

ANNUAL REPORT  
2010



LATVIJAS DZELZCEĻŠ



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# COUNCIL OF PRESIDENTS



**Uģis MAGONIS**  
Chairman of the Board,  
President



**Aivars STRAKŠAS**  
Member of the Board,  
Vice President, Finance



**Ēriks ŠMUKSTS**  
Member of the Board,  
Vice President,  
Technical operation



**Edvīns KOČĀNS**  
Member of the Board,  
Vice President, Real Estate



**Andris ŠTEINBRIKS**  
Member of the Board,  
procurement issues  
till 1 August, 2010



**Armīns KRONBERGS**  
Member of the Board, Vice  
President, Procurement,  
from 6 October, 2010



# MISSION, VISION AND VALUES

**The LDz Mission** is to ensure management of railway infrastructure and carriages in favour of Latvian economy.

**The LDz Vision** is to become a progressive, safe and efficient railway company.

**The LDz Values:** Competence, Responsibility, Safety, Initiative, Cooperation.

## HISTORY

The railway history in Latvia started in 1860 when the railway line Petersburg – Warsaw was constructed. This line crossed the territory of Latvia.

In November 1918, after the proclamation of the Republic of Latvia, the railway administration in the territory of Latvia was assigned under the authority of the Ministry of Transport and Labour that started establishing of a national railway company. On 5 August 1919, the Central Board of Railway started its operation. It administrated the company *Latvian State Railways* until 1 September 1940. Broad gauge railways and most of narrow gauge railways were under the management of this institution.

After World War II Latvian Railway (later Baltic Railway) was restored under the supervision of the Ministry of Transport of the Soviet Union. Latvian railways were incorporated in the unified railway network of the Soviet Union.

The national railway company *Latvijas dzelzceļš* was re-established on 25 August 1991, but on 27 December 1993 the company was registered as the State Joint Stock Company *Latvijas dzelzceļš*. On 5 July 2007 the LDz Group was established, consisting of the holding company SJC *Latvijas dzelzceļš* and subsidiaries. In the year of review, the Group comprised four subsidiaries – *LDZ CARGO* Ltd, *LDZ Infrastructure* Ltd, *LDZ Rolling Stock Service* Ltd and *LDZ Security* Ltd.





## REPORT FROM THE PRESIDENT

The year 2010 was successful, as the company reached its aggressive goals set in 2009. Based on the situation in transit transport market and forecasted decrease in freight volumes, a key strategy was set to diversify freight types. In the light of this new strategy and emphasis on greater international cooperation the freight structure was expanded with new freight types, such as ferrous metals, generating new revenue stream helping offset decrease in other freight categories.

### ECONOMIC ACTIVITY

The business results of SJS *Latvijas dzelzceļš* in 2010 corresponded to the forecasts set at the end of 2009. Although the profit diminished, the year of review was finished without financial losses due to careful planning. The salaries of employees were retained, which is considered a success, since the company employs considerable number of people throughout Latvia.

The budget of 2010 was planned expecting 10% decrease in freight volumes due to decline in transit of Belarusian oil products, however the freight volume in this important segment dropped by more than 10% that was partially compensated by other freight types and a slight increase in transit of potassium salt from Belarus. The volume of freight from Russia and Kazakhstan increased. Transportation of containers by trains *Baltica Tranzit* and *Zubr*, as well as in Riga – Kaluga route was successfully organized.

In the situation when competition in transit market is fierce, new activities of international cooperation, for instance, with Russia, Belarus, Kazakhstan and other countries helped us to attract new freight and prevent rapid decline in volumes. In May 2010, an important international event – the 52nd meeting of the Council for Rail Transport of CIS States – was held in Jurmala. During the meeting several bilateral cooperation agreements were signed with the President of *Russian Railways* Vladimir Yakunin.

Significant contribution was made in the cooperation with Belarusian Railway. On 29 April the second track in the section Indra – Bigosovo was opened removing bottlenecks on the Latvia – Belarus border. The second track in the Indra – Bigosovo section allows increasing throughput capacity and transporting extra 6.8 million tons of freight.

## INVESTMENTS IN INFRASTRUCTURE

In 2010, an investment project for modernisation of the hot-box detection system was completed. The system was thoroughly tested during the summer months and put into operation before the end of the year. Heating of axle boxes is one of the main risk factors in railway transport. If the hot axle boxes are not detected in time, serious accidents may occur. Now the control of these parameters is fully automated; thus, transportation efficiency and traffic safety is enhanced.

In an open international tender the contractor was selected for the construction of the second track in Skriveri – Krustpils section. Upon completion of this project, the addition of the second track in this section will allow to operate the double track from Riga to Krustpils, and increase throughput capacity in this line. At the end of 2010, under the agreement with consortium *Bombardier-Belam Riga* next-generation microprocessor train traffic management systems worth of 12.8 million Lats were successfully put into pilot operation in seven stations and sections. Now the Krustpils – Rezekne section is equipped with *EIBILOCK 950 R4* system, which was developed especially for *Latvian railway* by *Bombardier*.

## REORGANISATION OF THE COMPANY

In 2010, reorganisation within LDz continued in order to optimize the structure, management and work organisation of the company. In November 2010, a unified Track Servicing Unit and a unified Signalling and Communications Servicing Unit with regional centres were created. The purpose of reorganisation was



to reduce expenses and ensure transparent financial flow. After reorganisation the number of employees and their salaries remained the same; some employees even had salary rise as a result of additional duties. At the end of the year, a new management body – the Council of the President – was established. This was done to ensure more precise and efficient delegation of responsibilities among the Members of the Board of SJS *Latvian Railway*.

## SOCIAL RESPONSIBILITY

LDz is not only the largest social tax payer in Latvia, but in 2010 was also ranked the third most valuable company in the country recognising its international competitiveness in the transport sector. In the year of review, LDz had not only paid significant amounts in taxes, but also helped the Government to cover participation costs in the world wide events, such as *World Expo 2010* in China. Most of the funding needed for construction of the Latvian pavilion at the exhibition came from the budget of *Latvian Railway*.

In the year of review, the 150th anniversary of the first railway line constructed in the territory of Latvia was commemorated. It was the St. Petersburg – Warsaw railway line, which crossed the territory of Latvia near Daugavpils. On 12 September 2011, the 150th anniversary of the first railway line Riga – Dinaburg will be marked.

I would like to emphasize to the customers and collaboration partners in Latvia and other countries that have 1520 mm gauge railways, as well as in the EU and elsewhere in the world that *Latvian Railway* is a modern and service-minded company with flexible approach in meeting requirements of each partner and is interested in mutually beneficial further collaboration.

UĢIS MAGONIS,

the President of the State Joint Stock Company *Latvijas dzelzceļš*

## DIRECTORATE



**Regīna SVIRSKA**  
Communication Director



**Vēsma UPĪTE**  
Director of Legal and  
Administrative Affairs



**Edgars ELKSNIŠ**  
Human Resources Director



**Māris BREMZE**  
Finance Director



**Mihails JAGODKINS**  
Technical Director



**Vitolds SUKSIŠ**  
Real Estate Director



**Māris RIEKSTIŅŠ**  
Development Director



# DEVELOPMENT STRATEGY AND ENVIRONMENTAL PROTECTION

## DEVELOPMENT OF THE ORGANIZATION

The key strategic goals are to ensure throughput capacity of railway infrastructure in the East – West railway transit corridor according to the demand of up to 85 million tons of freight per year; to provide competitive operational costs of railway infrastructure; and to ensure quality of railway infrastructure services according to the demand of operators.

In October 2010, amendments to the Railway Law came into force; accordingly JSC *LatRailNet* – a new subsidiary of the LDz Group – was founded. As from 2011, it performs the essential functions of railway infrastructure manager.

## BASIC TASKS OF LONG-TERM TECHNICAL DEVELOPMENT

In 2010, the technical development strategy of the company was developed on the basis of LDz strategy for the period until 2020. It contains a long-term vision for public use railway infrastructure. The strategy has been developed taking into account the following: demand forecast; the current state of infrastructure; on-going projects; a need to keep full technical interoperability of 1520 mm railway system while implementing the requirements of technical specifications for interoperability of the European Union conventional railway system. The strategic tasks and directions of technical development will be accomplished if the following key business tasks are fulfilled:

- Ensuring of throughput capacity of railway sections according to the demand;
- Improvement of efficiency by introducing new technologies and processes;
- Enhanced safety relating to railway infrastructure, train traffic, environment and society;
- Provision of sustainable development of railway infrastructure;
- Ensuring of technical interoperability with the railway systems of neighbouring countries.



According to the forecast for the period until 2020, sufficient throughput capacity of railway infrastructure will be ensured upon the completion of the second track construction in Skriveri – Krustpils section and development of Riga railway node projects.

## INFRASTRUCTURE DEVELOPMENT

As a result of implementation of technical development projects, infrastructure service level will increase and (or) total costs of railway transport services for the customers will decrease. The key tasks for long-term infrastructure development:

- Enhance traffic safety and ensure conformity to increasing environmental protection requirements

In 2010, special markings were made to indicate dangerous zones on the platforms in stations with high number of passengers. The equipping of standstill places for diesel-engine locomotives with environmental protection devices was commenced. These projects will be continued. It is planned to modernize existing and implement new alarm and video surveillance systems at big objects (stations) and on level crossings, as well as to continue separating of railway infrastructure from surroundings by constructing noise barriers according to the strategic noise map in the territories of high population density; building of simple construction barriers in other populated areas, and construction of safe level crossings, including pedestrian crossings.

- Improve station network and ensure passenger and freight service level corresponding to the station category

In 2010, a project has been started in cooperation with operators to optimize the number of stations and stop points and their location; to equip passenger stations and stop points with facilities and devices which are necessary to improve availability of public transport services, incl. construction of higher level platforms. Suitable information equipment and systems will be installed considering passenger flow to provide precise time-table information and other station services.

In order to develop station services for freight operators, work organization at the freight stations will be implemented on the base station principle. Modernisation of Skirotava station is planned within the overall Riga railway node development programme.



## Automate processes and centralize management

The most important strategic task for improvement of train traffic management process is to create a unified train traffic management centre which provides full remote control of the traffic management system by integrating in one network all existing signalling, centralization and blocking systems, as well as alarm and safety systems, monitoring and remote control systems of engineering network, and information systems of traffic timetable optimization. It is planned to implement centralization of microprocessors in sections, junctions and marshalling humps, and install centralized monitoring and remote control systems of telecommunications and power supply network.

In 2010, the implementation of electronic document management system in the Group was commenced. It is planned to automate circulation of electronic documents and carriage information instead of processing paper documents. Preparation, transmission and processing of electronic information of the route, and circulation of electronic freight documents is planned to be implemented in the future.

In order to ensure operation of all the automated processes and centralized systems with safe high-speed data transmission, development of main optical network with optical connection to each station will be completed and GSM-R wireless communications system will be installed.

