, Children's Fund of Latvia, Supporting Foundation of Deaf Disabled Persons *Klusums*, Latvian Paralympic Committee, Social care Centre *Iecava* and many others. *Latvian Railway* understands that teachers and parents not always find time and manner to explain children that railway tracks are zone of high dangerousness. Therefore in 2005 *Latvian Railway* continued trips to Latvian schools to read *lectures on Safety*. Also the co-operation with creative group *Avārijas Brigāde* continued and as a result of the co-operation new puppet films were created explaining children how they should behave on railway tracks. *Latvian Railway* also in 2005 continued to take part in a project to shoot the next episode for the film *Lai dzīvo bērni!* (*Long Live Children!*). *Latvian Railway* is sure that children are our future, therefore *Latvian Railway* will support such projects in future.

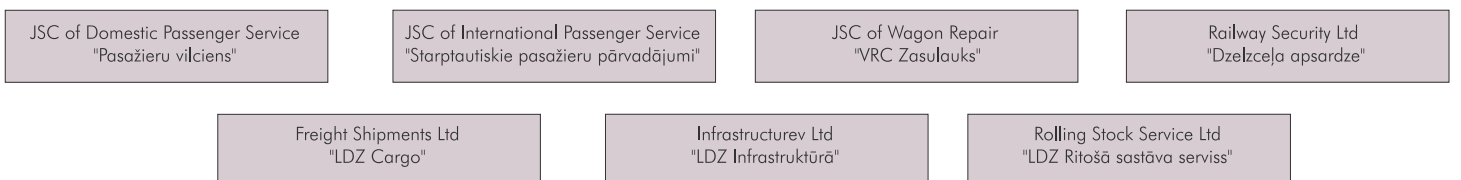


Uģis MAGONIS  
Chairman of the Board  
State Joint Stock Company  
*Latvijas dzelzceļš*

# ORGANISATIONAL STRUCTURE



## SUBSIDIARY COMPANIES OF SJSC "LATVIJAS DZELZCEĻŠ"





**REPRESENTATIVE OF THE STATE CAPITAL SHAREHOLDER**

Vigo LEGZDIŅŠ

**EXECUTIVE**

Austris CAUNĪTIS

**COUNCIL**Guntis MAČS  
Chairman of the Council

Jānis EIDUKS

Guntars KRIEVIŅŠ

Arvīds KUCINS

Leonīds LOGINOVS

Andriāns ĻUBLINS

Imants SARMULIS

Elmārs ŠVĒDE

Zigurds STARKS

**BOARD**Uģis MAGONIS  
Chairman of the Board

Rihards PEDERS

Uldis PĒTERSONS

Aivars STRAKŠAS

Andris ŠTEINBRIKS

**COUNCIL MEMBERS:** Uģis MAGONIS – Chairman of the Council to 28.08.2005

Māris KALVE – to 12.08.2005

**BOARDS MEMBERS:** Andris ZORGEVICS – Chairman of the Board to 29.08.2005

Staņislavs BAIKO – to 29.08.2005

Jānis VĒVERIS – to 29.08.2005



## STRATEGIC DEVELOPMENT



### VARIOUS ASPECTS OF COMPETITIVENESS

State Joint Stock Company *Latvian Railway* (*Latvian Railway*) carries out passenger and freight shipping, maintains and modernises railway infrastructure, provides rolling stock repair services in Latvian and international markets. Both internal and external factors have impact to the efficiency of the company's work. One of the largest collaboration partners in east is the Russian Federation. Now 50% of all freight has been shipped to the European Union. But the direction of transit freight has been largely influenced by the Russian tariff policy with goal to ship oil products, ferrous metals, artificial fertilisers and other economically beneficial freights through the seaports of Russia. Competitiveness in transit shipments has been enlarged also by other alternatives, for example, opportunity to use Estonian, Lithuanian, Finnish or Russian seaports and railway infrastructure as well as use of other transportation such as road transport, pipelines and other.

## YEAR OF ESTABLISHMENT OF THE CONCERN

In accordance with *Latvian Railway* restructuring programme, three new subsidiary companies were formed and registered in the year of account: SIA *Latvian Railway Infrastructure*, SIA *LDZ Cargo* and SIA *LDZ Rolling Stock Service*. The concern is considered to be established. State Joint Stock Company *Latvian Railway* is the holding company that 100% belongs to the State, holder of the shares is the Ministry of Transport of the Republic of Latvia. The concern consists of the above mentioned three subsidiary companies; their shares belong to *Latvian Railway*. Without these the concern contains subsidiary companies established before – the Joint Stock Company *Pasažieru vilciens* (Passenger Train) (100% shares belong to *Latvian Railway*), SIA *Dzelzceļa apsardze* (Railway Security), (100% shares belong to *Latvian Railway*), the Joint Stock Company *VRC Zasuļauks* (Wagon Repair Centre Zasuļauks), (51% shares belong to *Latvian Railway*, 49% shares belong to the Joint Stock Company *Rīgas vagonu rūpnīca* (Riga Wagon Building Enterprise)), and the Joint Stock Company *Starptautiskie pasažieru pārvadājumi* (International Passenger Transport) (51% shares belong to *Latvian Railway*, 49% shares belong to SIA *L-Ekspresis*).



## SPECIAL ROLE IN EUROPE

For several years Latvia is a part of the European Union and we can say that *Latvian Railway* successfully integrates in the railway system of the EU countries, at the same time keeping unified technologies with the CIS countries and organising transit freight shipping to the East on 1520 mm railway tracks. It must be noted that part of the territory of Latvia that is on the border of



the Russian Federation and Belorussia, now has become the external border of the EU. Therefore in the account year more attention was paid to modernising the infrastructure of the border stations.

