

03.05.2013

### **Comment of the Company to the Annual Report for 2012**

On 30 April 2013 the JSC AS „Ditton pievadkēžu rūpnīca”, hereinafter – the Company, disclosed its audited annual report with the report of the auditor SIA „Deloitte Audits Latvia”, hereinafter – the Auditor.

In the Auditor’s report there are some judgments concerning the Company, which in the opinion of the Council and the Management Board are significant information for shareholders and potential investors.

In this regard, in order to fulfil requirements of Clause 59 of Financial Instrument Market Law, the Council and the Management Board consider it necessary to disclose following explanations.

#### ***Sections: Basis for the qualified opinion and Qualified opinion***

##### **1. Regarding impossibility to perform a reliable and guaranteed evaluation of effectiveness and efficiency of the Company’s investments into markets of next periods.**

The above-mentioned aspects have been reflected in the auditor's reports to the Company’s Annual Reports for 2010, 2011 and 2012.

The Company commented this aspect in detail on the home pages of CSRI, JSC “NASDAQ OMX Riga” and the Company on the Internet on April 29, 2012 in the Company’s comment to the Annual Report 2011. The Company believes that this comment is entirely valid for the auditor's report on the Annual Report for 2012.

The Company considers it necessary to draw attention repeatedly to the following.

In the current economic climate, when instability and negative tendencies in the world economy are observed, for example, in conditions of decline in manufacturing in automobile production of the euro zone over the past 18 months in a row, it is not possible to make reliable and long-term market forecasts for a long-term outlook.

In this regard the Auditor’s conclusions completely coincide with a position of the Company which is presented in the reports of the management and of the Council to the annual report, and also earlier was published in annexes to quarterly reports of the Company.

At the same time analyzing an aspect of the Company’s investments into markets of next periods, it is necessary to recognize that forecasts of the Company for a reasonable prospect completely came true. This is testified by the results of the Company’s activity in 2012, and also that the Company maintained and strengthened its position in these markets.

Certainly, risks of commercial activity are topical always. Certainly, the Company can not restrict the activity only to Latvia and objective circumstances demand its presence on other markets and with different level of risks. Presence of risks doesn’t mean that the Company should stop its economic activity till the moment when there will be certain ideal markets for the Company created, with absolute guarantees and protection. There will be never such circumstances on the market.

The Company is compelled to work and will work on all markets, considering, forecasting and managing risks as much as possible. In this regard the Company is solidary with the Auditor that these risks and conditions of the market are dynamic, they can’t be forecasted for a long term and in definite frames, but it is necessary to analyze constantly this dynamics and to correct policy of the Company in due time, including by using the Company’s investments into the markets of next periods.

The Company conducts such activities all the time.

## 2. As to the provisions related to the Company's activity in 2011 and 2012.

According to rules of law of the Republic of Latvia and the European Union, the decision on provisions is within the competence of a capital company. Judgments of expert institutions are recommendations to the Company, as well as an emphasis of an attention on those circumstances which could cause risks for incurring of the Company's costs in the future and which are not reflected in the Annual Report.

To make decision about provisions there is a formal sign necessary (that is, the specific circumstances that have occurred or circumstances which apparently may occur, or the situations stipulated by legal provisions of Latvian Republic), and also an informal subjective sign (that is, estimation of probability for events not occurred and expenses related to it, which require provisions).

In this particular case the Company sees neither formal nor informal subjective basis for such Company's expenses related to its activity in 2011 and 2012, which would require providing provisions in the Annual Report for 2012 and in this part the Company's view does not coincide with the Auditor's evaluative judgments.

The Company is going to provide additional information to shareholder on further development of these circumstances.

### **Section: *Accentuation of circumstances***

The Company regularly analyses and manages risks of the business and commercial activity.

As mentioned above, the Company believes that there is no such a market and no such a business which would be fully free of these risks.

These risks are assessed by models relevant to the specificities of the company's business. It seems that by making judgments about the Company's risks the Auditor has applied an incorrect model. This model is applicable to bank-creditor and borrower relationship, in which there is only a direct relationship generated (without intermediaries), in which the bank-creditor has a dominant role and which usually is not established in severe competition circumstances where supply exceeds demand and consumer interests are priority. In these models, differentiation and multiplicity of direct partners (borrowers) really reduce credit risks in relation to one or two large borrowers.

