

Report of the management.

I. The key figures of the enterprise.

In the reference year 2005 joint-stock company „Daugavpils lokomotīvu remonta rūpnīca” has distributed goods for 16786.7 thousand lats, which constitutes an increase of +55.6 % compared to the appropriate period of 2004.

Displayed below is the dynamics of the output of the production of the basic classification.

Table No.1

The basic classification of the production.

Designation	Year 2004	Year 2005	(+, -) thousands.Ls
Diesel locomotive repair, section	5770.8	12626.6	+6855.8
Electric train repair,carrige	1821.9	529.8	-1292.1
Diesel-multiple unit train repair,carrige	378.3	71.5	-306.8
Total sum of rolling-stock unit	7971.0	13227.9	5256.9
Wheelpair repair,pieces	1005.3	1328.4	323.1
Electric machines repair,pieces	446.1	882.5	436.4
Diesel repair,peaces	376.6	251.5	-125.1
Other	991.9	1096.4	104.5
Total	10790.9	16786.7	5995.8

Table No.2

The structure of the distributed goods by the clients.

The client	2004		2005	
	sum	%	sum	%
Latvia	1557.7	14.4	2248.2	13.4
Lithuania	856.5	7.9	1294.8	7.7
Estonia	986.5	9.2	4956.4	29.5
Belarus	547.0	5.1	182.1	1.1
Uzbekistan	888.7	8.2	688.4	4.1
Russia	5954.5	55.2	7416.8	44.2
Total	10790.9	100.0	16786.7	100.0

II. Financial figures.

The enterprise finished year 2005 with the balance income of 21 thousand lats, the income of 482 thousand lats was provided from the basic production action.

The supplies for the vacations, hopeless debtors, taxes, guaranteed liabilities (diesel locomotives, diesels, electric trains) for the sum of 1 013.8 thousand lats were established.

The enterprise for the means of the increase of the turnover resources, has invested 858.0 thousand lats of investments, including:

- The purchase of the capital assets - 331.6 thousand lats
- Equipment - 69.4 thousand lats
- The classification of the factory - 339.4 thousand lats
- Furniture and equipment - 117.6 thousand lats

B. Golovaņa

The managing director of the Financial – economic Department

ISC "Daugavpils Lokomotīvu Remonta Rūpnīca"

Nr LV 4003030219

Address Daugavpils, Marijas iela 1

2006 year 01.01. balance Sheet

0.702804

ASSETS				
	01. 01.2006.		01. 01.2005.	
	LTV	EUR	LTV	EUR
NON CURRENT ASSETS				
Property, plant and equipment:				
Land, buildings and networks	2 176 596	3 097 017	2 235 246	3 180 469
Machinery and equipment	532 776	758 072	277 462	394 793
Other property, plant and equipment	79 153	112 625	102 752	146 203
Construction in progress	85 481	121 629	27 750	39 485
Total property, plant and equipment	2 874 006	4 089 342	2 643 210	3 760 949
Total investments	0	0	0	0
Total	0	0	0	0
Total non current assets	2 874 006	4 089 342	2 643 210	3 760 949
CURRENT ASSETS				
Inventory	5 767 491	8 206 400	3 832 821	5 453 613
Debtors:				
Trade accounts receivable	2 897 487	4 122 753	1 825 835	2 597 929
Debts of the linked enterprises	12 005			
Other accounts receivable	187 474	266 751	137 628	195 827
Short-term loans	10 888	15 492	9 386	13 355
Total debtors:	3 107 854	4 422 078	1 972 849	2 807 111
Cash and cash equivalents	5 777 658	8 220 867	781 788	1 112 384
Total current assets	14 653 003	20 849 345	6 587 458	9 373 108
TOTAL ASSETS	17 527 009	24 938 687	9 230 668	13 134 057

President

A. Šilovs

2006, gada. 30.04.

