

JSC DITTON PIEVADKĒŽU RŪPNĪCA

Reg.No. 40003030187

Višķu Street 17, Daugavpils, LV-5410 Latvia

FINANCIAL REPORT

FOR 6 MONTHS OF THE YEAR 2017

(01.01.2017 – 30.06.2017)

(not subject to audit by the independent sworn auditor)

**Prepared in accordance with Financial Instruments Market Law and Law On the Annual
Financial Statements and Consolidated Financial Statements of the Republic of Latvia**

Daugavpils

2017

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INFORMATION ABOUT THE COMPANY

Company name	DITTON pievadķēžu rūpnīca
Legal status	Joint Stock Company
Registration 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	Valentīna Krivoguzova
Reporting period	01.01.2017 – 30.06.2017

Persons in charge for drawing up of the financial report:

Mr. Boriss Matvejevs, phone +371 65402333, e-mail: dpr@dpr.lv

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 Zarāns, elected 15.01.2014

Member of the Management Board

Natalja Redzoba, re-elected 10.01.2017 (elected since 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, re-elected 15.02.2017 (elected since 05.05.2005)

Deputy Chairman of the Council

Georgijs Sorokins, re-elected 15.02.2017 (elected since 06.11.2000)

Members of the Council

Anželina Titkova, re-elected 15.02.2017 (elected 14.08.2009)

Genādijs Zavadskis, elected 15.02.2017

Vadims Kazačonoks, elected 15.02.2017

Information on shares owned by Members of the Council

Members of the Council	Share ownership*	
	Quantity of shares	%
Boriss Matvejevs	no shares	-
Georgijs Sorokins	5 768	0,08
Anželina Titkova	no shares	-
Genādijs Zavadskis	no shares	-
Vadims Kazačonoks	no shares	-

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

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INFORMATION ON SHAREHOLDERS AND SHARES

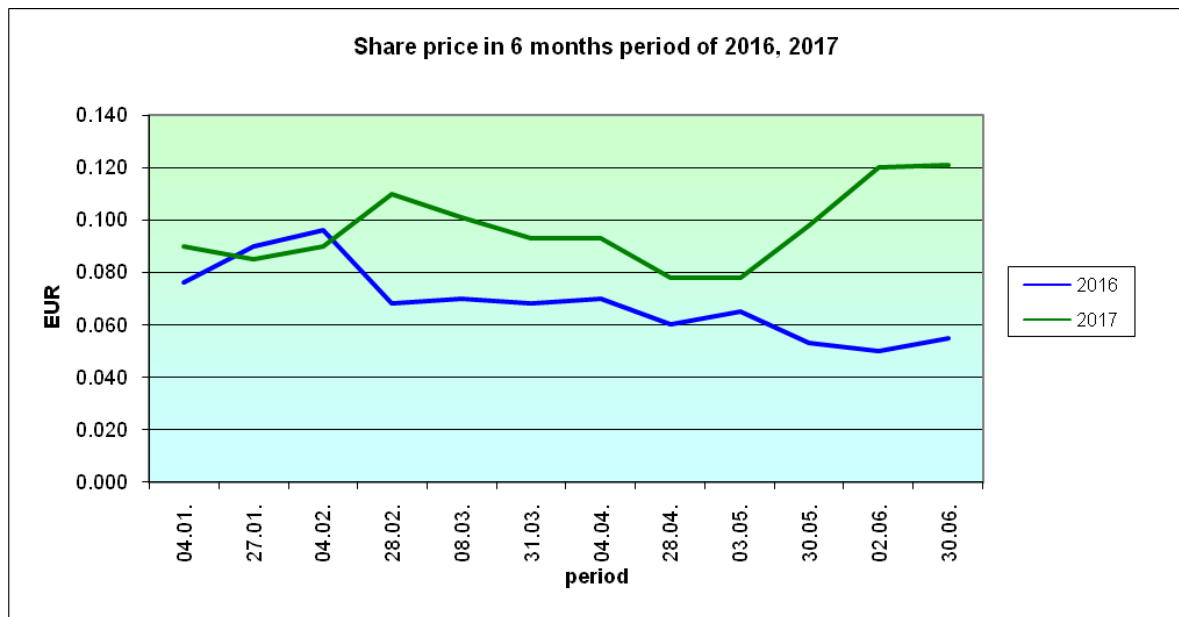
MAJOR SHAREHOLDERS (OVER 5%) *

NAME	Ownership interest, %
Vladislavs Driksne	19,92
MAX Invest Holding Ltd.	13,63
Maleks S Ltd.	14,19
DVINSK MNG Ltd.	9,46

