

JSC DITTON PIEVADĶĒŽU RŪPNĪCA

UNAUDITED AND UNCONSOLIDATED FINANCIAL REPORT FOR 12 MONTHS OF 2015 (01.01.2015 – 31.12.2015)

Prepared in accordance with Latvian statutory requirements
and JSC NASDAQ OMX Riga rules

Daugavpils

2015

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INFORMATION ABOUT THE COMPANY

Company name	DITTON pievadķēžu rūpnīca
Legal status	Joint Stock Company
Registrations number	40003030187
Registration in Register of Enterprises	Rīga, 03.10.1991
Registration in Commercial Register Office	Rīga, 29.08.2003.
Legal address	Višķu St. 17, Daugavpils, LV-5410, Latvia
Mailing address	Višķu St. 17, Daugavpils, LV-5410, Latvia
Fixed capital	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	01.01.2015 – 31.12.2015

Persons in charge for drawing up of the financial report:

Mr. Boriss Matvejevs, phone +371 65402333, email: dpr@dpr.lv

Ms. Natalja Redzoba, phone +371 65402333, email: dpr@dpr.lv

INFORMATION ON MANAGEMENT BOARD AND COUNCIL MEMBERS

THE MANAGEMENT BOARD

Chairman of the Management Board

Rolands Zarāns, elected 15.01.2014

Members of the Management Board

Natalja Redzoba, elected 29.08.2003.

Information on shares owned by Members of the Management Board

Members of the Management Board	Share ownership *	
	Quantity of shares	%
Rolands Zarāns,	no shares	-
Natalja Redzoba	no shares	-

THE COUNCIL

Chairman of the Council

Boriss Matvejevs, elected 05.05.2005

Deputy Chairman of the Council

Georgijs Sorokins, elected 06.11.2000

Members of the Council

Anželina 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
Anželina Titkova	no shares	-
Vladimir Bagaev	no shares	-

For detailed information on professional background of the Management Board and Council members please refer to our website www.dpr.lv.

