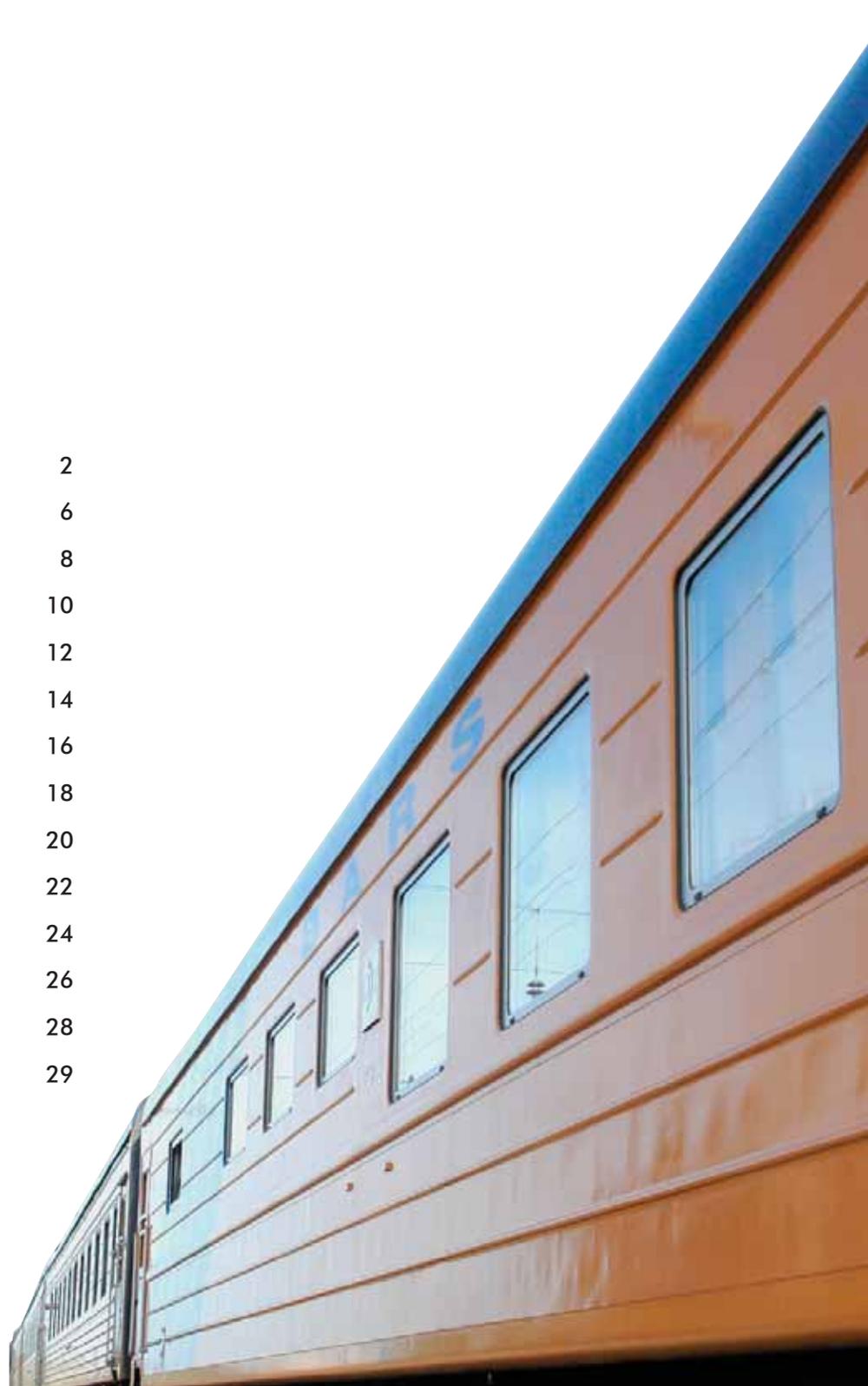


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### **Decisive year for restructuring**

The year of account was very significant for the State Joint Stock Company *Latvijas dzelzceļš*. Firstly, according to the decision of the Cabinet of Ministers, dated January 5, 2006, on commencing of reorganisation of Latvian Railway, the first round of the process of restructuring was completed – holding incorporating the parent company Latvian Railway and seven subsidiary companies, was created. Secondly, taking into account that the new subsidiary companies - SIA *LDz infrastruktūra*, SIA *LDz Cargo* and SIA *LDz ritošā sastāva serviss* – were created by partition, it was necessary to work out legally precise document (Contract of Reorganisation), were all legal procedures are particularly defined. Thirdly. Distributing duties among the members of the Board of Latvian Railway, according to the functional principle, also the structure of the company changed, and accordingly, it was necessary to work out completely new model of railway technologic processes. The work on this reorganisation project essential for the company continues also in 2007.

### **Economic activities**

The spectrum of economical activities in Latvian Railway is wide, for example, repairs of the rolling stock, maintenance of infrastructure, passenger traffic and other, but the main direction of the business is transit freight traffic. At the same time competition in transit freight traffic becomes more and more intensive. To remain its position in transit market, in the year of account the Board of Latvian Railway repeatedly reviewed its tariff policy, and decided to raise tariffs. Latvia is the member state of the European Union (EU). Therefore, also the Board of the Latvian Railway must follow directives of the EU, including directives concerning liberalisation of railways of the community. Now Latvian Railway is not the only freight shipper in Latvia anymore, which means that competition in freight traffic will grow and continue. The former argument about the advantageous geopolitical location cannot be used, because railways of other states in the Baltic Sea region are in the same positions. Therefore, the priority of the Board of Latvian Railway is to involve in logistics more actively to fulfil orders of the existing clients, as well as to attract new clients in Asia (China), etc. The main task of subsidiary company SIA LDz Cargo will be not only freight shipments, but also logistics.

Situation in freight traffic market is changing rapidly. In 2006 Latvian Railway shipped 48, 7 million tonnes of freight, which is 11,2% less than in 2005.

The main reasons for the decrease of freight volume in the year of account were unsteadiness in conjuncture of the market of freight carriages, increasing competition between the ports of the Baltic States, price fluctuations of raw materials in the world market, and irregular work of Latvian, especially Ventspils, port terminals, and other factors.

In the period of account the economic and financial situation of Latvian Railway was negatively influenced by inflation, rise of production costs, competition between freight carriers on railway, and other. However, except for

the mentioned reasons, income from the turnout of freight and passengers was notable, thus the profit from economic activities was less than the previous years.

### **Railway transport branche for the future**

Besides other tasks of Latvian Railway, the Board carefully weighs up the risk factors and problems that obstruct the further development of railway industry. Therefore the Board of Latvian Railway submitted to the Ministry of Transport and the Government of the Republic of Latvia proposals for a number of events. If these events shall be put into effect, the railway industry will continue to develop and raise its competitiveness. In processing these proposals the Board of Latvian Railway used experience and suggestions of other railway organisations in Europe and other countries, for example, The Community of European Railways. One of the most important tasks, as in other EU countries, is to receive state support for the maintenance of railway infrastructure as well as to receive government order for providing passenger traffic in the volume set by the state. Otherwise, the rise of fee for the maintenance of railway infrastructure will affect the tariffs of freight carriages that will diminish not only the competitiveness of Latvian Railway, but also the whole transit industry.

### **Investments in infrastructure**

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 volume of freight traffic could be increased, at the same time guaranteeing freight traffic safe for the public and environment.

In 2006 the work on attracting funds of European Union ISPA and Cohesion Fund for realisation of large and expensive railway projects continued. The Board of Latvian Railway continued to supervise realisation of four commenced railway infrastructure projects in transit East





– West railway corridor. Amount of these investments in railway infrastructure were more than 200 millions Euros. On March 2, 2006, the new Rezekne-2 Reception Yard was put into operation. Now the reception yard gives new possibilities to Rezekne railway junction to receive and process more freight trains with larger number of wagons. For realisation of this project EU ISPA funds (7,6 Millions Euros) were used, but overall costs of the project were 10,2 Millions Euros.

For the reconstruction of Riga Railway Junction more than 50 millions Euros are necessary, so that the infrastructure of Riga Railway Junction could process the potential volume of freight in Riga Port. Therefore, in 2006, the Board of Latvian Railway continued to work on development scheme of Riga Railway Junction and Preliminary Design. Taking into account the task of the Ministry of Transport – to increase the volume of freight – Latvian Railway decided to make modifications in development scheme, because it is necessary to design new railway tracks on the right side of the river Daugava, but on the left side of the river new reception yard Bolderaja-2 will be built.

#### **Modernisation of the 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 was 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 year of account rolling stock repair companies of Latvian Railway in Daugavpils – locomotive repair centre and wagon repair centre - worked successfully.

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.

The period of maintenance of wagons and motorcars used in passenger traffic is approaching the critical border. Therefore a significant number of rolling stock units were immobilised. In the year of account subsidiary company of Latvian Railway – Joint Stock Company *Pasažieru vilciens* (Passenger Train) – commenced new project to modernise 68 passenger electric trains raising the funds of European Regional Development Fund, and planning essential changes in interior of the wagons. Equipment of engine-driver cabins is changed radically, thus improving the working conditions for locomotive crews.