ISC "Daugavpils Lokomotīvu Remonta Rūpnīca"

Nr LV 40003030219

Address Daugavpils, Marijas iela 1

2006.01.01. balance Sheet

0.7028

LIABILITIES				
	01.01.2006.		01.01.2005.	
	LTV	EUR	LTV	EUR
SHAREHOLDER' EQUITY				
Share capital	8 294 219	11 801 678	8 294 219	11 801 678
Topheavy reserves	786 913	1 119 683	1 003 243	1 427 494
Previous year unappropriated result	-5 406 316	-7 692 538	-4 373 042	-6 222 314
Current year unappropriated result	21 189	30 149	-1 033 274	-1 470 225
Total shareholders' equity	3 696 005	5 258 971	3 891 146	5 536 633
ACCUMULATION				
Accumulation	1 013 828	1 442 555	146 705	208 744
LONG-TERM LIABILITIES				
Long-term loan from credit institution	2 258 876	3 214 109	1 900 662	2 704 414
Total long-term liabilities	2 258 876	3 214 109	1 900 662	2 704 414
CURRENT LIABILITIES				
Creditors' equity	301 364	428 805	186 558	265 450
Advances from customers	1 353 138	1 925 353	2 317 699	3 297 807
Trade accounts payable	8 443 934	12 014 704	379 553	540 058
Covered by taxes	265 917	378 368	244 228	347 507
Other liabilities	193 947	275 963	164 117	233 519
Total current liabilities	10 558 300	15 023 193	3 292 155	4 684 341
Total	12 817 176	18 237 302	5 192 817	7 388 755
<u>TOTAL LIABILITIES</u>	<u>17 527 009</u>	<u>24 938 829</u>	<u>9 230 668</u>	<u>13 134 132</u>

President :

A. Šilovs

2006.30.04.

ISC "Daugavpils Lokomotīvu Remonta Rūpnīca"

Nr LV 40003030219

Address Daugavpils, Marijas iela 1

Profit and account

2005, g, for 12 months

0.702804

	for 12 months 2005. g.		for 12 months 2004. g.	
	LS	EUR	LS	EUR
NET SALES	25 359 454	36 083 252	10 839 288	15 422 917
Cost of sales	23 841 322	33 923 145	10 381 991	14 772 242
GROSS PROFIT (LOSS)	1 518 132	2 160 107	457 297	650 675
Sales and distribution expenses	84 151	119 736	43 834	62 370
Administrative expense	951 483	1 353 838	1 088 368	1 548 608
Other operating income	401 556	571 363	209 702	298 379
Other expenses	725 242	1 031 926	538 682	766 475
RESULT FROM OPERATING ACTIVITIES	158 812	225 969	-1 003 885	-1 428 400
RESULT BEFORE TAXES	158 812	225 969	-1 003 885	-1 428 400
Corporate income tax	98 959	140 806	0	0
Other taxes	38 664	55 014	29 389	41 817
NET RESULT FOR THE YEAR	21 189	30 149	-1 033 274	-1 470 216
Factor of profit on the action	0.003	0.003		

President

A. Šilovs

2006.30.04

STATEMENT OF CASH FLOWS

	Note	2005 Ls	2004 Ls
Cash flow from operating activities			
Profit or loss before extraordinary items and taxes		158 812	(1 003 885)
<u>Adjustments for:</u>			
depreciation		329 211	329 127
provisions		867 123	146 705
currency exchange rate fluctuations		300 604	36 405
cancellation of long-term financial investments		0	33 971
Diminishing of income of previous year		124 513	0
Cash flow from operating activities before changes in working capital and short-term liabilities		1 780 263	(457 677)
stock (increase)/decrease		(1 934 669)	(2 004 244)
debtors' increase/decrease		(1 135 002)	411 809
creditors' increase/decrease		7 013 715	1 609 439
Net cash flow from operating activities		5 694 723	(432 110)
Cash inflow/(outflow) from investing activities			
Acquisition of fixed assets		(639 089)	(157 724)
Proceeds from sales of fixed assets		157 890	1 017
Net cash flow from investing activities		(481 199)	(156 707)
Cash flow from financing activities			
Loans received		379 803	1 211 834
Repaid loans		(331 900)	(288 928)
Net cash flow from financing activities		(168 427)	822 709
Net increase / (decrease) in cash and cash equivalents		4 934 379	233 892
Cash and cash equivalents at the beginning of the financial year		781 788	341 001
Cash and cash equivalents at the end of the financial year		5 716 167	574 893

