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In the reporting period considerable attention was paid to the professional development and social stability of the employees, thus promoting further economic growth of the company.



## REPORT FROM THE DIRECTOR GENERAL



### WORK IS DONE WELL

2002 was a special year for the history of the State Joint Stock Company *Latvijas dzelzceļš* – evaluation of the results of financial and economic activity confirms the fact that this year has been the most successful one during the last ten years.

It should be particularly noted that the good results are the common achievement of all our employees based on self-denying work. The hard work has resulted in rhythmic freight shipments, regular passenger services, safe train traffic and the leading position in transit shipments.

During the reporting period, 40.1 million tons of freight were shipped which is 5.8% more than in 2001. As a result, the railwaymen were awarded premia for the good performance. In total, 2.6 million lats were paid as premia. Profit and liquidity ratios of the company in 2002 were good, as well, enabling investment of more resources into the railway development.

The fact that we are still one of the biggest taxpayers in Latvia is a great satisfaction. More than 28 million lats were transferred to the state budget in the form of taxes and other payments.

The socially significant passenger services in the domestic railway traffic were provided in a fair way, still subsidized by the income from freight shipments. The number of passengers in domestic traffic increased by

9.8%, but the total number of passengers using domestic and international railway transport was almost 22 million.

### RESTRUCTURING IN PROGRESS

In 2002, restructuring of *Latvian Railway* continued, approaching to its goal – establishment of a holding company.

Economic and social philosophy of restructuring aims at the following:

- to ensure the competitiveness of the company in rail transit shipments;
- to guarantee train traffic safety;
- to develop the system of social security of the employees adequate for the conditions of market economy.

During the report period, complicated restructuring problems were dealt with, including the development of information technologies, drafting environmental protection policy of the emerging holding company, increasing traffic safety and improving personnel policy. Proposals with regard to amendments to laws and regulations were prepared in order to harmonise the national legislation in the sector of railway transport with the EU directives.

The first subsidiary enterprise of *Latvian Railway – Pasažieru vilciens* (Passenger train) successfully passed the first year of independent activity. The increasing number of passengers, modernisation of 62 electric

and diesel train carriages is a proof of that. 3.1 million lats were made available by the state to repair the rolling stock of passenger trains. The national policy in the area of railway transport is changing gradually, with more respect for the provisions of the Railway Law.

In 2002, major changes were introduced in one of the most significant railway junctions in Latvia – Daugavpils, where the centres of structural units for the repair of locomotives, freight cars, track and track machines were concentrated. With the aim of improving professional skills of the employees, the branch of *Latvian Railway Training centre* was established and a training class of locomotive crews arranged in Daugavpils, the latter being presently the most up-to-date in the Baltic States.

### REGULAR INVESTMENTS – GUARANTEE FOR THE FUTURE

Financial memoranda on the financing of four *Latvian Railway* projects from the ISPA funding were signed between the European Commission and the Republic of Latvia, providing for the investment of 150.9 million EUR into the development of railway infrastructure, the most part of the resources being a grant. This fact is an evidence for our ability to develop projects of good quality and to implement them in an appropriate way. Competition in the transit shipment market requires continuous availability of efficient,

## REPORT FROM THE DIRECTOR GENERAL

precise and comprehensive information at the disposal of the company management. Therefore implementation of the SAP project – introduction of the joint financial and economic information system – was commenced in 2002. This system, into which 2.2 million lats were invested, shall be introduced in all *Latvian Railway* structural units by the end of 2003.

### PRIORITY – SOCIAL SECURITY

Considerable attention in the reporting period was paid to the professional development and social stability of the employees, since in this way further economic growth of the company, provision of qualitative services and favourable social climate among the employees are promoted. On 8 March 2002, *General Agreement in Railway Branch* was signed between the Latvian Railwaymen Trade Union and the managers of five major companies of the branch, representing *Latvian Railway*, Joint Stock Companies *Pasažieru vilciens* and *Lokomotive*, as well as *L-Ekspresis* Ltd. and *Ūdensnesējs* Ltd., introducing radical changes with regard to relations between the employer and the employee. This *General Agreement* provides for equal social security for anybody employed in railway industry, notwithstanding the status of the company. Taking into account the requirements of the Latvian Railwaymen Trade Union, one of the priorities of the company is to raise the

salaries. The average salary of the persons employed in the basic activity of Latvian Railway in the reporting period increased by 11.9% and amounted 212.1 lats per month. We are going to raise the salaries of all the staff categories in 2003, as well.

An agreement on an extended health insurance package was signed with the insurance company ERGO-Latvija, resulting in the increased insurance premia and the number of services provided. Additional insurance of pensions was granted to more than 200 specialists working under high-risk conditions (engine drivers and their assistants, contact network fitters, dispatchers, freight train conductors and compilers, shunting station workers).

### LATVIAN RAILWAY – COMPETITOR AND PARTNER

In order to be a successful competitor in the business of transit traffic, the activity of collaboration partners shall be based on a common transport technology. *Latvian Railway* has effectively put this principle into practice, thoroughly maintaining and modernising the infrastructure of the East-West transit corridor and keeping up constructive dialogue with railway companies of other countries. In 2002, we took an active part in the activities of the International Union of Railways (UIC), the Organisation for Railways Cooperation (OSJD), the Railway Transport Council of the CIS, the Baltic States

and Bulgaria, the Transsiberian Transportation Council for International Co-ordination and other international organisations.

In 2002, the railway companies of the Baltic States presented a joint project *The Baltic Product* to the Ministry of Railway Transport of the Russian Federation, providing for container and con trailer freight shipments. On 2 September 2002, *Latvian Railway* signed a contract with the Ministry of Railway Transport of the Russian Federation on the collaboration in the establishment of intercommunication agencies.

The dialogue approach to international collaboration has provided good results for *Latvian Railway*. Our workers have demonstrated themselves as reliable partners able of working today and knowing how to do that tomorrow.

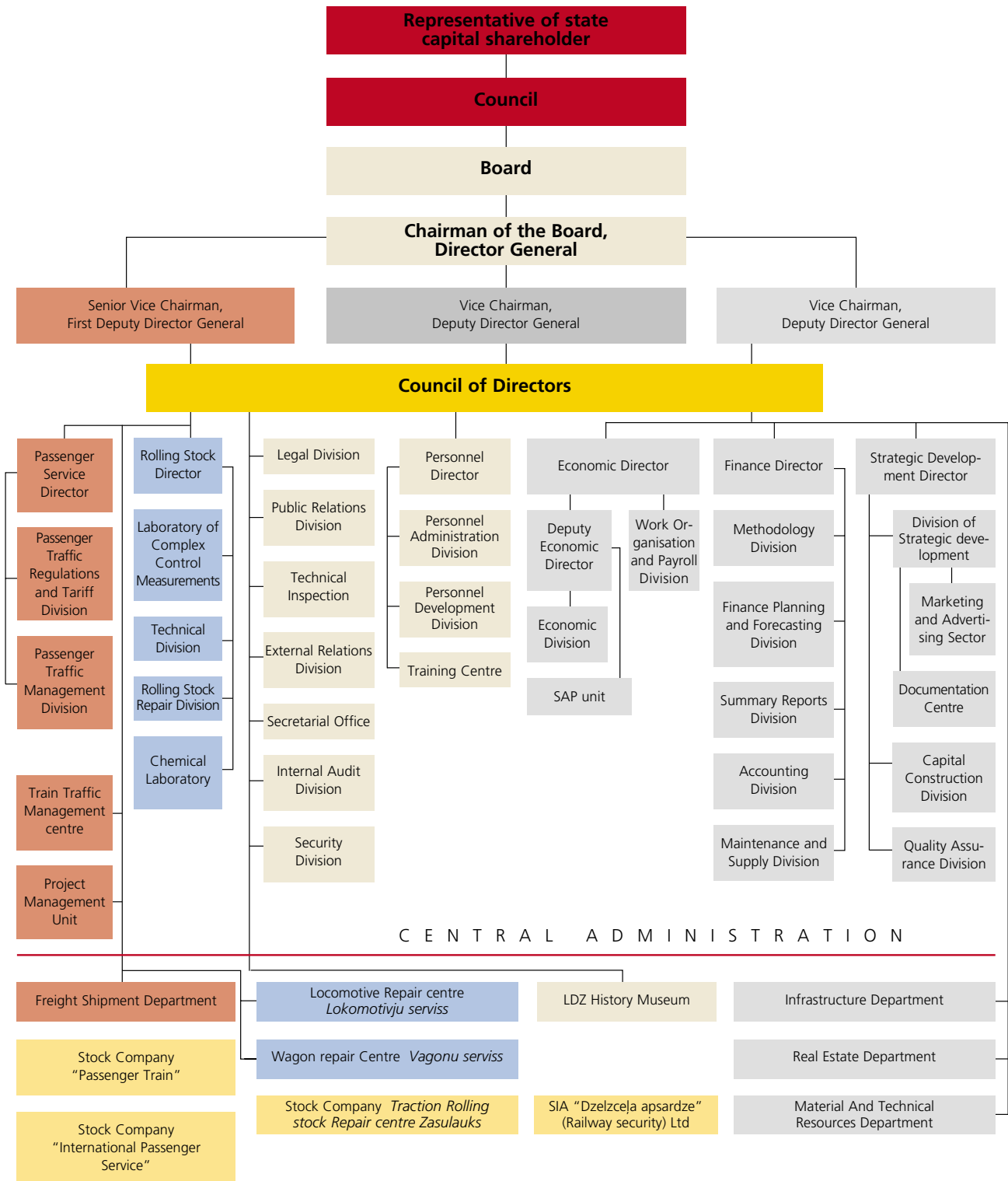
**On behalf of the Board of the Joint Stock Company *Latvijas dzelzceļš*, I express my gratitude to each of the numerous workers for the successful performance, and to our collaboration partners and clients – for loyalty.**

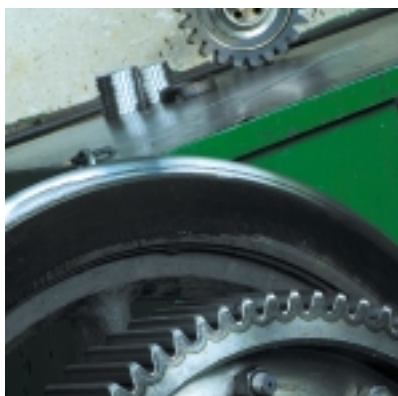


**Andris Zorgevics**

Chairman of the Board,  
Director General of the  
State Joint Stock Company  
*Latvijas dzelzceļš*

# ADMINISTRATIVE STRUCTURE OF LDZ





**REPRESENTATIVE OF THE STATE CAPITAL  
SHAREHOLDER**

**Vigo LEGZDIŅŠ**

**EXECUTIVE**

**Austris CAUNĪTIS**

**COUNCIL**

**Andrians ĻUBLINS**

Chairman of the Council

**Imants SARMULIS**

Vice Chairman of the Council

**Halfors KRASTS**

**Guntars KRIEVIŅŠ**

**Leonids LOGINOVŠ**

**Uģis MAGONIS**

**Valdis ŠAKARS**

**Elmārs ŠVĒDE**

**Jānis VEIDEMANIS**

**BOARD**

**Andris ZORGEVICS**

Chairman of the Board

**Staņislavs BAIKO**

Senior Vice Chairman of the Board

**Rihards PEDERS**

Vice Chairman of the Board

**Uldis PĒTERSONS**

Vice Chairman of the Board

### TRENDS IN ECONOMIC DEVELOPMENT

With the increasing trend of globalisation, several economically integrated and interconnected regions have developed in the world and their economic activities have influenced, to a large extent, the course of the world economic development. Therefore, in order to discuss the economic development of the world in 2002, it is necessary to take into account the economic processes taking place the USA, the European Union, as well as the East Asian region. The optimistic opinion at the beginning of the year about the recovery of the world economy turned out unfounded. The increase in economic activities in the first quarter subsided during the following quarters. In accordance with the projection of the International Monetary Fund, the growth of the world gross domestic product (GDP) in 2002 will be 2.8%, which is not much if compared with the average GDP growth of 3.9% during the period from 1996 to 2000. The GDP in Latvia increased by 6.1% in 2002. Inflation in Latvia has been one of the lowest among countries with economy in transition for several years already – the average inflation in 2002 was 1.9%. The unemployment rate in the reporting period was 7.6% of economically



active inhabitants. The European Commission has acknowledged, in its latest Progress Report published on 9 October 2002, that there is a functioning market economy in Latvia and that Latvia will be able to cope with the pressure of competition as the Member State of the European Union. The large GDP growth, stability of financial sector and the ability of Latvia to attract direct investments are observed there. The European Commission stresses that macroeconomic stability and appropriate structural reforms have created favourable conditions in Latvia for economic growth and competitiveness. Transport services, in particular with regard to

transit freight shipments, play a significant role in Latvian economy. Railway in none of the Western European countries is so important for state economy as it is in Latvia, when considering such indices as *Latvian Railway* tax payments or contribution to the GDP. *Latvian Railway* is one of the largest Latvian enterprises with high cost of capital. Transit of oil products, chemical products and mineral fertilisers prevails in freight shipments. Efficiency of *Latvian Railway* business activities depends on a number of internal and external factors directly influenced also by the state political attitude and activity in the development of inter-state and domestic



**Efficiency of *Latvian Railway* business activities depends on a number of internal and external factors directly influenced also by the state political attitude.**



economic relations with branch companies:

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

Latvia managed to justify the inclusion of the East-West corridor into the priority Baltic region section of the Transeuropean transport network. The Transeuropean transport system of priority corridors nominated during Helsinki conference and to be extended with the inclusion of the East-West corridor in Latvia and Estonia will be henceforth considered the main network. During the current stage of development of the transport network, problems with regard to the analysis of the system components, as well as the investigation of the future requirements of the Transeuropean transport network infrastructure are dealt with. Besides, matters concerning the

planning of the transport network development – railways, ports and other components of the transport system – are considered.

