

JSC „DITTON PIEVADĶĒŽU RŪPNĪCA”

**NON-AUDITED AND NON-CONSOLIDATED
FINANCIAL REPORT**

FOR 12 MONTHS OF YEAR 2014

(01.01.2014 – 31.12.2014)

Prepared in accordance with Latvian statutory requirements
and AS “NASDAQ OMX Riga” rules

Daugavpils

2015

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INFORMATION ABOUT THE COMPANY

Company name	Ditton pievadkezu rupnica
Legal status	Joint Stock Company
Registrations number	40003030187
Registration in Register of Enterprises	Riga, 03.10.1991
Registration in Commercial Register Office	Riga, 29.08.2003.
Legal address	Visku Str. 17, Daugavpils, LV-5410, Latvia
Mailing address	Visku Str. 17, Daugavpils, LV-5410, Latvia
Fixed capital (before denomination)	7 400 000 LVL
Number of public bearer shares	7 400 000
Nominal value of one share	1.00 LVL
Fixed capital (after denomination, from 23.01.2015)	10 360 000 EUR
Number of public bearer shares	7 400 000
Nominal value of one share	1.40 EUR
Chief accountant	Valentina Krivoguzova
Reporting period	01.01.2014 – 31.12.2014

Persons in charge for drawing up of the financial report:

Mr. Boriss Matvejevs, phone +371 65402333,

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Ms. Natalja Redzoba, phone +371 65402333,

e-mail: dpr@dpr.lv

INFORMATION ON MANAGEMENT BOARD AND COUNCIL MEMBERS

THE MANAGEMENT BOARD

Chairman of the Management Board

Rolands Zarans, elected 15.01.2014

Pjotrs Dorofejevs, elected 05.07.2010, till 15.01.2014

Members of the Management Board

Natalja Redzoba, elected 29.08.2003.

Raimonds Bruzevics, elected 11.03.2014., till 15.08.2014

Jevgenijs Sokolovskis, till 05.03.2014

Information on shares owned by Members of the Management Board

Members of the Management Board	Share ownership *	
	Quantity of shares	%
Rolands Zarans,	no shares	-
Natalja Redzoba	no shares	-
Pjotrs Dorofejevs, till 15.01.2014	no shares	-
Raimonds Bruzevics, till 15.08.2014	1 900	0,03
Jevgenijs Sokolovskis, till 05.03.2014	1 900	0,03

THE COUNCIL

Chairman of the Council

Boriss Matvejevs, elected 05.05.2005

Deputy Chairmen of the Council

Georgijs Sorokins, elected 06.11.2000

Inga Goldberga, elected 14.08.2009, till 24.10.2014.

Members of the Council

Anzelina Titkova, elected 14.08.2009

Vladimir Bagaev, elected 28.05.2012

Information on shares owned by Members of the Council

Members of the Management Board	Share ownership *	
	Quantity of shares	%
Boriss Matvejevs	no shares	-
Georgijs Sorokins	5 768	0,08
Inga Goldberga, till 24.10.2014.	no shares	-
Anzelina Titkova	no shares	-
Vladimir Bagaev	no shares	-

For more detailed information on professional background of the Management Board and Council members please refer to our website: http://www.dpr.lv/web_ru/for-akcioner.htm .

