

JSC DITTON PIEVADKĒŽU RŪPNĪCA
Reg. No. 40003030187
Višķu St.17, Daugavpils, LV-5410, Latvia

Annual Report for the Year 2020
(Translation from Latvian)

and
Corporate Governance Report
PREPARED IN COMPLIANCE WITH THE
LAW ON ANNUAL ACCOUNTS AND CONSOLIDATED ANNUAL ACCOUNTS

and Independent Auditors` Report
(01.01.2020 – 31.12.2020)

Daugavpils
2021

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INFORMATION ABOUT THE COMPANY

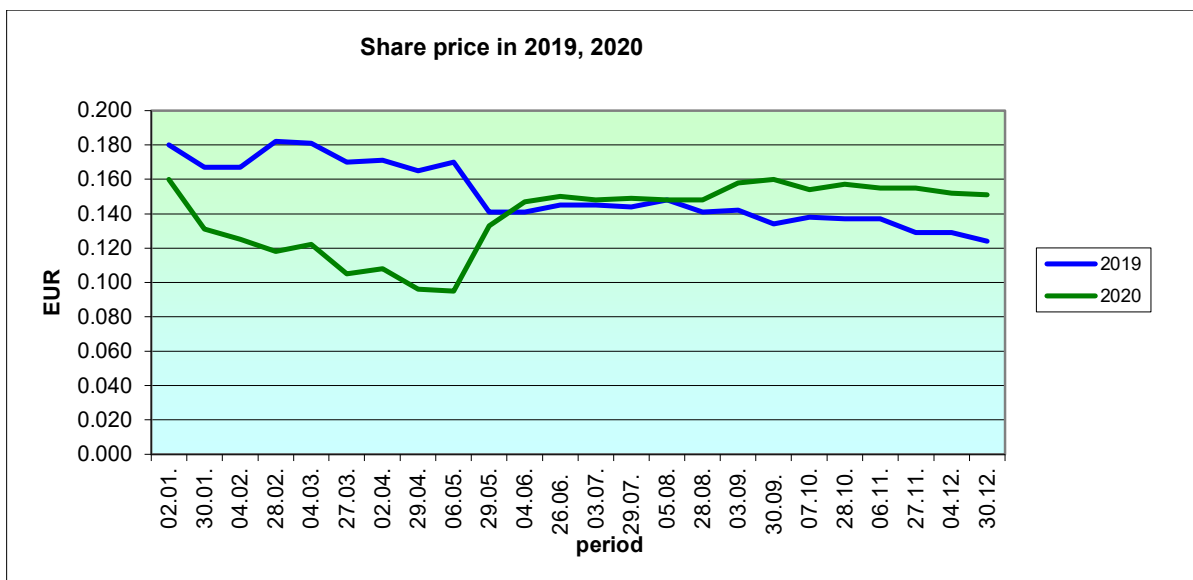
Company name	Ditton pievadķēžu rūpnīca
Legal status	Joint Stock Company
Registration number	40003030187
Registration in Register of Enterprises	Rīga, 03.10.1991.
Registration in Commercial Register Office	Rīga, 29.08.2003.
NACE code	28.15 Manufacture of bearings, gears, gearing and driving elements
Legal address	Višķu St. 17, Daugavpils, LV-5410, Latvia
Fixed capital	10 360 000 EUR
Number of Public bearers shares	7 400 000
Nominal value of one share	1.40 EUR
Chief Accountant	Jūlija Lavrecka, p.c.010891-10200
Reporting year	01.01.2020 – 31.12.2020
Independent auditors and their address	Aktīvs M Audits Ltd. Reg. No. 42403014203 Vienības gatve 99-7, Rīga, LV-1058 License No.40 Sworn auditor of the Republic of Latvia Marija Poriete Certificate No.6

Persons in charge for drawing up of the financial report:

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

INFORMATION ON SHARES AND SHAREHOLDERS

SHARE PRICE TRENDS



The Company's paid up share capital is EUR 10,360,000, divided into 7,400,000 bearer shares. Each share has a nominal value of EUR 1.40, and each share carries one voting right, the right to one dividend share and one liquidation quota of the total amount of dividends or liquidation quotas, which is equal to the total amount of the shares of this category. The Company's shares are financial instruments (i.e., transferable securities), the circulation of which is regulated by the Commercial Law of the Republic of Latvia (RoL), the Law on the Financial Instruments Market of the RoL and the regulations of the organizer of the regulated market of financial instruments.

SHAREHOLDERS OWNING MORE THAN 5% OF THE COMPANY'S TOTAL SHARE CAPITAL*

Given name, surname or Name	Shareholding, %
Vladislavs Driksne	19,92
MAX Invest Holding SIA	13,63
Maleks S SIA	13,56
SIA „DVINSK MNG”	9,46

**Note: (1) The Company is not keeping a share owner and/or a shareholder register. The above information is provided and updated on the basis of the shareholders list for the extraordinary shareholders' meeting of AS Ditton pievadķēžu rūpnīca held on 18 June 2020, which was received from Nasdaq CSD under the Commercial Law of the RoL and the Law on the Financial Instruments Market, taking into consideration the statements of shareholders on the acquisition or loss of their holdings submitted to the Company under Section 61 of the Law on Financial Instruments Market.*

(2) At 31.12.2020, there was no information at the disposal of the Company regarding the allocation of the shares between the heirs of E. Zavadskis and the accounting entries in their financial instruments accounts under Section 125 of the Law on the Financial Instruments Market (20% in total).

There is no additional information and/or regulations governing the procedures specified therein at the disposal of the Management Board provided for in the rest of Section 56.1 "Additional Information to be Included in the Annual Report" of the Law of the Financial Instruments Market (Paragraph one, sub-clauses 2), 3), 4), 5), 6), 7), 8), 9), 10) and 11).

COMPANY BACKGROUND

Joint stock company AS Daugavpils pievadķēžu rūpnīca was established as a result of the privatisation of the State Daugavpils Driving Chain Factory under the Cabinet Order.No. 375-r of 9 August 1994 and the resolution of the Management Board of the state joint-stock company VAS Privatizācijas aģentūra of 2 March 1995 (Minutes No. 25), by reorganising the state-owned company into a joint-stock company.

Upon registration in the Register of Enterprises on 30 August 1995 (registration number 000303018), the Company acquired the status of a public joint-stock company.

On 8 January 2002, AS Daugavpils pievadķēžu rūpnīca was renamed as joint-stock company AS Ditton pievadķēžu rūpnīca (registration No. 40003030187).

On 29 August 2003, AS Ditton pievadķēžu rūpnīca was registered in the Commercial Register (uniform registration number 40003030187).

On 23 January 2015, the Company's share capital was denominated in accordance with the Law on the Procedure for Introducing the Euro of the LoR.

The Company is the successor of rights and obligations of the State Daugavpils Driving Chain Factory under the Terms and Conditions of Privatization, and it carries out its activity based on its Articles of Association.

Some of the types of activity the Company is engaged in are:

- manufacture of parts and accessories for motor vehicles;
- repair of fabricated metal products, mechanisms and equipment;
- installation of production equipment and devices;
- sale of motor vehicle parts and accessories;
- sale, maintenance and repair of motorcycles, the parts and accessories thereof;
- manufacture of metal constructions;
- manufacture of metal tanks, reservoirs and containers;
- forging, pressing, stamping and rolling of metal; powder metallurgy;
- mechanical treatment of metals, treatment and coating of the surface;
- manufacture of other fabricated metal products;
- warehousing and storage facilities;
- buying and selling of owned real estate;
- leasing and facility management of owned or leased real estate;
- activities with real estate on a contract or fee basis;
- building facility management and operating activities;
- and other.

INFORMATION ON THE MANAGEMENT BOARD AND COUNCIL MEMBERS

THE MANAGEMENT BOARD

Chairman of the Management Board

Rolands Zarāns, re-elected on 14.01.2019 (elected since 15.01.2014).

Member of the Management Board

Natalja Redzoba (until 31.05.2020).

Jevgēnijs Koršenkovs, elected on 01.09.2020.

Information about the shares held by the members of the Management Board

Members of the Management Board	Owned shares *	
	Number	%
Rolands Zarāns	none	-
Natalja Redzoba	none	-
Jevgēnijs Koršenkovs	none	-

COUNCIL

Chairman of the Council

Boriss Matvejevs, re-elected on 18.06.2020 (elected since 05.05.2005).

Deputy Chairman of the Council

Georgijs Sorokins (until 18.06.2020).

Members of the Council

Anželina Titkova (until 18.06.2020).

Genādijs Zavadskis, re-elected on 18.06.2020 (elected since 05.02.2017).

Oto Dzenis, elected on 18.06.2020.

Aleksandrs Sokolovs, elected on 18.06.2020.

Information about the shares owned by the members of the Council

Members of the Council	Owned shares*	
	Number	%
Boriss Matvejevs	none	none
Georgijs Sorokins	5,678	0,08
Anželina Titkova	none	none
Genādijs Zavadskis	none	none
Oto Dzenis	none	none
Aleksandrs Sokolovs	700 000	9,46**

Information about the professional experience of the members of the Management Board and Council can be found on the website www.dpr.lv.

* as at 18.06.2020

** beneficiary of the Shareholder DVINSK MNG, Ltd.

STATEMENT ON CORPORATE GOVERNANCE

§ 1

In arranging for the Issuer's corporate governance, the Management Board and the Council are guided by the Corporate Governance Principles and Recommendations approved by AS Nasdaq Riga (formerly "AS Nasdaq OMX Riga"), which are effective from 1 June 2010, as well as take into consideration the resolutions by the shareholders' meetings.

Information on the application of the principles referred to above and relating to the competence of shareholders is presented to the shareholders at the ordinary annual shareholders' meeting of, when approving the annual report. The shareholders have the opportunity to familiarise themselves with the information contained in the Corporate Governance Principles and Recommendations on the website of AS Nasdaq Riga: http://www.nasdaqbaltic.com/files/riga/corp_gov_May_2010_LV.pdf or by submitting the relevant request in writing to the Issuer.

Information on the principles and procedures of application of the Corporate Governance Principles, limitations, exceptions and the practice of the application thereof in 2020 is presented in Annex "Report on compliance with the corporate governance principles" hereof. The shareholders may familiarise themselves with the information presented in the notes to the annual report, on the website of NASDAQ CSD, under the section of the relevant Issuer, in the Official System for Central Storage of the Regulated Information, and on the Issuer's website.

§ 2

The internal control system, including internal audit required under the Law on the Financial Instruments Market and the Issuer's Articles of Association, is organised in accordance with the Corporate Governance Principles. The Council's report on the internal audit concerning the risk control and management procedures in the course of preparation of the annual report for 2020, is provided to the ordinary general meeting of shareholders and added to the file of the materials thereof.