* Note: 1) The Company does not keep any Shareholder Register. Information presented is provided and updated in accordance with the lists of shareholders of the JSC Ditton pievadķēžu rūpnīca as at 07.07.2017., which is prepared by JSC Latvian Central Depository for shareholders` meeting due to the Commercial Law and the Financial Instruments Market Law of the Republic of Latvia, taking into account the shareholders` notifications of the acquisition and disposal major holding in the Issuer's equity in accordance with the section 61 of the Financial Instruments Market Law.

2) As at 30.06.2017, there was no distribution of stocks (20%) among heirs of the former shareholder E. Zavadskis. Inheritance rights to these shares are not defined.

SHARE PRICE DEVELOPMENT



MANAGEMENT REPORT

Information on the results of the company in 6 months of year 2017

The net-turnover in 6 months of 2017 reached € 3,079 thousand, being by € 451 thousand lower than the index in 6 months of 2016.

Commodity output resulted € 1,601 thousand, what is by € 238 thousand lower than in the relevant period of the previous year.

The export of the core products to Eastern and Western markets amounted to 86 per cent (54% eastwards and 32% westwards), 14% of products sold on Latvian market.

The Company closed the 6 months period of 2017 with a pre-tax profit € 748 thousand. The analysis of market conditions causing influence on indices of the fiscal period is given in the section „Significant events. Market tendencies and development of the company. Risks” of the Management report to Company`s financial statements for 6 months of the year 2017.

The average number of employees of JSC DITTON pievadķēžu rūpnīca during 6 months of 2017 was 162 employees.

The average salary in 6 months period of 2017 amounted to € 528, what is by € 42 less than in 6 months of 2016.

The results of Company`s activities for 6 months of 2017 and the Management report were approved by Company`s Management Board (Management Board meeting Protocol No. 07/2017 dated 31 August 2017).

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

After having analysed the Company`s operating conditions and performance indices, as well as market situation in 6 months of 2017, the Company`s management considers the information given in the management report to the annual statements for the year 2015 and 2016 is fully up to date and relevant for the reporting period. It states that there are observed no necessary growth tendencies in manufacturing industry, and namely in the field of metalworking and mechanical engineering, where the Company is operating. This is reflected by performance indices of Company for the reporting period.

The analysis of the previous periods for the year 2015 and 2016 enclosed the following thesis, which are topical at present too. According to indices of the commodity output under the trade mark of JSC Ditton pievadķēžu rūpnīca, the sales market of the final consumers can be structurally split into two main shares as follows:

- Western market, i. e. mainly European country market, and
- Eastern market, i. e. market of the Russian Federation, Customs Union, CIS, Ukraine, as well as of Asian countries.

The Company is integrated into production and economic systems of those countries, which belong to sales market shares of the Company mentioned above, regardless of procedures and systems applied for products promotion on these markets. Thus, all the trends, factors, risks, crises and other circumstances on these markets have direct influence on the Company, its operations, as well as the income gained from its activities.

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The necessity to ensure Company's operation obliges the Company's management to undertake all of the measures in order to retain both market shares, such action as:

- operating due to conditions and factors of specific market shares,
- reaching compromises with partners, also unfavourable ones,
- retaining all the market shares, even those with temporary adverse factors or crisis phenomena.

Whereas the waiver for partnership with someone is possible only under condition, when production volumes are replaced by ones at the same level on another market share or by collaboration with other partners (more detailed analysis thereof is given in the management report to the annual statements for 2016).