The prospects of the transport network development are evaluated being conscious of the availability of financial resources in the associated countries (including Latvia). The potential investment of international financial institutions, such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and others, is taken into account, as well. The part of the East-West corridor of the Transeuropean transport network in the territory of Latvia is the railway section running from Ventspils port through Jelgava, Krustpils, Rēzekne up to the border of Russia. Currently, construction and reconstruction work in railway infrastructure is being carried out and is planned to continue also in the future.

The macroeconomic conditions favourable for the economic development of Latvia, as well as the invitation received at the end of 2002 to accede to the European Union, raise confidence that the aim of *Latvian Railway* – to offer safe and environmentally friendly passenger and freight shipment services of high quality for competitive price, providing, at the same time, efficient and safe railway infrastructure services in compliance with market demands – will be achieved in the near future.

**Latvia managed to justify the inclusion of the East-West corridor into the priority Baltic region section of the Transeuropean transport network.**



### INVESTMENT IN RAILWAY DEVELOPMENT

Capital investments in railway transport shall ensure compliance of rail track and rolling stock with the requirements of the railway technical operation instructions, as well as continuous and reliable operation of the automatic, signalling, communication, power supply and safety equipment.

The *Latvian Railway* Investment programme for 2002 was executed in the amount of 39,159 th. LVL which is 80.1% of the amount stated in the programme. The amount of credits and leasings disbursed under this programme is 8,621.6 th. LVL.

For the execution of the Investment programme in 2002, *Latvian Railway* funds (46.3%), credits (45%), state budget resources (7.9%) and raised funds (0.1%) were used.

Major capital investments in 2002:

- Track renewal, capital repairs and replacement of turnouts – 11,179.4 th. LVL;
- Construction of Ventspils railway terminal *Jūras parks* and connection lines – 8,142.3 th. LVL;
- Repair of rolling stock of domestic passenger trains – 3,260.1 th. LVL;
- Capital repairs of freight diesel locomotives and wagons – 2,485.9 th. LVL;



- Implementation of information systems *LDzDAT* and *MySAP* – 1,952.6 th. LVL.

It should be particularly noted that the reconstruction and development of railway infrastructure in the EU applicant states is a matter of great importance receiving more and more attention during the last years. Besides, taking into account that infrastructure is one of the basic components of the economic development and domestic market integration strategy of the new member states, its modernisation is defined as the most significant priority. For these purposes, the European Commission has provided financial support from the EU pre-

accession financial instrument *ISPA*. Application for *ISPA* financial support for the implementation of *Latvian Railway* projects and co-ordination of those activities are the functions of the Project Management Unit. The East-West rail corridor running through the territory of Latvia is one of the connecting parts of the European transport network; therefore the corridor modernisation programme is one of the priorities. During the period from 2000 to 2002, our railway modernisation projects were granted *ISPA* funding in the amount of 113 million EUR. At the same time, co-financing from the *Latvian*



**The East-West rail corridor running through the territory of Latvia is one of the connecting parts of the European transport network.**



## STRATEGIC DEVELOPMENT



Railway and state budget resources in the amount of 37.6 million EUR was provided. The following four projects on the development of the East-West rail corridor to be financed by the resources of ISPA funding were approved:

- modernisation of the automatic train traffic control system;
  - replacement of turnouts;
  - modernisation of the rolling stock hot-box detection system;
  - construction of Rēzekne II reception yard.
- Latvia, as the member state of the European Union, will be able to apply for financial support from the so-called Cohesion Fund

established for the development of transport and environmental infrastructure. Co-financing will be provided from the state budget or, in particular cases, from *Latvian Railway* resources, as well.

With the support of the Cohesion Fund it is planned:

- to reconstruct Riga railway junction;
- to introduce the unified railway communication system *GSM-R*;
- to construct the second track in the Skriveri-Krustpils section, as well as proceed with the track renewal in the East-West corridor sections by completely replacing the track panels that have served their time and do not meet technical requirements.

### RESTRUCTURING

In 2002, restructuring of *Latvian Railway* into the holding company continued. Establishment of the holding company is aimed at increasing efficiency of the railway activities by providing safe and profitable passenger services and freight shipments.

In accordance with the restructuring plan, the holding company will control the shares of the subsidiary enterprises and will function as the manager of railway infrastructure. Whereas the subsidiary enterprises will perform the functions of transport carriers, providers of transport services, as well as the maintenance and servicing of infrastructure. It is planned to establish approximately 13 subsidiaries to the holding company in the future. Besides, the railway sector will be open to private transport operators, as well, in accordance with the European Union directives.

Domestic passenger services in 2002 were provided by the newly established Joint Stock Company *Pasažieru vilciens* (Passenger train). Establishment of a subsidiary enterprise was

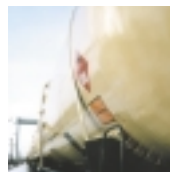
started also with regard to international passenger services, and arrangements for the restructuring of the Traction Rolling Stock Repair Centre *Zasulauks*, Wagon Repair Centre *Vagonu serviss*, Locomotive Repair Centre *Lokomotīvu serviss* and the track repair centre into subsidiaries were made. At the end of the previous year, managements of *Latvian Railway* and *Jsc Rīgas vagonbūves rūpnīca* (Riga wagon-building plant) signed a statement of intent on the establishment of a joint commercial company for the repair of rolling stock.

During the reporting period, activities of *Latvian Railway* Material and Technical Resources Department, Security Unit and Training Centre were reformed. Changes to the structural units of the Central Administration, Infrastructure Department and Real Estate Department were made, as well, with an aim of increasing efficiency of their activities.

Intense work was performed in 2002 to enable the following newly established *Latvian Railway* subsidiaries to start their activity in the first half of 2003:

- *Jsc "VRC Zasulauks"* (Traction repair centre),
- *Jsc "Starptautiskie Pasažieru pārvadājumi"* (International passenger services)
- *"Dzelzceļa apsardze"* (Railway security) Ltd.

**Establishment of the holding company is aimed at increasing efficiency of the railway activities by providing safe and profitable passenger services and freight shipments.**



## PERSONNEL



The successful financial and economic activity of *Latvian Railway* in 2002 grounds on the professionalism, loyalty and initiative of the company management and the employees.

On 29 October 2002, the Board of *Latvian Railway* approved the *Personnel policy* appropriate for the holding. This policy aims at optimising the personnel management procedure in compliance with the restructuring plans of the holding, transition to modern technologies, as well as the requirement to ensure maximally safe, qualitative and environment-friendly railway transport services. Attention of the holding management is focused on the growth of the personnel potential and more efficient use of it. Such personnel management processes as the integration of new employees, continuing education and the awarding system functioned successfully during the reporting period.

13,407 persons were employed in the basic activity of the company in 2002, which is 1786 persons or 11.8% less than in the previous year. The cause of this considerable decrease in the number of employees is the separation of passenger services by the establishment of the joint-stock company *Pasažieru vilciens* (Passenger train). The successful restructuring of *Latvian Railway* and the increase in the



work efficiency also continued the tendency of previous years with regard to the decrease in the number of employees.

### SALARIES

Growth of the volume of shipments and work efficiency also caused an increase in the amount of salaries. In 2002, as compared with the previous year, the average salary increased by 12% being 212.1 lats per month.

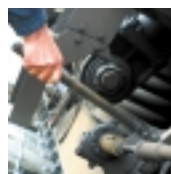
The best employees are awarded the *Latvian Railway* Honorary medal (highest award), valuable rewards, badge For Long-term Service (30 and 40 years), badge For

Accident Prevention, award of Recognition and Gratitude.

In 2002, the first stage of the unified computerised *Personnel registration system* was introduced, considerably facilitating work with the existing personnel data bases. *Latvian Railway* is an active participant of the *Latvian Personnel Management Association*.

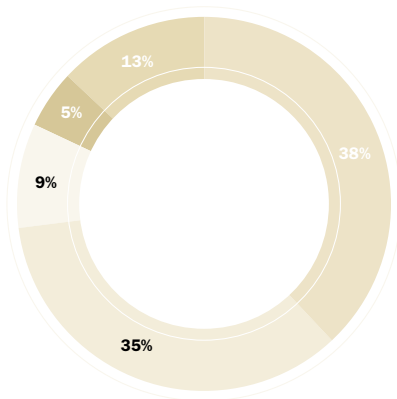
### PERSONNEL TRAINING AND CONTINUING EDUCATION

In 2002, particular attention was paid to the professional development of *Latvian Railway*



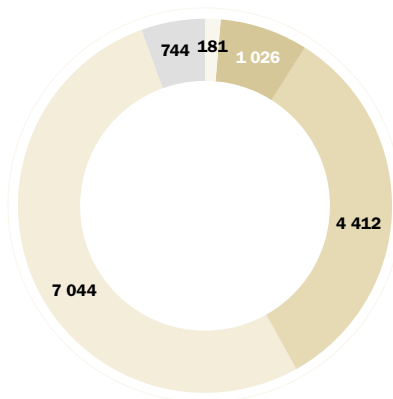
Such personnel management processes as the integration of new employees, continuing education and the awarding system functioned successfully during the reporting period.

Breakdown of employees by structural units:



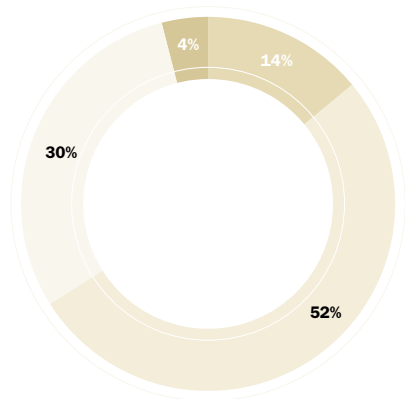
- Infrastructure – 38%
- Freight Shipment – 35%
- Service units – 9%
- Real Estate – 5%
- Rolling Stock – 13%

Breakdown of employees by age groups:



- Total - 13 407
- 15-19 – 181
  - 20-24 – 1 026
  - 25-39 – 4 412
  - 40-59 – 7 044
  - ≥ 60 – 744

Breakdown of Latvian Railway employees by education:



- Higher education 14%
- Secondary education 52%
- Secondary vocational education 30%
- Primary education 4%

Source: Latvian Railway

personnel, by using the services of both higher and secondary vocational and continuing educational establishments, as well as the Training Centre.

The main collaboration partners for the training of railway specialists are the Railway Transport Institute of Riga Technical University, Riga Railwaymen School and Latgale Transport College. Participation in the special-target programme *To Education, Culture and Science* of the Latvian Foundation of Education has promoted constructive communication with the best students of business, economics and finance from various institutions. In order to get a wider view into the international railway

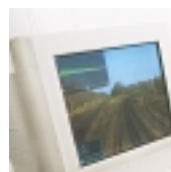
business, the yearly training of the new railway employees during informative meetings on the international activity of European railways (*SIAFI*) was proceeded with. During the reporting period, the Board of *Latvian Railway* approved the "*LDz Technical Training Concept*", aiming at establishing the technical training system in compliance with the growing need of the company for highly qualified specialists able to reduce the potential risks of rail transport.

