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

Corporate Governance Report

and

Annual Report for the Year 2016

PREPARED IN COMPLIANCE WITH THE
LAW ON ANNUAL ACCOUNTS AND CONSOLIDATED ANNUAL ACCOUNTS
and Independent Auditors` Report
(01.01.2016 – 31.12.2016)

Daugavpils
2017

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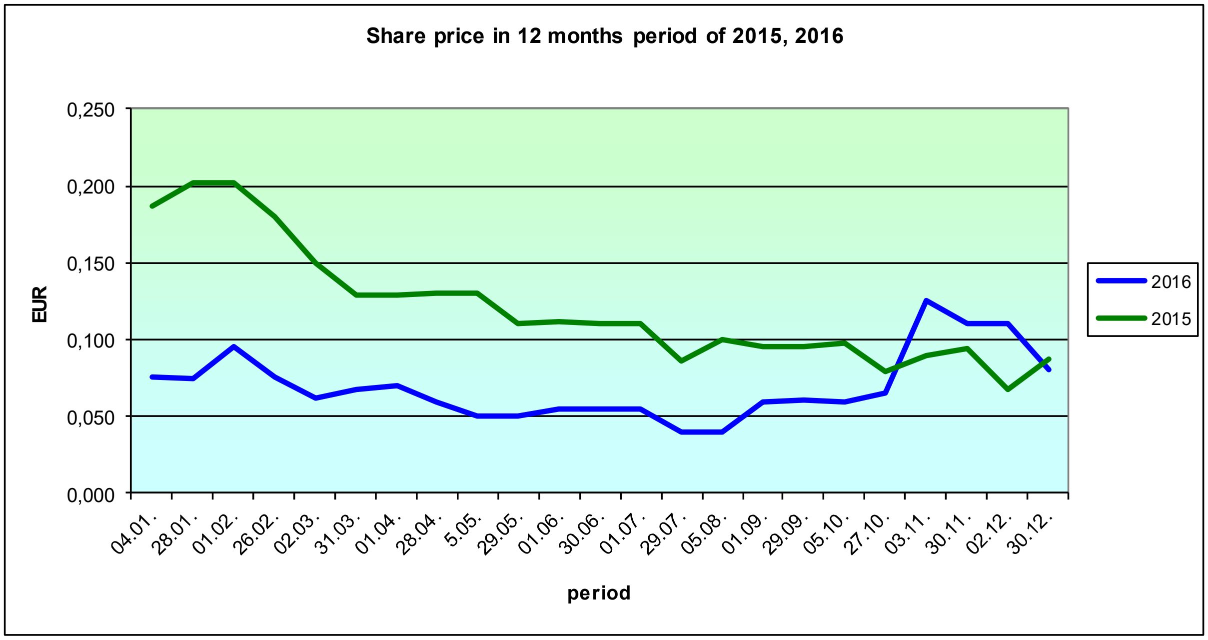
INFORMATION ABOUT THE COMPANY

Company name	Ditton pievadķēžu rūpnīca
Legal status	Joint Stock Company
Registration number	40003030187
Registration in Register of Enterprises	Rīga, 03.10.1991
Registration in Commercial Register Office	Rīga, 29.08.2003.
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 bearer shares	7 400 000
Nominal value of one share	1.40 EUR
Chief accountant	Valentīna Krivoguzova, p.c.191257-10218
Reporting year	01.01.2016 – 31.12.2016
Independent auditors and their address	Ernst & Young Baltic Ltd. Reg. No. 40003593454 Muitas St. 1A, Rīga, LV-1010 License No.17 Sworn auditor of the Republic of Latvia Diāna Krišjāne Certificate No.124

Persons in charge for drawing up of the financial report:
Mr. Boriss Matvejevs, phone +371 65402333, e-mail dpr@dpr.lv
Ms. Nataļja Redzoba, phone +371 65402333, e-mail dpr@dpr.lv

INFORMATION ON SHARES AND SHAREHOLDERS

SHARE PRICE DEVELOPMENT



The paid in capital of the company amounts to EUR 10,360,000 split into 7 400 000 public bearer shares with nominal value of each share EUR 1.40. Each share is entitled to one vote, to one per share dividend and to one liquidation quota of the total number of dividends or liquidation quota, which is equal to the amount of shares of a given category. As Company`s shares are financial instruments (or transferable securities), their circulation and emissions is regulated by the Commercial Law, the Financial Instruments Market Law of the Republic of Latvia and by the provisions of the regulator of the financial instruments market.

COMPANY SHAREHOLDERS (OVER 5%) *

NAME	Ownership interest, %
Vladislavs Drīksne	19,92
MAX Invest Holding Ltd	13,63
Maleks S Ltd	12,31
DVINSK MNG Ltd	9,46

<u> Note:</u> 1) The Company does not keep any Share Register. Information presented is based on the lists of shareholders of the JSC Ditton pievadķēžu rūpnīca as at 27.12.2016. JSC Latvian Central Depository has prepared this list for shareholders` meeting due to the Commercial Law of the Republic of Latvia and the Financial Instruments Market Law, taking into account the shareholders' notifications on acquisition and disposal significant holding in the Issuer's equity in accordance with the section 61 of the Financial Instruments Market Law.*

2) As at 31.12.2016, there was no distribution of stocks (20%) among heirs of the former shareholder E. Zavadskis. Inheritance rights to these shares are not defined.

Under the subsections 56 [1] (1) (2, 3, 4, 5, 6, 7, 8, 9, 10 and 11) of the Financial Instruments Market Law on Additional Information to be Included in the Annual Report, the Management board has no additional information at its disposal on any additional information.

COMPANY BACKGROUND

In result of privatization, the State Daugavpils Driving Chain Factory became the joint-stock company Daugavpils pievadķēžu rūpnīca due to the order of the Cabinet No.375-r dated 09 August 1994 and the resolution of the Board of the state joint-stock company Privatization agency dated 2 March 1995 (the report No.25), having transformed the state company into a joint-stock company.

The Company has received the status of a public joint-stock company after its registration on 30 August 1995 under the No. 000303018 in the Enterprise Register.

On 8 January 2002, the JSC Daugavpils pievadķēžu rūpnīca was renamed into JSC Ditton pievadķēžu rūpnīca receiving new registration No. 40003030187.

On 29 August 2003, the JSC Ditton pievadķēžu rūpnīca was included into the Commercial Register (under the unified registration No. 40003030187).

On 23 January 2015, there have been carried out denomination of the fixed capital of the Company pursuant to the Law on the Procedure for Introduction of Euro of the Republic of Latvia.

Being the successor of rights and obligations of the State Driving Chain Factory due to conditions of privatization, the Company acts according to the Articles of Association.

Some types of activities of the company:

- manufacture of parts and accessories for motor vehicles
- repair of fabricated metal products, machinery and equipment
- installation of industrial machinery and equipment
- sale of motor vehicle parts and accessories
- sale, maintenance and repair of motorcycles, related parts and accessories
- manufacture of structural metal products
- manufacture of tanks, reservoirs and containers of metal
- forging, pressing, stamping and roll-forming of metal; powder metallurgy
- treatment and coating of metals; machining
- manufacture of other fabricated metal products
- warehousing and storage
- buying and selling of own real estate
- rental and operating of own or leased real estate
- real estate activities on a fee or contract basis
- combined facilities support activities
- etc.

INFORMATION ON THE MANAGEMENT BOARD AND COUNCIL MEMBERS

THE MANAGEMENT BOARD

Chairman of the Management board

Rolands Zarāns, elected 15.01.2014

Member of the Management board

Nataļja Redzoba, elected 29.08.2003

Information on shares owned by Members of the Management Board

Members of the Management Board	Share ownership *	
	Quantity	**%**
Rolands Zarāns, elected 15.01.2014	no shares	-
Nataļja Redzoba, elected 29.08.2003	no shares	-

THE COUNCIL

Chairman of the Council

Boriss Matvejevs, elected 05.05.2005

Deputy Chairman of the Council

Georgijs Sorokins, elected 06.11.2000

Members of the Council

Anželina Titkova, elected 14.08.2009
Genādijs Zavadskis, elected 15.02.2017
Vadims Kazačonoks, elected 15.02.2017

Information on shares owned by Members of the Council

Members of the Council	Share ownership *	
	Quantity of shares	**%**
Boriss Matvejevs	no shares	-
Georgijs Sorokins	5 678	0,08
Anželina Titkova	no shares	-
Genādijs Zavadskis	no shares	-
Vadims Kazačonoks	no shares	-

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

* as at 27.12.2016

REPORT ON CORPORATE GOVERNANCE

§ 1

By arranging corporate governance of the Issuer, the Management board and the Council follow Corporate Governance Principles, which have been approved by the JSC NASDAQ OMX Rīga and entered into force on 1 June 2010.

