



STATE JSC "LATVIJAS DZELZCEĻŠ"

Annual report

2004

Valsts aroga salīdzinājumā  
latvijas dzelzceļā ir paaugstināta  
teorētiskā ar laipnību patērēt  
pārveidojuma apmērs, jo tehniskā  
nosaukuma dēļ ir valsts pārveido  
otā virsma, patlaban tiek samazināta  
nosaukuma 70% apmērā, tādēļ  
tiek nodrošināta



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## Report from the Chairman of the Board

### The time of historical events

On 1 May, 2004 Latvia became a full rights member state of European Union, thereby our railway incorporating into the European transport system and is consolidating its economically strategic importance as a bridge between East and West. The significant point for the State Joint Stock Company *Latvijas dzelzceļš* in the previous year was that the amount of shipped freight was the largest after our state restored its independence, and the commence of implementation of the important infrastructure modernization projects. However, I want to emphasize that the achievements in 2004 are based on the whole *Latvian Railway* team self - denying work.

### New tendencies in freight shipments

In 2004 we shipped 51.1 mill. tons freight or 5.6 % more than in 2003. The specific character of the reporting period is that the shipments of oil products decreased significantly but coal freights increased in the same rate. Cooperation with Russian railways, that gives more than 50% of transit freight shipment, goes alongside with getting into contact with partners in Belarus, Kazakhstan and other Central Asia countries. It allows attracting freights of oil products, ferrous metal and artificial fertilizers. During the reporting period the freight flow from Belarus increased significantly attaining 36% of



transit freight amount. The freight shipments commenced in 2003 with container train *Baltika-Transīts* developed successfully, which in a short period and in accordance with competitive tariffs transports freight from the Baltic sea ports to Kazakhstan, Uzbekistan and other Central Asia countries.

### New technology, modern infrastructure

At the beginning of 2004 *Latvian Railway* performed a series of activities to implement in the customs control and transit freight processing the procedure that corresponds to demands of European Union. Together with Latvian customs new technology was worked out in order to be able to provide transit freight electronic declaration. As the result just on 1 May, 2004 one part of transit freight customs declaration in computer system especially for European Union states was implemented and operated.

In 2004 we achieved an original record also in infrastructure modernization - we began to implement three projects:

- Construction of train reception yard in the station Rēzekne II (10.2 mill. Euro);
- Modernisation of the automatic train traffic control system (89.9 mill. Euro);
- Modernization of the railway rolling stock hot - box detection system (15.1 mill. Euro)

The important financial source to increase and develop infrastructure capacity is the EU Cohesion Fund.

In 2004 *Latvian Republic Transport Ministry* supported fund assignment for the project "Continuation of East - West transit corridor track renewal (88.9 mill Euro)."

During the reporting period other potential projects for period 2007 to 2013 were also prepared and got support, for example, "Construction of the second track in the Riga - Krustpils section (55.3 mill.Euro)", "Reconstruction of Riga railway network" (101.6 mill. Euro) and "Implementation of the unified railway mobile communication system GSM-R" (67.3 mill. Euro).

However, we cannot pay attention only to long-term investment projects with return after several years. Therefore unceasing prevention and regular repair work have been performed to maintain tracks in good condition just presently. I will mention only some examples:

- During the reported period *Latvian Railway* provided Austrian company's *Plasser & Theurer* high-powered BDS-200 type track repair equipment. We have already cooperated with the company *Plasser & Theurer* for ten years and during this period we have acquired nine efficient track equipments;
- Switzerland company *SPENO INTERNATIONAL* performed track grinding works of 140 kilometers. The cooperation contract is signed with this company till the year 2008.
- During the reported period repair work of the railway bridge across Daugava located in 294th kilometer in the section Jelgava - Krustpils has been continued and will be completed in 2005. The bridge is one of the largest technological constructions in this railway line built hundred years ago.



## Report from the Chairman of the Board

### People are our major value

*Latvian Railway* is the most significant employer in our state. More than 13 thousand people work in the company at present. In order the company can be complete it is necessary to motivate employees for more active and self-denying work. The best motivation of course is adequate wage. The amount of work went up with increasing of the volume of freight shipment. Quarterly premium of wages were paid to employees thereby practically increasing wages. Considering the inflation rate in the state all employees got also additional inflationary payment, 8.25 lats a month on average. In 2004 our railwaymen received 5.9 lats only as premiums and an average monthly salary reached 267 lats.

The work on development of the Collective agreement and improvement of employees' social guarantee are going on with the cooperation of Latvian Railwaymen Trade Union. According to changes made in Collective agreement insurance is increased achieving 1000 lats concerning one employee a year. Besides it is planned for each member of Trade Union to have 500 lats a year in the case of domestic accident. In 2004 the work group of Latvian Railway and Latvian Railwaymen Trade Union was formed in order to elaborate conception on Salary increasing. The conception, which implementation will begin in 2005, envisages the gradual increasing of wages for locomotive crews, workers and other railway employees.

### International contacts are expanding

As *Latvian Railway* is the member organization of the Community of European railwaymen and infrastructure companies (CER) since 1 January, 2003, on 27 April, 2004 the delegation of CER came to Riga with the purpose to get acquainted with our railwaymen and assist to solve potential problems. It should be noted that CER uniting 34 European country railways is the highest representing body for railways in

European Union, as well as is a real lobby of railwaymen interests in European Parliament.

Not only the administration of *Latvian Railway* promotes its prestige in the world but also public organizations: Latvian Railwaymen Trade Union and Latvian Railwaymen association. Latvian Railwaymen Trade Union is the member of European Transport employees' federation, but Latvian Railwaymen Association is a participant of European Railwaymen Association (AEC). In 2004 Latvian section of AEC organized a considerable event - European days in Latvia.

### Festivals and traditions

On 5 August, 2004 Latvian railwaymen celebrated their railway 85th anniversary. On that day events took place in Riga and in the whole country devoted to the significant date; the best employees were awarded traditionally in the Ministry of Transport, tourists' gathering took place in Latgale parish Višķi organized by Latvian railwaymen Trade Union, in Latvian Railway history museum was held unprecedented event - the display of railwaymen creative works. It should be emphasized that on 30 August, 2004 ten years passed since *Latvian Railway* history museum with the centre in Riga and its subsidiary in Jelgava began to work. In spite of sceptics ten years ago we believed in museum's potency and now it has developed into an important culture centre with resonance among railwaymen and Latvian society.

Speaking about *Latvian Railway* contribution in children education it is necessary to mention a worthy cooperation with the cartoon film group *Avārijas brigāde* (Rescue brigade). A children puppet film serial with witty subjects about how to behave being in contact with a train was performed as a result of team work. Cheer the fact that this team work has got also international appreciation.

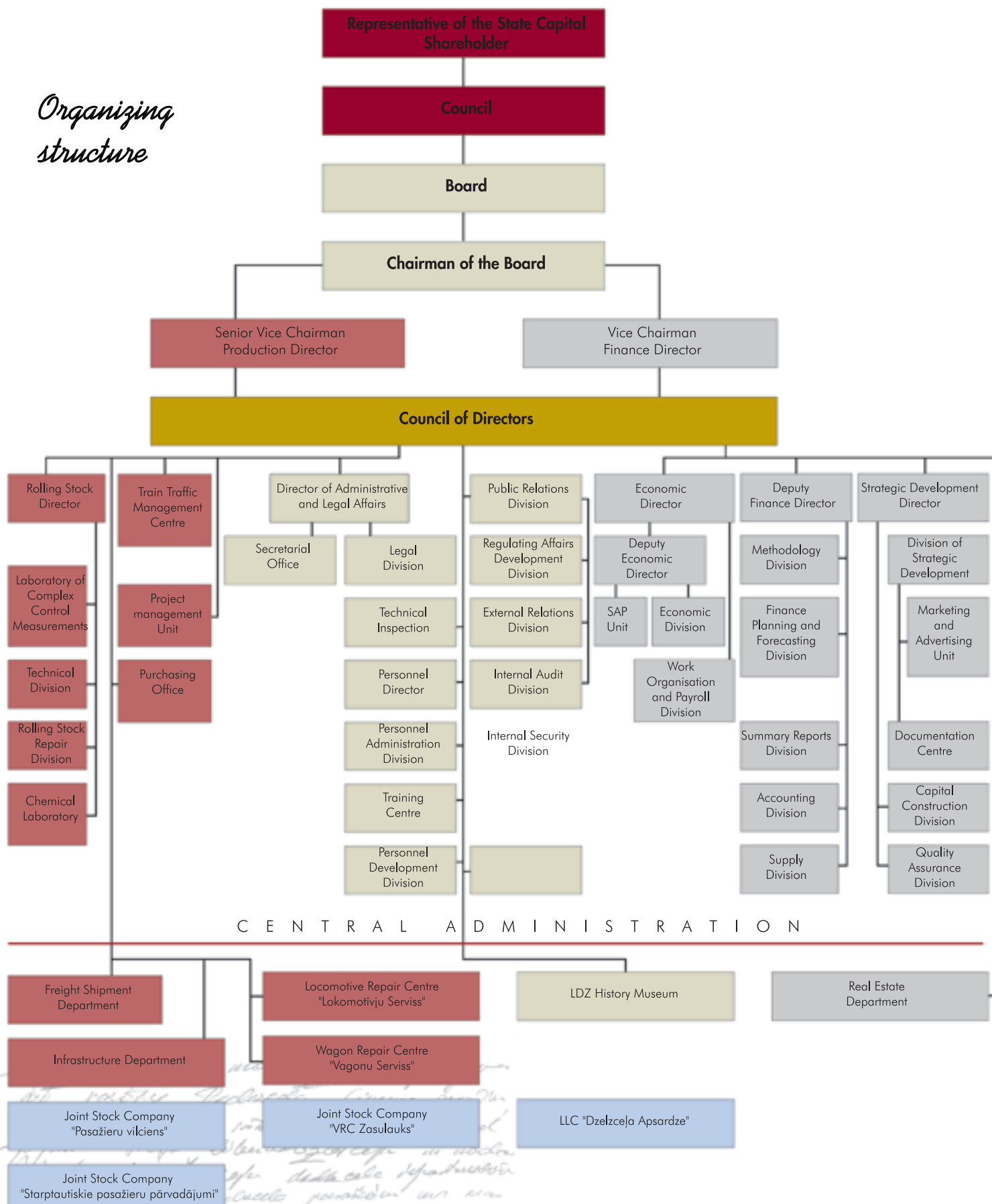
Since 1 May, 2004 Latvia is a member state of European Union. It is a guarantee to Latvia national independence and possibility of our company further development and maintenance of competitiveness in the future. We are going to keep cooperation with existing partners - Russian and other CIS states railways, simultaneously incorporating into European Union railway transport system. Strategic importance of Latvian railway as transit corridor irreplaceable section should be preserved and availed.

