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Report of the Chairman of the Board

The year 2008 will remain in the history of State Joint Stock Company **Latvian Railway (LDz)** as a year of record economic activities. 26,767 Million passengers and 56,061 Million tones of freight were transported using Latvian railway infrastructure in the reported year. In the result in 2008 3,897 Million tones of freight more or 7,5% more than in 2007 were transported. In the reported year LDz became a leader in freight transportation among the Baltic States.

In 2008 LDz concern was formed by mother company - State Joint Stock Company *Latvian Railway* and dependant daughter companies: *LDz Cargo Ltd*, *LDz infrastruktura Ltd*, *LDz ritosa sastava serviss Ltd*, *LDz apsardze Ltd*, Joint Stock Company *Pasazieru vilciens* (since 10 October 2008 – independent enterprise) and Joint Stock Company *Starptautiskie pasazieru parvadajumi* (since 1 March 2008 independent economical activity is closed).

In the reported year the activities of LDz concern in financial, structural and legal fields were essentially improved. A balanced model of concern management was introduced. Upon elaborating of concern management contracts and its management policy, the mother company LDz established control over the work of the dependant enterprises. These policies include the basic issues of the management of the concern's mother company and the dependant enterprises. Concern's vision and mission are conceptually defined, its long-term strategic development is elab-



orated, the competitive business plan is accepted, its financial management is clear and transparent in the structure, economic activities are balanced, technological regulations for safe train traffic are introduced, communication model is open to public, the procurements are tendered as well as the other issues related to concern management policy are solved. In the process of restructuring of LDz, the elaborated model of concern management was highly approved by Latvian Confederation of Employers and State Chancellery. The fact was documented in October 2008 upon receipt of the award *For the effective management of the enterprise*.

Long-term development goal is to increase infrastructure capacity to 85 mln t per year instead of current 62 Million tones. In order to achieve this goal, LDz Board uses every possible tool: the profit gained by enterprise is invested in the infrastructure projects, European Union (EU) structural aid funds are involved in co-financing, other investment models were studied. In 2008 LDz Board continued the supervision of railway infrastructure modernization projects started in previous years. With the aim of modernizing the infrastructure the applications for new projects were prepared. In order to achieve this goal to 2013 co-financ-



ing of the EU Cohesion fund will be raised, e.g. in the framework of Riga railway junction modernization project, preliminary study and the procedure of evaluation of impact to environment were commenced.

One of the cornerstones of sustaining of good results and competitiveness on transit transportation market is freight traffic tariff policy well-thought elaborated and regularly evaluated by LDz Board. Concern's priority is to maintain the volume of freight traffic, competitiveness of transit corridor, potential of infrastructure and to deliver the successful results of LDz Cargo Ltd.

Freight traffic on Latvian railway is conditioned by free competitiveness and liberalized market, which is supported by the fact that on transportation market other carriers work as well.

The topical work in inner and outer communication field was the unity of the personnel and the promotion of the level of professional self-awareness of the employees. For instance, in the reported year a new LDz award *Railway Pride* was introduced. The aim of this award is for every employee to promote a nominee who is nearby every day and does the work together. This is the possibility for staff to nominate a person who is able to work professionally, able to enrich the interrelations within the staff, able to help the others unselfishly. In 2008, 15 LDz employees received the award.

The inner communication of the staff is enabled by Latvian Railwaymen and Transport Field Union (Labor Union) and Latvian Railwaymen Society (Society). United working group of LDz and Labor Union work regularly and its main task is Work contract, update of its norms, introduction of amendments and improvement of social guarantee package. From its side LDz Board in the reported period observed Work contract conditions, for example, by increasing the salaries, improving work environment, proposing more possibilities of social guarantees, as well as concerning about recreation of the employees, e.g., the investments were made to improve Labor Union Sport complex. On the other hand, the concern of Labor Union is to improve the prestige of railway professions, exploration of Latvian railway history and its publicity. This work is essential in 2009 when State Joint Stock Company *Latvian Railway* will celebrate its 90th anniversary.



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Vision for the future of the concern

The company anticipates ensuring successful operation and raising competitiveness. It will provide wide spectrum of **safe, efficient and client-oriented** railway services. *Latvian Railway* is planning to make large investments in development of infrastructure, renovation and supplementing of the rolling stock and modernisation of traction, as well as to strengthen the co-operation with the existing business partners, and to involve new business partners. At the same time it is planned to develop combined conveyance, railway transport infrastructure in the surroundings of Riga city, and North-South direction. Railway experts will continue to participate in initiatives of legislative activities of transport sector, promoting development of sustainable railway infrastructure financing model as a priority.

Corporative aims

Strategic aims of the concern are as follows:

- To ensure profit and cash flow every year;
- To enlarge the volume of freight traffic up to 80 million tonnes/per year before the year 2013;
- To promote development of qualitative and accessible public transport services;
- To ensure a long-term maintenance of railway infrastructure in accordance with normative requirements and development of technologies;
- To maintain and provide high level of traffic safety;
- To improve economic activities, optimising the processes of production, management and support;
- To ensure up-to-date and socially responsible staff policy, raising the level of qualification and education among employees.

Taking into account the strategic aims of the concern, the further development of each business direction is determined.

The prior aim of strategic development in management of the **railway infrastructure** is efficient management of infrastructure, achieving maximal return of invested resources and ensuring positive financial result. To achieve such aim, the company is planning to improve accessibility and quality of services. It is planned to increase the throughput capacity and load of the railway by implementation railway infrastructure projects of international importance. It is also necessary to provide technological development and innovations, at the same time remaining the interoperability with railways of the neighbouring countries.

The best results in the history of the company were achieved in **freight shipments**. The increase of the volume of freight shipments is one of the main aims, which is essential for providing of financial continuity and investments for the company. Special attention is paid to transit shipments. The company is looking for new business partners, as well as for ways how to develop new services. Especially development of container shipments is favoured.

SIA LDz Cargo is providing international passenger carriages. The main strategic goal in this company is to remain the most profitable lines, balancing the price, costs and quality of services.

An essential precondition for development of freight shipments is accessibility of appropriate services of the **maintenance and repairs of the rolling stock (locomotives and wagons)**, as well as optimal management of the rolling stock. As to the maintenance of the rolling stock, the main task is providing repairs and maintenance of the rolling stock used in



freight traffic, taking into account the planned volume of shipments. It is planned to renovate the rolling stock park, as well as to increase the number of rolling stock units. For positive financial result, it is also necessary to quicken the turnover of the rolling stock, to reduce idle standing and to find other ways how to reach increase of efficiency.

As to **security services**, attention is paid to the increase of the level of safety, and to decrease of financial losses, therefore new technologies are being widely introduced. Taking into account the skills, experience and knowledge of the staff, it is also planned to increase the proportion of services in the external market.

Strategic goals are being set also in other important fields, where the leading company is engaged, including information technologies and telecommunication, real estate and lease, the services of distribution of electricity, as well as production, distribution and realisation of thermal energy. It is planned to improve efficiency in these fields, to reduce the cost of these services, as well as to increase the return of the invested resources. Different alternatives of the further development of these fields are to be evaluated for development of new business models or in making partnership with other companies.

Uģis MAGONIS,

State Joint Stock Company

Latvijas dzelzceļš

Chairman of the Board

The mission of the State Joint Stock Company Latvian Railway is to be the leading transport company in the Baltic States, which administrates, maintains and develops the railway infrastructure; ensures the services of mobility and logistics necessary for the society and economics; is financially persistent and efficient; is a prestigious work place and ensures up-to-date environment for work.

The vision is to become a modern, efficient and safe railway that contains different types of transport and gives services that correspond to the needs of its clients.



State Joint Stock Company

LATVIJAS DZELZCEĻŠ



Council

Guntis MAČS – Chairman of the Council (till 30.01.2008.)

Leonīds LOGINOVŠ – chairman of the council (since 11.02.2008.)

Guntars KRIEVIŅŠ – priekšsēdētāja vietnieks (since 11.02.2008.)

Imants SARMULIS – priekšsēdētāja vietnieks (since 11.02.2008.)

Linda BALTIŅA – priekšsēdētāja vietniece (since 11.02.2008.)

Jānis EIDUKS – Member of the Council

Arvīds KUCINS – Member of the Council

Juris ŠMITS – Member of the Council

Andrejs NAGLIS – Member of the Council

Kārlis GREIŠKALNS – Member of the Council

Andrejs POŽARNOVS – Member of the Council

Board

Uģis MAGONIS – Chairman of the Board



Aivars STRAKŠAS – Member of the Board



Andris ŠTEINBRIKS – Member of the Board



Uldis PĒTERSONS – Member of the Board (till 20.08.2008.)



Ēriks ŠMUKSTS – Member of the Board (since 02.12.2008.)



Māris GAVARS – Member of the Board (since 02.12.2008.)



Maintenance and development of infrastructure



Technical Management Department of Latvian Railway is responsible for organisation of train traffic, railway infrastructure (including maintenance of railway tracks, engineering structures, automatic and semi-automatic signalling systems, railway communications, wireless communications, power supply and contact network and other facilities in accordance with the **Regulations on Railway Technical Operation**. Technical Management Department is also responsible for development of real estate and infrastructure of Latvian Railway. The operational length of the main track is 2281,8 km

The main objects of the railway infrastructure complex

No.	Basic unit	Unit	Total
1.	Extended lengths of railway tracks, incl.:	km	3566,5
	• main tracks	km	2565,3
	• station tracks	km	835,3
	• spur tracks	km	165,9
2.	Turnouts	Complete set	3318
3.	Engineering technical buildings:		
	• bridges	Pieces	734
	• culverts	Pieces	1030
4.	Level crossings	Pieces	561
5.	Train traffic management system:		
	• automatic blocking	km	1063,7
	• semi-automatic blocking	km	837,7
	• electric centralisation of stations	station	163
6.	Main communication cables:		3233,7
	• copper cable lines	km	1049
	• optical cable lines	km	
7.	Wireless communications	km	1870,2
8.	6,10 kV high-tension grid lines	km	1401,0
9.	Communication networks	km	257,4



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

The main tasks of Technical Management Department and its structural units in the year 2008 were:

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

In 2008, the following reconstruction (modernisation, capital repairs) and maintenance works were carried out:

• Reconstruction (modernisation) in East-West railway corridor:

- Reconstruction of railway tracks (89 km) – 23565,6 ths Lats;
- Modernisation of hot-box detection system – 4 747,6 ths Lats;
- Modernisation of Signalling Systems (Stage I) – 739,9 ths Lats;
- Modernisation of Signalling Systems (Stage II) – 292,8 ths Lats;
- Modernisation of electrification devices – 184,7 ths Lats;
- Modernisation of two hill moderators – 229,4 ths Lats.