5 classrooms, including one training wagon, are equipped for the training of technical staff. It should be particularly noted that in 2002, in the class of Daugavpils Operational Unit of the Freight Shipment Department, the training of

locomotive crews was commenced. The operational personnel continued to improve their professional expertise in Riga and Jelgava training classes of Riga Operational Unit. The training class of Jelgava Track Maintenance Division of the Infrastructure Department, being the training centre of fault detectors, was computerised in 2002 and, at the same time, provided with an entirely new computer training programme. In order to increase the efficiency of the technical staff of *Latvian Railway* structural units, 12 training labs were used the equipment of which to be completed in near future.

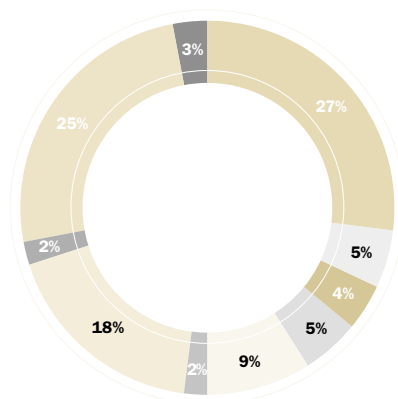
In accordance with its motto – **You and**

**In order to increase the efficiency of the technical staff of *Latvian Railway* structural units, 12 training labs were used the equipment of which to be completed in near future.**



## PERSONNEL

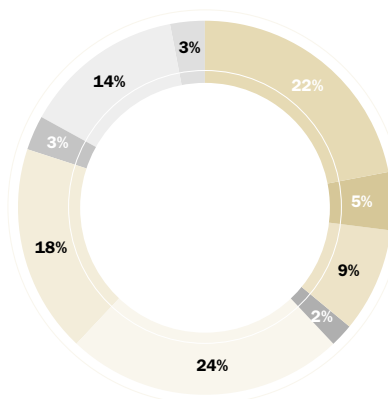
Breakdown of training course participants by structural units (%)



- Freight Shipment Department 27%
- Other 5%
- Information Technology Centre 4%
- Locomotive service 5%
- Real Estate Department 9%
- Material-technical Resources Department 2%
- Central Administration 18%
- Passenger Train 2%
- Infrastructure Department 25%
- Wagon Service 3%

Source: Latvian Railway

Breakdown of programmes by subject (%)



- Computer studies 22%
- Leaders of trade union 5%
- Latvian 9%
- Continuing education of technical staff 2%
- Process management 24%
- Human resources management and development 18%
- Financial management and accounting 3%
- English 14%
- Work environment and safety 3%

Source: Latvian Railway

**your work develop together!** – *Latvian Railway* Training Centre implemented efficient management training programmes in 2002 intended for the training of managers and specialists.

With the aim of drawing the training process nearer the workplace and the place of residence of *Latvian Railway* employees, ensuring more efficient use of the company resources, as well as promoting acquisition of language and computer skills, Daugavpils branch of the Training Centre started its activity in 2002, having already contributed to the professional expertise of the managers and employees of Daugavpils railway junction.

At the present moment, there are 8 training classes in *Latvian Railway* Training Centre, including three modern computer classes used to prepare the personnel for the transition to the new financial information system *MySAP*. The Training Centre prepares and implements the programmes in collaboration with 76 lecturers, 25 (33%) of which being *Latvian Railway* employees. Training courses for technical staff are organised in collaboration with the Railway Transport Institute of Riga Technical University and the lecturers of higher educational transport establishments of Russia and Belarus. In 2002, the Training Centre offered 66 training programmes. 25 of them were new ones,

including *Taking management decisions during MySAP implementation and the company restructuring, The new internal auditing standards and interpretation, Team development, The new labour law, Court practice in labour legislation, Knowledge management in an enterprise, Competence-based management and cognition of training needs, Technical supervision of hazardous equipment, Operation and maintenance of continuous welded rail, etc.*

2155 persons were involved in 182 study groups by the Training Centre in 2002. 693 (32%) of them were trained in Daugavpils branch of the Centre.



**Training courses for technical staff are organised in collaboration with the Railway Transport Institute of Riga Technical University.**

## FREIGHT SHIPMENTS



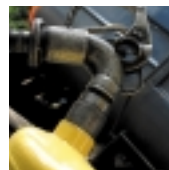
The year 2002 has been one of the most successful for *Latvian Railway*, notwithstanding even the decrease in the freight volume during the third quarter. Freight shipments in the last year managed to reach the highest level of the last five years, but the freight turnover was the largest since 1992. The freight volume has increased mainly due to the growth of transit and, partly, import shipments. At the same time the loading of oil products in Ventspils oil loading depot and the main cargoes in Riga port was not performed with full capacity. The railway carrying and throughput capacity was not used to the full either.

The volume of the freight shipped in the 2002 is 40.1 mill. tons which is 2.2 mill. tons or 5.8% more than in 2001. Like in the previous years, transit takes up the biggest share – 83.9%. The volume of freight conveyed as transit in 2002 is 33.6 mill. tons which is 2.4 mill. tons or 7.6% more than in 2001. There has been a stable increase in transit shipments by land routes during the last five years, and in 2002 this increase has reached 40.5% or 4 mill. tons. Certain role in this situation is played by the transit of oil products to Estonia last year. In comparison with the previous year, however, the volume of domestic freight shipments has decreased by 11.5% and export shipments – by 7.3%.

With regard to freight shipment by its type, there is an increase in the amount of oil products – by 1443 th. tons or 8.4%, coal – by 1007 th. tons or 33.8%, and sugar – by 247 th. tons or 31.4%. Whereas the volume of ferrous metals decreased by 889 th. tons or 27.3%, chemical products – by 323 th. tons or 28.9%, mineral fertilisers – by 184 th. tons or 2.7%. Besides, it should be noted that in 2002 *Latvian Railway* started the shipment of crude oil from Russia through Ventspils station, and corn from the CIS through Liepāja, Ventspils and Riga Krasta stations.

The total freight turnover in 2002 is 15,020 mill. t-km which is 5.9% more than in 2001. Due to the favourable geographical location of our country, freight transit by railway through the main Latvian ports still holds the leading position. The leader in this type of freight shipment, like in the previous years, is Ventspils port through which 16.6 mill. tons or 49.3% of all *Latvian Railway* transit freight were transported, though, as compared with the year 2001, the volume of freight shipped through Ventspils station decreased by 10.2%. The volume of freight shipment through the port stations of Riga railway junction increased by 1195 th. tons or 24.5%. Mangalī station had the highest growth rate increasing the freight processing capacity by

**The freight volume has increased mainly due to the growth of transit and, partly, import shipments.**





1216 th. tons or 34.3%. The freight processing capacity of Riga Krasta station increased by 743 th. tons or 23.7% and Ziemeļblāzma station – by 228 th. tons or 11.8%.

It should be noted that the volume of transit shipment through Liepāja station increased considerably reaching 78.4% or 942 th. tons in the accounting period. Together with the increase in freight shipment through the stations of Riga railway junction, it has covered the decrease in freight shipment through Ventspils station in full.

The percentage of freight transportation through ports is the following: Ventspils station – 56.0%, stations of Riga railway junction – 36.8% and Liepāja station – 7.2%.

Starting from 1 January 2002, *Latvian Railway* performs the functions of the principal of transit procedure (responsible for the compliance with customs regulations during the transit procedure), allowing the use of railway shipping note as transit declaration. As a result, the clearance through customs is facilitated and train delays in delivery stations reduced. *Latvian Railway*, being both the principal and the carrier, offers its clients a simplified customs procedure – transit without having to pay caution money for freight shipments.

One of the most significant conditions of the shipment contract is the freight safety. Freight shipments by *Latvian Railway* have a high and



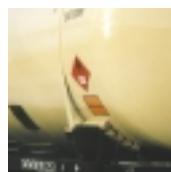
stable level of reliability. In 2002, the damages due to freight loss were only 3 santims per 1000 LVL of income from freight shipments.

### STATION AND SECTION DEVELOPMENT

Due to the considerable freight volume, it became necessary in 2002 to increase the carrying capacity of certain sections on the East-West transit corridor. In this connection, as well as taking into account the planned increase in freight volume in the direction of Ventspils, Riga and Liepāja ports, the Freight Shipment Department has started updating

*Latvian Railway* investment programme to increase the carrying capacity of the biggest railway junctions on the main East-West transit corridor for the period up to the year 2010. This programme provide for the construction of additional passing loops and double track in such sections of the transit corridor as, first of all, Daugavpils-Krustpils, Krustpils-Rīga un Jelgava-Tukums.

In accordance with this programme, the main preparatory works for the construction of the passing loop in the subsection Krustpils-Trepe of the section Daugavpils-Krustpils were carried out and the necessity to prepare a design of the passing loop in



**In 2002, the damages due to freight loss were only 3 santims per 1000 LVL of income from freight shipments.**

## FREIGHT SHIPMENTS



the subsection Jersika-Nīcgale of the same section in 2003 was identified.

In order to increase the freight processing capacity of Mangaļi station of Riga railway junction, an additional passage was arranged enabling tank-car trains to get directly onto the sidings of the station. Arrangement of this passage, including the corresponding changes to the working technology of Riga Operational Unit made it possible to increase the freight processing capacity of this station by 3 mill. tons. The main aspects of further developments at Mangaļi and Bolderāja stations of Riga railway junction and access developments at the stations of Riga railway

junction were outlined. Design and construction work will be carried out when it becomes necessary as the "critical" volume of freight shipments to Riga port approaches.

In order to increase the freight processing capacity of Liepāja station, three reception and departure tracks were extended and additional turnouts installed thus improving operational conditions at the station and increasing the level of traffic and manoeuvring safety. The design for the construction of the connection line was developed and approved by all authorities, the implementation of which in 2003 would enable to avoid inefficient manoeuvres in future while sending wagons onto sidings.

In accordance with the co-decision of Liepāja special economic zone (SEZ) and *Latvian Railway* arising from the increase in the volume of freight shipments through Liepāja port, the modelling of railway yards in Liepāja district and SEZ terminals was completed in 2002 in conformity with the activities of Liepāja station. Thus the scheme for the development of Liepāja railway junction developed previously was updated. As a result of the modelling, concrete measures for the development of railway infrastructure at Liepāja station and Liepāja SEZ were specified, including the sequence of those measures depending on the growth of freight turnover in the port terminals.

Construction of the new terminal "Jūras parks" and connection lines in Ventspils railway junction continued. The unit will be put into operation in the first half of 2003. At the same time, reconstruction of the Jsc "Ventbunkers" and "Ventspils nafta" oil terminals were designed, taking into account the increase in freight shipments.

In 2002, preparatory works were carried out and an international tender organized to specify the conditions and select the main contractor for the construction of the new reception yard of Rēzekne railway junction. The new reception yard is necessary in order

to increase the freight processing capacity of Rēzekne station and enable reception from Russia and sending freight trains with a length of 71 conditional wagons.

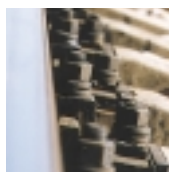
With much attention to the efficient use of the rolling stock and station equipment, the specialists of *Latvian Railway* reconsider, adjust and modify technological processes at railway stations. In 2002, technological process was revised at Zemitāni station of Riga railway junction. Due to the changed work conditions and introduction of the principal position, the existing technological processes were supplemented at Šķīrotava, Rēzekne, Daugavpils, Ventspils, Liepāja and Riga Krasta stations. New automated control system of the shunting station was put into operation at Daugavpils station. The respective sections of the technological processes of Šķīrotava and Daugavpils stations were modified.

## COMBINED SHIPMENTS

Over the last years, *Latvian Railway* has constantly increased the volume of combined shipments.

As compared with 2001, container transit shipments in the West-East direction increased by 28.8%, and in the East-West direction – by 89.1%. It should be noted that this increase

**In order to increase the freight processing capacity of Liepāja station, three reception and departure tracks were extended and additional turnouts installed.**



## FREIGHT SHIPMENTS

was caused to a considerable extent by 3,000 containers loaded in Riga and Ventspils ports with provisions to be sent to Afghanistan in accordance with the aid programme.