#### **The main value – motivated employees**

Latvian Railway has the largest number of employees of all companies in Latvia – more than 13 000. 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 of it 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 the creation of social dialogue the Board of Latvian Railway has good co-operation with the Trade Union of Railwaymen and Transport Industry. In the year of account a document of General Agreement was restored and signed. In this document rights, duties and social guarantees of railwaymen, as well as responsibility and rights of employer are included. A trade union's and Latvian Railway work group work together to develop the Collective employment contract. It is important to note that in the decision of the Cabinet of Ministers, dated January 5, 2006, on reorganisation of Latvian Railway, in the section

on employees' social guarantees, besides other rules and normative documents, the Collective employment contract is equivalent and the standards mentioned there are compulsory.

#### **Corporate traditions of the company**

In the year of account new structural unit – Direction of Communication – started working. On February 9, 2006, the Board of Latvian Railway approved the concept of corporate communication of Latvian Railway. The aim of the concept is to improve, develop the external and internal communication. 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, it is necessary to develop new traditions. The Board of Latvian Railway supports the preservation of historical heritage, organisation of annual summer sport events, common celebration of midsummer and winter solstice and other events. In 2006, the Board of Latvian Railway financially and managerially supported 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. The railwaymen football team had friendly games with the Great Britain football team in Riga and London.

In 2006 the Board of Latvian Railway continued to aid different associations of disabled, schools, children's homes and various events of charity. To develop this activity, the Board of Latvian Railway approved the Policy of Support.

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. It is also important to educate society, especially students, regarding the safety standards on railway. In 2006, the co-operation with the Ministry of Education continued, and Safety lessons were organised. Therefore the knowledge of students regarding the safety on railway was improved. In the same way, the filming

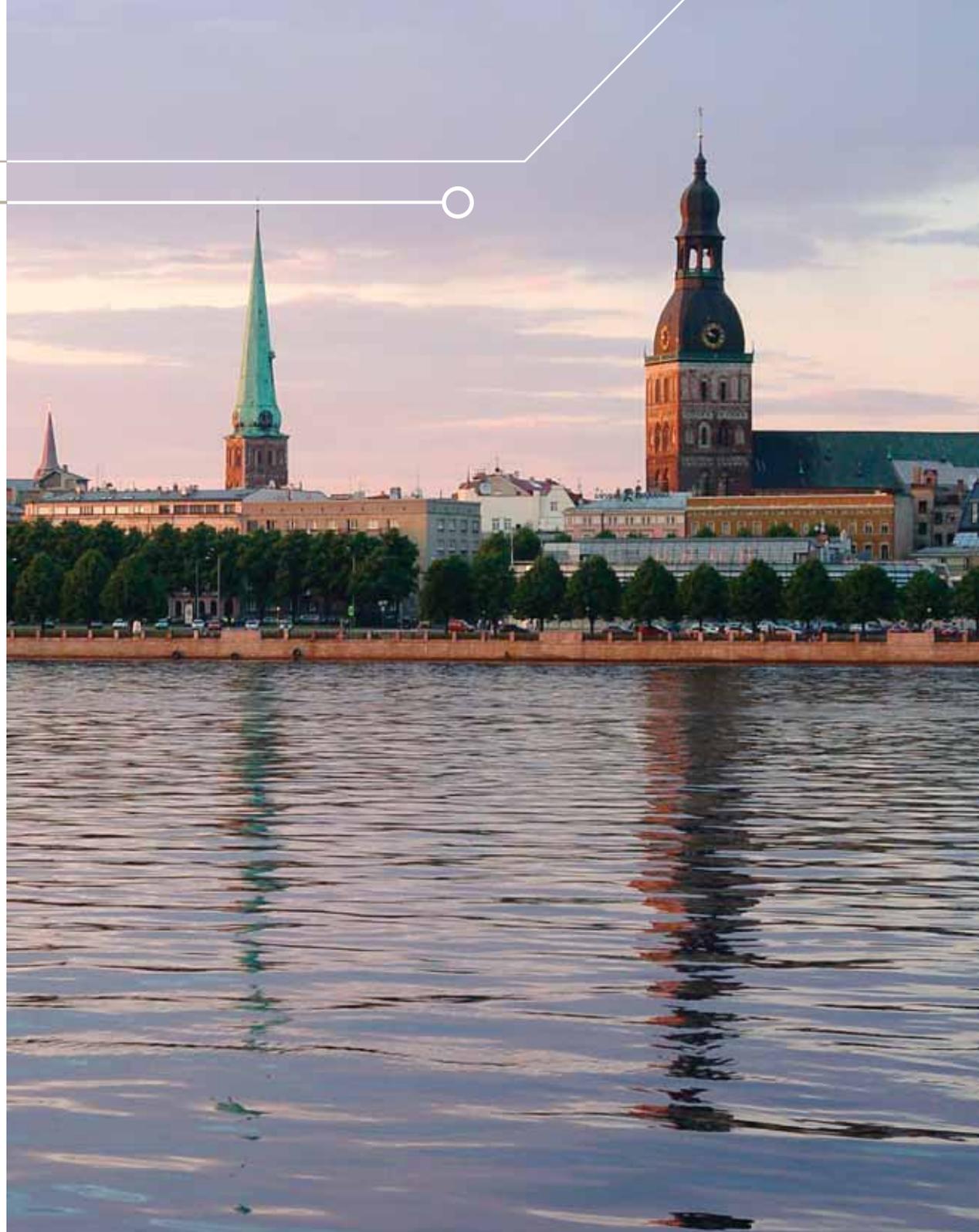
of telecasts was supported. Latvian Railway also took part in the creation of the film *Long live children-3*.

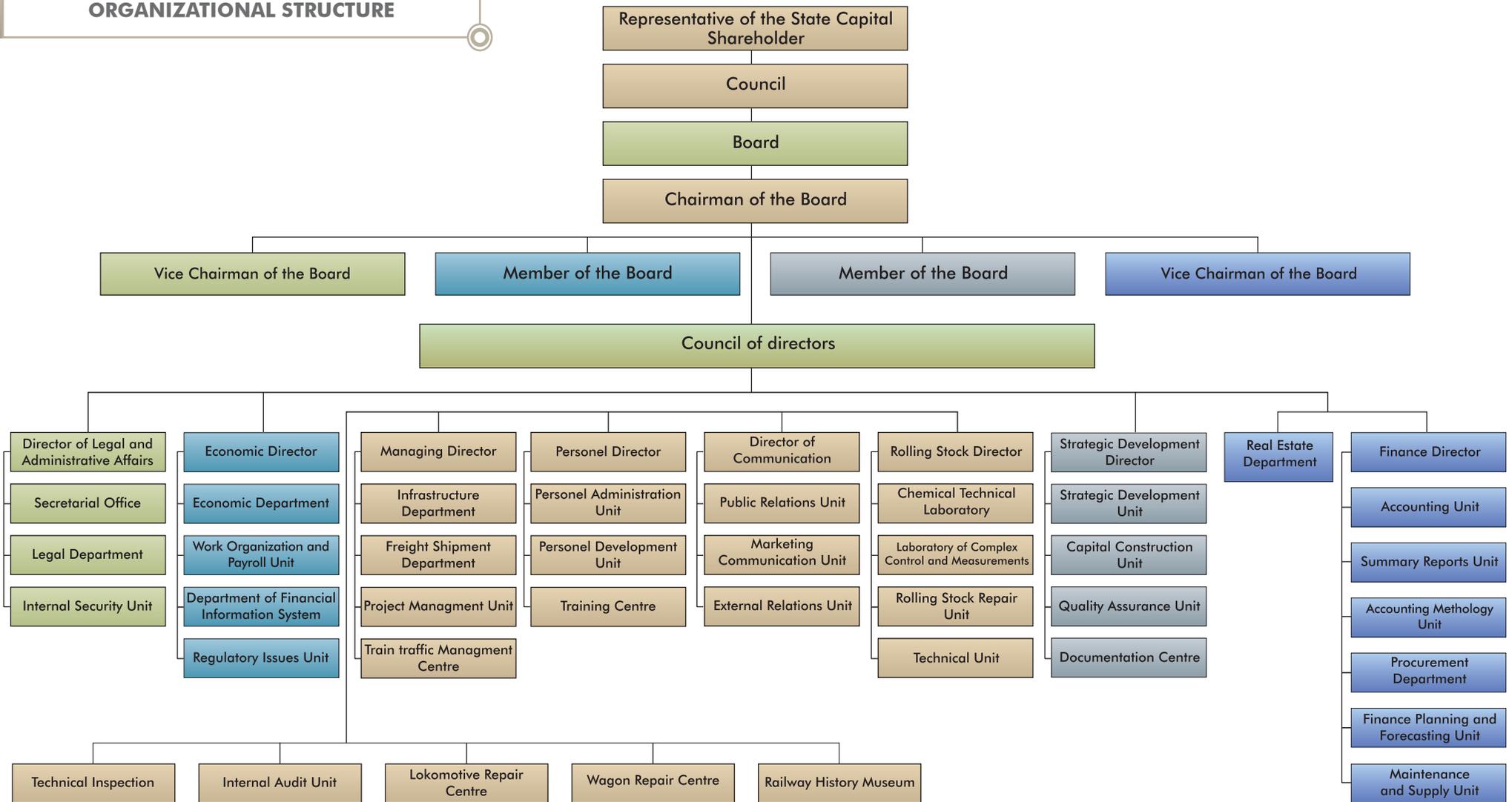
Very important aspect of work in 2006 for the Board of Latvian Railway was enhancing the prestige of railway sector and railwayman profession in the society to make the work on railway a dream for every new engineer, but for those who already work here – a life work. Thus, in 2006 new award Honorary Title in two nominations – Contribution of Life for veterans and The Best Treatise for new experts – was established.