Western market share

After having analysed the Company's operating conditions and performance indices, as well as market situation in 6 months of 2017, the Company's management considers the information given in the management report to the annual statements for the year 2015 and 2016 is fully up to date and relevant for the reporting period. There are no necessary growth tendencies in manufacturing industry, and namely in the field of metalworking and mechanical engineering, where the Company is operating, what is reflected by performance indices of Company for the reporting period.

For example, production volumes by the end of each next 6 months of years 2015 and 2016 resulted: € 1,36 million (1st half 2015), € 1,50 million (2nd half 2015), € 1,59 million (1st half 2016), € 1,40 million (2nd half 2016) and € 1,30 million (1st half 2017). These numbers prove that there are no tendencies in the fields, where Company's goods are applied.

The Management Board already drew attention to these circumstances in previous Management reports by giving relatively positive forecast regarding its operation indices. These forecasts, assessments of the market shares, as well as information on adverse factors, which had an impact on Company's activity, retain relevant even today.

According to this statistics, there is no reason to expect that sales volumes will significantly increase in this market share. Such increase is possible only in the result of joint projects with these countries companies in areas and technologies where the Company is not represented yet.

Eastern market share

The Management gave a detailed analysis of the situation in this market share in the annual report of the Company for 2015 and 2016, including the examination of stages and processes arising there.

The Management Board pointed out that one of the disadvantages was instability of the exchange rate of the rouble being as a value in trading operations in the Customs Union. It was caused by transnational prohibition proceedings, instability in oil values and crisis phenomena resulted by these adverse factors in economies of the Customs Union and the CIS.

Therewith the Management marked out its hopes for improvements regarding this challenge in 2016 such as stabilisation of the rouble exchange rate against the euro within predictable and comprehensive "gap", what is already proven by the outcomes of 2016 and 1st half 2017 resulting improvement of Company's indices. Therefore, the positive forecast done by the Management regarding this market share came true.

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Other adverse factors stressed by the Management Board in the Company's Annual reports for the years 2015 and 2016, such as mutual sanctions policy still going on and clearly expressed attraction of Chinese manufacturers, possible risks of loss, first of all, of customers and decreased demand for Company's goods, retain relevant and significant as well. Therefore, the Management Board finds it of utmost importance to focus shareholders' attention on these obstacles.

Besides, the state policy, such as Russian Federation, due to sanctions on this market share, is stipulating the internal enterprises to launch manufacturing of substitute goods for products of JSC Ditton pievadķēžu rūpnīca. Under such circumstances, sales of counterfeit products under Company's trademark are increasing. It shows the high quality of Company's goods and constant demand for these products, as well as Company's loss because of fake promotion by fictitious suppliers on this market share. Unfortunately, the Management forecast regarding this part came true and stays up to date.

Another result of the economic political relations between EU and Russian Federation mentioned above, are additional import duties for the metal produced in the Russian Federation (18 -30 per cent), what the Management Board noted in its reports. Unfortunately, these duties on certain types of metal products originated in the Russian Federation remain in force in the common backdrop of rising prices. Taking into account that the Company has used customary for the production metal goods from Russian because of their cost-efficiency, flexible delivery and payment conditions, this factor caused products price increase in all market shares and reduction in sales. Similar European metal products are more expensive. Therefore the substitution of Russian metal products with European is not cost effective, but cause additional price growth. It is expected that the effect of this factor will slow down against the forthcoming backdrop of rising prices of European and Asian driving chain manufacturers.

Consequently, the risks and loss on this market share depend mainly not on the Company, but rather on circumstances, which the Company cannot influence and eliminate by reasonable and available means.

Along with this, the Company considers it necessary to continue operating in this market shares due to investments done into this market, gained contacts, visibility level of the trademark and image of a high-quality manufacturer. In addition, certain optimism arises by increasing customers' requirements for the price-quality ratio, ensuring the Company an obvious competitive advantage.

During the years 2015-2017 the Company is implementing a loss minimization program due to the optimization of the internal structure and due to use of infrastructural, intellectual and human resources. The Company sees its growth potential in generation of technology-intensive variety of high added value products, as well as in promotion of services and works in addition to the main production process.