## INVESTMENT POLICY

The investment policy of the LDz Group is based on efficient use of available resources for implementation of its strategy. The attention is mostly paid to the strategically important East – West transit corridor with the co-financing provided by the EU funds.

In order to keep and improve public use railway infrastructure and competitiveness of railway transit corridor in international market for a long-term period, the most important strategic task is to conclude a multiannual contract as soon as possible between the state and the infrastructure manager on maintenance of public use railway infrastructure, including also provisions for state participation in financing railway infrastructure; at present operators both invest and pay for the maintenance of infrastructure.



Environmental protection is one of the priorities in performance of LDz. The most important environmental protection areas are soil (ground) and groundwater protection; remediation of polluted sites; air, soil and groundwater quality monitoring, and hazardous waste management.

The latest information on both environmental protection normative acts and new solutions for environmental protection technologies and services is provided at the workshops organized for environmental protection coordinators of the LDz Group.

Specific consumption of diesel per transport unit has been reduced in 2010. In comparison to 2000, a reduction of 22% was reached; as a result, emissions from diesel-engine locomotives also diminished.



# PERSONNEL

The goal of the personnel policy of the Latvian Railway is to integrate effective personnel management within the Group. The main task of the personnel policy is to attract, train and retain professional and loyal employees, as they are one of the key values of LDz ensuring qualitative execution of tasks and achievement of business goals.

In 2010, the average number of employees in the Group was 11 958. Due to optimization of functions and other organizational changes the number of employees of the Group has decreased by 2.1% compared to the previous year.

## EMPLOYMENT










In 2010, the average number of employees in *SJSC Latvian Railway* was 7031, of which administrative staff – 9.52%, production staff – 9.64%, service staff – 1.08%, workers – 79.76%. When compared to 2009 the number of employees has decreased by 1.14%.

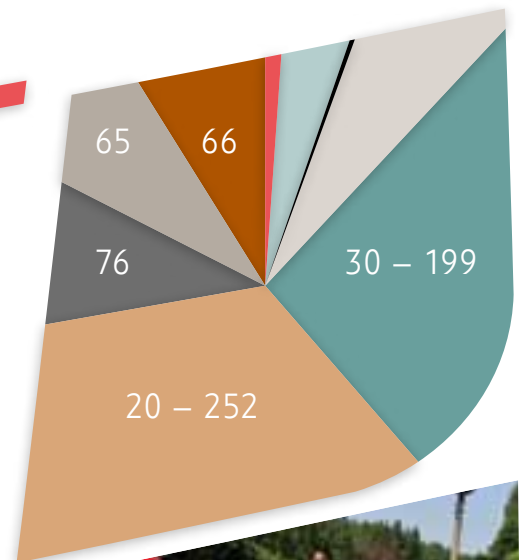
The average salary in LDz in 2010 was 639.80 Lats which is less than in 2009. The average salary in 2009 was 663.60 Lats.

As a result of successful social dialogue between the employer – LDz, and the employee representative – Latvian Railway and Transport Industry Trade Union, the fulfillment of the Collective Agreement was achieved in the year of review. The agreement on extension of the Collective Agreement for the next five years was reached.

In order to develop a corporate awarding system in the Group, a new award – badge *For Traffic Safety* was introduced. The award is given to employees whose bold deeds prevent risks of traffic safety. According to a long-standing tradition and the Regulation of *Latvijas dzelzceļš On Awards* the best employees have received awards in the year of review. This tradition shows that there are many professional employees working for LDz and their loyalty and self-devotion to the Company is valued by the LDz Board. The award is an appreciation of personal contribution of the employee to the development of railway transport. 749 employees of the Company have received an award in the year of review:

## THE TOTAL NUMBER OF AWARDS IN LDZ

-  DECORATION – 10
-  VALUABLE PRESENT – 30
-  AWARD FOR ACCIDENT PREVENTION – 3
-  AWARD FOR LIFELONG WORK (40 YEARS) – 48
-  AWARD FOR LIFELONG WORK (30 YEARS) – 199
-  AWARD FOR LIFELONG WORK (20 YEARS) – 252
-  CERTIFICATE OF RECOGNITION – 76
-  CERTIFICATE OF APPRECIATION – 65
-  COMMENDATION CERTIFICATE – 66



## TRAINING

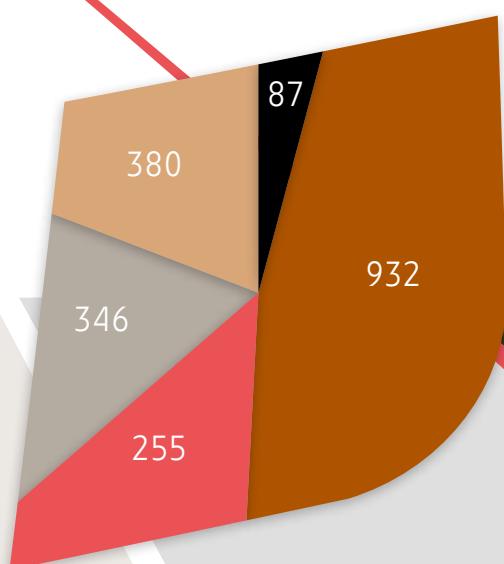
The aim of LDz staff training is acquisition of knowledge and skills that are necessary for execution of tasks, their practical use, improvement of qualification, and obtaining of work permits and certificates. The need for training is determined by the competency and qualification requirements set in the normative acts. 60 training programs were organized at the Training Centers in Riga and Daugavpils on the following topical groups: technologies, working environment and safety, processes management, languages and computer science. In total, 2000 employees have attended the training courses in 2010.

As new technologies are being introduced, there is a need for advanced training of employees with secondary vocational and higher professional education. In 2010, 19% of employees of the Group had acquired higher education and 45% – secondary vocational education. The level of education in the Group in 2010 has increased by 1% of higher education and 5% of secondary vocational education when compared to the previous year. The company provides financial support to employees of high potential for reaching their educational goals. In 2010, LDz financially supported 125 employees, of which 23 studied in universities abroad.

The main cooperation partners for preparation of railway specialists are Riga Technical University (RTU) and Railway Transport Institute of RTU, Latgale Transport and Telecommunications Technical School, and Railway Centre

of Riga State Technical School. In accordance with cooperation agreements, new educational programs are developed and existing programs improved, qualified LDz specialists are appointed to work in the state qualification commissions, field practice for students is organized, consultations and support for improvement of study aids are provided. An annual scholarship contest for students of RTU and technical schools was organized in cooperation with RTU Development Fund. To apply for the scholarship applicants had to develop a research work in railway transport. 24 prospective engineers received the scholarship in the year of review.

The performance of the company determines a necessity to organize regular technical training for employees at all levels. It is especially important these days when new technologies are being introduced.



### THE NUMBER OF TRAINED EMPLOYEES

- WORKING ENVIRONMENT AND SAFETY – 932
- COMPUTER SCIENCE – 255
- PROCESSES MANAGEMENT – 346
- TECHNOLOGIES – 380
- LANGUAGES – 87



# TECHNICAL MANAGEMENT AND MAINTENANCE OF INFRASTRUCTURE

**T**echnical Management Division of the State Joint Stock Company Latvijas dzelzceļš is responsible for organisation of train traffic and maintenance of railway infrastructure – railway tracks, engineering structures, train traffic management system, telecommunication network, wireless communications, power supply network, communication network and other technical equipment in accordance with the Regulations of Railway Technical Operations. Technical Management Division is also responsible for the development of real estate and infrastructure of LDz.

## MAINTENANCE OF INFRASTRUCTURE

Technical Management Division is responsible for maintenance of the main railway tracks with total length of 1896.9 km. The task of the Technical Management Division is to adhere to the existing infrastructure maintenance technologies, ensure their continuous development and acquiring and introduction of state-of-the-art-technologies.



## THE BASIC OBJECTS OF THE RAILWAY INFRASTRUCTURE COMPLEX

NO	NAME OF BASIC OBJECTS OF INFRASTRUCTURE COMPLEX	UNIT	TOTAL
1.	Extended length of railway tracks, incl.: <ul style="list-style-type: none"> <li>● main tracks</li> <li>● station tracks</li> <li>● spur tracks</li> </ul>	km	3172.7
		km	2201.9
		km	815.7
		km	155.1
2.	Turnouts (broad-gauge)	set	3194
3.	Turnouts (narrow-gauge)	set	24
4.	Engineering technical buildings: <ul style="list-style-type: none"> <li>● bridges</li> <li>● culverts</li> </ul> incl. in dismantled sections: <ul style="list-style-type: none"> <li>● bridges</li> <li>● culverts</li> </ul>	piece	727
		piece	1049
		piece	101
		piece	212
5.	Level crossings (main tracks)	level crossing	469
6.	Train traffic management system: <ul style="list-style-type: none"> <li>● automatic blocking</li> <li>● semi-automatic blocking</li> <li>● electric centralisation of stations</li> </ul>	km	1148.7
		km	561.0
		station/turnout	165/2597
7.	Main communication cables	km	3134.303
8.	Wireless communications	km	1788.91
9.	6, 10 kV high-tension grid lines	km	1402.5
10.	Communication networks	km	257.4





Technical Management Division and its structural units – Track Servicing Unit and Signalling and Communications Servicing Unit – are responsible for maintenance of infrastructure in good technical condition to ensure safe operation of trains at the set speed.

Until 1 November 2010, the task of infrastructure maintenance was performed by six structural units, including three track servicing units and three signalling and communications (electrotechnical) servicing units. As a result of reorganization, a unified Track Servicing Unit and a unified Signalling and Communications Servicing Unit with regional centres were created.

## MODERNISATION OF INFRASTRUCTURE

The following modernization, capital repairs and maintenance works were carried out in 2010:

### Reconstruction (modernization):

- Modernisation of the hot-box detection system in the East-West railway corridor – 649.95 thousand Lats;
- Modernisation of signalling systems in the East-West railway corridor – 24409.96 thousand Lats;
- Modernisation of turnouts, ALSN system and power supply due to modernisation of signalling systems – 874.8 thousand Lats;
- Modernisation of electrotechnical equipment – 1140.2 thousand Lats, including modernisation of electrical equipment – 297.7 thousand Lats.

### RECONSTRUCTION OF RAILWAY TRACKS

2008	89.0 KM	23565.6 TH. LATS
2009	74.8 KM	24682.2 TH. LATS
2010	52.7 KM	17671.4 TH. LATS

### **Renovation (capital repairs):**

- B type capital repairs of railway tracks (27.92 km) – 2152.1 th. Lats;
- Replacement of 46 complete sets of track turnouts – 2175.1 th. Lats;
- Repairs of engineering structures and track subgrade – 491.9 th. Lats;
- Current repairs of railway tracks (39.9 km) – 281.2 th. Lats;
- Rail grinding (187.4 km) – 300.4 th. Lats;
- Repairs of track machines – 376.0 th. Lats;
- Replacement of 25179 wooden sleepers and 92 sets of turnouts;
- Current repairs of SCB equipment – 407.8 th. Lats;
- Current repairs of communication equipment – 161.8 th. Lats;
- Current repairs of power supply facilities – 283.6 th. Lats;
- Current repairs of electric facilities and the overhead contact line – 155.2 th. Lats.