Notes on pages 15 to 22 form an integral part of these financial statements.

director

Riga, 30 April 2006

STATEMENT OF CHANGES IN EQUITY

Share capital	Long-term investments revaluation reserve	Legal reserve	Retained earnings	Total
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NOTES

Accounting policies

(1) General principles

Annual accounts are prepared in accordance with the laws of the Republic of Latvia "On Accounting" and "On the Annual Accounts of Companies".

The profit and loss account is prepared in accordance with the turnover module.

The statement of cash flows has been prepared using direct/indirect cash flow method.

The accounting policies used by the Company are consistent with those used in the previous accounting period.

(2) Net sales

Net sales represent the total of goods and services sold during the year excluding discounts, value added tax and other taxes directly adjusted to sales.

Income is recognized according to the following principles:

income from operating activities - at the moment of emergence;

income from fines and overdue money - at the moment of gain;

dividends - from the moment when arise legal rights to receive them.

(3) Foreign currency translation into Lats

The Company maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted into Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place.

Monetary assets and liabilities in foreign currencies are translated into Lats in accordance with the official exchange rate set by Bank of Latvia for the last day of the reporting period. The resulting profit or loss is charged to the profit and loss account.

	31.12.2005.	31.12.2004.
	Ls	Ls
1 USD	0.593	0.516
1 EUR	0.7028	0.703
1 LTL	0.204	0.203
1 EEK	0.0449	0.0449

(4) Fixed assets

Fixed assets are initially recorded at historic cost. In financial statements fixed assets are shown at historic cost or revalued amount of net depreciation. Increase in value arising on revaluation is shown in equity under "Long-term investments revaluation reserve".

Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life period using the following annual rates set by the management:

	Depreciation % per year
Buildings	1-5
Plant and equipment	5-20
Other fixtures and fittings, motor vehicles	5-35

The Company capitalises its fixed assets valued over Ls 50 with utilization period exceeding 1 year. Low value inventory is recorded at historical cost and charged to expenses 100% after putting into operation.

(3) Stock

The stock cost has been determined using the first-in first-out method. Stock is recorded at the lowest market price and net realisable value. Required, slow moving, obsolete or damaged stock has been written down.

Within the production cost of stock are included the costs of used materials and other expenses that are directly connected with the production process as well as a respective part of administrative expenses.

(4) Accounts receivable

Accounts receivables are recorded in the balance sheet at their net value, being original invoice amount less provisions made to cover anticipated loss on bad and doubtful accounts receivables. Provisions for bad and doubtful accounts receivables are established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions for bad and doubtful accounts receivables is recorded as expenses in current financial year.

Debtors are recorded in the balance sheet at their net value less provisions made to cover anticipated loss on bad and doubtful accounts receivables. Specific provisions for doubtful accounts receivables are made when the recoverability of the specific debtor is considered by the Company's management to be uncertain. Bad debts are charged to the loss for the reporting year.

(7) Provisions for unused annual leave

Amount of provision for unused annual leave is determined by multiplying the average wage of employees in the last six months of the reporting year per day by the amount of accrued but unused annual leave at the end of the reporting year.

(8) Taxation

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with the tax legislation of the Republic of Latvia.

(9) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, balances of current account with banks, short-term deposits with maturity up to 90 days and bank overdrafts. Bank overdrafts on the balance sheet are included within the item short-term "loans from credit institutions".