• Renovation (capital repairs):

- Capital repairs of B type railway tracks (20,2 km) – 471,0 ths Lats;
- Replacement of 108 complete sets of track turnouts – 5 372,9 ths Lats;
- Repair of engineer-technical buildings and embankment – 18,0 ths Lats.

• Maintenance:

- Operating reconstruction of railway track (31,9 km) – 268,9 ths Lats;
- Faceting of rails – 161,9 ths Lats;
- Repair of track machines – 361,8 ths Lats;
- 39 974 wooden sleepers replaced;
- Operating repair of SCB equipment – 453,7 ths Lats;
- Operating repair of communications – 166,7 ths Lats;
- Operating repairs of power supply equipment – 248,7 ths Lats;
- Operating repairs of all-electric line equipment and network – 185,1 ths Lats.

The most significant projects in development and renovation of infrastructure:

- Implementation of the following projects continued:
 - Renovation of railway tracks;
 - Replacement of track turnouts;
 - Modernisation of hot-box detection system;
 - Modernisation of Signalling Systems (Stage I);
 - Modernisation of Signalling Systems (Stage II);

The most significant projects in East-West railway corridor in 2009:

- Renovation of railway tracks (75 km) – 26694 ths Lats;
- Replacement of 60 complete sets of track turnouts – 2 419 ths Lats;
- Modernisation of hot-box detection system – 1 570 ths Lats;
- Modernisation of Signalling Systems (stage I) – 10125 ths Lats;
- Modernisation of Signalling Systems (Stage II) – 15400 ths Lats;
- Reconstruction of Indra station – 1 078 ths Lats.



In 2008, implementation of the commenced projects of modernisation of railway infrastructure continued:

- Replacement of Track Turnouts (planned to complete in 2009);
- Modernisation of Hot-box Detection System (planned to complete in 2009);
- Modernisation of Signalling Systems (Stage 1 continues, the works of Stage 2 commenced);
- Reconstruction of Railway Tracks in Sections of East-West Railway Corridor.

For completion of the investment programme, in 2008, 27,7 millions Lats were used, including 5,84 millions Lats from the EU Cohesion Fund, 6,87 millions Lats from the State budget, and 15,00 millions Lats from the budget of *Latvian Railway*.

In the end of the year 2008, approval from the EU Commission regarding the granting of financial support from TEN-T programme for implementation of the project *Renovation of the Railway Track in Rail Baltica Corridor in Latvia*, which in total will cost 68 million Lats.

The following work for further improvement of railway infrastructure development was carried out by preparing application for new projects, for implementation of which it is planned to use the EU Cohesion Fund 2007- 2013 financing:

- Within the project *Modernisation of Riga Railway Junction* development of draft projects, and the procedure of evaluation of impact on environment for commencing of the project *Reconstruction of Station Bolderaja I and Station Bolderaja II and Building of Connective Tracks in Krievusala* was commenced;
- Application for the project *Building of the Second Track in Riga – Krustpils Section* for the co-funding of the EU budget was prepared and submitted;
- Application for the study of expediency of railway electrification within the EU technical assistance was prepared and submitted.



Project. Replacement of Track Turnouts

(East-West Railway Corridor)

- Budget of Latvian Railway 3,3 million Lats
- Cohesion Fund budget 0,00 million Lats
- State budget 0,00 million Lats

Project. Modernisation of Hot-box Detection System

(East-West Railway Corridor)

- Budget of Latvian Railway 0,00 million Lats
- Cohesion Fund budget 0,1 million Lats
- State budget 3,6 million Lats

Project. Modernisation of Signalling Systems

(East-West Railway Corridor)

- Budget of Latvian Railway 0,8 million Lats
- Cohesion Fund budget 0,04 million Lats
- State budget 1,27 million Lats

Project. Renovation of Railway Track

- Budget of Latvian Railway 10,9 million Lats
- Cohesion Fund budget 5,7 million Lats
- State budget 2,0 million Lats

Staff development



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

In 2008, 7391 employees worked for *Latvian Railway*. In comparison with the previous year, the number of employees has decreased per 23% due to the restructuring of the company and acquiring of new technologies. 37 % of the total number of employees are women.

The average salary in 2008 in *Latvian Railway* was 653,50 Lats, which in comparison with the previous year, has increased per 24,2 %.

The main collaboration partners for the preparation of railway experts are Railway Transport Institute in Riga Technical University, Riga Railwaymen School and Latgale Transport and Telecommunication Technical School. *Latvian Railway* is organising field practice for students of these educational institutions. Experts of the concern participate in qualification commissions, and give qualified assistance to the emerging railway experts in explanation of complicated technical issues. The best students are offered to work in the company.

To improve qualification, the newest instructional methods, experience, scientific and technological accomplishments of railway experts, a cooperation agreement is signed with St. Petersburg State University of Railway Communications.

In 2008, *Latvian Railway* participated in Career Days organised by the Riga Technical University (RTU) and Transport and Telecommunication Institute so that the new experts would be interested in working in our company. We have been participants also in engineer's competition organised by the RTU student organisation *BEST-Riga*.

To introduce students with railway companies and to give them a chance to participate in professional excursions, booklets *Formula for Luck* were released in the Latvian schools. The booklet includes information on the most prospective railway professions and educational institutions.

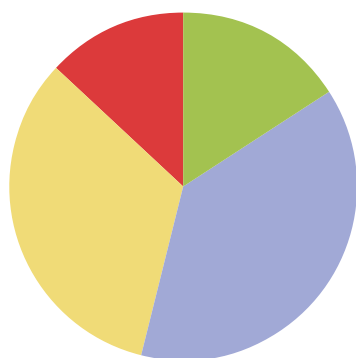
Theoretically well prepared railway expert and his professional development in the practical work is the basis of the train traffic safety and railway maintenance. In 2008, *Rules on the Career Planning and Raising of Qualification for Railway Experts* came into force. Employee, who is successful and is developing his skills, is offered a possibility to start his professional career. The new rules cause the following aims for career planning:

- To ensure succession of operation of the concern;
- To ensure further transfer of railway knowledge and experience within the concern;
- To ensure qualitative and perspective reserve of experienced managers.

For increasing of the level of professionalism of railwaymen the following training was organised:

- Training in workplaces and classes of technical training;
- Programmes of further education in the professional educational institutions of state railway;
- Training and seminars.

Division according to education



- university education – 16 %
- secondary professional education – 38 %
- secondary education – 33 %
- primary education – 13 %

The technical literature and educational aids necessary for the training and work of the railway experts was published:

- Textbook *Principles of the Building of the Railway Track*;
- English-Russian-Latvian dictionary *Abbreviations in Communication and Information Systems*;
- Instructional video *Technical Maintenance of Freight Wagons*.

Several textbooks and educational projects are to be researched and prepared.

Together with the *Public Service Language Centre* a training programme for acquiring the English language was developed. It will give opportunity for railway machine operators, dispatchers, station masters and other experts to acquire the language skills which are necessary for their work. Within the EU project *Unified Railway Language for the Safety* instructional materials and special methodology for acquiring the English language for railway experts was developed.

Qualification of employees demands constant investments. There are special requirements for railway experts. Special educational programmes were worked out for this category of employees, and their qualification is periodically checked and improved.

In cooperation with the Railway Transport Institute of RTU and guest lecturers from the St. Petersburg State University of Railway Communications courses of instruction for engineers and railway experts were organised.

In 2008, 1830 persons attended training. 1797 of them were employees of *Latvian Railway* and subsidiary companies, and 33 were clients from other companies.

To implement the *Programme of Professional Development for the Management of Latvian Railway* approved by the Board of *Latvian Railway*, a group of 17 participants finished the *Latvian Railway Business Class* course in the spring of 2008.

Within the project *Modernisation of the Hot-box Detection Systems in East-West railway corridor* co-financed by the Cohesion fund, a course *Training of RAD operators* was organised. 53 employees in Riga and 46 employees in Daugavpils attended the course.

Psychologist carried out the psychological-physiological assessment for machinists and their assistants. Additionally, psychological-physiological assessment for dispatchers and station masters on duty was commenced.



Traffic safety



*In 2008, the manager of the public infrastructure State Joint Stock Company **Latvian Railway**, that is carrying out the technological processes mentioned in the 5th paragraph of the 3rd Clause of the Railway Law (construction of the technical equipment of railway infrastructure, repairs and technical maintenance of infrastructure, repairs of the rolling stock and shunting works), received the traffic safety certificate in State Railway Technical Inspection.*

It approved that the technological processes, inner documentation and applicable normative in *Latvian Railway* are developed in accordance with normative acts on the railway technical maintenance. Railway experts are trained according to the Railway Law and the rule of the Cabinet of Ministers No 360 *Rules on Railway Experts* and the inner control system of the train traffic safety in the company can provide operation in railway field according to the demands of safety.

Latvian Railway as the manager of public infrastructure in the year 2008 has considered and given opinion on the accordance of the rolling stock units to the conditions of railway network to the following carriers: JSC *Baltijas Ekspressis*, JSC *Passenger Train*, *Gulbenes – Aluksnes banitis* Ltd.

In 2008, *Latvian Railway* continued modernisation of hot-box detection system and modernisation of signalling systems in East-West railway corridor, as well as completed several other projects on modernisation of train traffic safety, signalling and communication systems. The most important objects completed in 2008:

- Microprocessor operating system *Dialog* was implemented in the central dispatcher post in sections Riga – Jelgava and Riga – Tukums-1, instead of traffic management equipment of relay type;
- In D park of Daugavpils station electrical centralisation of turnout junction was installed, which allows not using the manual control of turnouts, and reduces the possibility of mistakes caused by the human factor. Thus, the traffic safety was increased in the largest marshalling yard in *Latvian Railway*;
- Within the modernisation projects, the work on creation of unified train control dispatcher centre was commenced.

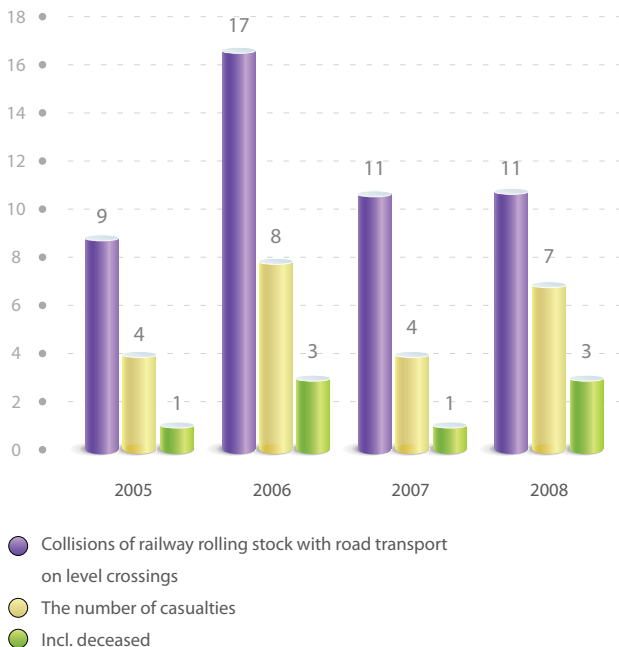
The average evaluation of the geometrical condition of railway tracks in 2008 was two times higher than it was in the year 2000, because new track repair equipment was purchased, and two projects implemented – *Replacement of Track Turnouts in East-West Railway Corridor* and *Reconstruction of Railway Tracks* during the past years.