### **Implementation of the following infrastructure development and reconstruction projects continued in the year of review:**

- reconstruction of railway tracks in the East – West railway corridor;
- modernisation of the hot-box detection system in the East – West railway corridor;
- modernisation of signalling systems in the East – West railway corridor.



## MANAGEMENT OF REAL ESTATE

The work of Real Estate Division is focused on enhancing effective management of LDz real estate, that is: reduction of maintenance costs, identification and registration of real estate, provision of repairs and maintenance of railway objects, as well as rational use of buildings, constructions and lands managed by the Company.

### TECHNICAL MAINTENANCE

The Platforms Program for the period 2010–2015 was developed in the year of account to provide the service of passenger carriages in accordance with the requirements of Latvian standards.

According to the building and construction repair list 79 objects were renovated in 2010 in the total amount of 900 000.00 Lats.



Taking into account the requirements of the EU Regulation on Passenger Rights, pedestrian crossings and ramps at stations in Riga, Dubulti, Vaivari, Krustpils, Daugavpils, Rezekne, Jelgava, Sigulda and Saulkrasti were constructed, and mobile wheelchair lifting platforms were purchased to provide access to trains for the disabled passengers. The barriers around the territory of A, B and J parks in Skirotava station, Riga Central passenger station and Juras Park in Ventspils station were set up to improve safety on railway tracks in the total amount of 259 602.00 Lats. The plan for reorganization of LDz boiler houses was developed to reduce CO2 emissions and improve energy efficiency of the buildings. The assessment of buildings took place in order to identify where to replace uneconomical and environmentally unfriendly solid fuel with liquefied gas. this was carried out in Kemeru, Sloka, Skriversi and Plavinas stations, and at other objects as well.

## REAL ESTATE REGISTRATION

Real Estate Registration Department is responsible for surveying the right of way of public use railway infrastructure and maintaining of survey data; registering the surveyed land in the Land Register; identification and registration of LDz buildings and constructions in the Land Register; organizing topographical measurements and compiling measurement data; maintaining the data base of real estate tax objects and administrating of the real estate tax.

2598 ha of land were surveyed in the year of account, and 2311 ha were ordered to be surveyed by land surveying companies.

The boundary maps for 110 public use railway infrastructure lands with total area of 2598 ha were registered in the Real Estate Cadastral Information System, with 58 lands registered in the Land Register.

Real Estate Registration Department in cooperation with Real Estate Legislation Unit elaborated amendments to the law *On Real Estate Registration in the Land Register* and the Regulations No.182 issued by the Cabinet of Ministers. With the amendments to the law and regulations the process of registration of property rights in the Land Register will be simplified.

Mapping Unit of Real Estate Registration Department carries out compiling of topographic maps in digital and paper format. The topographical survey of an area of 1237 ha was ordered in the year of account and maps of 40 objects were received from surveyors. The inspection and registration of land cadastral survey objects in the Real Estate Information System was carried out.



## COMMERCIAL ACTIVITY

Commercial Department regularly analyses rental market of premises, thus ensuring the lease agreements are concluded for the most suitable price. 2 336 068.00 Lats from rentals were collected in the year of account.

In 2010, Commercial Department continued to ensure effective and rational use of buildings, constructions and other fixed assets, as well as lands managed by the company. The work was based on lease of premises, fixed assets and lands, which are not necessary for basic LDz activity, as well as selling of buildings, constructions and fixed assets, which no longer are used by LDz to legal and physical persons. 269 contracts and amendments were prepared and formed in the year of account, and 369 premises and land lease agreements were administered.

11 sales contracts were signed to sell movable property and real estate in the total sum of 427 358.80 Lats in the year of report, including 3 contracts for expropriation of real estate in the sum of 102 695.91 Lats.



## PASSENGER STATIONS DEPARTMENT

In May 2010, a design agreement was signed on integration of visual information system at Riga Central passenger station. According to this project, examination of 1st and 2nd category passenger stations was carried out in December 2010, and proposals were prepared for installation of new audio information systems and train timetable displays in stations. The new information system will be managed from the new management centre of visual information systems at Riga Central passenger station.



# TRAFFIC SAFETY

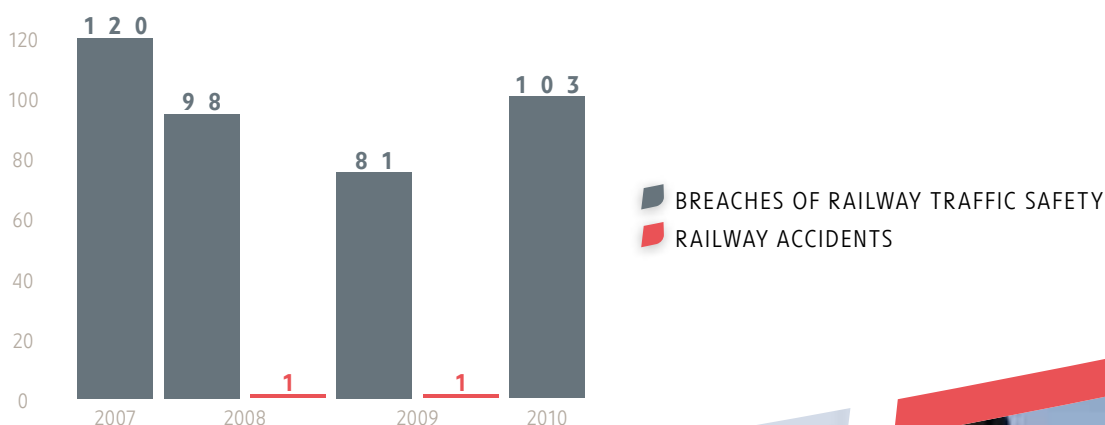
One of the key tasks of the State Joint Stock Company Latvian Railway is to ensure high level of traffic safety for safe operations.

In the year of review, competency certification of railway specialists took place in LDz according to the requirements of the Regulations No.360 *On Railway Specialists* issued by the Cabinet of Ministers of the Republic of Latvia. More than 7700 employees of LDz successfully passed the competency test based on the Regulations of Railway Technical Operations and other related normative acts.

LDz has been working intensively on large-scale projects, such as modernization of signalling systems, as well as construction and renovation of railway tracks.

In cooperation with consortium *General Electric/Belam-Riga* the EU co-financed project of modernization of the hot-box detection system was completed in 2010. As a result of this project, morally and technically obsolete DISK and PONAB devices were replaced by 58 new FUES-type sets of devices, which are more precise and allow detecting hot axle-boxes and wheels/brakes of passing trains irrespective of train direction.

## RAILWAY TRAFFIC ACCIDENTS



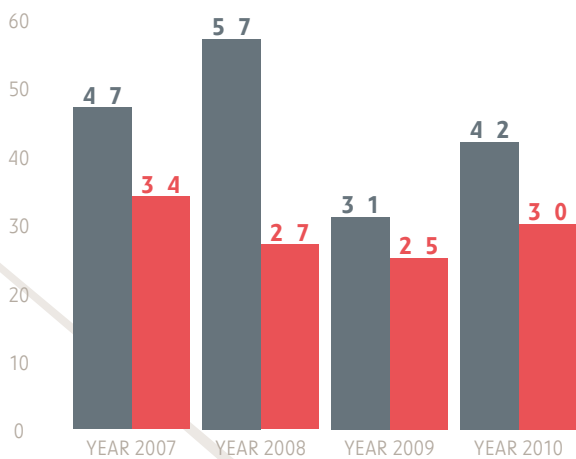
In cooperation with German company *Thales* and Swedish company *Bombardier* nine stations were equipped with microprocessor centralization as part of modernization of the signalling systems. In addition to these improvements, within the framework of the same project automatic blocking system with automatic locomotive signalling in surrounding sections was implemented. It is planned to complete the modernization of the signalling systems next year.

In cooperation with Belarusian Railway construction of the second railway track in the section Indra – Bigosovo was completed. In addition to that, a contract on design and construction of the second railway track in the section Skriveri – Krustpils was signed, including reconstruction of stations and power supply systems, as well as modernization of signalling and telecommunications systems.

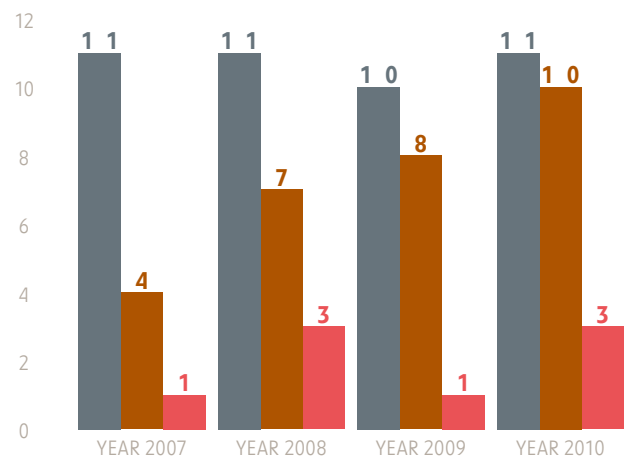
Regarding human safety, the company has focused on public awareness of potential risks on railways. The society was mostly informed by offering thematic educational broadcasts on radio and TV, articles in newspapers and magazines, as well as providing safety campaigns in schools, kindergartens and Latvian Railway History Museum. In order to limit people accidentally getting in dangerous track areas, barriers were built around the territory of Riga Central passenger station and Skirotava station where the train traffic is heavier, but in stations the posters of easily understandable visual information were displayed.

### THE NUMBER OF COLLISIONS OF RAILWAY ROLLING STOCK WITH ROAD TRANSPORT ON LEVEL CROSSINGS

### ACCIDENTS INVOLVING PEOPLE



■ TOTAL NUMBER OF ACCIDENTS  
■ INCL. DECEASED



■ COLLISIONS OF RAILWAY ROLLING STOCK WITH ROAD TRANSPORT ON LEVEL CROSSINGS (TOTAL)  
■ INCL. THE NUMBER OF CASUALTIES  
■ INCL. DECEASED





# COMMUNICATION WITH THE PUBLIC

## PUBLICITY

The main tasks of Communication Division are to develop, implement and improve corporative communication strategy and policy of the company. A task of the same importance is also to establish and develop active international cooperation by ensuring strong professional presence in international railway organizations and the European Union institutions. It is important to enhance the prestige of the railway professions in the society, and to strengthen the reputation of the company in accordance with its core values – professionalism, reliability, transparency, availability.