* As of 01.02.2016

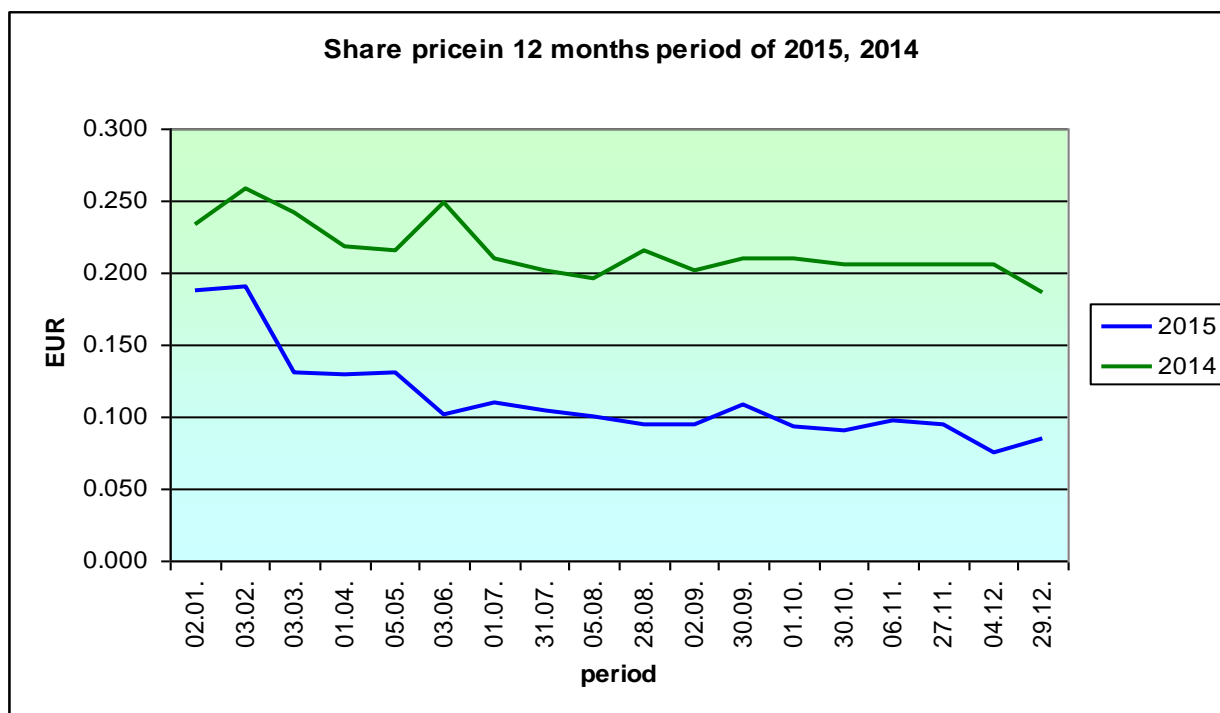
INFORMATION ON SHAREHOLDERS AND SHARES

COMPANY SHAREHOLDERS (OVER 5%) *

NAME	Ownership interest, %
Eduards Zavadskis	20,00
Vladislavs Driksne	19,92
MAX Invest Holding Ltd.	13,63
Maleks S Ltd.	12,24
DVINSK MNG Ltd.	9,46

** Note: Information presented is based on the list of shareholders of JSC DITTON pievadķēžu rūpnīca as of 01.02.2016., taking into account the shareholders' notification of the acquisition or disposal of major holdings in the Company.*

SHARE PRICE DEVELOPMENT



MANAGEMENT REPORT

Information on the results of the company in 12 months of 2015

The net-turnover in 12 months of 2015 reached € 6,354 thousand, being by € 4,342 thousand less than the index in 12 months of 2015.

Commodity output amounted € 4,940 thousand, what is by € 2,113 thousand less than in the relevant period of previous year.

By now the export of the core products to Eastern and Western markets amounted to 58 per cent (35% eastwards and 23% westwards), 42% of products sold on Latvian market.

The Company closed the 12 months period of 2015 with a pre-tax loss € 3,983 thousand. The after-tax rate accounted € 4,044 thousand. The analysis of the loss structure and causes is revealed in the section „Significant events. Market tendencies and development of the company. Risks”.

The average number of employees of JSC DITON pievadķēžu rūpnīca was 189 employees during 12 months of 2015.

The average salary in 12 months period of 2015 amounted to € 470, what is by € 1 more than in 12 months of 2014.

Significant events. Market tendencies and development of the company. Risks.

The team of shareholders, appointed by the resolution of the shareholder`s meeting dated 20.07.2015, estimated the operations, markets, development tendencies, risks of Company and causes of adverse results as well. The Management board finds this analysis as objective and corresponding the Company`s position and deems of utmost importance to include it into the Management report.

It developed historically that 65-70 per cent of Company's activities are operated in the so-called East sector of the market, i.e. the Customs Union countries, the CIS and Asian countries, whereas 30-35 per cent in the so-called Western market sector, and mainly in the EU countries.

The Company does not have now any objective reasons to think about correlation changes in the market and about significant growth of the Western market.

First of all, according to GDP rate of the EU there is no evidence that the Western market is remarkably increasing, e.g., what would influence Company`s shares in the market.

Secondly, all the sectors of the EU market are developing independently from each other, e.g. there is a kind of stagnation or even recession in the engineering and metalworking sectors in comparison to other sectors, which are growing.

Unfortunately, even those companies who operates for many years in this market are forced either to reduce its volume, either to stop its activities or even to declare bankruptcy.

For example, some of the Company's partners, such as an Italian partner since 1996 C.M.Catenico Milanese S.R.L. with turnover 2.729 million euros as of 01.01.2006 or a German partner since 2006 KAHl-Antriebstechnik GmbH with the turnover of around 1.00 million, declared their bankruptcy.