* As of 27.02.2015

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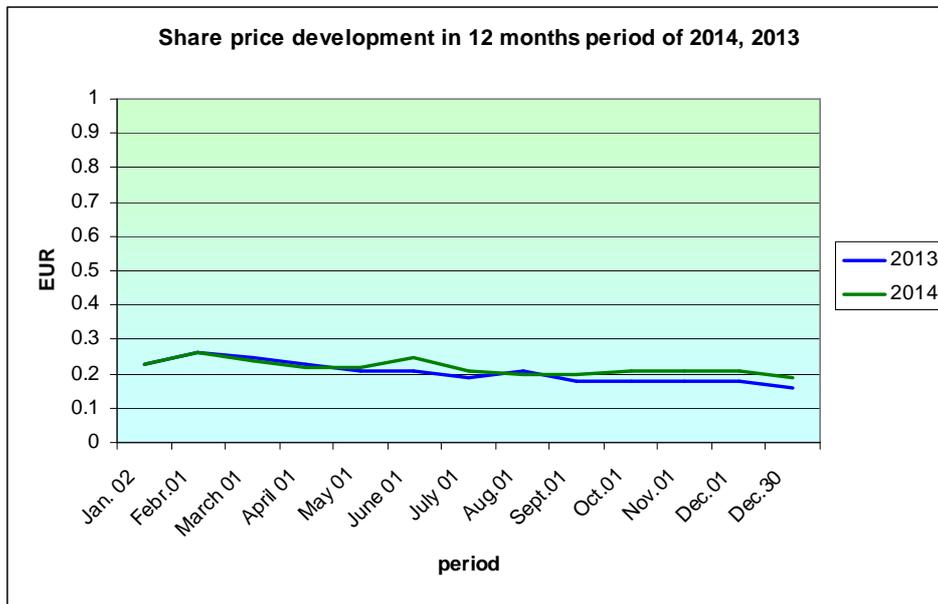
INFORMATION ON SHAREHOLDERS AND SHARES

COMPANY SHAREHOLDERS (OVER 5%) *

NAME	Ownership interest, %
Eduards Zavadskis	20,00
Vladislavs Driksne	19,92
MAX Invest Holding SIA	13,63
Maleks S SIA	13,63
Vladimir Bagaev	9,46

** Note: Information is presented on the basis of the list of shareholders of JSC „Ditton pievadķēžu rūpnica” dated 27.10.2014, taking into account the shareholders’ notifications on acquisition and disposal significant holding in the Issuer’s equity.*

SHARE PRICE DEVELOPMENT



MANAGEMENT REPORT

Information on the results of the company in 12 months of year 2014

In 12 months period of 2014 net-turnover was fulfilled in the amount of 10 696 thous.EUR, which is by 1 080 thous.EUR or 12,4% more than index of the 12 months period of 2013, and it complies with the Company's expectations.

Commodity output is estimated in the amount of 7 053 thous.EUR. The result of 12 months of 2014 is by 1 043 thous.EUR higher than in the relevant period of previous year.

At present the company exports 79% of its products to the East and West: among them 52% eastwards and 27% westwards; 21% of products are sold on domestic market.

The Company closed the year 2014 with book losses before taxes in the amount of 3 769 thous.EUR. Book losses after taxes amount to 4 160 thous.EUR. The analysis of the loss structure and causes is given in the section „Significant events. Market tendencies and development of the company. Risks”.

The average statistical number of employees of JSC "Ditton pievadķēžu rūpnīca" was 283 employees in 12 months of year 2014.

The average salary amounted to 469 EUR in 12 months period of 2014, which is by 62 EUR more than in 12 months of 2013.

Significant events. Market tendencies and development of the company.

Risks.

In accordance with the output indices for the products with the JSC Ditton pievadķēžu rūpnīca" trade mark, their sales to the final consumers, that is, companies or their representatives, in the form of component assemblies or parts for future production of units and machines, or to the trade-service networks for maintenance and/or sales of the spare parts to their users (the so-called "spare parts market") structurally is divided into the following main segments:

- "Western" market or mainly European market, where up to 35% of total production volume are sold, and
- "Eastern" market or market of the Russian Federation, Customs Union, CIS and Ukraine, where up to 65% of Company's total production volume are sold.

The company is integrated into the production and economics of those countries, which belong to the above mentioned market segments of the Company's product sales, regardless of the products promotion procedures and systems on these markets (direct selling, intermediation services or processing of the customer's raw material, use of dealers or trade-service network etc.). In this way, all the trends, factors, risks, crises and other conditions on these markets have direct impact on the Company, its operations, as well as the income deriving from its activities.

The common unifying factor for all market segments is the critical parameter of the total production of the Company's own products: taking in account the permanent component in the structure of the Company's costs and prime cost, which is not differentiated according to production volumes, for example, maintenance and repair of infrastructure and immovable property taxes, as well as the variable component, which depends on these volumes, for example, raw material and resources costs of direct production, every year the Company has to produce a certain volume of production, which on the one hand ensures overall profitability of the own production, and on the other hand, a competitive market price of the products. Failure to meet this criterion will result in the imbalance of the Company's economic situation and inexpediency

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to continue production at the economic indicators (imbalance between the average market value and the possible price of the Company's profitable state, taking into prime cost and own costs), especially having regard to the lack of the domestic market for these products.