In the sphere of production there is another relationship model functioning. As the end user purchasing a TV-set or a car, each of us does not enter into direct relationship with their manufacturers such as Sony or Mercedes-Benz. Also stores (shops) selling these goods or providing services are not direct partners of these concerns. And absolutely never manufacturers (suppliers) of component parts of these goods and services will be direct partners with end-users. In these fields there is allocation of functions functioning between market players integrated in such model by the system of trade connections.

Participation in a particular market segment, the possibility to sell its products is essential for the manufacturer whereas the number of channels (or intermediaries) by promoting the production in this market is important, but it does not have a crucial nature.

Obviously, the intermediary company providing deliveries of the Company's production to eastern markets (up to 60% of total production), as well as dealers related to it by economic-commercial relations, that is, those who perform operations of logistics and transportation, storage, advertising, trademark protection, prevention of distribution of counterfeit products, customs operations, operations with raw materials supply, the warranty provision etc, are not the final buyers of the Company's production, and in this part they obviously can not guarantee payment risks of ultimate customers.

In addition, the Auditor does not focus on the fact that optimization of direct trade connections affects directly the Company's costs related to its economic-commercial activities, in particular, substantially reduces them. Restructuring of the Company's activity onto many direct commercial relations with end-users will result in the necessity to perform the above functions, and thus take on additional expenses in connection with their performance, and in the need to increase the number of staff to deal with these customers, including opening of representation offices and logistical hubs, taking into account customs frontier of the European Union, or executing production orders by parcels. It is obviously irrational. In addition, the risks of losing payment by the final buyer, taking into account the economic situation and rules adopted in the market still can not be ruled out with guarantee. Besides, the risks being accentuated by the Auditor are possible, but they will not certainly set in, however another organization of the activity as described above at any rate shall require from the Company additional expenses up to 2 mio.Ls yearly, which should be paid by the Company regardless of other commitments.

However, the Company takes available measures for managing of these risks by establishing contractual relationships with the main dealers who work with the Company's products in the market determining liability for payments, which is also mentioned in the Company's Annual Report and the Auditor's report.

The Management Board believes that shareholders should have access to information that comprehensively describes the situation: both in respect to the key commercial risks and economic benefits arising from organization of the current system. Unilateral approach in this case is incorrect and causes for the shareholders and investors biased perception of the Company's activity.

By using models for evaluation of the Company's activity it is also important to take into account the major trends taking place in the global economy and the production in particular.

Main productions, which one way or another our Company is related to by its products, are organized and structured in the OEM-production system. In this system the production (conveyor) of the final product (car, engine) is not focused on hundreds of thousands of suppliers of individual components of the final product, organization of warehouses and logistics for these components. These productions are focused on 2-3 OEM companies-suppliers who perform assembly of separate units of the final products or constructions, who also execute functions of logistics and transportation. Conversely, OEM-suppliers receive component parts from the first-level suppliers (Tier 1) and the second-level suppliers among which there may be manufacturers of certain elements, such as chains, engine units or electronics. The certificate ISO/TS 16949 being possessed by the Company gives to the Company such opportunity to supply its products for OEM-production in the status of the first-level supplier (Tier 1) or the second-level supplier and subsequent service of the end product to consumers.

From this structure it clearly follows that in the global economy (manufacturing sector) there are trends for optimization, allocation of functions and reduction of direct contractual relations searched, focusing on the number of partners objectively necessary to achieve the goals of the activity, rather than on formal indicators of the number of contractual relations.

In this system the companies, and also the Company, are focused on expansion of manufacturing and economic-commercial relations, however, not all proposals and projects are acceptable, since not all conform to the goals and mission of the companies and may imbalance existing links, resulting in detriment to the market and companies' interests.

For more detailed information on OEM system investors may refer to web sites such as [www.perfect-costing.com](http://www.perfect-costing.com), [www.cieautomotive.com](http://www.cieautomotive.com), [www.cargroup.org](http://www.cargroup.org) etc..

Finally, the Company notes that the production and its volumes of all productions being present on the market and of the Company itself, depend on the current situation and the economic activity on the market, on the final product's supply and demand situation, on the relation of

price offered and expediency to produce at this price, are formed on the basis of certain orders which are not related to each other and focused on a variety of end consumers. The total debt amount of the ultimate consumers as at 30.04.2013 decreased by 36%. The Company shall provide additional information on settlement tendencies to investors.

The Management Board and the Council