From an objective point of view, there is no cause for optimism that the Company will succeed in change of its volumes and interests in particular sector in the near future, especially if it does not depend from the Company. It is customary that western consumer is focusing local manufacturers.

In such circumstances, the East market sector is and remains a core market for the Company. Therefore, shareholders made an objective and reasonable decision on injections into this market sector contributing now to the trade without any additional investments or costs in the future.

Unfortunately, in comparison to favourable results of 2011, 2012 and 2013 demand and sales indicators of 2014 and 2015 slid down under the influence of the following circumstances:

(a) The fall of rouble in value against the European (EUR) and the US (USD) currency, e.g., the rouble exchange rate against the euros grew up to 77.22 per cent in the period from 31.12.2015. till 31.12.2013, while the weighted average of exchange rates of 2015 in comparison to the same index of 2013

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went up to 60.18 per cent [Source: Audit-it.ru]. Companies trading in the Russian Federation, the Customs Union and the CIS countries in roubles and other local currency face high risks by translating local currency to euros because of adverse exchange rate dynamics.

The companies using exclusively EUR or USD currency by sale of their products in these markets cannot guarantee constant price growth in roubles equal to exchange rate dynamics, so they meet with a loss due to the loss of customers. The latest tendency results negative consequences in future prospect, e.g., loss of the market, customers switching suppliers by choosing mainly local or foreign manufacturers, who depend less from EUR and USD exchange rate.

As a result of this, the import of goods for the period of 9 months 2015 to the Russian Federation and the Customs Union countries, compared to the index of 9 months 2014, reduced to 38.3 per cent (Source: Ministry of Economic Development of the Russian Federation, "The current economic situation in January-October 2015").

(b) Economic Sanctions Policy, which leads to reduction of goods turnover between the Russian Federation and the EU countries, for example, Eckhard Cordes, Chairman of Germany's Committee on Eastern European Economic Relations, appraised that German exports to Russia fell by 34 per cent and by the end of 2015 can reach 40 per cent. According to data of the economic examinations compiled by Austrian Institute of WIPO (based on Eurostat and International Monetary Fund data) French exports to the Russian Federation decreased to 33 per cent of year income. According to the data of Latvian Ministry of Economy exports data of first quarter 2015 to Russia lowed down by 28.5 per cent compared with 2014 and by the end of 2015 this figure can exceed 35 per cent.

In view of overall positive dynamics of Latvian exports of 2014 and 2015 at the expense of other sectors of the economy, the total export structure (2015 fell to 2.9%) and monetary aggregates (in 2014 by -11.9%, 2015 compared to 2013 by -12%) of Latvian exports of metalworking industry decreased 2014 and 2015. (Source: Ministry of Economic Affairs of the Republic of Latvia, "Report on the Economic Development of Latvia")

(c) The reduction of consumer demand due to the fall of rouble exchange rate and real income in market sectors which are bound with Company's output. For example, in the sphere of car sales, where Company's production is used for building of cars, e.g., the total turn-down of car sales for 9 months 2015 amounted to 33.6 per cent, whereas 30.0 per cent for the model AUTOVAZ-RENAULT-NISSAN and 30.3 per cent for AVTOVAZ LADA of AVTOVAZ accordingly. The same index of previous year accounted 10-15 per cent (Source: Press Release of the AEB Automobile Manufacturers Committee, Association of European Businesses).

The importance and relevance of recession of this industry in the Russian Federation is underlined with ambitious development programs till 2025 of the Cabinet of Ministers on support and development of automobile industry. There are overall tendencies on Company's trade market as well.

First of all, the useful life of cars, devices, machinery, industrial equipment extended by improvement of their wear resistance and working capacity, as well by technical repair and maintenance. In practice, this means that companies and factories tended in the past to write off the machinery according to warranty period given by the manufacturer, whereas nowadays the customer personally decides to extend the useful life.