Information about appliance of the above-mentioned Principles regarding shareholders` responsibility is presented to shareholders on the annual general meeting, when the annual report is approved. The shareholders may familiarize themselves with information comprised by Corporate Governance Principles on the website of NASDAQ OMX Rīga http://www.nasdaqomxbaltic.com/files/riga/corp_gov_May_2010_final_EN.pdf or by submitting an appropriate written request to the Issuer.

Information about the order, procedures, restrictions, exceptions and practice of application of Corporate Governance Principles in 2016 has been reflected in the annex to this report "Statement on corporate governance principles". Shareholders may review the information included into this annex in the appropriate section of the Issuer on the website of NASDAQ OMX Rīga, in The Central Storage of Regulated Information system or on Issuer`s website in the internet.

§ 2

System of internal control is implemented in compliance with Corporate Governance Principles, including the internal revision carried out due to the Financial Instruments Market Law and Articles of Association of the Issuer. The Council's report on the internal revision regarding procedures on control and management of risks while compiling of the annual report for 2016 is presented to the annual general meeting of shareholders and enclosed in its materials.

In fact, the Issuer has developed a multistage system of compiling of the annual report, control and risk management.

- 1st stage: compiling of the annual report and internal control in subdivisions of the Issuer;
- 2nd stage: examining and approval of the annual report by the Management board of the Issuer;
- 3rd stage: auditing of the annual report by an independent sworn auditor due to the Law On the Annual Financial Statements and Consolidated Financial Statements, Law on Accounting, Commercial Law and Financial Instrument Market Law;
- 4th stage: examination of the annual report, of efficiency of the internal revision and risk management, as well as of the independency of the sworn auditor and improvement of weak points by Council of the Issuer, as of the body performing the tasks of the Audit Committee.
- 5th stage: exploration of Issuer`s Council annual report and reporting on activities of the Management Board and the Issuer in general, what is reflected in this report;
- 6th stage: approving of the annual report in general shareholders` meeting of the Issuer.

It is obvious that activities of the institutions mentioned in stages 3, 4, 5 and 6 are independent from the Management board of the Issuer and ensure accuracy of the annual report and independency.

§ 3

Under provisions of sections $56.^1$ and $56.^2$ of the Financial Instruments Market Law the Issuer provides additional information on following:

The following shareholders have a significant holding:
- Vladislavs Drīksne – 19,92%
- MAX Invest Holding Ltd. – 13,63%
- Maleks S Ltd. – 12,31%
- DVINSK MNG Ltd.– 9,46%

<u> Note:</u> 1) The Company does not keep any Share Register. Information presented is based on the lists of shareholders of the JSC Ditton pievadķēžu rūpnīca as at 27.12.2016 JSC Latvian Central Depository has prepared this list for shareholders` meeting due to the Commercial Law of the Republic of Latvia and the Financial Instrument Market Law, taking into account the shareholders' notifications on acquisition and disposal significant holding in the Issuer's equity in accordance with the section 61 of the Financial Instruments Market Law.*

2) As at 31.12.2016, there was no distribution of stocks (20%) among heirs of the former shareholder E. Zavadskis. Inheritance rights to these shares are not defined.

The Issuer has no shareholders with specific control rights, neither restrictions to the shareholders' voting rights arising from their shares.

Issuer`s order and procedures for amendments to founding documents (the Articles of Association), change of the composition of the Management board and of the Council, such as rotation and/or recall, are determined by and applied pursuant to the Commercial Law, Civil Law, Labour Law, Law on the Enterprise Register of the Republic of Latvia, Law on Legal Force of Documents, Declaration on objectives and mission of the activity and development of JSC Ditton pievadķēžu rūpnīca and evaluation of these processes, Regulations on the convening and course of shareholders' meetings and other legal acts related to these procedures, as well as due to resolutions of shareholders` meetings.

The Commercial Law, the Articles of Association of the Issuer and Regulations of the Management board stipulate rights of members of the Management board. However, Management board members have not been granted any additional powers, such as to issue or redeem shares.

§ 4

Governing bodies of the Issuer are:
- shareholders` meeting;
- Council of the Issuer;
- Management board of the Issuer.

Each institution have its own competence (powers), rights and obligations, which are determined by laws of the Republic of Latvia, Corporate Governance Principles, the Articles of Association and internal documents of the Issuer, including Regulations of the Management board and of the Council and resolutions of shareholder`s meetings. Institutions are independent.

Independence of shareholders' resolution is ensured pursuant to provisions of the Commercial Law (sections 268, 273-286), Financial Instrument Market Law (sections 54, $54.^1$ - $54.^5$), Corporate Governance Principles, Articles of Association of the Issuer, Declaration on objectives and mission of the activity and development of the JSC Ditton pievadķēžu rūpnīca and evaluation of these processes, Regulations on the convening and course of shareholders' meetings and other legal acts and internal documents of the Issuer.

Under Commercial Law, Financial Instruments Market Law, Articles of Association, Declaration on objectives and mission of the activity and development of the JSC Ditton pievadķēžu rūpnīca and evaluation of these processes, Regulations of the Council and of the Management board and other statutory acts and Issuer's internal documents, Council and Management board members are independent in exercising their duties and report to shareholders due to provisions of legal acts.

Procedures of nominating and registration of the Council and Management board members candidates, voting for the Council and Management board members candidates, as well as election of Council and Board members and their registration in the Enterprise Register of the Republic of Latvia the Issuer organizes and puts into effect pursuant to the provisions of the Commercial Law (sections 268, 284, 292, 296, 305), Financial Instruments Market Law (sections 54, 54.^{2}, 54.^{6}), as well as provisions of the Issuer's Regulations on the convening and course of shareholders' meetings and Regulations of the Council and of the Management board. The internal documents of the Issuer are available on the Issuer's website www.dpr.lv

Personal composition of the Council and of the Management board is specified on page 6 of the current annual report and on the Issuer's website www.dpr.lv.

Chairman of the Management board Rolands Zarāns
of the JSC Ditton pievadķēžu rūpnīca
31 May 2017

COUNCIL REPORT
to the annual report for the year 2016

Issued in conformity with the Commercial Law and the Articles of Association of the Company
Approved by Council resolution of the JSC Ditton pievadķēžu rūpnīca
dated 31.05.2017, Protocol No.203 (new edition)

The Council of the JSC Ditton pievadķēžu rūpnīca declares that the report of the Management board of the Company to the regular shareholders' meeting and annual report for year 2016 truly reflects the commercial activity results and the financial position of the Company.

During the reporting period the Management board was in charge of the production and operation management of the Company and represented the Company due to the Law of the Republic of Latvia, Articles of Association of the Company, Declaration on objectives and mission of the activity and development of the JSC Ditton pievadķēžu rūpnīca and evaluation of these processes, resolutions of shareholders` meeting and Council recommendations.

The shareholders as well as the Council members have not expressed or submitted any claims against the Management board and its individual members. The Company has no information at its disposal about any violation of the principle of independence of the Management board members. On 5 February 2016, the extraordinary shareholders` meeting evaluated operations of the Management board as positive and corresponding to Company`s interests and market challenges.

Furthermore, on 21.10.2016 the regular shareholders' meeting assessed operations of the Management board as positive and corresponding to aims and mission of the Company.

The indices of the closed year 2016 reveals the actual position of the Company and global economic circumstances. Causes, circumstances and obstacles that influenced these results were determined by shareholders` meeting on 5 February 2016 and are disclosed in the report of the Management board.

As representative of shareholders, the Council of the Company expresses its solidarity with conclusions of the Management Report and shareholders, as well as with their assessment of the global market and situation on its sectors. The Council considers that comprehensive and objective assessment of the Company and market situation will boost the business plan of the Company and increase economic and production indices.

Therewith, as representative of the shareholders, the Council agrees to shareholders judgments about assessment of some specific causes of the Company`s position. Judging from the reasonable practice and commercial customs, any results caused by activities of the authorities and administrative bodies, and which are out of power of commercial actors are deemed force majeure events. These are risks, which cannot be predicted, and usually none of commercial stakeholders bears any responsibility for them in case they occur.

Under the Articles of Association of the Company and Law of the Republic of Latvia, the Council of the Company was representing interests of shareholders in between shareholders` meetings and supervising operations of the Management board according to global economic conditions in the reporting period.

Altogether, there have been held nine meetings of the Council during the reporting period. In four of the joint meetings of the Council and the Management board there have been reviewed and approved financial statements of the Company for 12 months of 2015 and interim financial reports for 3, 6, and 9 months of the year 2016.

In addition, the following issues have been dealt with and resolved at Council meetings:

- reviewing of the annual report for the year 2015 and approval of the Council report;
- reviewing of draft resolutions on the issues of the agendas of the regular and extraordinary shareholders` meetings convened;
- approval of the Company's operating results by executing duties of revision committee;
- new edition of Regulation on the trade secret;
- new edition of Regulation on inside information pursuant to the requirements of the Regulation (EU) No.596/2014 of the European Parliament and of the Council;
- some other issues related to the activity of the Company and stipulated by the Articles of Association of the Company and the Law of the Republic of Latvia.