The above mentioned criterion obliges the Company's Management Board to take all of the measures in order to retain both market segments, to operate in proportion to the conditions and factors, to reach compromises with partners, including unfavorable for the Company, to retain all market segments, including when there are temporary adverse factors or phenomena, in its turn to practice refusal of partnership with someone only on condition if these production volumes are replaced with the analogous volumes in other market segments or with other partners.

"Western" market segments

Having analyzed the Company's operating conditions, performance and situation of this market segment in 12 months of 2014, the Company's management believes that information set out before in the management reports to the annual report for 2013 and report for 6 months of 2014 is fully up to date and relevant for the reporting period, and still notes that in the field of metal processing and machine building there are no increasing trends observed in the sector represented by the Company, which is also reflected in the Company's performance indices for the reporting period.

In the opinion of the management in the industrial production sector represented by the Company the reporting period still has been characterized by stagnation and lack of production growth, which previously has been defined by market analysts as "the second wave of the crisis", which becomes apparent not so much as a catastrophic or sharp decline, but more as the lack of activity. In substantiation of these conditions the Company refers to the report of the Industry, Research and Energy Committee of the European Parliament from November 15, 2013 "CARS 2020: Action Plan for a competitive and sustainable automotive industry in Europe" 2013/2062 (INI), where the situation in the automotive market is analyzed, and addressing this issue at EU level refers to its overall relevance and importance. The Management Board focused on these circumstances in its previous management reports, making a moderately optimistic or pessimistic forecasts for its performance, and these forecasts, evaluation of the activity in market segments as well as information about other negative factors affecting the Company's remain relevant even now.

Furthermore, several European sources - mass media, automotive research centers (e.g. CAR) and research companies (e.g. Inovev) report on the anticipated closure of some automotive companies and the general decline in the branch. This is due to the slowdown in economic activity resulting in a cautious behavior of consumers and putting off larger purchases such as a car. On the background of lack of the overall economic growth as evidenced by the minimum growth rates of both European and other states' GDP (for example, the actual lack of growth in GDP), the demand for the Company's industrial chains do not indicate an increase in this sector either.

Despite these circumstances the Company managed to achieve product sales growth in this market segment by 23-25% compared to the index of 2013. These figures are comparable to the figures of 2012.

"Eastern" market segment

This market segment of the Company's product sales is characterized by two periods:

- stable functioning of the Russian Federation, Customs Union and CIS market in the first half of 2014 (by many indicators the first quarter showed signs of significant growth both in terms of the Company's products sales, as well as macroeconomic indicators of all markets);
- market collapse and a systemic economic crisis, which includes a critical exchange rate fall (2.5 times) of the base currency – the Russian ruble – in which the Company's products are sold to end consumers against the European currency (EUR); fall of the economic activity and financial capability by legal and natural persons to buy products produced in the euro zone both

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in the interests of production of new cars and aggregates, and on the "secondary market" (service, repair and maintenance).

By estimate of the Association of European Businesses (AEB), the total drop volume in production and demand on these markets, primarily in the Russian Federation and Ukraine, makes up to 12-15% even on the background of relatively successful (RF) first months of 2014.

In the second half of 2014 the reduction of automobiles and units output volume for optimization of the business and expenditure, including on the background of staff reduction and temporary suspension of production, has been made both by Russian producers (AvtoVAZ, GAZ Group, KAMAZ and others) as well as co-production enterprises (FORD, NISSAN, General Motors groups and other). A number of Western companies, such as the Spanish SEAT (part of the Volkswagen Group), Dodge (part of the Italian-American Fiat Chrysler Group), Taiwan's Luxgen, announced its withdrawal from this market segment. Other Western manufacturers such as Mercedes, Daimler reduced the supply to these markets and "blocked" their production projects (The Company indirectly takes part in the provision of the above mentioned companies through the Eurochain-program in collaboration with their supplier IWIS, Germany)

The spare parts market significantly "collapsed", which was caused by the depreciation of the Russian ruble against the euro and due to this by the fall in demand for any products produced outside the "ruble zone" by trade-service and dealer structures.