The shipment of perishable freight in refrigerator wagons has been successfully proceeded with for more than five years. Accordingly, several specially equipped couplings were made consisting of trucks with fastenings and a wagon-power station supplying the refrigerator with power. In this way 12 to 18 forty-foot refrigerator wagons are transported in one run. In 2002, block trains with refrigerator wagons made regular runs between Riga port and freight recipients in Russia, Belarus, Ukraine, Kazakhstan, Uzbekistan, Kyrgyz Republic, Turkmenistan and Tajikistan.

*Latvian Railway* is a standing member of Transsiberian Shipment Coordination Board, indicative of our interest in container shipments between Asia – Pacific Ocean regions and Western Europe through Latvian ports. We have a considerable experience of the shipment of loaded and empty containers by both block container trains and block wagon groups. In 2002, *Latvian Railway*, together with the railways of other states and the interested forwarding companies carried out extensive preparatory work to arrange container trains between the seaports of Latvia, Lithuania, Estonia and Kaliningrad and Central Asian states.

### ROLLING STOCK

One of the tasks of the Freight Shipment Department is the maintenance of locomotives and wagons in good technical condition. The existing locomotive pool ensures all shipments even in maximum traffic conditions, and the capacity of the locomotives enables the traffic of transit freight trains from border railways to terminals, without any changes to their weight. The dynamic tests carried out in 2002

showed that the use of the series 2M62 diesel locomotives in the main transit sections enables the traffic of trains up to 4900 tons, and the use of the series 2TE10 diesel locomotives – even up to 5500 tons.

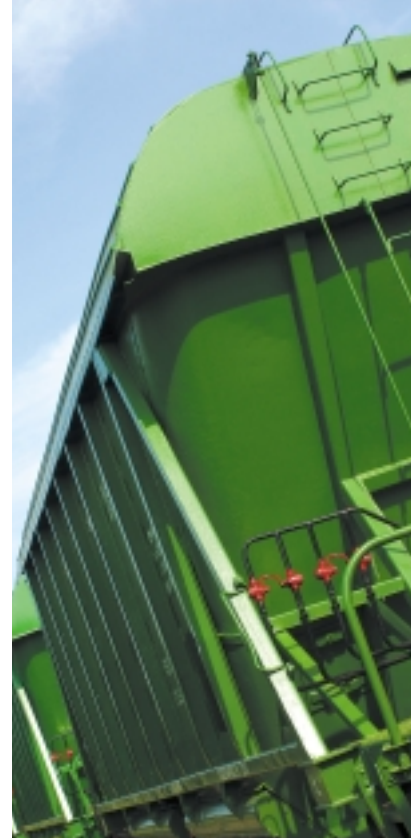
Due to the proper organization of the operation of locomotives, the average weight of trains increased by 0.4%, the average run of locomotives per day – by 0.5% and the efficiency of locomotives – by 1.0% in 2002, as compared with 2001.

Good technical condition of the operating locomotives is ensured by both repairs and maintenance performed in due time. Modernization of the series 2TE10 locomotives commenced in 2001 was proceeded with, installing turbo-chargers of the Czech origin. Hardening of the locomotive wheel pairs and installation of lubricators (special device reducing the wear of wheel pairs and rails) considerably reduced operating expenses.

All locomotives have safety equipment and wireless communication in compliance with all requirements of train traffic safety.

Much attention has been paid to raising the quality of the training of locomotive crews. In this connection a training class was established in Daugavpils Locomotive Operation Unit being the only one in the Baltic States equipped with virtual engine-driving training facilities and intended to “polish” efficient engine-driving skills by using video of actual runs in certain sections of the track. This will be a good base for qualitative training of the chief specialists of *Latvian Railway* at up-to-date level.

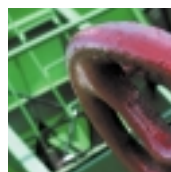
In accordance with the separation of functions among maintenance and operational enterprises as a result of restructuring, a special system of mutual agreements is used for the maintenance and repair of locomotives. Decisions taken with regard to the shared use of wagon depots and transition to the operation of wagons according to the kilometrage enabled maximum operation of wagons owned by *Latvian Railway*, as well



as railways of other countries.

In order to ensure that wagon depots are ready for operation, a system of wagon maintenance and repairs was established including the Wagon repair centre and maintenance stations.

Wagons for freight shipments are prepared in specially equipped stations where they are cleaned, washed and repaired. New and advanced technologies have been introduced for the preparation of wagons. In 2002, modernization of the wagon preparation station was commenced at Šķirotava station. Modern wagon washing and repair equipment has been installed already in this



**Good technical condition of the operating locomotives is ensured by both repairs and maintenance performed in due time.**



## FREIGHT SHIPMENTS

preparation centre.

In order to avoid problems during the reception of wagons by *Latvian Railway* so that they, as well as transit trains could proceed further to the terminal, there are technical maintenance stations and wireless rolling stock diagnostic devices available along the whole route. In 2002, a new wagon current uncoupling repair centre was put into operation at Daugavpils station.

The wagon depot is regularly renewed. In 2002, 10 tank-wagons for the transportation of oil products were purchased, but the plan for the year 2003 is to buy 42 tank-wagons. Maintenance of the rolling stock of the Freight Shipment Department is carried out by highly qualified specialists regularly improving their skills.

### TARIFF POLICY

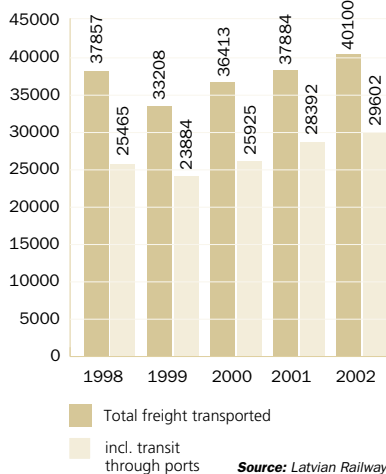
In order to increase the competitiveness of *Latvian Railway*, the Freight Shipment Department intensely dealt with marketing problems throughout the year 2002. Freight flows were investigated, as well as the special mechanisms how to attach them to *Latvian Railway*. An inquiry was held in order to find out the preferences of clients, and the information obtained was taken into account in the principles of the tariff policy of 2003.

*Latvian Railway*, in close co-operation with Latvian Transit Business Association, has developed a stable and predictable tariff policy in compliance with the requirements of the railway, freight owners and international forwarders.

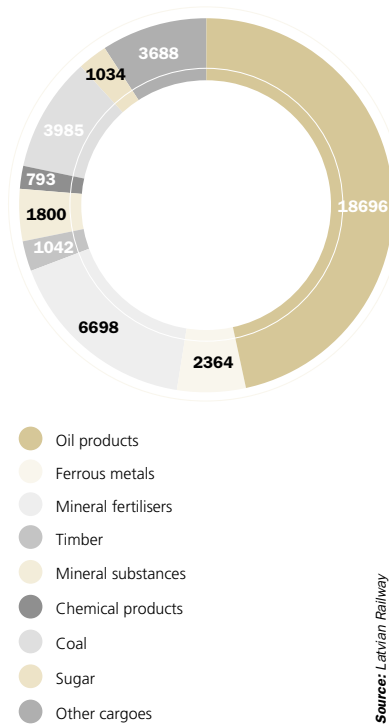
The aim of the tariff policy of freight shipments by rail is to increase the volume of shipments and income by using optimal tariffs in the fierce competition with other modes of transport and alternative freight shipment routes by foreign railways.

This aim can be achieved by the implementation of the following principles of the tariff policy:

Development of freight shipments in 1998-2002 (th. tons)



Shipments in 2002 by type of freight (th. tons)

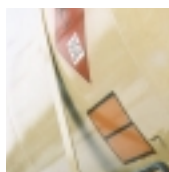


Freight shipments by type of transport 1998-2002 (th. tons)



The wagon depot is regularly renewed.

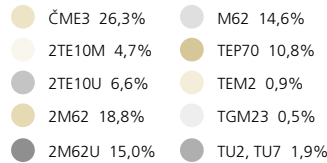
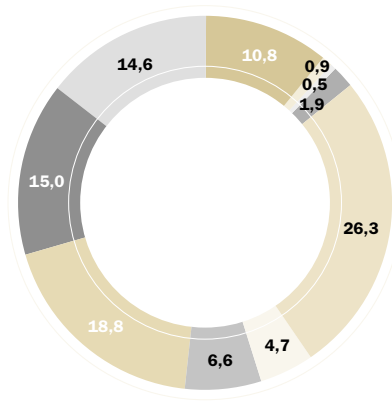
In 2002, 10 tank-wagons for the transportation of oil products were purchased, but the plan for the year 2003 is to buy 42 tank-wagons.



## FREIGHT SHIPMENTS

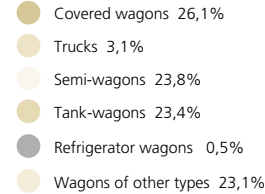
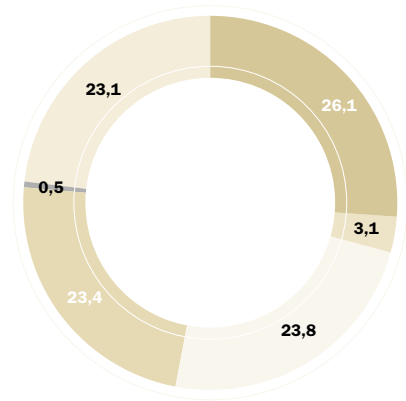
- establishment of mutually profitable partner relations with clients, by concluding contracts with them for the payment for freight shipments;
  - introduction of tariffs adequate to freight transportation costs, taking into account the price level established in the previous years;
  - implementation of the discounting and allowance system depending on the volume of shipments, type of cargo, direction and regularity of shipments, duration of business relations with concrete partners, as well as other factors;
  - flexible response to the changing economic and political conditions in the internal and external market of transport services.
- In 2002, the revised tariff on freight shipments by rail 03-LDZ was successfully introduced to be used for domestic, import and export freight shipments. As a result, the procedure of the calculation and collection of additional payments now complies with the requirements of the Law on Railway Shipments.

Locomotive fleet



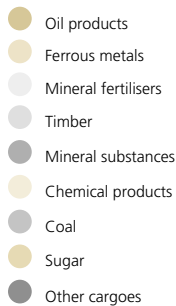
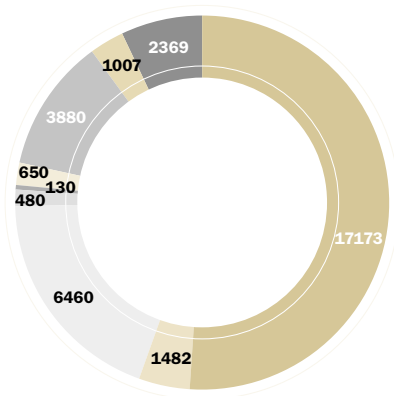
Source: Latvian Railway

Wagon fleet



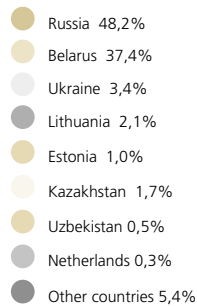
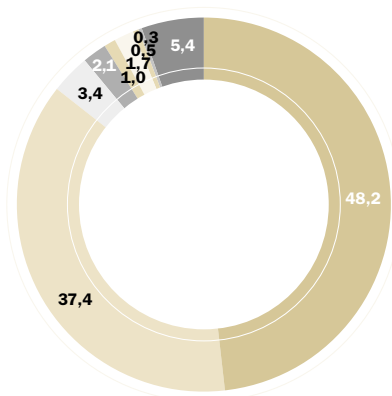
Source: Latvian Railway

Transit shipments in 2001 by type of freight (th. tons)



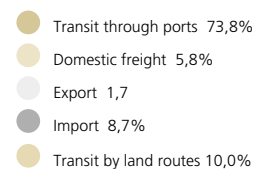
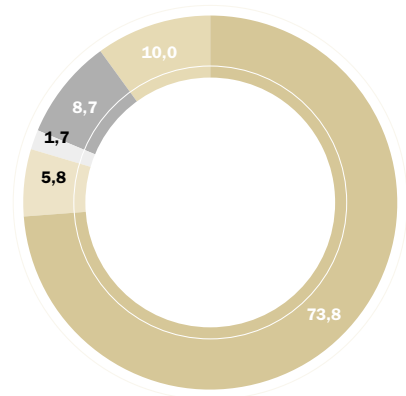
Source: Latvian Railway

Proportion of transit shipments by countries – consignors in 2002



Source: Latvian Railway

Proportion of types of shipment in 2002



Source: Latvian Railway

## PASSENGER SERVICE



In 2002, passenger services by rail were provided by *Latvian Railway* structural units of international passenger services and the first subsidiary company – JSC *Pasažieru vilciens* (Passenger Train).