According to the amendments to the Articles of Association of the Company adopted at shareholders` meeting on 4 November 2014 and due to the Financial Instruments Market Law, the Council was assigned to perform duties of the Audit committee of the Company to optimize Company's cost. The approved Council report as of institution performing the tasks of the Audit committee shall be submitted to the regular shareholders' meeting when approving the annual report.

On 21.10.2016 the regular shareholders' meeting assessed operations of the Council as positive and corresponding to aims and mission of the Company, too.

Herewith the Council of the Company draws shareholders attention to following significant events.

In the reports of previous years 2011 - 2015 the Council, based on expert opinion, informed the shareholders about objectivity of the annual report and their compliance with the actual Company`s position, as well as about market situation and Company`s prospects, as the Company is not isolated, but is a part of the global commercial system. That is why it depends on the indices of those states where the Company is represented on the market due to its geographical location, logistics and actual presence.

Therewith the actual market sales figures of the Company in 2016 rather correspond to predictions of the Council announced before in respect of sales volumes of production and services of the Company. Moreover, the Company retained its position on the global market, as well as partners, contracts and prospects of increasing production volumes.

The Council of the Company assesses its forecasts in view of global market outlooks and demand for Company's goods within the range from "slightly negative" to "moderately positive" by some geographical markets and categories of goods. Realization of projections depends not only upon the Company, but also on the future dynamics of the world economy development, as well as on the dynamics of development or termination of the crisis phenomena in relations with CIS countries. Consequently, it cannot be ruled out that due to negative development of these factors the Company's production volumes may decrease or remain at the current level.

Subject to the aforementioned forecasts and estimates, the Company developed and partly implemented programs on improvement of operating activities, including optimization of costs, manufacturing and technology-related processes, equipment modernization and introduction of energy- and resource-saving technologies.

In spite of market difficulties, these procedures made it possible to close the year of 2016 with pre-tax profit EUR 18 thousand confirming herewith that management is efficient by reaching Company's goals and mission in accordance with the Declaration on objectives and mission of the activity and development of the JSC Ditton pievadķēžu rūpnīca and evaluation of these processes approved by shareholders (Protocol No.2 dated 14.10.2011 of the extraordinary shareholders` meeting).

In view of the information mentioned above and the situation in the Company, the Council considers it appropriate to recommend discharging the loss of previous periods by the profit of 2016, as well as to ask the shareholders` support for this proposal. Taking into account the economic indicators, the Council deems it appropriate to advise the Management board to respond more quickly to market changes (especially pricing), to update without hesitation Company`s plans and projects, as well as to optimize operational costs.

Chairman of the Council Boriss Matvejevs
31 May 2017

MANAGEMENT REPORT

Information on the results of Company`s activities in 2016

The net-turnover in 12 months of 2016 reached € 6,998 thousand, being by € 644 thousand higher than the index in 12 months of 2015.

By now the export of the core products to Eastern and Western markets amounted to 59 per cent (38% eastwards and 21% westwards), 41% of products sold on Latvian market.

The Company closed the year of 2016 with a pre-tax profit € 18 thousand.

The average number of employees of JSC DITTON pievadķēžu rūpnīca was 165 employees during 12 months of 2016.

The average salary in 12 months period of 2016 amounted to € 553, what is by € 83 more than in 12 months of 2015.

The results of Company's activities and Annual report including financial statements (with appendixes) and Report on corporate governance (with appendixes) were approved by Company's Management Board (Management Board meeting Protocol No. 03/2017 (new edition) dated 31 May 2017).

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

After having analysed the Company's operating conditions and performance indices, as well as market situation in 12 months of 2016, the Company's management considers the information given in the management report to the annual report for the year 2015 and for 12 months 2016 is fully up to date and relevant for the reporting period. It states that there are observed no necessary growth tendencies in manufacturing industry, and namely in the field of metalworking and mechanical engineering, where the Company is operating. This is reflected by performance indices of Company for the reporting period.

The analysis of the previous periods for the year 2015 and 12 months of 2016 enclosed the following thesis, which are topical at present too. According to indices of the commodity output under the trade mark of JSC Ditton pievadķēžu rūpnīca the sales market of the final consumers can be structurally split into two main shares as follows:

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

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

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

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

Whereas the waiver for partnership with someone is possible only under condition, when production volumes are replaced by ones at the same level on another market share or by collaboration with other partners (more detailed analysis thereof is given in the management report to the annual report for 2015).

Western market share

After having analysed the Company's operating conditions and performance indices, as well as market situation in 12 months of 2016, the Company's management considers the information given in the management report to the annual report for the year 2014 and 2015 is fully up to date and relevant for the reporting period. There are no necessary growth tendencies in manufacturing industry, and namely in the field of metalworking and mechanical engineering, where the Company is operating, what is reflected by performance indices of Company for the reporting period.

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

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

Eastern market share

The Management gave a detailed analysis of the situation in this market share in the annual report of Company for 2014, including the examination of stages and processes arising there.
The Management Board pointed out that one of the disadvantages was instability of the exchange rate of the rouble being as a value in trading operations in the Customs Union. It was caused by transnational prohibition proceedings, instability in oil values and crisis phenomena resulted by these adverse factors in economies of the Customs Union and the CIS.

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

Other adverse factors, such as mutual sanctions policy still going on and clearly expressed attraction of Chinese manufacturers, possible risks of loss, first of all, of customers and decreased demand for Company's goods, are quite high. Therefore, the Management board finds it of utmost importance to focus shareholders` attention on these obstacles.

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

Another result of the economic political relations between EU and Russian Federation mentioned above, are additional import duties for the metal produced in the Russian Federation (18 -30 per cent), what the Management board noted in its reports. Unfortunately, these duties on certain types of metal products originated in the Russian Federation remain in force in the common backdrop of rising prices. For the certain positions, the prices already increased or will increase from 15% up to 35%. Inevitable growth of prices on Company`s manufactured goods against backdrop of rising shipping prices causes sales slowdown and decrease of interest in Company's products in favour of "cheaper" manufacturers (for example, of Asian region).

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

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

Furthermore, the Company plans to activate sales opportunities of its products in other industrial sectors, where special chain gears are in demand, like agriculture facilities and production machinery. The Company is also implementing a loss minimization program due to the optimization of the internal structure and due to use of infrastructural, intellectual and human resources. The Company sees its growth potential in generation of technology-intensive variety of high added value products, as well as in promotion of services and works in addition to the main production process.

Development plan for 2015-2017, endorsed by the shareholders' meeting in July 2015 and given to public, is in progress as the core stone for actions of Company's Management. By following the plan, the Management board operates in the sequential way much more structurally and smart, as well as optimizes division of involved resources for improving financial standing of the Company. Thus way, dynamic of Company's incomes towards expenses is significantly improving. The above-mentioned allowed reaching positive indices in the second quarter of 2016 (as compared to the first quarter of 2016 and to the year 2015). In general, indices in 12 months of 2016 are significantly better compared to the indices of the same period of the previous year. In general, indices significantly improved in 12 months of 2016 in comparison to the indices of the same period of the previous year. The year 2016 was closed with a slight profit (but profit), due to this Company's development forecast is merely positive by now.

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 the interest rate risk mainly due to fixed interest rates on long- and short-term loans from credit institutions (refer to appendix 17). The Company does not use any tools to mitigate the interest rate risk.

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.

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 17) 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.

STATEMENT ABOUT MANAGEMENT LIABILITY

According to the information at our disposal, this financial statements for 12 months of the year 2016 have been prepared in compliance with the existing legislative requirements, gives a true and fair view of the assets, liabilities, financial standing and profits of the Company. Management report contains truthful information.

Chairman of the Management Board Rolands Zarāns
of JSC DITTON pievadķēžu rūpnīca
31 May 2017

INCOME STATEMENT FOR THE YEAR 2016

	Appendix	2016 EUR	2015 EUR
Net turnover	1	6 998 006	6 353 984
Production costs of goods sold, purchase costs of goods sold or services rendered	2	(6 910 193)	(8 047 564)
Gross profit/loss		**87 813**	**(1 693 580)**
Sales costs	3	(25 766)	(1 596 713)
Administrative expenses	4	(625 387)	(591 401)
Other income from operating activities	5	916 391	195 227
Other costs of operating activities	6	(211 948)	(471 986)
Other interest income and similar income	7	-	982
• *from other persons*		-	*982*
Interest payment and similar expenses	8	(123 182)	(112 493)
• *from other persons*		*(123 182)*	*(112 493)*
Profit or loss before enterprise income tax		**17 921**	**(4 269 964)**
Enterprise income tax for the reporting year	9	-	-
Profit or loss for the reporting year		**17 921**	**(4 269 964)**
Profit of loss of the minority interest		**0,001**	**(0,577)**

Appendixes from page 23 till 41 are integral parts of these financial statements.