Considering that a significant part in the structure of automobiles, machinery and units value, as well as in their repairs and maintenance is constituted by component parts, which are produced outside the "ruble zone", imbalance between the real demand and the financial capability of potential consumers and prices formed resulting from the ruble depreciation, as well as sales at previous prices in rubles with significant currency losses within 2-3 days after the sale made it impossible for producers, intermediaries, dealers and trading networks to fulfill their obligations in currency equivalent. Until settlement of this imbalance many dealers and trading networks stopped sales and thereby "blocked" products (component parts) of many suppliers and payments as well. Due to this lack of proper regulation of the value of component parts a number of producers stopped assembling of the products (for example, automobiles) in an incomplete state, with no further sales and keeping them in stock. Some representatives of dealers, service or trade centers announced the suspension of obligations fulfillment with the following insolvency.

Company's products being delivered to the Ukrainian market (especially its eastern and southern regions) through the Russian Federation and the Customs Union dealers in 2013 and 2014, due to certain events in Ukraine can be considered as finally lost. This fact which according to the general formal features and good commercial principles can be attributed to sudden, unexpected force majeure is not the fault or responsibility of the Company's dealers, but as the risk of property loss lies on the supplier. (Prior to the occurrence of the above-mentioned conditions the settlements with the above buyers generally have been fulfilled.)

In these circumstances, focusing on retaining of the production, partners and buyers, on the one hand, and on upkeep of current assets necessary for the production being gained from regular, but not postponed to "until better times" sales, on the other hand, the Company's Management Board was forced to make compromise decisions with their partners in this market segment which are related to the sharing of risks and losses in the result ruble depreciation against euro and general crisis in this segment, by linking in favor of the Company the payment amount to the contractual exchange rate, considering its situation and dynamics.

Due to the above-mentioned the Company's book losses structurally consist of:

- losses resulting from balance provisions made by the Company for the existing receivables, being affected by the unstable ruble exchange rate, as well as for overdue receivables and

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receivables of the insolvent company (company Milanese, Italy);

- losses from the direct market losses (Ukraine, CIS countries) and a compromise revaluation (reduction) of receivables due to the "collapse" of the sales currency against the euro, being uncontrollable and independent of the Company and its partners [Management Board notes that a scenario of similar losses for the companies operating on the Russian Federation and the CIS market has been highlighted in the public press in the forecasts made by Latvian and European economists, as well as President of Mechanical Engineering and Metalworking Industries Association];

- other operational losses related to the provisions for work in progress or write-down of invalid stocks, as well as related to excluding the deferred tax debit balance from the balance sheet.

Considering the prospects, the Company's Management Board is focusing on the development and increase of sales in the "western" market segment, taking into account its growth restriction due to general economic stagnation in this segment, as well as on the stabilization of the "eastern" market segment.

By estimate of the AEB and PricewaterhouseCoopers, in 2015 the overall drop in "eastern" market segment may make up 11-12% against 2014. However, at the same time there is an inevitable price increase for goods and services forecasted, which along with the expected stabilization of the ruble in the anticipated "corridor" ($\pm 5\%$) will allow adjusting the imbalance between the supply prices of component items and sales prices of finished automobiles, machinery or units.

A significant factor of tactical improvements in this market segment is renewal of the state program for utilization of automobiles produced in RF when buying a new car, which started in November 2014 and is expected to continue until the end of 2016. In 2009 to 2010 this program significantly improved the situation in this market sector.

In the part of strategic improvement there can be recognized the development of the automotive and engineering strategy for the Russian Federation until 2025, and its closest element may be the draft of the Federal Law on limitation of operating term for certain types of cars and other vehicles.

In addition, the Company plans to activate implementation possibilities of its own production potential in other industrial sectors, where the special chain drives are in demand, like units and machinery being used in agriculture and production. The Company is also implementing a loss minimization program due to the optimization of the internal structure, use of infrastructural, intellectual and human resources.

The Company's general outlook is moderately positive.

STATEMENT ABOUT MANAGEMENT LIABILITY

According to our information, the presented financial statements for 12 months of year 2014 ended 31 December 2014 have been prepared in accordance with the existing legislative requirements and give a true and fair view of the assets, liabilities, financial position and profits of the joint-stock company "Ditton pievadkezu rupnica". Management report contains truthful information.