Railway companies of the Baltic States have a special role in the EU. Notable quantity of freight has been shipped through these companies using their resources. For example, in 2005, the load of one kilometre of Latvian railway infrastructure was 10.1 million ton-kilometres of freight, while in other EU countries it was three or five times less.

In 2005 *Latvian Railway* shipped 54.86 millions tonnes of freight. Due to activities of *Latvian Railway* to attract investments of the EU structural funds for modernisation of infrastructure, *Latvian Railway* can provide freight throughput capacity up to 62 millions tonnes per year. In 2015 the freight volume must reach 90 millions tonnes per year. This task is strategically important for the State, and can be realised. One of factors that allow the prognosis to be so optimistic, is the planned enrolling of the Russian Federation in World Trade Organisation. Therefore the Russian Federation will have to decline the previous tariff policy discriminating Latvian transport carriers.

The traffic project *Baltika Tranzīts* is developing successfully. Our task in 2006 is to start shipping of container trains from Kazakhstan and China to Latvian seaports.

## PRIOR TENDENCIES OF DEVELOPMENT

The Board of *Latvian Railway* has approved the prior investment projects for the period of 2007 – 2013. Part of funds for these projects will be invested by the EU Cohesion Fund. Approximately 487 millions Euro will be invested in the following projects:

- Construction of the second track in Riga – Krustpils section;
- Reconstruction of Riga and Daugavpils railway junction;
- Reconstruction of railway track (260 km);
- Replacement of track turnouts;
- Electrification of transport corridor East – West;
- Introduction of GSM-R communication system in transport corridor East – West, and other projects.

The main strategical tasks of *Latvian Railway* are: to maintain and to develop competitiveness to raise turnover per 40%; to make Latvia the leading logistics centre in Europe and to involve in freight shipping not only the CIS countries, but also China and other.





### EDUCATED AND PROFESSIONAL STAFF

**The goal of staff management in State Joint Stock Company *Latvian Railway (Latvian Railway)* is to become the railway specialists' centre in Latvia. *Latvian Railway* has responsible, educated and motivated employees, and they, in accordance with the goals of the concern, are offered many possibilities for their professional, creative and technically comprehensive further development.**

*Development Programme for Executives.* Competencies regarding company management, communication and interface as a part of this programme have been worked out. These competencies are taken as a background for development of two long-term training programmes: *Introduction to Latvian Railway Business Class* (for prospect executives and executives without work experience) and *Latvian Railway Business Class* (for managers of higher level). 32 specialists started these programmes.



### STAFF MANAGEMENT

In 2005, there were 12 702 employees in *Latvian Railway*. The number of employees, in comparison with the previous year, decreased per 2.1%. This tendency will remain the same in future, because it is connected with the restructuring of *Latvian Railway*. In 2005, input of personnel data of employees in the new electronic Personnel registration system in SAP Human resource module. In relation with restructuring, preparation works are begun to help employees to start working in new subsidiary companies. In co-operation with the labour union of the railway sector, changes have been made in the Collective Agreement and extra social guarantees are offered to employees of pre-retirement age.

In the year of account, basing on the personnel policy of *Latvian Railway*, the Board of *Latvian Railway* verified the *Regulations on career planning and management training*. Possible forms of career, evaluation of the personnel and possibilities of training potential management are set in these regulations. Therefore, the main accents in personnel management were work with executives and management training. To fulfil the task successfully, the Board of *Latvian Railway* has worked out and approved the *Professional*

### STAFF EDUCATION

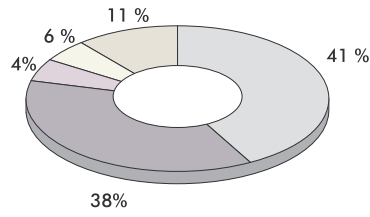
In 2005, the Board accepted the *Latvian Railway executive and employee's development negotiation concept*. The main goal of realisation of the concept is to increase the work efficiency, to proportionate knowledge, skills, initiative, ambitions and competence of employer with the goals of the company.

Training Centre continued to organise courses of study, paying attention to courses of engineering technical staff. In 2005 the number of participants who took the courses, increased more than twice in engineering technical and work safety training programmes. By the end of the year 2005 new Technical Training class was established. In the accounting period psychophysiological testing of professional suitability was done to 232 people. In 2005, 2806 employees in 228 groups studied in the Training Centre in Riga and Daugavpils.

The main collaboration partners in expert preparation are Railway Transport Institute of Riga Technical University, Riga Railway School and Latgale Transport and Telecommunication Technical School. *Latvian Railway* continues to collaborate with Latvian Education Fund, taking part in special purpose programme *For Education, Culture and Science*, giving the best students extra scholarships and offering employment possibilities in *Latvian Railway*.