According to the Management Board meeting Protocol the financial statements has been signed on behalf of the Company on 31 May 2017 by

Rolands Zarāns
Chairman of the Management board

(signature)

Valentīna Krivoguzova
Chief accountant

(signature)

BALANCE SHEET AS AT 31.12.2016

ASSETS	Appendix	31.12.2016 EUR	31.12.2015 EUR
Long-term investments			
Intangible investments			
Concessions, patents, licenses, trademarks and similar rights		21 185	630
Total intangible investments	10	**21 185**	**630**
Fixed assets			
Land, buildings and engineering structures		4 482 409	4 627 340
Technological equipment and devices		738 622	26 321
Other fixed assets and inventory		24 935	10 943
Costs of the establishment of fixed assets and unfinished building objects		12 649	12 649
Total fixed assets	11	**5 258 615**	**4 677 253**
Long-term financial investments			
Other securities and investments	12	67 160	67 160
Total long-term financial investments		**67 160**	**67 160**
TOTAL LONG-TERM INVESTMENTS		**5 346 960**	**4 745 043**
Current assets			
Inventories			
Raw materials, consumables and supplies		560 183	654 399
Work in progress		204 631	194 041
Finished products and goods for sale	13	228 977	233 943
Advance payments for inventories		1 252 637	1 259 431
Total inventories		**2 246 428**	**2 341 814**
Debtors			
Trade receivables	14	1 349 896	664 843
Other debtors	15	8 126	82 381
Next period costs		-	22 140
Total debtors		**1 358 022**	**769 364**
Cash		**6 987**	**79 259**
TOTAL CURRENT ASSETS		**3 611 437**	**3 190 437**
TOTAL ASSETS		**8 958 397**	**7 935 480**

Appendixes from page 23 till 41 are integral parts of these financial statements.

According to the Management Board meeting Protocol the financial statements has been signed on behalf of the Company on 31 May 2017 by

Rolands Zarāns
Chairman of the Management board ________________
(signature)

Valentīna Krivoguzova ________________
Chief accountant (signature)

BALANCE SHEET AS AT 31.12.2016

LIABILITIES	Appendix	31.12.2016 EUR	31.12.2015 EUR
Equity			
Stock or share capital (equity capital)	16	10 360 000	10 360 000
Reserves:			
Other reserves		169 251	169 251
Retained profits or uncovered losses brought forward from the previous years		(9 907 291)	(5 637 327)
Profit or losses of the reporting year		17 921	(4 269 964)
Total equity		**639 881**	**621 960**
Provisions			
Other provisions	17	-	187 964
Total provisions		**-**	**187 964**
Creditors			
Long-term creditors:			
Loans from credit institutions	18	1 858 390	2 054 223
Next period income	22	1 038 793	1 099 313
Total long-term creditors		**2 897 183**	**3 153 536**
Short-terms creditors:			
Loans from credit institutions	18	162 134	240 000
Other loans	19	273 912	328 607
Prepayments received from purchasers		63 387	21 259
Accounts payable to suppliers and contractors		4 226 159	2 873 282
Taxes and State mandatory social insurance payments	20	384 158	204 883
Other creditors	21	132 567	144 639
Next period income	22	60 520	60 520
Accrued obligations	23	118 496	98 830
Total short-term creditors		**5 421 333**	**3 972 020**
Total creditors		**8 318 516**	**7 125 556**
TOTAL LIABILITIES		**8 958 397**	**7 935 480**

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(signature)

Valentīna Krivoguzova ________________
Chief accountant (signature)

CASH FLOW STATEMENT
FOR THE YEAR 2016

	Appendix	2016 EUR	2015 EUR
I. Cash flows from operating activities			
1. Profit or loss before enterprise income tax		17 921	(4 269 964)
Adjustments to:			
Depreciation of fixed assets	11	231 223	306 687
Depreciation of intangible assets	10	3 609	1 590 228
Other income from interest and similar income	7	62 628	(982)
Interest payments and similar expenses	8	123 182	112 493
2. Profit or loss before adjustments to fixed assets and short-term creditors		438 563	(2 261 538)
Adjustments to:			
Increase or decrease in accounts receivables		(604 007)	1 982 109
Increase or decrease in inventories		88 592	(1 174 121)
Increase or decrease in accounts payable to suppliers, contractors and other creditors		1 274 677	1 921 133
3. Gross cash flow from operating activities		1 197 828	467 583
Net cash flow from operating activities		**1 197 828**	**467 583**
II. Cash flows of investing activities			
Purchases of fixed assets and intangible investments		(836 749)	(1 470 528)
Proceeds from sale of fixed assets and intangible investments		37 019	1 169 683
Interest received		2 568	-
Net cash flow used in investing activities		(797 162)	(300 845)
III. Cash flows of financing activities			
Borrowings received		(328 394)	(1 209 164)
Subsidies, grants, gifts or donations		-	1 159 833
Repayment of borrowings received		-	7 000
Cash flows of financing activities, net		(328 394)	(104 724)
Exchange differences			
Net decrease/increase in cash and cash equivalents		**(72 272)**	**19 683**
Cash and cash equivalents at the beginning of the reporting year		**79 259**	**59 576**
Cash and cash equivalents at the end of fiscal period		**6 987**	**79 259**

CASH FLOW STATEMENT
FOR THE YEAR 2016
(Continuation)

Appendixes from page 23 till 41 are integral parts of these financial statements.

According to the Management Board meeting Protocol the financial statements has been signed on behalf of the Company on 31 May 2017 by

Rolands Zarāns
Chairman of the Management board ________________
(signature)

Valentīna Krivoguzova ________________
Chief accountant (signature)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2016

	Equity capital	Other reserves	Retained profit	TOTAL
At 31 December 2014	**10 529 251**	**-**	**(5 637 327)**	**4 891 924**
Increase or (decrease) of reserve balance	(169 251)	169 251		
Loss of the reporting year	-	-	(4 269 964)	(4 269 964)
At 31 December 2015	**10 360 000**	**169 251**	**(9 907 291)**	**621 960**
Profit of the reporting year	-	-	17 921	17 921
At 31 December 2016	**10 360 000**	**169 251**	**(9 889 370)**	**639 881**

Appendixes from page 23 till 41 are integral parts of these financial statements.

According to the Management Board meeting Protocol the financial statements has been signed on behalf of the Company on 31 May 2017 by

Rolands Zarāns
Chairman of the Management board

(signature)

Valentīna Krivoguzova
Chief accountant

(signature)

APPENDIX TO THE ANNUAL REPORT

Principles of bookkeeping and methods of evaluation

Fundamental principles of the preparation of the financial statements

The annual report is prepared due to provisions of the Law On Accounting and Law on Annual Accounts and Consolidated Annual Accounts. The income statement is compiled in conformity with cost classification by purpose of cost accounting. Cash flow statement is formed by indirect method.

Items of the annual report are evaluated accordingly to the following accounting concepts:

a) There are used the same evaluation methods as the last year
b) There is made the assessment of items with due foresight, i.e.:
   - There is included the revenue on the balance sheet date in the report;
   - There are included all foreseen risk amounts and losses incurred in the reporting or in previous years, even if they appeared between balance sheet date and preparation of the annual report;
   - There are calculated and taken into account decrease and depreciation amounts of all the values, regardless of whether the reporting year was closed with profit or loss.
c) There are taken into account incomes and expenses related to the reporting year, regardless the date of payment, receipt or issue. The expenses are finalized with incomes of the reporting period.
d) There are evaluated separately component parts of assets and liabilities;
e) There are revealed the economic bargains in view of their economic content and entity, but not their legal form.

In 2016, the bookkeeping was kept on united bookkeeping accounts, which have been approved on 13 May 1993, detailing the plan of accounts due to key aspect of Company`s operational activities.

The bookkeeping register based on the synthetic accounting 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 reporting year is from 1 January 2016 till 31 December 2016.

On 1 January 2016, a new Law on the Annual Accounts and Consolidated Annual Accounts together with related Regulation No.775 issued by the Cabinet of Ministers came into force in the Republic of Latvia, herewith the Law on Annual Reports with related Regulation No.481 issued by the Cabinet of Ministers due to which the Annual Report for the Year 2015 was drawn up became invalid.

Along with additional easements to small and medium-sized enterprises by preparation of the financial report, the new law requires true and clear view on Company`s financial standing and profit or loss, whereas annual report of medium-sized and big companies should contain cash flow as well.

In order to improve the comparability of the prepared income statement and balance sheet some of the income statement and balance sheet items of the year 2015 have been reclassified.

Going concern disclosure

These financial statements have been prepared under the going concern assumption. At 31 December 2017, the current liabilities of the Company exceeded its current assets by EUR 1, 809,896.

These conditions confirm the existence of the material uncertainty in regard to significant doubt on the entity's ability to continue as a going concern in the future; and thereby realize its assets and settle liabilities in the ordinary course of its business.

