JSC DITTON PIEVADĶĒŽU RŪPNĪCA

Reg.No. 40003030187
Višķu Street 17, Daugavpils, LV-5410 Latvia

FINANCIAL REPORT

FOR 6 MONTHS OF THE YEAR 2018

(01.01.2018 – 30.06.2018)

(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

2018

Contents

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	Jūlija Lavrecka
Reporting period	01.01.2018 – 30.06.2018

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.

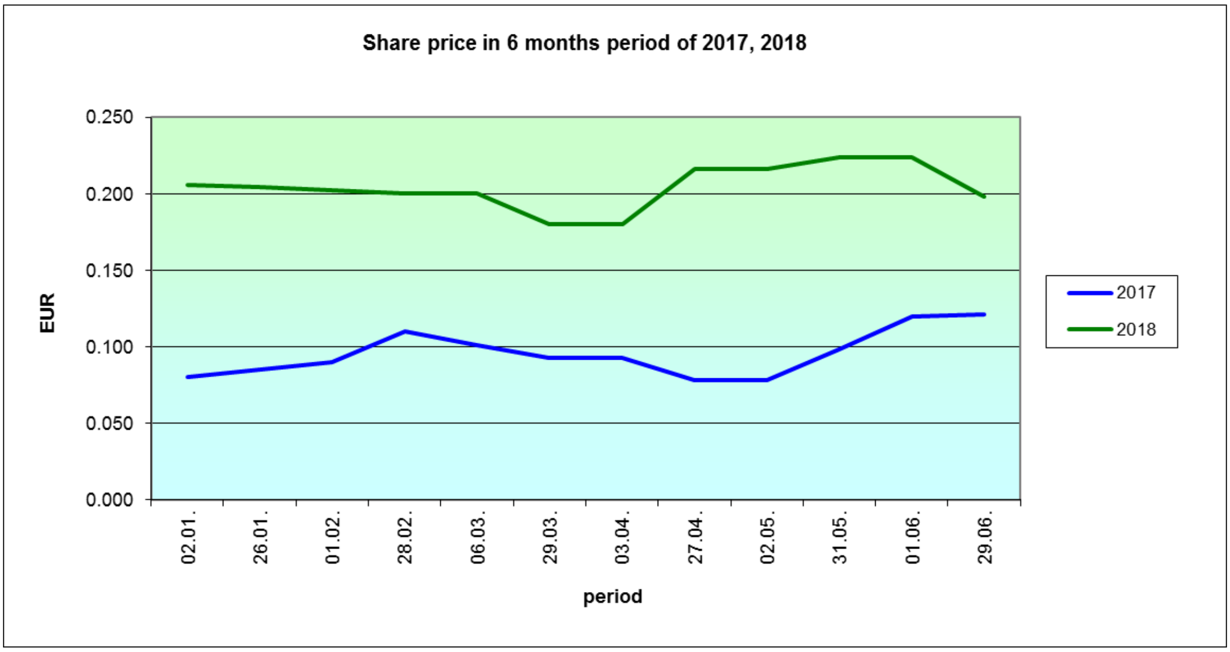
INFORMATION ON SHAREHOLDERS AND SHARES

MAJOR SHAREHOLDERS (OVER 5%) *

NAME	Ownership interest, %
Vladislavs Drīksne	19,92
MAX Invest Holding Ltd.	13,63
Maleks S Ltd.	13,72
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 28.05.2018, which is prepared by Nasdaq CSD 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 30.06.2018, the Company has no information at its disposal on distribution of stocks (20%) among heirs of E. Zavadskis and their records in financial instruments accounts pursuant to the section 125 of the Financial Instruments Market Law.

SHARE PRICE DEVELOPMENT



MANAGEMENT REPORT

Information on the results of the company in 6 months of year 2018

The net-turnover in 6 months of 2018 reached € 2,952 thousand, being by € 127 thousand lower than the index in 6 months of 2017.

Commodity output resulted € 2,172 thousand, what is by € 571 thousand higher than in the relevant period of the previous year.

The export of the core products to Eastern and Western markets amounted to 99 per cent (52% eastwards and 47% westwards), 1% of products sold and services rendered on Latvian market.

The Company closed the 6 months period of 2018 with a profit before corporate income tax € 283 thousand.

The average number of employees of the Company during 6 months of 2018 was 169 people.

The average salary in 6 months period of 2018 amounted to € 615, what is by € 87 higher than in 6 months of 2017.

The results of Company's activities and financial statements of the Company for 6 months of 2018, this Management report were approved by Company's Management Board (Management Board meeting Protocol No. 05/2018 dated 31 August 2018).

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

<u>Overall market trends</u>
After having analysed the Company's operating conditions and performance indices, as well as market situation in 6 months of 2018, the Company's Management considers the information given in the Management reports to the Annual reports for the year 2016 and 2017 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 2016 and 2017 enclosed the following thesis, which are topical at present too. According to indices of the commodity output under the trademark of the Company, 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.