The results of the passenger service with regard to the reporting period are the following:

- the number of passengers – 21,960 million;

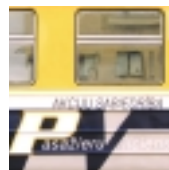
- the number of passengers as compared with 2001 – 109.1%;
- income from passenger service – 11,074 million lats;
- income from passenger service as compared with 2001 – 108.3%.

Domestic traffic services in 2002 were provided by JSC *Pasažieru vilciens* to 18,448 million passengers by electric trains and 3,074 million passengers by diesel trains.

International traffic services in the reporting period were provided to 0,429 million

passengers. These services were provided by six trains formed by *Latvian Railway*: two trains in Riga-Moscow route and one train in each of the following routes: Riga-St.Petersburg, Riga-Gomel, Riga-Lvov and Riga-Simferopol. In Riga-Odessa route there are two through carriages, and in Riga-Adler route – four through carriages. Besides, there are trains formed by foreign railways providing traffic services in Riga-Vilnius, Tallinn-Minsk, Vilnius-St.Petersburg, Vilnius-Daugavpils routes and through carriages in Vitebsk-Riga and Kiev-Tallinn routes.

**In 2002, passenger services by rail were provided by *Latvian Railway* structural units of international passenger services and the first subsidiary company – JSC *Pasažieru vilciens* (Passenger Train).**



## INFRASTRUCTURE



The Infrastructure Department of Latvian Railway is responsible for the maintenance of rail tracks, structures, signalling systems (interlocking, CTC, automatic/semi-automatic line block), wire and wireless communication systems, power supply and electrical traction network and equipment and other facilities in accordance with the Regulations on Railway Technical Operation. The operational length of the main track is 2269.8 km. The Infrastructure Department comprises 8 structural units: 3 track maintenance divisions, 3 signalling and communication divi-

sions, track repair enterprise and the Rail Welding Centre.

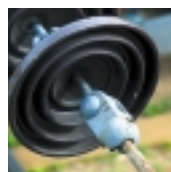
The Infrastructure Department and its structural units employ 5583 specialists in different fields.

The main functions of the Infrastructure Department during the last years are the following:

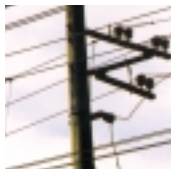
- maintenance of infrastructure in the condition that ensures safe train traffic at the specified speeds;
- improvement of infrastructure maintenance technology;
- accurate investment planning under the

circumstances when no funds for infrastructure from the state budget are made available;

- acquisition and implementation of the state-of-the-art technologies and systems;
- maintenance of the most efficient investment acquisition technologies.



**The Infrastructure Department comprises 8 structural units: 3 track maintenance divisions, 3 signalling and communication divisions, track repair enterprise and the Rail Welding Centre.**



## FIXED ASSETS OF THE INFRASTRUCTURE DEPARTMENT

	million LVL
as at 1 January 2003	51.2
<b>Total revenue of the Infrastructure Department in 2002</b>	42.729
<b>including:</b>	
- from Railway Infrastructure Fund	25.908
- from services	4.032
- from other business activities	2.759
- extraordinary revenue	0.030
<b>Total expenses in 2002</b>	44.648
<b>Balance profit or loss</b>	- 1.919

### The following renewal (modernisation), repair and maintenance works were carried out in 2002:

		th. lats
<b>- renewal (modernisation):</b>		
• rail track renewal	65.3 km	9,188.5
• construction of Ventspils railway terminal <i>Jūras parks</i>		8,142.3
• complete renewal of "B" category track	35.2 km	1,241.5
• replacement of turnouts	35 sets	605.9
• construction of the passing loop in Krustpils – Trepe section		279.6
• development of Liepāja station: extension of the reception and departure tracks No.4, 5 and 6		351.1
• reconstruction of Riga railway junction: development of Mangaļi station		153.0
• track extension at Cirma station		210.5
• purchase of equipment		385.7
• renewal of structures and re-profiling of embankment		143.5
• modernisation of the automatic line block system in Ogre – Lielvārde section	17 km	34.0
• reconstruction of 10 kV overhead power supply line in Nerza – Istalsna section	9.2 km	65.5
• technological equipment of Indra station building		31.5
• replacement of wagon retarders for the marshalling yard of Šķirotava station	2 pieces	36.0
<b>- ordinary repairs:</b>		
• repair of rail track	65.2 km	510.6
• replacement of rails	32.3 km	1,009.0
• rail grinding	158.0 km	100.4
• repair of track machines		295.1
• signalling equipment		209.6
• communication facilities		72.2
• power supply facilities		283.0
<b>- maintenance:</b>		
• replacement of wooden sleepers		99,713 pieces

## THE MAIN FACILITIES OF RAILWAY INFRASTRUCTURE

Item of infrastructure facility	Unit of measurement	Total
1. Total length of track, including:	km	3750.6
• main track		2578.5
• station and special track		996.1
• access track		176.0
2. Turnouts	set	3760
3. Structures:	piece	
• bridges		760
• drainage pipes		1024
4. Level crossings		701
5. Signalling systems:		
• automatic line block	km	1044.6
• semi-automatic line block	km	941.9
• stations equipped with relay-based and micro-processor interlocking	stations	162
6. Main communication cables	km	2765.5
7. Wireless communications	km	1917.3
8. 6-10 kV power supply lines	km	1396.2
9. Electrical traction network	km	257.4.4

### Major infrastructure modernisation projects in 2002

1. Track extension at the stations in Zilupe – Rēzekne and Kārsava – Rēzekne sections: completed Track extension at Cirma station. Work carried out by the Railway Repair Centre and Daugavpils Signalling and Communication Division.

Put into operation on 28 November 2002.

#### Project cost – 276,197 lats.

2. Freight station development projects:

2.1. Development of Liepāja station: extension of the reception and departure tracks No.4, 5 and 6

Put into operation on 12 December 2002.

#### Cost of construction work – 351,066 lats.

2.2. Reconstruction of Riga railway junction: development of Mangaļi station.

Put into operation on 14 December 2002.

#### Cost of construction work – 153,091 LVL.

## RAIL TRAFFIC SAFETY

The process of improving traffic safety and labour protection is proceeding in the situation of restructuring, gradually implementing the 2000-2003 restructuring programme that foresees establishment of a holding on the basis of the *Latvian Railway Company*. Alongside with the restructuring measures work is being done to form a legal base of traffic safety and labour protection measures. Stability in the area of traffic safety is regulated by Regulations No. 470 (Supplement to Article 7 of the *Regulations of Railway Technical Operation*) adopted by the Cabinet of Ministers of the Republic of Latvia on 22 October 2002. By this it is established that an internal monitoring system of the traffic safety must exist in every enterprise of rail infrastructure administrator or carrier, irrespective of its ownership. Besides, in conformity with paragraph 7 of the Labour Protection Law, internal supervision system of labour environment has been set up in all rail enterprises. The importance of traffic security issues is emphasised also in European Union (EU) Directive 2001/14/ES. In Article 3 of paragraph 32 of this Directive it is stated that, in order to obtain safety certificate, rail enterprises must observe regulations elaborated in conformity with the national legislation. They should not contradict EU Directives and they shall state



technical, operating and safety requirements for rail enterprises concerning their employees, rolling stock and structural units of each rail enterprise. Each rail enterprise must demonstrate that locomotive crews and other participants of the transporting process have been trained professionally, that they know and observe requirements of rail traffic safety set up by the infrastructure manager. All the mentioned requirements are particularly relevant at present because private operators start to use the public infrastructure. In 2002, while carrying out the required volumes of freight shipments and passenger service, *Latvian Railway* ensured the necessary

safety for train manoeuvring works. No serious violations of traffic safety and accidents took place. It must be mentioned that the operation of the first subsidiary of the *Latvian Railway* holding group, the enterprise *Pasažieru vilciens* (Passenger Train), has been very successful. During the first year of its operation the mentioned enterprise remarkably reduced the number of traffic accidents. Such results were possible because the rail traffic safety system was carefully elaborated already before the receipt of the certificate on rail service safety. Besides, engineering and technical employees and the staff of locomotive crews of the company strictly observe operating principles and



**In 2002, while carrying out the required volumes of freight shipments and passenger service, *Latvian Railway* ensured the necessary safety for train manoeuvring works.**

## RAIL TRAFFIC SAFETY



technological processes in compliance with TEN requirements.

In 2002, improvement of labour environment was attained, as well as the tendency of reduction in the number of accidents became clearly obvious at *Latvian Railway*.

According to the labour protection system of *Latvian Railway*, the internal supervision of the labour environment, discovering and evaluation of the harmful and dangerous risk factors were organised within its structural units as a result of which measures were taken for avoiding or reducing these risks.

To eliminate the consequences from accidents with hazardous freight shipments, within the

administrative structure of *Latvian Railway* it is foreseen to use assistance and fire-trains, emergency service groups in stations, it concerns also the relevant regulating documentation that has been elaborated. Likewise, for eliminating the consequences from accidents, high capacity rail cranes have been set up on the assistance trains. Besides, heavy-duty bulldozers, traction units, pumps for oil products and other necessary equipment are always at their disposal, and this equipment is regularly renewed and improved. In 2002, the Riga assistance train was equipped with a high capacity pump for use with damaged tank-wagons. When using this pump, it takes an hour to empty a 60 tonnes' tank-wagon (it took about 4 hours to do the same work by using the old style pump). The old style motorised pumps in fire trains have been replaced now, two new portable power stations have been purchased, sets of fire-hose accessories and fire foam devices have been renewed. To do work in dangerous areas, the personnel of assistance and fire-trains, as well as emergency groups of every station, are specially trained. This personnel is equipped with modern compressed air devices and protective clothing.

In order for employees of these groups to acquire skills necessary when dealing with heavy accidents, practical training classes are being organised regularly. The tasks included in these simulations are brought as closely as possible to emergency situations in real life. These training classes were attended not only by railway specialists, but also by representatives from local governments, the State Fire Fighting and Rescue Service, Regional Environment Administrations and the Public Health Agency.

The *Latvian Railway* Company and the State Fire Fighting and Rescue Service have signed an agreement on collaboration in occasions of fire and in other emergency situations. Besides, agreements have been signed with stock companies "Ventamonjaks" and "Nitrofert" about organising a control post of ammonia tank-wagons in Šķīrotava and Jelgava stations.

**To do work in dangerous areas,  
the personnel of assistance and fire  
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of every station, are specially trained.**



## QUALITY MANAGEMENT AND ENVIRONMENTAL PROTECTION



In order to implement the quality policy adopted by *Latvian Railway*, measures are taken with an effect on the whole company and mainly directed towards the improvement of the metrological security system, finding a solution to the problem of personnel certification and implementation of the quality management system. The quality management system, which complies with the Latvian State Standard EN ISO 9001:2000, is already implemented in three *Latvian Railway* rolling stock repair units. Currently the system is being implemented in the structural units of the Infrastructure Department. The first stage of implementation comprises the rail welding process, track renewal and replacement of turnouts. During the implementation of the quality management system, considerable assistance is provided by the *Latvian Railway* Training Centre organising courses on the requirements of the quality system and auditing principles.

In order to implement the environmental protection policy of the company, 985,416 LVL were expended by *Latvian Railway* in 2002 on the following:

- air protection (modernisation of boiler houses and heating systems, control of pollutant emissions, lessening of this process until complete prevention) – 284,060 LVL;
- protection and efficient use of water, as well as maintenance of the hydrologic regime on track (replacement of the old waterpipes with new ones, installation of water meters, repair and maintenance of water supply systems and waste water treatment facilities, repair and reconstruction of water drainage systems during track renewal) – 46,654 LVL;
- soil and ground-water protection (monitoring of ground-water quality, setting up drainage system for the collection and purification of rain and melted snow water polluted by oil products, repair of the concrete surfacing of rolling stock washing fields) – 7,806 LVL;
- soil and ground-water rehabilitation – 5,294 LVL;
- hazardous waste (mercury lamps, used oils, soil polluted by oil products, wiping materials, used synthetic detergents) management – 17,187 LVL;
- collection and disposal of household waste – 46,065 LVL;
- waste water drainage – 204,241 LVL;
- economy of power resources and improvement of working environment (replacement of the old steam and heating pipelines and radiators, heat insulation of workshops and other engineering buildings and repair of their roofing, repair of air supply and ventilation systems of work rooms) – 47,910 LVL;
- fire security and train traffic safety (ploughing fire security zones along forests, cutting out the old and dangerous trees, hewing out the bushes, mowing down and collecting the grass in the railway easement zone and waste disposal from this zone) – 316,089 LVL;
- regeneration of track protecting green areas – 5,005 LVL;
- other environmental protection measures – 5,105 LVL.