At present, the Company has a significant amount of overdue payables to creditors. With some of them, the Company managed to agree on a deferred payment schedule, to other major creditors the Management of the Company submitted a deferred payment schedule offers. There are running negotiations with these creditors on the use of such options. The Company has a significant amount of overdue debts, which is paid back within the terms of the oral agreement.

The Managament considers thatit will be able to provide adequate funding to liquidity issues:

- by adjusting constantly the debt repayment conditions (dates, amounts and write-off options) by agreement with the creditors in order to avoid the request to open insolvency proceedings. It is expected that the Company will be able to pay all the past due payables in full within one or two years;
- by reviewing contract terms with the current clients in order to raise selling prices and terminate burdensome contracts;
- by launching new projects in order totap into new markets, and, thus,to ensure positive cash flow from operating activities;
- by making timely payments to credits in order to avoid a situation in which the credit institution would require immediate and full repayment of the loan.

The Company's Management believes that the current situation is temporary and is taking steps to improve the Company's liquidity. Management forecasts that positive cash flow from operating activities will increase significantly in the next 12 months.

Company and DITTON Chain Ltd. assigned mutual securities for each other: the Company gave guarantee of EUR 4,4 million, DITTON Chain Ltd – EUR 2,3 million in turn. Therefore, there is a mutual understanding that in case of liquidity crisis of one of the contracting parties the other party will provide the necessary funding for its continued operation.

When preparing the financial statements a Company is viewed as continuing in business for the foreseeable future.

Foreign currency revaluation

Data reflected in this financial report is drawn in the monetary unit of the European Union currency, in 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.

31.12.2016	**31.12.2015**
1 USD = 1,0541 EUR	1 USD = 1,0887 EUR
1 RUB = 64,300 EUR	1 RUB = 80,6736 EUR

The incomes and losses resulted by fluctuation of foreign currency values were included into income statement of the appropriate period.

Long- and short-term items

The amounts, whose receipt, payment or write off are due later than one year after the year-end, are included into long-term items. The amounts received, paid or written off during the year are given as short-term items.

Intangible assets

Intangible assets are carried at their cost of acquisition, less straight-line amortization based on a standard useful life of five 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. Losses from impairment are recognized when carrying value of intangible assets exceeds its recoverable amount.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment, if there is such. The prime value of the fixed assets embodies their purchase prices, 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. There is applied the straight-line depreciation method to charge cost throughout their useful life:

	% a year
Land plots, buildings and engineering structures	10
Technological equipment and devices	10-50
Other fixed assets and inventory	10-40

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.

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.

Trade and other receivables

Trade receivables are accounted and reflected in the balance according to original invoiced amount less provisions for doubtful debs. 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 are carried at the cost of manufacture, which includes adequate material and labor 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 recorder 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 this 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 base of the costs method. 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

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.

Expenses

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.

State aid

State aid is not recognized until the Company has obtained a reasonable assurance on meting eligibility rules and receiving of the aid. State aid is noted in a systematic manner in the income statement for the period when Company included costs compensated by the state support into expenses. Therefore, state aid aimed as a long-term investment in the acquisition or establishment is recorded on the

balance as deferred income and included in the income statement in a systematic and rational manner in accordance with the useful life of the fixed assets.

Enterprise income tax

Corporate income tax includes current and deferred taxes calculated in the reporting year. Current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period.

Deferred corporate income tax aroused from temporary differences in the timing of the recognition of items in the tax returns and this financial statements is calculated using the liability method. The principal temporary timing differences arise from differences in accounting of amortization and depreciation rates of fixed assets and certain tax deductible provisions.

Deferred tax liabilities (assets) is the amount of long-term liabilities (long-term investments).

In cases, the total result of deferred tax asset should be recorded in the assets of the balance sheet; it is included in the annual report only when its recovery is surely expected.

Application of estimates and key assumptions

Due to provisions of the Law of the Republic of Latvia, when compiling 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.

There are listed following critical judgments and key assumptions concerning the future as well as other uncertainty at 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.

- 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 decision to create additional provisions as of 31 December 2016 (Appendix 14).

- After assessment of the carrying value of fixed assets and non-material investments, the Company evaluates whether there are any signs indicating that the asset's recoverable value is lower than their carrying value. The Company`s management calculates and recognizes a loss from impairment of fixed assets and non-material investments based on estimates of their future use. The Management board of the Company considers that there is no necessity for any major adjustments to fixed assets and non-material investments as at 31 December 2016.

- At the end of each reporting year, the Company reviews the useful lives of fixed assets. This assessment and hence 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 considered that there is no necessity for additional provisions as at 31 December 2016.

(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:

	2016 EUR	2015 EUR
Market		
Eastern countries	2 665 664	2 207 665
Western countries	1 464 522	1 487 536
Latvia	2 867 820	2 658 783
TOTAL	**6 998 006**	**6 353 984**

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

	2016 EUR	2015 EUR
Material costs	4 518 455	5 727 111
Salary costs for production staff	724 452	699 526
Electricity costs	616 359	645 499
Depreciation of fixed assets	213 444	283 656
Current repair expenses	322 388	227 368
State mandatory social insurance payments	169 604	162 975
Material delivery costs	188 310	143 021
Other production costs	157 181	158 408
TOTAL	**6 910 193**	**8 047 564**

(3) Sales costs

	2016 EUR	2015 EUR
Amortization of intangible investments*	-	1 589 800
Advertisement costs	13 488	-
Other sales costs	12 278	6 913
TOTAL:	**25 766**	**1 596 713**

*Refer to appendix 10 of these financial statements.

(4) Administrative expenses

	2016 EUR	2015 EUR
Administrative staff salaries	388 200	347 784
State mandatory social insurance payments	90 078	79 853
Security expenses	43 160	56 342
Business travel expenses	25 175	14 037
Depreciation and amortization	21 388	23 460
Expenses relating to annual report and audit	16 546	17 919
Other administration costs	40 840	52 006
TOTAL:	**625 387**	**591 401**

(5) Other income from operating activities

	2016 EUR	2015 EUR
Income for expenses of previous periods*	459 275	-
Decrease in provisions**	316 630	131 932
Assignment of Structural Funds to income	62 628	-
Income from growth of exchange rate	54 650	-
Net income from sale of fixed assets	1 853	54 618
Decrease in provisions for vacations	-	8 677
Other income	21 355	-
TOTAL:	**916 391**	**195 227**

* In relation to the contract No. L-IZI-14-0003 on implementation of the project "Construction of industry premises in the free industrial area of JSC Ditton pievadķēžu rūpnīca" signed with the Investment and Development Agency of Latvia in 2014 after assessment of the project cost estimate the sum of project costs accepted was lower than planned. This difference for nun-reimbursable expenses was claimed towards the contractor of the project construction works as refund of unreceived funding.

** Of which EUR 158 117 (2015: EUR 61 080) are received income from decrease of previous provisions of doubtful receivables made and EUR 158 513 (2015: EUR 70 852) is decrease of slaw moving stock, because of stock sale.

(6) Other costs of operating activities

	2016 EUR	2015 EUR
Penalties	81 744	40 898
Property tax	61 037	61 037
Increase in provisions for inventories with low turnover (appendix 13)	21 031	37 816
Other costs of operating activities	19 353	13 383
Net loss from exchange rate differences	13 592	85 957
Increase in provisions for vacations	11 362	-
Increase in provisions for doubtful accounts receivable (appendix 14)	3 829	44 931
Decrease (appendix 17)/ Increase (appendix 17) in provisions	-	187 964
TOTAL:	**211 948**	**471 986**

(7) Other interest income and similar income

	2016 EUR	2015 EUR
Interest income on loans	-	982
TOTAL:	**-**	**982**

(8) Interest payment and similar expenses

	2016 EUR	2015 EUR
Interest payment for loans	123 182	112 493
TOTAL:	**123 182**	**112 493**

(9) Enterprise income tax

	2016 EUR	2015 EUR
Enterprise income tax for the reporting year (appendix 9)	-	-
TOTAL:	**-**	**-**

On 31 December 2016, accumulated losses for provisions of enterprise income tax were EUR 5,465, 666 (In 2015 EUR 4,497,356). They have no usage time limits. The company might apply the tax losses mentioned above partly; therefore, the deferred tax exceeding tax liabilities is not recognized in this financial report.