The Board of the State Joint Stock Company Latvian Railway deems that the personnel of the company has reached the goals set for the year 2006.



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





## Subsidiary companies of SJSC "Latvijas Dzelceļš"



**Representative of the capital shareholder**

Jānis MARŠĀNS

**Executive**

Austris CAUNĪTIS

**COUNCIL**

**Chairman of the Council**

Guntis MAČS

Jānis EIDUKS

Kārlis GREIŠKALNS

Guntars KRIEVIŅŠ

Arvīds KUCINS

Leonīds LOGINOVS

Andrejs NAGLIS

Andrejs POŽARNOVS

Imants SARMULIS

Juris ŠMITS

Elmārs ŠVĒDE

**BOARD**

**Chairman of the Board**

Uģis MAGONIS

Staņislavs BAIKO

Uldis PĒTERSONS

Aivars STRAKŠAS

Andris ŠTEINBRIKS

**Representative of the capital shareholder**

Vigo LEGZDIŅŠ - until 30.05.2006.

**Council members**

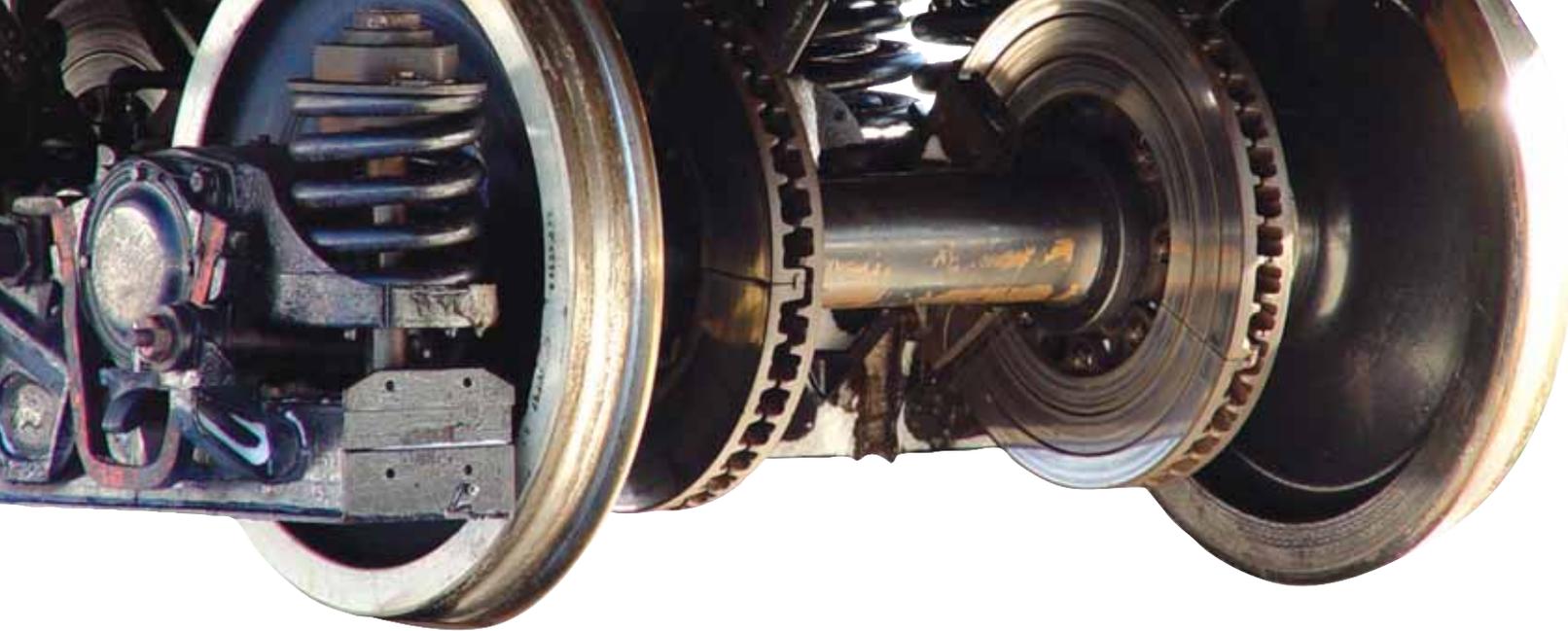
Andrians ĻUBLINS - until 16.01.2006.

Zigurds STARKS - until 04.12.2006.

**Board members**

Rihards PEDERS - until 09.10.2006.





## STRATEGY OF DEVELOPMENT

*In the period of account attention was paid to creating new, modern basis of the strategic planning system, and to developing such economically based business strategy of the concern that would allow to increase the competitiveness of the company.*

The main task of the parent company shall be the management of infrastructure. In this area the long-term business goal is an effectively organised and managed infrastructure that develops dynamically, basing on modern technologies, offering up-to-date services to passenger and freight carriers.

State Joint Stock Company *Latvijas dzelzceļš* is also the largest passenger and freight carrier in the state. In this area the goal of Latvian Railway is to offer safe, environment friendly, and good quality passenger and freight carriage services at a competitive rate.

### **Development of the company**

The aim of Latvian Railway is to create and continuously develop modern and effective organisation.

In the year of account restructuring of the company continued. Three subsidiary companies were established: *SIA LDz ritošā sastāva serviss*, *SIA LDz Cargo*, *SIA LDz infrastruktūra*.

In co-operation with the consultant Ernst&Young, the basic goals and functions of each subsidiary company were defined. Strategies of work and development of each new company for the period of 2006-2011 were worked out. Each of the company has its own vision, mission, values, strategic differences, goals and critical factors. All necessary activities to reach long-term goals are also studied. The

basic principles of the corporate strategy of the holding company are worked out.

According to the principles set in the restructuring plan, as the basis of the business model of Latvian Railway is partition of the main business branches (management of infrastructure and passenger and freight carriages) into separate companies. The management of shares of the subsidiary companies shall be under the authority of the concern. The holding company will also provide management and supporting services to the subsidiary companies.

### **Business development**

New turning point in the development strategy of Latvian Railway is expansion of its business area. Until now Latvian Railway focused on one type of business activities – freight carriages from the East to the West. Therefore, a situation, when Latvian Railway depended from its co-operation partners, developed. To change the situation and to increase competitiveness of the company, Latvian Railway started to provide services of logistics. It means that in the nearest future the business area of Latvian Railway will expand. The strategy of passenger carriages was also changed and included in the long term business plan. It is planned to invest in modernising of the rolling stock, to purchase new passenger trains, as well as to renovate and to modernise railway stations, platforms and other objects.

### **Investment policy in the strategy of development**

Investment policy of the concern has been developed, taking into account that investments can be divided in two groups.

One group investments is for renovation. These investments are necessary for the functioning of the railway system (rails, signalling devices, telecommunications, train traffic management and other). In this case the investment projects are carried out to modernise the existing infrastructure, for example, replacement of track turnouts (Stage 2 of the project is already commenced; it is planned to replace 360 turnouts); hot box detection system; signalling system; railway track reconstruction in separate section of the East-West railway corridor. In realisation of the mentioned projects both the EU Structural Funds' and financial resources of Latvian Railway are attracted.

The other group of investments is for the projects of the long term development strategy. As one of such projects was completion of Rezekne-2 Reception station in 2006, as well as the traction modernisation project. In the year of account modernisation of two diesel-engine locomotives was completed. In 2006 three electric passenger trains were modernised (12 wagons in total).

In future several large projects e.g., railway electrification and implementation of wireless communication GSM-R system, construction of the second track in section Riga – Krustpils, and development of international railway line RailBaltica are planned.

Another direction of strategic development is integration into railway network of the European Union countries. In this aspect it is a very important task to implement interoperability of railway tracks, IT, signalling and train traffic management systems. It is important not to maintain two parallel systems simultaneously. Therefore it is necessary to favour integration of both railway systems.

The main accomplishment in the year of account is that the future vision of Latvian Railway was defined. It will be specified in 2007, using new knowledge about the market and its development. Particular long term business plan will be worked out and the values important for Latvian Railway will be set.



The main goal of staff management of the State Joint Stock Company Latvijas dzelzceļš is to develop and maintain professional and loyal personnel that can ensure execution of strategic tasks of the company.

### The most significant tasks in the period of account

In 2006 12599 employees worked in Latvian Railway. The number of employees, in comparison with the previous year increased per 1%. 37% of the total number of employees are women.

Due to reorganisation of Latvian Railway an agreement on transition of employees to the new, subsidiary companies was prepared and approved in the Board of the company. In the period of changes for solving issues connected with staff management a Restructuring work group created with the decision of the Board of the company is acting. In the structure of this group Personnel management subdivision is working.

The most significant staff management projects in 2006:

- Restructuring of Latvian Railway and related staff management aspects.
- Preparatory stage for the development discussion among managers and employees, corporate training of managers.
- In 2006 requirements of the Cabinet of Ministers, defined in Rules and regulations for railway specialists were put into effect.
- Concept of developing and publishing the Railway technical literature and training aids.

