



*On behalf of the Board and the Management
of the State Joint Stock Company Latvian Railway,
I am pleased to acknowledge that during the reporting
period the company has operated with profit and on
the whole has completed the planned tasks.
This was achieved thanks to the primary values of the
company: professional expertise, teamwork,
performance quality and loyalty.*

A year rich in historic events

The first year of the third millenium is historically significant for the State Joint Stock Company *Latvijas dzelzceļš* (Latvian Railway) due to several reasons. Ten years have passed already since the state enterprise *Latvian Railway* was re-established. De facto it happened on 24 August 1991, but at a special meeting, held on 29 November 1991, the Ministers of Transport from Estonia, Lithuania and Latvia took a decision that the three sovereign railway companies of the Baltic States will commence their operation from 1 January 1992.

Evaluation of the results of financial and economic activity confirms the fact that the year 2001 has been one of the most successful years for *Latvian Railway* during the whole period of its operation. The volume of freight shipments in the year of account has increased by 4% (36.4 million tons of freight were shipped in 2000, and 37.9 million tons – in 2001). The profit, as compared with the previous year, has grown by one million lats.

The year 2001 was also crucial for the restructuring of the

company, when the implementation of the Restructuring Programme of *Latvian Railway* accepted by the Cabinet on 4 July 2000 was commenced. On 2 November 2001, the Joint Stock Company *Pasažieru vilciens* (Passenger Train) started its activity as the first subsidiary enterprise to the holding company to be established in future.

In the year of account, several major railway infrastructure modernisation projects were completed.

In April 2001, a new computerised rail welding line was launched in the Rail Welding Centre of *Latvian Railway*. The line is equipped with the French company *L-Geismar* and the Swedish company *ESAB* facilities. Experts consider the line to be the most advanced in Europe.

In June 2001, at Rīga and Torņakalns stations the computerised and technologically advanced train traffic control system started its operation. The work at introducing this microprocessor control system *Ebilock-950* was carried out in close collaboration with Swedish company *ADTranz Signal* (now a part of the concern *Bombardier Transportation*).

In August 2001, the completely reconstructed Riga Passenger Terminal was put into operation.

Besides, in August 2001, the representatives of *Latvian Railway* and the Ministry of Railway Transport of the Russian Federation signed an agreement on the linking of the optical communication network and shared use of telecommunications.

The completed and planned projects acknowledge that *Latvian Railway* will proceed with the purposeful implementation of the railway infrastructure modernisation programme in future.

Investment in infrastructure – a task of national importance

The work and resources invested in rail track modernisation will secure our competitiveness in the dynamic and changing market of transit traffic, and, to tell the truth, this is the only guarantee of qualitative and reliable passenger and freight shipment services.

Development of railway infrastructure requires not only proper allocation of own resources, but also attracting investment from other sources. Maintenance of infrastructure in 2001 was financed mainly by the income from the use of public railway infrastructure. The state budget and own resources, however, are not sufficient for the implementation of rail track renewal projects. Therefore intellectual potential of our specialists is actively employed to prepare and submit project applications to receive financing from the European Union programmes.

Thanks to the projects efficiently prepared by our specialists, *Latvian Railway*, within the period from 1996 to 2001, has received *PHARE* grants in the amount of 8.68 million euros. In 2001 *PHARE* allocation of 1.5 million euros was supplemented by 34 million euros of *ISPA* financing.

In 2001, construction of *Jūras parks* in Ventspils railway junction, rail track renewal and improvement on the East-West transit corridor, as well as construction of the

railway station Rēzekne II reception yard were continued.

In 2001, two more project applications were prepared and submitted to the European Commission in Brussels:

- modernisation of the automatic signalling system on the East-West transit corridor,
- modernisation of the traffic safety systems.

Now the European Union has accepted both projects and has allocated 75% of the funds necessary for their implementation, whereas the rest 25% of the funding will be provided from the national budget.

Intense implementation of the investment raising and infrastructure modernisation programme has enabled *Latvian Railway* not only to make efficient use of the East-West transit corridor, but also to integrate oneself into the common European transport network.

The fact that *Latvian Railway* is one of the first enterprises in the country to be granted *PHARE* and *ISPA* funding for investment, acknowledges the internationally recognised authority of the company and its stable position in the transport market.

Contribution of *Latvian Railway* into further education of its staff is an aspect of no less importance in the investment programme. In 2001, the management of the company accepted the personnel development strategy stressing the training and further education of its staff. The personnel development strategy motivates the employees to work creatively and perfect one's engineering, management and marketing skills, as well as other skills and knowledge, since education is the only way to raise the competitiveness of a specialist in the modern intellectual environment of railway engineers and to seize an opportunity to make one's way up.

The further education programme is financed by *Latvian Railway*, since the lack of highly educated professionals makes the restructuring of the company, development of intense production and maintenance of competitiveness at the same time impossible.

Restructuring – national strategy

In accordance with the railway restructuring programme accepted by the Cabinet, the scheme and structure for the establishment of a holding company with subsidiaries have principally remained the same. It should be noted, however, that the restructuring process of *Latvian Railway* goes in parallel with the vigorous business activity of the company in order to maintain the leading position in transit traffic and retain competitiveness in the dynamic and changing transport market.

Restructuring is a purposeful national strategy aiming for the maximum benefit from the railway transport sector to the state and inhabitants of Latvia in the form of taxes paid into the state budget, jobs provided and socially insured, as well as ecologically safe and reliable transport services supplied.

Evaluating the reforms carried out during the accounting year, I am pleased to conclude – *Latvian Railway* has chosen appropriate strategy and tactics for restructuring. One of the facts to prove this is the following: in 2001,

Latvian Railway was the biggest payer of social insurance and personal income tax in the country. This is real money paid into the State budget, and part of it could be spent on the harmonization of social environment and raising the standard of living of the whole community.

Subsidiaries to *Latvian Railway* will be given financial and economic autonomy, retaining, however, the common railway transport technology. With the implementation of mutual payments, the commercial responsibility of each subsidiary will increase and, eventually, the railway competitiveness will grow.

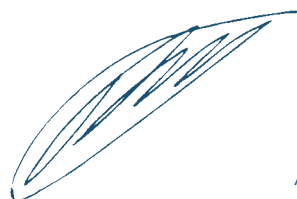
Railway – the bridge between the East and the West

In 2001, *Latvian Railway* activated collaboration on international scale, as the geography of freight formation channels and shipment flows is extending. In October 2000, at a meeting of the Transsiberian Transportation Council in Tokyo, *Latvian Railway* was admitted as a standing member. We are interested in container freight shipments on Transsiberian main from Asian – Pacific Ocean region through Latvian ports to Western Europe.

There were other international cooperation activities in 2001, such as an agreement reached with the Kazakhstan railway on the exchange of information for the research on the condition of the transport market. The Ministry of Transport of the Republic of Latvia signed a border agreement with the Belarus railway. These and other facts are indicative of the growing advantage of Latvian transit corridor linking our ports to both the East and the West with regard to potential clients.

Our advantage is the far and extensive transit traffic. This is our power. During the accounting year, we have worked a lot and intensely to improve the infrastructure of the main transit corridor, since it is crucially important for Latvia to arrange maximum amount of freight and ensure efficient, convenient and safe freight shipments. We, the employees of *Latvian Railway*, consider this to be our main duty.

Thanks to all the workers of *Latvian Railway* for their very good performance! Thanks to our collaboration partners and clients entrusting the shipment of their freight to us! I am sure we will be able to retain our reputation of a reliable and trustworthy business partner also in the future.



Andris Zorgevics

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