Andris ZORGEVICS  
Chairman of the Board  
State Joint Stock Company  
Latvijas dzelzceļš





## Organizing structure





## REPRESENTATIVE OF THE STATE CAPITAL SHAREHOLDER

Vigo LEGZDIŅŠ

## EXECUTIVE

Austris CAUNĪTIS

## COUNCIL

Uģis MAGONIS  
Chairman of the Council

Jānis EIDUKS

Māris KALVE

Guntars KRIEVIŅŠ

Arvids KUCINS

Leonīds LOGINOVŠ

Andrians ĻUBLINS

Imants SARMULIS

Elmārs ŠVĒDE

## BOARD

Andris ZORGEVICS  
Chairman of the Board

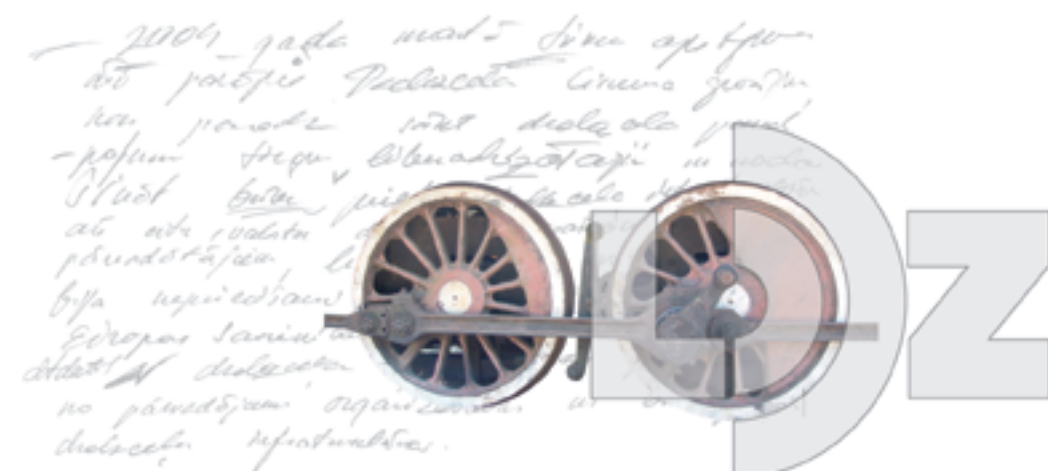
Staņislavs BAIKO

Rihards PEDERS

Māris GAVARS

Andris ŠTEINBRIKS

Jānis VĒVERIS







## Strategic Development

Transport services, in particular with regard to transit freight shipments, play a significant role in Latvian economy. Railway in none of the Western European countries is as important for state economy as it is in Latvia, when considering such indices as Latvian Railway tax payments or contribution to the GDP. *Latvian Railway* is one of the largest Latvian enterprises with high cost of capital.

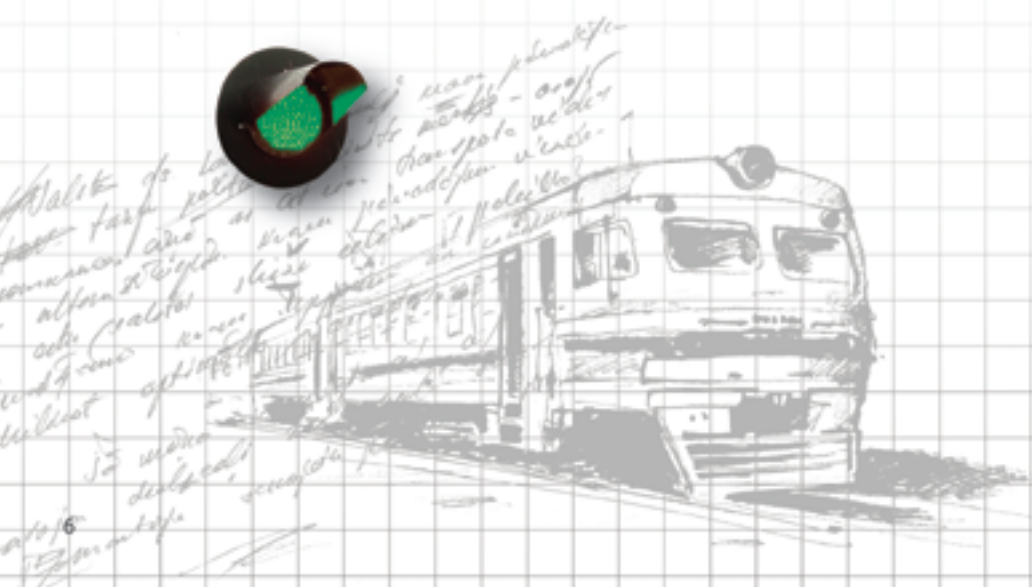
*Latvian Railway* offers freight and passenger shipment services, as well as rolling stock repair services in Latvia and also in an international market. Freight shipments of *Latvian Railway* (the state holds 100 % of shares) are formed by import, export, inland transit and domestic freight shipments. Domestic freight shipment is provided by subsidiary enterprise stock company - Pasažieru vilciens (Passenger train), but international passenger service - Starptautiskie pasažieru pārvadājumi (International passenger service).

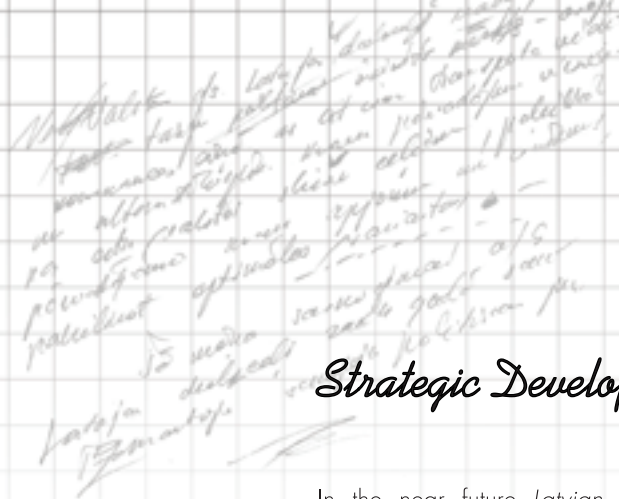
Analyzing *Latvian Railway* revenue two factors are clear:

- Freight shipment creates the biggest part of this company revenue;
- Revenue from transit freight shipment comprises more than 80%

Transit of oil products, mineral fertilizers and coal prevails in freight shipments. Efficiency of *Latvian Railway* business activities depends on a number of internal and external factors directly influenced also by the state political attitude and activity in the development of inter-state and domestic economic relations with branch companies:

- The volume of trade flow between Russia and Western countries and the related market prices;
- The business and flow of transit freight shipments largely depend on the national policy of Russia and the interests of the big Russian oil companies;
- Competition with regard to alternative transit routes between Russia and Western countries (for example, via Estonia, Lithuania and Finland or directly from Russian ports) and different modes of transport (such as pipeline transport), the development of which depends on the state policy and support.





## Strategic Development

Railway law amendments adopted in 1998 came into force on 1 January, 2004, that provided excise tax allocations of used derv in railway shipments not to be transferred no longer from State motorway fund to railway infrastructure fund. Amendments provide that railway infrastructure payment is compensated by railway passenger shipments from state budget. This compensation for current year cannot be less than the previous year's.

In March, 2004 the next Railway law amendments were adopted that provide to start railway service market liberalization and to ensure free accessibility to railway infrastructure for passenger and freight conveyers of other state railways.

Law amendments were necessary to make conformity with European Union directions requiring to separate railway infrastructure administration from shipment organizing and free availability to railway infrastructure, and also because European Union does not allow passenger shipment endowing with cross subsidy.

In 2004 four *Latvian Railway* subsidiary companies - three joint-stock companies, and one limited liability company were operating successfully. Two joint-stock companies are established together with collaboration partners - the stock company VRC Zaslauks with the stock company Rīgas Vagonbūves rūpnīca (Riga carriage construction enterprise) and the stock company Starptautiskie Pasažieru pārvadājumi (International passenger services) together with the stock company L-Ekspresis. The companies required capital assets for economic activities are preserved as *Latvian Railway* possession and are used.

In the near future *Latvian Railway* is expected to become a shareholder of two more subsidiary companies: administrator of infrastructure and conveyer of cargoes. In future after capital assets required for performance have been delivered to subsidiary companies, *Latvian Railway* mostly will deal with share management of subsidiary companies. Thereby the state preserves control above performance of all companies being included in the concern.

In future taking into consideration increasing of the state financing for common employed infrastructure and railway passenger shipments, the foreseen reorganization will ensure successfully development of railway sectors and long-term performance.







## Personnel

Enforcing company personnel policy during the reporting year the strategical plan of the personnel management for years 2004 - 2006 was elaborated and approved by the board of *Latvian Railway*.