Effectively, the Issuer has established a multi-tiered system for the preparation, control and risk management of the annual report:

Tier 1: Preparation of the annual report and internal control at the structural units of the Issuer;

Tier 2: Review and approval of the annual report on the part of the Management Board of the Issuer;

Tier 3: Audit of the annual report by a sworn auditor under the procedure prescribed in the Law on the Annual Financial Statements and Consolidated Financial Statements, the law On Accounting, the Commercial Law and the Law on the Financial Instruments Market of the Republic of Latvia;

Tier 4: The examination of the annual report of the Issuer's Council and reporting on the overall performance of the Management Board and the Issuer, which is presented in the report;

Tier 5: The examination of the annual report, the efficiency of the internal control and risk management, verification of the independence of the sworn auditors and elimination of deficiencies, which is carried out by the Company's Audit Committee, in accordance with the Law on the Financial Instruments Market, the Regulation (EU) No 537/2014 of the European Parliament and of the Council and the rules of procedure of the Company's Audit Committee, for reporting to the general meeting of shareholders;

Tier 6: Approving the annual report at the general meeting of shareholders of the Issuer.

It is obvious that the activity of the bodies specified in Tiers 3, 4, 5 and 6 is independent of the Management's Board of the Issuer and ensures the accuracy and objectivity of the annual report.

§ 3

Under the provisions laid down in Sections 56.1 and 56.2 of the Law on Financial Instruments Market, the Issuer is required to provide additional information as follows:

The following shareholders have a significant interest in the Issuer:

- Vladislavs Driksne – 19.92%
- SIA MAX Invest Holding – 13.63%
- SIA Maleks S – 13.56%
- SIA DVINSK MNG – 9.46%

Note: (1) The Company is not keeping a share owner and/or a shareholder register. The above information is provided and updated on the basis of the shareholder list for the extraordinary shareholders' meeting of AS Ditton pievadķēžu rūpnīca held on 18 June 2020, which was received from Nasdaq CSD under the Commercial Law of the RoL and the Law on the Financial Instruments Market, taking into consideration the statements of shareholders on the acquisition or loss of their holdings submitted to the Company under Section 61 of the Law on Financial Instruments Market.

(2) At 31.12.2020, there was no information at the disposal of the Company regarding the allocation of the shares between the heirs of E. Zavadskis and the accounting entries in their financial instruments accounts under Section 125 of the Law on the Financial Instruments Market (20% in total).

The Issuer does not have any shareholders with special control powers or limited shareholder voting rights, which are carried by their shares.

The Issuer has put in place the principles and procedures of amending the foundation documents (Articles of Association) and making changes to the composition of the Management Board, including the rotation and/or removal thereof from the office, which are applied in accordance with the provisions of the Financial Instruments Market Law, Commercial Law, the Civil Law and the Labour Law of the RoL, the Law on the Enterprise Register of the Republic of Latvia, the Law on Legal Force of Documents, the declaration on the objectives of the activity, development objectives and mission of AS Ditton pievadķēžu rūpnīca, and the assessment of the said processes, the rules of procedure of convening and holding the shareholders' meetings, other laws and regulations as well as the internal documents of the Issuer.

The rights of the members of the Management Board of the Issuer are laid down in the Commercial Law of the Republic of Latvia and the Issuer's Articles of Association, as well as laid down in the scope of work of the Management Board. No additional powers, such as powers to issue or buy back shares have been conferred on the Board Members.

§ 4

The management bodies of the Issuer are:

1. The general meeting of shareholders,
2. The Council of the Issuer,
3. The Management Board of the Issuer.

Each of the bodies has the competence (powers), rights and duties of its own as laid down in the laws of the Republic of Latvia, Regulations and Directives of the European Union, the Corporate Governance Principles, the Issuer's Articles of Association and internal documents, including in the rules of procedure of the Council and the Management Board and in the resolutions of the general meetings of shareholders. The management bodies are independent bodies.

The independence of the resolutions passed by shareholders is ensured under the provisions (Sections 268; 273-286) of the Commercial Law of the RoL, the Law on the Financial Instruments Market (Sections 54, 54.1 - 54.5), the Corporate Governance Principles, the Issuer's Articles of Association, the Declaration of the activity, development objectives and mission of AS Ditton pievadķēžu rūpnīca, and the assessment of these processes, the rules of procedure of convening and holding the general meetings of shareholders, other laws and regulations as well as the internal documents of the Issuer.

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According to the Commercial Law, the Law on the Financial Instruments Market, the Articles of Association, the Declaration of the activity, development objectives and mission of AS Ditton pievadķēžu rūpnīca, and the assessment of the said processes, the rules of procedure of the Council and Management Board, other laws and regulations as well as the Issuer's internal documents, the members of the Council and Management Board are independent in discharging their duties and accountable to the shareholders in accordance with the requirements of the law.

The Issuer arranges for and implements the procedures related to the nomination of the candidates of the Council and Management Board and voting for the candidates of the Council and Management Board, as well as related to the appointment and registration of the members of the Council and Management Board in the Register of Enterprises of the LoR in accordance with the provisions (Sections 268, 284, 292, 296 and 305) of the Commercial Law of the Republic of Latvia on the Law on the Financial Instruments Market (Sections 54, 542 and 546), the provisions of the rules of procedure of convening and holding the general meetings of the shareholders of the Issuer as well as the rules of procedure of the Council and Management Board. Remuneration of the Council and the Management Board members is made in accordance with the Remuneration Policy, which was adopted and approved by the shareholders' meeting, pursuant to the Financial Instruments Market Law of the Republic of Latvia, Directive (EU) No 2017/828 of the European Parliament and of the Council of 17 May 2017. The Remuneration Policy determines the remuneration criteria, taking into account the Company's indicators, reflects the Company's strategic long-term interests and involves Shareholders in the processes of stimulating the Company's management institutions. The internal documents of the Issuer are available on the Issuer's website www.dpr.lv.

The composition of the members of the Council and Management Board is specified on page 6 hereof, as well as on the Issuer's website www.dpr.lv.

§ 5

Due to COVID-19 pandemic and general situation on the markets the risks of Issuer's operating activity have appeared and became actual in the year 2020 (detailed they are described in the Issuer's Management Report and Report of the Council, as well as in the notice of the Management Board in The Central Storage of Regulated Information System, on websites of the Exchange www.nasdaqbaltic.com and of the Issuer www.dpr.lv). Issuer's institution will update and adopt Corporate Governance Principles to get over the negative effect of COVID-19 pandemic, to decrease risks and to optimize terms of recovery of Issuer's operative commercial activity.

Report on these proceedings will be given in the Statement on Corporate Governance Principles for year 2020 to the Annual Report of the Issuer. It will also be disclosed in cases determined by legal provisions as Issuer's inside information.

Chairman of the Management Board
AS Ditton pievadķēžu rūpnīca
22 April 2021



Rolands Zarāns

**REPORT OF THE COUNCIL
on the annual report for 2020**

Issued in accordance with the Commercial Law and the Articles of Association of the Company,
and approved by the resolution of the Council of AS Ditton pievadķēžu rūpnīca on 22 April 2021
(Minutes No. 233)

The Council of AS Ditton pievadķēžu rūpnīca herewith declares that the report of the Management Board of the Company to the ordinary shareholders' meeting and the submitted annual report for the year 2020 fairly represents the performance of the Company's commercial activity and the financial position thereof.

During the reporting period, the Management Board was engaged in managing the operational and production activities and represented the Company in accordance with the existing laws of the Republic of Latvia, the Articles of Association of the Company, the Declaration of the activity, development objectives and mission of AS Ditton pievadķēžu rūpnīca, and the assessment of the said processes, the resolutions of the general meeting of shareholders and the recommendations of the Council.

No objections against the Management Board or the individual members thereof were raised and submitted either by the shareholders or the members of the Council. There is no information at the disposal of the Company on the violation of the principles of independence on the part of the members of the Management Board.

At the ordinary shareholders' meeting of the Company held for approving the annual report for the year 2019 on 18 June 2020, the performance of the Management Board in the previous period was rated as satisfactory and deemed appropriate for the Company's objectives and mission, as well as the actual market circumstances.

The Company's performance for the year 2019 reflected the actual situation of the Company's circumstances as well as the global economic conditions. The causes, circumstances and terms and conditions underlying these indicators are set out in the Management Report.

The Council of the Company represented the interests of the shareholders in the periods between the shareholders' meetings, and in accordance with the global economic conditions prevailing during the reporting period, and supervised the activity of the Management Board within the scope set forth in the Articles of Association of the Company and the laws of the Republic of Latvia.

All in all, seven meetings of the Council were held during the reporting period.

At three joint meetings of the Council and Management Board the Company's interim financial statements for three, six and nine months of 2020 were reviewed and approved.

At the meetings, the following matters were also examined by the Council, and the following resolutions were passed:

- reviewing of the annual report for the year 2019 and approval of the Report of the Council;
- reviewing the draft resolution on the agenda of the ordinary shareholders' meeting (18 June 2020);
- on division of competences and powers of the Management Board members;
- on report of the Management Board members on the Company's operation under the circumstances of COVID-19;
- on election of the chairman of the Council;
- on election of Jevgēnijs Koršēnkovs as a member of the Management Board;
- other matters related to the Company's activity and provided for in the Articles of Association and the laws of the Republic of Latvia.

In addition to the above-mentioned meetings, six Council meetings were held with the Council acting in the status of the Company's Audit Committee in accordance with the competences and powers conferred on the Audit Committee. Report on this particular scope of the Council's area of activity will be included in the report of the Audit Committee of AS Ditton pievadķēžu rūpnīca to the ordinary general meeting of shareholders held for the approval of the Company's annual report for 2020.

On 18 June 2020, the ordinary shareholders' meeting of the Company rated the performance of the Council in the previous period as satisfactory and deemed it appropriate to the Company's objectives and mission.

The Council of the Company drew the attention of shareholders to the following important events.

In prior year reports (2016 – 2019), based on the opinion of an expert panel, the Council informed the shareholders about the objectivity of the annual reports and about the consistency thereof with the Company's actual circumstances, as well as systematically informed the shareholders about the market circumstances and the Company's future prospects because the Company is not isolated, but rather forms a part of the global business system and depends on the performance indicators of the said countries, in the markets of which due to their geographical position, logistics and actual presence the Company is represented.

The Company's operation in 2020 can be divided into two periods: before COVID-19 pandemic and under the circumstances of COVID-19 pandemic.

Actual performance indicators of the Company in the first quarter of 2020 (namely before COVID-19 pandemic) in general terms, as expected under the forecasts made by the Council in respect of the sales volumes of the Company's goods and services. The Company ended this period with profit in amount of EUR 51,541 thousand.