### Improvement of professional competence

In the period of account implementation of the procedure of management and expert's track record evaluation was commenced: rules were prepared and informative material on organising discussion between managers and employees in Latvian Railway and subsidiary companies was published. Personnel Development Department together with the Training Centre more than a half of managers of

the company acknowledged the necessary skills to organise and handle discussions.

According to the rules and regulations On railway experts of the Cabinet of Ministers, issued in 2006, railway experts develop their qualification and professional competence:

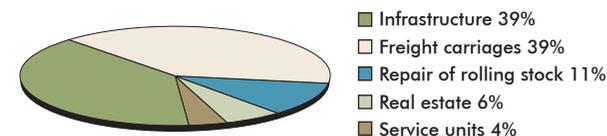
- In special structural unit classrooms for acquiring some professions;
- In work places, where workers acquire the knowledge necessary for 38 railway expert professions before entering into employment relationships;
- In the Training Centre in Riga and Daugavpils branch office;
- Further education training in railway profile educational establishments.

In the end of 2006 the Board of Latvian Railway approved the concept of development and publishing of Railway technical literature and study aids. The technical literature and study aids necessary for the training of railway experts shall be published in Latvian.

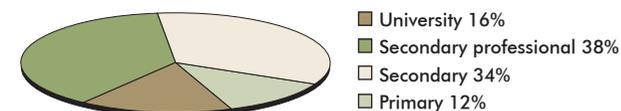
In 2006 work group for co-operation with railway professional educational establishments on preparation of the new railway experts and attracting to work in Latvian Railway was created. The main collaboration partners for the preparation of such experts are Railway Transport Institute in Riga Technical University, Riga Railwaymen School and Latgale Transport and Telecommunication Technical School.

For the third year the company organised project tender to develop study aids for railway profile education establishments. Latvian Railway supports financing of such educational projects that improves the quality of the training process, promotes development of the state language in education establishments and in the company. The structural units of the company in the end of 2006 received training videos *Technical maintenance of SCB devices. Part II, Maintenance of railway points* and *Work safety on railways* that were filmed within the framework of the project.

Division according units



Division according education





### Training of employees in the Training centre

In 2006 in the Training Centre in Riga and Daugavpils branch office 3020 participants attended courses (in 2512 groups).

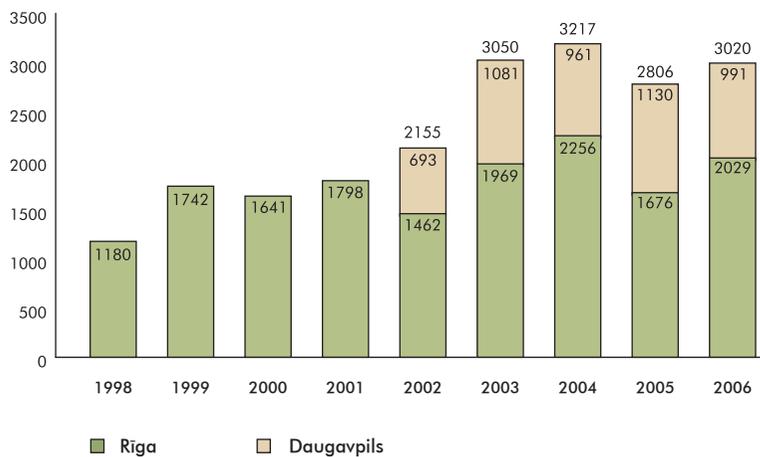
Special attention was paid to further education of technologists, and development and organisation of working environment and safety training programmes. The process of training organisation was favoured by Technologist's training class and the new Cabinet of psycho-physiological evaluation established in the end of the year 2005. Successful co-operation has developed with the Saint Petersburg University of State Road Traffic in the work of future education of technologists.

In the year of account the largest number of participants was from Infrastructure Department and Freight Transportation Department.

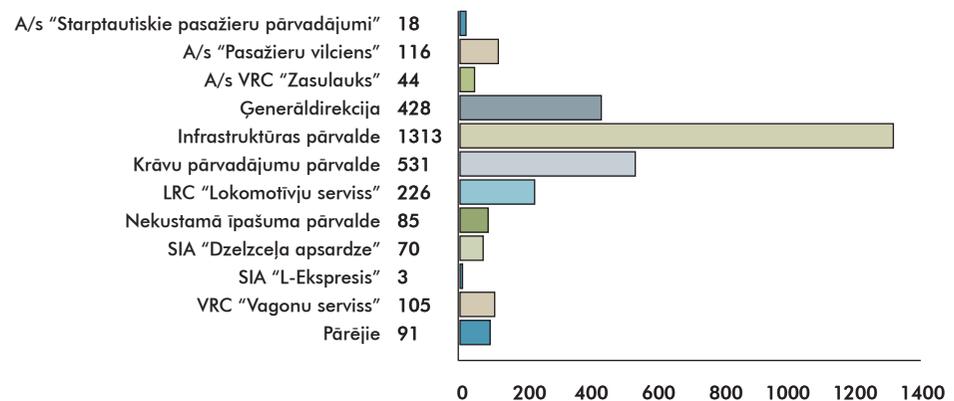
In the period of account the work on management training continued. 32 managers attended the programme of professional development – the course of instruction worked out especially for Latvian Railway - *Introduction to business class* and *Business class*. In September, 2006, 36 emerging managers with small experience, as well as top managers commenced the training.

In 2006 an honorary title Lector Consultant for delivering of the professional experience to colleagues was established.

Total number of participants in courses (1998-2006)



Participants in courses from Latvian Railway structural units (2006)



In general, the year of account for State Joint Stock Company Latvijas dzelzceļš was not as successful as 2005. In the period of account there was decrease in the volume of freight - 48,7 millions tones of freight were shipped, and that is per 11% (6,1 millions tones) less than the previous year.



### Increase of competition in freight shipments

Total turnover of freight in Latvian Railway in 2006 was 15273 millions tones/kilometre, which is per 14,8% less than the previous year. Other freight operators within the territory of Latvia shipped 1602 million tones/kilometre, which is 9,5% of the total freight shipments.

The main reasons of decrease of the volume of shipped freight in 2006 were growing competition between seaports of the Baltic States and Russia, as well as irregular work and conjuncture of freight shipment market in Latvian ports, especially Ventspils port.

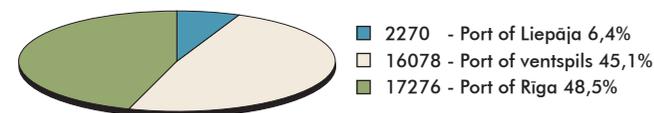
The largest density of freight - 83%, like the previous years, was in import and export shipments through nearby port stations in Latvia, and in road transport. The volume of it in 2006 was 40,7 millions tones, which is 5,8 millions tones or 12,6% less than the previous year. The number of import shipments decreased per 11,6%, road transport shipments decreased per 15,1%, nevertheless 7,0% more export freight was shipped.

### Structure of freight shipments

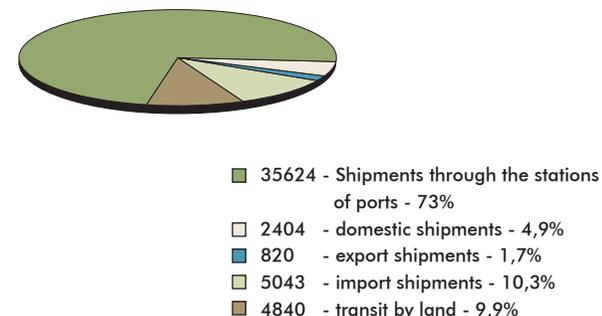
In the period of account the structure of shipped freight did not change substantially – oil products, coal, artificial fertilizers, timber products, ferrous metals, and other. The volume of shipped oil products decreased per 18,3% or 3,8 millions tones less than the previous period. The volume of shipped artificial fertilizers also decreased - per 21,3% or 1,5 millions tones. Coal - per 7,4% or 1,1 millions tones. Mineral substances – per 7,1% or 180 thousands tones. Wooden products - per 8,0% or 133 thousands tones.

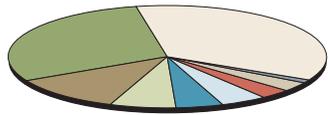
In the period of account more freight of other type was shipped, for example, sugar - per 52,8% or 170 thousands tones, ferrous metals per 22,3% or 419 thousands tones, chemical substances – per 14% or 179 thousands tones.