In the reporting year a great research "State JSC *Latvijas dzelzceļš* and subsidiary companies personnel complacence with their job" was completed. 2037 employees from 83 different structures of *Latvian Railway* took part in its development. Results give a wide information about influence of all factors to employee complacence with their job - the attitude of employees towards a company on the whole, work conditions and safety, work process to be done and tasks, relation between employees and managers, remuneration, possibilities of career, development and education, information and communication. The research analyses the situation in the company at the whole and also in the largest structures and shows the ways for implementation of needful alterations.

To develop employees' knowledge and mutual communications the Public Relation Division formed and maintains internal home page - *Intranet*. "LDz Employees' manual" was published summarizing necessary information to each employee about the company at the whole, labour relations, remuneration system, possibilities of professional development. In Financial management information system SAP human resources module personnel registration unit is performed, that enables to make personnel reports in the electronic form.

### Employees and salaries

The total number of people employed in the core activities in 2004 was 12976 which is 81 employees or 0.6 % less than in the previous year. Decreasing tendency still remains because of company restructuring and acquirement of new technology.

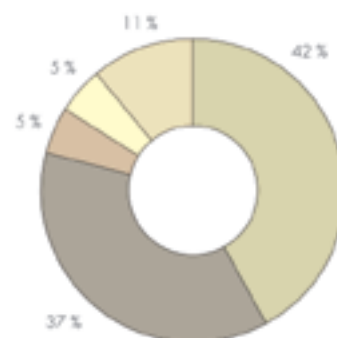
The growth of the volume of shipments and quarter bonuses promoted the salary increasing of employees. In 2004, as compared with the previous year, the average salary increased by 3.2 % being 267 LVL per month.

### Personnel training and continuing education

The main collaboration partners for the training of railway specialists are the Railway Transport Institute of Riga Technical University, Riga Railwaymen School and Latgale Transport and Communication Technical School.

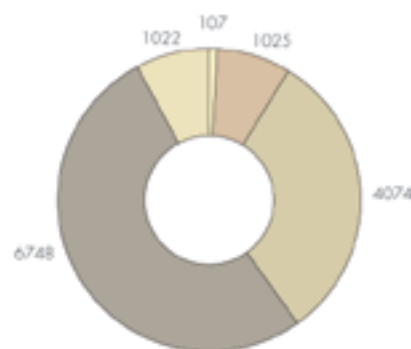
Promoting preparation of railway specialists in Latvia *Latvian Railway* donated 43600 LVL to Riga Technical university Development fund for Railway Transport institute to repair premises and provide necessary training equipment. Participation in the special - target programme to Education, Culture and Science of the Latvian Foundation are going on promoting cooperation between different high school students and students of vocational schools, the best of them are offered work in *Latvian Railway*.

### Breakdown of employees by structural units of LDz

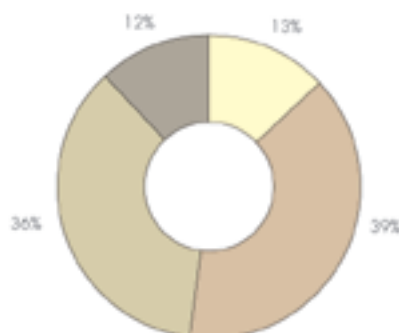
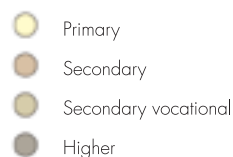


### Breakdown of employees by age groups (number)

Total number of employees - 12976



### Breakdown of employees by education





2004. gada martā JSC "Dzelzceļa infrastruktūra" ir pabeigusi pabeigusi Latvian Railway infrastruktūras modernizāciju, kas paredzēta, lai nodrošinātu drošu un efektīvu transporta pakalpojumu. Šī nolikuma mērķis ir nodrošināt, lai infrastruktūra būtu droša, efektīva un atbilstoša Eiropas standartiem. Šī nolikuma mērķis ir nodrošināt, lai infrastruktūra būtu droša, efektīva un atbilstoša Eiropas standartiem.

## Personnel

In 2004 services of higher and secondary vocational establishments, continuing educational offers and LDz Training centre, and possibilities of structure unit training classes were used to promote personnel professional development.

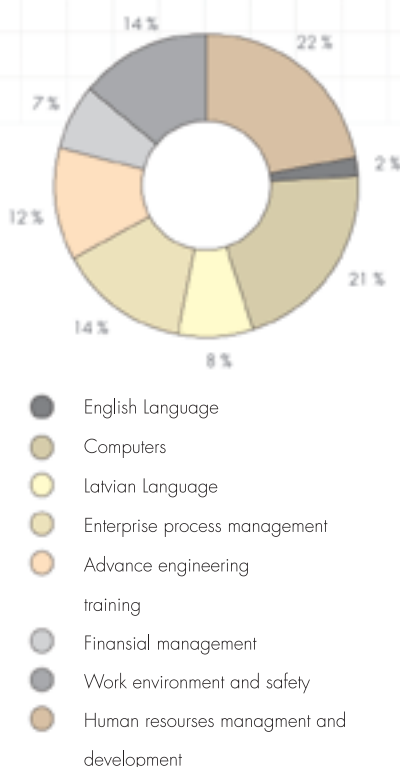
Railway specialists in 37 professions are being trained in work places of the company. Machinist assistants are trained in accordance with nowadays requirements in the class of Daugavpils Operation Unit of the Freight Shipment Department, as well as training of flaw inspectors are organized in the technical training class in Jelgava of Infrastructure Department.

103 training programmes, including 21 new ones, were realized in Training centre in 2004. In the reporting year Training centre lessons were given by 114 lecturers, 29 (25%) were employees of Latvian Railway. The Training centre has become an instrument to achieve company manufacturing targets.

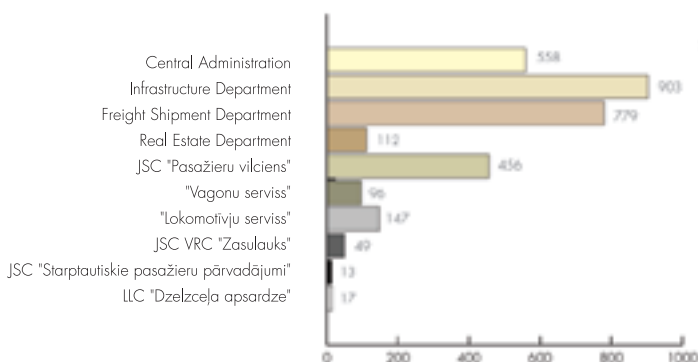
Special attention is paid to continuing education of engineering technical employees. The number of the course visitors increased more than two times. Constantly more required are courses about professional themes of railway as: "Consequences elimination of dangerous freight accidents", "Interaction between wheel and rail. Maintenance of wheel set", "Stress control in extraordinary situation", "Technologies of the telecommunication systems", "Base of SDH technologies".

In 2004 in Training centre 3217 participants studied in 259 groups, 961 (30%) - In Daugavpils unit. The professionalism was developed by 13% of the total number of employees.

### Breakdown of training courses by course themes

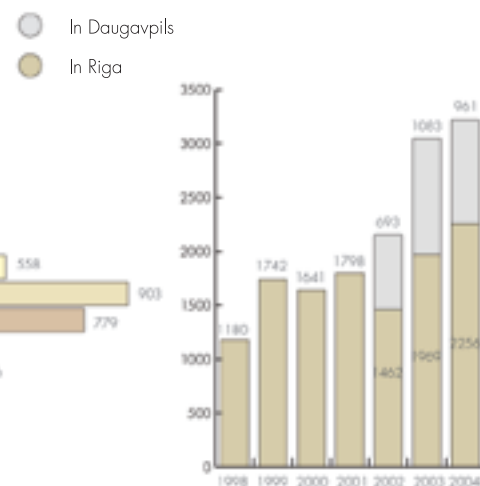


### Participants in courses from Latvian Railway structural units



In the reporting period in Training centre the estimation office of professional psychophysiological suitability was developed and started to work. The office is equipped with universal psychodiagnostic set made in Maskava stock company "Neirokom" and adapted for Latvian railway demands. The universal set includes methods of psychophysiological estimation that allow to determine development level of professional the most important characteristics for mechanists and mechanist assistants and carry out professional psychological tests. The work in the estimation office of professional psychophysiological suitability is led by psychologists of professions. In 2004 the estimation of professional psychophysiological suitability was performed to 223 Latvian Railway employees - locomotive drivers and driver assistants.

### Total number of participants in courses (1998 - 2004)







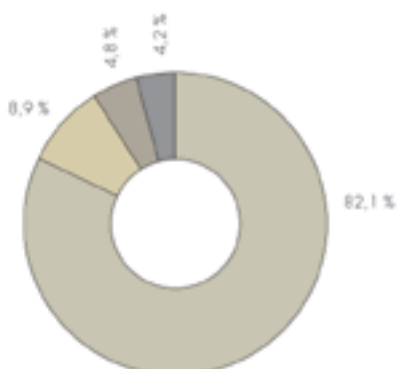
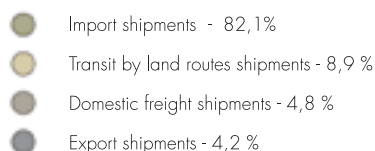
## Freight Shipments

### Increase of freight shipment volume

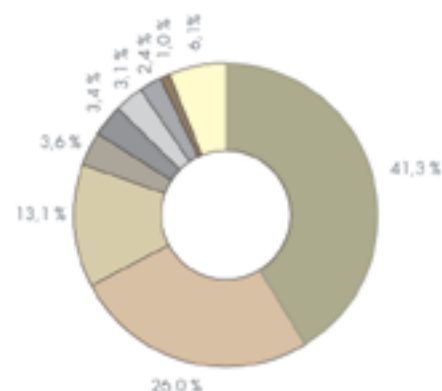
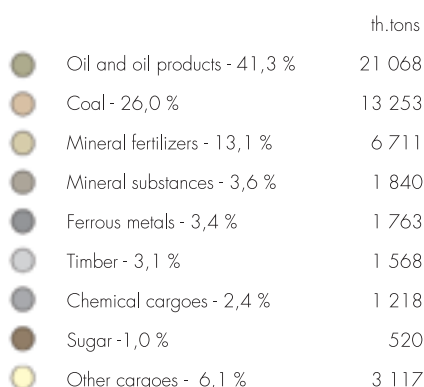
The volume of the freight shipped in 2004 is 51.1 mill. tons which is 2.7 mill. tons or 5.6 % more than in 2003. Import shipments (transit shipments through ports) took up the biggest share - 8.2 %. Its volume achieved 41.9 mill. tons, that is 2.5 mill. tons or 6.4 % more than in the previous year.