Secondly, the sector of new car, implements, machinery, and industrial equipment sale collapsed, whereas the aftermarket share, including repair and maintenance service, rose up.

The demands of aftermarket are lower than sales of Company's production in previous periods. As all market sectors can be described as unstable due to various factors, the risks of long-term forecasts and investment are on a quit high level.

When preparing the operational plan for 2010 in the Russian Federation, the Customs Union and Ukrainian markets, the Company relied on the annual growth forecasts of 3% based on the national and regional GDP growth dynamics. In average perspective the foreseen GDP indexes amounted in 2010 and 2011 to + 4.3 per cent, and in 2012: + 3.4%. Company's markets remained stable with comparable values as well.

Since 2013, new factors came into sight, which could not be foreseen, predicted, taken into account, and handled with Company resources as well. According to these factors, the market growth (GDP) slowed significantly in 2013 to + 1.3 per cent and in 2014 to + 0.5 per cent (the forecast for 2015 promised recession to -3.5 per cent). Usually large or long-term investment or commodity markets of real

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estate, cars, financial instruments and recreation etc., but not of essentials, responds as first under such circumstances, and namely with a substantial reduction in sales.

The main currency of Company`s trade in such countries as Russia, the Customs Union and the CIS was Russian rouble. As never before 2014, its exchange rate dynamic against the euro could not be foreseen.

For example, the weighted average of exchange rates in 2010 amounted to 40.298 roubles per euro, in 2009 less for 7.12 per cent. Consequently, rate increased to +1.37 per cent in 2011, then went down up to -4.13 per cent in 2012 and rose up to 5.18 per cent in 2013.

In fact, it means that there was an option to determine the gap of the exchange rate, which usually was adjusted by the Central Bank of the Russian Federation. When the second half of 2014 started, the Central Bank suddenly and unpredictably stopped to govern this. Therefore, in comparison to 2013 the weighted average rate of 2015 collapsed to 33.64 per cent, later on to 79.62 per cent as of 31 December 2015, and consequently reached 108.45 per cent as of 20 January 2016. (Source: Audit-it.ru, section Currency).

Drawing a conclusion from the information revealed above, the market tendencies, especially those which launched in 2014 and 2015, and are still lasting, are unpredictable, and depend rather on factors and processes resulted by the administrative governance or consequences of its operations than upon objective economic factors and processes of free and competitive market.

For example, at request of European metal fabricators the import duties for the metal produced in the Russian Federation jumped from 19.5 to 36 per cent in 2016. By making such decision, the EU ignored the interests of the metalworking factories, who export manufactured outputs back to the Customs Union, CIS, Ukraine and Asian countries.

The resolution made in favour of metal fabricators of EU is causing loss and loss generating condition in Customs Union and the CIS countries for other manufacturers of EU, as goods prices are growing (by 10-15 per cent) along with raw material costs. Such an upturn enhance the probability of losing this market share even without any response measures.

Consequently to this, in 2013 the Company entered the period of instability, when it`s difficult to foreseen any market changes or high risks, as it is out of Company`s power in general. The Company cannot improve the adverse circumstances of this period alone as well.

The summary of Company's operation 2015 entitle results of Company's integration into the world economy and its objective processes under the influence of the multiple scope of revealed development factors and conditions. The overall Company`s development forecast seems to be relatively positive.

STATEMENT ABOUT MANAGEMENT LIABILITY

According to the information at our disposal, this financial statement for 12 months ended 30 September 2015 has been prepared in compliance with the existing legislative requirements, gives a true and fair view of the assets, liabilities, financial position and profits of the Company. Management report contains truthful information.