### Employment in Latvian Railway Structures

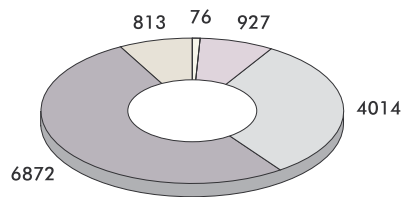
- Infrastructure
- Freight Shipment
- Operating Structure Units
- Real estate
- Rolling stock



### Division of employees in age groups

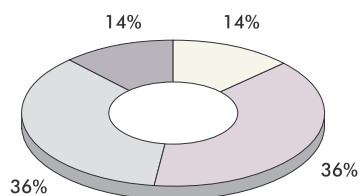
(total number of employees 12702)

- 15-19
- 20-24
- 25-39
- 40-59
- 60 and above



### Division of employees according to education

- Basic education
- Secondary education
- Secondary professional education
- Higher education







## FREIGHT SHIPMENTS

### RECORD IN FREIGHT SHIPMENTS

**The year 2005 in many aspects has been one of the most successful during last five years. As a result in the year of account *Latvian Railway* shipped large amount of freight – 54.861 millions tons which is 7.4% more than in 2004.**

### STRUCTURE OF FREIGHT SHIPMENTS

Transit shipments are the largest source of incomes for *Latvian Railway*. In accounting period 46.612 millions tons of freight were shipped in transit, which is 2.7% more than in 2004. In the total volume of freight it is 85.0%. Transit freights mainly are received from the Russian Federation (51.5%) and Belorussia (37.0%). In accounting period structure of freight did not change essentially – oil products, coal, artificial fertilisers, timber, ferrous metals and other. Total volume of oil products shipped was 21.236 millions tons, which, in comparison with 2004, was 0.8% more. Total volume of coal shipped was 15.592 millions tons, which is 17.6% more than the previous year.

The fast growth of freight during previous five years was achieved due to coal shipments through Latvian seaports in Ventspils and Riga. In 2001, the proportion of shipped coal was 8%, but in 2005 – 28%. In comparison with the year 2004, the volume of freight increased in all *Latvian Railway* seaport stations: 6.9% in Ventspils station, 2.4% in Riga seaport stations, and 6% in Liepaja station.

Management of the

company is working to diversify not only the structure of freights, but also to broaden the geographical scale of freight formation. Department of Logistics was established in the year 2005 and its main task is to attract new business partners. The traffic project *Baltika Tranzīts*, that was commenced in 2003, is developing successfully. 76 trips with 3422 flatcars containing 6949 containers were shipped in 2005. The growth of container shipping, in comparison with the year 2004, was 59%.

### NEW POSSIBILITIES FOR FREIGHT SHIPMENTS

Development, changes and improvements in economic activities of the State Joint Stock Company *Latvian Railway* in 2005 gave possibility to sell transport services and to secure competitiveness in freight shipment market. The main conditions for retaining and securing competitiveness of freight shipments is:

- Increasing of railway infrastructure throughput capacity;
- Improving of transport product quality offered to clients;
- Formation of logistics traffic schemes in co-operation with carriers from other countries.

Acknowledging the world tendencies and increasing interest regarding intermodal shipments, *Latvian Railway* continues working with the *Baltika Tranzīts* project uniting Latvian, Lithuanian, Estonian railway carriers and freight operators from Kaliningrad to the seaport of Tallinn. The main task is to achieve the traffic of containerised freight not only from the littoral seaports of Western Europe to Kazakhstan, other Central Asian countries further to China, but also to the opposite direction.







## PASSENGER TRAFFIC

### MODERNISING OF ROLLING STOCK


Joint Stock Company *Pasažieru vilciens* (*Passenger Train*) was established on November 2, 2001, it became the first subsidiary company of *Latvian Railway* and the only passenger traffic operator in the local communication. The company provides traffic with electric trains and diesel-engine trains in the greatest part of the territory of Latvia.

In 2005 the situation in modernising outdated rolling stock or buying new trains became actual, because the existing rolling stock from the point of view of passenger train safety must be taken out of operation. *Passenger Train* was looking for possibilities to attract the funds of the European Union to modernising of trains. As a result, in renovation of electric trains 10 million Lats will be invested, 75% of which will be covered by the European Regional Development Fund. It is a large project that will be realised in 2006-2008. In international tender the right to accomplish the modernising of trains was given to the Joint Stock Company *Rīgas vagonbūves rūpnīca* (*Riga Wagon Building Enterprise*). As a result of the project the level of comfort in wagons and the train movement



LATVIJAS DZELZCEĻŠ  LATVIJAS DZELZCEĻŠ  LATVIJAS DZELZCEĻŠ



LATVIJAS DZELZCEĻŠ  LATVIJAS

safety will be improved. Besides, research for the project *Purchase of New Trains* was commenced. Objective of the project is to study technical solution of the trains, eligibility of these trains to the peculiarities of *Latvian Railway* infrastructure, and to determine the necessary amount of trains for Latvia.

### CARE FOR PASSENGERS

In 2005 *Passenger Train* took measures to improve passenger service. In several electric train and diesel engine train lines ticket prices were reduced. Unitary time limit for tickets was introduced and, according to desires of passengers, the schedules of train running were optimised. In co-operation with SIA *Lattelekom* Information service 1188, an information centre *I-punkts* was opened in Riga Central Railway Station. As a result of these activities, the number of passengers continued to increase in 2005, reaching 25.5 millions, which is 8.8% more than in 2004. The year 2004 was balanced with losses (2.6 millions Lats), while the year 2005 brought profits (300 thousand Lats).

### INTERNATIONAL PASSENGER TRAFFIC

International passenger traffic in Latvia is managed by the *Latvian Railway* subsidiary company *Starptautiskie pasažieru pārvadājumi (International Passenger Transport)*, that started its economic activities on October 1, 2003. In accounting year international passenger trains carried 378 thousand passengers, which is 7.4% more than in 2004. Total volume of passengers carried was 94.3 millions passengers/km. This number increased per 6.8% in comparison with the previous year. International passenger traffic was managed by six in *Latvian Railway* formed trains: two trains from Riga to Moscow, one train from Riga to St.Petersburg, one train from Riga to Gomel, and one train from Riga to Truskovetz (this line was opened on May 29, 2005). In summer the train Riga – Simferopole is running. Besides, in summer LDZ forms non-stop trains Riga – Odes, Riga – Adler and Riga Vitebsk. Within the territory of Latvia runs train Vilnius – St.Petersburg, which is formed in Lithuania.