The transit by land routes increased too; its volume increased by 24.0 %. The volume of domestic freight shipments increased by 4.3 %, and the volume of export shipments decreased by 27.4 %.

### Shipments in 2004 by type of freight



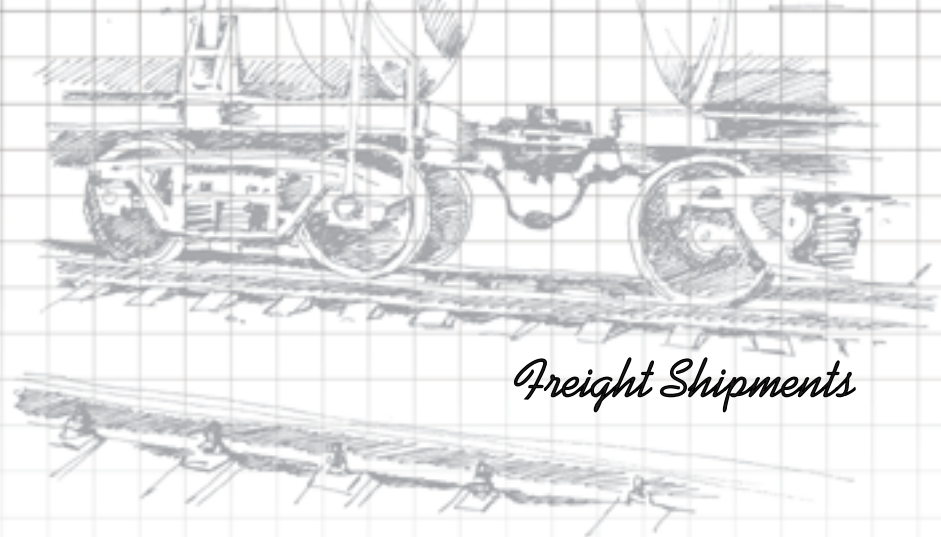
### Proportion of freight shipments by type of transport in 2004 (%)



In the process of analysing the freight shipments by the types, we can see that the volume of oil shipment increased by 6042 th. tons or 83.8 %, the volume of timber shipment - by 374 th. tons or 31,3%, chemical products - by 64 th. tons or 5,5 %. Whereas the volume oil and oil products decreased by 2177 th.tons or 9,4 %, the shipment of ferrous metals - by 185 th. tons or 9.5 %. The shipment of mineral fertilizers, sugar and corn also decreased.

The freight turnout of *Latvian Railway* in 2004 was 16,877 mill.tkm which is 4,1% less than in 2003.

In 2004 railway freight shipment through the Latvian biggest sea ports went up to 38,667 th. tons exceeding the volume of 2003 by 3,8 %. It is based on the increasing of the freight shipment volume in railway junction stations in Riga port by 19,7 %, that compensated the decrease of amount of work in Ventspils and Liepāja port stations. In 2004 the breakdown proportions of the whole freight shipment volume in these stations are the following: Ventspils port station - 40,5 %, Riga railway junction port stations - 31,7%, and Liepāja port station - 3,5 %.



## Freight Shipments

### The requirements of European Unions are being fulfilled

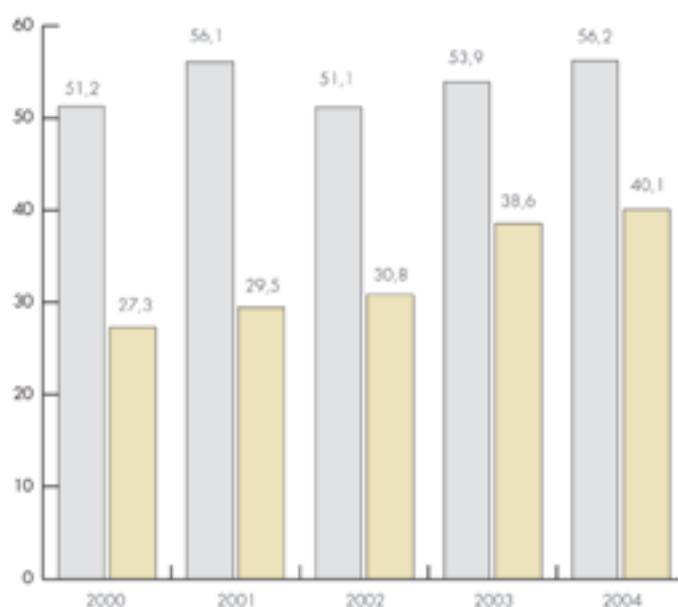
As the Republic of Latvia joined the European Union *Latvian Railway* has performed a range of organizational measures to be able to fulfil the demands of legislative normative documentation of European Union customs. Since 1 May, 2004 a part of transit cargoes in *Latvian Railway* has already been controlled corresponding to European Union customs declaration system *NCTS* (*New Computerized Transit System*).

The agreement is obtained with Sanitarian border inspection about performing of veterinary, phytosanitary and other necessary inspections and processing documents in Daugavpils and Rēzekne railway stations that have become of European Union entry points to cargoes being subjects to veterinary, phytosanitary and other type of control. Special control and document processing united posts are built in these stations where customs service and Sanitarian border inspection perform their functions. These posts are certified according to demands of European Union and are announced as open to railway freight shipment.

In all railway stations which are on the borders of Russian Federation and the Republic of Belarus dynamic scales are installed letting to weigh freight trains moving with the speed of 30-40 km/h. That allows controlling operatively shipped cargoes mass and comparing results with shipment documents, discovering operatively offences.

### The share of freight shipments by rail in the total shipments through Latvian ports 2000 - 2004 (million tons)

- The total freight shipments through Latvian ports
- The transit shipments of Latvian Railway





## Freight Shipments

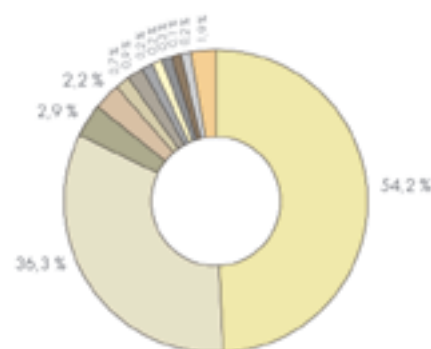
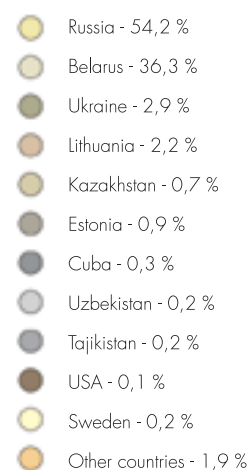
In the same way *Latvian Railway* pays great attention to matters on reducing of wagons demurrage in stations during customs procedures. The procedure of declaring freights beforehand, which allows custom offices of neighbouring countries receive required information for cargoes declaration before cargoes cross the state border, is approved. Due to establishing of this procedure the demurrage of wagons is reduced considerably in wagon delivery stations and railway expenses for uncoupling the wagons that are not accepted or detained because of wrongly filled or missing of consignment notes are reduced, as well as cases when wagons are returned back due to the mentioned reasons are reduced to the minimum. The pre-clearance procedure is used for cargoes being transported through Russia, Belarus and Estonia border stations.

Being a freight conveyer *Latvian Railway* can operate also as shipped transit freight declarant and customs principal or responsible for transit custom procedure. The agreement about the procedure of customs clearance for freight shipment on railways is signed with State Revenue Service of the Republic of Latvia to ensure the discharge of declarant and principal

duties. *Latvian Railway* has got an approved conveyer and consignee status conferred by custom regional authorities that in some occasions allows processing documents of transit freights itself without participation of customs.

One of the most important conditions of the shipment agreement is ensuring cargoes preservation. The system of complex organizational and technical arrangements is performed and is in operation to avert damages and losses during the time of their conveyance. As the result security level of shipped cargoes of *Latvian Railway* is increasing rapidly. If in 2003 loss due to freight damages was 2 santims per 100 LVL of income from freight shipment, than in 2004 in spite of the increase of shipped freight volume, loss from unpreserved cargoes was only 4 santims per 10,000 LVL of income.