Chairman of the Management Board
of JSC DITTON pievadķēžu rūpnīca

Rolands Zarāns

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BALANCE SHEET

ASSETS	31.12.2015. EUR	31.12.2014. EUR
1. LONG-TERM INVESTMENTS		
I. Intangible investments		
Concessions, patents, licenses, trademarks and similar rights	630	1 058
Other intangible investments	-	1 589 800
Total intangible investments	630	1 590 858
II. Fixed assets		
Land, buildings and structures	4 627 340	2 157 230
Equipment and machinery	26 321	18 359
Other fixed assets and inventory	10 943	3 228
Costs of the establishment of fixed assets and unfinished building objects	12 649	2 048 860
Total fixed assets	4 677 253	4 227 677
III. Long-term financial investments		
Participation in the capital of related companies	67 160	67 160
Other loans and other long-term debtors	-	1 167 700
Total long-term financial investments	67 160	1 234 860
1. TOTAL LONG-TERM INVESTMENTS	4 745 043	7 053 395
2. CURRENT ASSETS		
I. Inventories		
Raw materials, basic materials and consumables	654 399	631 943
Unfinished orders	194 041	220 186
Finished products and goods for sale	233 943	461 588
Advance payments for goods and services	1 509 591	104 136
Total inventories	2 591 974	1 417 853
II. Debtors		
Purchasers and commissioning party debts	699 195	2 702 872
Other debtors	82 381	35 287
Next period costs	22 140	11 133
Total debtors	803 716	2 749 292
IV. Cash and cash equivalents	79 259	59 576
2. TOTAL CURRENT ASSETS	3 482 675	4 226 721
<u>TOTAL ASSETS</u>	<u>8 219 992</u>	<u>11 280 116</u>

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BALANCE SHEET

LIABILITIES	31.12.2015. EUR	31.12.2014. EUR
1. Equity		
Stock or share capital (equity capital)	10 360 000	10 529 251
Other reserves	169 251	-
Retained profits:		
a) retained profits brought forward from the previous year	-5 637 327	386 626
b) retained profits of fiscal period	-4 044 421	-6 023 953
1. Total equity	849 992	4 891 924
 2. Long-term creditors		
Loans from credit institutions	1 391 223	1 502 387
Next period income	1 099 313	-
2. Total long-term creditors	2 490 536	1 502 387
 3. Short-term creditors:		
Loans from credit institutions	903 000	2 096 000
Other loans	328 607	233 607
Prepayments received from purchasers	21 259	67 094
Accounts payable to suppliers and contractors	2 870 055	1 817 615
Taxes and State mandatory social insurance payments	204 883	437 540
Other creditors	394 799	113 373
Next period income	60 520	-
Accrued obligations	98 830	120 576
3. Total short-term creditors	4 879 464	4 885 805
Total creditors	7 370 000	6 388 192
 <u>TOTAL LIABILITIES</u>	 <u>8 219 992</u>	 <u>11 280 116</u>

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INCOME STATEMENT

	31.12.2015.	31.12.2014.
	EUR	EUR
Net turnover	6 353 984	10 695 729
Production costs of goods sold	-8 047 564	-9 284 271
Gross profit	-1 691 091	1 411 458
Sales costs	-1 596 713	-1 590 141
Administrative expenses	-591 401	-769 994
Other income from economic activities	195 227	742 223
Other costs of economic activities	-188 633	-5 607 535
Other interest income and similar income	982	1 206
Interest payments and similar expenses	-109 266	-150 134
Profit or loss before taxes	-3 983 384	-5 962 917
Enterprise income tax		
Other taxes	-61 037	-61 036
Profit or loss for the fiscal period	<u>-4 044 421</u>	<u>-6 023 953</u>
Earnings per share (EPS)	-0.546	-0.814