The main functions of the Communication Division are to support and promote achievement of business goals; to organize and coordinate work with international organizations and administrations in both the West and the East directions; to organize international conferences, workshops and working group meetings; to ensure publication of the newspaper *Latvijas Dzelzceļnieks*; to administer the Internet homepage and the intranet of the company, as well as to organize corporative events.

The Support Commission, which functions under the supervision of Communication Division, takes decisions on allocation of funds for charity. The key areas of support are education, culture, sports, and social sphere.

Within the corporate social program LDz regularly develops educational activities for school children on safety near railway tracks. *Safety Lessons* have been organized in schools for several years now. In 2010, *Safety Lessons*

were organized in 9 schools in Riga and 7 schools outside Riga with 1578 and 462 pupils attending accordingly.

Funds are regularly allocated to Railway Transport Institute of Riga Technical University, for instance, to open new technical laboratories, and to modernize electronic equipment and programs. The scholarships are granted each year to students from railway technical schools to obtain Bachelor's and Master's degree. LDz had granted scholarships to 42 students in the academic year of 2009–2010.

LDz regularly provides social support to Rauda Special Boarding School and Medumi Special Boarding School by allocating funds and organizing summer excursions, as well as special events during Christmas and Easter holidays. The first support activities started in 2005.



Performance indicators of LDz Inquiries Office also show very active work carried out by this unit in 2010. In the year of account, clients received responses to 85989 inquiries. When the online booking of train tickets was launched in June 2010, Inquiries Office started to offer consultations to the passengers on the new service.

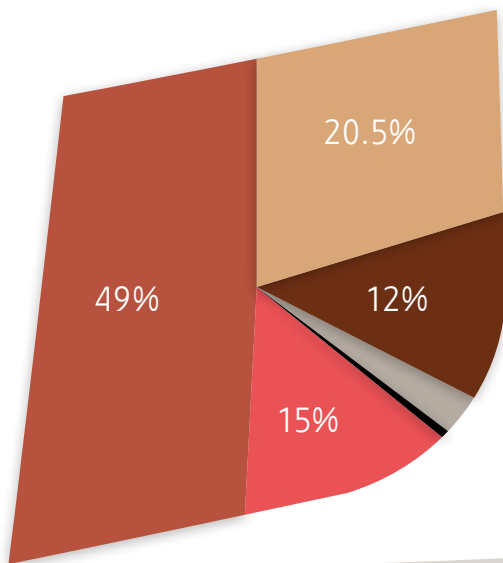
In the year of account, Inquiries Office started to accept applications from the persons with reduced mobility (served by phone 80200606) on the necessary assistance for getting on and off the train during the planned trip. There were also applications received from schools on the subject of organization of Safety Lessons.

The training of phone operators and merging of Inquiries Office and Phone Centre of Signaling and Communications Servicing Unit was commenced in 2010. It was done in order to establish a unified LDz Service and Helpdesk Centre.

During the performance assessment of Documentation Centre which took place in 2009, it was marked that the centre has to become more modern, open, and available to public. It has to function in accordance with the demand and provide services also to external clients.

On the basis of the assessment, an inventory of the collection of Documentation Centre was carried out. The centre mostly concentrated on improvement of the collection and provision of services to clients. In 2010, Documentation Centre improved eight databases of normative and technical documentation; considerably increased the number of latest publications on railways. This led to more service users, especially regarding electronic services.

Documentation Centre also commenced a digitalization of documents. All normative and technical documents and the latest publications, which were not available in electronic format before, were digitalized.



### THE USERS OF SERVICES OF THE DOCUMENTATION CENTRE

- SJSC LDZ – 49%
- LDZ CARGO LTD – 20.5%
- LDZ ROLLING STOCK SERVISS LTD – 12%
- LDZ INFRASTRUCTURE LTD – 3%
- LDZ SECURITY LTD – 0.5%
- OTHER – 15%



## INTERNATIONAL COOPERATION

In the year of account, LDz specialists participated in the working groups of the International Union of Railways (UIC) on the following issues: environmental protection, polluted soils and remediation, security, technical interoperability, as well as processing and distribution of railway technical documentation according to international standards.

LDz actively participated in the preparation of common position papers of the Community of European Railway and Infrastructure Companies (CER) in order to influence adoption of the EU legislation regarding railway transport. One of the most topical issues in 2010 was the recast of the First Railway Package. It foresees merging three existing directives into one directive that will regulate railway sector in the EU with the aim to establish a single European Railway Area. With the implementation of this directive, competition in the rail market will be enhanced; the role of regulatory bodies will be reinforced, and attraction of investments in railway sector will be simplified.

In the year of account, railway companies of the Baltic States dealt with the issue of implementation of Telematic Applications for Freight (TAF TSI). TAF TSI system foresees using common requirements for information exchange and interoperability between railway infrastructure managers and railway undertakings of the EU member states.

To favor technical and operational aspects of interoperability of 1520 mm gauge and 1435 mm gauge railway systems set out in the EU legal documents, LDz specialists participated in the joint working group of the European Railway Agency (ERA) and the Organization for Cooperation of Railways (OSJD) in 2010, carrying out an analysis of technical documentation, for instance, on requirements for design, construction, maintenance and evaluation of conformity of power supply, rolling stock, signalization, centralization, blocking and communications sub-systems.



In 2010, LDz representatives continued to work in permanent working groups of the Organization for Collaboration of Railway Police and Security Institutions (COLPOFER) on security of freight transport and protection against terrorist acts.

In order to develop and promote cooperation with partners in the territory of 1520 mm gauge railway, LDz participated in several commissions of the Organization for Cooperation of Railways (OSJD), for instance, revision of OSJD basic documents: working out of the Regulations for Dangerous Freight Transportation; preparation of amendments to the Agreement on International Passenger Traffic and the Agreement on International Freight Traffic; elaboration of the Regulations for Freight Wagon Use.

Considerable amount of the work of LDz specialists was carried out within the Council for Rail Transport of CIS States where LDz is an associated member. This organization reviews and takes decisions on important cooperation and development issues of 1520 mm gauge railways, for instance, use of freight wagons, procedures of settlements for international freight and passenger carriages, as well as technical and technological issues.

The 52nd meeting of the Council for Rail Transport of CIS States was held in Jurmala on 13–14 May 2010. The meeting was attended by 170 participants from the railway companies of the CIS States, the Baltic States, Georgia, Bulgaria and Finland. Three bilateral cooperation agreements between the Open JSC *Russian Railways* and SJSC *Latvian Railway* were concluded during the event.



## MUSEUM

In the year of account, 20650 persons visited Latvian Railway History Museum. The exposition in Riga was visited by 18552 persons, while the exposition in Jelgava – by 2098 persons. In total 149 guided tours were organized (15 tours in Jelgava, 134 tours in Riga) in the museum. The attendance statistics show that the most popular event of the museum was the international *Museum Night*, which was attended by 7937 visitors. More than 60 persons attended a series of lectures *On Railway History*, while the exhibition *Liliput* organized in cooperation with the enthusiasts of railway modelers was well attended during school holidays in autumn.

In 2010, a new activity – *Birthday Party in the Museum* – was offered to make the museum more attractive to public. 13 children birthday parties were organized in the museum in the year of account. The museum extended its opening hours until 7:00 p.m. on Wednesdays during the summer providing people a chance to visit the museum and ride a rail handcar.

The visitors of the museum were offered different souvenirs with the logo of *Latvijas dzelzceļš* and the latest publications on railways. The museum issued a set of postcards *Railways in Latvia – 150* marking the 150th anniversary of the opening of the first section of railways Ritupe – Daugavpils in the territory of Latvia.

In 2010, the museum collection was supplemented with 487 articles. 80% of acquisitions are photographs, mostly depicting the history of Latgale railway stations. The acquisitions are considered very valuable for the museum collection, since so far the collection consisted of few photo materials on railway history in Latgale region.



In 2010, like in previous years, the museum collection was supplemented with gifts received from private individuals whose family members were connected with railway. Mostly the gifts had to do with railwaymen and their work. The collection of Latvian railway history items was replenished considerably with documents (diplomas, certificates, etc.), photographs and personal belongings, which were kept by former railwaymen and their families. This has given new opportunities for research.

At the end of the year, a restoration of the third-class passenger carriage from the 1920s was commenced, which can be considered the most significant restoration project of this type of carriage in Latvia. The carriage, which was found in Jelgava Track Machines station in 1994 and was saved from cutting into scraps, is actually considered to be the last remaining carriage of 196 passenger carriages constructed in the interwar period in Latvia. The restoration works were postponed for several years due to lack of experience. In 2010, a technical design of the carriage was elaborated in cooperation with **3 Radi** Ltd, and a project of the interior of the carriage was developed by two architects – Ingrida GAILE and Harijs GAILIS.

Considerable work was devoted to reconstruction and improvement of the outdoor rolling stock exposition. Abrasive cleaning and painting of the steam locomotive L-312 was carried out. The roof and the superstructure of a prisoner wagon were reconstructed, and the body of the overhead/ battery-powered locomotive VL 26-005 was restored.





FINANCIAL STATEMENT

**Balance Sheet of SJSC Latvijas dzelzceļš  
as at December 31, 2010 (Lats)**

ASSETS	As at 31.12.2010.	As at 31.12.2009.
<b>1. Long-term investments</b>		
1.1. Intangible investments	1 059 064	915 217
1.2. Fixed assets	297 803 146	235 847 544
1.3. Long-term financial investments	24 834 034	24 809 034
	<b>323 696 244</b>	<b>261 571 795</b>
<b>2. Current assets</b>		
2.1. Reserves	8 735 036	14 345 867
2.2. Debtors	12 646 598	11 443 876
2.3. Cash	17 969 218	11 563 407
	<b>39 350 852</b>	<b>37 353 150</b>
<b>Balance</b>	<b>363 047 096</b>	<b>298 924 945</b>
	<b>LIABILITIES</b>	
<b>1. Owners equity</b>		
1.1. Stock capital	114 628 593	114 628 593
1.2. Reserves	1 675 900	748 747
1.3. Retained earnings of the report year	975 013	1 270 073
	<b>117 279 506</b>	<b>116 647 413</b>
<b>2. Accruals</b>	<b>22 518 815</b>	<b>9 479 815</b>
<b>3. Creditors</b>		
3.1. Long-term creditors	166 425 243	132 675 224
3.2. Short-term creditors	56 823 532	40 122 493
	<b>223 248 775</b>	<b>172 797 717</b>
<b>Balance</b>	<b>363 047 096</b>	<b>298 924 945</b>