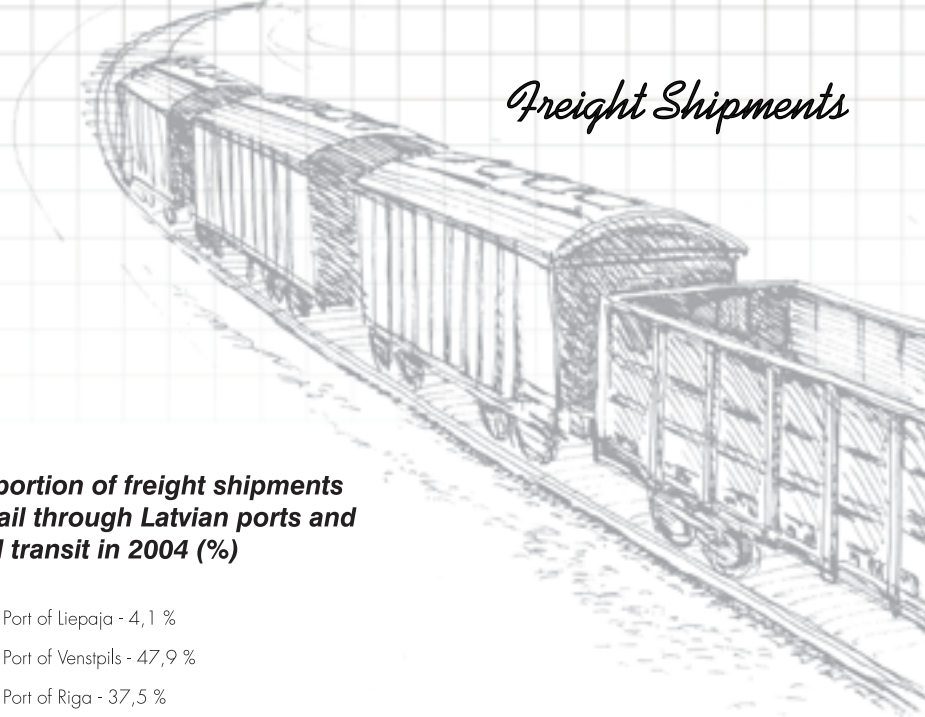
### Proportion of freight shipments by countries consignors in 2004 (%)





pārveidoti, tikums, kas ir jānodrošina, lai nodrošinātu, ka Eiropas tautsaimniecība, kas ir atkarīga no pārvadājumu organizēšanas, var pabeigt šīs infrastruktūras.

## Freight Shipments

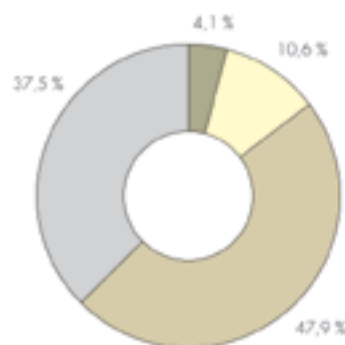


Besides, organizational and technical arrangements were performed to improve transport safety in principal transit routes, to increase train mass, therefore freight shipment passed safely and without obstacles. The conception is developed how to modernize locomotive depot increasing safely capacity unit. The previous years' undertaken measures about locomotive modernization and work on lifetime extension were continued, therefore ensuring shipments with required number of locomotives. A series of measures were taken to decrease fuel consumption. All planned types of repairing of railway yard were performed, including capital repairs extending lifetime of 12 cisterns and 12 covered wagons. Making use of other types of repair work the lifetime of 184 freight wagons also was extended, roofs of 30 covered wagons were replaced, and repairs of 3000 wheel sets were carried out.

In 2004, by *Latvian Railway* request internationally approved German consulting firm "DE-Consult" performed the research on carrying capacity in principal *Latvian Railway* transit corridors. The firm estimated the reality of the planned shipment volume and prepared the final report "Updating of Latvian railway East-West corridor research" connected with infrastructure development, including also perspectives of electrification of Latvian main railway routes. All this will help *Latvian Railway* to use capabilities for increasing shipment volume also in future.

**Proportion of freight shipments by rail through Latvian ports and land transit in 2004 (%)**

- Port of Liepaja - 4,1 %
- Port of Ventspils - 47,9 %
- Port of Riga - 37,5 %
- Transit of land routes - 10,6 %



2004. gada martā šis ir pēdējais posms, kas paredz, ka šīs infrastruktūras, kas ir atkarīga no pārvadājumu organizēšanas, var pabeigt šīs infrastruktūras.



## Freight Shipments

### The new routes of container shipments

One of the *Latvian Railway* priorities in freight shipment is container shipment that guarantees quickness of delivery and complete safety of cargoes.

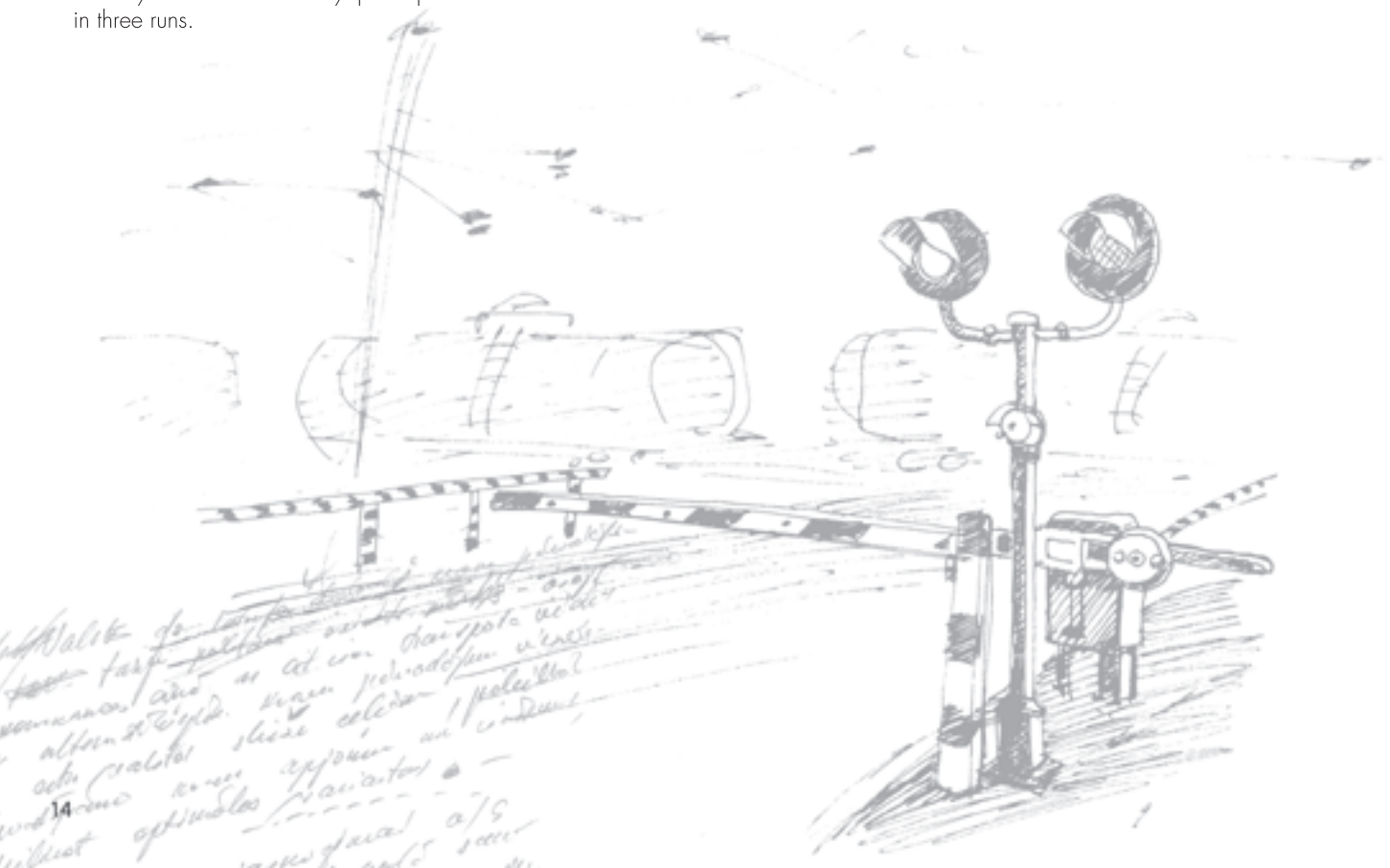
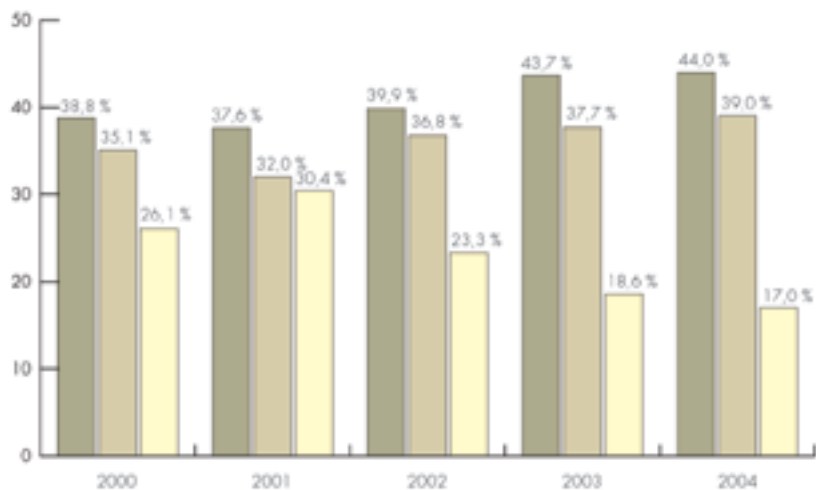
With an aim to increase the volume of container shipment from West Europe and America through central Asia and in return direction, *Latvian Railway* has elaborated the project *Baltic product packet* envisaging consolidation of Latvian, Lithuanian, Estonian and Russian carries and stevedore companies freight bases. A container train *Baltic - Transit* runs according to *Baltic product packet project*, which in a short period and in conformity with competitive tariffs deliver cargoes from Baltic sea ports to Kazakhstan, Uzbekistan and other Central Asia countries.