(1) Net sales

	2005	2004
	Ls	Ls
According to operating activities		
Products production	16 786 700	10 787 451
Diesel locomotive sale	7 972 293	0
And other	600 461	51 837
	25 359 454	10 839 288

According to the location

Income from export to Latvia	2 248 200	1 554 199
Income from export to Russia	9 494 093	5 843 050
Income from export to Estonia	1 294 800	856 504
Income from export to Lithuania	4 956 400	986 515
Income from export to Belorussia	182 100	547 046
Income from export to Uzbekistan	688 400	888 687
Income from export to other states	6 495 461	163 287
	25 359 454	#REF!

(2) Production costs

Goods delivery expenses	366 793	454 432
Raw and material expenses	10 144 568	5 146 772
Purchase of diesel locomotives	7 946 375	0
Utility expenses	542 036	500 916
Salary expenses	3 429 491	3 296 072
Social insurance	813 197	785 980
Depreciation of fixed assets	222 806	99 622
Other production costs	376 056	98 197
	#REF!	10 331 991

(3) Selling expenses

Transportation costs	84 151	43 834
	84 151	43 834

(4) Administrative expenses		
Salary expenses	293 725	455 100
Social insurance	70 432	102 400
Other social security expenses	0	0
Rent expenses	0	0
Office expenses	220 084	225 300
Advertising	3 468	2 678
Representation costs	4 559	0
Depreciation of fixed assets	76 326	18 810
Depreciation of intangible assets	0	0
Transportation costs	0	0
Professional fees	249	0
Other administrative costs	282 640	284 080
	951 483	1 069 368
(5) Other operating income		
Income from fixed assets sale	78 807	0
Incomes of converting	0	36 405
Write of a reserve of the basic means	216 085	64 361
Incomes of the basic means	12 217	13 674
Other income	94 447	95 262
	401 556	209 702
(6) Other operating expenses		
Losses of course exchange	627 776	49 112
Expenses of collective agreement	50 155	32 584
Net loss from sale of fixed assets	27 935	0
Pretax applied to expenses	4 849	0
Creation of accumulation on debtors	0	421 550
Other expenses	14 527	35 436
	725 242	538 682
(7) Corporate income tax		
Corporate income tax charge for the current year	(98 959)	0
	(98 959)	0
The deferred company income tax has been calculated from the following temporary differences between value of assets and liabilities and their values for the purposes of calculating the company income tax:		
	2 005	2 004
Temporary difference on fixed and intangible assets depreciation	(1 330 954)	(1 077 065)
Temporary difference on bad debt provisions	0	147 381
Temporary difference on provisions for slow moving and obsolete stock	10 000	0

Temporary difference on provisions for unused annual leaves and bonuses	136 114	116 705
Temporary difference on provisions for unused annual leaves and bonuses	877 714	30 000
Losses transferred to the next taxation periods for the purposes of the company income tax	0	248 485
Total temporary differences	(307 126)	(534 494)
Prospective average tax rate	15%	15%
Deferred tax liability	(46 069)	(80 174)

(8) Other taxes

Real estate tax for land	9 052	6 858
Real estate tax for buildings	29 612	22 531
	38 664	29 389

(9) Fixed assets

	Land and buildings	Leasehold improvements	Equipment and machinery	Other fixed assets and inventory	Fixed assets under construction	Advances for fixed assets	Total
	L	L9	L9	L9	L9	L9	L9
Cost / Valuation							
31.12.2004.	3 682 475	0	4 571 599	548 161	27 750	0	8 829 985
Additions	68 361	0	458 171	54 825	639 089	0	1 220 446
Disposals	(90 395)	0	(242 717)	(63 482)	(581 358)	0	(977 952)
Reclassification	0	0	0	0	0	0	0
Revaluation	0	0	0	0	0	0	0
31.12.2005.	3 660 441	0	4 787 053	539 504	85 481	0	9 072 479
Depreciation							
31.12.2004.	1 447 229	0	4 294 137	445 409	0	0	6 186 775
Charge for 2004.	68 827	0	190 080	70 304	0	0	329 211
Disposals	(32 211)	0	(229 940)	(55 362)	0	0	(317 513)
Reclassification	0	0	0	0	0	0	0
Corrections for previous year's error	0	0	0	0	0	0	0
31.12.2005.	1 483 845	0	4 254 277	460 351	0	0	6 198 473
Net book value 31.12.2004.	2 235 246	0	277 462	102 752	27 750	0	2 643 210
Net book value 31.12.2005.	2 176 596	0	532 776	79 153	85 481	0	2 874 006