LDZ LATVIJAS DZELZCEĻŠ LDZ LATVIJAS DZELZCEĻŠ LDZ LATVIJAS DZELZCEĻŠ LDZ LATVIJAS DZELZCEĻŠ



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# INFRASTRUCTURE

## BASE OF RAILWAY TRANSPORT SYSTEM

**Railway infrastructure is one of the most complex railway elements. The Infrastructure Department of Latvian Railway is responsible for the maintenance of rail track, engineering technological buildings, 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. The operational length of the main track is 2288.3 Km.**



## DEVELOPED INFRASTRUCTURE

In the account year State Joint Stock Company *Latvian Railway*, as well as the previous years, paid attention to the projects of modernisation. Goal of those projects is to increase train throughput capacity on railway transit trunk lines. Now the approximate freight throughput capacity is 60 million tons per year, but the work on modernisation of infrastructure still continues. Updated infrastructure needs new approach for its maintenance corresponding to modern demands and technologies. The Board of LDZ has determined main directions of railway infrastructure development:

- Further modernisation of railway tracks, replacing rails and laying new turnouts;
- Reconstruction of Riga, Daugavpils and Liepaja railway junctions, increasing capacity of these junctions, building new switching centres and extending station tracks;
- Modernisation of automatic signalling systems and wireless communications in all sections of transit corridor, installing systems that correspond to the EU standards.

To fulfil these objectives, Infrastructure Department has 8 subordinate units: three railway divisions, three signalling and communication divisions, track maintenance service and rail welding centre. 5233 specialists work in the Infrastructure Department and their main tasks are:

- To maintain the infrastructure in good technical condition to guarantee safe train movement at definite speed;
- To develop existing technologies, to introduce high-powered railway machinery corresponding to modern technical achievements;
- Precise planning of investments, because in State budget no funds are planned for development of infrastructure.

## INVESTMENTS AND RESULTS OF WORK

Railway infrastructure was the main object in attraction of the EU structural funds also in 2005. It has been done to improve throughput capacity of trains on Latvian railway tracks to guarantee safe movement of passenger and freight trains. The largest project in 2005 was the construction of Rezekne-2 Reception Yard, which was put into operation in the beginning of 2006. The total costs of the project were 10.2 millions Euro, 75% of which were from the EU structural funds, the rest – from *Latvian Railway*.

The work continued with the commenced projects, for example, modernising of automatic and semi-automatic signalling systems (total investments 89.9 millions Euro), replacing of track turnouts (35.2 millions Euro), reconstruction of railway track in East-West railway corridor (88.9 million Euro) and modernisation of hotbox detectors (15.1 millions Euro).





## BASIC UNITS OF RAILWAY INFRASTRUCTURE

No.	Object	Unit	Total
1.	Extended lengths of railway tracks, total Including: • main tracks • station tracks • spurtracks	Km	3687.10
		Km	2569.20
		Km	896.40
		Km	221.00
2.	Turnouts	Complete set	3536
3.	Engineering technical buildings: • bridges • culverts	Pieces	598
		Pieces	978
4.	Level crossings	Level crossings	542
5.	Train traffic management system: • automatic blocking • semi-automatic blocking • electric centralisation of stations	Km	1063.70
		Km	837.70
		stations	163
6.	Main communication cables	Km	3174.37
7.	Wireless communications	Km	1917.30
8.	6.19 kV high-tension grid lines	Km	1398.85
9.	Communication networks	Km	257.40



## TRAIN TRAFFIC SAFETY

### SAFE TRAIN MOVEMENT

**After the passenger train crash in Riga Passenger Station on February 2, 2005, careful analysis of safety aspects of all traffic was carried out. The system of internal traffic safety control was revised not to allow such accidents in future.**

### TRAIN TRAFFIC SAFETY MUST BE CARED FOR IN TIME

One of the most important tasks for the Technical inspection is to do everything required for the safety of freight and passenger train traffic. The National Programme of the European Regional Development Fund *Development of Riga Suburban Railway Passenger Traffic 2005-2013* has



been approved. It anticipates modernisation of 86 electric train wagons, prolonging the term of maintenance before the year 2008, which means that already in September, 2006, passengers will be offered updated and safer train wagons.

It is very important to take care of professional education of engine drivers all the time. Certification of instructing engine drivers, engine drivers and engine driver assistants is very important investment in professional education of engine-driver crews. March 29, 2005, State Railway Technical Inspection issued first certificates of competency. In total in the year of account certificates of competency were issued to 36 instructing engine drivers, 106 engine drivers and 88 engine driver assistants.