Apart from the above measures, in 2002, a special training course on environmental protection was organised by the *Latvian Railway* Training Centre, in which 33 *Latvian Railway* employees – coordinators of environmental protection – were trained, and the Regulation on Environmental Management was developed and adopted by the Board of *Latvian Railway* (Protocol No.16 of 28 October 2002).



In order to implement the quality policy adopted by *Latvian Railway*, measures are taken with an effect on the whole company and mainly directed towards the improvement of the metrological security system.



## ROLLING STOCK REPAIR ENTERPRISES



In 2002, within the rolling stock management structure of *Latvian Railway* three repair centres were operational: the Locomotive Repair Centre *Lokomotivju serviss* (Locomotive Service), the Wagon Repair Centre *Vagonu serviss* (Wagon Service) and the Traction Rolling Stock Repair Centre *Zasulauks*. To ensure and co-ordinate the work of these centres there are two divisions within the Central Administration of the Company, subordinated to the Director of the Rolling Stock: the Rolling Stock Repair Division that carries out the technical supervision and co-ordination of works, and the Rolling Stock Technical Unit that does the elaboration and approximation of the normative documents, approves the technological processes and technical design solutions. Under the supervision of the Director of the Rolling Stock there is also the Chemical and Technical Laboratory as well as the Laboratory of Complex Control and Measurements and these ensure technical control of the rolling stock repair units and other structural units of *Latvian Railway*. In 2002, the work was done in all the repair cen-

tres for certification of the quality management system in conformity with the ISO 9001:2000 standard requirements, and at the start of 2003 the corresponding certificates were obtained. Locomotive Repair Centre *Lokomotivju serviss* (Locomotive Service) was created in 2001 by reorganising the locomotive fleet units in Daugavpils and Riga. The main base is situated in Daugavpils, with a separate unit in Riga, and workshops in Rēzekne, Jelgava and Liepāja. The Locomotive Repair Centre carries out all kinds of repairs (including medium repairs) and technical service for 2TE10M, 2TE10U, M62, 2M62, 2M62U, TEP70, ČME3 and TEM2 series diesel locomotives as well as for industrial locomotives and track repair machinery. In 2002, in the unit of technical service for diesel locomotives, automatic equipment was introduced to diagnose box joints of locomotives without dismantling the joints, thus attaining their safe operation. Besides, in the Locomotive Repair Centre, during the report period, for both, controlling the geometric parameters of locomotive bogies, and also parameters of automated equipment UKPP-01 bearings, laser

automated system LIS-RT-3 was introduced.

The Traction Rolling Stock Repair Centre *Zasulauks* was created in 2001 on the basis of the locomotive depot operating under the same title. It carries out all kinds of repairs (including medium repairs, for diesel trains — also principal repairs) and technical service of ER2 and ER2T series electric trains, of AR2 series motorcars, of DR1P and DR1A series diesel trains, including modernised ones with power equipment of *MTU* and *Voith* companies.

In 2002, co-operation with the Stock Company *Rīgas vagonbūves rūpnīca* (Riga Wagon Building Enterprise) commenced in performing medium repairs of electric trains ER2 and ER2T and thorough repairs of the traction rolling stock electric machinery. A repair unit of automatic couplings was also created, and a new test bench for dismantling and testing of automatic regulators for brake lever turnouts was introduced.

The Wagon Repair Centre *Vagonu serviss* was created in 2001 on the basis of the freight wagon depots of Daugavpils and Riga. It carries out fleet servicing and heavy repairs for all types of freight wagons with 1520 mm rail gauge, as well as the production and repair of hubs and other parts, including the production of doors and roofs of covered wagons. The Wagon Repair Centre also renews the surfaces of worn out parts of the freight wagon bogies (model "18-100") and carries out their further processing according to the dimensions on the working drawings by welding with automatic and semi-automatic equipment. Besides, it carries out the thorough repairs of oil and petroleum tank-wagons, thus extending their working life for 16 more years. A unit has been introduced in the Wagon Repair Centre where wagons are prepared (water jet and steam cleaning) for carrying out welding works.

The mission of the Real Estate Department is the management and maintenance of Latvian Railway real estate and the relevant land property with the aim of ensuring operation of railway infrastructure and organisation of freight shipment and passenger service. The basic objective is to work in the interests of Latvian Railway with regard to efficient and profitable administration and management of real estate and the relevant land property, by gaining income from renting, leasing and selling of real estate and providing different services.

**The main tasks of the Real Estate Department are the following:**

- dealing with matters of real estate, the relevant land property and engineering communications: administration, management, identification, evaluation, registration, transfer and taking possession;
- registration of real estate in the Land Register, leasing out real estate to the structural units of the railway company, as well as other physical and legal entities by signing leasing contracts;
- selling real estate units and organisation of auctions, transfer to the possession of local governments;
- management and renting out apartments;
- providing municipal services (production



of thermal energy) or organising the supply of those;

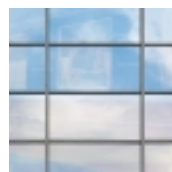
- providing rest areas for locomotive crews;
- providing other services (carpenter's, transport, management, etc.).

Latvian Railway possesses 3.8 thousand real estate units (buildings and structures) in the whole territory of Latvia with the total area of 1.5 million m<sup>2</sup>. 81% of this property is managed by four structural subdivisions of the Real Estate Department: the building of Riga Passenger Terminal and management units of Riga, Daugavpils and Jelgava buildings and territories (MUBT).

In 2002, the Real Estate Department proceed-

ed with its work on more efficient and rational use of buildings and structures, as well as the land property under its management. This work was based on the leasing of inhabitable premises, completely of partially unnecessary for the operation of Latvian Railway, to legal and physical entities, as well as the selling of buildings and structures unnecessary for further economic activity of Latvian Railway. The income from rent in 2002 was more than 350 thousand lats, 45 new agreements of lease were signed.

Matters with regard to the termination of contractual relations with business companies failing to fulfil their obligations under the con-



**The basic objective is to work in the interests of *Latvian Railway* with regard to efficient and profitable administration and management of real estate.**



tract are efficiently dealt with, thus preventing an increase in the debts of debtors. The Real Estate Department carries out regular analysis of the rent market situation resulting in lease agreements of unoccupied premises for the maximum price to the Railway. Thus ungrounded reduction in the amount of income from rent is prevented. 24 real estate units were sold in 2002 which is a little more than in 2001. Sales proceeds were more than 338 thousand lats. The price of 13 units did not exceed 1000 lats. Whereas the total price of 3 units (Kalsnavas street 2 in Jūrmala, Starta street 28 in Riga and Stacijas street 46 in Daugavpils) – 276,000 lats – makes up 4/5

of the whole sales proceeds of the year. Selling of unused real estate units is a matter of high significance, as it provides resources for the renewal and reconstruction of real estate. In 2002, the lessees continued to collaborate in repairs and reconstruction of the real estate owned by Latvian Railway. During this period, in accordance with the agreements of lease of inhabitable premises, the lessees have carried out repair work or reconstruction of the premises taken on lease. Among them, STRINKS Ltd. made repairs at Zaslauks railway station for 7.6 thousand lats, and L-Eks-presis Ltd. – on its administration premises in Lielā Kalna street 68, Riga for 9.6 thousand lats. The Real Estate Department plans to go on with such practice in future.

**The following real estate units were transferred to the ownership of local governments in 2002:**

- 1,777 metres of external engineering net work (687 m to Cēsis town and 1,090 m to Skrīveri parish), necessary for the operation of the dwelling-houses committed to privatisation, two artesian wells, two pumping stations and one water tower;
- 90 units in accordance with the Cabinet decrees on the transfer of the ownership of real estate units to 15 local governments (Tukums town, Vaiņode parish, Gavieze parish, Vērgale parish, Ropaži parish, Mālpils parish, Cēsis town, Dzērbene parish, Amata region, Auce town, Skrīveri parish, Anna parish, Stāmeriena parish, Ranka parish, Vecumi parish).

The Real Estate Department took possession of 106 units, including 25 building and structures, from other structural units of Latvian Railway.

**During the reporting period, the following units were put into operation after renovation:**

- Indra station building;
- Brasa halt;
- heating system at Daugavpils shunting station;

- boiler house in Depo street 12, Ventspils;
  - boiler house in Depo street 17, Ventspils.
- Ordinary repairs were performed in 94 units for the total amount of 400 thousand lats, including:
- Riga MUBT – 30 units for 204.7 thousand lats;
  - Daugavpils MUBT – 26 units for 79.0 thousand lats;
  - Jelgava MUBT – 38 units for 114.0 thousand lats;
  - Building of Riga Passenger Terminal – 1 unit for 2.3 thousand lats.

Besides, the programme for the renewal of platforms was developed, as well as the technical and economic substantiation made with regard to heat supply of the units located in Piekaste street, Daugavpils, from their boiler rooms, switching them off from the town heating system.

The 1184 metres long heating main in Daugavpils, being in critical condition, was switched off, as well, and 3 electric boiler rooms were fixed up in the town for the total amount of 138.5 thousand lats.

In the territory of Ventspils railway station, measures to reduce the amount of polluted wastewater drained into the wastewater treatment works of the town were taken in collaboration with Ūdeka Ltd., as part of the environmental protection programme.

The Real Estate Department continued its work on the development of economically justified proposals with regard to the unused units: their selling, leasing, transfer to local governments or dismantling.

**More attention was drawn to the following:**

- perfection of the unified data base of real estate units and the relevant land property, development of electronic map;
- specification and mapping of land borders, development of border plans;
- registration of units in the Land Register;
- maintenance or dismantling of unused units.

**In 2002, the lessees continued to collaborate in repairs and reconstruction of the real estate owned by Latvian Railway.**

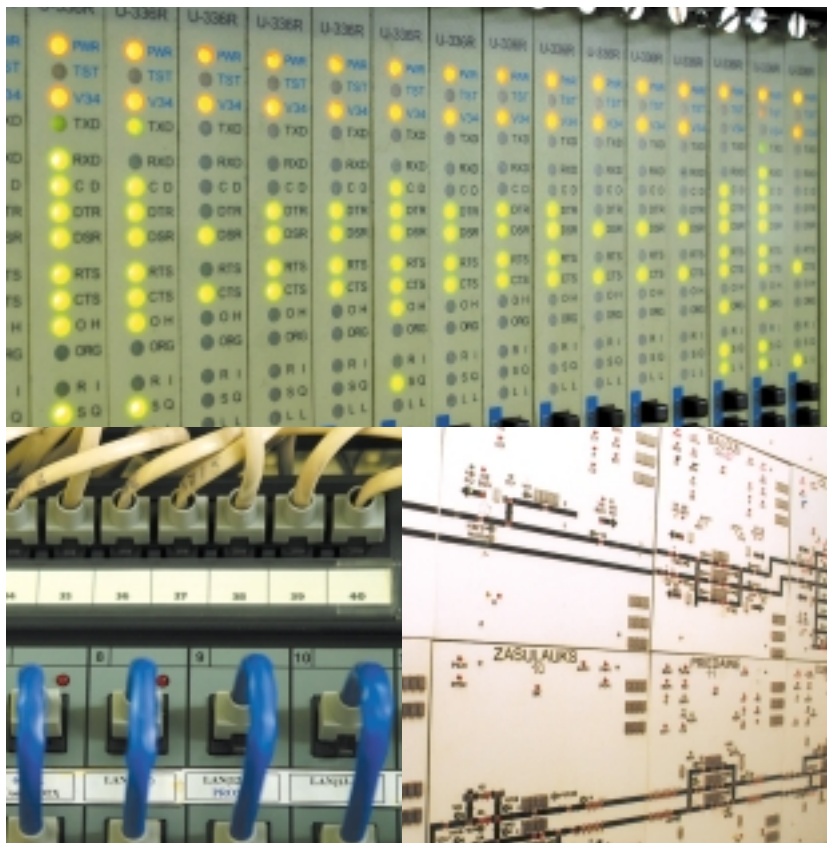


Development of the *Latvian Railway* information technologies continued in 2002, aimed towards the IT modernization and implementation of the respective state-of-the-art techniques into railway transport, integration of railway information technologies into the national and international information network, as well as the development of the unified financial and economic management system of *Latvian Railway*.