By analysing the development prospects of the Company, which is included in the total world economy, in the report for 2019, the Council noted that the Council of the Company rates its forecasts for the year 2020 with regard to the global market outlook and demand for the Company's goods in the range of "moderately negative" to "moderately positive" in certain geographical market sectors and depending on the assortment of goods. The materialisation of the forecasts depends not only on the Company but also on the future development trends of the global economy. Therefore the Council noted that it is not ruled out that due to unfavourable market factors, the Company's production volumes may decline or remain at the current level. The Council is of the opinion that this forecast corresponds to Company's performance indicators in the year 2019.

At the same time, the Council of the Company noted that at the time of issuing the above-mentioned report (22 April 2020) the first signs of the economic crisis related to the COVID-19 pandemic appeared and drew the Shareholders' attention to this aspect.

The Council also agreed with judgements of the Management Board that the Company does not have enough information for detailed analysis of negative effect on Company's commercial activity both in the short run and during the period after overcoming of pandemic. The Council agrees that preliminary findings about crisis and Company's losses due to COVID-19 pandemic will be possible to give after results of the year 2020. The Council also asks shareholders to take into consideration a possible deprivation of Company's economic indices in the period of the years 2020-2022 related to overcoming of crisis appearances. The council does not rule out a negative effect of the sequent economic crisis in the market economy, possibility of which is discussed by expert community. The council agrees with the Management Board evaluation of localization prospect of negative occurrences by continuation of Company's operating activity.

Actual indicators of the Company's operating activity in the second, third and fourth quarters of the year 2020, namely in the conditions of the 2nd period – under the circumstances of COVID-19 pandemic, confirmed judgements about decrease in production volumes, decrease in activity of all Company's markets and decrease in demand for the Company's products. The second quarter of 2020 was more negative in terms of results, namely a period when a large number of restrictions and prohibitions were introduced. The Council, in solidarity with the Management Board, is forced to note that certain improvements in the third and fourth quarters of 2020 were absorbed by the deepening signs of the crisis linked to the "second wave" of the COVID-19 pandemic, re-bans and restrictions.

All the above mentioned circumstances generally did not allow the Company to complete 2020 with a profit from its operating activity. In addition, the instability of the COVID-19 pandemic factors, its impact on the signs of the crisis in the economy and on the dynamics of business activity do not allow to make long-term and reasoned forecasts for the Company in the conditions of the COVID-19

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pandemic and after its end. However the Council believes that the Company has prospects to overcome the signs of the crisis, to continue its economic activity and further development.

In the light of the foregoing and the Company's circumstances, the Council considers it appropriate to agree with proposal of the Management Board to approve the Company's Annual Report for the year 2020 with losses in amount of EUR 24,24 thousand, as well as considers it appropriate to ask the shareholders to support this proposal and in the same time to request the Management Board to update procedures of the Company's management operatively and systematically basing on the external market factors and challenges.

Chairman of the Council
AS Ditton pievadķēžu rūpnīca
22 April 2021



Boriss Matvejevs

MANAGEMENT REPORT

On the operating performance of the Company in 2020

In the 12 months of 2020, net turnover amounted to EUR 4,554 thousand, down by EUR 360 thousand compared with the relevant 12 months indicator for 2019.

During the reporting period, the Company exported 84% of the goods manufactured by it and services to Eastern and Western markets, including 47% to Eastern markets and 37% - to Western markets, sales in Latvia amounted to 16% of the goods and services.

The Company's performance for 2020 was loss of EUR 25,2 thousand.

In 2020, the average statistical number of employees at AS Ditton pievadķēžu rūpnīca was 137.

In 2020, the average wages in the Company was EUR 645, which was less than the average wages in 2019 (EUR 648).

The performance of the Company and the Annual report with the financial statements (including Appendices), this Management report and the Report on Corporate Governance (with Appendices) was approved by the Company's Management Board (Minutes No. 02/2020 of the meeting of the Management Board of 22 April 2021).

Significant events. Market trends and the Company's development. Risks.

Proceeding from the situation on the global economic markets, which changes rapidly, the Management considers as important to divide analysis of market tendencies, Company's development and Company's risks into two stages:

The first stage: before start of COVID-19 pandemic.

The Company assigns that during this period a market situation and Company's operating activity future outlook analysis given by the Company in the Management Report to the Annual Report for the year 2018 was actual.

The analysis of the general market trends and analysis of market trends on its particular segments were given by the Company.

Significant aspects of this analysis, which remained actual fully in 2020, were the following:

In accordance with the performance indicators of the goods manufactured under the brand of AS Ditton pievadķēžu rūpnīca, the sale thereof to final consumers is structurally categorised into the following main segments:

- "Western" market or mainly the market of European countries, and
- "Eastern" market, i.e., the Russian Federation market, the Customs Union, CIS and Ukrainian markets, as well as the market of Asian countries.

The Company forms an integral part of the production and economy of such countries which represent the above-mentioned market outlet segments for the goods of the Company irrespective of the procedures aimed at promoting the goods and systems in these markets. This way, all the trends, factors, risks, crises and other circumstances in the relevant markets have a direct impact on the Company, its activity and income to be derived from its activity.

Due to the need to be able to operate in the future as a going concern provides for a duty to be imposed on the Management Board of the Company to take all measures aimed at retaining both of the market segments, operate there consistently with their terms and conditions, seek compromises with the counterparties, including those which are not favourable to the Company, retain all market segments.

Detailed analysis of both market segments and the Company's expectations from them is provided in the Management report of the Company's Annual Report for the Year 2019. This detailed analysis remains actual relevant for the aforementioned period of the Company's operating activity in 2020.

The Company pointed out, that these market factors to any extent were systematic and long-term. They are related not to the Company but to the conditions beyond the Company's control and which cannot be eliminated by the Company with reasonable and affordable means.

The Company's Management considers that all mentioned above factors were in force until the beginning of COVID-19 pandemic and had direct influence on Company's performance results in 2020.

The second stage: after start of COVID-19 pandemic.

Unfortunately, the Company does not have enough information to give a precise assessment of situation in market segments, where the economic interests and activity of the Company are concentrated. Due to crisis phenomena, production stoppage, drop in economic activity and drop in sales, the Company's market situation is unstable, dynamic and nonstandard, wherefore it cannot be predicted with enough level of guaranty. It is impossible at present to assume the retention of this tendency or the dynamics of return to the previous sales correlation.

The Company notes the impact of the COVID-19 pandemic at all stages of the commercial chain of production and sales of the Company's products. The volume of orders decreased, a number of orders were refused by the customers. A number of customers, for example, AVTOVAZ, announced a temporary suspension of production and a refusal to purchase components, including the Company's products.

Schedules and terms of payments were systematically missed. Due to the situation at the border and different conditions of epidemiological danger, there were refusals by suppliers as much as delivery terms of raw materials and finished products were missed.

Many producers of raw materials, for example, producers of metal products, switched to reduced work due to the drop in orders. Some of the Company's orders were not included in the plan for the production of exclusive types of metal, since the manufacturer did not collect the required volume of orders for the production (smelting) of the batch.

All of the above circumstances influenced the results of the Company's work in the year 2020.

The Company does not consider it possible to overcome the crisis phenomena only for one production. In respect that Company is integrated into world economy, "western" and "eastern" market segments, decrease level of Company's production directly depends on crisis level on these market segments. Besides production decrease, level will directly depend on period of decrease of business activity caused by limitation and quarantine measures. It will depend also on decrease of unemployment, on correction of consumer demand, which first of all is orientated on essential commodities.

The Management of the Company considers global economy being on initial stage of crisis phenomena and tendencies, which has not been overcome.

For example, the Management Board of the Company established that in the period from July to October 2020, economic activity intensified in all market segments of the Company, demand for products increased, as a result of which production volumes increased. However, the "second wave" of COVID-19 pandemic, which began in November 2020, virtually ended all these tendencies and, together with the seasonal demand for the Company's products, determined the final performance of the Company in 2020.

The assessment of any crisis and its prospects for overcoming it is based on actual and relatively resilient market factors. Given the increased dynamism of the COVID-19 pandemic and the impact of measures and procedures to be adopted by the restrictive public administrations caused by this pandemic, business activity, demand and production fluctuations, it is not possible to predict the impact and timing of the economic crisis.

Operating activity of the Company in conditions of COVID-19 pandemic.

One of the main tasks of the Company was to create conditions for continuing operating activity without a mass illness (epidemic) of the Company's employees in the Company's territory. For this purpose anti-epidemiological measures recommended by the competent authorities were implemented, including the purchase and use of personal protective equipment and disinfectants, staff training, restrictions on personal communications and the introduction of forms of distance, etc. The

Management Board considers it important that there were no mass illnesses and infections with COVID-19 in the Company's territory in 2020.

In the Management Report to the Financial Report for 6 months of the year 2020, the Management Board indicated the group of measures that were initiated to receive support in accordance with the declarable possibilities in accordance with the legal norms of the Republic of Latvia and the European Union. In the result of the Report, the Management Board was forced to find that the aid and assistance to an export-oriented production facility in the real economy was declaratory and in fact there was no such aid.

The Management Board notes that, unfortunately, Daugavpils City Council - the only institution that positively reviewed the Company's request to grant real estate tax relief for the year 2020.

As a result of instability in orders, production and employment, the planned annual holiday system for employees was disrupted in the context of COVID-19. It is planned to regulate these disturbances in 2021-2022, observing the rights and interests of employees. However, in the annual report, the Company was forced to create provisions for these liabilities in the amount of EUR 24,85 thousand, which is 98,45% of the Company's losses according to the results of the year 2020. Excluding all these provisions, the Company's losses in the year 2020 are EUR 0.39 thousand.

In the year 2020, the Company continued to implement a loss minimisation programme, based on the optimisation of the internal structure, infrastructure, intellectual and human resources. The Company also sees its competitiveness in focusing on technologically sophisticated high added value goods, as well as driving an increase in the volume of services and works outside the core production activities.

This effort enabled the Management Board to focus its activity to a single consecutive direction, rendering it more structured, categorised in stages as well as enabled an optimal allocation of resources aimed at improving the Company's economic circumstances.

The Company is seeking to render chargeable services from the programme related to the development of an industrial-technological park in its territory. Within the scope of this programme, the Company using the financing of the European Union (the project "Construction of the production facilities in the vacant production areas of AS Ditton pievadķēžu rūpnīca") carried out the upgrading of its production facilities. This enabled the implementation of effective savings on the costs of maintenance of production facilities (more detailed – please refer to the Management Report to the Annual Report for the year 2019), as well as the creation of a commercial offer of the lease of a production facility equipped with the infrastructure necessary for production.

Risks to which the Company is exposed.