(10) Other taxes

	Other intangible investments*	Concessions, patents, licenses, trademarks and similar rights	Total
At 31 December 2014			
Initial value	7 949 000	34 711	7 983 711
Accumulated amortization and deprecation	(6 359 200)	(33 653)	(6 392 853)
Book value at 31 December 2014	1 589 800	1 058	1 590 858
The year of 2015			
Book value at 1 January	1 589 800	1 058	1 590 858
Amortization	(1 589 800)	(428)	(1 590 228)
Book value at 31 December	-	630	630
At 31 December 2015			
Initial value	7 949 000	34 711	7 983 711
Accumulated amortization and deprecation	(7 949 000)	(34 081)	(7 983 081)
Book value at 31 December	**-**	**630**	**630**
The year of 2016			
Book value at 1 January	-	630	630
Purchase	-	24 164	24 164
Amortization		(3 609)	(3 609)
Book value at 31 December	-	21 185	21 185
At 31 December 2016			
Initial value	7 949 000	58 875	8 007 875
Accumulated amortization and deprecation	(7 949 000)	(37 690)	(7 986 690)
Book value at 31 December	**-**	**21 185**	**21 185**

* Under the Purchase contract dated 29.12.2010 (entered into force due to shareholders` meeting resolution as of 31.05.2011), the Company and a non-resident of the Republic of Latvia (legal person) agreed that the last passes on, but the Company takes over market sector which belonged this person on the territory of the Russian Federation and of countries of the CIS (i.e. overtakes control) for sales of Company's goods. The acquisition value of non-material investments EUR 7,949,000 is based on external and internal estimates, calculations and business forecast for the next five years. This non-material investment was subject to amortization by a straight-line method within five years. Amortization is included into the item "Sales costs" of the income statement (appendix 3).

(11) Fixed assets

	Land plots, buildings and engineering structures	Technological equipment and machinery	Other fixed assets	Formation of fixed assets*	TOTAL
31 December 2014					
Initial value	13 233 980	5 560 536	471 273	2 048 860	21 314 649
Accumulated amortization and deprecation	(11 076 750)	(5 542 177)	(468 045)	-	(17 086 972)
Book value at 31 December 2014	2 157 230	18 359	3 228	2 048 860	4 227 677
The year of 2015					
Book value at 1 January	2 157 230	18 359	3 228	2 048 860	4 227 677
Purchased	-	15 207	14 032	727 024	756 263
Initial value of disposed fixed assets	(868)	(285 646)	(8 464)	-	(294 978)
Accumulated depreciation of disclosed fixed assets	868	285 646	8 464	-	294 978
Movement	2 763 235			(2 763 235)	-
Disposal	(293 125)	(7 245)	(6 317)	-	(306 687)
Book value at 31 December	**4 627 340**	**26 321**	**10 943**	**12 649**	**4 677 253**
31 December 2015					
Initial value	15 996 347	5 290 097	476 841	12 649	21 775 934
Accumulated amortization and deprecation	(11 369 007)	(5 263 776)	(465 898)	-	(17 098 681)
Book value at 31 December	4 627 340	26 321	10 943	12 649	4 677 253
The year of 2016					
Book value at 1 January	4 627 340	26 321	10 943	12 649	4 677 253
Purchased	-	779 898	32 687	-	812 585
Initial value of disposed fixed assets	-	(3 675)	(31 491)	-	(35 166)
Accumulated depreciation of disclosed fixed assets	-	3 675	31 491	-	35 166
Disposal	(144 931)	(67 597)	(18 695)	0	(231 223)
Book value at 31 December	4 482 409	738 622	24 935	12 649	5 258 615
31 December 2016					
Initial value	15 996 347	6 066 320	478 037	12 649	22 553 353
Accumulated amortization and deprecation	(11 513 938)	(5 327 698)	(453 102)	-	(17 294 738)
Book value at 31 December	**4 482 409**	**738 622**	**24 935**	**12 649**	**5 258 615**

On 31 December 2016, the fixed assets of the Company with the initial value EUR 16,978,090 (EUR 16,867,786 as at 31.12.2015) have been fully depreciated, but are still in operation.

* 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).

All fixed assets of the Company are pledged in favour of JSC Citadele Banka, refer to appendix 19.

(12) Participation in the capital of related companies

	31.12.2016 EUR	31.12.2015 EUR
Participation in the capital of the Ditton Chain Ltd. 15% from the fixed capital*	67 160	67 160
TOTAL:	**67 160**	**67 160**

* Ditton Chain Ltd., registration number 41503030309, legal address Vishku Street 17, Daugavpils, LV-5410, Latvia, was founded on 17 July 2002 and is administrated by two members. JSC Ditton pievadķēžu rūpnīca owns 53,358 (fifty three thousand three hundred fifty eight) or 15% of 355,717 (three hundred fifty five thousand seven hundred seventeen) shares in this Company.

(13) Finished products and goods for sale

	31.12.2016 EUR	31.12.2015 EUR
Finished products for sale	274 432	416 880
Provisions for inventory with low turnover rate	(45 455)	(182 937)
TOTAL:	**228 977**	**233 943**
Provisions for inventory with low turnover rate:		
As at the beginning of the year	(182 937)	(215 973)
Decrease/increase (appendices 5 and 6)*	137 482	33 036
As at the end of the year	**(45 455)**	**(182 937)**

* Sold inventory for which provisions were made

(14) Trade receivables

	31.12.2016 EUR	31.12.2015 EUR
Book value of trade receivables	2 519 130	1 989 731
Provisions for doubtful accounts receivable	(1 169 234)	(1 324 888)
TOTAL:	**1 349 896**	**664 843**
Provisions for doubtful accounts receivable:		
At the beginning of the year	1 324 888	5 212 890
Write-off	(1 366)	(3 871 853)
Recovered provisions (appendix 5)	(158 117)	(61 080)
Increase in provisions (appendix 6)	3 829	44 931
At the end of the year	**1 169 234**	**1 324 888**

(15) Other debtors

	31.12.2016 EUR	31.12.2015 EUR
Overpayment of the enterprise income tax	-	33 880
Overpayment of the value added tax (VAT)	8 126	29 519
Income from interests	-	982
Borrowing	-	18 000
TOTAL:	**8 126**	**82 381**

(16) Equity capital

The share capital of the Company accounts to EUR 10,360,000 with nominal value of each share EUR 1,40 and total paid share capital 7,400,000.

The Management board of the Company proposes to allocate profit of the reporting year to further development of the Company.

The shareholders owning over 5 per cent of the shares of the whole capital of the Company as at 31.12.2016 and as at 31.12.2015:

NAME	Shares owned, % 31.12.2016	Shares owned, % 31.12.2015
Eduards Zavadskis*	20,00	20,00
Vladislavs Drīksne	19,92	19,92
MAX Invest Holding Ltd.	13,63	13,63
Maleks S Ltd.	12,31	12,24
DVINSK MNG Ltd.	9,46	9,46

** Note: As at 31.12.2016, there was no distribution of stocks (20%) among heirs of the former shareholder E. Zavadskis. Inheritance rights to these shares are not defined.*

(17) Other accumulations

	31.12.2016 EUR	31.12.2015 EUR
Accumulations (Guarantee agreement)*	-	10 183
Accumulations (penalty Tax Revenue Service)	-	177 781
TOTAL:		**187 964**

***** The provisions have been increased to EUR 10,183, because JSC Latgales Invest Holding did not comply with loan repayment obligations towards JSC Reģionālā Investīciju Banka due to the Loan agreement No.A-04/842 and Guarantee agreement No.G-04/842 with JSC Ditton pievadķēžu rūpnīca as a guarantor.

(18) Loans from credit institutions

Long-term:		Repayment term	31.12.2016	31.12.2015
Credit line from JSC Citadele Banka	EUR	09.09.2018	554 842	600 000
Loan from JSC Citadele Banka	EUR	09.09.2019	1 303 548	1 454 223
TOTAL long-term loans from credit institutions:			**1 858 390**	**2 054 223**

Short-term:		Repayment term	31.12.2016	31.12.2015
Loan from JSC Citadele Banka	EUR	09.09.2019	116 976	-
Loan from JSC Bank M2M Europe	EUR	07.01.2016	-	240 000
Credit line from JSC Citadele Banka	EUR	09.09.2018	45 158	-
TOTAL short-term loans from credit institutions:			**162 134**	**240 000**
TOTAL loans from credit institutions:			**2 020 524**	**2 294 223**

	31.12.2016	31.12.2015
Liabilities due within one year or less	162 143	240 000
Liabilities due after one year but not more than five years	1 858 390	2 054 223
TOTAL:	**2 020 524**	**2 294 223**

Information on loans received by the JSC Citadele banka as at 31.12.2016 is as follows:

Number and date of the contract	**Currency**	**Limit**	**Repayment term**
Long-term loan No.CI2010-2.3/1 dated 10.09.2010	EUR	2 300 000 EUR	09.09.2019
Credit line No.CI2011-2.3/218 dated 25.11.2011	EUR	600 000 EUR	09.09.2018

The loan is secured by the commercial pledge on all of the Company's fixed assets, inventories and claim rights as a pool of things (present and future) at the moment of creating the pledge right. Under the terms of the Credit agreement, the Company and the Ditton Chain Ltd. (resident of the Republic of Latvia) undertake to ensure total Debt-Service Coverage Ratio (DSCR) 1,5 at least. According to estimations of the Company’s Management Board, this requirement has not been fulfilled on the balance sheet date. The actual DSCR ratio in 2016 was 3.8 and in 2015 - minus 7,2.