Freight shipments through the stations of Latvian ports (th.t)

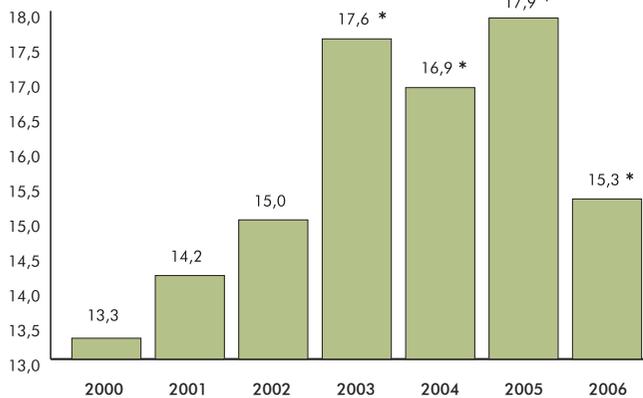


Proportion of freight shipments by type of transport in 2006 (import & export - without shipments through the stations of Latvian ports)



**Shipments in 2006 by type of freight (th.t)**


17360	- oil and oil products - 35,6%
492	- sugar - 1%
1457	- chemical freights - 3%
1532	- timber - 3,1%
2298	- ferrous metals - 4,7%
2347	- minerals - 7,8%
3266	- other freights - 6,7%
5535	- mineral fertilizers - 11,4%
14444	- coal - 29,6%

**Freight turnover (mrd.tonnes-km)**


\* without other forwarders

### Processing of freight in port stations

Import and export shipments through ports is always predominant in railway. In the period of account the best results were achieved by Riga port stations. Through these stations together with other carriers 17,2 millions tones or 48,5 % of all railway shipments going through port stations were shipped. The next was Ventspils port station carrying 16 millions tones or 45,1% of all railway shipments through port stations.

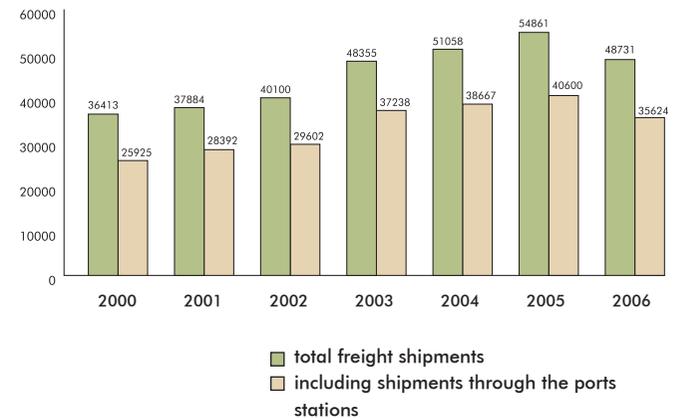
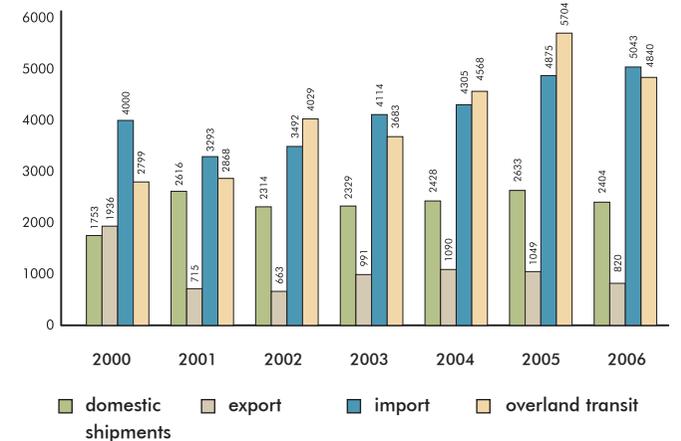
In 2006 Riga port stations increased freight shipments per 682 thousands tones. The largest increase was achieved in Ziemeļblazma station – per 821 thousand tones or 40,4%. In Riga Krasta station the volume of freight processing increased per 597 thousands tones or 6,8%. In Liepaja station it increased per 401 thousand tones or 21,5%.

Unfortunately, in the period of account the volume of freight processing through Ventspils port decreased per 6,1 million tones or 27,4%.

In import and export shipments 48,5% of freight was carried through Riga port stations, 45,1% through Ventspils station, and 6,4% through Liepaja station.

### Container traffic

In the period of account container traffic with the train *Baltika Transīts* developed successfully. In 2006, 104 trains with 4940 wagons with 5455 containers were forwarded. In 2005, 76 trains with 3422 wagons with 3731 containers were forwarded. Thus, the number of container trains increased per 26,9%, wagons - per 30,7%, but the number of containers per 31,6%.

**Dinamics of freight shipments in 2000-2006 (th.t)**

**Freight shipments by type of transport in 2000-2006 (th.t)**


*International passenger traffic in Latvia on railway is ensured by State Joint Stock Company Latvijas dzelzceļš together with Joint Stock Company Starptautiskie pasažieru pārvadājumi (International Passenger Traffic) and collaboration partner L-Ekspresis.*

In 2006 the ratios of international passenger traffic were the following:

- 0,400 millions passengers carried;
- in comparison with the year 2005, the number of passengers carried has increased per 6%;
- the turnover of passengers is 99,1 millions passengers/kilometre;
- in comparison with the year 2005, the turnover of passengers has increased 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). To expand the spectrum of services, Latvian Railway has formed non-stop wagons in

line Riga – Odessa (two wagons in summer), Riga – Adler (two wagons in summer) and Riga – Vitebsk (one wagon in summer).

Whereas in transit traffic Vilnius Saint Petersburg, that crosses the territory of Latvia, passenger train formed in Lithuania ran.

In 2006, 0,059 millions inhabitants and guests of Latvia (which is per 1800 passengers or 3% more than in 2005) chose international passenger traffic. In the year of account, the turnover of passengers in inland traffic was 13,2 millions passengers/kilometres (in 2005 the number was 12,8 millions passengers/kilometres), which is per 3% more than the last year.

In comparison with 2005, the average distance in the territory of Latvia in international passenger trains has decreased per 1,3 km (247,6 km).

*Joint Stock Company Pasažieru pārvadājumi is the subsidiary company of the State Joint Stock Company Latvijas dzelzceļš. It provides passenger carriages on railway with electric trains and diesel-engine trains within the territory of Latvia.*

Passenger carriages in short-distance traffic with electric trains are provided 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 – Ergli, Riga – Gulbene, Riga – Krustpils, Riga – Krustpils – Rezekne – Zilupe, Riga – Krustpils – Daugavpils, Riga – Jelgava – Renge and Riga – Jelgava – Liepāja.

In 2006 Joint Stock Company Passenger Train took several measures to improve passenger service:

On March 31, 2006, diesel-engine train of improved comfort *Kurzeme* in line Riga – Liepāja – Riga started to run. In this train there are more comfortable seats, small tables next to windows, there is also a possibility to buy tea or coffee, read free of charge newspapers or watch television. Diesel-engine train *Dinaburga* of the same type already runs in line Riga – Daugavpils – Riga.

On July 19, 2006, ticket booking for those trains was started (*Dinaburga* and *Kurzeme*). Each client can book a ticket with numbered seat in trains *Dinaburga* and *Kurzeme*, using special pay-phone.

Within the framework of the National Programme of European Regional Development Fund *Development of Riga City Railway Passenger Carriages from 2005-2013* the project *Modernising of the existing electric trains* was commenced. It is planned to modernise 68 wagons before the year 2008 (costs 13,7 millions Lats). Part of the funding will be covered by the European Regional Development Fund. In September 2006, the first modernised electric trains started to run. In these trains a new level of passenger comfort and safety is presented, as well as a modern working environment in engine-driver cabin.

In 2006 the work on other significant project of the National Programme of European Regional Development Fund *Preliminary investigation of the purchase of new electric trains* was commenced. The goal of this project is to process a new strategy of implementation of electric train rolling stock, taking into account all aspects of maintenance, infrastructure, safety, environmental and satisfaction of public demands.

As a result of these measures, also in 2006 the number of passengers carried continued to increase, reaching 26 964 733 passengers, which is per 5,5% more than in 2005. The turnover of passengers in 2006 was 879 902 906 passengers/kilometres, which is per 11,9% more than in 2005.





## INFRASTRUCTURE OF LATVIAN RAILWAY

*The Infrastructure Department of State Joint Stock Company Latvian Railway is responsible for the maintenance of rail tracks, 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 2287,7 km.*

9 sub-branches operate as parts of the Infrastructure Department, including:

- 3 track divisions;
- 3 signalling and communication (electro-technical) divisions;
- Railway Maintenance Service;
- Rail Welding Centre;
- Computer Centre.

4935 different experts of various sectors work in Infrastructure Department and its sub-branches.

The main tasks of Infrastructure Department of late years and in the year of account are:

- 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.

**The share capital of the balance of Infrastructure Department on January 1, 2007, was 56,310 millions Lats.**

Total incomes of Infrastructure Department in 2006 was 81,738 millions Lats, including:

• from basic activity services	74,586 millions Lats;
• maintenance of railway infrastructure	49,452 millions Lats;
• other economic activities	7,125 millions Lats;
• extraordinary	0,027 millions Lats;
• total expenses in 2006	76,529 millions Lats;
• losses of the balance	5,209 millions Lats.

**In 2006 the following construction, reconstruction, renovation and maintenance works were performed**

### **Construction:**

construction of railway station Rezekne II Reception Yard	487,9 thousand Lats;
construction of electric centralisation in railway station Rezekne II Reception Yard	14,2 thousand Lats.