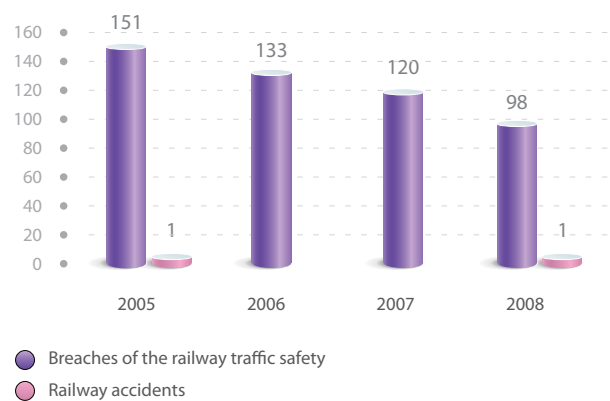
The risk of accidents on level crossings is high, therefore in 2008 the work for improvement of signalling systems in level crossings continued. Implementation of video control and remote control systems proved right in practice. These systems allow controlling the condition of signalling and automatic barriers, as well as to notice any damages of the system, so that in case of necessity it would give warning or stop the train. Besides, the old optical type signal light heads are replaced with light-emitting diodes, which decrease the possibility of damages and improve visibility of signals. Now 50% of automatic signal lights on level crossings are equipped with light-emitting diode heads.

The number of railway traffic accidents is decreasing, however, *Latvian Railway* is constantly considering improvement of the traffic safety.

The number of collisions of railway rolling stock with road transport on level crossings.



Railway traffic accidents



Environment protection



*The work on environment protection in State Joint Stock Company **Latvian Railway** is connected not only with providing of execution of different normative acts, but also with lessening of the impact on environment caused by the economical operation of the concern, as well as improvement of environment.*

In the year of the account the Environment Protection Programme was developed, which is a document of long-term planning, and is a basis for preparation of environment protection annual plan. The aim of the programme is to put into effect the Environment policy of the concern, and the prior measures for environment protection (for the period 2009-2020) are set in this programme.

In 2008, several environment protection events were carried out (the total cost 2, 5 millions Lats - 1,8 millions Lats in structural units of *Latvian Railway* and 0,9 millions Lats in subsidiary companies).

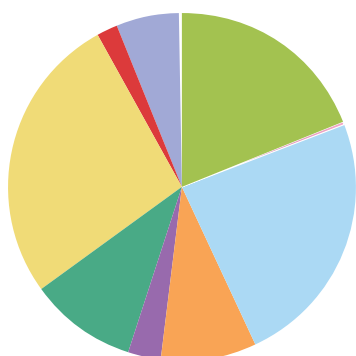
Expenditures of funds:

- **Providing of train traffic safety and fire security** (repairs and modernisation of level crossings, repairs of the turnout decontamination devices, maintenance of right of way, including cutting out of bushes, mowing of grass, garbage collection and removal of other flammable materials);
- **Noise reduction** (grinding of rails and turnouts, capital repairs of level crossings with laying of rubber surfacing, noise measurements);
- **Protection of atmosphere** (monitoring of air quality and testing of emission, works with heating and ventilating systems);
- **Waste management** (waste of oil products, waste containing oil products, utilisation of soil polluted with oil products, as well as collection of useless electronic devices, and utilisation of other hazardous waste);
- **Soil and groundwater protection** (rehabilitation and modernising of polluted areas, decontamination of railway sections from pollution with oil products, replacement of diesel locomotives with special devices to prevent leakage of oil products, renovation of surfacing of the territory, reconstruction of fuel and fuel base depots according to demands of environment protection);
- **Events of environment protection of general significance** (replacement of equipment containing dangerous substances, receiving or altering of B category contaminating activity permits, preparation of informative materials);
- **Economy of fuel and other energy resources** (repairs of buildings and roofs, replacement of windows, modernisation of outside lightning);
- **Water protection and rational use of it** (remaining of hydrological regime for railway track in adjacent territories, works connected with sewerage and water-pipe systems, installing and repairs of drainage systems);
- **Renovation of protective planting for railway.**

Successfully implementing the environment policy of the concern, each year the consumption of fuel and emission of contaminating substances from diesel-engine locomotives in the air have been decreased. Therefore, since 2000, contamination has been decreased per 18%, which is important investment in improving of environment quality.

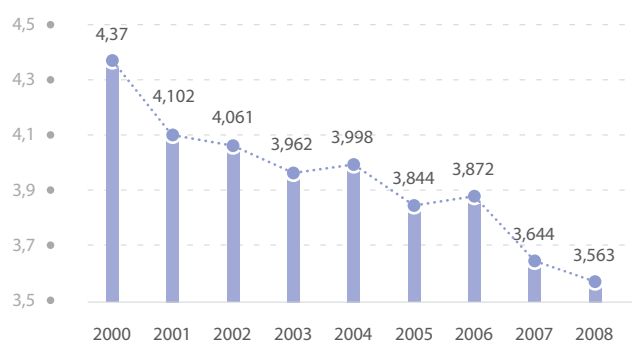


The use of financial resources for environment protection in *Latvian Railway* in 2008

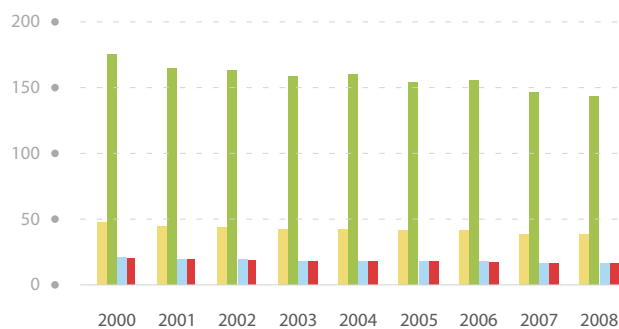


- Assurance of train traffic safety and fire security - 24%
- Management of noise and vibrations - 9%
- Atmosphere protection - 3%
- Waste management - 10%
- Soil and ground water protection - 27%
- Events of environment protection of general significance - 2%
- Economy of fuel and other energy resources - 6%
- Water protection and rational use of it, remaining of hydrological regime - 19%
- Repairs and renovation of protective planting for railway - 0,26%

Specific consumption of diesel to 1000 tonnes/kilometre (kg)



Emission of contaminating substances from diesel-engine locomotives in the air to 1000 tonnes/kilometre (kg)



	2000	2001	2002	2003	2004	2005	2006	2007	2008
CO	46,759	43,891	43,453	42,393	42,779	41,131	41,43	38,991	38,119
NO _x	173,052	162,439	160,816	156,895	158,321	152,222	153,331	144,302	141,08
HC	20,32	19,074	18,884	18,423	18,591	17,875	18,005	16,945	16,566
PM	20,015	18,787	18,599	18,146	18,311	17,605	17,734	16,689	16,316

International passenger traffic



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

In 2008, the ratios of international passenger traffic were the following:

- 0,366 millions passengers carried;
- in comparison with the year 2007, the number of passengers carried has decreased per 5,7%;
- the turnover of passengers is 86,4 millions passengers/kilometre;
- in comparison with the year 2007, the turnover of passengers has decreased per 7,8%.

For international passenger carriages three passenger trains formed in Latvia are used. (In 2007 Latvian Railway formed six passenger trains, of which in one line Riga – Simferopol – Riga ran only in the summer period.)

Two trains ran in line Riga – Moscow; one train ran in line Riga – Saint Petersburg – Riga. In trains No 2/1 Riga – Moscow – Riga and No 38/37 Riga – Saint Petersburg – Riga sleeping cars of higher comfort were included. These rains also have a business class compartment. Besides these trains, another train formed in Lithuanian railway ran in the territory of Latvia in transit line Vilnius – Saint Petersburg – Vilnius.

Since April 25, 2008, the passenger traffic between Latvia and Estonia is renewed. Three pairs of diesel-engine trains run in line Riga – Valga – Riga. The line is provided by the Joint Stock Company *Passenger Train*.

To provide the clients a better informative service, interactive list of international passenger trains, which is placed in the *Latvian Railway* homepage, was created. Clients are offered to receive *on-line* information on international train traffic in Latvia, Lithuania, Estonia, and CIS countries. It is also possible to find out information on unoccupied seats in these trains and the ticket price. Information is available in three languages (Latvian, English, and Russian), the ticket price is given in Lats.

0,040 million passengers chose international passenger trains to commute within the territory of Latvia, which is per 7384 passenger or 15,4% less than in 2007. In the period of account the turnover of passengers in inland traffic was 9,1 million passengers/kilometres. In 2007 the number was 10,7 million passengers/kilometres, which is 15,0% less.

The average distance in the territory of Latvia in international passenger trains has decreased per 4,6 km (234,9 km).





On March 1, 2008, Joint Stock Company *International Passenger Traffic* interrupted its operation, but in SJSC *Latvian Railway* Department of International Passenger Traffic was formed.

According to the contract between The Ministry of Transport of the Republic of Latvia and SJSC *Latvian Railway*, since October 2, 2008, Joint Stock Company *Passenger Train* is no longer the structure of *Latvian Railway* (100% shares of *Passenger Train* belong to the State).

International co-operation



In 2008, State Joint Stock Company **Latvian Railway** continued and developed varied co-operation with foreign railway administrations, as well as different international railway unions and institutions.



In 2008, *Latvian Railway* actively participated in work groups (5 commissions and 2 regular work groups) of Organisation for Railways Co-operation (OSJD). Representatives of *Latvian Railway* participated in the activities of the Session of Minister's Convention and the Meeting No 43 of Conference of General Managers of OSJD. In the Meeting of Conference of General Managers of OSJD, *Latvian Railway* signed a contract on the rules of the use of passenger wagons in international traffic. Another contract signed was on the use of freight wagons in international traffic. Both contracts come into force on January 1, 2009. *Latvian Railway* also actively took part in study of reorganisation of the structure of OSJD and in the work of auditorial of basic documents of OSJD, as well as gave an essential input in the auditorial work of *Treaty on International Passenger Traffic* and *Treaty on International Freight Carriages*. *Latvian Railway* is a leading executor in eight issues of commissions and works groups of OSJD.