The activity of the Company is exposed to various financial risks: foreign exchange risk, interest rate risk, credit risk, and liquidity risk.

Foreign exchange (FX) risk

FX risk is the risk that the Company will incur a financial loss from adverse FX rate fluctuations. This risk arises when financial assets denominated in foreign currencies do not match the financial liabilities in the same currencies, therefore the Company is exposed to open currency positions.

Interest rate risk

Interest rate risk is the risk that the Company will incur a financial loss resulting from adverse interest rate movements. The Company is exposed to interest rate risk mainly due to non-current as well as current borrowings from credit institutions, which have variable interest rates or the term during which a fixed interest rate applies is shorter than the anticipated loan maturity date, or the interest on the borrowing includes a variable element or the terms of the loan agreement (see Appendix 16). The Company has no any other options, nor does it use tools to mitigate interest rate risk other than the maximum compliance with the terms of the relevant borrowing and cooperation with credit institutions.

Credit risk

Credit risk is the risk that the Company will incur a financial loss if a counterparty defaults on their obligations owed to the Company. Credit risk mainly arises from cash, trade receivables and advances to suppliers.

Cash

Credit risk arises in connection with money held in banks, and is managed by balancing the placement of financial assets to concurrently keep the option of selecting the most advantageous offers and minimize the possibility of losing financial assets.

This risk is managed, assessed and localized through working with the Company's counterparties, limiting or ceasing altogether the existing or future transactions with irresponsible partners as soon as the Company becomes aware that the counterparty is unable to meet their obligations.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to fully meet its liabilities as they fall due. Liquidity risk arises in case of a mismatch between the maturities of the financial assets and financial liabilities. The purpose of managing liquidity risk is to maintain an appropriate amount of cash and cash equivalents and ensuring adequately sufficient financing, using the lines of credit granted by the bank (see Note 17) so that the Company would be capable of meeting its liabilities when they fall due. The Company regularly reviews the matching between the maturities of the financial assets and liabilities, as well as the stability of the sources of long-term investment financing.

The management of the Company is of the opinion that the Company will have sufficient cash resources for its liquidity not be compromised (see also the information in the Note "Accounting principles and measurement methods", the section "Going concern basis").

COVID-19 pandemic risk

COVID-19 pandemic risk is the risk that in the result of decrease of global economy and activity level a significant decrease of Company's production and financial indices, which are integrated in global economy, will appear. Specific feature of this risk is that it does not depend only on Company and Company's risks management, but it depends mainly on external factors and decisions of the management institutions.

Company's management is of the opinion that overcoming of potential COVID-19 pandemic risks is possible only after the growth of economic activity will be possible. For this reason the Company has to concentrate and consolidate its efforts to maintain production capabilities, utilities and retain partners under the circumstances of inevitable decrease of production volumes by continuing procedures of operative reaction on market challenges and operative optimisation and correction of current operating activity.

Other significant conditions

There were no other significant circumstances that affect the Company's Annual Report for the year 2020 in 2020. However other significant events indicated in the Management Report for the Annual Report for 2019 remain relevant.

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

According to the information at the disposal of the Management Board, the financial statements for the year 2020 have been prepared in accordance with the applicable requirements of the laws and regulations and give a true and fair view of the assets, liabilities, financial position and profit of AS Ditton pievadkēžu rūpnīca. The Management report contains true information.

Chairman of the Management Board
AS Ditton pievadkēžu rūpnīca
22 April 2021

Rolands Zarāns

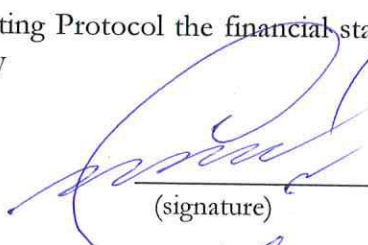
INCOME STATEMENT FOR THE YEAR 2020

	Appendix	2020 EUR	2019 EUR
Net turnover	1	4 554 304	4 913 675
Production cost of goods sold, purchase costs of goods sold or services rendered	2	3 698 063	4 206 151
Gross profit		856 241	707 524
Selling costs	3	528	575
Administrative expenses	4	(644 864)	(638 425)
Other income from operating activities	5	137 306	171 298
Other costs of operating activities	6	(186 132)	(159 541)
Other interest receivable and similar income	7	1 369	-
Interest payment and similar expenses	8	(188 635)	(197 787)
• to other persons		(188 635)	(197 787)
Loss or profit before corporate income tax		(25 243)	(117 506)
Corporate income tax for the reporting year	9	-	-
Loss or profit for the reporting year		(25 243)	(117 506)
Loss or profit per share		(0,003)	(0,016)

Appendices from page 22 till 38 are integral parts of these financial statements.

According to the Management Board meeting Protocol the financial statements have been signed on behalf of the Company on 22 April 2021 by

Rolands Zarāns
Chairman of the Management Board



(signature)

Jūlija Lavrecka
Chief Accountant



(signature)

BALANCE SHEET AS AT 31.12.2020

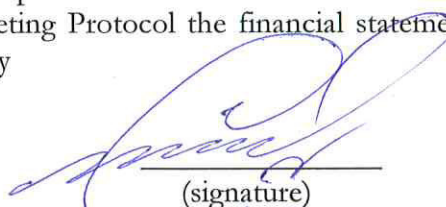
ASSETS	Appendix	31.12.2020 EUR	31.12.2019 EUR
Long-term investments			
Intangible investments			
Concessions, patents, licenses, trademarks and similar rights	10	1 611	6 444
Total intangible investments		1 611	6 444
Fixed assets			
Immovable property:			
Land		2 061 350	1 972 722
Buildings and structures and permanent crop		1 970 033	1 234 270
Investment property – land		-	88 628
Investment property - buildings		-	878 205
Technological equipment and devices		2 313 382	2 563 400
Other fixed assets and inventory		23 884	34 684
Fixed assets under construction		-	12 649
Total fixed assets	11	6 368 649	6 784 558
Long-term financial investments			
Other securities and investments		-	-
Total long-term financial investments		-	-
TOTAL LONG-TERM INVESTMENTS		6 370 260	6 791 002
Current assets			
Inventories			
Raw materials, consumables and supplies		453 464	500 665
Work in progress		152 543	164 885
Finished products and goods for sale		202 839	213 809
Goods in transit		-	-
Advance payments for inventories		131 902	39 064
Total inventories	12	940 748	918 423
Debtors			
Trade receivables	13	400 419	641 453
Other debtors	14	34 644	18 090
Deferred expense		478	400
Total debtors		435 541	659 943
Cash		107 750	10 363
TOTAL CURRENT ASSETS		1 484 039	1 588 729
TOTAL ASSETS		7 854 299	8 379 731

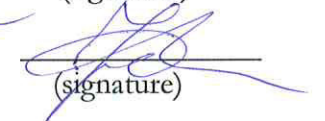
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Chairman of the Management Board

Jūlija Lavrecka
Chief Accountant


(signature)


(signature)

JSC DITON PIEVADĶĒŽU RŪPNĪCA
ANNUAL REPORT FOR THE YEAR 2020

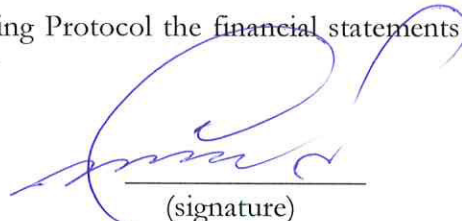
BALANCE SHEET AS AT 31.12.2020

LIABILITIES	Appendix	31.12.2020 EUR	31.12.2019 EUR
Equity			
Share capital	15	10 360 000	10 360 000
Reserves:			
Other reserves		169 251	169 251
Retained loss brought forward from the previous years		(9 345 727)	(9 228 221)
Loss/profit of the reporting year		(25 243)	(117 506)
Total equity		1 158 281	1 183 524
Creditors			
Long-term creditors:			
Loans from credit institutions	16	4 135 577	4 282 577
Deferred income	20	1 133 515	1 216 999
Total long-term creditors		5 269 092	5 499 576
Short-term creditors:			
Loans from credit institutions	16	170 384	402 507
Other loans	17	3 700	-
Prepayments received from purchasers		62 489	25 640
Accounts payable to suppliers and contractors		423 053	492 713
Taxes and State mandatory social insurance payments	18	475 928	462 980
Other creditors	19	67 631	115 120
Deferred income	20	83 484	83 484
Accrued liabilities	21	140 257	114 187
Total short-term creditors		1 426 926	1 696 631
Total creditors		6 696 018	7 196 207
<u>TOTAL LIABILITIES</u>		7 854 299	8 379 731

Appendixes from page 22 till 38 are integral parts of these financial statements.

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Chief Accountant


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JSC DITON PIEVADKĒŽU RŪPNĪCA
ANNUAL REPORT FOR THE YEAR 2020

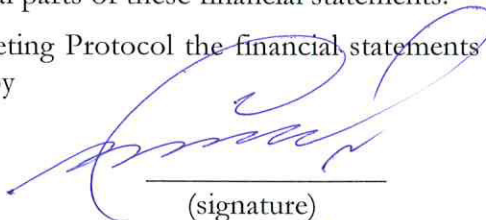
**CASH FLOW STATEMENT
FOR THE YEAR 2020**

	Appendix	2020 EUR	2019 EUR
I. Cash flows from operating activities			
1. Loss before enterprise income tax		(25 243)	(117 506)
<i>Adjustments for:</i>			
Depreciation of fixed assets	11	405 337	411 665
Depreciation of intangible assets	10	4 833	4 833
Interest payments and similar expenses	8	188 635	197 787
Other interest receivable and similar income	7	(1 369)	-
Income from sale of fixed assets	11	-	(1 600)
2. Profit before adjustments to current assets and short-term creditors		572 193	495 179
<i>Adjustments for:</i>			
Decrease in accounts receivables		224 402	19 490
Decrease in inventories		(22 325)	75 468
Decrease in accounts payable to suppliers, contractors and other creditors		(124 766)	(8 912)
Interest payments expenses		(188 635)	(197 787)
Net cash flows from operating activities		460 869	383 438
II. Cash flows from investing activities			
Purchases of fixed assets and intangible investments		(2 674)	(123 212)
Proceeds from sale of fixed assets		-	1 600
Exclusion of fixed assets		13 246	-
Net cash flows from investing activities		10 572	(121 612)
III. Cash flows from financing activities			
Net change in borrowings		(375 423)	(309 938)
Interest payments and similar expenses		1 369	-
Net cash flows from financing activities		(374 054)	(309 938)
Net decrease/increase in cash and cash equivalents		97 387	(48 112)
Cash and cash equivalents at the beginning of the reporting year		10 363	58 457
Cash and cash equivalents at the end of fiscal period		107 750	10 363

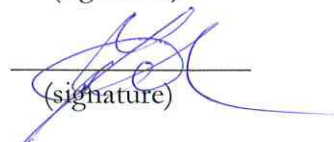
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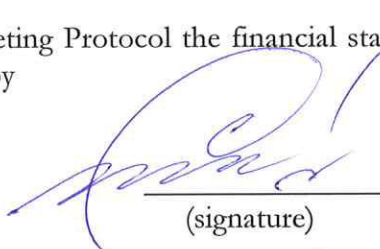
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2020

	Share capital EUR	Reserves EUR	Retained loss EUR	Loss or Profit for the year EUR	Total EUR
31 December 2018	10 360 000	169 251	(10 340 990)	968 091	1 156 352
Profit for the year 2018 distribution	-	-	144 682	(144 682)	-
Profit for the reporting year	-	-	-	(117 506)	(117 506)
31 December 2019	10 360 000	169 251	(9 228 217)	(117 506)	1 183 524
Profit for the year 2019 distribution	-	-	117 506	(117 506)	-
Loss for the reporting year	-	-	-	(25 243)	(25 243)
31 December 2020	10 360 000	169 251	(9 345 727)	(25 243)	1 158 281

Appendices from page 22 till 38 are integral parts of these financial statements.