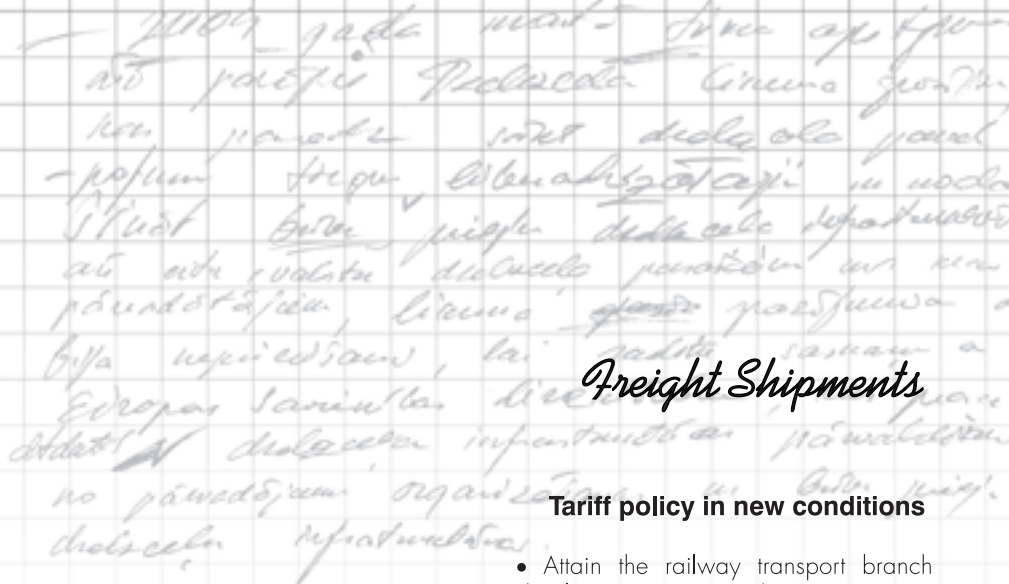
During the year of 2004 container train *Baltic - Transit* made 61 runs. From 4364 transported containers 65 % were loaded by *Latvian Railway*, but 35 % - *Estonian Railway*. *Lithuanian Railway* participated in three runs.



### Freight shipments by rail in comparison with other types of transport 2000 - 2004 (%)

- Rail transport
- Route transport
- Pipeline transport





## Freight Shipments

- ## Tariff policy in new conditions

- Attain the railway transport branch development corresponding to European Union requirements;
- Realize effective and attractive tariff policy for clients; including railway;
- Strengthen *Latvian Railway* competitiveness in international freight shipment;
- Extend and improve offered service exposure.

In 2004 *Latvian Railway* published in the Latvian language and implemented in its performance Harmonized freight nomenclature, which is planned for describing and coding for international traffic between member states of Railway cooperation organizations which are members of "Agreement about international railway freight traffic (SMGS)" or apply SMGS conditions.

With the aim to develop cooperation with other European countries the Republic of Latvia has joined International railway shipment interstate organization (OTIF) and has signed Convention on international railway shipments.

Due to working in two transport legal systems *Latvian Railway* has chance for cooperation practically with all member states of European Union.







## *Passenger Service*

Passenger transport in domestic railway traffic has been provided for four years by the *Latvian Railway* first subsidiary company - JSC *Pasažieru vilciens* (Passenger train), but the second our subsidiary company in passenger transport field JSC *Starptautiskie pasažieru pārvadājumi* (International passenger service) has been working for two years.

Totally in 2004 23.9 mill. passengers were transported that is 3.9 % more than in 2003, but passenger circulation increased during this period by 6.3 %.

In reporting period the number of transported passengers in domestic traffic increased tangibly: passengers transported by electric trains increased 4 %, but by diesel trains 2.2 % more than in 2003. As average distance went by one person in electric trains increased from 23.6 km in 2003 to 24.2 km in 2004, but in diesel trains- from 80.7 km to 81.1 km.



In international transport in 2004 the number of transported passengers as compared with 2003 decreased by 1.9%, however passenger circulation exceeded the previous year level by 23 %. As average distance went by one person increased from 238.5 km in 2003 to 251.3 km in 2004.

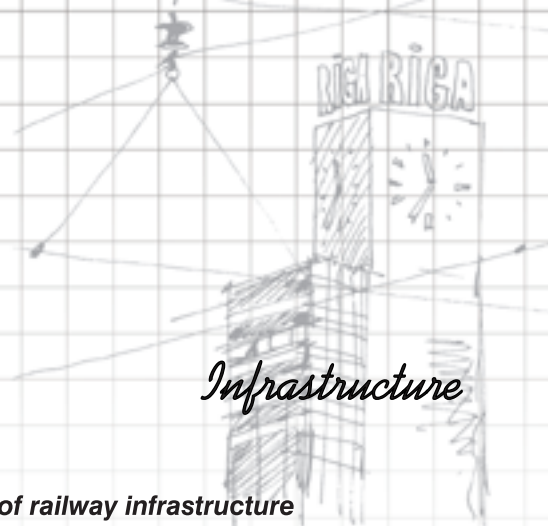
Five trains formed by *Latvian Railway* provided international passenger transport: two trains in Riga - Moscow route, one train in each of the following routes: Riga - St.Petersburg, Riga - Gomel, but in summer Riga -Simferopol.

In 2004 during summer period *Latvian Railway* formed through carriages in traffic Riga - Odesa and Riga - Adlera.

Belarus Railway formed a through carriage in traffic Vitebsk - Riga (from 25 May to 1 October).

Besides, the train Vilnius - St.Petersburg formed by Lithuanian Railway was running in transit through Latvian territory.





## Infrastructure

The Infrastructure Department of the State Joint-Stock Company *Latvijas dzelzceļš* is responsible for the maintenance of rail tracks, structures, telecommunication network, power supply electrical traction and equipments and for other equipments in accordance with the Regulations on Railway Technical Operation. The department comprises 9 structural units: 3 track divisions, 3 signaling and communication divisions (electro technical), track repair enterprise *Dzelzceļa remonta serviss*, the Rail Welding Centre and the Information Technology Centre.

The main functions of the Infrastructure Department are the following:

- Maintenance of infrastructure in the condition that ensures safe train traffic at the specified speed;
- Improvement of infrastructure maintenance technology;
- Accurate investment planning under the circumstances when no funds for infrastructure from the state budget are made available;
- Acquisition and implementation of the state-of-the-art technologies and systems;
- Maintenance of the most efficient investment acquisition technologies.

The operational length of the main tracks under the Infrastructure Department authority is 2288.2 km.

### The main facilities of railway infrastructure

No	Item of infrastructure	Unit of measure	Total
1.	Total length of track, including: <ul style="list-style-type: none"> <li>• main track</li> <li>• station track</li> <li>• access track</li> </ul>	km	3703,4 2583,4 983,0 147,0
2.	Turnouts	set	3660
3.	Structures: <ul style="list-style-type: none"> <li>• bridges</li> <li>• pipe culverts</li> </ul>	piece	753 1029
4.	Level crossings		695
5.	Train traffic control systems: <ul style="list-style-type: none"> <li>• automatic line block</li> <li>• semi-automatic line block</li> <li>• stations equipped with electrical interlocking</li> </ul>	km km station	1063,7 925,0 162
6.	Main communication cables	km	2790,6
7.	Wireless communications	km	1917,3
8.	6-10 kV power supply lines	km	1396,2
9.	Electrical traction network	km	257,0







## Infrastructure

### Investments and results

Considering that railway infrastructure is one of the basic elements for the economic development of the new EU member states that modernization is promoted as priority. For this aim up to 1st May, 2004 European Commission envisaged financial support from pre-accession structural funds ISPA. Since Latvia has become the member state of European Union it has possibility to use the financial support of Cohesion funds, which similar as ISPA aid, is proposed for improvement of the transport and environment infrastructure.

Using European Union cofinancing the largest investments have been made in the following fields of *Latvian Railway* infrastructure:

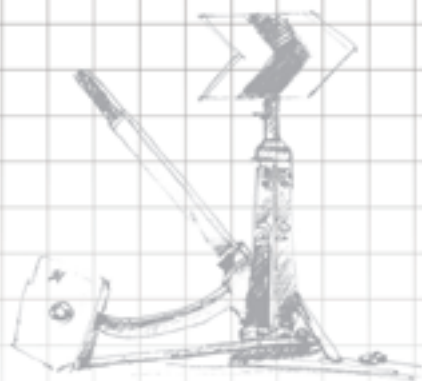
- Reconstruction of railway track, B type capital repair of tracks and replacement of turnouts - 15553 th. lats;
- Replacement of defective continuously welded rails of 1st category tracks - 2235 th. lats;
- Station utilities, building of railway passing loop, customs control offices and track extension, modernization of signaling and interlocking equipment - 1763 th.lats;
- Informative technologies

### The most important measures realized in 2004:

- Accomplished rail track reconstruction of 65.1 length, simultaneously performing replacement of defective turnouts and repair of engineering structures;
- "B type capital repair of railway tracks performed in 40.7 km length;
- Replacement of defective continuously welded rails performed in 45.2 km length;
- Replaced 166 turnouts, 146 of them replaced using European Union ISPA cofinancing;
- Accomplished the 2nd phase of Ventspils railway terminal Jūras parks construction - commodity cash office and pneumatic tube conveyor were put in operation;
- Accomplished the extension of the reception and departure tracks No. 7 to No. 14 of Liepājas station;
- Accomplished building of passing loop "Sergunta" in the section Jersika - Nicgale of Krustpils - Daugavpils section;
- Realization of the project "Transport corridor East - West infrastructure and financial informative system (FINEKO)" was accomplished in general.

Besides, in electro technical management the electric centralization of Daugavpils station "D" park was put into operation, modernization of signaling and interlocking equipments was accomplished in Skriveri station and in blocking post of Inčupes station.





Inner traffic safety system and labour protection system of the company obligatory for all structure units guarantee sustained *Latvian Railway* performance.