In the year of account *Latvian Railway* participated in organising of meetings, for instance, within the OSJD *Latvian Railway* organised four meetings of work groups: on developing of lists of passenger trains in international traffic, on the normative acts regarding the use of wagons, on power supply issues and on the issues of coding and information technologies.

In 2008, the managers and experts of *Latvian Railway* participated in the work of 48th and 49th sessions of the Railway Transport Board. Decisions on the most essential issues of the work and development of organisation were made.

In November, 2008, a plenary session of the International Co-ordinating Council on Trans-siberian Transportation in the Czech Republic was held, in which also representatives from the subsidiary company *LDz Cargo Ltd* participated.

At various times *Latvian Railway* participated in the exchange of experience with other railways on the railway development issues. Delegations from Russia, Lithuania, Azerbaijan, Estonia, Belarus and other railways were welcomed in Riga. In the year of account the first meeting of the work group of Latvia and Russia was held in Russia, but the second meeting is planned to be held in January, 2009, in Riga. The work group experts developed proposals for the rules on transfer and reception of rolling stock, freight trains and containers in border stations.

On December 2, 2008, in Pärnu the Chairman of the Board of *Latvian Railway* Uģis Magonis and the Chairman of the Board, Executive Director of the Stock Company *Eesti Raudtee* Kaido Simmermann signed Agreement on organisation of railway carriages. This Agreement determines the procedure how the passenger and freight train traffic is organised between the border stations of Latvia and Estonia (Lugazi – Valga), and the technology, how the railway of both countries receive and transfer the rolling stock, freight and containers.



Since 1992, *Latvian Railway* is active member of the International Union of Railways (UIC). On the end of 2008, UIC united more than 170 railways and companies from 5 continents. Representatives of *Latvian Railway* regularly participated in the work, conferences and work groups of the General Assembly of UIC, for instance, on the issues of environment and safety, on tariffs in the East-West transit corridor. They also participated in the special work group on nonstandard carriages, and in seminar on the service of railway documentation.

To favour a closer co-operation with the European railways, *Latvian Railway* accessed the Community of European Railways (CER) in 2003. In 2008, our representatives took part in the work of General Assembly of CER, in work groups of infrastructure, freight carriages and passenger carriages, in the meetings of CER assistants, in meetings of communication managers and staff managers, in the work group *Customs* and in the conference on the latest directives of the EU in international passenger carriages. Several meetings with the management of CER were held also in Riga, Brussels, Paris and Berlin.

For harmonisation of the IT sphere with the EU for the demands of the technical specifications of mutual availability performance, the leading experts from *Latvian Railway* involved in the activities on the level of the Baltic State region and Europe to adjust gradual implementation of the demands of the regulation of the EC on TAF TSI. As a result for preservation of the 1520 mm railway system is meetings in the work group of Estonia, Lithuania and Latvia (formulation of the position of EU-3 community), progression of the issue in the work group of European Railway Agency (ERA 1520) and the seminar of OSJD on implementation of TAF TSI. Also very active lobbying of interests of *Latvian Railway* took place in CER and UIC. In the result the participation fee of *Latvian Railway* is reduced according to the percentage of freight traffic turnover on the level of the EC, and not according to the initial settings of the EU on the participation fee from all total freight carriages.

Since 2000, *Latvian Railway* is member of the International Railway Transport Committee (CIT). CIT unites more than 200 partner organisations 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 are applied

(COTIF). Implementing the common project of CIT and OSJD *Interoperability of CIM/SMGS International Transport Rights*, experts from *Latvian Railway* actively participated in development of delivery note and carrier's statement of the united CIM/SMGS, as well as reported in the international seminar *Review of Complaints of CIM/SMGS*, organised by CIT. The seminar was held on November 25, 2008, in Berne. In September, 1999, *Latvian Railway* entered the International Organisation for Collaboration among Railway Police and Safety Institutions (COLPOFER) to solve the safety issues in the field of railway carriages more successfully. In 2008, representatives of *Latvian Railway* participated in work groups *Contra-terrorism* and *Safety of Freight Carriages*, as well as in conferences, acquiring the newest tendencies and examples from other railways. There have been several experience exchange trips regarding the safety issues with participation of representatives from *Latvian Railway* and railway administrations of the neighbouring countries.



Maintenance and Development of Real Estate



Technical management Department Real estate Technical maintenance unit organized reconstruction in facilities according to LDz 2008 budget.

Reconstruction of Real estate facilities

Commissioned buildings and structures after capital repairs:

- Reconstruction of building heating system on station Rezekne-2;
- Capital repair of Jelgava station building is completed;
- Elevated passenger platform on stop Dendrarijs is constructed;
- Overhaul of fly-over's elevated track No.12 was executed.

In the reported period according to Regulations No.923 of 18 December 2007 by Cabinet of Ministers „Regulations on compulsory secured state maintenance railway infrastructure facilities and the order of their security“, equipment of bridges and railway stations with security infrastructure (design, fencing, video surveillance, security and fire alarms, announcements, security modules, bio-toilet) has begun.

In 2008 a lot of attention was paid to improvement of work conditions of railway employees by regular repair of rooms, the most important being repair of interior, renovation of heating junctions and water closets. Production facilities have got repaired roofs and new windows. A lot of works were made to upgrade engineering communications.

In Regional maintenance section one of the biggest works was running repairs of service building of Jelgava signalling and communication department.

In Daugavpils building and structure maintenance section running repairs of Wagon technical inspection centre in Krustpils station executed.

In Riga maintenance section running repairs were made in rooms of Wagon technical inspection centre building and Liepaja Wagon technical inspection centre.

In Daugavpils maintenance section Rezekne Wagon technical inspection centre building was repaired and insulated.

In Riga track department the roof of the production warehouse was repaired.

In Jelgava track department boiler house building CM 9 in Jelgava station was repaired and the rooms in Ventspils were repaired.

In Daugavpils track department the buildings on section line 15 in Zilupe station and the rooms in heating building on section line 11 in Griva station were repaired.

In Riga signalling and communication department running repairs were made in rooms of contact lines and power supply in traction substations (25 facilities).

In Jelgava signalling and communication department running repairs were made in rooms of Jelgava communication building in Jelgava, Liepaja and Ventspils communications centre.

In Daugavpils signalling and communication department the roof of Krustpils station power supply production base was repaired and rooms in Daugavpils station were refurbished.

In order to improve work conditions of employees and reduce costs, it was decided to replace the outdated employee warehouses and buildings with unified modules, which can be moved to other place when necessary.



In Daugavpils building and structure maintenance section 12 modules were installed. In Regional maintenance section 12 modules installed.

In 2008 the inventory of LDz water supply, production waste water sewage and waste water cleaning equipment executed. In the result all LDz water and sewage economy is studied.

Real Estate Registration Unit

Real Estate Registration Unit continued to gather information about LDz real estate, as well as organized register and topographical measurements, elaboration of land border set projects, arrangement of documentation and its registration in State register information system, approval of rights of property in Land register.

In the reported year the following main tasks were completed:

- Registered land area in Land register for Ministry of Transport – 250,1439 ha in total;
- Registered lands in Land register – 24 pieces;
- In Riga territory land border set projects with total area of 120 ha were elaborated;
- 36 buildings and structures registered in Land register for LDz;
- Topographical measurements in railway right of way on Latvian territory were executed in 45 objects with total area 1857,4 ha.

Parallel to gathering information about properties, works were performed with municipality Territory planning (26 city or district plans and 2 region plans). In order to evaluate and keep state and LDz interests in corresponding territory, the experts of the Unit continue to elaborate planning conditions and prepare reports of elaborated planning editions and materials on right of way borders in digital form.

Map department keeps centralised infrastructure data maintenance and insures digital data login for everyday use by real estate managers, technical services and administration. At the moment quick digital data login is insured for Real estate registration unit specialists, including those in Track departments. With the intention of solving this issue, a business plan called "Ensuring of Real estate information system existing data maintenance and exchange" is being elaborated, which foresees also update of infrastructure data.

In order to improve process of land and building property rights structuring, as well as everyday management of infrastructure objects, Map department keeps and upgrades:

- Graphic parts of real estate objects (lands, buildings, structures), rail plans in stations and sections;
- Digital map of railway inner system rail track picketing;
- Inspection of quality of topographical plans measured with tools and their arrangement in plane-tables.

The update of aero photo information maps in 1:2000 scale had commenced for all publicly used railway rights of way and nearby maintained railway territory.

In order to arrange information about location of electrical and communication cables, the collaboration with technical services was established, therefore ensuring incorporation to United map system. In cooperation with Latvian Geospatial information agency, municipalities, measurement enterprises and railway project units a large data base is being regularly updated.



Charity



- Irlava Children's Home
- Medumi Special Boarding School
- Rauda Special Boarding School
- Latvia Children's Fund
- Latvian Association of Foster Families
- Latvia Orphan Foundation
- Children's Fund "Attistiba"
- Riga Disabled Persons Association "Mozums"
- Disabled Persons Association in Aluksne District
- Crisis centre of Auce Latvian Association "Namiņš"
- Orphan Association "Saules bērni"
- Bauska Association of Disabled Persons
- The Social Organisation "Cerību sparni" for Children in Need
- Association for Latvian Children with Physical Disabilities
- Support Centre for Children with Special Needs in Aluksne "Saulstarīni"
- Charity Fund "Sparni"
- Open Public Foundation "Children's Health Our Future"
- Deaf Supporting Foundation "Klusums"
- Riga Special Boarding School No 4
- Foundation "Aktīvās darbnīcas fonds"
- Association "Centre of Ethnical Culture "Sūti""
- Daugavpils Association of Creative Intelligence "Dina-Art"
- Support Fund for Creative Group of Latvian Theatres
- Association of Youth Culture and Aesthetical Education
- Liepāja Cultural Association "Gaudium"
- Association of Business Education "Junior Achievement – Latvia"
- Student Parliament of Riga Technical University
- Valmiera Choir of Repressed Persons "Baltie bērzi"
- National Library of Latvia
- Latvian Deaf Sports Federation
- Committee of Paralympics of Latvia
- Riga Dom Choir School
- Latgale Transport and Telecommunication Technical School
- Riga Railwaymen School
- Railway Transport Institute of Riga Technical University



Financial report



Independent Certified auditor's report

To the Shareholder of the State *JSC Latvijas dzelzceļš*
Reg. No. 40003032065



Report on financial statement

We have audited the accompanying financial statements of the *SJSC Latvijas dzelzceļš* for the year 2008, as set out on pages 10 to 37. The audited financial statement includes balance as of December, 31, 2008, calculation of profit or loss in 2008, report on changes in capital assets and cash flow, as well as the summary of significant accounting principles and other explanatory information in the attachment.