Development plan for 2015-2017, endorsed by the shareholders' meeting in July 2015 and given to public, is in progress as the core stone for actions of Company's Management. By following the plan, the Management Board operates in the sequential way much more structurally and smart, as well as optimizes division of involved resources for improving financial standing of the Company. Thus way, dynamic of Company's incomes towards expenses is significantly improving. The above-mentioned allowed reaching positive indices. Indices for 6 months 2017 in comparison to the year 2016 and 2015 and to the same period of the previous year have been improved. As Company's development forecast is merely positive by now, the Management Board is planning to close the year 2017 with a profit.

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The Company's activity is subject to a variety of financial risks: foreign currency risk, interest rate risk, credit risk and liquidity risk. Information on structure and description of these risks the Management Board gave in the Management report to the Annual report for the year 2016. The information given in the annual statements for the year 2016 on financial risks is fully up to date for the interim financial report for the 6 months of the year 2017 as well.

STATEMENT ABOUT MANAGEMENT LIABILITY

According to the information at our disposal, this financial statements for 6 months of the year 2017 have been prepared in compliance with the existing legislative requirements, gives a true and fair view of the assets, liabilities, financial standing and profits of the Company. Management report contains truthful information.

Chairman of the Management Board
of JSC DITTON pievadķēžu rūpnīca
31 August 2017

Rolands Zarāns

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BALANCE SHEET

ASSETS	30.06.2017	30.06.2016
	EUR	EUR
Long-term investments		
Intangible investments		
Concessions, patents, licenses, trademarks and similar rights	18 637	23 775
Total intangible investments	18 637	23 775
Fixed assets		
Land, buildings and engineering structures	4 411 189	4 553 630
Technological equipment and devices	710 583	787 680
Other fixed assets and inventory	21 017	34 100
Capital expenditure and assets under construction	12 649	12 649
Total fixed assets	5 155 438	5 388 059
Long-term financial investments		
Other securities and investments	67 160	67 160
Total long-term financial investments	67 160	67 160
Total long-term investments	5 241 235	5 478 994
Current assets		
Inventories		
Raw materials, consumables and supplies	568 895	528 414
Work in progress	175 552	246 268
Finished products and goods for sale	275 798	230 024
Advance payments for inventories	1 527 272	1 523 570
Total inventories	2 547 517	2 528 276
Debtors		
Trade receivables	1 009 494	967 932
Other debtors	28 920	57 554
Total debtors	1 038 414	1 025 486
Cash	26 767	115 493
Total current assets	3 612 009	3 669 255
<u>TOTAL ASSETS</u>	<u>8 853 933</u>	<u>9 148 249</u>

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BALANCE SHEET

LIABILITIES	30.06.2017	30.06.2016
	EUR	EUR
Equity		
Stock or share capital (equity capital)	10 360 000	10 360 000
Reserves:		
Other reserves	169 251	169 251
Retained profits or uncovered losses brought forward from the previous years	(9 889 370)	(5 637 329)
Profit or loss of the reporting year	747 839	(1 770 689)
Total equity	1 387 720	3 121 233
 Long-term creditors:		
Loans from credit institutions	1 858 390	1 502 387
Next period income	1 038 793	-
Total long-term creditors	2 897 183	1 502 387
 Short-term creditors:		
Loans from credit institutions	84 891	2 025 672
Other loans	281 613	328 607
Prepayments received from purchasers	37 076	48 786
Accounts payable to suppliers and contractors	3 288 763	2 873 282
Taxes and State mandatory social insurance payments	408 997	194 987
Other creditors	384 103	478 680
Next period income	30 260	-
Accrued obligations	53 327	52 818
Total short-term creditors	4 569 030	6 002 832
Total creditors	7 466 213	7 505 219
 <u>TOTAL LIABILITIES</u>	<u>8 853 933</u>	<u>10 626 452</u>