### **Reconstruction (modernisation):**

modernisation of hot-box detection system in the East-West railway corridor	1588,7 thousand Lats;
reconstruction of railway tracks (38,8 km)	9423,6 thousand Lats;

modernisation of electrification devices	219,8 thousand Lats;
implementation of new numeration of telecommunications in the network of Latvian Railway	368,9 thousand Lats;
modernisation of optical communication lines in section Riga - Jelgava - Meitene	68,0 thousand Lats.
<b>Renovation (capital repairs):</b>	
capital repairs of railway tracks (21,7 km)	1439,4 thousand Lats;
Replacement of track turnouts (112 sets)	4460,4 thousand Lats;
repair of engineer-technical buildings and embankment	440,7 thousand Lats;
replacement of damaged long tracks on I category	
tracks (19,4 km)	1312,0 thousand Lats.
<b>Maintenance:</b>	
operating reconstruction of railway track (30 km)	279,2 thousand Lats;
replacement of rails with new rails (0,9 km)	36,8 thousand Lats;
faceting of rails	245,7 thousand Lats;
repair of track machines	282,8 thousand Lats;
operating repair of signalling systems	255,8 thousand Lats;
operating repair of communications	109,6 thousand Lats;
operating repairs of power supply equipment	278,9 thousand Lats;
equipment purchased in 2006	1231,2 thousand Lats.

### Raising of investment

Project Management Unit in co-operation with Infrastructure Department prepared applications to raise European Union funds for the projects of infrastructure development and modernisation, prepared tender documentation, ensured successful management of projects and coordinated problem solving in state and self-government institutions. In 2006 application to receive Cohesion Fund financing for the project *Construction of the Second Railway Track in Section Riga – Krustpils* (the project shall be implemented from 2007 to 2013) was prepared. In 2006 regulations for international open tender for realisation of the Stage II of the project *Modernisation of Signalling System* were prepared. It is planned to implement Stage II of the project from 2007 to 2009. In 2006 new Technical Assistance Project for preparation of preliminary study and applications for two large investment projects was initiated:

- *implementation of GSM-R Communication System;*
- *development of Riga Railway Junction.*

Implementation of these projects is planned with the co-funding of EU Cohesion Fund from 2007 to 2013.

### In 2006 works on implementation of four previously commenced projects continued.

No.	Project	Total costs of project, without VAT Euro	Acquired funds in 2006 Millions Euro
1.	Replacement of track turnouts (780 pieces) in the East-West railway corridor	35 240 000	6,142
2.	Modernisation of railway hot-box detection system	15 123 880	2,513
3.	Modernisation of signalling system: incl. Stage I	89 950 964 47 597 197	2,166
4.	Renovation of railway track in sections of the East-West railway corridor	89 423 077	20,291
		<b>229 737 921</b>	<b>31,112</b>

### Basic units of railway infrastructure

No.	Basic unit	Unit	Total
1.	Extended lengths of railway tracks, incl.: - main tracks - station tracks - spur tracks	km	3608,6 2567 836,1 205,5
2.	Turnouts	complete set	3135
3.	Engineering technical buildings: -bridges -culverts	pieces	591 981
4.	Level crossings		498
5.	Train traffic management system: - automatic blocking - semi-automatic blocking - electric centralisation of stations	km km station	1063,7 837,7 163
6.	Main communication cables	km	3110,2
7.	Wireless communications	km	1917,3
8.	6,10 kV high-tension grid lines	km	1401,0
9.	Communication networks	km	257,4

*In the field of train traffic safety Latvian Railway more often adapts demands of the EU Directive 2004/49/EK regarding safety on Community's railways. According to the mentioned Directive, the main factor of traffic safety guarantee is the internal supervision system of traffic safety. Railway safety system is being created accordingly the Directive 2004/49/EK, as well as the principles set in the Railway Law. It is mandatory to administration of infrastructure and carriers. Both of them have equal rights and responsibilities.*

According to the Law of Railway Carriages, State Joint Stock Company *Latvijas dzelzceļš* as the forwarder, receiver and carrier of dangerous freight is responsible for appointing safety consultants supervising and controlling how normative acts in the field of carrying dangerous freight are observed. Before starting to these consultants work, who are specialists in maintenance departments and in the largest railway stations, have acquired special course of instruction, and they have received certificate of professional qualification after the course.

The training of localising of dangerous freight emergency situations took place in Riga Krasta, Mangali, Daugavpils, Krustpils, Rezekne and Ventspils stations.

To improve the work of service trains and fire fighting teams, the following equipment has been put in effect: pump-house for pumping aggressive liquids, pneumatic rubber cushions for localising damages in cisterns, protective clothing, one electric generator Honda, and other small mechanical devices.

A capital repair was carried out to crane EDK-300 (Daugavpils service train) and crane EDK-500 (Riga service train). Rezekne crane EDK-500 was inspected.

To improve working and household conditions for firemen crews, replacement of out-of-date fire train passenger wagons was initiated. These wagons are modernised and equipped with water pumps and other. Such modernisation is carried out to Riga and Daugavpils fire trains. In Rezekne-II station fire fighting water reservoir is put into operation.

According to risk appraisal of working environment, (Tampere (Finland) University 5 point methodology) railway is an object of high dangerousness and its level of risk is IV. Therefore, its maintenance and technical service can cause considerable risks for railway workers, who work mainly in the zone of railway tracks – in station territories and railway sections.

In 2006 several risks in working places were repeatedly prevented and reduced. Therefore there were less accidents.



*Environment protection is one of priorities for State Joint Stock Company Latvian Railway. Principles of environment protection are set by the Environment Policy approved by the Board of the company. According to the policy, each year new strategy is developed and realised. The main priority is events with so-called double effect. These are events that economise materials and resources, reduces contamination, and its sources. Particular attention is paid to the safety of carriages and to the training regarding environment protection.*

### **Funds used for environment protection**

For implementation of Environment Policy approved by the Board of Latvian Railway, the total expenses of works carried out in 2006 was 2 093 885,00 Lats. The use of these funds for events of environment protection in the year of account was the following:

- Protection of atmosphere (repairs and modernising of heating systems, liquidation of separate steam-shops and connection of its objects to centralised heating networks) – 156 257,00 Lats;
- Water protection and efficient use of it, as well as preservation of hydrologic regime in territories close to railway tracks (repairs of water supply and sewerage systems, repairs and installation of water drainage systems) – 434 250,00 Lats;
- Soil and groundwater protection (reconstruction of fuel and fuel base depots according to demands of environment protection, designing and building of special areas for discharging of oil from air containers, modernising of diesel locomotives with special devices to prevent leakage of oil products, monitoring of the quality of soil and groundwater quality in the territory of Latvian Railway, rehabilitation of soil and groundwater in polluted territories) – 574 041,00 Lats;
- Managing of hazardous waste (waste of oil products, waste containing oil products, utilisation of soil polluted with oil products, as well as collection of useless electronic devices, and utilisation of other hazardous waste) – 133 980,00 Lats;
- Noise reduction (grinding of rails and turnouts) – 245 700,00 Lats;
- Renovation of protective plantation – 7 211,00 Lats;
- Train traffic safety and fire security (renovation of turnout refinement devices, renovation and modernisation of level crossings, ploughing of fire safety zones along forests and protective plantation, cutting out of old and

dangerous trees, cutting out of bushes, mowing of grass, collection of garbage, removal of useless materials of railway track superstructure and other materials) – 375 574,0 Lats;

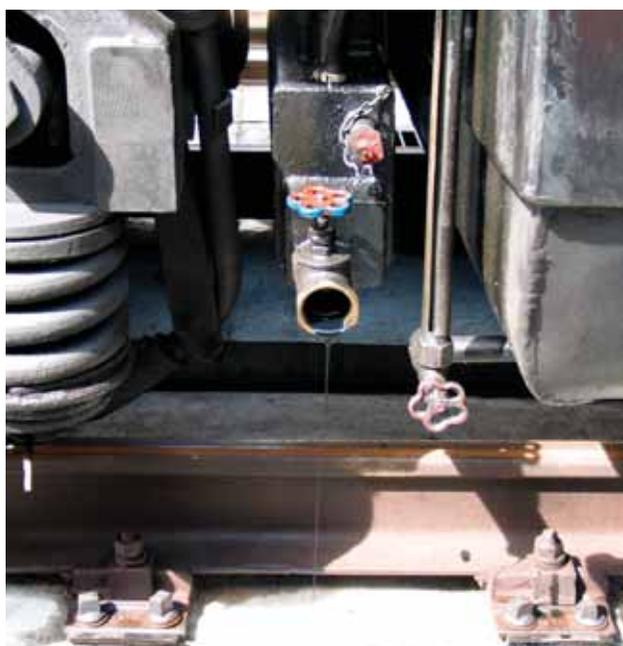
- Economy of fuel and energy resources (replacement of technological steam pipes, change of windows, modernising of railway track repair and maintenance machines) – 84 633,00 Lats;
- Protection and improvement of working conditions (landscaping, renovation and modernising of ventilation and air supply in premises) – 33 147,00 Lats;
- Other events of environment protection – 49 092,00 Lats.

### **Protection from oil product pollution**

The most important works in 2006 were soil and groundwater protection from pollution with oil products. In the year of account reconstruction of Locomotive Repair Centre *Lokomotīvu serviss* service building in Daugavpils and modernisation of fuel warehouse in Riga district accordingly the latest technical demands and environmental requirements set in laws and regulations was commenced. When reconstruction and modernisation works will be completed, soil and groundwater protection from pollution with oil products will be provided in these objects. Fuel leakage protection and groundwater quality surveillance systems will be installed.