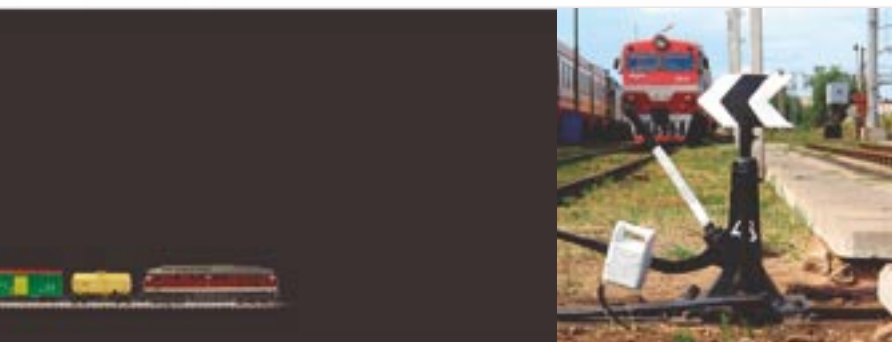
More than half of freight shipped on Latvian railways belongs to category – dangerous. Due to single normative documentation system in the State Joint Stock Company *Latvian Railway* has ensured safe and environment friendly traffic of dangerous cargoes and guaranteed delivery to recipient. One of preventive measures to reach such results is training in localisation emergency situations connected with dangerous cargo. Such training took place in Liepāja, Jelgava, Šķīrotava, Daugavpils and Gulbene stations. Training tasks are made maximally close to a real possible accident. During the training, knowledge and skills of railwaymen in prevention emergency conditions are tested. Maintenance department staff, station management, staff

on duty, station accident crews, maintenance and fire trains, and dangerous cargo operators participated in the training. Besides, representatives from State Firefighting and Rescue Service, local governments, Regional Environmental Board and Public Health Agency watched the training.

Approved *Statute on Railway Station Accident Crew*, issued ordinance *On Basic Forces of Elimination of Railway Traffic Emergency Conditions*, revised *Latvian Railway Plan for Civil Defence*.

### IMPROVEMENT OF TECHNICAL EQUIPMENT

To improve technical condition of maintenance trains, the technical inspection was carried out to four cargo cranes to prolong the maintenance term. The following equipment



was put in operation:

- Pump equipment for pumping aggressive fluids for Daugavpils and Jelgava maintenance train;
- Pneumatic air bags to localise cistern damages and to lift up the rolling stock for Daugavpils maintenance train;
- Hydraulic pumps for rescue set *Sprut* for Riga maintenance train;
- Diesel-electric stations of different power;
- In station Ventspils II the fire reservoir was put in operation.

According to Labour Protection Law, *Latvian Railway* has created work safety system. In compliance with the system, internal surveillance of working environment, studying of working environment factors and estimating of risks using different methods. The number of accidents increases due to preventive work safety measures, and in 2005 there were only one or two accidents to 1000 employees.

In *Latvian Railway* a staff work safety and instructing system is successfully working. Each employee theoretically and practically has to regularly perfect his knowledge. Training and practical work are surveyed by an experienced employee. *Latvian Railway* Technical Inspection will henceforward follow execution of train traffic safety regulations and instructions, it will regularly check skills and knowledge of employees and will take care of qualitative and safe working environment for employers.





## QUALITY MANAGEMENT AND ENVIRONMENT PROTECTION

### PRIORITIES: QUALITY MANAGEMENT AND UNCONTAMINATED ENVIRONMENT

**Quality management is an instrument used by the State Joint Stock Company *Latvian Railway* to create advised and systematic approach to process management, which gives opportunity to manage, measure and improve. Realisation of quality policy firstly is lead to readjustment of metrology security system, rules of personnel certification and quality introduction of quality management system.**

EU and preparing solutions to co-ordinate compatibility of differential railway systems. In the accounting period the Technical Committee of National Railway Sector Standardisation LVS/STK39 *Dzelzceļi* worked actively to ensure actualisation of national Standard LVS 282. For successful co-operation in railway transport system with the width between rails 1520mm, *Latvian Railway* works as an observer in the Technical Committee of International Standardisation *Railway Transport*.

### UNCONTAMINATED ENVIRONMENT

Environment protection is one of priorities to *Latvian Railway*. On March 26, 1998, decree No.11/63 approved

### QUALITY MANAGEMENT AND STANDARDISATION

Management systems corresponding to the international standard of quality management systems ISO 9001:2000 have already been introduced and are put in operation in three units of infrastructure. Management system that corresponds the standard ISO 17205 (*general competence demands of Testing and Calibration Laboratories*) successfully operates in Chemically Technical Laboratory of *Latvian Railway*. Introducing of international quality standards is not just a single test; it is a regular work of improving quality management and developing of skills of specialists involved in this process. Thus, in co-operation with the *Latvian Railway* Training Centre, course on demands of quality management systems and quality audit outlines is organised.

In the IX annual International Management Conference *Latvian Railway* received *Golden Member* status from Latvian Association for Quality. The status was received for encouraging of co-operation and popularising of quality management principles in the society of Latvia. Important aspect in quality management is work with implementing of the European Union directives, regulations, resolutions and technical specifications in *Latvian Railways*. Therefore, *Latvian Railway* has organised Work Group of Experts analysing documents of the

*LDZ* policy of environment protection. *Latvian Railway* has done very much to realise the basic principles of this policy in real life. According to this policy, *Latvian Railway* considers itself such environment protector, who researches and analyses possible damages to environment that might be done as a result of its operation. Then *Latvian Railway* takes decision and analyses existing and possible damages to the environment in detail.

Environment protection programme determines not only specific goals and objectives, measures to work out the programme, but also continuous control of the process.

In 2005 reconstruction of fuel depot in Locomotive repair centre *Lokomotīvu serviss* (*Locomotive Service*) Daugavpils section was completed. In 2005 construction of oil product slipping and gathering platforms in Daugavpils Locomotive Maintenance section and Rēzekne section was commenced.

The object in Rēzekne is planned to be put in operation in June 2006. In 2005 *Latvian Railway* invested 2 882 894 millions Lats in environment protection. All environment protection events and projects are precisely recorded. Therefore it is possible to manage and analyse the process and compare the results of it. *Latvian Railway* observes not only the laws and regulations of the Republic of Latvia, but also follows general tendencies in the legislation of the European Union and other.