In 2004 *Latvian Railway* together with State Fire Fighting and Rescue service, local authorities and other institutions arranged practical training on the theme "Localization and elimination of emergency conditions of dangerous cargoes". The training took place in Jelgava, Mangalji, Rēzekne, Riga Krasta, Šķirotava, Ventspils and Krustpils stations. Matters concerning accidents with dangerous cargoes were studied also in theoretical trainings organized by *Latvian Railway Training centre*.

New instructions are issued on the following matters:

- Organization of performance to eliminate the consequences caused by accidents in *Latvian Railway*;
- *Latvian Railway* employees action in the case of receiving the report about mining in railway transport or in adjacent railway objects, as well as about finding explosive object;
- Procedure of fire investigation and registration in *Latvian Railway* structures and in unites of subsidiary companies.

Fire fighting and rescue sector together with fire-fighting teams were performed the planned fire security technical inspection and fire security control tests in particularly important railway structures. Diesel trains, electro train carriages and diesel locomotives were controlled on the fire security level.



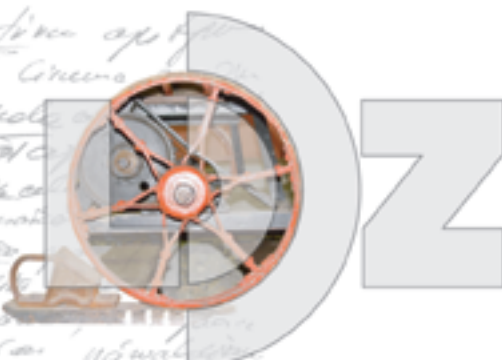
## Rail Traffic Safety

Annual zonal seminar was organized by *Latvian Railway* Voluntary fire fighting association in Daugavpils and fire fighting competitions were organized. Seminar of work experience exchanges of service trains took place on the base of Daugavpils service train.

In 2004 the following measures were carried out to improve the technical conditions of service and fire fighting trains:

- New diesel power station, different lift capacity manual hydraulic jacks, as well as other technological equipments were provided for all service trains;
- Renewal of fixed assets, materials and inventory of fire fighting teams;
- New social premises were put into operation to Riga service train. To improve the work of this train a new hydraulic lift equipment and high-powered power station for a pump operation were obtained;
- Training ground for the services train was established in Livbērze station;
- Training ground for Daugavpils services train was established in Krauja station. Besides, a pump equipment was provided for this train to collect oil from water surface;

Daugavpils fire fighting team was displaced to new location provided with all required communications. The employees of this team received new facilitated premises.







## Quality Management and Environment protection

In implementation process of the *Latvian Railway* quality policy measures are being performed with an effect on the whole company. The main measures are directed towards the improvement of metrological assurance system finding solutions to the problems for personnel certification and implementation of quality management system.

In 2004 the quality management system was established in Infrastructure Department Information computer centre and Railway repair service in compliance with LVS EN ISO 9001:2000 standard. Such systems have already worked successfully for some time in three railway rolling stock repair units, and also in Infrastructure Department Rail welding centre. In collaboration with the *Latvian Railway* Training centre the courses on the requirements of the quality managements system and quality auditing principles are organized.

In the process of implementation of European Union directives in Latvia and carrying out the standardization program, the greater part of standards of European railway branches have already been adapted in *Latvian Railway* system. In order to operate successfully in unified railway transport 1520 (1524) mm gauge system, *Latvian Railway* has started work as the observer in Interstate Standardization technical committee Railway Transport.

The Environment protection is one of the priorities in *Latvian Railway* performance. Since 1998, when Environment policy of the company was approved, every year varied work has been planned and performed to improve *Latvian Railway* contribution in solving questions of the environment protection. The principal priority was given to measures with effect; namely - to those ones that give both material and resource economy, and decrease pollution leakage and sources of its origination. Besides, a special attention is paid to ensure shipment security and training of employees on topics of environment protection.

To implement the Environment policy in 2004 *Latvian Railway* carried out activities in the total amount of 3104366 LVL, including in the company structural units - 1590901 LVL, in subsidiary stock companies - 1513465 LVL. The use of funds by separate types of the environment protection measures were the following:

- Atmosphere protection (modernization of heating systems, modernization of diesel locomotive fire-extinguishing and refrigerator wagon freezing systems, control of emission of polluting materials) - 188 697 LVL;
- Protection and efficient use of water, as well as maintenance of the hydrologic regime on track adjacent territory (repair of water supply and sewerage systems, repair of water drainage system and its installation in railway right-of-way) - 151 012 LVL;
- Ground and groundwater protection (reconstruction of fuel depots and serving facilities in accordance with present requirements of the environment protection, cleaning of the main containers of diesel locomotives and planning and construction of refined oil collecting place, completion of diesel locomotives with special equipment for prevention of oil products leakage in soil, soil and ground-water quality monitoring, rehabilitation of polluted areas) - 269 361 LVL;
- Hazardous waste management (utilization of waste of oil products, oil containing processing waste, burned-out mercury lamps, as well as utilization of unusable electronic equipments) - 82 496 LVL;
- Noise reducing (grinding of rails and turnouts) - 220 793 LVL;
- Train traffic safety and fire security assurance (repair of turnouts cleaning equipment, repair and modernization of level crossings, ploughing fire security zones along forests and protective plantations, cutting out old and dangerous trees, hewing out bushes, mowing down and collecting grass in the railway easement zone, scavenging the railway easement zone) - 512051 LVL;
- Increasing of readiness degree for abolition of emergency situation caused by dangerous cargoes (providing of pumps for piping oil products from damaged cisterns, obtaining equipment for collecting oil products from water surface, obtaining of power station of assistance and fire-fighting trains, obtaining of absorbents for collecting leaked oil products) - 26 665 LVL;
- Regeneration of track protecting green areas - 19 102 LVL;
- Economy of fuel and power resources (providing of diesel locomotives with autonomous heating system, that maintains heat in locomotives without engine idle running, replacement of heating pipes, replacement of radiators and windows of working premises) - 36 475 LVL;
- Operating environment precaution and improvement (area improvements, repair and modernization of ventilation systems for working premises and air supply systems, sanitary measurements of operating environments) - 45 761 LVL;
- For support of passenger services by trains - as environmentally friendlier land transport type (motor cars and capital repair of diesel and electric trains) - 1 480 462 LVL;
- Public information about ecological advantages of rail transport compared to other types of land transport - 13 332 LVL;
- Other environmental protection measures - 37 757 LVL.





## Real Estate

The basic objective of the Real Estate Department - to use effectively of *Latvian Railway* real estate and land areas which promote development of the railway infrastructure, gaining income from renting and selling of real estate, as well as from providing different services.

The Real Estate Department contained management units of Riga, Daugavpils and Jelgava buildings and territories, and Riga passenger station maintain and manage more than 2.7 th. Real estate unites in the whole territory of Latvia.

In 2004 the Real Estate Department proceeded with its work more efficient and rational on use of buildings, structures and land areas that are under its management. This work was based on the leasing of inhabitable premises, completely or partially unnecessary for the operation of *Latvian Railway* to legal and physical entities. More than 20 new agreements of lease were signed.

The matter of high significance is selling of unused real estate units, as it allows economizing maintenance expenses and provides supplementary recourses for the renewal and reconstruction of real estate. 19 real estate units were sold in 2004 that is 12 units more than in 2003.

In addition the following real estate units were transferred to the ownership of local governments in 2004:

- External engineering net work with the total length of 3939,9 metres;
- In accordance with the Cabinet of Latvian Republic Ministers 55 different real estate units were transferred to 8 local governments (in Sigulda town, Viļāni town, Auce town and Gulbene town, Ķeipene parish, Krustpils parish, Kubulu parish and Eleja parish).

It should be mentioned that the following renovation works were carried out:

- Adjustment of Ventspils railway network heat supply;
- Reorganization of the boiler house in station "Vagonu parks" (in Riga) from heavy fuel oil to gas fuel;
- Capital repairs of heating mains of Jelgava station luggage office and fire building.

In additional 3 new modern heat supplies were put into operation, but regular repairs were performed in 77 auxiliary units.

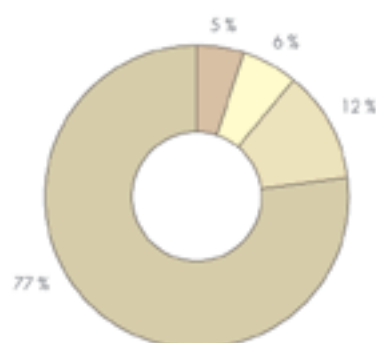
### Structure of regular repairs

- Repairs of buildings
- Repairs of platforms
- Repairs of edifices
- Repairs, necessary for providing of fire-resistance

In 2004 railway right-of-ways were mapped in Zasulauks, Ziemeļblāzma, Mangali, Bolderāja and Melluži sections and in Salaspils town. The total amount of mapped land area is 101 hectares.

### Selling of real estate units

- Sum total of the sold objects (th.lats)
- Number of the sold objects



## International Co-Operation

In 2004 *Latvian Railway* continued and developed extensive co-operation with foreign railway administrations, and with various international railway associations and institutions as well.

Since 1992 *Latvian Railway* is a member of International Railway Union (UIC). UIC cooperates more than 150 railway companies from five world continents. All these years *Latvian Railway* has actively taken part in UIC work. Even the fact that 28 Latvian railwaymen took part in different UIC events in 2004 testifies about it.

The integration group of UIC Baltic and CIS states was founded in 1999. Since November, 2002 the group Chairman has been Andris Zorgevics - the chairman of the Board of *Latvian Railway*. In 2004 three integration group meetings were held, one of them took part in Riga. In these meetings actual railway co-operation matters were discussed.

*Latvian Railway* joined the Association of European Railways and Infrastructures (CER) to promote closer cooperation with European railways. 13 employees of *Latvian Railway* took part in different CER activities in 2004. During this period several meetings of our company representatives with CER leadership have been taken place (in Brussels, Paris and Riga).