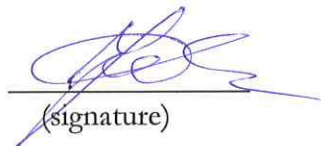
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Jūlija Lavrecka
Chief Accountant



(signature)

APPENDICES TO THE ANNUAL REPORT

Accounting principles and valuation methods

Fundamental principles of the preparation of the financial statements

The Annual report has been prepared in compliance with the Law on Accounting, Law on the Annual Accounts and Consolidated Annual Accounts and Regulation No.775 on rules of application of the Law on the Annual Accounts and Consolidated Annual Accounts of the Cabinet of Ministers. Income statement is prepared in accordance with format defined in the Appendix 3 of the Law on the Annual Accounts and Consolidated Annual Accounts, i.e., expenses are classified by their function. Under the Section 5 of Law on the Annual Accounts and Consolidated Annual Accounts, the Company is considered as a medium-sized enterprise. Financial statements of the Company are prepared pursuant to provisions of the Section 9 of the Law on the Annual Accounts and Consolidated Annual Accounts. The annual report is prepared in accordance with the requirements of Article 9 of “The Law of the Annual Accounts and Consolidated Annual Accounts”. There have been no changes in accounting policies and valuation methods used in prior years. In cases when reclassification of comparatives with no effect on prior year profit and equity are performed, relevant explanations are provided in the Notes to the financial statements or accounting policies.

Items of the annual report are evaluated accordingly to the following accounting principles which are included into Accounting Policy approved on 22 December 2016 (with amendments dated 1 June 2018):

- a) The accounting policies used by the Company are consistent with those used in the previous accounting period;
- b) Measuring of the items has been carried out with due care, i.e.:
 - only the profit accrued up to the balance sheet date has been included in the report;
 - all potential risks and losses incurred during the reporting year or in previous years have been taken into account, even in cases information on the noted risks and losses became known between the balance sheet date and date of preparation of these accounts;
 - all impairment, depreciation and amortisation amounts have been calculated and taken into account, regardless of whether the Company's performance for the reporting year is a profit or loss
- c) The revenue and costs relating to the reporting year have been taken into account regardless of payment dates or invoice receipt or issue dates. Expenses have been matched with the revenue in the reporting year
- d) The elements of asset and liability items have been measured separately;
- e) Operating activities are identified according to their economic content and substance over their legal form.

In 2020 the bookkeeping was kept on united bookkeeping accounts, which have been approved on 13 May 1993 (with amendments dated 28 December 2017) and according to the Regulation on bookkeeping and accounting dated 8 January 2007, detailing the plan of accounts based on key aspect of the Company's business operations.

The bookkeeping register based on synthetic accounts is the General ledger, which contains records on transactions from all the accounts. There are various kinds of analytical accounting registers, such as books, cards, lists etc.

The financial statements cover the period 1 January 2020 through 31 December 2020. Information requested by the law on the Company has been disclosed in separate part of this annual report, on page 3.

Going concern disclosure

These financial statements have been prepared under the going concern assumption.

Going concern disclosure (continued)

At 31 December 2020, the current liabilities of the Company exceeded its current assets by EUR 57,113 thousand (as at 31 December 2019 the current assets exceeded current liabilities by EUR 107,902 thousand). Taking into account proper performance of liabilities by the Company, short term liabilities in 2020 are less than in 2019.

Company's financial and operative indices showed an improvement in the first quarter of the year 2020.

Due to pandemic COVID-19 and general situation on the markets the risks of Issuer's operating activity have appeared and became actual in the first quarter of the year 2020 (information on appearance of these risks the Company disclosed pursuant to regulations on the inside information disclosure in The Central Storage of Regulated Information System, on websites of the Exchange www.nasdaqbaltic.com and of the Issuer www.dpr.lv). Prior judgement of these risks is given in the Management Report and Report of the Council to the Annual Report of the year 2019.

General assessment of these risks remained relevant throughout 2020. The general decrease of economics, the decline in production volumes and cooperation due to pandemic restrictive measures had a negative impact on the Company's results. This is evident from the Company's monthly and quarterly figures and their interrelationship with the "first" (March-June 2020) and "second" (since November 2020) COVID-19 pandemic waves.

The crisis management procedures announced by the Council and the Management Board significantly reduced the impact of the COVID-19 pandemic on the Company. As a result the Company's Management considers as reasonable to continue applying the previously announced principles:

- by constantly adjusting debt repayment conditions (dates, amounts and write-off options) based on an agreement with the creditors in order to avoid the request to open insolvency proceedings;
- by correction contract terms with the current clients in order to raise sales prices and terminate burdensome contracts without undue delay and correctly;
- by launching new projects in order to tap into new markets, and, thus, to ensure positive cash flow from operating activities;
- by making timely payments according to agreed schedule to credit institutions in order to avoid a situation in which the credit institution would require immediate and full repayment of the loan.

The analysis of the current operating activity risks of the Company according to the results of the year 2020, including in connection with the COVID-19 pandemic, is presented in the Management Report and the Council Report for the Annual Report of the year 2020.

Whatever the Management considers going concern as necessary condition to overcome the arisen occurrences of the crisis by operative and proper reaction to the challenges and risks of markets of raw materials and goods.

Foreign currency revaluation

The monetary unit used for financial statements preparations is the European Monetary Unit - euro (EUR). All the monetary assets and liabilities are converted to euro applying the exchange rate of the European Central Bank on the balance sheet date.

31.12.2020

1 USD = 0,81 EUR

1 RUB = 0,01 EUR

31.12.2019

1 USD = 0,89 EUR

1 RUB = 0,01 EUR

Foreign currency revaluation (continued)

The income and loss resulted from fluctuation of foreign currency exchange rate was included in the income statement of the appropriate period.

Long- and short-term items

The amounts received, paid or written off which are due later than a year after the reporting period, are included in long-term items. The amounts received, paid or written off during the year are displayed as short-term items.

Intangible assets

Intangible assets are listed at their cost of acquisition, which are depreciated in a straight-line basis. The depreciation period is 5 years. When events or changes in circumstances indicate that the carrying value of intangible assets may not be recoverable, the intangible assets are reviewed for impairment.

Loss from impairment is recognized when the carrying value of intangible assets exceeds its recoverable amount.

Fixed assets

In accordance with the Company's accounting policies the bookkeeping principles for fixed assets are used also for accounting for investment property assets (refer to section "Investment property").

Fixed assets are carried at their historical cost less accumulated depreciation and impairments. The initial value of fixed assets includes their acquisition cost, including import duties and as well as any other eligible costs regarding the preparation of the assets for their proper operation according to their intended purpose. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	% a year
Land	Depreciation is not to be calculated
Buildings and engineering structures	5 - 10
Technological equipment and devices	6 - 33
Other fixed assets and inventory	20 - 70

Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity.

When events or changes in circumstances indicate that the carrying value of tangible assets may not be recoverable, the fixed assets are reviewed for impairment. If there are signs, that the value is not recoverable, and if the carrying values exceeds the estimated recoverable amount, the asset or cash-generating unit are written down to its recoverable value. The recoverable amount is higher than asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The loss from impairment is recorded in profit and loss account.

Fixed assets (continued)

An asset is de-recognized upon its disposal, or when no future economic benefits can be expected from its use. The gain or loss on de-recognition calculated as the net disposal proceeds, minus the asset's carrying value is recorded in the income statement in the year when the asset is de-recognized.

Tenant improvement allowance is recorded as a fixed asset and depreciated using the straight-line method over the shortest time spread of the useful life of the capital improvements and lease.

Investment property

Investment property include land, buildings, engineering structures or their parts, which the Company holds as an owner in order to gain rent or in anticipation of a future increase in price (value) and not for product manufacturing or provision of services, for administrative purposes or resell in the ordinary course of business. Investment property is shown separately from other real estate in order to present a more meaningful information to the financial statements' users. The Company initially recognises investment property at acquisition cost.

The value of the investment property embodies the prime value of the constructions in progress, as well as borrowing costs and other directly attributable to funding of the appropriate object during the period of its preparation as a new object for its intended use.

Capitalisation of borrowing costs for investment property is terminated when no active development of the property is performed during the accounting period. The current repair and maintenance costs of the investment property are included into income statement for the period in which they incurred.

In 2020, based on Article 303 of the Cabinet of Ministers of the Republic of Latvia Regulation No. 755 "Regulations on the Application of the Law on Annual Accounts and Consolidated Annual Accounts", the balance sheet item "Investment properties" is included in the company's fixed assets.

Land is not subject to depreciation. Buildings recognised as investment properties are depreciated by the straight-line method over their useful life, in order to write off the acquisition value of the building to its estimated residual value at the end of the useful life period by using the following rates set by the Management:

	% a year
Buildings and engineering structures	5 - 10

Trade and other receivables

Trade receivables are accounted and reflected in the balance according to original invoiced amount less provisions for doubtful debts. The company creates provisions for unsecured accounts receivable, on the basis of an individual assessment of the accounts receivable. Debts are written off when the retrieval is considered as impossible.

Inventories

Raw materials, consumables and supplies are valued at acquisition cost, plus incidental costs of acquisition, on a strict lower-of-cost-or-market basis. Adequate write-downs have been applied at net selling price due impairment, full or partial outdating of inventories or when production or selling costs of inventories jumped up significantly. Inventories are valued using the FIFO method. Work in progress is valued at the direct cost of materials used. The cost of finished goods is carried at the cost of manufacture, which includes adequate material and labour costs in addition to direct material and production overheads, e.g., energy, ancillary materials, equipment and maintenance costs, depreciation and general manufacturing costs – service costs related to production.