Riga, 6 June 2011

Chairman of the Board

U.Magonis

Member of the Board

E.Bērziņš

Member of the Board

A.Kronbergs

Member of the Board

A.Strakšas

Member of the Board

Ē.Šmuksts








**Profit or Loss Statement of SJSC Latvijas dzelzceļš  
for the Year 2010 (Lats)**

*(according to the method of turnover costs)*

<b>Index Name</b>	<b>2010</b>
Net turnover	130 423 798
Production expenses for products sold	(122 616 962)
<b>Gross profit (from turnover)</b>	<b>7 806 836</b>
Administrative expenses	(14 512 065)
Other income from the company's operations	24 958 663
Other expenditures from the company's operations	(17 044 837)
Income from shares in the capital of subsidiaries and associated companies	1 221 381
Income from securities and loans constituting long-term investments	195 226
Other interest income and similar income	68 006
Interest payments and similar expenditures	(1 473 274)
<b>Profit before taxes</b>	<b>1 219 936</b>
Corporate income tax	(541 295)
Deferred income tax	595 964
Other taxes	(299 592)
<b>The report period profit after taxes</b>	<b>975 013</b>

Riga, 6 June 2011

Chairman of the Board		U. Magonis
Member of the Board		E. Bērziņš
Member of the Board		A. Kronbergs
Member of the Board		A. Strakšas
Member of the Board		Ē. Šmuksts

**Annex**

Guidelines for the Preparation of the Summary Financial Statement  
This Summary Financial Statement, consisting of the Balance Sheet as at of December 31, 2010 and the Profit or Loss Statement for the year ended December 31, 2010, was prepared based on the corresponding information stated in the Audited Financial Statement of SJSC Latvijas dzelzceļš for the year, without making any changes thereto. The Audited Financial Statement is available at the SJSC Latvijas dzelzceļš administration. Consequently, this Summary Financial Statement complies with the Financial Statement.



## Report of the independent auditor on the summary financial statements

**To the Shareholder of VAS „Latvijas Dzelzceļš”**

### **Report on the Summary Financial Statements**

The accompanying summary financial statements, which comprise the balance sheet as at December 31, 2010 and the profit and loss account for the year then ended, are derived from the audited financial statements of VAS „Latvijas Dzelzceļš” for the year ended December 31, 2010. We expressed an unmodified audit opinion on those financial statements in our report dated June 6, 2011.

The summary financial statements do not contain all the disclosures required by the Annual Accounts Act of the Republic of Latvia. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of VAS „Latvijas Dzelzceļš”.

#### *Management’s Responsibility for the Summary Financial Statements*

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Appendix “Basis of preparation of summary financial statements”.

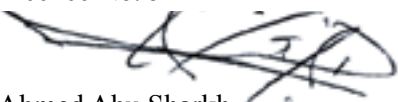
#### *Auditor’s Responsibility*

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, “Engagements to Report on Summary Financial Statements.”

#### *Opinion*

In our opinion, the summary financial statements derived from the audited financial statements of VAS „Latvijas Dzelzceļš” for the year ended December 31, 2010 are consistent, in all material respects, with those financial statements, on the basis described in Appendix “Basis of preparation of summary financial statements”.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

  
Ahmed Abu Sharkh  
Chairman of the Board

  
Lolita Čapkeviča  
Certified auditor in charge  
Certificate No. 120

Riga, Latvia  
6 June 2011

## FREIGHT AND INTERNATIONAL PASSENGER CARRIAGES

**LDZ CARGO Ltd** is the fifth largest railway freight operator in the European Union and the largest in the Baltic States. The company transports different types of cargo: containers, oil, coal, metals, timber products, food-stuffs, mineral fertilizers and others.

The basic activity of **LDZ CARGO Ltd** is railway freight transportation and international passenger carriages in the routes Riga – Moscow – Riga and Riga – St. Petersburg – Riga. The company also provides running of international passenger train Vilnius – St. Petersburg in the section Kārsava – Kurcums.

SIA **LDZ CARGO Loģistika Ltd (LDZ CARGO Logistics Ltd)** – a subsidiary of **LDZ CARGO Ltd** – provides freight forwarding and logistics services. The subsidiary is an operator of the container train **ZUBR** in Latvia. It also participates in organization of NATO non-military cargo transportation to Afghanistan. Extending the range of transport services, the company provides to its customers “door to door” freight transport deliveries.

THE KEY PRIORITY OF **LDZ CARGO LTD** IS TO RETAIN THE LEADING RAILWAY FREIGHT OPERATOR POSITION IN THE BALTIC STATES, CONTINUE IMPROVING CONTAINER TRANSPORTATION, INCREASE ENERGY EFFICIENCY OF TRACTION FLEET USE, ENHANCE EFFICIENCY OF WAGON EXPLOITATION AND DEVELOP LOGISTICS SERVICES.



# LDZ CARGO LTD

## BOARD



**Guntis MAČS**  
Chairman of the Board



**Vladimirs GRJAZNOVS**  
Deputy Chairman of the Board,  
Member of the Board



**Inese KLEINBERGA**  
Member of the Board



**Andris REKIS**  
Member of the Board



## ECONOMIC ACTIVITY

In 2010, **LDZ CARGO** Ltd carried 49164 thousand tons of freight. In comparison to 2009 the volume of transported freight decreased by 8.4%.

In the period of account, **LDZ CARGO** had cooperation with more than 3800 customers from Latvia, other European countries and the CIS countries.

**LDZ CARGO** operated 106 freight locomotives, 55 shunting and 13 passenger locomotives. **LDZ CARGO** had 5778 freight wagons in use, of which 4921 freight wagons were hired from the holding company but 857 freight wagons were in possession of **LDZ CARGO**.

## HIRED FREIGHT WAGONS

WAGON TYPES	UNITS
Covered wagons	1289
Universal flatcars	74
Gondola cars	1119
Cistern wagons (4 axle)	1063
Cistern wagons (8 axle)	153
Isothermal wagons	27
Grain hopper wagons	643
Transporters	4
Cement hopper wagons	119
Fitting platforms	417
Refrigerator wagons	10
Refrigerator wagons (servicing)	3
TOTAL:	4921

## FREIGHT WAGONS IN POSSESSION

TYPE OF WAGON	MODEL	UNITS
Covered wagons, 150 m <sup>3</sup>	11-7038	200
Covered wagons, 158 m <sup>3</sup>	11-1807-01	100
Platforms 60'	13-935A-01	100
Platforms 60'	13-935A	15
Platforms 80'	13-7024	200
Grain hopper wagons, 108 m <sup>3</sup>	19-7016	200
Refrigerator wagons		20
Insulated covered wagons	CB-5-659-04	20
Gondola cars		2
TOTAL:		857



## INTERNATIONAL PASSENGER CARRIAGES

In the year of account, **LDZ CARGO** provided international passenger services reaching the following results:

- 365.32 thousand passengers carried;
- the number of passengers carried increased by 13% when compared to 2009;
- 79.1 million passenger-km performed.

### THE NUMBER OF PASSENGERS CARRIED IN INTERNATIONAL TRAFFIC

ROUTE	YEAR 2009	YEAR 2010
Riga – Moscow	87469	99095
Moscow – Riga	96441	107027
Riga – St. Petersburg	42634	48786
St. Petersburg – Riga	48930	52803
Total by LDz trains	275474	307711
Vilnius – St. Petersburg	28398	27827
St. Petersburg – Vilnius	30397	29778
Total	334269	365316

The company provides services in two international routes with trains formed by the SJSC *Latvijas dzelzeļš.* In trains Riga – Moscow and Riga – St. Petersburg the higher comfort sleeping cars with business class compartments are included. During the summer and the New Year period when the passenger flow is higher extra trains are allocated. The transit train Vilnius – St. Petersburg – Vilnius formed by Lithuanian Railway is running in the territory of Latvia.

From 30 May 2010 trains Riga – St Petersburg and Vilnius – St Petersburg in section Rēzekne-2 – St Petersburg run as two-coupled sets.

As from 5 May 2010 passengers were able to buy train tickets online for traveling on international passenger trains formed by LDz.

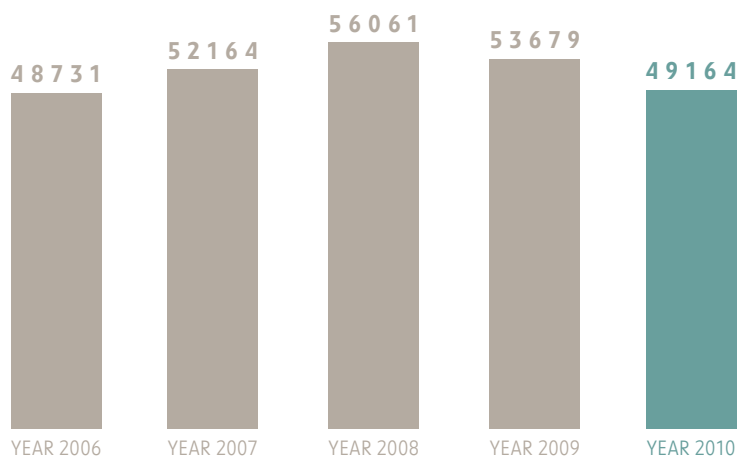
Within the territory of Latvia passengers are provided with wireless Internet access in all sleeping, compartment and dining cars of the Riga – Moscow and Riga – St. Petersburg trains.



## FREIGHT TRAFFIC

In 2010, import transportation predominated reaching 40973 thousand tons, which is 83.3% of total freight transported. When compared to 2009, import transportation decreased by 13.0%. 39056 thousand tons of freight was transported through ports, which is 13.5% less than in 2009. Land transit grew by 21.4% with 3722 thousand tons of freight carried. In 2010, export transportation increased by 44.3%, which is 985 thousand tons of freight more, reaching 3207 thousand tons. When compared to 2009, inland /domestic transportation fell by 2.8% with 1262 thousand tons of freight carried in 2010.

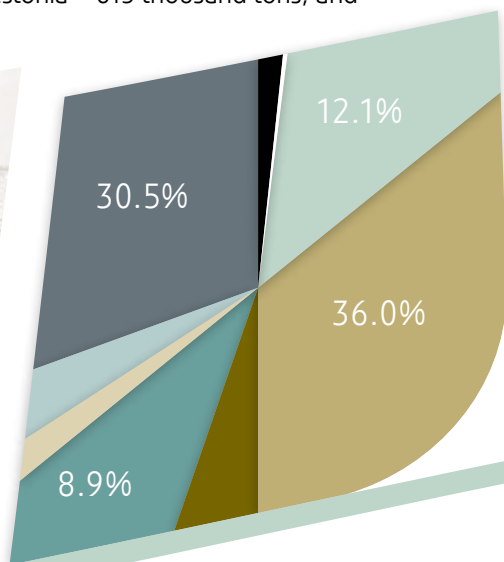
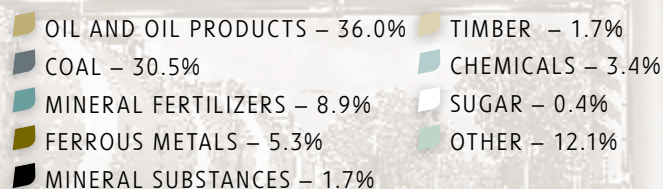
### VOLUME OF FREIGHT CARRIED (THOUSAND TONS)



Most of the export freight was transported to Russia – 903 thousand tons, Estonia – 868 thousand tons, and Belarus – 407 thousand tons. Import freight was mostly carried from Russia – 30260 thousand tons, Belarus – 7136 thousand tons, and Kazakhstan – 1814 thousand tons.