The management's responsibility for the preparation of financial statement

The Management is responsible for the preparation of this financial statement and the presentation of fair information according to The Annual report law of the Republic of Latvia. The responsibility includes the creation, implementation and maintenance of internal control that ensures financial statement without essential irregularities caused by fraud or errors, providing preparation and fair information, the selection and maintenance of the appropriate accounting policy, as well as making accounting calculations according to circumstances.

Responsibility of Auditor

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of *SJSC Latvijas dzelzceļš* at December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with The Annual report law of the Republic of Latvia.

Report on consistence of the management's statement

We have reviewed the management's statement for 2008 as set out on pages 7 to 9 and we have not found any essential irregularities between the financial information in the management's statement and financial report for 2008.

Limited partnership „S.Vilcānes audits”
Commercial company of Certified auditors /license No.88/
Sandra Vilcāne
Certified auditor /certificate No. 30/, director

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

Riga, Latvia
June, 16, 2009



Balance of State JSC "Latvijas dzelzceļš" as at 31 December 2008 (in LVL)

ASSET	at 31.12.2008.	at 01.01.2008.
1. Long-term investments	251 391 376	233 985 214
1.1. Intangible investments	979 175	675 237
1.2. Capital assets	241 310 477	213 161 015
1.3. Long-term financial investments	9 101 724	20 148 962
2. Current assets	35 474 021	27 751 066
2.1. Inventories	15 605 956	13 949 143
2.2. Debtors	14 280 324	12 777 249
2.3. Cash	5 587 741	1 024 674
Balance	286 865 397	261 736 280
LIABILITIES		
1. Shareholder's equity	116 524 327	128 380 360
1.1. Share capital	90 168 321	90 168 321
1.2. Reserves	24 922 272	17 794 514
1.3. Retained profit of the year of account	1 433 734	20 417 525
2. Accruals	16 366 343	9 660 308
3. Creditors	153 974 727	123 695 612
3.1. Long-term creditors	121 354 660	89 256 016
3.2. Short-term creditors	32 620 067	34 439 596
Balance	286 865 397	261 736 280

Chairman of the Board

Member of the Board

Member of the Board

Member of the Board

Member of the Board

Member of the Board



U. Magonis

M. Gavars

A. Strakšas

Ē. Šmuksts

A. Šteinbriks

E. Kočāns

Profit or loss statement of State JSC "Latvijas dzelzceļš" for the year 2008 (in LVL)

(method of turnover costs)

1.	Net turnover	141 741 197
2.	Costs of production of sold output	(117 316 326)
3.	Gross profit or loss (from turnover)	24 424 871
4.	Administration expenses	(15 926 177)
5.	Other income from economic activities	12 193 956
6.	Other costs of economic activities	(13 687 540)
7.	Income from securities and loans, that form long-term investments	2 075
8.	Other interest and related income	341 826
9.	Interest payments and related expenses	(3 050 868)
10.	Profit or loss prior to extraordinary items and taxation	4 298 143
11.	Extraordinary income	5 714
12.	Extraordinary costs	(257)
13.	Profit or loss prior to taxation	4 303 600
14.	Enterprise income tax	(1 198 446)
15.	Deferred enterprise income tax	(1 232 870)
16.	Other taxes	(438 550)
17.	Profit or loss of the period of account after taxation	1 433 734

Chairman of the Board

Member of the Board

Member of the Board

Member of the Board

Member of the Board

Member of the Board



U. Magonis

M. Gavars

A. Strakšas

Ē. Šmuksts

A. Šteinbriks

E. Kočāns



LDz Cargo Ltd



BOARD

Ēriks ŠMUKSTS – Chairman of the Board (till 01.01.2008.)

Guntis MAČS – Chairman of the Board (since 02.12.2008.)

Vladimirs GRJAZNOVS – Member of the Board

Māris GAVARS– Member of the Boards (till 01.12.2008.)

Inese KLEINBERGA – Member of the Board (since 01.04.2008.)

Aleksandrs KAZAČKOVŠ – Member of the Board

Andris REĶIS – Member of the Board (since 02.12.2008.)

Freight traffic LDz Cargo Ltd



Main activities

LDz Cargo Ltd was founded on July 5, 2007. The main activities of the company are railway freight traffic (local and international traffic) and interconnected services. Because of the successful co-operation with business partners, as well as professional experts working for the company, *LDz Cargo Ltd* has become one of the largest freight carriers. The company also has the highest efficiency of labour in the European Union.

In the beginning of the year 2008 *LDz Cargo Ltd* founded a subsidiary company *LDz Cargo Logistics Ltd*. Its function is to broaden the range of railway freight traffic services and to offer to their clients unified intermodal service that includes the use of different types of transport and infrastructure, to provide inland and international transportation schemes, so-called "from door to door" system.

Main values

The main value of the company is its employees and their professionalism, loyalty and precision. Each employee can do the job that is the most suitable for him/her, input, skills and possibilities of each worker has been evaluated, thus motivating for career. Due to experience of employees, the company can increase the volume of freight, to develop the field of carriages and to work out new plans of development for the future.

In the end of the year 3027 people worked for the company.

The company has more than one thousand strategically important clients, while the total number of clients is more than three thousands. The company has persistent and long-lasting co-operation with partners from CIS countries, Central Asia, Western countries and the Baltic region. The company operates in SMGS and CIM environment.



Statistics

LDz Cargo Ltd provides its services in 73 stations, including 9 seaport stations. The company owns 4991 freight wagons, 125 locomotives and 55 shunting locomotives.

In the end of the year 2008 *LDz Cargo Ltd* maintained:

Type of wagon	Units
Covered wagons	1288
Universal flatcars	74
Gondolas	1125
Cistern wagons (4 axle)	1064
Cistern wagons (8 axle)	153
Isothermal wagons	27
Refrigerator wagons	61
Refrigerator wagons (servicing)	16
Cement hopper wagons	119
Corn hopper wagons	643
Flatcars for carrying containers	417
Transporters	4
Total	4991

Volumes of freight carried

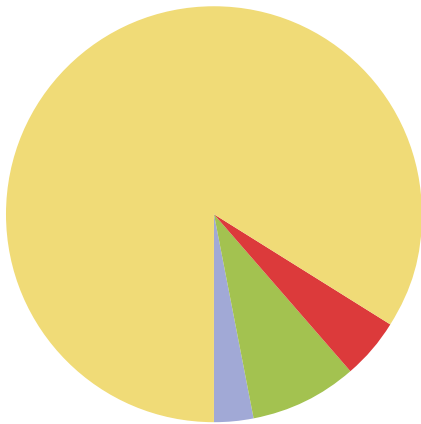
In 2008, the company carried 56,061 million tonnes of freight, which in comparison with the year 2007, is increase per 7,5%.

The most carried freight was oil and oil products, coal, chemical freight and ferrous metals. Container carriages in the year of account decreased per 4,7%, if compared to the year 2007. Total 52759 TEU container units were carried.

The closest co-operation was with Russia, Belarus, Estonia, Lithuania, Ukraine, and Kazakhstan.

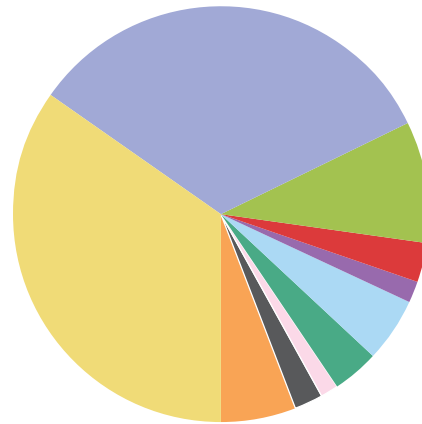
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Freight traffic in 2008



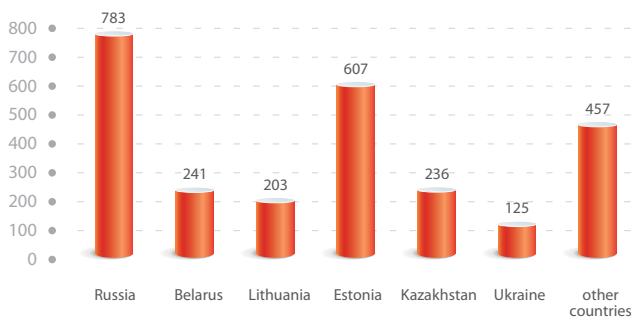
● Import carriages, incl. through seaport stations	- 84%,
● Export carriages, incl. through seaport stations	- 4,7%,
● Terrestrial transit	- 8,2%
● Inland carriages	- 3%

Proportion of carried freight in 2008



● Oil and oil products	- 34,8%
● Coal	- 33,1%
● Artificial fertilizers	- 9,3%
● Mineral substances	- 3,2%
● Timber	- 1,6%
● Chemical freight	- 5%
● Ferrous metals	- 4,7%
● Sugar	- 0,4%
● Corn and breadstuff	- 2,2%
● Other	- 5,6%

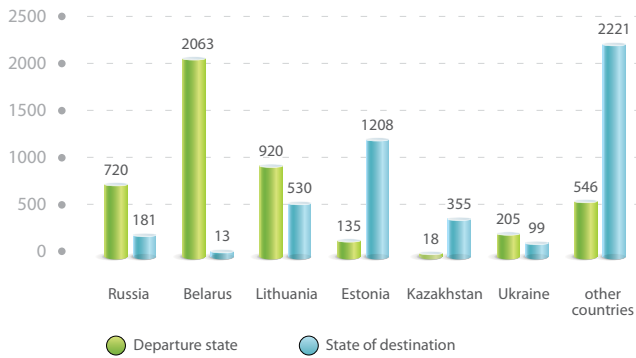
Terrestrial transit in 2008 (thousands tonnes)



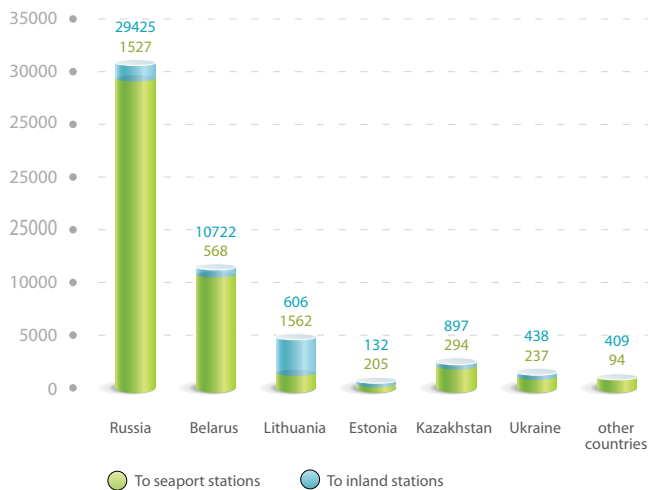
The number of carried containers in TUE units



Terrestrial transit in 2008 (thousands tonnes)



The volume of import freight traffic in 2008 (thousands tonnes)





JSC Pasažieru vilciens

BOARD

Reinholds PELŠE – Chairman of the Board

Gatis KAMARŪTS – Member of the Board

Ivars ZAĻAIS – Member of the Board

Edgars KREITS – Member of the Board

Inland passenger carriages

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

In the period of account (from January 1 – October 2, 2008) passenger carriages in short-distance traffic with electric trains were carried out in four railway sections: Riga – Skulte, Riga – Aizkraukle, Riga – Jelgava and Riga – Tukums.