Cash

Cash and cash equivalents comprise cash at bank. The cash flow statement has been compiled based on indirect method.

Accounts payable to suppliers and contractors

Accounts payable to suppliers are recorded at their nominal value.

Loans and borrowings

Loans and borrowings are initially recognized at cost, being the fair value of the proceeds received plus/net of issue costs associated with the borrowing. After initial recognition, borrowings are subsequently measured at amortized cost. Any difference between proceeds (less issue costs associated with the borrowing) and the redemption value is recognized in the income statement over the period of borrowings.

Borrowing costs

Borrowing costs are expensed in the period they occur and disclosed in the income statement as interest or similar expense.

Contingencies

Contingent liabilities are not recognised in these financial statements, as these liabilities are accepted only when as assumption of an outflow of resources has been confirmed. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in this financial report but disclosed until an inflow of economic benefits is probable. Contingent liabilities and assets are revealed when they are of essential matter.

Investments in capital of other parties

Investments in capital of other parties are recorded on the basis of initial cost method. The cost method is investment accounting method when investments are accounted at its purchase costs. Investor recognizes income only when investor receives from investee distribution of accrued profit resulting after the date of acquisition. In cases when the value of the investment has significantly decreased as a result of conditions which cannot be considered temporary, the accounting value of the investment is decreased to the recoverable value.

Revenue recognition

Revenue is recognised under the assumption of economic benefits, which might flow to the Company, and to the extent, that the revenue can be reliably measured less value added tax and sales-related discounts. Revenue is recognized on an accrual basis. Revenue is recognized at the moment of acquisition when the ownership is transferred to the buyer. Income from interests is accounted on a time spread based on the accrual basis.

Expense recognition

Expenses are recognised in the period they are associated with irrespective of the date of payment.

Accruals for unused vacations

The amount of accrued liabilities is calculated by multiplying employee's average salary (including social tax) of the reporting year and the number of accrued unused vacation days as at the balance sheet day.

Provisions

The provisions are present (legal or constructive) obligations of the Company arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits and amount of which can be reliably estimated.

Donations and funding received

Income from donations and funding received is not recognized until the Company has obtained a reasonable assurance on meeting eligibility rules to receive donations of funding available. Income from donations or funding received is recognized in income statement on a systematic bases and matched with the expense for compensation of which donation or funding is received. Therefore, financial aid granted for long-term investment development purposes, is recorded in the balance as deferred income and included in the income statement on a systematic basis linked to the period of useful life of the fixed assets developed.

Corporates income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Application of estimates and key assumptions

The Law of the Republic of Latvia requires that when preparing the financial statements, the management of the Company is expected to share estimates and assumptions that affect the reported and off-balance sheet assets and liabilities on the day of preparation, as well as presented income and expenses of the reporting period. Actual results may differ from these estimates.

Critical judgments and key assumptions concerning the future as well as other uncertainties on the balance sheet date in view of the fact that there exists a substantial risk of the material adjustments to assets and liabilities in next financial years are listed as following.

- When assessing accounts receivable and loans, the Company evaluates their retrieval and creates provisions for doubtful accounts receivable and loans, if necessary. After the management of the Company has assessed accounts receivable and loans, it has taken a decision to create additional provisions as of 31 December 2020.
- At the end of each reporting year, the Company reviews the useful lives of fixed assets. This assessment and the calculated depreciation may vary.
- The Company evaluates advance payments to assess their recoverability and, if necessary, makes provisions for irrecoverable advances. The management of the Company has reviewed the advances paid and believes that there is no necessity for additional provisions as at 31 December 2020.

Related parties' transactions

Related parties transactions are disclosed in accordance with the legal requirements set for medium-sized companies and refers to the instances when such transactions are performed with the shareholders of the Company, its subsidiaries and associates, as well as with the Management (Board and Council members) of the Company, if these transactions are material and outside the standard business scope of the Company.

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
ANNUAL REPORT FOR THE YEAR 2020

(1) Net turnover

Net turnover is income gained during the year from sale of produced and purchased products of the Company, as well as income from services net of VAT and less discounts.

Breakdown of net turnover by geographical markets:

	2020	2019
	EUR	EUR
Market		
Eastern countries	2 154 238	2 427 391
Western countries	1 661 526	1 713 281
Latvia	738 540	773 003
TOTAL:	4 554 304	4 913 675

(2) Production cost of goods sold, purchase cost of goods sold or services rendered

	2020	2019
	EUR	EUR
Material costs		
Salary costs for production staff	1 394 443	1 639 528
Electricity costs	667 238	725 738
Depreciation of fixed assets*	523 007	498 523
Depreciation of investment property*	398 008	345 873
Current repair expenses	-	57 904
State mandatory social insurance payments	306 229	322 103
Material delivery costs	159 413	173 615
Other production costs	165 911	296 939
TOTAL:	83 814	145 928
	3 698 063	4 206 151

* Refer to Appendix 11.

(3) Selling expenses

	2020	2019
	EUR	EUR
Advertisement costs	528	575
Other sales costs	-	-
TOTAL:	528	575

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(4) Administrative expenses

	2020	2019
	EUR	EUR
Administrative staff salaries	393 406	409 616
State mandatory social insurance payments	94 325	97 797
Security expenses	44 687	46 276
Business travel expenses	2 186	9 589
Depreciation and amortisation	12 161	12 721
Professional fees	10 000	10 110
Other administration costs	88 099	52 316
TOTAL:	644 864	638 425

(5) Other income from operating activities

	2020	2019
	EUR	EUR
Decrease in provisions*	36 434	40 160
Assignment of Structural Funds to income (see Appendix 20)	60 520	60 520
Construction cost compensation (See Appendix 20)	22 964	22 964
Income from exchange rate fluctuations	17 388	27 331
Net income from sale of fixed assets	-	1 600
Decrease in vacation provision	-	10 718
Other income	-	8 005
TOTAL:	137 306	171 298

* Of which EUR 33,808 thousand (2019: EUR 27,205 thousand) represents income from decrease of prior year provisions for doubtful receivables made and EUR 2,626 thousand (2018: EUR 12,955 thousand) is decrease in provisions for inventories with low turnover rate due to stock sale.

(6) Other costs of operating activities

	2020	2019
	EUR	EUR
Penalties	56 035	66 953
Real estate tax	32 183	61 037
Increase in slow-moving inventories provisions (see Appendix 12)	-	2 093
Other operating expense	21 582	10 316
Net loss on foreign exchange rate fluctuations	8 655	9 403
Net loss on decrease of foreign exchange rates	41 465	9 739
Increase in bad debt provisions (see Appendix 13)	-	-
Provisions for advance payments	1 361	-
Holiday accruals (increase)	24 851	-
TOTAL:	186 132	159 541

(7) Other interest payment and similar expenses

	2020	2019
	EUR	EUR
other interest income (from unsecured debtor)	1 369	-
TOTAL:	1 369	-

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(8) Interest payment and similar expenses

	2020 EUR	2019 EUR
Interest payment for loans	188 635	197 787
TOTAL:	188 635	197 787

(9) Corporate income tax

	2020 EUR	2019 EUR
Corporate income tax for the reporting year	-	-
TOTAL:	-	-

On 31 December 2020, accumulated losses for provisions of enterprise income tax were EUR 3 662 497 (in 2019 EUR 3 662 497). The usage time limit as at 31 December 2020 extends to 2 years.

(10) Intangible investments

**Concessions, patents, licenses, trademarks and similar rights
EUR**

At 31 December 2018

Initial value	16 110
Accumulated amortisation and depreciation	(4 833)
Book value at 31 December	11 277

The year of 2019

Book value at 1 January	11 277
Purchase	-
Amortisation	(4 833)
Book value at 31 December	6 444

At 31 December 2019

Initial value	58 875
Accumulated amortisation and depreciation	(52 432)
Book value at 31 December	6 444

The year of 2020

Book value at 1 January	6 444
Purchase	-
Amortisation	(4 833)
Book value at 31 December	1 611

At 31 December 2020

Initial value	58 875
Accumulated amortisation and depreciation	(57 264)
Book value at 31 December	1 611

All fixed assets of the Company are pledged in favour of JSC Citadele Banka, refer to Appendix 15.

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(11) Fixed assets

	Land plots, buildings and engineering structures *	Investment properties- land and buildings *	Technological equipment and machinery	Other fixed assets	Fixed assets under construction	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
At 31 December 2018						
Initial value	14 749 648	1 246 700	8 403 512	512 942	12 649	24 997 451
Accumulated amortisation and depreciation	(11 576 857)	(221 964)	(5 586 892)	(466 727)	-	(17 852 440)
Book value at 31 December	3 172 791	1 024 736	2 816 620	46 215	12 649	7 073 011
The year of 2019						
Book value at 1 January	3 172 791	1 024 736	2 816 620	46 215	12 649	7 073 011
Purchased	1 839 775	-	3 396	1 076	-	1 844 247
Initial value of excluded fixed assets	(1 721 035)	-	(36 313)	(5 287)	-	(1 762 635)
Accumulated amortisation of excluded fixed assets	-	-	36 313	5 287	-	41 600
Amortisation	(84 538)	(57 903)	(256 616)	(12 608)	-	(411 665)
Book value at 31 December	3 206 992	966 833	2 563 400	34 684	12 649	6 784 557
At 31 December 2019						
Initial value	14 868 387	1 246 700	8 370 595	508 732	12 649	25 007 063
Accumulated amortisation and depreciation	(11 661 395)	(279 867)	(5 807 195)	(474 048)	-	(18 222 505)
Book value at 31 December	3 206 992	966 833	2 563 400	34 684	12 649	6 784 557
The year of 2020						
Book value at 1 January	4 173 825	966 833**	2 563 400	34 684	12 649	6 784 557
Reclassified	966 833**	-	-	-	-	966 833
Purchased	-	-	2 106	568	-	2 674
Initial value of excluded fixed assets	-	-	(89 500)	(25 782)	-	(115 282)
Accumulated amortisation of excluded fixed assets	-	-	88 904	25 782	-	114 686
Amortisation	(84 538)	-**	(251 528)	(11 368)	(12 649)	(360 083)
Reclassified	(57 903)**	-	-	-	-	(57 903)**
Book value at 31 December	4 031 384	-	2 313 382	23 884	-	6 368 650
At 31 December 2020						
Initial value	16 115 088	-**	8 283 201	483 518	12 649	24 881 807
Reclassified	1 246 700**	-	-	-	-	1 246 700**
Accumulated amortisation and depreciation	(12 083 704)	(1 246 700)**	(5 969 819)	(459 634)	(12 649)	(18 513 157)
Book value at 31 December	4 031 384	-	2 313 382	23 884	-	6 368 650

All fixed assets of the Company are pledged in favour of JSC Citadele Banka, refer to Appendix 15, but the equipment purchased in 2017 is encumbered in relation to the investigative activities of the partner.