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 actions 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 report for 2017).

<u>Western market share</u>

After having analysed the Company's operating conditions and performance indices, as well as market situation in 6 months of 2018, the Company's Management considers the information given in the Management reports to the Annual reports for the year 2016 and 2017 is fully up to date and relevant for the reporting period. There are no growth tendencies in manufacturing industry as needed, 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.

The sales results of the Company`s goods (the same as in 2017) show that there are no growth tendencies in the areas, where the Company's goods are utilised. 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 relevance 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 companies from these countries in areas and technologies where the Company is not represented yet.

Moreover the Management made the point that according to the percentage ratio of Company`s sales volumes this market share has increased to 47 per cent.

<u>Eastern market share</u>

The Management gave a detailed analysis of the situation in this market share in Annual reports of the Company for 2016 and 2017, 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 2017 resulting improvement of Company's indices. Therefore, the positive forecast done by the Management regarding this market share came true. Unfortunately, the ongoing sanction policy in the economic world cause new threats of rouble exchange rates fluctuations. This factor along with the challenge that this market share can switch to payments in rouble currency may create for the Company some additional costs.

On top of that, the policy of such countries as of Russian Federation under circumstances of the mutual sanctions is stipulating the internal enterprises of the appropriate market share and enterprises of the third countries, which stays out of this sanctions policy, in launching production of substitute goods to Company products. Therefore, the Management Board finds it of utmost importance to focus shareholders` attention on these obstacles.

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 Russia 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. The Company stresses that market outlook does not seem very optimistic due to upcoming quotas on certain steel products imported into EU market from Russia and other countries and due to high tariff rates on certain steel imports, when these quotas will be exhausted. 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.

<u>Optimisation of Company`s manufacturing processes and costs management</u>
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.

By following the program, 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 and Company`s positive operating results (with profit) proves the true of the set development priorities. Due to this the Management evaluate the Company's development forecast is merely positive by now.

<u>Development of the Industrial and Technology Park</u>
The Company is promoting the program on development of the Industrial and Technology Park on its premises as its commercial services. Within this program, the Company inter alia

carried out modernisation of its production premises by using the aid of the European Union Funds. Thereof effective saving of resources related to maintenance of production facilities

was achieved. Furthermore, production space was created with appropriate infrastructure for production needs for commercial rental offer.

According to analysis of Company`s operations based on results in 2017 and of the first half of the year 2018, the Company`s profit from the running the Industrial and Technology Park takes the significant place in market shares of Company`s goods and services.

<u>Risks of the Company</u>
The Company's activities are subjects 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 2017. The information given in the annual statements for the year 2017 on financial risks is fully up to date for the interim financial report for the 6 months of the year 2018 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 Rolands Zarāns
JSC DITTON pievadķēžu rūpnīca
31 August 2018

BALANCE SHEET

ASSETS	30.06.2018 EUR	30.06.2017 EUR
Long-term investments		
Intangible investments		
Concessions, patents, licenses, trademarks and similar rights	13 694	18 637
Total intangible investments	**13 694**	**18 637**
Fixed assets		
Immovable property:		
Land	1 853 982	1 853 982
Buildings and structures and permanent crop	1 361 077	1 445 615
Investment properties - land	88 628	88 628
Investment properties - buildings	965 060	1 022 964
Technological equipment and devices	2 945 831	710 583
Other fixed assets and inventory	52 577	21 017
Costs of the establishment of fixed assets and unfinished buildings objects	12 649	12 649
Total fixed assets	**7 279 804**	**5 155 438**
Long-term financial investments		
Other securities and investments	-	67 160
Total long-term financial investments	**-**	**67 160**
Total long-term investments	**7 293 498**	**5 241 235**
Current assets		
Inventories		
Raw materials, consumables and supplies	606 665	568 895
Work in progress	182 527	175 552
Finished products and goods for sale	233 748	275 798
Advance payments for inventories	132 771	1 527 272
Total inventories	**1 155 711**	**2 547 517**
Debtors		
Trade receivables	987 222	1 009 494
Other debtors	100 429	28 920
Next period costs	429	-
Total debtors	**1 088 080**	**1 038 414**
Cash	**15 933**	**26 767**
Total current assets	**2 259 724**	**3 612 009**
TOTAL ASSETS	**9 553 222**	**8 853 933**