In the year of account, most of freight in land transit was transported from Belarus – 988 thousand tons, Russia – 743 thousand tons, and Lithuania – 609 thousand tons. Most of freight in the land transit, by recipients, was carried to Belarus – 796 thousand tons, Estonia – 615 thousand tons, and Lithuania – 428 thousand tons.

### PROPORTION OF FREIGHT TYPES IN 2010



In the year of account, container transportation increased by 38.1% when compared to 2009. In total 98223 TEU container units were carried. 13099 TEU container units were carried from the USA to Afghanistan through Latvia, which is 3.8 times more than in 2009.

In June 2009, a common project of *Latvian Railway* and Belarusian Railway – the container train *ZUBR* – was launched. In the year of account, 2400 TEU container units were carried by *ZUBR*.

20188 TEU container units were carried by train *Baltika – Tranzit*, which is 38% more than in 2009. The destination of container train *Baltika – Tranzit* is Kazakhstan and other Central Asian countries.

## STAFF

At the beginning of 2010 *LDZ CARGO* employed 2926 staff members, but at the end of 2010 – 2815 staff members, of which 50% men and 50% women. The company is located in the whole territory of Latvia with head offices in Riga, Daugavpils and Ventspils. *LDZ CARGO* highly appreciates and supports employees by enhancing their career development and nominating the best employees for an award. The corporate events organized in the company promote loyalty, responsibility, professionalism and diligence of employees. The employees are offered an opportunity to improve their knowledge both in Latvia and abroad. *LDZ CARGO* employees are mostly with secondary vocational education – 57%, higher education – 19%, and secondary education – 19%. Their distribution by age groups are as follows: 50–62 years – 30%, 40–50 years – 28%, 30–40 years – 22% and under 30 – 19%.

## INVESTMENT FOR DEVELOPMENT

In 2010, *LDZ CARGO* reconstructed 20 refrigerator freight wagons into insulated covered wagons in the year of account due to changes in the transport market. 38 fuel consumption control systems were purchased to improve safety, as well as to control and reduce fuel consumption. 59 locomotive radio stations were purchased to improve safety and ensure communication between locomotive crews and dispatchers. Wagon weighbridge was modernised in Liepāja freight terminal to improve quality of commercial activity. *LDZ CARGO* also invests in employees' training, for instance, fitness equipment was purchased for physical training and fitness classes of locomotive crews.





# CONSTRUCTION AND REPAIRS OF RAILWAY TRACKS

**LDZ Infrastructure Ltd** provides repairs of railway tracks and bridge roadbed, construction of railway tracks; replacement of turnouts, repairs of railway track machines, tools and mechanisms, as well as modernization of wagons and repairs of non-standard equipment.

Rail Welding Centre of **LDZ Infrastructure Ltd** provides welding of rails, manufacturing of transitional rails and isolating joints, and transportation of long rails.

The specialists of **LDZ Infrastructure Ltd** carry out installation and repairs of water drainage systems, improvement of technical condition of track formation, as well as repairs of track machines corresponding to the certificate issued by *Plasser&Theurer* (including the warranty period).

THE MAIN ACTIVITIES OF **LDZ INFRASTRUKTŪRA LTD** (LDZ INFRASTRUCTURE LTD), A SUBSIDIARY OF SJS **LATVIAN RAILWAY**, ARE CONSTRUCTION AND CAPITAL REPAIRS OF RAILWAY TRACKS, REPAIRS AND TECHNICAL SERVICING OF RAILWAY TRACK MACHINES, AND RAIL WELDING SERVICES. THE STRUCTURAL UNITS OF **LDZ INFRASTRUCTURE LTD** ARE RIGA DEPARTMENT, DAUGAVPILS DEPARTMENT, JELGAVA DEPARTMENT AND THE RAIL WELDING CENTRE.



**LDZ INFRASTRUKTŪRA**

# LDZ INFRASTRUCTURE LTD

## BOARD



Ainis STŪRMANIS  
Chairman of the Board



Valdemars DAĻECKIS  
Member of the Board



Lolita SMILTNIECE  
Member of the Board



Marina KABAĻSKA  
Member of the Board



## ECONOMIC ACTIVITY

Economic activity of **LDZ Infrastructure** Ltd was stable in 2010. Within the framework of Cohesion program several major activities were carried out: A type track reconstruction (52.73 km) in the East – West railway corridor; construction of 39 track turnouts; B type track repairs (19.33 km); dismantling of tracks (20.46 km); reconstruction of infrastructure in Riga railway node. Along with the planned capital repairs and modernization works of railway infrastructure of **Latvian Railway**, in 2010, **LDZ Infrastructure** Ltd provided services also to companies outside the LDz Group, for instance, repairs and maintenance of railway tracks was provided for more than five companies, track demounting and mounting works for road junction were carried out in Daugavpils.

The company has acquired 94.5% of all planned income in 2010, at the same time disposing of just 92.5% of the planned expenses for the year; as a result of successful economic activity the company had profit of 270.7 thousand Lats, which is 169.8 thousand Lats more than planned.

The cooperation with Austrian company **Plasser&Theurer** was successfully continued, providing certified employees with practical information on repairs and regular servicing of **Plasser&Theurer** track machines.

### CONSTRUCTION AND REPAIRS OF RAILWAY TRACKS, REPLACEMENT OF TRACK TURNOUTS (LATS)

	2009	2010
Reconstruction of tracks	12688796	8845047
B type capital repairs	609206	1610603
Replacement of track turnouts	443680	621431
Construction works	765610	424132
	14507292	11501213

### REPAIRS OF TRACK MACHINES, TOOLS AND MECHANISMS, AND MODERNIZATION OF WAGONS (LATS)

	2009	2010
Current repairs	308001	206283
Capital repairs	143700	265427
Current repairs of LDz machines and equipment	895564	686839
Capital repairs of LDz machines and equipment	8757	194498
	1356022	1353047

In 2010, Rail Welding Centre provided services of a total sum of 212135 thousand Lats, which is an impressive increase when compared to 184648 thousand Lats in 2009.

## STAFF

27 seasonal workers and track mounters were hired to carry out track repairs in accordance with the requirements of technological processes. At the end of 2010 *LDZ infrastruktūra* Ltd employed 467 people, of which 16% are women and 84% – men. The average age of *LDZ infrastruktūra* Ltd employees is 43 years.

## INVESTMENTS FOR DEVELOPMENT

Replacement of out-of-date automobiles and tractors, and renewal of small-scale mechanization took place in accordance with the Replacement plan.

## DEVELOPMENT STRATEGY

The main tasks of the company for the development until 2015: ensuring of throughput capacity of railway infrastructure in the East – West railway transit corridor corresponding to freight volume; provision of competitive prices of services; provision of conformity of railway infrastructure quality and safety to the requirements of the Regulations on Technical Operations; offering services to private railway track providers; organization of staff training and ensuring of gradual replacement of older staff.

The long-term projects of the company: renewal and reconstruction of railway tracks in the East – West transit corridor; replacement of track turnouts; construction of the second track in the section Riga – Krustpils; reconstruction of infrastructure objects in the section Skriveri – Krustpils; reconstruction of Riga railway node; construction of the second track in the section Daugavpils – Indra – State border; construction of two passing loops in the section Krustpils – Daugavpils; reconstruction of Liepaja station.



## REPAIRS OF TRACTION AND ROLLING STOCK

The 3<sup>rd</sup> stage of the reconstruction of equipping house was completed in the Locomotive Repair Centre of **LDz Rolling Stock Service Ltd** in Daugavpils. The Equipment of mixing fossil diesel and bio-diesel fuel was put into operation with a computerized control system bio-diesel being added in proportion of 4.5 to 5.0 per cent.

**LDz Rolling Stock Service Ltd** completed equipping the territories of Daugavpils Locomotive Repair Centre and Riga section with video surveillance systems to enhance security in strategic objects where operations with excise goods (fuel) are carried out.

The Wagon Repair Centre of **LDz Rolling Stock Service Ltd** in Daugavpils was entitled by the Council for Rail Transport of CIS to provide freight wagon technical diagnostics with prolongation of their operational time.

THE MAIN GOAL OF **SIA LDZ RITOŠĀ SASTĀVA SERVISS (LDZ ROLLING STOCK SERVICE LTD)** IS TO BECOME THE MOST COMPETITIVE RAILWAY SERVICE COMPANY IN THE BALTIC STATES, PROVIDE QUALITY REPAIRS AND MODERNIZATION OF ROLLING STOCK AS WELL AS EQUIPPING SERVICES; FACILITATE SAFE OPERATION OF THE ROLLING STOCK AND PROVIDE PROFESSIONAL SERVICES IN THE FIELD OF LOCOMOTIVE LEASING.



**LDZ RITOŠĀ SASTĀVA SERVISS**

# LDZ ROLLING STOCK SERVICE LTD

## BOARD



Aivars MURAVSKIS  
Chairman of the Board



Mārtiņš EMSIŅŠ  
Member of the Board



Genādijs RJAZANCEVS  
Member of the Board



Anatolijs GRIGORJEVS  
Member of the Board



Uldis KĀRKLIŅŠ  
Member of the Board  
from 15 February 2010



## RANGE OF ACTIVITIES

*LDz Rolling Stock Service* Ltd consists of two structural units:

**Locomotive Repair Centre** in Daugavpils with a workshop in Rezekne, Riga Unit, and workshops in Jelgava and Liepaja. The functions of the Locomotive Repair Centre are technical maintenance, repairs, modernization and equipping of freight, passenger and shunting diesel-engine locomotives; technical maintenance and repairs of track machines; purchase, storage and distribution of fuel.

**Wagon Repair Centre** in Daugavpils. The functions of Wagon Repair Centre are capital repairs of freight wagons with prolongation of operational time, freight wagon depot repairs; modernization of freight wagons; depot repairs of narrow-gauge carriages; inspection and repairs of wagon units and nodes, including automatic brakes and auto-couplings; repairs of wheel-pairs with replacement of elements; hydraulic tests of tanks.