* On 14 March 2014, the Company signed with the Investment and Development Agency of Latvia an Agreement No.L-IZI-14-0003 on implementation of the project "Construction of industry premises in the free industrial area of JSC DITTON Driving Chain Factory". The project was launched on 14 March 2014 and completed on 7 July 2015. The total costs of the project amounted to EUR 3,376,313, including eligible costs EUR 2,796,430. Ditton Būve Ltd. has performed construction works within the project due to the Construction works contract No. DPR/2014/01 dated 25 July 2014. In accordance with the statement of completion and final acceptance of work dated 25 February 2015, construction works costed EUR 2,750,704. On 29 December 2015, the Company received the aid EUR 1,159,833 EUR from the Investment and Development Agency of Latvia (LIAA).

10) Fixed assets (*continued*)

*The significant part of production premises of the Company is held for rent. Before 2017 property for rent was recorded as fixed assets. Starting from 2017, the value of Company's property for rent (land and buildings) is recognized as investment property. Retrospective reclassification of cost, accumulated depreciation and depreciation expense of the relevant assets has been performed.

** Since the year 2020 production premises of the Company, which are held for rent are reclassified back from investment properties as a part of fixed assets (Land plots, buildings and engineering structures), because the Company has assessed information given before and considers that information in the "Investment properties" has to be given in case it is parent company of the group.

Fixed assets include the land (cadastral number 0500 007 0001), on which the infrastructure facilities of the Company are located and which has been historically purchased on instalment from a commercial company registered in Latvia and pledged in a commercial bank registered in Latvia as collateral security for the seller's loan. The title to the mentioned plot shall be transferred to the Company only after registration in the Land Registry. Under the terms of the purchase agreement, the seller is not entitled to request the cancellation of the land purchase agreement.

The Company's management has assessed the value in use of its fixed assets and investment assets in the balance sheet and considers that their recoverable value is not lower than their carrying value.

(12) Inventories

	31.12.2020 EUR	31.12.2019 EUR
Raw materials, consumables and supplies	490 793	539 607
Provisions for slow-moving items	(37 329)	(38 942)
Raw materials, consumables and supplies, net	453 464	500 665
Work in progress	152 543	164 885
Provisions for slow-moving items	-	-
Work in progress, net	152 543	164 885
Finished products and goods for resale	229 306	241 288
Provisions for slow-moving items	(26 467)	(27 479)
Finished products and goods for resale, net	202 839	213 809
Advances for inventories	133 263	39 064
Provisions for slow-moving items	(1 361)	-
Advances for inventories, net	131 902	39 064
TOTAL:	940 748	918 423
Provisions for slow-moving items:		
At the beginning of the year	(66 421)	(84 202)
Increase (Appendices 5 and 6)	1 361	2 093
Decrease (Appendices 5 and 6)	(2 626)	(19 874)
At the end of the year	(65 156)	(66 421)

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(13) Trade receivables

	31.12.2020	31.12.2019
	EUR	EUR
Book value of trade receivables	492 695	767 538
Provisions for doubtful accounts receivable	(92 276)	(126 085)
TOTAL:	400 419	641 453
Provisions for doubtful accounts receivable:		
At the beginning of the year	126 085	153 290
Write-off	-	-
Recovered provisions (Appendix 5)	(33 808)	(27 205)
Increase in provisions (Appendix 6)	-	-
At the end of the year	92 276	126 085

(14) Other debtors

	31.12.2020	31.12.2019
	EUR	EUR
Input value added tax receivable (VAT)	34 644	18 090
TOTAL:	34 644	18 090

(15) Share capital

The share capital of the Company is EUR 10,360,000 with nominal value of EUR 1,40 per share and a total paid shares of 7,400,000.

The shareholders owning over 5 p% of the shares of the whole capital of the Company as at 31.12.2020 and as at 31.12.2019:

NAME	Shares owned, % 31.12.2020	Shares owned, % 31.12.2019
Eduards Zavadskis*	20,00	20,00
Vladislavs Driksne	19,92	19,92
MAX Invest Holding SIA	13,63	13,63
SIA „Maleks S”	13,56	13,30
SIA „DVINSK MNG”	9,46	9,46

** Note: As at 31 December 2020, 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.*

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(16) Loans from credit institutions

Long-term:		Repayment term	31.12.2020	31.12.2019
Loan from JSC Citadele Banka	EUR	15.12.2021	4 135 577	4 282 577
TOTAL long-term loans from credit institutions:			4 135 577	4 282 577
Short-term:		Repayment term	31.12.2020	31.12.2019
Loan from JSC Citadele Banka	EUR	15.12.2021	170 384	402 507
TOTAL short-term loans from credit institutions:			170 384	402 507
TOTAL loans from credit institutions:			4 305 961	4 685 084
			31.12.2020	31.12.2019
Liabilities due within one year			170 384	402 507
Liabilities due after one year but not more than five years			4 135 577	4 282 577
TOTAL:			4 305 961	4 685 084

Information on loans received by the JSC Citadele banka as at 31.12.2020 is as follows:

Number and date of the contract	Currency	Interest rate	Limit	Repayment term
Long-term loan No.CI2010-2.3/1 dated 10.09.2010	EUR	4,5%+6M EURIBOR	4 952 086 EUR	15.12.2021

The loan is secured by the commercial pledge on all of the Company's assets, including intangible assets, fixed assets, investment assets, inventories, claim rights and Company's financial instruments on bank accounts in JSC Citadele banka, as a pool of things at the moment of exercising the pledge right.

The guarantees of individual shareholders of the Company and commercial pledges, as well as guarantees of several cooperation partners and real estate pledge serve as an additional collateral security for loan repayment.

The Loan agreements contain covenants upon breach of which the JSC Citadele bank may request the pre-schedule loan repayment or increase the interest rate by 1%. The information available at the moment of preparation of these financial statements shows, that, upon calculation of the ratios set, based on interpretation of specific covenants, the ratios may be or may not be reached, inclusive of accumulated DSCR ratio for the past 12 months, if one-off past loan repayments are not subtracted, is less than 1, but in the year 2019 the Company has managed to contract the services of a finance consultant for the purposes of control over the financial information and preparation of such information. The Company is working with the Bank and finance consultant on close terms and the Management does not have any information that might indicate that the Bank might exercise the above noted rights to require pre-mature repayment of the loans granted.

* On 22 February 2019 the Company concluded agreement with AS Citadele Banka on termination of loan agreement Nr CI2011-2.3/218 and restructuration of short-term liabilities based on the noted agreement in the amount of EUR 449 543, increasing long-term Loan agreement Nr. CI2010-2.3/1 liability to EUR 4 952 086 (see Appendix 16). Taking into account the restructuration performed, short term liabilities decreased below the value of short-term assets.

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(17) Other loans

Short-term:	Repayment term	31.12.2020	31.12.2019
Other loans*	EUR 31.01.2021	3 700	-
TOTAL long-term loans from credit institutions:		3 700	-

* Currency of the loan is EUR. Fixed interest rate 12 per cent per year.

Loan repayment is not secured, without collateral (pledge) registration in public registers.

(18) Taxes and State mandatory social insurance payments

	31.12.2020	31.12.2019
	EUR	EUR
Property tax	219 730	282 372
Personal income tax	53 857	36 225
State mandatory social insurance payments	113 546	39 140
Nature resources tax	253	194
Penalties	72 143	84 097
VAT (Penalty calculated by State Revenue Service)	16 350	20 898
Risk duty	49	54
TOTAL:	475 928	462 980

(19) Other creditors

	31.12.2020	31.12.2019
	EUR	EUR
Salaries	67 360	114 276
Other creditors	271	740
Receivables arising in favour of the personnel	-	104
TOTAL:	67 631	115 120

(20) Deferred income

	31.12.2020	31.12.2019
	EUR	EUR
Long-term:		
VA „LIAA” funding Nr.L-IZI-14-0003	796 714	857 754
Construction cost compensation	336 801	359 765
	1 133 515	1 216 999
Short-term		
VA „LIAA” funding Nr.L-IZI-14-0003	60 520	60 520
Construction cost compensation	22 964	22 964
	83 484	83 484
TOTAL:	1 216 999	1 300 483

On 14 March 2014, the Company signed an agreement with the Investment and Development Agency of Latvia No.L-IZI-14-0003 on implementation of the project “Construction of industry premises in the free industrial area of JSC DITTON Driving Chain Factory”. The project was launched on 14 March 2014 and completed on 7 July 2015. The total cost of the project amounted to EUR 3,376,313, including eligible costs EUR 2,796,430. Under the Construction works contract No. DPR/2014/01 dated 25 July 2014 the Ditton Būve Ltd. has performed construction works within the project. In accordance with the statement of completion and final acceptance of work dated 25 February 2015, the construction cost amounted to EUR 2,750,704.

(20) Deferred income (continued)

On 29 December 2015, the Company received aid in the amount of EUR 1,159,833 EUR from the Investment and Development Agency of Latvia (LIAA) under a 5-year period ban on disposal. The Investment and Development Agency of Latvia (LIAA) has started correspondence with the Company in respect of the fulfilment of the clauses of the agreement No.L-IZI-14-0003.

In accordance with the implementation of the agreement Nr. L-IZI-14-0003 signed in 2014 with the Latvian Investment and Development Agency "On Development of Production Premises for AS "Ditton pievadķēžu rūpnīcas" within the spare production space", project costs, based on project budget assessment, were recognised in the amount of EUR 459 275 less than initially planned. The difference of funding not received from the Agency was charged to the general contractor for construction works as compensation for funding not received. Income from compensation is recognised over the useful life of the asset developed.

(21) Accumulated liabilities

	31.12.2020	31.12.2019
	EUR	EUR
Accrued liabilities for goods and services	49 469	48 251
Vacation accrual	90 788	65 936
TOTAL:	140 257	114 187

(22) Number of employees in the Company

	2020	2019
Average number of employees of the Company during the year:	137	150
- Council members	5	5
- Management Board members	2	2
- Other employees	130	143

Information on remuneration of Council and Management Board members*

	Council		Management Board		Total	
	EUR		EUR		EUR	
	2020	2019	2020	2019	2020	2019
Fixed part, variable part and extraordinary items of remuneration**	48 598	25 276	44 628	36 198	93 226	61 474
State mandatory social insurance payments	115 70	6 089	10 551	8 720	22 121	14 809
TOTAL:	60 168	31 365	55 179	44 918	115 347	76 283

* The full Remuneration Report of the Management Board and the Council in accordance with the requirements of the Financial Instruments Market Law of the Republic of Latvia, Directive (EU) No 2017/828 of the European Parliament and of the Council of 17 May 2017 and the Remuneration Policy approved by the shareholders is issued as a separate document as appendix to the Annual report of the Company.