Routing of passengers with diesel-engine trains is provided between different regions of Latvia and the capital city. Passenger carriages with diesel-engine trains are provided in eight railway sections: Riga – Sigulda – Valmiera – Lugazi – Valga, Riga – Gulbene, Riga – Krustpils, Riga – Krustpils – Rezekne – Zilupe, Riga – Krustpils – Daugavpils, Riga – Jelgava – Renge, Riga – Jelgava – Liepāja, and Riga – Ventspils.

In 2008, Joint Stock Company *Passenger Train* took several measures to improve passenger service:

- On April 25, 2008, the line Riga – Lugazi was extended until Valga (Estonia). The line was renewed after interval of 7 years.
- On August 30, 2008, the line Riga – Ventspils with train stops in stations Sloka, Tukums, Kandava, Sabile, Stende, Spare, Ugale was renewed. A three-wagon diesel-engine train of improved comfort runs the line in 2 hours and 45 minutes. There are 210 seats in this train; television receivers and espressos available for passengers in each wagon.
- On June 1, 2008, new single ticket for trains and Riga public transport was implemented. This ticket is valid for travelling in Joint Stock Company *Passenger Train* in-

land trains and Riga public transport: buses, trolleys and trams.

- Agreement with the local government of Riga was realised regarding its order for passenger carriages within the territory of Riga city. From May 25 to August 31, 2008, additional electric trains ran in line Riga – Vecāki. From September 1 to December 31, 2008, additional electric trains ran in line Riga – Salaspils. Throughout the year (in working days) additional electric trains ran in line Riga – Priedaine.
- Reconstruction of diesel-engine train wagons (total costs 1,923 million Lats) and electric train wagons (total costs 1,002 million Lats) was carried out.
- In September renovation of high comfort four-wagon diesel engine train was completed. There are numbered seats, television receivers and espressos in each wagon.
- In 2008, the project *Modernisation of Electric Train Head* financed by the European Regional Development Fund was completed. The renovation was carried out by the wagon repairs centre *Zasulauks*.
- In 2008, the project *Capital Repairs of 22 Electric Train Wagons* was commenced. The renovation was carried out by the wagon repairs centre *Zasulauks*.
- Within the project *Modernisation of the Existing Electric Trains* (during three years) 68 electric train wagons were renovated (the total cost 13,7 million Lats). Reconstruction was carried out by Joint Stock Company *Rīgas Vagonbūves rūpnīca*. 75% of the total cost of the capital repairs and modernisation of trains was co-financed by the European Regional Development



Within the project Modernisation of the Existing Electric Trains (during three years) 68 electric train wagons were renovated (the total cost 13,7 million Lats)



*State Joint Stock Company
Passenger Train carried 22,255
million passengers*

Fund. As a result of modernisation the following work has been done: improved interior, individual seats, new windows, as well as improved lighting and heating systems. Doors with automatic footsteps provide easier boarding. The working conditions for machine operators were also improved, and new, up-to-date equipment installed for controlling of the work of machine operators. The renovated wagons can be maintained 15 years.

- The work on the essential project Feasibility Study of Purchase of New Electric Trains by the National programme of the European Regional Development Fund was completed. The aim of this project is to develop new strategy of implementation of the rolling stock of electric trains and diesel-engine trains, taking into account all necessary aspects of maintenance, exploitation, infrastructure, safety, environment and society demands

In the period of the account (10 months) State Joint Stock Company *Passenger Train* carried 22,255 million passengers. The total number of carried passengers in 2008 is 26,370 millions.



LDz infrastruktūra Ltd

BOARD

Ainis STŪRMANIS – Chairman of the Board

Valdemars DAĻECKIS – Member of the Board

Lolita SMILTĻIECE – Member of the Board

Marina KABAĻSKA – Member of the Board

Construction and renovation of railway tracks



The main task of the subsidiary company of State Joint Stock Company **Latvian Railway LDz Infrastructure Ltd** is construction and capital repairs of railway tracks, technical repairs of railway tracks, rail welding services, as well as repairs and technical servicing of railway track machines. The company was registered in the Register of Enterprises on December 8, 2005. Alterations in constitutive documents were done on July 3, 2007.

Structural units:

- LDz Infrastructure Ltd Riga department;
- LDz Infrastructure Ltd Daugavpils department;
- LDz Infrastructure Ltd Jelgava department;
- LDz Infrastructure Ltd Rail welding centre.

Characteristics of the company

The year 2008 was the first year after restructuring of *Latvian Railway*. Although due to delay of material (sleeper) supply in the beginning of the year it was not possible to commence the planned works in accordance to schedule, practically the whole volume of the year was accomplished.

Taking into account that in 2007 the company worked with partial load the volume of works in 2008 rapidly increased. Therefore the company had to hire and train additional 90 workers – railway track mounters and experts (bulldozer operators, machine operators etc). It must be noted that the personnel division accomplished this task in a very short period of time, and in March, 2008, structural units in Riga, Jelgava, and Daugavpils were made complete, in accordance to the demands of the technological process.

Now the management of the company is seeking possibilities to attract investment for renovation of mechanisation park in the period from 2009 to 2010, which involves purchase of freight trucks for carrying of instruments and equipment for objects, as well as possible replacement of machines in Jelgava and Daugavpils.

Reviewing the works carried out in 2008, it can be noted that last year the company replaced 68 track turnouts, carried out reconstruction of 87,7 km of A type railway tracks



Reviewing the works carried out in 2008, it can be noted that last year the company replaced 68 track turnouts, carried out reconstruction of 87,7 km of A type railway tracks, which includes replacement of railway grids, instalment of new rails, replacement of sleepers, repairs of bridges, culverts, drainage systems. Level crossings were equipped with rubber surfacing or concrete plates. The total turnover in 2008 has increased 2,5 times and reached 12,5 million Lats.

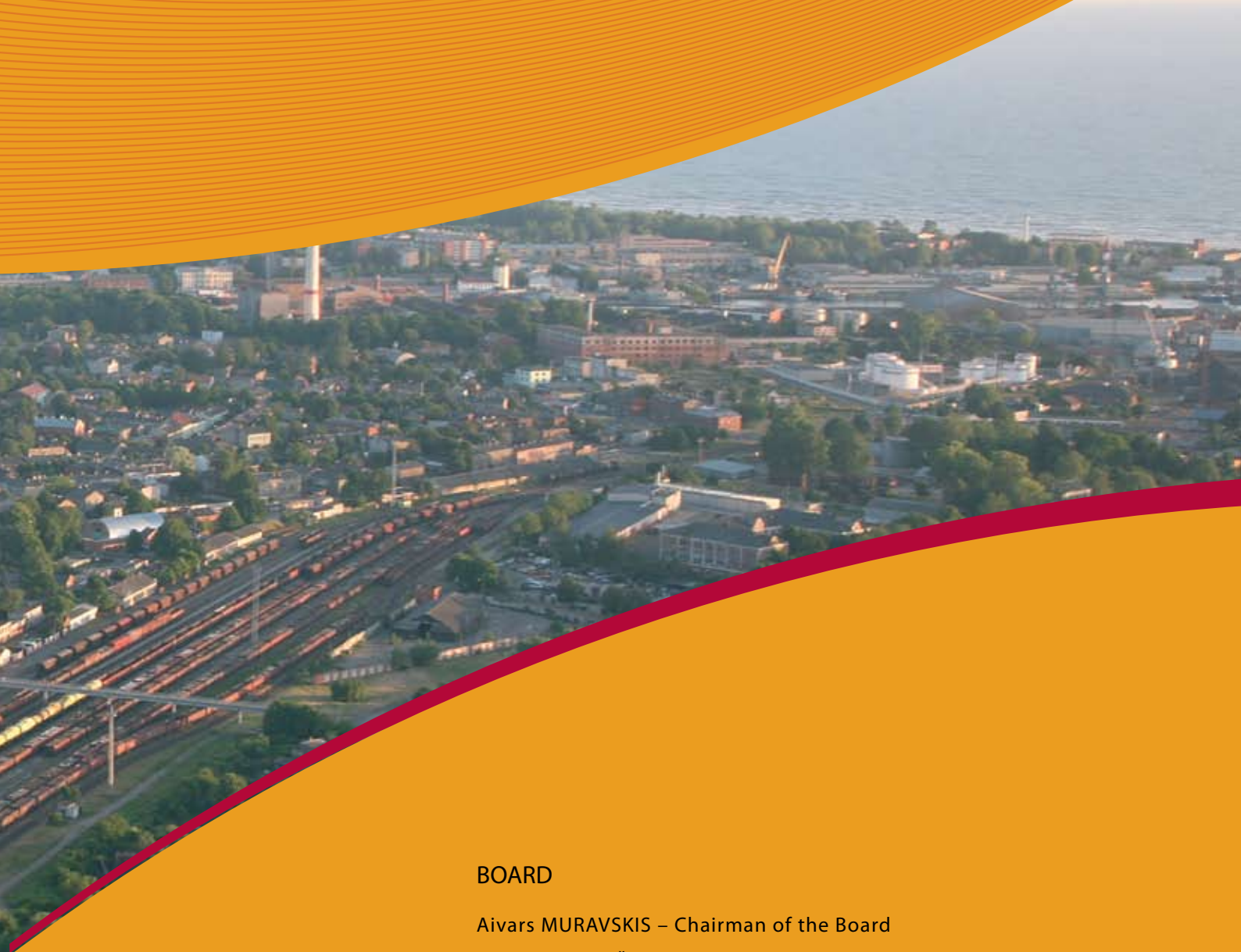
As to the long term development, the company continues to invest in professional training of staff. Co-operation with the Austrian company *Plasser & Theurer* is established. To ensure operation and fast servicing of machines from this manufacturer, 18 experts were trained last year. All of them have received a special certificate which approves that these experts have right to carry out repairs and maintenance of these machines. Now these employees are the only experts of such kind in Latvia.

LDz infrastructure Ltd continues to develop fast. In addition to execution of orders of *Latvian Railway*, one of the aims for the nearest future is to become the leading company in Latvia performing the railway track infrastructure services, and to broaden the range of clients. Co-operation with *Cemex Ltd* in Broceni must be mentioned as a successful example, where the project *Construction of KILN 5 railway spurtrack* is being implemented.