## REAL ESTATE

### CLEAN STATIONS AND TIDY TERRITORIES

**Clean stations and tidy railway territories – it is one of the most important aspects of work for Latvian Railway Real Estate Department (RED), because these factors create the image of Latvian Railway in society. The main task of RED is economically and financially gainfully administer the real estate of the concern (2.8 thousand objects in Latvia) and to maintain territories related to railway. RED also sells and leases real estate, and provides various public services.**

### MAIN TASKS

The structure of RED consists of building and territory maintenance sections in Riga, Daugavpils and Jelgava, and the building of Riga Passenger Station.

The main task of RED is rational evaluation of real estate, and, if necessary, then handing over such objects to local governments, registration, managing, maintenance of territories adjacent to railway, and solving technical issues, related to utilities. One of the tasks is to register real estate in Land Register, as well as to rent buildings and constructions to structural units, legal and physical persons. Buildings and other objects that are not necessary for development of concern economical activities are handed over to local governments or sold. Therefore organising of auctions to sell the real estate is very important. RED also manages apartments, rents apartments, and provides various public services. Locomotive crew rest-houses also are headed by RED.

### SUMMARY OF THE ACCOMPLISHED WORK

In 2005 in the territory of Ventspils railway station (the second park of the station) a storage lake necessary for the fire safety was installed. Ventspils MRC building is also renovated, and new technical training class in Training Centre in Riga formed. In 68 objects throughout Latvia running renovation works are done. The largest scope of work was done to renovate Kārsava station and Pārogre stop. The total sum spent is 435.8 thousand Lats.

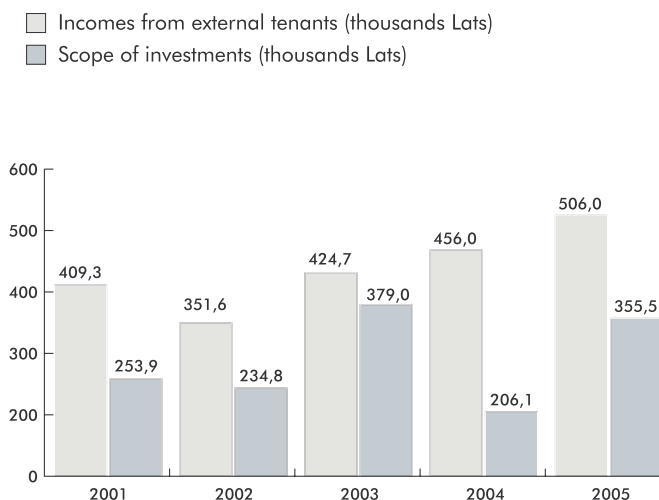
In Riga and Jelgava 4 modern automatic heating points were installed to use thermal energy more efficient. In heating season total space of 37 thousand square metres was heated.

Work on rational use of buildings continued also in 2005. The basis of this work is rent of uninhabitable premises to legal or physical

persons. More than 20 new lease agreements were signed. The total incomings from leaseholders were 506 thousand Lats, which is 11% more than in 2004.

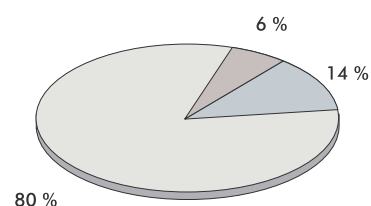
18 real estate objects were sold in 2005 – incomes exceed 373.4 thousand Lats. One of RED actions is to involve leaseholders in renovation of buildings, where they invest their own funds.

Important work, which is already continuing for several years, is a survey of railway land separation zones. In 2005 survey of land separation zone in Skrīveri section and Zaķusala (in Riga) was accomplished. Defining of land separation zones throughout Latvia and the work on making a Unified Real Estate Electronic Database and an electronic card continued.



### Structure running works

- Maintenance of buildings and constructions
- Maintenance of platforms
- Repairs necessary for fire safety





## INTERNATIONAL CO-OPERATION

### WIDE SPECTRUM OF INTERNATIONAL CO-OPERATION

**Long-term co-operation of the State Joint Stock Company *Latvian Railway* with international and regional railway organisations, as well as geopolitical location of Latvia on crossroads of strategically important transit roads gives results. The fact that representatives from *Latvian Railway* were included in all journeys of the President of Latvia abroad (for example, Sweden, the Netherlands, Turkey, Armenia, Azerbaijan, Georgia and other), testifies the significant role of LDZ in facilitation international contacts.**

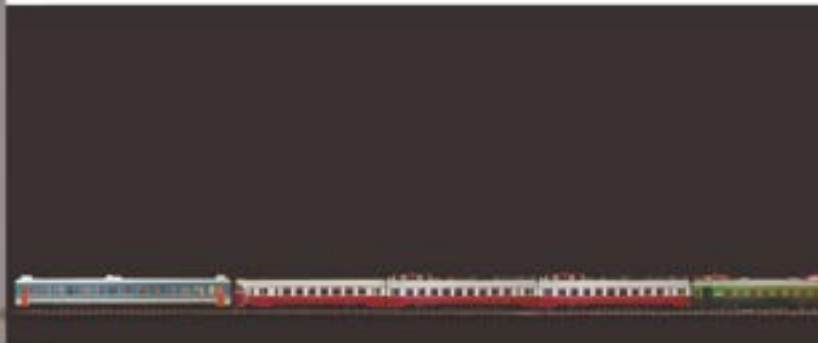


### GOOD CONTACTS WITH COLLABORATION PARTNERS

In April 2005 Riga became railwaymen capital city in Europe. The Community of European Railways (CER), European Investment Bank and TAIEX UNIT initiated international conference in Riga on financing of railway development. More than 50 participants took part in the conference, as well as transport ministers from European countries and railway executives.