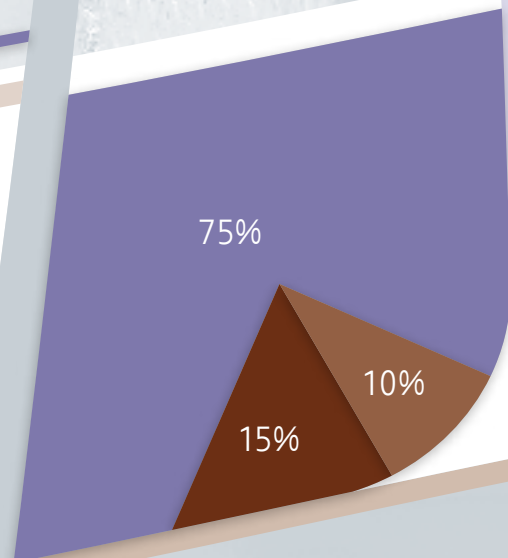
**Chemical-Technical and Measurements Laboratory** in Riga with Inspection group in Daugavpils is subordinated to LDZ **Rolling Stock Service LTD**. The laboratory specialists ensure train traffic safety by carrying out quality repairs and calibration of measurement and control devices of technical maintenance equipment. Extending the range of activities, Chemical-Technical and Measurements Laboratory developed the necessary procedures and received a certificate of Latvian National Accreditation Bureau on Tank Wagon Inspection according to LVS EN ISO/IEC 17020.

## STAFF

RSS is one of the largest LDz subsidiaries in terms of total number of employees. In 2010, a staff optimization took place which led to decrease of the total number of employees by 7.5%. There were 1382 employees working for RSS at the end of year, of which 73% were men. The average age of RSS employees is 44.5 years.

## DIVISION OF EMPLOYEES BY ACQUIRED LEVEL OF EDUCATION

- HIGHER EDUCATION – 15%
- SECONDARY VOCATIONAL AND SECONDARY EDUCATION – 75%
- PRIMARY EDUCATION – 10%



## ECONOMIC ACTIVITY

Capital repairs of 69 wagons, depot repairs of 1956 wagons and repairs of 157 privately owned wagons were carried out in the Wagon Repair Centre in the year of review.

Technical maintenance of 20482 diesel-engine locomotive sections, running repairs of 365 sections, medium repairs of 26 sections and major repairs of 3 sections were carried out in the Locomotive Repair Centre. The modernization of ČME3 shunting locomotives was commenced by installing new generation *Caterpillar* engines CAT3512C, thus increasing the power from 993 kW to 1550 kW. Other improvements were carried out to provide safety, economy and comfort, as well as to meet environmental protection requirements. The power of modernized locomotives will increase by approximately 60% with reduction of fuel consumption by 20%.

At the end of 2010 the net turnover of RSS was 61 589.3 thousand Lats.

## INVESTMENTS FOR DEVELOPMENT

In the year of review, the company invested 4042.8 thousand Lats in reconstruction, modernization, capital repairs and construction of the fixed assets. An important project in compliance with environmental requirements was developed in Riga section of the Locomotive Repair Centre. The construction of site for diesel-engine locomotive worn-out oil collection and blowing off main reservoirs was commenced. A project for reconstruction of heating system, was commenced in Rezekne workshop of the Locomotive Repair Centre. It is planned to use renewable resources instead of black fuel oil.

As a result of extended range of activities, the Wagon Repair Centre provided also capital and depot repairs of refrigerator wagons CB-5 (except for repairs of diesel, refrigeration, electrical and other special equipment), as well as reconstruction of refrigerator wagons into covered wagons. In the year of review, the conformity to the requirements of ISO 9001 standard of the management systems was restored by the structural units of RSS. The customers now receive full guarantee that the company ensures a quality service. This is achieved by carrying out regular independent audits as a result of which a certificate confirming efficiency of the system is acquired.





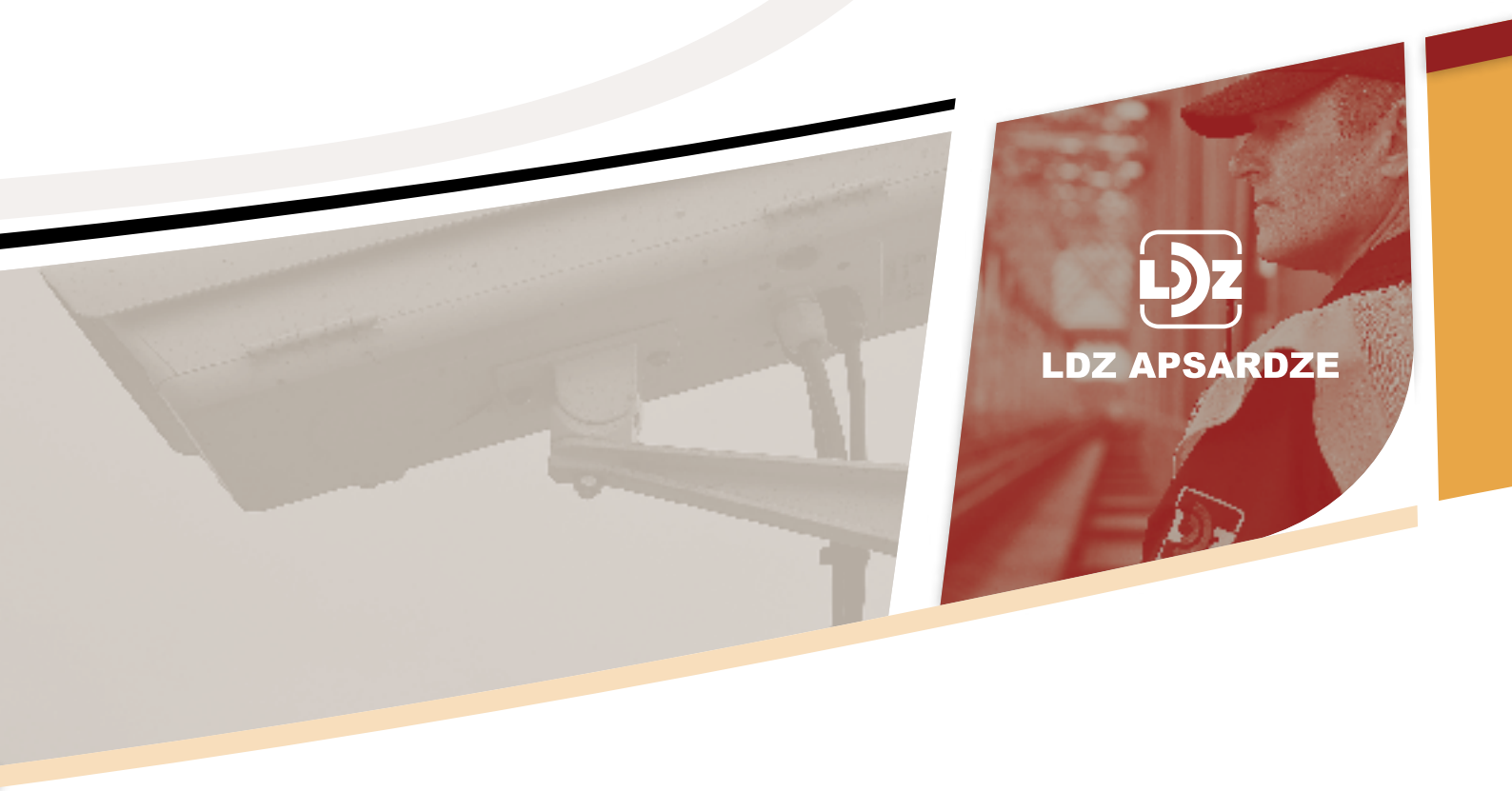
## SECURITY SERVICES

The basic activities of **LDZ Security Ltd** are security services and investigation. The company has received a special second category permit No.800 to provide security services, which are delivered all over Latvia. The regional groups are located in the largest cities of Latvia – Daugavpils, Rezekne, Jelgava, Ventspils and Liepaja.

**LDZ Security Ltd** has received the Security Certificate No.LV-235 issued by the State Railway Technical Inspectorate of Latvia, which allows the company to perform installation, repairs and technical maintenance of technical equipment (video surveillance, security, fire protection and telecommunications systems).

A quality management system (ISO 9001:2000 certificate) is established in **LDZ Security Ltd**, which allows the company to provide security services to SJS *Latvian Railway* and other legal entities. A certification to comply with the requirements of ISO 9001:2008 standard was successfully completed in the year of review.

THE MAIN TASK OF **SIA LDZ APSARDZE (LDZ SECURITY LTD)** IS TO PROVIDE PROFESSIONAL AND HIGH QUALITY SECURITY SERVICES TO THE **LATVIAN RAILWAY GROUP** USING MODERN TECHNOLOGIES, THUS REDUCING SECURITY SERVICE COSTS OF THE GROUP, ENHANCE COMPETITIVENESS OF THE COMPANY, AND INCREASE THE NUMBER OF CUSTOMERS OUTSIDE THE GROUP.



# LDZ SECURITY LTD

## BOARD



**Arnis MACULĒVIČS**  
Chairman of the Board

## BASIC ACTIVITIES

The company has successful cooperation with customers for the services are developed on an ongoing basis taking into account conformity to national laws and innovations in the field of security. Professional and qualified employees, modern technologies and technical equipment allow providing of a wide spectrum of physical and technical services for security of our customers and their property. The company offers the following services: physical security

of railway freight, buildings, territories and persons; provision of access control; security services at public events; mobile patrol in case of alarm. *LDZ Security* Ltd offers technical security, provides consultations on most suitable security systems; performs design, mounting and servicing (reacting to alerts) of security systems, as well as provides object security services and video surveillance of buildings and territories.



## DEVELOPMENT STRATEGY

The priority of the company is to ensure high quality services in order to maintain competitiveness. Therefore, it is essential to modernize existing and implement new technologies that are necessary for security services, as well as increase proportion of technical security services and attract new customers. The following tasks are set in the strategy of the company: development of existing technical equipment; introduction of state-of-the-art technologies; improvement of professional skills of employees; widening of the serviced territory by creating new regional groups; structuring of services pricing policy according to the economic situation.

## ECONOMIC ACTIVITY

The performance of *LDZ Security* Ltd was stable in the year of review and the company successfully continued its development by improving technical security services. The services were mostly provided to the companies of the Group; also other companies, private persons, local government companies, public organisations were among the customers of the company. In the year of review, security services were provided in more than 549 objects (physical security in 64 objects and technical security in 485 objects). Servicing of fire alarm systems was carried out in more than 100 objects. Technical maintenance was provided for more than 300 video cameras.



## STAFF

The company employed 400 persons at the end of 2010. The employees of the company have to meet high professional standards, for instance, they must have a security certificate, good knowledge of Latvian, which is the official state language, and the Russian language, good communication skills, as well as good physical condition. In some cases also a firearms licence is necessary. In the year of review, the staff became more stable. The existing economic situation in the country allows the company to assess potential employees more carefully and to employ specialists with good references, better work experience in the sector, and better education.