Before the year 2011 it is planned to complete acquirement of Cohesion Fund resources, which are largely invested in development of infrastructure of East-West railway corridor. We are looking forward to construction of high-speed railway corridor *Rail Baltica*, which would favour development of national economy in future.



LDz ritošā sastāva serviss Ltd



BOARD

Aivars MURAVSKIS – Chairman of the Board

Mārtiņš EMSIŅŠ – Member of the Board

Anatolijs GRIGORJEVS – Member of the Board

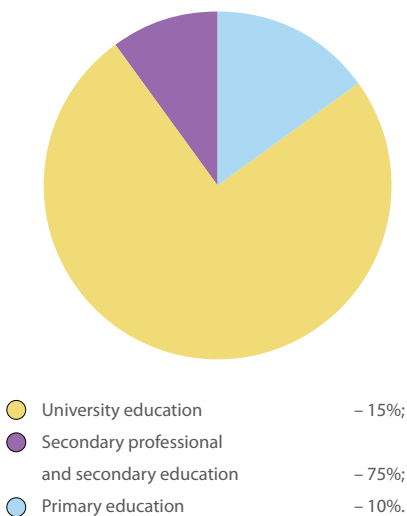
Genādijs RJAZANCEVS – Member of the Board

Aleksandrs ANTIPINS – Member of the Boards

Rolling stock



Division of employees per level of education:



In 2008, 21200 maintenance and repairs of diesel-engine locomotives were carried out in the structural unit of RSS Locomotive Repairs Centre



LDZ Rolling Stock Service Ltd. (RSS) is a subsidiary enterprise of SJSC Latvian Railway. It started its operation on July 5, 2007. The main directions of operation are repairs, service and maintenance of locomotives and wagons, equipping of locomotives, as well as storage and realisation of fuel.

RSS consists of two structural units:

Locomotive Repair Centre, that deals with:

- Technical maintenance, running, average and main repairs for freight, passenger and shunting diesel-engine locomotives;
- Technical maintenance and running repairs for track machines of the infrastructure;
- Procuring, storage and realisation of fuel.

Wagon Repair Centre, that deals with:

- Repairs of freight wagon depots and capital repairs;
- Repairs of freight wagon depots with prolongation of time of maintenance, and modernisation of it;
- Repairs of narrow-gauge passenger wagon depot;
- Repairs of wagon wheels with replacing of elements;
- Survey and repairs of wagon units and nodes, including automatic brakes and auto-couplings.

In the structure of RSS there are laboratories (located in Riga):

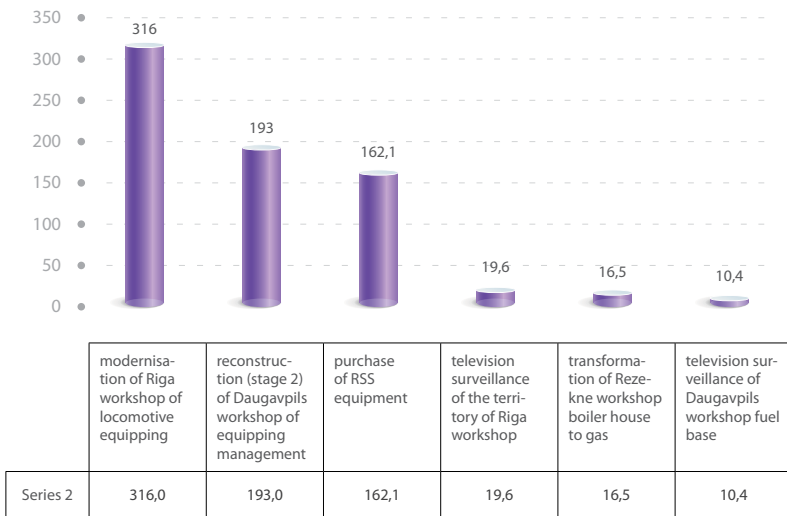
- Chemically-technical laboratory carries out quality assurance audit for purchased fuel, oil and grease as well as conformity of the aforesaid to the demands of technical conditions. Laboratory also deals with control of storage of greasers, testing of samples, everyday and periodical control of diesel-engine coolants, and materials for sand and fault detection according to the demands of standard LVS EN ISO/IEC 17025. Besides the existing, the measuring of work environment vibration was acknowledged in accordance with the demands of LVS standard and the rules of the Cabinet of Ministers;
- Laboratory of complex control and measurements carries out repairs and calibrating of geometrical (patterns, micrometres etc), pressure (manometers, thermometers and the like) and electronic parameter control (voltmeters, ampere metres, megommetres etc). In 2008, calibrating of more than 7600 measuring devices was carried out in this laboratory.

As to the number of employees, RSS is one of the largest subsidiary companies of *Latvian Railway*. In the end of the year 2008 1460 employees worked in RSS, 73% of which are men. The average age of employees is 45 years. The average salary in 2008 was 611,20 Lats.

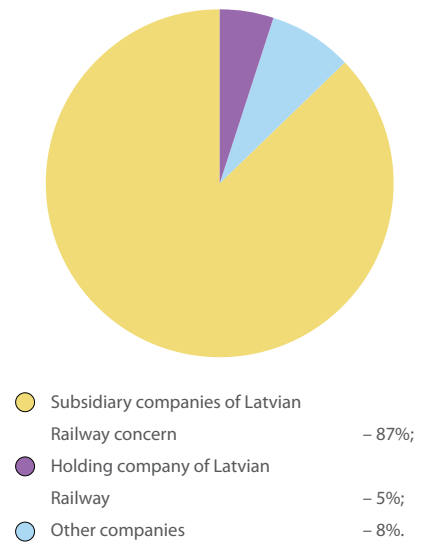
In 2008, 21200 maintenance and repairs of diesel-engine locomotives were carried out in the structural unit of RSS Locomotive Repairs Centre. Last year, in cooperation with other companies of the Latvian Railway concern a document *Concept of capital repairs, modernisation and purchase in the Latvian Railway concern for the years 2008 - 2013* was prepared.

Acquiring of regulations of maintenance and repairs of modernised diesel-engine locomotives takes place in the Locomotive Repairs Centre.

Investments; thousand Lats in 2008



Nett turnover in 2008



Administration and leading experts of RSS have gone through a process of debates regarding modernisation of 2M62U diesel-engine locomotives, using the variants of modernisation suggested by *General Electric, Kolomna Energy Service, LuganskTeplovoz* and *Caterpillar/Zeppelin* on the basis of Locomotive Repairs Centre.

In 2008, there was a negotiation with the management of *GE Transportation* and the Polish factory *Nowy Sonch* regarding the diesel-engine locomotive modernisation project. In March, employees of RSS welcomed the experts from *GE Transportation* in Riga and Daugavpils, where the training of the technical staff regarding modernisation of diesel-engine locomotives with the *GE SuperSkid* modules was carried out. The work on the technically more advantageous modernisation project for developing diesel engine locomotive 2M62U is continuing.

In 2008, 3453 wagons were renovated in Wagon Repairs Centre, including capital repairs of 153 freight wagons. In the structural unit Wagon Repairs Centre modernisation of freight wagon wheels (model 18-100) with deterioration proof elements in friction nodes (project 1698) was acquired. Also modernisation of 4-axle universal flatcars (model 13-401) and other projects were acquired. Another outstanding project, which is closely connected with observation of environment demands and adjustment of work environment, is reconstruction of wagon pre-painting and sand fining area. In the budget of 2009, funds are provided for carrying out of design works.

Nett turnover of RSS in 2008 was 83,3 million Lats.

Gross profit of RSS in 2008 was 3 million Lats.

The company in the period of account has invested 717,6 thousand Lats for reconstruction, modernisation and capital repairs, of which 316 thousand Lats were invested in modernisation of Riga workshop of locomotive equipping (this project will continue in 2009). After completing of this modernisation project, it is planned to invest in adjustment of Riga workshop of oil storage. These projects do not anticipate increase of profit, but are closely connected to observation of environment demands. After realisation of these projects the surrounding and work environment will be improved, thus providing up-to-date and technologically modern work conditions.

As to the safety of RSS fuel workshops, television surveillance systems were installed in Riga and Daugavpils bases. Also in 2009 it is planned to continue to equip the territories of repairs centres with television surveillance systems. In the further years it is planned to adjust fuel bases in Rezekne, Jelgava and Liepaja.

In 2008, 3453 wagons were renovated in Wagon Repairs Centre, including capital repairs of 153 freight wagons

Modernisation project of Rezekne fuel base is closely connected to modernisation of boiler house and adjustment of equipping management. Modernisation of boiler house anticipates replacing of black fuel oil with natural gas, as well as radical reconstruction of water system that would allow to save up financial means and to modernise technologies.

The decision of the Board dated October 29, 2008, No 31/274 *On plan of action regarding renovation of locomotive park* determines investment of 92 arterial freight locomotives in the share capital of RSS.



LDz apsardze Ltd

BOARD

Arnis MACULĒVIČS – Chairman of the Board

Railway security

On April 30, 2008, an Industrial security certificate was received

Subsidiary company SIA **Dzelzceļa apsardze (Railway Security Ltd)** of State Joint Stock Company **Latvian Railway** was founded in February 21, 2003. On December 17, 2007, name of the company was changed to SIA **LDz apsardze (LDZ Security Ltd)**. The basic activities of **LDZ Security Ltd** are security services and investigation. The company has received a special permit of second category No 800.

Quality management system is established in *LDZ Security Ltd* so that the company would be able to provide high quality services. In February, 2006, *LDZ Security Ltd* received ISO 9001:2000 certificate.

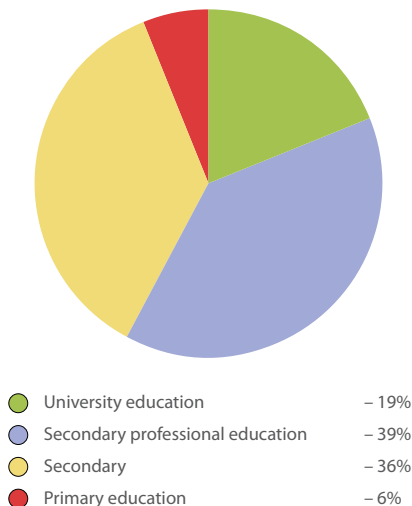
On April 30, 2008, an Industrial security certificate was received, and this expands the possibilities of providing security services. *LDZ Security Ltd* can provide services to those state institutions where it is necessary to deal with objects of state secrets.

The civil liability of *LDZ Security Ltd* is insured (500000 Lats), therefore the company is fully responsible for the safety of its clients and their possessory.

LDZ Security Ltd mainly provides its services to the companies of the concern, but it also has other companies, private persons, local government utilities and public organisations as its clients.