Completely new object was built in Rezekne workshop of Daugavpils Locomotive Maintenance Department. This object – reinforced concrete area 40 metre lengthwise the railway track, where one two-section diesel locomotive can be placed and serviced – not only ensures complete protection of soil and groundwater from pollution with oil products, but also considerably relieves collection of spilled oil for utilisation.

Very important event in environment protection is modernisation of diesel locomotives with special, improved containers for oil collection.



*Improved containers for polluted oil collection with tap open.*

Equipping of diesel locomotives with polluted oil collection containers completely prevents leakage of oil products on railway tracks, if technology of locomotive maintenance and service is being observed. In 2006 19 diesel locomotives were equipped with such containers.

#### **The most important issues for 2007**

According to the decision of the Board, it is planned to use 2 762 730, 00 Lats for realisation of environment policy in 2007. It includes continuing of the tasks in hand (reconstruction of Locomotive Repair Centre *Lokomotīvu serviss* service building in Daugavpils and modernisation of fuel warehouse in Riga district), as well as equipping of diesel locomotives with polluted oil collection containers, and building of oil discharging area in Riga workshop of Riga Locomotive Maintenance Department. In 2007 in the territory of Locomotive Repair Centre *Lokomotīvu serviss* in Daugavpils a new project will be commenced. The project is rehabilitation of polluted area. Refinement of polluted soil in the territory of Jelgava Building and Territory Maintenance Department of the Real Estate Administration in Ventspils is also planned.

*The main task of the Real Estate Department (RED) of the State Joint Stock Company Latvijas dzelzceļš is to economically and rationally manage real estate belonging to Latvian Railway. The most important duties are to maintain spruce stations, clean territories and renovated platforms.*



### The main activities

In the period of account Latvian Railway owned more than 2 thousand buildings, the remained balance sheet value by the end of 2006 exceeded 9,7 millions Lats. The real estate is not only buildings, but also station platforms, areas for reloading freight, and other objects, the total number of them is more than 4 thousand units. Besides, Latvian Railway received in its administration lands (total area 15,3 thousands hectares).

One of the types of the real estate management in Latvian Railway is the lease of different objects, premises and fixed assets. In the period of account the lease incomes increased per 15,5%.

Part of the real estate that is not used for activities of Latvian Railway is for sale. In 2006, 8 objects were sold (total sum 262,00 thousands Lats). The selling of such objects that mostly are in bad technical condition decreases the total expenses of maintenance of the real estate in Latvian Railway. The saved assets are diverted for the maintenance and renewal of the remaining real estate. RED promotes the participation of leaseholders in reconstruction and renovation of the rented property and premises. The leaseholders financed and carried out construction works, thus improving condition of the leased property, for example, in Riga, Katolu Street 22, Turgeneva Street 14, Kalna Street 68.

### Resume of the accomplished

The largest capital investment was invested for renovation of Jelgava station building, for example, damp-proof-course and improvement of the ground and walls of the building, and for the renovation of the roof, official premises and utilities. 536,6 thousands Lats were used for the renovation.

In the period of account RED also renovated other infrastructure objects to improve the working and social life conditions of railwaymen. Accomplished in 2006:

- Renovation of MRC office building in Tornakalna station;
- Renovation of MRC lodges in Skirotava station;
- Renovation of the roof of MRC post in Skirotava station park A;
- Renovation of wagon technical inspection building in Daugavpils;
- Renovation of the shunting tower No.2 in park A in Daugavpils;
- Renovation of EC post building in Rezekne-2 station;
- Renovation of engine-drivers' rest house in Krustpils station;
- Renovation of the shunting tower in Daugavpils station marshalling yard;
- Renovation of MRC building in Ventspils oil park;
- Renovation of service premises of railway police in Jelgava;
- Renovation of the Jelgava locomotive depot building roof;
- Renovation of Jelgava MRC station building;
- Modernising of thermal knots in Jugla station DC post, MRC post in Skirotava station, rest house on Lauvas Street 7;
- The station building in Vecaki was connected to the city water-pipe.

### For the comfort of passengers

Employees of RED are also responsible for the comfort of railway passengers. In 2006 Vaivari and Ziemeļblazma stations were renovated. In Skrīveri station the platform blocks were replaced and new concrete roadway laid. The platform benches in Bulduri, Jumprava, Aizkraukle, Sauriesi and Koknese stations are also renovated.

Ramp for disabled passengers was installed in Ikšķile station. As well renovation of the waiting room in Nicgale station building. In Mezare and Atasiene station buildings the windows were changed.

Before restoration of passenger carriages in line Riga – Liepāja, renovations were carried out in Dobeļe, Saldus, Brocēni and Skrunda stations booking offices. The obverse of Ugale station is renovated.

### Real Estate Information System

In 2006 significant work was done to put in order all lands under possession of Latvian Railway or lands that belong to Latvian Railway, as well as the registration and documentation. The Real Estate Information System (REIS) with the chapter of cartographic and text software. The completion of REIS with up-to-date real estate information was started. The arranging of the REIS material on the server was done, as well as the classification of the cartographic material.

In the year of account the topographic land survey of railway partition zones of the state public infrastructure was carried out. It was necessary to work out the projects of determination of land borderlines, as well as for the railway infrastructure reconstruction works, the total area of which is 579,3 hectares. The cadastral land survey for 86 objects was carried out. Registration of real estate in the Land Register in railway partition zone continued. The total area of the lands is 209,19 hectares.

The proposals on sixteen projects of normative documents of the Cabinet of Ministers, involving the Law of Cadastre, registration of the real estate, land survey, detection of protective zones, and other, were submitted. The protective zone of the public railway infrastructure partition zone in Riga for introducing it into Riga Development Plan (2006 - 2018) was specified.





*Nowadays, when transit freight traffic become more global, successful work and competitiveness of the company is not conceivable without active international co-operation. Therefore, also in 2006 State Joint Stock Company Latvijas dzelzceļš continued and developed co-operation with foreign railway administrations, as well as with different international railway associations and institutions.*

Since 1992 State Joint Stock Company Latvijas dzelzceļš actively participated in the work of Organization for Cooperation of Railways (OSJD), in which 27 countries are represented. Beside these, in this organisation several railways and companies take part as observers. In 2006 OSJD celebrated its 50-th anniversary; 98 employees of Latvian Railway took part in meetings organised by OSJD, and two of these meeting were organised in Latvia. Since 1992 Latvian Railway as an observer takes part in the work of Railway Transport Council, but since 1996 Latvian Railway 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. In 2006 83 employees of Latvian Railway participated in the meetings of Railway Transport Council. 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. In October 2006, annual meeting of the council of

international Trans-Siberian transport co-ordination took part in Vilnius; representatives of Latvian Railway also participated.

Since 1992 Latvian Railway is 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 the railways in the European Union, in 2003 Latvian Railway 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.

In May 2006 in Riga the 46-th European Customs and Railway conference took place, in which more than 50 participants from 24 states participated.

In October, 2006, in Riga seminar on state and railway relations accordingly the new EU railway policy was held. More than 40 participants from 9 states participated in this seminar.

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, Belorussia, Lithuania, Estonia, Ukraine, Kazakhstan, Germany and Poland.

For a couple of years the meetings of the chairmen of the boards of the Baltic State railways are organised, where many outstanding issues of co-operation are being discussed. These meetings are organised in the railway companies of each of the member states by turns according to the previously agreed plan. In February, 2006, such meeting was held in Jurmala.

To participate in business meetings, international conferences, seminars, exhibitions, work group meetings, congresses and other events, in 2006 299 employees of Latvian Railway were delegated to business trips to 34 states worldwide, and took part in many international transport exhibitions and conferences in Moscow, Saint Petersburg, Vilnius, Astana, Berlin, Munich, Paris, Rome and Stockholm. It must be noted that many international meetings are organised also in Riga, receiving positive references from CER, OSJD.





*In the year of account the main activity of the museum staff was the work with the collection of the rolling stock, which is the pride of the museum and is one of the means to attract visitors.*

### **Supplement and restoration of the rolling stock collection**

Research, preservation and demonstration of the collection takes time, experience, knowledge and finances. Two years experts of the museum carry out rolling stock restoration works. In spring restoration of prisoners' wagon from the beginning of the 20<sup>th</sup> century and conservation of shunting diesel engine locomotive TEM2 was completed. In August newly restored headwagon and motorcar of electric train ER2 were demonstrated. By the end of the year the work on renovation of the luggage wagon from the beginning of the 20<sup>th</sup> century was started.

The wagon collection was supplemented by the parlour car No. 00870014 built in 1965. Exterior of it does not differ much from an ordinary passenger wagon, but its equipment and wide salon with conference hall speaks volumes for the special meaning of the wagon. Parlour wagons of such type or the special official wagons were built in small numbers in the Democratic Republic of Germany as it was ordered by the establishment of the USSR. After installing of extra equipment in the special plant in Moscow, the wagon was delivered to the Baltic railway. Up to 1991 it was used by the Council of Ministers of the Latvian SSR, ensuring comfortable journeys to Moscow and other cities of the USSR.

### **Identification of the railway museum**

Railway museum is getting more and more popular in Latvia. Attendance of the museum is growing each year. In 2006 the museum was attended by 11599 visitors, 3705 of them free of charge. In May 20 the museum took part in the campaign Night of Museums. In the evening programme Railwaymen at work, leisure time and sports an exhibition on achievements of railwaymen in sports, civil defence and their leisure time activities was demonstrated. Visitors could also see the Simulator of the psychological characteristics of the operational team in railway. Within several hours 1300 visitors attended the museum.