Railway summit approved international authority of *Latvian Railway* and became one more important link in international co-operation. In 2005 16 *Latvian Railway* specialists participated in meeting of CER work groups, as well as general meetings of the European Council in Brussels.

In one of the most powerful European Union railway lobbies in the European Council - Community of European Railways (CER) – *Latvian Railway* joined in 2003. In International Union of Railways (UIC) uniting more than 150 organisations connected



with railways, LDZ is engaged since 1992. In 2000 *Latvian Railway* joined International Railway Transport Committee (CIT). Co-operation and active dialogue with countries of all these organisations ensures *Latvian Railway* international acknowledgement and possibility to influence railway transport development both in Europe and worldwide. The staff of *Latvian Railway* regularly participates in seminars organised by CIT General assembly and professional development training in France organised by UIC.

### ACTIVE CO-OPERATION WITH COUNTRIES IN THE EAST

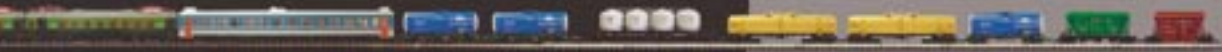
Historically Latvia has had good co-operation with countries in the East. Therefore partnership and co-operation of *Latvian Railway* with organisations, uniting countries having 1520mm wide railway tracks, is understandable. In the course of time close co-operation with the Organisation for Co-operation of Railways (OSJD) have developed; this organisation unites railways from 27 countries. *Latvian Railway* has good co-operation with CIS countries, Railway Transport Councils from the Baltics and Bulgaria, International Co-ordination Council in Transsiberian transit and other organisations. Similar widths of rails, single technologies, co-operation in rolling stock maintenance unites *Latvian Railway* with its closest collaboration partners – Russian Railway and Belorussian Railway.

In 2005 269 employers from *Latvian Railway* participated in different forums in 37 countries. 2359 repeated visas to Russian Federation and 710 visas to Belorussia were applied. From the European Union 133 representatives from third countries were invited to visit Latvia.



**POWERFUL LOBBY –  
NONGOVERNMENTAL  
ORGANISATIONS**

Recognisability of image, popularity of *Latvian Railway* and international contacts are facilitated also by public organisations: Latvian Rail and Transport Industry Trade Union and Latvian Railwaymen Trade Union. Activities of these trade unions have one goal - to represent LDZ in the institutions of European Union.







## RAILWAY HISTORY MUSEUM

### PRESEVING OF RAILWAY HISTORY AND TRADITIONS

Railway transport in Latvia should be seen not only as a part of economy and a social phenomenon, but also as an environment relating to the history of civilisation where modern technologies operate together with traditional methods. The Railway Museum was established on August 30, 1994; accredited on December 10, 2004. Expositions are located in Riga, Uzvaras Boulevard 2/4 and Jelgava, Stacijas Street 3. Various items, machinery, historical buildings and engineering technological buildings can be found in the museum.

MUZEUM PUBLIC	
Pupils and Students	3500
Foreigners	835
The others	5392
<b>Total</b>	<b>9727</b>
PURCHASES IN YEAR 2005	
Items	357
<b>Total amount (LVL)</b>	<b>1070,00</b>
SUPPLEMENTING A COLLECTION	
Purchase	357
Received from other institution	3
Donations	584
Other getting forms	1
<b>Total</b>	<b>945</b>



The mission of the Museum of Latvian Railways is not only to maintain the evidence of the history of machinery, but also to create understanding on inheritance of railway transport history as an essential part of social life in 21<sup>st</sup> century.

Development of the museum in 2005 has proved, that it is not a small museum of the company anymore, now it candidates to the leading role in exploration the railway sector in Latvia. After 10 years of systematic work the first fruits of labour can be seen.

The building and the territory of the museum is a wonderful example how the previous economical territory transforms into cultural environment and incorporates into the new concept of city development. In 2005 the improvement of the building and the territory of the museum were completed. In the former 19<sup>th</sup> century Riga – Jelgava railway repairs shop now wide premises for museum are made. It is a place for exhibitions and concerts. On the railway tracks adjacent to the museum buildings a huge open-air exposition is created. Here one can see not only rolling stock, but also items characterising railway scenery: semaphore, water colonna for steam engine outfitting, signal lights, level crossing barrier and small bench on a platform. Now the collection of the museum consists of 15244 units. The materials of the collections and scientific archives are available for public use and in the

course of the year it has been used by students, coteries, curators of culture and art projects, and journalists for their research papers and publications. In 2005 there have been 9 exhibitions in the museum and these exhibitions are not only about railways. Industrial environment of the museum is a wonderful basis for contemporary art. On March 8 exhibition *A Woman in Railway* was open. Experts emphasised the image of railway woman created in the Soviet times, using photographs from the collection of negatives of Baltic Railway Propaganda and Scientific Technical Centre and comments from railway press.

As a result of research, in 2005 Toms Altbergs's, who is a museum expert, book *Latvian Railway Locomotives*, was published. This is a first research on all traction rolling stock units maintained in Latvian railways.

Collection of photographs and postcards is the part of the collection that is used most often. One of the most important tasks for the museum is to gather information the historical traction structure, to find its owners, technical condition and possibility to include it in the collection. This work has given results – in the account year the concept of the largest project on *Completing, Maintenance and Restoring of Rolling Stock* was developed.