### DATA TRANSMISSION NETWORK (LDZDAT)

In 2002, the connection of the IBM mainframe computers to the data transmission network was modernised enabling more efficient use of resources by mainframe computers by increasing the speed and safety of the data transmission network.

During the accounting period, the regional data transmission network was established in an eastward direction (Rīga, Krustpils, Daugavpils and Rēzekne). Use of *Latvian Railway* optical communication lines and data transmission commutation equipment increased the speed of the network in this direction to 1GB per second. This enables *Latvian Railway* to compete with the other main providers of data transmission services



in Latvia, which is relevant when the licence of the telecommunications operator is obtained.

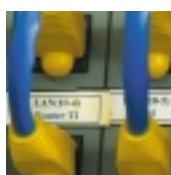
Connection of *Latvian Railway* extreme facilities to LDzDAT was commenced. The main extreme facilities in Rīga, Daugavpils, Rēzekne and Liepāja have been already connected. This was ensured by xDSL technologies enabling considerable speed of data transmission through the existing cupric telecommunication lines.

Technical and software solutions were implemented ensuring network safety and reservation of the most significant data. The local network in *Latvian Railway* headquar-

ters was modernised and the network at several stations – reconstructed.

Connection to the international railway network *Infonet-21* was modernised ensuring full compliance with technical requirements if, in accordance with safety rules, complete reservation of the connection and separation from the rest of the network is carried out. At the moment, *Latvian Railway* is a leader in the development of the particular network and provides consultations on the subject to other railways.

In 2002, 284 new connections to LDzDAT were made, 197 users were connected to *Internet*, and the number of users of elec-



**In 2002, the connection of the IBM mainframe computers to the data transmission network was modernised enabling more efficient use of resources.**



tronic mail increased by 208. At present, 980 computers are connected to *LDzDAT*, 665 of them have access to *Internet* and 806 are the users of electronic mail.

The joint virus protection system is still used in the network.

The number of users of special applications still increases regularly. Their activities are based on the use of *LDzDAT* and centralised storing of data resources. The most significant of them are the financial management system *MySAP*, freight shipment information systems *APOVS*, *APIKS*, *DISKOR*, *AMMAS* and the passenger service information system *Eksprezis-2*.

### FINANCIAL AND ECONOMY MANAGEMENT SYSTEM

In accordance with the project plan, implementation of the *MySAP* system in *Latvian Railway* was commenced on 21 January 2002. During the year, the plan for the configuration and implementation of *MySAP* system was developed in collaboration with *MicroLink Systems* specialists. In the first stage of the implementation, the so-called pilot area, the Real Estate Department together with its structural units, Information Technology Centre and *Latvian Railway* History Museum were chosen. In those structural units the following *MySAP* modules were introduced in 2002 and are operating since 1 January 2003: Financial, Investment, Materials, Project and Sales accounting. Over 2003, those modules will be introduced in the other structural units of *Latvian Railway*, and in the last quarter of the year, the Freight Shipment and Infrastructure Department will join the common system, as well.

One more module is planned with a special implementation schedule – Wage accounting and personnel registration. In 2002, this module was introduced in the Information Technology Centre, *Latvian Railway* History Museum and Central Administration. Later it will be introduced in other structural units.

At the end of 2002, almost 100 final users took a two-months course on *MySAP*. The training will be proceeded with in 2003.

### FREIGHT SHIPMENT INFORMATION SYSTEM (FSIS)

The system is functioning on the basis of an advanced software complex. This complex includes data base servers *Mainframe IBM 9672* and the operating system *OS390*.

*FSIS* provides information necessary for freight shipments. This system includes several subsystems:

- *APOVS* ensures operational management of freight shipments.
- *APIKS*, *AMMAS*, *ADIIAS* ensure commercial activities.

The system *APOVS* provides services to 695 subscribers – railway technological personnel (including also in Lithuania – 220). The system is continually developing – system terminals are replaced and the systems of shunting and technical stations – modernised. For example, the AWP at Daugavpils station was modernised in 2002, using the *Microsoft SQL* data base server.

*APOVS* provides the necessary information to *Latvian Railway* operational services, including the railway dispatcher service. Provision of information services to clients by using *SMS* and *Internet* technologies is being developed, as well.

The system *APIKS* comprises 11 major *Latvian Railway* freight stations, including 4 sending stations. *APIKS* ensures processing of shipment documentation and payment for freight shipments by *Latvian Railway* clients.

The system *ADIIAS* makes the calculations regarding the use of railway infrastructure. The system *AMMAS* processes the engine-drivers' route data and ensures the accounting of fuel consumption.

The train traffic accident registration system is used by 62 employees in those structural

**At the end of 2002, almost 100 final users took a two-months course on *MySAP*. The training will be proceeded with in 2003.**



units of *Latvian Railway* that are informed about train accidents.

### PASSENGER SERVICE INFORMATION SYSTEM

The ticket booking system *Ekspresis-2* (computer run by IBM 4381.P13 processor) proceeded with its operation. 165 terminals (96 in Latvia, 41 in Lithuania and 28 in Estonia) are connected to the system. The average number of seats reserved per day is 3550 (1500 in Latvia, 1800 in Lithuania and 250 in Estonia).

In accordance with the decision taken during the XXXIII meeting of the Railway Transport Council of Commonwealth States providing for the transition to the system "Ekspresis-3" by 1 January 2005, a special programme for the development of the automated passenger traffic management system and its implementation in *Latvian Railway* was confirmed. In accordance with this programme, replacement of the booking-office equipment was commenced. New printers *Olivetti PR-2* were installed at Rīga, Daugavpils, Rēzekne, Krust-pils, Jelgava, Ventpils and Liepāja stations to be used for processing documents for international traffic with the CIS and the Baltic States on the new forms (three-layer slips with the line code).

Since the enterprise *Pasažieru vilciens* (Passenger train) has been established and the new domestic traffic tariff system implemented, the software with regard to traffic documentation and financial and statistical reporting was updated.

### PERSONNEL REGISTRATION SYSTEM (PRS)

In 2002, the latest version of PRS 5.0 was installed for all PRS clients. At the moment,



the PRS is installed and the personnel registered in 25 *Latvian Railway* personnel departments in Rīga, Daugavpils, Jelgava and Ventpils.

### OFFICE RECORDS MANAGEMENT SYSTEM (ORMS)

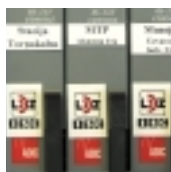
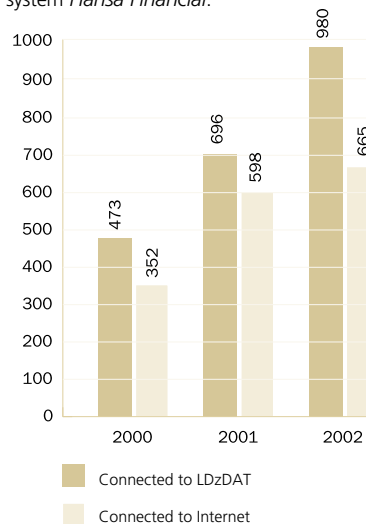
In 2002, the ORMS proceeded with its operation – with the full cycle for the common network users and without full cycle – for the local users of *Latvian Railway* Central Administration.

### INFRASTRUCTURE INFORMATION SYSTEM

SCB, ALSN, the system for the registration and analysis of communication and power supply equipment failures was implemented in nine workplaces (five new users). The system for the technical design of track renewal projects was implemented in seven more workplaces of the Infrastructure Department and is now used by 21 employees in total. The system for the registration of engineering structures was put into trial operation in four workplaces of the Infrastructure Department track management.

### OTHER INFORMATION SYSTEMS

The Information Technology Centre, in collaboration with other structural units of *Latvian Railway*, maintains other information systems, as well: Legislation information system, Quality and environmental management data base, Railway legislation data base, Library data base *ALISE*, Latvian legislation data base *KODEKS*, data base of the Railway national service facilities, as well as the Financial information system *Hansa Financial*.



The ticket booking system *Ekspresis-2* (computer run by IBM 4381.P13 processor) proceeded with its operation.



In 2002, *Latvian Railway* continued extensive co-operation with foreign railway administrations, as well as with various international railway associations and institutions.

Since 1992, *Latvian Railway* is actively participating in the activities of the Organisation for Railways Co-operation (OSJD). OSJD is represented by railways from 27 countries: CIS, Baltic and Central European countries, People's Republic of China, People's Democratic Republic of Korea, Vietnam, Mongolia, Iran, etc. Representatives from railways of Germany, Finland, France, Greece and Serbia-Montenegro participate in activities of the OSJD

in the status of observers. According to the work plan of the OSJD in 2002 three meetings on topical railway development and co-operation issues took place in Latvia. In the course of the year 62 representatives from *Latvian Railway* participated in various activities organised by the OSJD.

Since 1992, the *Latvian Railway Company* is also a member of the International Union of Railways (UIC). The UIC comprises more than 150 railway companies from 5 continents of the world. During the report period, 21 representative from *Latvian Railway* participated in various UIC activities.

Besides, since 1992, *Latvian Railway* is taking

part in the activities of the Railway Transport Council of CIS, Baltic States and Bulgaria. In 1996, *Latvian Railway* was admitted into associated membership of the Council granting our railway more extensive rights and opportunities without impairing the freedom of action to carry out its decisions.

In 2000, *Latvian Railway* became a standing member to the International Co-ordinating Council on Transsiberian Transportation. The Council was established in 1993 and it comprises more than 80 actively collaborating collective members. In November 2002, the representatives of *Latvian Railway* participated in the Council meeting that was held in a Swiss town of Lucerne.

Since 1993, *Latvian Railway* is representing our country in the International Railway Congress Association (IRCA) comprising more than 100 railway organisations and enterprises from 80 countries, whereas in 2000 our railway became a member of the International Railway Transport Committee (CIT). CIT unites more than 300 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). In May 2002 the representatives of the *Latvian Railway Company* participated in activities of CIT general assembly in Lucerne.

**In May 2002 the representatives of the *Latvian Railway Company* participated in activities of CIT general assembly in Lucerne.**



## INTERNATIONAL CO-OPERATION



With the aim to make use of the experience gained by other countries in tackling safety issues in the field of rail traffic, in 1999, *Latvian Railway* entered the International Organisation for Collaboration among Railway Police and Safety Institutions (COLPOFER). In November 2002, the representatives of *Latvian Railway* took part in activities of this Organisation at its general assembly in Rome.

To favour closer collaboration with rail companies of European countries, in 2002, negotiations were commenced about *Latvian Railway's* accession to the Community of European Railways (CER).

The leading international collaboration partners of *Latvian Railway* are railway companies from Russian Federation, Belarus, Lithuania, Estonia, the Ukraine, Kazakhstan, as well as Germany and Poland.

Regular meetings of the general managers from railways of Baltic countries are held to discuss the most pending collaboration matters. According to an agreed plan, these meetings are organised by each Baltic State in turn. With the aim of participating in business dis-

cussions, seminars, congresses and conferences, exhibitions, work group meetings and other international activities, in 2002, 585 members of *Latvian Railway* staff made business trips to 33 countries of the world. During the period of report the employees of *Latvian Railway* took part in the following significant international activities as:

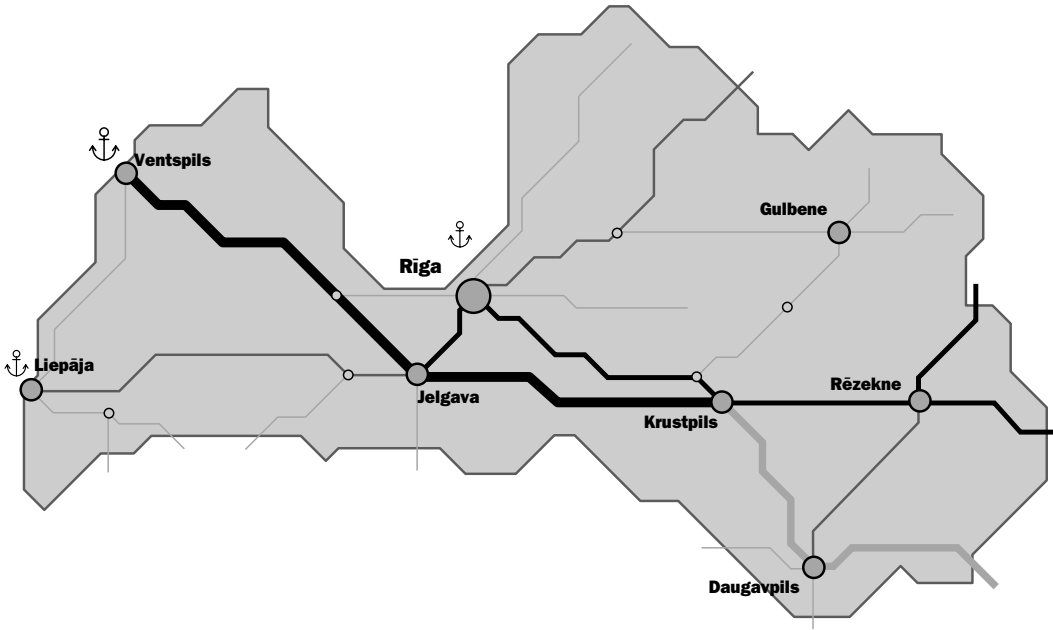
- exhibition and conference TransRussia 2002 in Moscow;
- exhibition and conference TransExpo 2002 in St. Petersburg;
- exhibition and conference TransTec 2002 in St. Petersburg;
- exhibition and conference Transit-TransKazakhstan 2002 in Astana;
- exhibition and conference Transport and Logistics 2002 in Riga;
- conference Baltic Economic Forum in Riga;
- conference TransBaltica 2002 in Riga;
- conference Railway Reforms in the Baltics and CIS in Jūrmala;
- conference Safety of Energy Supplies within the Baltic Sea Region and in the Context of European Union Enlargement in Ventspils and other activities.