The base interest rate for the time spread between 26.09.2014 and 27.02.2015 has been changed to 0.27% plus added rate 4% due to the Amendment agreement No.3 dated 26.09.2014 to the Loan agreement No.CI2010-2.3/1 dated 10.09.2010. The payments from 25.09.2014 to 25.02.2015 due to repayment schedule on loan accounted to EUR 9,000 a month. The base interest rate between 28.02.2015 and 27.08.2015 has been changed to 0.11% plus added rate 4% due to the Amendment agreement No.4 dated 13.05.2015 to the Loan agreement No.CI2010-2.3/1 dated 10.09.2010.

Due to the Amendment agreement No.5 dated 31.08.2015 to the Loan agreement No.CI2010-2.3/1 dated 10.09.2010 payments from 25.08.2015 to 09.11.2015 according to repayment schedule on loan were EUR 3, 980 a month. On 31.08.2016, there has been signed Amendment agreement No.6 to the Loan agreement No.CI2010-2.3/1 dated 10.09.2010 on payment extension.

Due to the Amendment No.6 dated 31.08.2016 to the Loan agreement No.CI2010-2.3/1 dated 10.09.2010 each payment on loan plus interest rate from 25.09.2016 to 28.12.2016 is equal to EUR 9, 500 in total. Starting from 25.01.2017 each repayment plus interest rate reached EUR 15,000. The maturity repayment deadline of the loan is the final settlement day, and namely on 09 September 2019.

The interest rate from 25.09.2014 to 09.09.2015 has been changed to base interest rate 0.32% plus added rate 4% due to the Amendment agreement No.7 dated 26.09.2014 to the Credit line agreement No.CI2011-2.3/218 dated 25.11.2011. The payments of the principal sum from 25.09.2014 to 25.04.2015 due to repayment schedule on loan accounted to EUR 3,000 a month, and from 25.04.2015. to 09.09.2015 - EUR 3,500 a month. Due to the Amendment agreement No.8 dated 31.08.2015 to the Credit line agreement No.CI2011-2.3/218 dated 25.11.2011 there have been set credit limits as follow:

- EUR 561,000 for the time spread between 25.08.2015 and 24.09.2015
- EUR 558,000 for the time 25.09.2015 - 24.10.2015
- EUR 555,000 for the time 25.10.2015 - 09.11.2015.

On 31.08.2016, there has been signed Amendment agreement No.9 to the Credit line agreement No.CI2011-2.3/218 dated 25.11.2011 on payment extension.

Due to the Amendment No.9 to the Credit line agreement No.CI2011-2.3/218 dated 25.11.2011 the payments on credit line plus interest rate from 25.09.2016 for credit line usage is equal – EUR 5,500. The maturity repayment deadline of the credit is the final settlement day, and namely on 09 September 2018.

Information on loans received by the JSC Bank M2M Europe as at 31.12.2016 is as follows:

Number and date of the contract	**Currency**	**Limit**	**Interest rate**	**Repayment term**
Credit Nr.4.1-11.6/16FL-1FK dated 28.07.2014.	EUR	1,400,000 EUR	1,2%	07.01.2016.

The credit is secured by first ranking right of pledge over the bank accounts with Company`s financial resources. The Credit agreement does not contain any performance conditions of financial indicators. Credit funds were expected to be repaid due to term set in the contract by the funds received from the Investment and Development Agency of Latvian upon the project implementation.

Loan received in 2015 has been repaid under the terms of contracts and agreements signed with the banks in 2016.

Refer also to appendix 17.

(19) Other borrowings

Short-term:		Repayment term	31.12.2016.	31.12.2015.
Borrowing from the owner of the Company*	EUR	31.12.2017.	167 912	18 963
Other Borrowings**	EUR	31.12.2017.	106 000	309 644
TOTAL short-term borrowings from other persons:			**273 912**	**328 607**

* Borrowing currency - EUR. Fixed annual percentage rate - 4.75%.
** Borrowing currency - EUR. Fixed annual percentage rate - 3%.

Repayment is not guaranteed, without guarantee (pledge) registration in public registers.

(20) Taxes and State mandatory social insurance payments

	31.12.2016 EUR	31.12.2015 EUR
Immovable property tax	248 718	145 094
Personal income tax	78 441	26 959
State mandatory social insurance payments	56 659	32 550
Nature resources tax	281	214
State entrepreneurial risk fee	59	66
TOTAL:	**384 158**	**204 883**

(21) Other creditors

	31.12.2016 EUR	31.12.2015 EUR
Payments of salaries	60 196	72 166
Trade union membership fee, 0,2% from salary	52 398	52 837
Debts for purchased shares	19 636	19 636
Receivables arising in favor of the personnel	337	-
TOTAL:	**132 567**	**144 639**

(22) Next period income

	31.12.2016 EUR	31.12.2015 EUR
Aid of the Investment and Development Agency of Latvia (LIAA) No. L-IZI-14-0003 (long-term)	1 038 793	1 099 313
Aid of the Investment and Development Agency of Latvia (LIAA) No. L-IZI-14-0003 (short-term)	60 520	60 520
TOTAL:	**1 099 313**	**1 159 833**

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 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, 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) under a 5-year period ban on alienation.

(23) Accumulated liabilities

	31.12.2016 EUR	31.12.2015 EUR
Accrued liabilities for goods and services	66 194	57 890
Unused employees holidays	52 302	40 940
Accumulated interest	1 572	-
TOTAL:	**118 496**	**98 830**

(24) Number of employees in the Company

	2016	2015
Average number of employees of the Company during the year:	**165**	**189**
- Council members	3	4
- Management Board members	2	2
- Other employees	160	183

(25) Report on remuneration of Council and Management Board members

	Council	Management Board	TOTAL
	EUR	EUR	EUR
Salaries and remuneration	15 599	30 843	46 442
State mandatory social insurance payments	3 680	7 276	10 956
TOTAL:	**19 279**	**38 119**	**57 398**

(26) 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 the interest rate risk mainly due to fixed interest rates on long- and short-term loans from credit institutions (refer to appendix 17). The Company does not use any tools to mitigate the interest rate risk.

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.

(26) Financial risk management (contin.)

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 17) 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..

(27) Events after the end of reporting period

As DITTON Chain Ltd. failed to fulfil terms under Loan agreement No. CI2010-2.3/2 regarding assigned securities, credit institution preserves the right to withdraw from agreement and to request from the Company the repayment of the loan.

The Company and DITTON Chain Ltd. launched negotiation concerning restructuring of the Loan agreement and changes in terms, what is confirmed with the notice letter received by DITTON Chain Ltd. from JSC Citadele banka on 11 May 2017.

In the time spread between balance sheet date and date of signing these financial statements, there have been no other significant events, which would affect the financial position of the Company as at 31 December 2016.

(28) Eventual liabilities, pledges and guarantees

On 10.09.2010, the Company and the JSC Citadele banka under registration number 40103303559 signed Loan agreement No. CI2010-2.3/1. On 31.08.2016, the Company and the JSC Citadele banka signed the Amendment agreement No.6 to the Loan agreement No.CI2010-2.3/1 dated 10.09.2010. on change in terms and on payment extension.

Company`s liabilities are secured by:

- Company's immovable property mortgage (Pledge Agreement No. CI2010-2.3/1-IE1 dated 10.09.2010, Pledge Agreement No. CI2010-2.3/1-IE2 dated 10.09.2010);
- commercial pledge over Company's movable property and trademark (Commercial Pledge Agreement No. CI2010-2.3/1-KL3 dated 10.09.2010, Amendment agreement No.1 dated 26.09.2014 to the Commercial Pledge Agreement No. CI2010-2.3/1-KL3 dated 10.09.2010);
- financial pledge over all current accounts opened in the JSC Citadele banka (Financial Collateral Agreement secured by Company`s financial instruments on bank accounts dated 10.09.2010).

On 25.11.2011, the Company and the JSC Citadele banka under registration number 40103303559 signed Credit line agreement No. CI2011-2.3/218. On 31.08.2016, the Company and the JSC Citadele banka signed the Amendment agreement No.9 to the Credit line agreement No.CI2011-2.3/218 dated 25.11.2011. on change in terms and on payment extension.

Company`s liabilities are secured by:

- Company's immovable property mortgage (Pledge Agreement No. CI2011-2.3/218-IE1 dated 25.11.2011, Pledge Agreement No. CI2011-2.3/218-IE2 dated 25.09.2011);

(28) Eventual liabilities, pledges and guarantees (cont.)

- commercial pledge for Company's movable property and trademark (Commercial Pledge Agreement No. CI2011-2.3/218-KL3 dated 25.11.2011, Amendment agreement No.1 dated 26.09.2014 to the Pledge Agreement No. CI2011-2.3/218-KL3 dated 25.11.2011);
- financial pledge over the Company`s bank accounts in JSC Citadele Banka (Financial Collateral Agreement secured by Company`s financial instruments on bank accounts dated 25.11.2011).
- commercial pledge for all current accounts opened in the JSC Citadele banka (Financial Collateral Agreement secured by Company`s financial instruments on bank accounts dated dated 25.11.2011).