(10) Finished good and goods for sale

Finished products on stock	521 760	145 142
Canteen	728	1 646
	522 488	146 788

(11) Trade receivables

Registered price of trade debtors	4 327 023	2 163 415
Provisions for bad and doubtful trade debtors	(1 429 536)	(337 580)
	2 897 487	1 825 835

(12) Other receivables

VAT overpaid	58 226	0
Corporate income tax overpaid	0	34 541
VAT accepted	98 775	60 701
Housing and Communal Service	6 696	0
Payments to personnel	5 367	11 193
Other debtors	18 410	31 190
	187 474	137 625

(13) Deferred expenses

Payment for insurance	3 357	4 738
Magazine subscription fee	0	0
Other expenses	7 531	4 648
	10 888	9 386

(14) Cash and bank

The depositary account	5 337 000	
Cash in hand	1 000	3 578
Cash at bank	439 658	778 210
	5 777 658	781 788

(15) Share capital

As at 31 December 2005 the subscribed and fully paid share capital consists of 8294219 ordinary shares with a nominal value of Ls 1 each.

(16) Provisions			
		Other accumulations	Accumulations on vacation
			Total
31.12.2003.			
Increase		30 000	116 705
31.12.2004.		30 000	116 705
Increase		847 714	19 409
31.12.2005.		877 714	136 114
			1 013 828
(17) Loans from credit institutions			
Long-term part			
			0
"LATEKO BANKA"		2 258 876	1 900 662
		2 258 876	1 900 662
Short-term part			
			0
"LATEKO BANKA"		301 364	186 558
		301 364	186 558
(18) Advances received from consumers.			
Russia		0	806 798
Estonia		266 850	294 255
Other		1 072 099	1 216 646
		1 338 949	2 317 699
(19) Trade payables			
Long-term part			
			0
			0
		0	0
Short-term part			
			0
		8 443 934	379 553
		8 443 934	379 553

	01.01.2005.	Calculated	Calculated penalty fees	(Paid)/ repaid	Transferred to/ from other taxes	31.12.2005.
	Ls	Ls	Ls	Ls	Ls	Ls
(20) Taxes and social insurance						
VAT	61 069	503 102	2 096	1 531 131	907 319	(57 545)
Other penalty			22 059	21 508		551
Payroll tax	59 476	698 336	139	621 046	(73 162)	63 743
Social insurance	99 649	1 268 402	60	387 960	(868 698)	111 453
Corporate income tax	(34 541)	98 959	11 127	25 905	34 541	84 181
Real estate tax (land)	0	9 052	0	9 052	0	0
Real estate tax (buildings)	(40)	29 612	20	29 570	0	22
Natural resource tax	697	13 702	0	9 066	0	5 333
The state tax for company's bussines	753	8 291	0	8 411	0	633
Total	187 063	2 629 456	35 501	2 643 649	0	208 371
Hereof						
Liabilities/	221 644					265 917
(Overpaid)	(34 581)					(57 546)
(19) Trade payables						
Short-term part						
				180 384	149 438	
				13 563	14 679	
				193 947	164 117	
(20) Average number of employees				2005	2004	
Vidējais uzgējumā nodarbināto skaits pārskata gadā				1 915	2 324	

director

The annual report has been approved by the general meeting of members _____ 2006

Chairman of the general meeting _____