**To favour closer collaboration with rail companies of European countries, in 2002, negotiations were commenced about *Latvian Railway's* accession to the Community of European Railways (CER).**



# LATVIAN RAILWAY LINES



Due to the favourable geographical location of our country, freight transit by railway through the main Latvian ports still holds the leading position.





**Independent Auditor's Report and Condensed consolidated Financial Statements in accordance with International Financial Reporting Standards for the Years Ended 31 December 2002 and 2001**

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**Deloitte  
& Touche****INDEPENDENT AUDITORS' REPORT**Deloitte & Touche  
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To the Board of Latvijas Dzelzceļš:

We have audited the accompanying condensed consolidated balance sheets of State JSC "Latvijas Dzelzceļš" and its subsidiary ("the Group") as of 31 December 2002 and 2001, and the related condensed consolidated statements of profit and loss, shareholder's equity and cash flows for the years then ended. We have also audited the accompanying condensed balance sheets of State JSC "Latvijas Dzelzceļš" ("the Company") as of 31 December 2002 and 2001 and the related condensed statements of profit and loss, changes in shareholders' equity and cash flows for the years then ended. These condensed financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these condensed financial statements based on our audits. Our report dated 29 May 2003 expressed an unqualified opinion on these statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of 31 December 2002 and 2001, and the related condensed consolidated statements of profit and loss, cash flows and shareholder's equity for the years then ended is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

Deloitte & Touche  
Rīga, Latvia  
29 May 2003

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**Deloitte  
Touche  
Tohmatsu**

## FINANCIAL STATEMENT

### CONDENSED CONSOLIDATED BALANCE SHEETS

	2002 LVL'000 Consoli- dated	2002 LVL'000 Parent	2001 LVL'000 Consoli- dated	2001 LVL'000 Parent
<b>ASSETS</b>				
<b>Non current:</b>				
Investment in subsidiary	-	-	-	9
Other equity investments, net	753	753	820	820
Intangible assets, net	452	449	77	76
Tangible fixed assets, net	158,124	158,061	140,648	140,644
	159,329	159,263	141,545	141,549
<b>Current:</b>				
Cash	1,425	1,090	1,914	1,906
Inventories	7,206	7,156	9,028	9,028
Accounts receivable, net	2,777	2,777	2,456	2,456
Accounts receivable from subsidiary	-	904	-	-
Other assets	3,671	3,255	4,718	4,717
	15,079	15,182	18,116	18,107
<b>Total assets</b>	<b>174,408</b>	<b>174,445</b>	<b>159,661</b>	<b>159,656</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	82,066	82,066	82,090	82,090
Reserves	5,394	5,394	4,379	4,379
Retained earnings	9,311	9,912	1,737	1,737
<b>Total shareholder's equity</b>	<b>96,771</b>	<b>97,372</b>	<b>88,206</b>	<b>88,206</b>
<b>LIABILITIES</b>				
<b>Non current:</b>				
Long-term borrowings	32,020	32,020	19,383	19,383
Finance lease obligations	171	171	908	908
Deferred tax	5,251	5,251	4,483	4,483
Other long term liabilities	-	-	87	87
	37,442	37,442	24,861	24,861
<b>Current:</b>				
Accounts payable	9,485	9,392	15,001	14,997
Short-term borrowings	6,676	6,676	9,397	9,397
Finance lease obligations	778	778	998	998
Taxes payable	1,886	1,736	3,906	3,885
Other current liabilities	20,195	19,974	17,210	17,092
Accounts payable to subsidiary	-	10	-	138
Vacation reserve	1,175	1,065	82	82
	40,195	39,631	46,594	46,589
<b>Total liabilities and shareholder's equity</b>	<b>174,408</b>	<b>174,445</b>	<b>159,661</b>	<b>159,656</b>

## FINANCIAL STATEMENT

### CONDENSED CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

	2002 LVL'000 Consoli- dated	2002 LVL'000 Parent	2001 LVL'000 Consoli- dated	2001 LVL'000 Parent
Operating income	118,786	112,048	102,870	102,870
Operating expenses	(85,733)	(79,160)	(76,803)	(76,803)
<b>GROSS PROFIT</b>	<b>33,053</b>	<b>32,888</b>	<b>26,067</b>	<b>26,067</b>
Depreciation	(11,852)	(11,844)	(10,279)	(10,279)
General and administrative expenses	(13,388)	(12,585)	(12,346)	(12,330)
Provisions	(382)	(382)	(235)	(235)
<b>NET OPERATING PROFIT</b>	<b>7,431</b>	<b>8,077</b>	<b>3,207</b>	<b>3,223</b>
<b>Non-operating items:</b>				
Financial income	2,292	2,287	11	11
Financial expense	(1,255)	(1,252)	(1,957)	(1,957)
Equity in loss of unconsolidated subsidiary	-	(9)	-	(16)
Loss from other equity investments	(62)	(62)	-	-
Other non-operating income	2,290	2,263	2,346	2,346
Other non-operating expense	(1,394)	(1,401)	(1,562)	(1,562)
Expense of maintaining social infrastructure, net	(74)	(74)	(92)	(92)
Grant income	555	555	506	506
<b>Total non-operating income/ (expenses)</b>	<b>2,352</b>	<b>2,307</b>	<b>(748)</b>	<b>(764)</b>
<b>NET PROFIT BEFORE TAXATION</b>	<b>9,783</b>	<b>10,384</b>	<b>2,459</b>	<b>2,459</b>
Taxation	(768)	(768)	(985)	(985)
<b>NET PROFIT</b>	<b>9,015</b>	<b>9,616</b>	<b>1,474</b>	<b>1,474</b>

## FINANCIAL STATEMENT

### CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

PARENT	SHARE CAPITAL LVL'000	RESERVES LVL'000	RETAINED EARNINGS LVL'000	TOTAL LVL'000
<b>At 31 December 2000</b>	<b>82,399</b>	<b>1,180</b>	<b>3,747</b>	<b>87,326</b>
Current year profit	-	-	1,474	1,474
Appropriation of profit to the State Budget	-	-	(522)	(522)
Property transferred to the government	(309)	309	-	-
Property transferred to the government	-	(72)	-	(72)
Allocation to reserves	-	2,962	(2,962)	-
<b>At 31 December 2001</b>	<b>82,090</b>	<b>4,379</b>	<b>1,737</b>	<b>88,206</b>
Current year profit	-	-	9,616	9,616
Appropriation of profit to the State Budget	-	-	(387)	(387)
Property transferred to the government	(16)	16	-	-
Property transferred to the government	(8)	(55)	-	(63)
Allocation to reserves	-	1,054	(1,054)	-
<b>At 31 December 2002</b>	<b>82,066</b>	<b>5,394</b>	<b>9,912</b>	<b>97,372</b>

CONSOLIDATED	SHARE CAPITAL LVL'000	RESERVES LVL'000	RETAINED EARNINGS LVL'000	TOTAL LVL'000
<b>At 31 December 2000</b>	<b>82,399</b>	<b>1,180</b>	<b>3,747</b>	<b>87,326</b>
Current year profit	-	-	1,474	1,474
Appropriation of profit to the State Budget	-	-	(522)	(522)
Property transferred to the government	(309)	309	-	-
Property transferred to the government	-	(72)	-	(72)
Allocation to reserves	-	2,962	(2,962)	-
<b>At 31 December 2001</b>	<b>82,090</b>	<b>4,379</b>	<b>1,737</b>	<b>88,206</b>
Current year profit	-	-	9,015	9,015
Appropriation of profit to the State Budget	-	-	(387)	(387)
Property transferred to the government	(16)	16	-	-
Property transferred to the government	(8)	(55)	-	(63)
Allocation to reserves	-	1,054	(1,054)	-
<b>December 2002</b>	<b>82,066</b>	<b>5,394</b>	<b>9,311</b>	<b>96,771</b>

## FINANCIAL STATEMENT

### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	2002 LVL'000 Consoli- dated	2002 LVL'000 Parent	2001 LVL'000 Consoli- dated	2001 LVL'000 Parent
<b>OPERATING ACTIVITIES</b>				
Net profit	9,015	9,616	1,474	1,474
<i>Adjustments for:</i>				
Depreciation	11,893	11,885	10,459	10,459
Provisions (recovered provisions)	382	382	235	235
Provisions for inventory	1,386	1,386	-	-
Deferred tax	768	768	985	985
Grant income	(555)	(555)	(506)	(506)
Gain on sale of fixed assets	(877)	(877)	(2,374)	(2,374)
Revaluation of equity investments	-	9	-	16
Loss from equity investments	62	62	-	-
Appropriation of profit to the State Budget	(387)	(387)	(522)	(522)
Foreign currency translation gain/ loss	(1,901)	(1,901)	663	663
Vacation reserve	1,093	983	82	82
Interest expense	903	903	260	260
<i>Changes in operating assets and liabilities:</i>				
Inventories	436	486	(2,328)	(2,328)
Accounts receivable	(703)	(1,607)	(784)	(784)
Other assets	1,045	1,460	34	35
Accounts payable	(5,516)	(5,733)	2,142	2,276
Taxes payable	(2,020)	(2,149)	(339)	(360)
Other liabilities	353	250	(147)	(265)
<b>Net cash provided by operating activities</b>	<b>15,377</b>	<b>14,981</b>	<b>9,334</b>	<b>9,346</b>
<b>INVESTING ACTIVITIES</b>				
Dividends received	2	2	3	3
Investment in subsidiary	-	-	-	(25)
Disposal of investment	5	5	-	-
Purchase of intangible assets	(416)	(414)	(13)	(12)
Proceeds from disposal of fixed assets	2,905	2,913	4,378	4,378
Purchase of tangible fixed assets	(30,815)	(30,756)	(20,754)	(20,750)
<b>Net cash used in investing activities</b>	<b>(28,319)</b>	<b>(28,250)</b>	<b>(16,386)</b>	<b>(16,406)</b>
<b>FINANCING ACTIVITIES</b>				
Net proceeds (borrowings) under credit lines	2,115	2,115	342	342
Proceeds from loans received	17,694	17,694	12,535	12,535
Grants received	3,100	3,100	1,666	1,666
Repayment of loans	(4,489)	(4,489)	(3,867)	(3,867)
Repayment of promissory notes	(3,506)	(3,506)	(581)	(581)
Repayment of finance leases	(957)	(957)	(763)	(763)
Interest paid	(1,504)	(1,504)	(905)	(905)
<b>Net cash provided by financing activities</b>	<b>12,453</b>	<b>12,453</b>	<b>8,427</b>	<b>8,427</b>
<b>Net (decrease)/ increase in cash</b>	<b>(489)</b>	<b>(816)</b>	<b>1,375</b>	<b>1,367</b>
Cash at the beginning of the year	1,914	1,906	539	539
<b>CASH AT THE END OF THE YEAR</b>	<b>1,425</b>	<b>1,090</b>	<b>1,914</b>	<b>1,906</b>