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CASH FLOW STATEMENT

	31.12.2015.	31.12.2014.
	EUR	EUR
I. Cash flows from operating activities		
1. Profit or loss before taxes	-3 983 385	-5 962 917
<i>Adjustments to:</i>		
Write-off of assignment contracts	-	1 036 060
Depreciation of fixed assets	306 687	633 492
Amortization of intangible assets	1 590 228	1 590 228
Gain on disposal of fixed assets, net	-54 618	-685 043
Income from interest	-982	-1 206
Interest payments	109 266	150 134
2. Net-profit or net-loss from economic activities in fiscal period	-2 030 804	-3 239 251
<i>Adjustments to Current assets and Short-term creditors:</i>		
Debtors	1 999 192	2 929 924
Reserves	-1 174 121	1 824 852
Creditors	982 055	-1 245 431
3. Cash flows from operating activities	-225 678	270 093
4. Taxes payments (corporate income and immovable property taxes)	-14 005	-53 607
Net cash provided by operating activities	<u>-239 683</u>	<u>216 486</u>
II. Cash flows from investing activities		
Purchases of fixed assets	-756 262	-1 316 366
Disposal of fixed assets	1 169 683	7 808
Interests received	-	206
Net cash used in investing activities	<u>413 421</u>	<u>-1 308 352</u>
III. Cash flows from financing activities		
Proceeds from borrowings or repayment of borrowings and the aid of Investment and Development Agency of Latvia (LIAA), net	-49 331	1 102 786
Interest payment	-104 724	-158 686
Net cash used in financing activities	<u>-154 055</u>	<u>944 100</u>

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**CASH FLOW STATEMENT
SUMMURY**

	31.12.2015. EUR	31.12.2014. EUR
Cash flows from operating activities	-239 683	216 486
Cash flows from investing activities	413 421	-1 308 352
Cash flows of financing activities	-154 055	944 100
Net (decrease)/increase in cash and cash equivalents	19 683	-147 766
Cash and cash equivalents at the beginning of fiscal period	<u>59 576</u>	<u>207 342</u>
Cash and cash equivalents at the end of fiscal period	<u>79 259</u>	<u>59 576</u>

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STATEMENT OF CHANGES IN EQUITY
for the period from 01.01.2015 till 31.12.2015

	Equity capital	Other reserves	Retained profits of previous periods	Profit or loss of fiscal period	Total
	EUR		EUR	EUR	EUR
At 31.12.2013	10 529 251		1 539 495	-1 152 869	10 915 877
Profit or loss of 2013 was reclassified to the retained profits of previous periods	-		-1 152 869	1 152 869	-
Profit or loss of fiscal period	-		-	-6 023 953	-6 023 953
At 31.12.2013	10 529 251		386 626	-6 023 953	4 891 924
Profit or loss of 2014 was reclassified to the retained profits of previous periods	-		-6 023 953	6 023 953	-
Other reserves	-169 251	169 251			
Profit or loss of fiscal period	=		=	-4 044 421	-4 044 421
At 31.12.2013	<u>10 360 000</u>	<u>169 251</u>	<u>-5 637 327</u>	<u>-4 044 421</u>	<u>847 503</u>

Appendixes

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 pievadķēžu rūpnīca, based on source documents, presents fairly the financial position of the JSC as at 31 December 2015, its` operating results and cash flows for 12 months starting from 1 January and ending on 31 December 2015.

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 2015 has not been audited by sworn auditor.

The interim report has been prepared in euros.

Explanations and analyses on separate items of financial reports

Commodity output in 12 months of 2015 (in thousands of euros)

Commodity output accounted € 4,940 thousand in 12 months of this year, being by € 2,113 thousand less than in the relevant period of previous year.

Production of driving chains in 12 months of 2015 (in thousands of meters)

The index of the produced driving chains is by € 939 thousand meters less than in 12 months of 2014.

Production of driving chains in 12 months of 2015 (in thousands of euros)

The value of the produced driving chains in these 12 months reached € 4,860 thousand, what is by € 2,067 thousand less than the index of the same period of previous fiscal year.

Core product sales in 12 months of 2015 (in thousands of euros)

Core product sales amounted to € 6,348 thousand in the reporting period, what is by € 1,218 thousand less than the result of the same period in previous year.

Sales (net-turnover) in 12 months of 2015 (in thousands of euros)

The net-turnover of the fiscal period is fulfilled by € 6,354, being by € 4,342 thousand less than the index in the same period of previous year.