In 2005 Latvian Railway museum was visited by 9727 people.

# LATVIAN RAILWAY LINES





## CONDENSED 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 2005, 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 26 June 2006 expressed the 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 consolidated 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.

Certified Public Accountant, Certificate No.30,  
Director



Sandra Vilcāne

Rīga,  
7 august 2006

**Balance of 31 December 2005 (in LVL)**

	<i>at the end of report period</i>	<i>at the beginning of year</i>
<b>ASSETS</b>		
1. Intangible assets	759 646	815 894
2. Tangible fixed assets	185 116 714	161 740 672
3. Long-term equity investments	14 178 342	7 198 614
4. Current assets	16 800 930	18 921 183
4.1. Inventories	9 145 372	11 406 200
4.2. Accounts receivable	5 857 180	5 931 594
4.3. Cash	1 798 378	1 583 389
<b>Balance</b>	<b>216 855 632</b>	<b>188 676 363</b>
<b>LIABILITIES</b>		
1. Shareholder's equity	107 287 573	107 826 861
1.1. Share capital	90 168 321	90 168 321
1.2. Reserves	15 884 385	14 983 474
1.3. Retained earnings of previous years	830 000	2 675 066
1.4. Retained earnings of the current year	404 867	
2. Accounts payable	109 568 059	80 849 502
2.1. Long-term liabilities	63 864 187	45 122 109
2.2. Short-term liabilities	45 703 872	35 727 393
<b>Balance</b>	<b>216 855 632</b>	<b>188 676 363</b>

**Profit and loss for the year 2005 (in LVL)**

1. Operating income	172 233 247
2. Operating expenses	(152 033 905)
<b>3. Gross profit or loss (from turnover)</b>	<b>20 199 342</b>
4. Administration expenses	(12 883 986)
5. Income from other business activities	13 258 679
6. Expenses of other business activities	(17 714 070)
7. Income from securities and loans forming long-term investments	33 158
8. Other interest and related income	794
9. Interest payments and related expenses	(2 133 667)
<b>10. Profit or loss prior to extraordinary items and taxation</b>	<b>760 250</b>
11. Extraordinary income	12 381
12. Extraordinary expenses	(2 196)
<b>13. Profit or loss prior to taxation</b>	<b>770 435</b>
14. Enterprise income tax	(47 943)
15. Deferred enterprise income tax	(195 876)
16. Other taxes	(121 749)
<b>17. Profit or loss of the report period after taxation</b>	<b>404 867</b>



## CERTIFIED PUBLIC ACCOUNTANT'S REPORT

### To the Shareholder of the State JSC "Latvijas dzelzceļš"

We have audited the accompanying consolidated financial statements of the State JSC "**Latvijas dzelzceļš**" for the year 2005, 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 26 June 2006 expressed the auditor's unqualified opinion on the basic financial statements from which the condensed consolidated financial report has been derived.

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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 consolidated financial statements on the basis of which the condensed consolidated financial report has been derived, as well as with our report about the complete consolidated financial statements.

Certified Public Accountant, Certificate No.30,  
Director



Sandra Vilcāne

Rīga,  
7 august 2006

**Consolidated balance of 31 December 2005 (in LVL)**

	<i>at the end of report period</i>	<i>at the beginning of year</i>
<b>ASSETS</b>		
1. Intangible assets	848 277	831 096
2. Tangible fixed assets	194 687 621	171 502 135
3. Long-term equity investments	614 360	614 360
4. Current assets	20 212 027	18 560 770
4.1. Inventories	9 726 348	11 588 138
4.2. Accounts receivable	5 674 990	4 679 340
4.3. Cash	4 810 689	2 293 292
<b>Balance</b>	<b>216 362 285</b>	<b>191 508 361</b>
<b>LIABILITIES</b>		
1. Shareholder's equity	108 041 905	108 288 886
1.1. Share capital	90 168 321	90 168 321
1.2. Reserves	15 884 385	14 983 474
1.3. Retained earnings of previous years	1 382 263	597 189
1.4. Retained earnings of the current year	493 760	2 477 948
1.5. Minority part	113 176	61 954
2. Accounts payable	108 320 380	83 219 475
2.1. Long-term liabilities	60 872 716	45 234 876
2.2. Short-term liabilities	47 447 664	37 984 599
<b>Balance</b>	<b>216 362 285</b>	<b>191 508 361</b>

**Consolidated statements of profit and loss for the year 2005 (in LVL)**

1. Operating income	183 906 083
2. Operating expenses	(161 75 769)
<b>3. Gross profit or loss (from turnover)</b>	<b>22 630 314</b>
4. Sales expenses	(140 083)
5. Administration expenses	(14 826 068)
6. Income from other business activities	7 914 938
7. Expenses of other business activities	(12 544 835)
8. Income from securities and loans forming long-term investments	33 158
9. Other interest and related income	8 884
10. Interest payments and related expenses	(2 133 667)
<b>11. Profit or loss prior to extraordinary items and taxation</b>	<b>942 641</b>
12. Extraordinary income	12 450
13. Extraordinary expenses	(2 196)
<b>14. Profit or loss prior to taxation</b>	<b>952 895</b>
15. Enterprise income tax	(83 561)
16. Deferred enterprise income tax	(202 601)
17. Other taxes	(121 751)
18. Minority part	(51 222)
<b>19. Profit or loss of the report period after taxation</b>	<b>493 760</b>



Design: L. DANILĀNS  
2006