BALANCE SHEET

LIABILITIES	30.06.2018 EUR	30.06.2017 EUR
Equity		
Stock capital	10 360 000	10 360 000
Reserves:		
Other reserves	169 251	169 251
Uncovered losses brought forward from the previous years	(8 944 247)	(9 889 370)
Profit of the fiscal period	282 968	747 839
Total equity	**1 867 972**	**1 387 720**
Creditors		
Long-term creditors:		
Loans from credit institutions	4 533 505	1 858 390
Next period income	978 274	1 038 793
Total long-term creditors	**5 511 779**	**2 897 183**
Short-term creditors:		
Loans from credit institutions	697 193	84 891
Other loans	-	281 613
Prepayments received from purchasers	25 821	37 076
Accounts payable to suppliers and contractors	671 250	3 288 763
Taxes and State mandatory social insurance payments	516 092	408 997
Other creditors	149 547	384 103
Deferred income	30 259	30 260
Accrued liabilities	83 309	53 327
Total short-term creditors	**2 173 471**	**4 569 030**
Total creditors	**7 685 250**	**7 466 213**
TOTAL LIABILITIES	**9 553 222**	**8 853 933**

INCOME STATEMENT

	30.06.2018 EUR	30.06.2017 EUR
Net turnover	2 951 595	3 079 373
Production costs of goods sold, purchase costs of goods sold or services rendered	2 317 940	2 223 796
Gross profit	**633 655**	**855 577**
Sales costs	(2 967)	(5 273)
Administrative expenses	(337 820)	(304 247)
Other income from operating activities	253 720	305 114
Other costs of operating activities	(146 892)	(63 845)
Interest payment and similar expenses	(116 727)	(39 487)
• *from other persons*	*(116 727)*	*(39 487)*
Profit before corporate income tax	**282 968**	**747 839**
Corporate income tax for the fiscal period	-	-
Profit for the fiscal period	**282 968**	**747 839**
Profit / diluted profit per share	**0,382**	**0,101**

CASH FLOW STATEMENT

	30.06.2018 EUR	30.06.2017 EUR
I. Cash flows from operating activities		
1. Profit or loss before enterprise income tax	282 968	747 839
Adjustments to:		
Depreciation of fixed assets	206 413	126 795
Depreciation of intangible assets	2 417	2 549
Other income (Investment and Development Agency of Latvia)	(30 260)	-
Interest payments and similar expenses	116 727	39 487
2. Profit or loss before adjustments to fixed assets and short-term creditors	578 265	916 670
Adjustments to:		
Increase or decrease in accounts receivables	(15 720)	319 608
Increase or decrease in inventories	(175 595)	(300 400)
Increase or decrease in accounts payable to suppliers, contractors and other creditors	159 825	(780 274)
3. Gross cash flows from operating activities	546 775	155 604
Net cash flows used in operating activities	**546 775**	**155 604**
II. Cash flows from investing activities		
Purchases of fixed assets and intangible investments	(41 318)	(36 023)
Proceeds from sale of fixed assets and intangible investments	67 160	
Net cash flows used in investing activities	**25 842**	**(36 023)**
III. Cash flows from financing activities		
Net change in borrowings	(441 333)	(69 542)
Interest payments and similar expenses	(116 727)	(30 259)
Net cash flows used in financing activities	**(558 060)**	**(99 801)**
Net cash flows of the fiscal period	**14 555**	**19 780**
Cash and cash equivalents at the beginning of fiscal period	**1 378**	**6 987**
Cash and cash equivalents at the end of fiscal period	**15 933**	**26 767**

STATEMENT OF CHANGES IN EQUITY
for the period from 01.01.2018 till 30.06.2018

	Equity capital	Other reserves	Retained profit of previous periods	Profit or loss of fiscal period	Total
	EUR	EUR	EUR	EUR	EUR
At 1 January 2018	**10 360 000**	**169 251**	**(8 944 247)**	**-**	**1 585 004**
Profit of 6 months period 2018	-		-	282 968	**282 968**
At 30 June 2018	**10 360 000**	**169 251**	**(8 944 247)**	**282 968**	**1 867 972**
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**

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 2018, its` operating results and cash flows for 6 months starting from 1 January and ending on 30 June 2018.

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 2018 has not been audited by the sworn auditor.

The interim report has been prepared in euros.

Explanations and analyses on separate items of financial reports

Production of driving chains in 6 months of 2018 (thousand euros)
The value of the produced driving chains in these 6 months reached € 2,172 thousand, what is by € 571 thousand higher than the index of the same period of the previous fiscal year.

Production of driving chains in 6 months of 2018 (thousand meters)
The index of the produced driving chains is by 49 thousand meters higher than in 6 months of 2017.

Sales (net-turnover) in 6 months of 2018 (thousand euros)
The net-turnover of the fiscal period is fulfilled by € 2,952 thousand, being by € 127 thousand or 4 per cent less than the index in the same period of the previous year.

Core product sales in 6 months of 2018 (thousand euros)
Core product sales amounted to € 2,533 thousand in the reporting period, what is by € 195 thousand or 8 per cent more than the result of the same period in the previous year.