In 2000 our railway became a member of the International Railway Transport Committee (CIT). CIT unites more than 300 partner organizations and among them there are railway companies, infrastructure operators, navigation and road transport companies from the countries where conditions of the Agreement about International Rail Traffic (COTIF) are applied. In 2004 representatives of *Latvian Railway* took part in CIT General Assembly work in Bern.

With the aim to make use of the experience more successfully gained by other countries in tackling safety issues in the field of rail traffic, in 1999 *Latvian Railway* joined the International Organization for Collaboration of Railway police and Security Services (COLPOFER). In 2004 representatives of *Latvian Railway* took part in COLPOFER General Assembly work in Paris and Marseilles.







Since 1992 *Latvian Railway* has actively participated in activities of the Organization for Railways Co-operation (OSJD). Specialists of the *Latvian Railway* deal with actual issues about railways development and cooperation in commissions and regular work groups of this significant organization, represented by railways from 27 countries. In 2004 *Latvian Railway* was the leading executor concerning 18 actual railway development issues. In 2004 31 *Latvian Railway* employees participated in different OSJD activities.

Identically since 1992 *Latvian Railway* has taken part in the activities of the Railway Transport Council of CIS that enables *Latvian* party to get direct information on complicated processes proceeding in CIS railway transport. In 1996 *Latvian Railway* was admitted as an associated member of this Council. An enormous work was done by our party in 2004 organizing Railway Transport Council XXXVII meeting.

Since 2000 *Latvian Railway* is a standing member of the International Coordinating Council on Transsiberian Transportation that confirms our interest in container traffic between Asia countries in the Pacific region and West Europe through *Latvian* ports. In 2004 the representatives of *Latvian Railway* participated in the Council annual meeting work in Vienna.



## International Co-Operation

The leading partners of *Latvian Railway* in terms of international cooperation are Russian Federation, Belarus, Lithuanian, Estonian, Ukraine, Kazakhstan, as well as German and Poland railways.

Regular meetings of the general managers from railways of Baltic States are held to discuss the most pending collaboration matters. According to an agreed plan these meetings are organized by each Baltic State in turn.

*Latvian Railway* participation in these and other international organizations, constructive dialogue with other state railway enterprises promotes further integration of our railway into European transport system.

In order to participate in business discussions, seminars, congresses and conferences, exhibitions, work group meetings and other international activities, in 2004, employees of *Latvian Railway* visited 32 countries of the world.

*Latvian Railwaymen Association* is a participant of European Railwaymen Association (AEC). AEC is an international railwaymen nongovernmental organization founded in 1997 for cooperation with European Union Council, Eiroparlament and European Union Commission. In 2004 *Latvian* section of AEC organized a considerable event - European days in Latvia.



2004. gada maijā šim apskatu  
arī pabeidz. Pabeidz. Arīma gromu  
kon. parādē māt dēlā ole pāt  
- pofum šķep, šķenahizotāji un māt  
šķūst būv, piep, dēlā ole pāt  
at māt rēlātē dēlā ole pāt  
pārvērtāji, liama, pāt pāt  
bija nepieciešam, lai māt  
Eiropas Savienības discentrālās  
dēlā ole pāt pāt pāt pāt  
no pāt pāt pāt pāt pāt pāt pāt  
dēlā ole pāt pāt pāt pāt pāt pāt pāt





## *Latvian Railway Lines*



# Condensed Financial Report



## *Condensed Financial Report*

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**CERTIFIED PUBLIC ACCOUNTANT'S REPORT**  
**To the Shareholders of the State JSC "Latvijas dzelzceļš"**

We have audited the accompanying financial statements of the State JSC "Latvijas dzelzceļš" (Company) for the year 2004, 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 16 June 2005 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 Company's 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 in Charge  
Certificate No.30

A handwritten signature in black ink, appearing to read 'S. Vilcāne', followed by a horizontal line.

Sandra Vilcāne

Riga, 2 August 2005.

## Condensed Financial Report

### BALANCE OF 31 DECEMBER 2004 (IN LVL)

	at the end of report period	at the beginning of year
<b>ASSETS</b>		
1. Intangible assets	815 894	513 118
2. Tangible fixed assets	161 740 672	161 756 305
3. Long-term equity investments	7 198 614	640 687
4. Current assets	18 921 183	20 578 118
4.1. Inventories	11 406 200	11 549 382
4.2. Accounts receivable	5 931 594	5 237 159
4.3. Cash	1 583 389	3 791 577
<b>Balance</b>	<b>188 676 363</b>	<b>183 488 228</b>

### LIABILITIES

1. Shareholder's equity	107 826 861	104 489 541
1.1. Share capital	90 168 321	82 025 956
1.2. Reserves	14 983 474	15 967 002
1.3. Retained earnings of previous years	830 000	830 000
1.4. Retained earnings of the current year	1 845 066	5 666 583
2. Provisions	7 639 519	10 979 824
3. Accounts payable	73 209 983	68 018 863
3.1. Long-term liabilities	39 814 802	41 198 758
3.2. Short-term liabilities	33 395 181	26 820 105
<b>Balance</b>	<b>188 676 363</b>	<b>183 488 228</b>

### PROFIT AND LOSS FOR THE YEAR 2004 (IN LVL)

OF 31 DECEMBER 2004

1. Operating income	136 954 849
2. Operating expenses	(125 634 815)
3. <b>Gross profit or loss (from turnover)</b>	<b>11 320 034</b>
4. Administration expenses	(11 487 544)
5. Income from other business activities	22 672 370
6. Expenses of other business activities	(14 167 396)
7. Profit from participation in daughter companies' capital	38 156
8. Loss from participation in daughter companies' capital	(3 825 400)
9. Income from securities and loans forming long-term investments	4 919
10. Other interest and related income	4 246
11. Interest payments and related expenses	(1 331 049)
12. <b>Profit or loss prior to extraordinary items and taxation</b>	<b>3 228 336</b>
13. Extraordinary income	11 406
14. Extraordinary expenses	(2 779)
15. <b>Profit or loss prior to taxation</b>	<b>3 236 963</b>
16. Enterprise income tax	(362 654)
17. Deferred enterprise income tax	(907 778)
18. Other taxes	(121 465)
19. <b>Profit or loss of the report period after taxation</b>	<b>1 845 066</b>

## *Condensed Financial Report*

### CONSOLIDATED BALANCE OF 31 DECEMBER 2004 (IN LVL)

	at the end of report period	at the beginning of year
<b>ASSETS</b>		
1. Intangible assets	831 096	522 647
2. Tangible fixed assets	171 502 135	161 880 981
3. Long-term equity investments	614 360	614 360
4. Current assets	18 560 770	21 125 293
4.1. Inventories	11 588 138	11 780 352
4.2. Accounts receivable	4 679 340	5 229 869
4.3. Cash	2 293 292	4 115 072
<b>Balance</b>	<b>191 508 361</b>	<b>184 143 281</b>

### LIABILITIES

1. Shareholder's equity	108 226 932	104 198 435
1.1. Share capital	90 168 321	82 025 956
1.2. Reserves	14 983 474	15 967 002
1.3. Retained earnings of previous years	597 189	228 665
1.4. Retained earnings of the current year	2 477 948	5 976 812
2. Minority part	61 954	37 545
3. Provisions	7 925 943	11 209 675
4. Accounts payable	75 293 532	68 697 626
4.1. Long-term liabilities	39 926 832	41 198 758
4.2. Short-term liabilities	35 366 700	27 498 868
<b>Balance</b>	<b>191 508 361</b>	<b>184 143 281</b>

### CONSOLIDATED STATEMENTS OF PROFIT AND LOSS FOR THE YEAR 2004 (IN LVL)

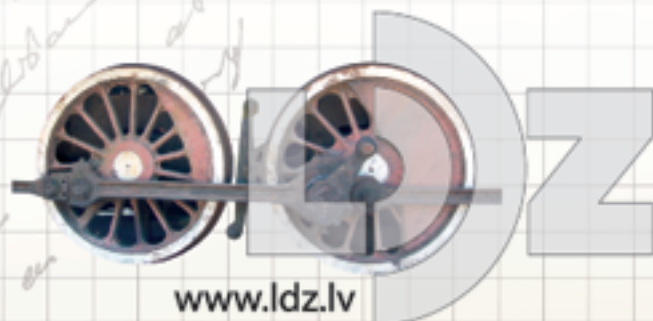
OF 31 DECEMBER 2004

1. Operating income	142 849 546
2. Operating expenses	(132 537 788)
3. <b>Gross profit or loss (from turnover)</b>	<b>10 311 758</b>
4. Sales expenses	(93 849)
5. Administration expenses	(13 139 926)
6. Income from other business activities	12 664 594
7. Expenses of other business activities	(4 549 138)
8. Income from securities and loans forming long-term investments	4 919
9. Other interest and related income	6 340
10. Interest payments and related expenses	(1 331 049)
11. <b>Profit or loss prior to extraordinary items and taxation</b>	<b>3 873 649</b>
12. Extraordinary income	55 645
13. Extraordinary expenses	(3 180)
14. <b>Profit or loss prior to taxation</b>	<b>3 926 114</b>
15. Enterprise income tax	(382 262)
16. Deferred enterprise income tax	(907 778)
17. Other taxes	(121 467)
18. Minority part	(36 659)
19. <b>Profit or loss of the report period after taxation</b>	<b>2 477 948</b>





DESIGN: LUDIS DANILANS 2005



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Valsts akciju sabiedrība  
 "Latvijas dzelzceļs" ir ~~pat~~ patstāvīga  
 organizācija ar juridisku valdību  
 pārvaldījumu apjomu, 1. septembrī  
 ar šīs dzelzceļa organizācijas valsts pārvaldi  
 otru virziena pabeigšanu tika sarakstīti  
 ar šīs organizācijas 70% apjomu 100%  
 summasiun šīs organizācijas