** Remuneration of the Council and the Management Board in 2019 does not include expenses and remuneration referable to the remuneration in accordance with the Remuneration Policy of the Management Board and the Council that entered into force on 1 July 2020.

(23) Financial risk management

The Company's activity is subject to a variety of financial risks: foreign currency risk, interest rate risk, credit risk and liquidity risk.

Foreign currency risk

Foreign currency risk is the risk that the Company might have financial loss due to unfavourable fluctuations in exchange rates. This risk arises when financial assets in foreign currency do not match with financial liabilities in the same currency; herewith the Company has open currency positions.

Interest rate risk

Interest rate risk is the risk that the Company might have financial loss due to unfavourable fluctuations in interest rates. The Company experiences such interest rate risk of long- and short-term loans from credit institutions due to variable fixed rates, or when fixed interest period is less than the planned time of the loan repayment, or when credit interest is based on variables, or due to terms of the Loan agreement. The Company does not have any other choice and does not use any tools to mitigate the interest rate risk other than to fulfil loan-borrowing conditions in full and to cooperate with credit institutions.

Credit risk

Credit risk is the risk that the Company might have financial loss due to business partner who failed to comply with his obligations towards the Company. Cash, trade receivables and advance payments mainly cause the credit risk.

Cash

Credit risk related to cash at banks is managed by balancing the financial asset allocation in order to maintain the possibility of choosing the best offers and minimizing the loss of financial resources at the same time.

The Company oversees, assesses and mitigates this risk by appropriate work with Company's partners, for example, limiting or suspending the ongoing and future transactions with unfavourable partners, when the Company receives information about partners' possible problems with meeting their obligations.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet its obligations timely and in full. Liquidity risk appears, when repayment terms of financial assets and liabilities do not match. The aim of the Company's liquidity risk management is to maintain an adequate amount of cash and cash equivalents, and ensure appropriate sufficient funding through credit lines issued by the banks (refer to the Appendix 16) so that the Company fulfils its obligations within the set time limits. The Company regularly monitors financial assets and liabilities mismatches, as well as stability of funding sources for long-term investments.

In the opinion of the Company's management, the Company will have sufficient cash resources to secure its liquidity.

COVID-19 pandemic risk

COVID-19 pandemic risk is the risk that in the result of decrease of global economy and activity level a significant decrease of Company's production and financial indices, which are integrated in global economy, will appear. Specific feature of this risk is that it does not depend only on Company and Company's risks management, but it depends mainly on external factors and decisions of the management institutions.

Company's management is of the opinion that overcoming of potential COVID-19 pandemic risks is possible only after the growth of economic activity will be possible. For this reason the Company has to

(23) Financial risk management (*continued*)

concentrate and consolidate its efforts to maintain production capabilities, utilities and retain partners under the circumstances of inevitable decrease of production volumes by continuing procedures of operative reaction on market challenges and operative optimisation and correction of current operating activity.

(24) Contingent liabilities, pledges and guarantees

The Company issued collateral (guarantees and pledges) in accordance with the long-term loan according to the Loan Agreement No. of 10 September 2010 No. CI2010-2.3/1, which was concluded with A/S "Citadele Banka", in which the Company is a borrower.

The Company had not issued collateral (guarantees and pledges) in accordance with liabilities of the third persons.

See also information in Appendix 16.

(25) Related Person Transactions

The Company had not concluded transactions with related persons in the year 2020.

Due to changes in the Council of the Company, the status of a related person since 18 June 2020 was acquired by LRS, Ltd., registration number 400039223342. As of 3 September 2018, a Real Estate Lease Agreement No. DPR/08/2018 is in force between the Company and LRS, Ltd. The agreement has been concluded in accordance with the conditions of the project "Construction of industry premises in the free industrial area of JSC "Ditton pievadkēžu rūpnīca"

(26) Subsequent events

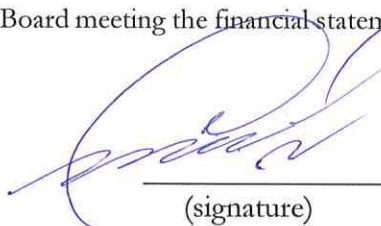
1) After the end of the financial year, the global economy, in which the Company is integrated, continues to decline, there are no significant tendencies in production growth, and communication and cooperation opportunities are still limited, which is obviously related to the "second wave" of the COVID-19 pandemic.

As a positive dynamic, it should be noted that the markets have stabilized and this gives grounds to be optimistic about the Company's operating and development prospects.

2) The Management Board does not note any other significant event that would affect the Company after the end of the financial year at the time of preparation and approval of the Annual Report for the year 2020.

According to the Protocol of the Management Board meeting the financial statements have been signed on behalf of the Company on 22 April 2021 by

Rolands Zarāns
Chairman of the Management Board



(signature)

Jūlija Lavrecka
Chief Accountant



(signature)

Independent Auditor's Report

To the shareholders of the JSC Ditton pievadķēžu rūpnīca

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of JSC Ditton pievadķēžu rūpnīca ("the Company") set out on pages 16 to 39 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2020,
- the profit and loss statement for the year ended on 31 December 2020,
- the statement of changes in equity for the year ended on 31 December 2020,
- the statement of cash flows for the year ended on 31 December 2020, as well as
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the JSC Ditton pievadķēžu rūpnīca (the Company) as at 31 December 2020, and of its financial performance and its cash flows for the year ended on 31 December 2020 in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia, we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (incl. International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (incl. International Independence Standards) and Law on Audit Services of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our Audit Approach

During the audit planning process, we have determined the materiality level and assessed the risks of material misstatement of the financial statement. Especially we have assessed, whether the Management has made subjective assumptions, such as those about significant accounting estimates, which include assumptions and uncertainties about future events. The same as by other audits, performed by us, we have assessed management internal control breach risk, including assessment, whether there are evidences of bias indicating a risk of material misstatement due to fraud.

Materiality

The scope of the audit depends on application of materiality. The audit is planned with the aim to obtain reasonable assurance that the financial statements are free from material misstatement. Misstatements may result from fraud or error. They are considered to be material if, individually or aggregate, they are reasonably expected to influence the economic decisions of the users concerning the financial statements.

Basing on our professional judgement, we have set specific materiality thresholds including the total materiality level applicable to the financial statements as a whole and is given in the following schedule. Along with qualitative considerations, they helped us to determine the scope, type, duration of the audit and the scope of audit procedures, in order to estimate impact of individual and aggregated misstatements on financial statements as a whole.

Overall materiality	Overall materiality is determined in amount of EUR 91,1 thousand, performance materiality is determined in amount of EUR 63,7 thousand
How have we determined it	The overall materiality is ca. 1,2% of balance sheet asset value, performance materiality – ca. 70% of the overall materiality
Basis for application of materiality criteria	In our opinion net turnover is one of the main criteria characterizing operating activity of the Company, which draw attention of Company's Management and investors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	Response
1. Determination of Inventories	
As disclosed in the note (12) to the financial statements, as at 31 December 2020, the Company's inventory balances are EUR 808,8 thousand, which is 10,3 per cent of the total balance sheet assets.	<ul style="list-style-type: none"> • We gained an understanding of the production process by discussing it with the Company's management, and assessed whether the accounting policy regarding the valuation and accounting of inventories complies with the requirements of the Law on Annual Accounts and Consolidated Annual Accounts of the Republic of Latvia. • We gained an understanding of the key controls associated with inventory accounting; • We identified and discussed with the Company's management the assumptions used in allocating production overheads and compared them with the assumptions used in the previous period. • We performed analytical procedures to evaluate the accuracy of the cost value of cost components and inventories by comparing them with prior year data. No provisions were made for slow-moving inventories during the reporting period. • We reviewed the information disclosed in the financial statements about the valuation of inventories.
Determining the cost of inventories at the end of the year is essential because of the need to evaluate the cost of work-in-progress, judgment of the Company's management is required regarding the provisioning for slow-moving inventories.	
In view of the above mentioned conditions we consider assessment of inventories as a key audit matter.	

Reporting on Other Information

Company management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on page 3 of the accompanying Annual Report,
- the Management Report, as set out on pages 13 to 14 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 15 of the accompanying Annual Report,
- the Statement of Corporate Governance, as set out on pages 7 to 9 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities applicable to other information in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities applicable to other information in accordance with the legislation of the Republic of Latvia

In accordance with the Law on Audit Services of the Republic of Latvia our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In accordance with the Law on Audit Services with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6., 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law. In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6., 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In accordance with the Law on Audit Services our responsibility is to provide information in the auditors' report as to whether the Company has prepared a non-financial statement and whether the non-financial statement is included in the management report or is prepared as separate part of the annual report. The audited Company is not required to prepare a non-financial statement.

In accordance with the Law on Audit Services our responsibility is also to provide an opinion whether the Remuneration report contains the information referred to in the section 59.4 of the Financial Instruments Market Law and whether material misstatements are stated in the Remuneration report in connection with the financial information provided in the annual report. In our opinion the Remuneration report contains the information referred to in the section 59.4 of the Financial Instruments Market Law and no material misstatements are stated in the Remuneration report in connection with the financial information provided in the annual report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Law on Annual Accounts and Consolidated annual accounts and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation;
- obtain sufficient appropriate audit evidence about the Company's financial information to provide an opinion on the financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other statements and approvals to be included in the auditors' report in accordance with the requirements of the regulatory enactments of the Republic of Latvia and the European Union when providing audit services to Companies that are public interest entities.

On 5 November 2020 the persons entrusted with the management of the Company have appointed us to audit the financial statements of the Company for the year ended on 31 December 2020. Total uninterrupted term of our audit engagement is two years, and it includes reporting periods from the year ended on 31 December 2019 until the year ended on 31 December 2020.

We approve that:

- our auditors' opinion is consistent with the additional report submitted to the Company's Audit Committee;
- as it is stated in section 37.⁶ of the Law on Audit Services we have not provided prohibited non-audit services given in the Paragraph 1 of the section 5 of the Regulation (EU) No. 537/2014.

During the period covered by our statutory audit, in addition to the audit, we have not provided the services to the Company, the findings of which are not set out in the Management Report attached to the financial statements or in the Company's financial statements.

The responsible sworn auditor of the audit service that results in this independent auditor's report is Marija Poriete.

SIA "AKTĪVS M AUDITS"
Licence No.40

Marija Poriete
Member of the Board

Marija Poriete
Certified Auditor of the Republic of Latvia
Certificate No. 6

Vienības gatve 99-7, Rīga
22 April 2021