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INCOME STATEMENT

	30.06.2017 EUR	30.06.2016 EUR
Net turnover	3 079 373	3 530 413
Production costs of goods sold, purchase costs of goods sold or services rendered	2 223 796	(3 875 663)
Gross profit or loss	855 577	(345 250)
Sales costs	(5 273)	(9 394)
Administrative expenses	(304 247)	(308 307)
Other income from operating activities	305 114	241 065
Other costs of operating activities	(63 845)	(35 888)
Interest payments and similar expenses	(39 487)	(745)
• <i>from other persons</i>	<i>(39 487)</i>	<i>(745)</i>
Profit or loss before enterprise income tax	747 839	(458 519)
Enterprise income tax for the reporting year	-	(30 519)
Profit or loss for the fiscal period	747 839	(489 038)
Minority interest	0,101	(0,066)

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CASH FLOW STATEMENT

	30.06.2017	30.06.2016
	EUR	EUR
I. Cash flows from operating activities		
1. Profit or loss before enterprise income tax	747 839	(458 519)
<i>Adjustments to:</i>		
Depreciation of fixed assets	126 795	101 778
Amortization of intangible assets	2 549	1 021
Interest payments and similar income	39 487	745
2. Profit or loss before adjustments to fixed assets and short-term creditors	916 670	(385 235)
<i>Adjustments to:</i>		
Increase or decrease in accounts receivables	319 608	(256 122)
Increase or decrease in inventories	(300 400)	63 698
Increase or decrease in accounts payable to suppliers, contractors and other creditors	(780 274)	1 770 423
3. Gross cash flows from operating activities	155 604	1 192 764
Net cash provided by operating activities	<u>155 604</u>	<u>1 162 245</u>
II. Cash flows of investing activities		
Purchases of fixed assets	(36 023)	(836 750)
Net cash used in investing activities	<u>(36 023)</u>	<u>(836 750)</u>
III. Cash flows from financing activities		
Borrowings received	(69 542)	(288 516)
Gain on amortization of received EU funds	(30 259)	(30 260)
Net cash used in financing activities	<u>(99 801)</u>	<u>(289 261)</u>

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CASH FLOW STATEMENT
SUMMURY

	30.06.2017 EUR	30.06.2016 EUR
Net cash of the reporting year	19 780	1 162 245
Cash and cash equivalents at the beginning of fiscal period	<u>6 987</u>	<u>79 259</u>
Cash and cash equivalents at the end of fiscal period	<u>26 767</u>	<u>115 493</u>

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STATEMENT OF CHANGES IN EQUITY
for the period from 01.01.2017 till 30.06.2017

	Equity capital	Other reserves	Retained profit of previous periods	Profit or loss of fiscal period	Total
	EUR	EUR	EUR	EUR	EUR
At 1 January 2017	10 360 000	169 251	(9 889 370)	-	639 881
Profit of 6 months period 2017	-		-	747 839	747 839
At 30 June 2017	10 360 000	169 251	(9 889 370)	747 839	1 387 720
At 1 January 2016	10 360 000	169 251	(9 907 291)	-	621 960
Other reserves			-	-	-
Loss of 6 months period 2016	-	-	-	(489 038)	(489 038)
At 30 June 2016	10 360 000	169 251	(9 907 291)	(489 038)	132 922

Appendix

Explanatory notes

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

These financial statements of the JSC DITTON pievadķēžu rūpnīca prepared on the basis of source documents present fairly the financial position of the JSC as at 30 June 2017, its` operating results and cash flows for 6 months starting from 1 January and ending on 30 June 2017.

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 consistently to each category.

The interim financial report for 6 months of the year 2017 has not been audited by the sworn auditor.

The interim report has been prepared in euros.

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Explanations and analyses on separate items of financial reports

Production of driving chains in 6 months of 2017 (thousand euros)

The value of the produced driving chains in these 6 months reached € 1,601 thousand, what is by € 238 thousand less than the index of the same period of previous fiscal year.

Production of driving chains in 6 months of 2017 (thousand meters)

The index of the produced driving chains is by 337 thousand meters less than in 6 months of 2016.

Sales (net-turnover) in 6 months of 2017 (thousand euros)

The net-turnover of the fiscal period is fulfilled by € 3,079 thousand, being by € 451 thousand or 13 per cent less than the index in the same period of previous year.

Core product sales in 6 months of 2017 (thousand euros)

Core product sales amounted to € 2,338 thousand in the reporting period, what is by € 411 thousand or 16 per cent less than the result of the same period in previous year.