LDZ Security Ltd provides its services throughout the whole territory of Latvia. Highly qualified employees and modern technologies allow the company to offer a wide range of physical and technical security services. The company also provides consultations on the possible solutions of implementation of services.

The level of education



Operation

In the year of account the operation of *LDZ Security Ltd* was persistent and the company successfully continued its development. Turnover of the company in 2008 increased per 893070 Lats; nett profit was 27966 Lats.

The company has increased the number of its clients beyond the companies of the concern. Investments in implementation of technical security services proved right; the number of clients increased essentially, as well as the volume of provided services.

The company has participated in realisation of several large projects, providing the services of designing, installing and maintenance of security and fire-security alarm. The number of freight to be guarded in 2008 was persistent. Regardless of the fact that clients more often choose the services of technical security, the number of physical security services has also increased. In 2008, employees of *LDZ Security Ltd* detained 100% more lawbreakers than in 2007. It must be noted that attention is paid to preventive events to reduce the number of possible thefts.



Most important events in 2008:

- Winning the tender announced by Riga City Council on providing security services for a group of objects;
- Equipping of several objects important for the national safety with security systems, and providing of security;
- Groundwork for prolongation of the term of ISO 9001:2000 certificate;
- Implementation of the resource management software SAP;
- Improved technical equipment;
- Implementation of new product for technical security services:
 - Remote television surveillance;
 - Installing of access and control systems;
 - Installing of wireless television surveillance systems;
- 3 new units of operative response established;
- New wage system developed;
- New security control post in Valka was opened.

Staff of LDz Security Ltd

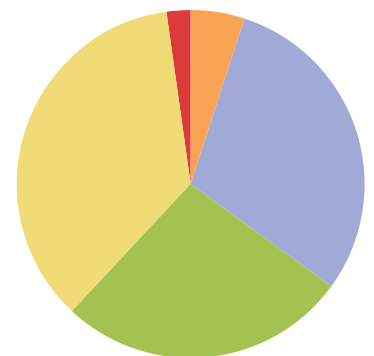
In the end of 2008, the company employed 381 workers. The average salary in the period of account was 464,90 Lats, which is 20% more than in 2007.

The company workers have to complement high demands. To start working in the company, applicant must have a security certificate, good knowledge of state language and the Russian language, as well as good skills of communication. In separate cases a gun licence is necessary. All employees must pass the exam to obtain a certificate of railway expert issued by the Technical inspection of *Latvian Railway*.

The company has provided for its workers good work conditions, for instance, facilitated service premises, all social guarantees, health insurance, and insurance in cases of accidents. Flexible salary system has been created that depends on the total ratios of the company and contribution of the employee.

Professional skills of employees are regularly evaluated, as well as training for professional development is organised. Training is organised in the company, in the training Centre of *Latvian Railway*, as well as in other appropriate educational institutions.

The average age



● Above 61	- 5%
● 50-61	- 30%
● 41-49	- 27%
● 22-40	- 36%
● Under 22	- 2%

Consolidated financial report



Independent Certified auditor's report

To the Shareholder of the *State JSC Latvijas dzelzceļš*
Reg. No. 40003032065



Report on consolidated financial statement

We have audited the accompanying financial statements of the consolidated report of the *SJSC Latvijas dzelzceļš* for the year 2008, as set out on pages 10 to 37.

The audited consolidated financial statement includes consolidated balance as of December, 31, 2008, consolidated calculation of profit or loss in 2008, consolidated report on changes in capital assets and consolidated cash flow, as well as the summary of significant accounting principles and other explanatory information in the attachment.

The management's responsibility for the preparation of financial statement

The Management is responsible for the preparation of this consolidated financial statement and the presentation of fair information according to The Consolidated annual report law of the Republic of Latvia. The responsibility includes the creation, implementation and maintenance of internal control that ensures consolidated financial statement without essential irregularities caused by fraud or errors, providing preparation and fair information, the selection and maintenance of the appropriate accounting policy, as well as making accounting calculations according to circumstances.

Responsibility of Auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the above mentioned consolidated financial statements give a true and fair view of the financial position of *SJSC Latvijas dzelzceļš* as at December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with The Consolidated annual report law and The Annual report law of the Republic of Latvia.

Report on consistence of the consolidated statement

We have reviewed the consolidated statement for 2008 as set out on pages 7 to 9 and we have not found any essential irregularities between the management's statement and the consolidated financial information in financial consolidated statement for 2008.

Limited partnership „S.Vilcānes audits”
Commercial company of Certified auditors /license No.88/
Sandra Vilcāne
Certified auditor /certificate No. 30/, director

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



Riga, Latvia
June, 17, 2009

Consolidated balance of State JSC "Latvijas dzelzceļš" as at 31 December 2008 (in LVL)

ASSET	at 31.12.2008.	at 01.01.2008.
1.Long-term investments	252 617 477	240 212 855
1.1. Intangible investments	1 000 326	1 153 661
1.2. Capital assets	251 269 701	238 645 153
1.3. Long-term financial investments	347 450	414 041
2. Current assets	75 203 774	45 256 570
2.1. Inventories	27 735 997	23 037 638
2.2. Long-term investments for future sell	10 882	
2.3. Debtors	17 142 927	12 511 060
2.4. Short-term financial investments		226 388
2.5. Cash	30 313 968	9 481 484
Balance	327 821 251	285 469 425
LIABILITIES		
1. Shareholder's equity	136 139 354	139 125 581
1.1. Share capital	90 168 321	90 168 321
1.2. Adjustment reserve of long-term investments		11 627
1.3. Reserves	32 168 376	18 136 382
1.4. Retained profit of the previous years	441 299	2 297 508
1.5. Retained profit of the year of account	13 353 520	28 290 205
1.6. Minority interests	7 838	221 538
2. Accruals	20 155 608	9 137 573
3. Creditors	171 526 289	137 206 271
3.1. Long-term creditors	121 806 811	94 102 477
3.2. Short-term creditors	49 719 478	43 103 794
Balance	327 821 251	285 469 425

Chairman of the Board



U. Magonis

Member of the Board



M. Gavars

Member of the Board



A. Strakšas

Member of the Board



Ē. Šmuksts

Member of the Board



A. Šteinbriks

Member of the Board



E. Kočāns

Consolidated profit or loss statement of State JSC "Latvijas dzelzceļš" for the year 2008 (in LVL)

(method of turnover costs)

1.	Net turnover	299 453 014
2.	Costs of production of sold output	(249 406 738)
3.	Gross profit or loss (from turnover)	50 046 276
4.	Administration expenses	(24 728 888)
5.	Other income from economic activities	13 576 488
6.	Other costs of economic activities	(18 086 820)
7.	Income from securities and loans, forming long-term investments	2 075
8.	Other interest and related income	879 589
9.	Interest payments and related expenses	(3 136 588)
10.	Profit or loss prior to extraordinary items and taxation	18 552 132
11.	Extraordinary income	16 143
12.	Extraordinary costs	(276)
13.	Profit or loss prior to taxation	18 567 999
14.	Enterprise income tax	(3 446 510)
15.	Deferred enterprise income tax	(1 321 581)
16.	Other taxes	(454 470)
17.	Minority interests	8 082
18.	Profit or loss of the period of account after taxation	13 353 520

Chairman of the Board



U. Magonis

Member of the Board



M. Gavars

Member of the Board



A. Strakšas

Member of the Board



Ē. Šmuksts

Member of the Board



A. Šteinbriks

Member of the Board



E. Kočāns

The most important events in 2008



From February 13 to February 15 the railway transport business forum *Strategic Partnership 1520: the Baltic Region* took place in Riga. Representatives of railway administrations from the Baltic States, CIS countries, as well as Finland and Poland participated in the forum. Altogether 300 delegations from 19 countries participated.



March 28. In the University of Latvia scholarships were granted for students who had prepared the best scientific works in the 2nd semester of 2007 – 2008.



April 2. The meeting of management and experts from *Rossijskije železnije dorogi (Russian Railways)* and *Latvijas dzelzceļš (Latvian Railway)*. The main topic was increasing of the volume of freight in transit corridor East-West.

April 10, Minsk. The meeting of the Chairman of the Board Ugis MAGONIS and his delegation with the Chairman of the Belarus railway Vladimirs ZERELLO. During the meeting the construction of the second railway track in section Indra – State Border and Bigosova – State Border was discussed.



April 17. First time in the history of Latvian Railway the prize The Vainglory of railway for 15 employees of the company.



April 25. The line Riga – Lugazi was prolonged up to Valga. In this day after the seven-year-pause a passenger train from the Riga Central Passenger Station went to Estonia.



May 8.

State Revenue Service announced Latvian Railway as the fourth largest taxpayer in the state. In 2008, 72, 098 million Lats were paid in taxes.



August 30.

Passenger traffic in line Riga – Ventspils – Riga was restored.

October 31.

The Chairman of the Board Ugis MAGONIS received the prize in the competition organised by Employers' Confederation of Latvia and The State Chancellery The Prize of Efficient Management.



December 2, Parnu.

The Chairman of the Board Ugis MAGONIS and the Chairman of the Board of the Joint Stock Company Eesti Raudtee Kaido SIMMER-MANN signed an agreement on organisation of railway carriages between the two countries.



December 12.

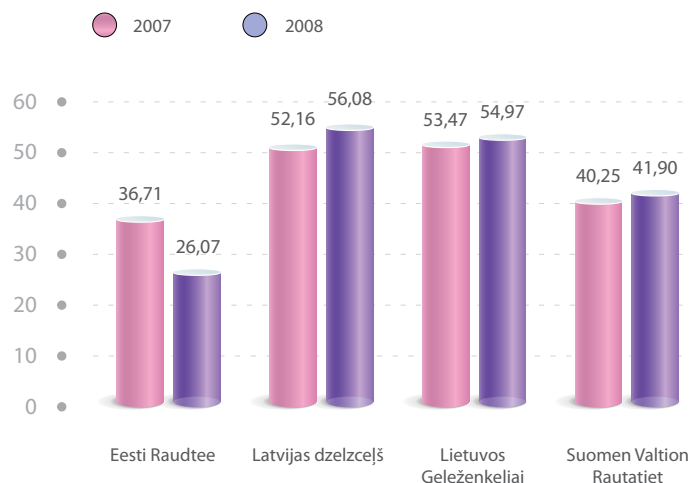
Visit of the President of the Community of European Railway and Infrastructure Companies (CER) Dr. Johannes LUDEWIG. During the visit, he met with the Minister of Transport Ainars SLESERS and the Chairman of the Board of Latvian Railway Ugis MAGONIS.



December 3.

The Chairman of the Board Ugis Magonis together with children from the Irlava children's home lit the Christmas tree in Riga Central Passenger Station.

In 2008 Latvian Railway was a leader in freight traffic in Baltic States



Latvian railway lines