Chairman of the Management Board of
JSC "Ditton pievadkezu rupnica"

Rolands Zarans

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BALANCE SHEET

ASSETS	31.12.2014. EUR	31.12.2013. EUR
1. Long-term investments		
I. Non-material investments		
Software licenses	1 058	1 487
Other non-material investments	1 589 800	3 179 599
Non-material investments total	1 590 858	3 181 086
II. Fixed assets		
Plots of land, buildings and constructions	2 157 230	2 775 829
Technological equipment and machinery	18 359	6 669
Other fixed assets and stock	3 228	19 554
Formation of fixed assets and costs of unfinished construction objects	2 048 860	44 425
Fixed assets total	4 227 677	2 846 477
III. Long-term financial investments		
Participation in the capital of other companies	67 160	67 160
Assets of deferred tax	-	329 651
Other loans and other long-term debtors	1 994 803	4 076 674
Long-term financial investments total	2 061 963	4 473 485
1. Long-term investments total	7 880 498	10 501 049
2. Current assets		
I. Reserves		
Raw materials, basic materials and subsidiary materials	793 222	994 632
Unfinished products	220 186	291 305
Finished products and goods for sale	494 918	208 656
Advance payments for goods	104 136	1 815 535
Reserves total	1 612 462	3 310 128
II. Debtors		
Debts of buyers and customers	3 233 920	3 680 729
Other debtors	1 502 959	233 303
Expenses of future periods	11 133	-
Debtors total	4 748 012	3 914 032
IV. Cash and cash equivalents	59 576	207 342
2. Current assets total	6 420 050	7 431 502
<u>TOTAL ASSETS</u>	<u>14 300 548</u>	<u>17 932 550</u>

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BALANCE SHEET

LIABILITIES	31.12.2014. EUR	31.12.2013. EUR
1. Equity capital		
Fixed capital	10 529 251	10 529 251
Retained earnings:		
a) retained earnings of previous years	1 543 379	1 539 495
b) profit / (loss) of reporting period)	-4 160 274	3 884
1. Equity capital total	7 912 356	12 072 630
 2. Long-term creditors:		
Loans from credit institutions	1 502 387	1 585 658
2. Long-term creditors total	1 502 387	1 585 658
 3. Short-term creditors:		
Loans from credit institutions	2 096 000	745 093
Other loans	233 607	391 446
Advance payments received from customers	67 094	33 825
Debts to suppliers and contractors	1 817 615	2 321 766
Taxes and compulsory social security contributions	437 540	318 236
Other creditors	113 373	359 585
Accumulated liabilities	120 576	104 321
3. Short-term creditors total	4 885 805	4 274 262
Creditors total	6 388 192	5 859 920
 <u>LIABILITIES TOTAL</u>	 <u>14 300 548</u>	 <u>17 932 550</u>

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INCOME STATEMENT

	31.12.2014. EUR	31.12.2013. EUR
Net turnover	10 695 729	9 515 844
Production cost of sold products	-9 284 271	-8 589 072
Gross profit	1 411 458	926 772
Selling costs	-1 590 141	-1 589 800
Administration costs	-769 994	-793 630
Other operating income	742 223	1 743 421
Other operating expenses	-3 414 205	-107 686
Other interest income and similar income	1 206	800
Interest payment and similar expenses	-150 134	-110 920
Profit / (loss) before taxes	-3 769 587	68 957
Corporate income tax	-329 651	-4 338
Other taxes	-61 036	-60 735
Profit / (loss) of reporting period	<u>-4 160 274</u>	<u>3 884</u>
Index EPS		0,000