### DIVISION OF EMPLOYEES BY FUNCTIONS

ADMINISTRATIVE	BASIC ACTIVITIES	SUPPORTING
2,56%	96,67%	0,77%



CONSOLIDATED  
FINANCIAL STATEMENT



**Consolidated Balance Sheet of SJSC Latvijas dzelzceļš  
as at December 31, 2010 (Lats)**

ASSETS	As at 31.12.2010	As at 31.12.2009
<b>1. Long-term investments</b>		
1.1. Intangible investments	1 069 294	930 602
1.2. Fixed assets	347 065 409	288 018 167
1.3. Long-term financial investments	347 450	347 450
	<b>348 482 153</b>	<b>289 296 219</b>
<b>2. Current assets</b>		
2.1. Reserves	17 725 509	23 881 239
2.2. Debtors	17 046 689	16 562 024
2.3. Cash	38 012 106	24 022 338
	<b>72 784 304</b>	<b>64 465 601</b>
<b>Balance</b>	<b>421 266 457</b>	<b>353 761 820</b>
<b>LIABILITIES</b>		
<b>1. Owners equity</b>		
1.1. Stock capital	114 628 593	114 628 593
1.2. Reserves	21 511 183	19 708 430
1.3. Retained earnings of previous years	4 628 560	779 599
1.4. Retained earnings of the report year	1 488 026	5 860 383
	<b>142 256 362</b>	<b>140 977 005</b>
<b>2. Accruals</b>	<b>29 153 748</b>	<b>18 284 371</b>
<b>3. Creditors</b>		
3.1. Long-term creditors	178 019 015	142 765 415
3.2. Short-term creditors	71 837 332	51 735 029
	<b>249 856 347</b>	<b>194 500 444</b>
<b>Balance</b>	<b>421 266 457</b>	<b>353 761 820</b>

Riga, 6 June 2011

Chairman of the Board

U.Magonis

Member of the Board

E.Bērziņš

Member of the Board

A.Kronbergs

Member of the Board

A.Strakšas

Member of the Board

Ē.Šmuksts

**Consolidated Profit or Loss Statement  
of SJSC Latvijas dzelzceļš for the Year 2010 (Lats)**

*(according to the method of turnover costs)*

<b>Index Name</b>	<b>2010</b>
Net turnover	257 443 067
Production expenses for products sold	(239 181 819)
<b>Gross profit (from turnover)</b>	<b>18 261 248</b>
Administrative expenses	(24 089 015)
Other income from the company's operations	28 101 010
Other expenditures from the company's operations	(18 419 610)
Income from securities and loans constituting long-term investments	195 226
Other interest income and similar income	185 258
Interest payments and similar expenditures	(2 059 711)
<b>Profit before taxes</b>	<b>2 174 406</b>
Corporate Income Tax	(725 931)
Deferred income tax	372 741
Other taxes	(333 190)
<b>The report period profit after taxes</b>	<b>1 488 026</b>

Riga, 6 June 2011

Chairman of the Board

U. Magonis

Member of the Board

E. Bērziņš

Member of the Board

A. Kronbergs

Member of the Board

A. Strakšas

Member of the Board

Ē. Šmuksts

**Annex**

Guidelines for the Preparation of the Summary Consolidated Financial Statement

This Summary Consolidated Financial Statement, consisting of the Consolidated Balance Sheet as at December 31, 2010 and the Consolidated Profit or Loss Statement for the year ended at December 31, 2010, was prepared based on the corresponding information stated in the Audited Consolidated Financial Statement of SJSC Latvijas dzelzceļš for 2010, without making any changes thereto.

The Audited Consolidated Financial Statement is available at the SJSC Latvijas dzelzceļš administration. Consequently, this Summary Consolidated Financial Statement complies with the Consolidated Financial Statement.



**Report of the independent auditor  
on the summary consolidated financial statements**

**To the Shareholder of VAS „Latvijas Dzelzceļš”**

**Report on the Summary Consolidated Financial Statements**

The accompanying summary consolidated financial statements, which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated profit and loss account for the year then ended, are derived from the audited consolidated financial statements of VAS „Latvijas Dzelzceļš” for the year ended December 31, 2010. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated June 6, 2011.

The summary consolidated financial statements do not contain all the disclosures required by the Consolidated Annual Accounts Act of the Republic of Latvia. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of VAS „Latvijas Dzelzceļš”.

*Management’s Responsibility for the Summary Consolidated Financial Statements*

Management is responsible for the preparation of a summary of the audited consolidated financial statements on the basis described in Note “Basis of preparation of summary consolidated financial statements”.

*Auditor’s Responsibility*

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, “Engagements to Report on Summary Financial Statements.”

*Opinion*

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of VAS „Latvijas Dzelzceļš” for the year ended December 31, 2010 are consistent, in all material respects, with those consolidated financial statements, on the basis described in Note “Basis of preparation of summary consolidated financial statements”.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

Ahmed Abu Sharkh  
Chairman of the Board

Lolita Čapkeviča  
Certified auditor in charge  
Certificate No. 120

Riga, Latvia  
6 June 2011



# THE MOST IMPORTANT EVENTS IN 2010

March 16

LDz Board had a meeting with the Economic, Agricultural, Environmental and Regional Policy Committee of the 9th Saeima (Latvian Parliament). During the meeting the Chairman of the Board of *Latvian Railway* Ugis MAGONIS emphasized that the priority of LDz is to provide freight carriages in the East – West corridor. Investments are mostly put in infrastructure development projects to increase transit freight flow through the territory of Latvia. With the development of this sector the government collects more revenue, because the business of other transit partners – ports and operators – is also developed through exporting services to foreign freight owners.

April 29

The Chairman of the Board of SJS *Latvijas dzelzceļš* and the General Director of Belarussian Railway opened the second track between stations Indra and Bigosovo. *Latvijas dzelzceļš* in cooperation with Belarussian Railway completed the construction of the second track in the section Indra – Bigosovo in 2009, but installation of signaling systems and construction of border crossing and other infrastructure were completed in 2010. The second track allows increasing freight flow considerably, because during recent years the throughput capacity of railway infrastructure was insufficient in this section. The project costs were about 4 million Lats, of which the largest portion was financed by LDz. The project was also cofinanced by the state and EUCohesion Fund.



The Chairman of the Board of SJS *Latvijas dzelzceļš* Ugis Magonis and the Member of the 9th Saeima Dzintars Zakis in Daugmale station. The Members of Parliament visited Traffic Management Centre and Skirotava hump in Daugmale station, as well as expressed approval of the achievements of LDz in exporting services and its considerable role as one of the largest taxpayers in Latvia.

The Chairman of the Board of SJS *Latvian Railway* Ugis Magonis and the General Director of Belarussian Railway Anatoly Sivak is giving a symbolic permission for the first train to run to Latvia on the new track.

May 5

The selling of online train tickets was launched for international rail travels. With this development tickets can be bought online from LDz website [www.ldz.lv](http://www.ldz.lv). Passengers can use the new service to book tickets and register for travels, pay for the tickets and print booking confirmations.

May 13–14

The 52nd meeting of the Council for Rail Transport of CIS States took place in Jurmala. During the meeting 17 CEOs of railway companies discussed finances of the organization, use of common wagon pool and other issues. The Chairman of the Board of SJSC *Latvian Railway* Ugis Magonis and the President of Open JSC *Russian Railways* Vladimir Yakunin signed three cooperation agreements.



The CEOs of railway companies participating in the 52nd meeting of the Council for Rail Transport of CIS States.

May 18

A contractor of the announced open tender for design and construction of the second track in the section Skriveri – Krustpils was selected. After examining the submitted offers the tender commission selected a consortium *Skonto Buve, BMGS, ACB and Binders* as the contractor and the design and construction contract was concluded. The total sum of the contract is 92.17 million EUR. According to the contract it is planned to build the second track in the section Skriveri – Krustpils, reconstruct several stations, stop points and level crossings in this section, as well as to construct high level platforms and new bridges across the river Aiviekste and Perse until 2013.

The presentation of the new service: the Chairman of the Board of *LDz Cargo* Ltd Guntis Macs (standing, first from the left) with a ticket bought online.



## August 5

The 91st anniversary of *Latvian Railway* was celebrated. It has become a tradition that on the anniversary day of *Latvian Railway* the best employees are awarded. During the ceremony the following awards are given: a Certificate of Recognition of the Minister of Transport, the highest award of *Latvian Railway* – a Decoration of Honour, a valuable present – a silver watch with engraving, and a Certificate of Recognition of the Chairman of the Board.

## August 5

The first stamping of the second stamp in series *Latvian Railway History* took place in Latvian Railway History Museum. Rp series 750 mm narrow gauge steam locomotive is displayed on the stamp. It was the first rolling stock unit which was produced especially at the request of Latvian State Railways. In total, 13 locomotives of this type were produced in the period between 1923 and 1935 in Germany, Poland and Latvia. They were operated on Latvian narrow gauge railway until 1960 when steam locomotives were replaced by diesel locomotives.



A photo with the awarded employees and the LDz Board.



The Chairman of the Board of SJSC *Latvijas dzelzceļš* Uģis Magonis sending a letter with the new stamp.

**October 29** SJSC *Latvian Railway* received a Certificate of Recognition for leadership and international competitiveness in transport sector at the ceremony of *National Capital Award 2010*. LDz ranked third place in the survey *TOP 101 most valuable companies in Latvia* conducted by the investment banking company *Prudentia*, *NASDAQ OMX Riga* Stock Exchange and the business magazine *Kapiāls*. This is an increase in the ranking compared to the previous year.

**November 1** A new management body – the Board of Presidents – was established in the State Joint Stock Company *Latvijas dzelzceļš*. The President (in charge of general management) – Uģis MAGONIS, the Vice President (in charge of Finances) – Aivars STRAKŠAS, the Vice President (in charge of Technical Management) – Ēriks ŠMUKSTS, the Vice President (in charge of Real Estate) – Edvīns KOČĀNS.

**November 10** The first railway line in the territory of Latvia was opened on 8 November 1860. To mark the historic event a ceremony was held in Daugavpils. During the ceremony the veterans were given gratitude, and the Head of Daugavpils Operational Section Vladimirs LABECKIS was given the highest award of Belarussian Railway *Excellent Employee of Belarussian Railway* from the representatives of the company.



LDz President Uģis Magonis receives the Certificate of Recognition.



Vladimirs Labeckis receives the award from Sergey Paholkin, the Head of Vitebsk Department of Belarussian Railway.

# NOTES

A page of lined paper with a decorative background of overlapping grey and white curved shapes. The page is ruled with horizontal dotted lines. The word "NOTES" is written in the top left corner. The background features several overlapping, semi-transparent grey shapes that create a modern, abstract design. The lines are evenly spaced and extend across the width of the page.