Museum takes active part in the cultural life. The large hall is a place for concerts, performances, ceremonial events and exhibitions. Very emotional was June 14, when the deportees were remembered. Among them were hundreds of railwaymen and their family members. The poem of the composer J.Kulakovs and the poet P.Aigars The Red Train was presented. The concert was attended by the President of the Republic of Latvia Vaira Vike-Freiberga and her husband Imants Freibergs.

The scope of the work of the museum cannot be measured in numbers, it is more important to know if it awakens the interest of visitors. Does it help researchers to find answers on their questions regarding the railway history in Latvia? Is museum the place where families spend their leisure time? In 2006 the staff of the railway museum considered this aspect of museum activities – to complete the exposition, to create enjoyable atmosphere so each visitor could feel the charm of the railway environment.

The headwagon 39701 of electric train ER2 section. It was built in Kalinin wagon factory in 1963 and was planned to be used with the train ER2-397 formed in the Riga Wagon Plant (RVP). Trains of this series were built from 1962 to 1984. In total 850 trains of ER2 series have been formed in RVP. Each train consisted of two headwagons, two sidecar wagons and four motorcars. Headwagon was restored in the Joint Stock Company VRC Zasulauks.

The motorcar 82104 Initial No. 59606 of electric train ER2 section was built in RVP in 1966. After building it was attached to the experimental train ER25-596. In 1972 wagon No.59606 was equipped with impulse converters that allows the train to start its movement more steadily and to eliminate the consumption of electricity. Together with three other modernised motorcars, two separately built headwagons and two spare sidecar wagons the electric train No.821 of the series ER2i was built. Maintenance of



the train allowed designing engineers to research the work of converters in different regimes of train movement. The knowledge was used in the building of trains in future. Motorcar was restored in the Joint Stock Company VRC Zaslauks.

Shunting diesel locomotive TЭM2-1000. It was built in 1971 in Brjansk diesel locomotive plant and used in shunting works in railway junctions serviced by Daugavpils locomotive depot. Excluded from the stock of the State Joint Stock Company Latvian Railway in 1995.

Locomotives of TЭM2 series (shunting diesel locomotive with electric actuator of the second type) in different modifications (in total more than 9000 units) were built from 1960 to 2000. During the construction the basic model was modernised for several times, thus giving to locomotives accordant indexes. Locomotive TЭM2-1000 was equipped with ПД1М type four-stroke/six cylinder diesel engine built in Penza plant. Its main generator can supply electricity to six traction electromotors that with the intercession of regulators are connected to a pair of wheels.

In Latvia locomotives of TЭM2 series are maintained since 1969. Initially they replaced steam engine locomotives in Daugavpils and Rezekne railway junctions, later locomotives were maintained in other railway junctions, as well as some spur tracks. Several machines of TЭM2 series now are being maintained to serve the track renovation and maintenance equipment.

Precise time of building the prisoners' wagon is not known, whereas the peculiarities of its construction show that the wagon definitely is of the same type as wagons built in Tsarist Russia since 1906. It is also clear that the wagon was used in the period of Stalin's governance to deport prisoners to penitentiary camps. As the basis of the wagon is 20.2 metres long (it was a standard in 19<sup>th</sup>-20<sup>th</sup> century in Russian railways) wooden passenger wagon with tinsplate plating. Usually such wagons were used in intercity passenger traffic. Exterior of the green prisoner's cars reminded luggage wagons, while the interior differed. Five compartments of nine were for prisoners. From the passageway compartments were separated with bars allowing to monitor the compartment. There are bars on the side of passageway. There are no windows in prisoners' compartments. Punishment cells are placed besides four compartments. Each punishment cell is a compartment divided in two parts with wooden wall with two plank beds.

In the compartment of Stolipin wagon six prisoners could sit on the lower shelf, three prisoners could sleep on the middle shelf. These shelves are connected with plank with a hole in bed-foot, so the prisoners could climb up. Two more prisoners had to sleep on the luggage shelves, but usually in one compartment not eleven, but twice as much prisoners were fit into.





## FINANCIAL REPORT

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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 2006, 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 14 June 2007 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.

A handwritten signature in black ink, appearing to read 'S. Vilcāne'.

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

Rīga,  
14 June 2007

## Balance of 31 December 2006 (in LVL)

	31.12.2006.	01.01.2006.
<b>ASSETS</b>		
1. Intangible assets	743 573	759 646
2. Tangible fixed assets	203 372 242	185 116 714
3. Long-term equity investments	12 839 788	14 178 342
4. Current assets	21 148 423	16 800 930
4.1. Inventories	12 602 443	9 145 372
4.2. Accounts receivable	6 779 279	5 857 180
4.3. Cash	1 766 701	1 798 378
<b>Balance</b>	<b>238 104 026</b>	<b>216 855 632</b>
<b>LIABILITIES</b>		
1. Shareholder's equity	108 253 020	107 287 573
1.1. Share capital	90 168 321	90 168 321
1.2. Reserves	16 179 938	15 884 385
1.3. Retained earnings of previous years	830 000	830 000
1.4. Retained earnings of the current year	1 074 761	404 867
2. Provisions	12 978 642	7 234 388
3. Accounts payable	116 872 364	102 333 671
3.1. Long-term liabilities	72 878 573	59 493 972
3.2. Short-term liabilities	43 993 791	42 839 699
<b>Balance</b>	<b>238 104 026</b>	<b>216 855 632</b>

## Profit and loss for the year 2006 (in LVL)

1. Operating income	189 809 819
2. Operating expenses	(166 154 928)
<b>3. Gross profit or loss (from turnover)</b>	<b>23 654 891</b>
4. Administration expenses	(15 177 620)
5. Income from other business activities	13 366 953
6. Expenses of other business activities	(16 300 847)
7. Income from securities and loans forming long-term investments	150 344
8. Other interest and related income	1 343
9. Interest payments and related expenses	(2 497 947)
<b>10. Profit or loss prior to extraordinary items and taxation</b>	<b>3 197 117</b>
11. Extraordinary income	27 849
12. Extraordinary expenses	(6 066)
<b>13. Profit or loss prior to taxation</b>	<b>3 218 900</b>
14. Enterprise income tax	(1 822 132)
15. Deferred enterprise income tax	(171 489)
16. Other taxes	(150 518)
<b>17. Profit or loss of the report period after taxation</b>	<b>1 074 761</b>

Representative of capital  
share holder



A. Židkovs

Chairman of the Council



G. Mačs

Chairman of the Board



U. Magonis

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 2006, 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 14 June 2007 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.

A handwritten signature in black ink, appearing to read 'S. Vilcāne', with a horizontal line extending to the right.

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

Rīga,  
14 June 2007

**Consolidated balance of 31 December 2006 (in LVL)**

	<i>31.12.2006.</i>	<i>01.01.2006.</i>
<b>ASSETS</b>		
1. Intangible assets	801 949	848 277
2. Tangible fixed assets	216 211 661	194 687 669
3. Long-term equity investments	596 141	614 360
4. Current assets	25 091 691	20 211 935
4.1. Inventories	13 095 814	9 726 348
4.2. Accounts receivable	8 045 699	5 674 898
4.3. Cash	3 950 178	4 810 689
<b>Balance</b>	<b>242 701 442</b>	<b>216 362 241</b>
<b>LIABILITIES</b>		
1. Shareholder's equity	110 927 757	108 041 861
1.1. Share capital	90 168 321	90 168 321
1.2. Reserves	16 179 938	15 884 385
1.3. Retained earnings of previous years	1 527 699	1 382 235
1.4. Retained earnings of the current year	2 848 923	493 744
1.5. Minority interests	202 876	113 176
2. Provisions	9 694 719	3 668 799
3. Accounts payable	122 078 966	104 651 581
3.1. Long-term liabilities	74 917 641	60 564 184
3.2. Short-term liabilities	47 161 325	44 087 397
<b>Balance</b>	<b>242 701 442</b>	<b>216 362 241</b>

**Profit and loss for the year 2006 (in LVL)**

1. Operating income	204 085 782
2. Operating expenses	(177 208 416)
<b>3. Gross profit or loss (from turnover)</b>	<b>26 877 366</b>
4. Sales expenses	(187 985)
5. Administration expenses	(17 582 743)
6. Income from other business activities	11 919 918
7. Expenses of other business activities	(13 660 913)
8. Income from securities and loans forming long-term investments	150 344
9. Other interest and related income	37 847
10. Interest payments and related expenses	(2 497 947)
<b>11. Profit or loss prior to extraordinary items and taxation</b>	<b>5 055 887</b>
12. Extraordinary income	28 037
13. Extraordinary expenses	(6 066)
<b>14. Profit or loss prior to taxation</b>	<b>5 077 858</b>
15. Enterprise income tax	(1 889 829)
16. Deferred enterprise income tax	(164 027)
17. Other taxes	(151 292)
18. Minority interests	(23 787)
<b>19. Profit or loss of the report period after taxation</b>	<b>2 848 923</b>

Representative of capital  
share holder



A. Židkovs

Chairman of the Council



G. Mačs

Chairman of the Board



U. Magonis