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STATEMENT OF CASH FLOW

	31.12.2014.	31.12.2013.
	EUR	EUR
I. Cash flow of basic activity		
1. Profit / (loss) before taxes	-3 769 587	68 957
<i>Corrections:</i>		
Depreciation of fixed assets	633 492	746 282
Amortization of non-material investments	1 590 228	1 590 229
Income from exclusions of fixed assets, net	-685 043	-1 681 112
Interest income	-1 206	-800
Interest expense	150 134	110 920
2. Profit / (loss) from economic activity in reporting period	-2 081 982	834 476
<i>Corrections in current assets and short-term creditors:</i>		
In Debtors	1 248 891	-128 419
In Reserves	1 663 572	-1 489 651
In Creditors	-2 611 002	-694 562
3. Cash flow of basic activity	-1 780 521	-1 478 156
4. Expenses on tax payments (corporate income tax and tax on immovable property)	-1 901	-53 997
Cash flow of basic activity	<u>-1 782 422</u>	<u>-1 532 153</u>
II. Cash flow of investing activity		
Purchase of fixed assets	-18 064	-66 146
Sale of fixed assets	692 851	1 690 335
Interest received	206	-
Cash flow of investing activity	<u>674 993</u>	<u>1 624 189</u>
III. Cash flow of financing activity		
Loans received / (repaid), net	1 102 786	71 885
Interest paid	-143 123	-104 255
Cash flow of financing activity	<u>959 663</u>	<u>-32 370</u>

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CONSOLIDATED DATA ON CASH INCOME AND EXPENSES

	31.12.2014. EUR	31.12.2013. EUR
Cash flow of basic activity	-1 782 422	-1 532 153
Cash flow of investing activity	674 993	1 624 189
Cash flow of financing activity	959 663	-32 370
Growth of cash and cash equivalents	-147 766	59 666
Balance of cash and cash equivalents at the beginning of reporting period	<u>207 342</u>	<u>147 676</u>
Balance of cash and cash equivalents at the end of reporting period	<u>59 576</u>	<u>207 342</u>

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STATEMENT OF CHANGES IN EQUITY
for the period from 01.01.2014 till 31.12.2014

	Equity capital EUR	Retained profit of previous years EUR	Profit of reporting year EUR	Equity capital TOTAL EUR
31.12.2012	10 529 251	1 535 804	3 692	12 068 747
Profit of 2012 transferred to retained profit of previous years	-	3 692	-3 692	-
Profit of reporting year	-	-	3 884	3 884
31.12.2013	10 529 251	1 539 495	3 884	12 072 630
Profit of 2013 transferred to retained profit of previous years	-	3 884	-3 884	-
Profit / (loss) of reporting year	=	=	<u>-4 160 274</u>	<u>-4 160 274</u>
31.12.2014	<u>10 529 251</u>	<u>1 543 379</u>	<u>-4 160 274</u>	<u>7 912 356</u>

Appendix

Explanatory notes

Accounting policies and methods applied in present interim financial statement are consistent with those applied in the last Annual Report.

This financial statement of JSC "Ditton pievadkezu rupnica" has been prepared in accordance with the source documents and presents fairly the financial position of the JSC as of 31 December 2014 and the results of its operation and cash flows for the 12 months period ended 31 December 2014.

This financial report has been prepared in compliance with statutory regulations of the Republic of Latvia on a going concern basis. Appropriate accounting policies have been applied on a consistent base.

The interim financial report for 12 months of 2014 has not been audited by jury auditor.

The interim report has been prepared in Euro.

Explanations and analyses on separate items of financial reports

Production of commodity products in the 12 months period of year 2014 (thous.EUR)

Output of commodity products is estimated in the amount 7 053 thous.EUR. The result of reporting period is by 1 043 thous.EUR or 17% higher than in 12 months period of previous year.

Production of driving chains in 12 months of year 2014 (thous.meters)

Production of driving chains in natural units is by 442 thous.meters more than in 12 months period of previous year.

Production of driving chains in 12 months of year 2014 (thous.EUR)

In 12 months of this year there have been driving chains produced in money terms in the amount of 6 927 thous.EUR. The actual performance of reporting period is by 1 040 thous.EUR higher than in the relevant period of previous year.

Sales (net-turnover) in 12 months of year 2014 (thous.EUR)

In 12 months period of year 2014 net-turnover has been in fact fulfilled in the amount of 10 696 thous.EUR. The actual performance of the reporting period is by 1 180 thous.EUR or 12% more than the index of the same period of previous year.

Sales of main products in 12 months of year 2014 (thous.EUR)

Sales of main products in the reporting period amounted 7 566 thous.EUR, and it is by 255 thous.EUR or 3% less than the result of the relevant period of prior year.