To assign security to commitments of the partner Ditton Chain Ltd. under registration number 41503030309 within the Loan agreement No. CI2010-2.3/2 (Creditor - JSC Citadele Banka) there was:

- signed agreements on pledge of the Company's immovable property (Pledge Agreement No. CI2010-2.3/2-IE1 dated 10.09.2010, Pledge Agreement No. CI2010-2.3/2-IE2 dated 10.09.2010);
- signed Commercial pledge agreement on Company's property (Commercial pledge agreement No.CI2010-2.3/2-KL4 dated 10.09.2010);
- signed Financial Pledge Agreement (Financial Collateral Agreement secured by Company`s financial instruments on bank accounts dated 10.09.2010);
- issued Guarantee (Guarantee No. CI2010-2.3/2-GL8 dated 10.09.2010)

Taking into account that Ditton Chain Ltd. has granted mutual securities to JSC Ditton pievadķēžu rūpnīca and is investing received credit funds into immovable property of the JSC Ditton pievadķēžu rūpnīca, the investments made by the Ditton Chain Ltd. are not to be reimbursed and remain for the JSC Ditton pievadķēžu rūpnīca, in case contractual obligations are terminated.

On 30.09.2013, the Company signed with the JSC Citadele banka under registration number 40103303559 a Guarantee agreement No. 2.3-13/59 in favour of the Investment and Development Agency of Latvia for a guarantee of project No.IZI/2.3.2.2.2/13/01/004 "Construction of industry premises in the free industrial area of JSC DITTON Driving Chain Factory". The maturity repayment deadline is set on 29 February 2016. On 01.03.2016, the agreement mentioned above is terminated.

According to the Management Board meeting Protocol The financial statements has been signed on behalf of the Company on 31 May 2017 by

Rolands Zarāns
Chairman of the Management board ________________
(signature)

Valentīna Krivoguzova ________________
Chief accountant (signature)

Translation from Latvian

INDEPENDENT AUDITORS' REPORT

To the shareholders of JSC Ditton Pievadķēžu Rūpnīca

Report

We have audited the accompanying financial statements of JSC Ditton Pievadķēžu Rūpnīca (the Company) set out on pages 17 to 41 hereof, which comprises the balance sheet as at 31 December 2016, the income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as an appendix to the annual report.

In our opinion, except for the effects of the matters 1, 3, 4 and 5, as well as of the matter 2 described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of JSC Ditton Pievadķēžu Rūpnīca as at 31 December 2016, as well as of its financial performance and cash flows for year ended due to the Law on Annual Accounts and Consolidated Annual Accounts of the Republic of Latvia.

Basis for Qualified Opinion

1. In 2015, the Company has accepted amortization of intangible assets EUR 1,589,800. We had no possibility to obtain sufficient audit evidence to conclude that the Company has correctly accounted intangible assets and the amount of amortization in financial statements is correct. Report of previous auditors on financial statements for the year 2015 comprises an appropriate reservation regarding this matter. Our report on financial statements for the year 2016 incorporates this reservation as well in view of the potential influence on comparability of indexes of financial statements for current and previous periods.

2. As at 31 December 2016, possible liabilities arising from Company's operations in 2014 were EUR 97,774. If the corresponding provision would be accepted, short-term liabilities of the Company would increase by the mentioned amount, while the retained profit of the previous years would respectively decrease. We had no possibility to obtain sufficient audit evidence to ascertain Management's estimates that outflow of resources in the future is remote. As these circumstances were in force in the previous year, this matter was also qualified in the report of other auditors on financial statements for the year ended 31 December 2015.

3. As at 31 December 2016, the balance sheet of the Company includes land parcel with value EUR 1,721,035. When auditing, we could not get any sufficient audit evidence to ascertain Company's ownership of this land parcel and determination of its recoverable amount pursuant to the Law on Annual Accounts and Consolidated Annual Accounts of the Republic of Latvia. Thereby we could not conclude, whether and to what extent the value of this land parcel is decreased. As these circumstances were in force in the previous year, this matter was also qualified in the report of other auditors on financial statements for the year ended 31 December 2015.

4. In 2016,the Company has accepted other incomes EUR 459,275. We could not get any sufficient audit evidence, which approve that transaction records were made correctly. Furthermore, there is a risk that some overdue accounts receivable, which amounted to EUR 68,647, will not be recovered. We could not get any sufficient audit evidence to ascertain that the transaction records were made correctly and to determine whether and to what extent value of this accounts receivable are decreased.

5. As at 31 December 2016, the balance sheet of the Company includes fixed assets EUR 744,082, which were purchased from the third party in 2016. Part of these fixed assets EUR 648,000 is leased to the third party pointed. As it is stated in the Law on Annual Accounts and Consolidated Annual Accounts of the Republic of Latvia, the assets EUR 648,000 upon completion of this transaction should be reclassified from fixed assets to accounts receivable due to financial lease terms. If such correction would be made, the long-term accounts receivable given would increase by EUR 555,000 relatively, whereas the short-term accounts receivable, as well as fixed assets given would decrease by EUR 93,000. Besides, we could not get any sufficient audit evidence, which approve accounts receivable recovery and remained value of the fixed assets pursuant to the Law on Annual Accounts and Consolidated Annual Accounts of the Republic of Latvia. Thus, we could not ascertain whether and to what extent value of this assets decreased.

We have conducted our audit in accordance with International Standard on Auditing (ISA) accepted in the Republic of Latvia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section. We are independent from the Company pursuant to the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the independence requirements of the Law on Audit Services of the Republic of Latvia that are relevant to the audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Going Concern Assumption Appropriate but a Material Uncertainty Exists

We draw your attention to the note on Fundamental principles of the preparation of the financial statements of the Appendix to the financial statements, which shows that Company's current liabilities exceeds its total assets by EUR 1,809,896. As it is mentioned in the note of the Appendix these events or circumstances along with other matters as set forth in the note indicate the existence of a material uncertainty what may cast significant doubt on the entity's ability to continue as a going concern. There is no reservation included in our report concerning this matter.

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. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have given information on each matter presented further hereof, how the corresponding matter has been audited and resolved during the course of our audit.

We have fulfilled responsibilities set out in paragraph Auditor's responsibility for audit of financial statements, including responsibilities concerning these matters. Consequently, an audit involves performing procedures applicable pursuant to our assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. We believe that the audit evidence that we have obtained, incl. procedures selected regarding the matters presented hereof, are is sufficient and appropriate to provide a basis for our qualified audit opinion.

Key audit matters	Procedures applied to the key audit matters
Revenue recognition	
As disclosed in the Note 1 Net turnover of the Appendix to the financial statements for the reporting year, the Company recognized revenue EUR 6,988,006 in the Income statement. In view of the significant amount of transboundary transactions, the Company has to indicate clearly risks related to corresponding revenue recognition. The Company has also different revenue flows that are fundamental for financial statements and are not connected with operating activities, and namely, realization of chains. In view of different terms and conditions of contracts with customers, as well as different income flows and types of products included in each flow, it is considered, that revenue recognition is relatively difficult process and inter alia requires ensuring permanent efficiency of control activity concerning different categories of income flows. As revenue obtained from different products sold and different income flows is essential to financial statements, the revenue recognition was of great importance for our audit.	Among others we have performed the following procedures: • obtained general view of sales process; • tested the selected manual controls involved into processes of revenue recognition and estimation of revenue • obtained reconciliation statements on accounts of the largest external customers and ascertained that the balance in accounts receivable is correct; • obtained reconciliation statements on accounts of the largest external customers in order to compare the balances in accounts receivable of the Company and in accounts payable of the customers; • performed analytic test procedures when estimating revenue based on key performance indicators and Company's budget, and compared the results of our analysis with indicators for the previous period and current performance outcomes for the reporting year; • checked income transactions performed shortly before the end of the reporting year in order to ascertain that they have been correctly referred to the appropriate period. We have also evaluated whether the information on incomes given in the Note 1 Net turnover of the Appendix to the financial statement is sufficient and appropriate.

Other information included in the annual report of the Company for the year 2016

The Management is responsible for other information. The other information comprises:

- Management report set out in accompanying annual report on pages 13 to 16, but it does not include financial statements and our auditors' report on it.
- Report on Corporate Governance for the year 2016set out in accompanying annual report on pages 7 to 9

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except of the one stated in paragraph of our report Other reporting responsibilities pursuant to the legal acts of the Republic of Latvia.

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 view of the knowledge, understanding the nature the Company and its operating environment obtained during the audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have not encountered any circumstances to report in this regard.

Other reporting responsibilities pursuant to the legal acts of the Republic of Latvia

There are other reporting responsibilities concerning Management report stated in the Law on Audit Services of the Republic of Latvia. These additional requirements are not included in ISA.

Our responsibility is to estimate whether the Management report is prepared in accordance with provisions of the Law on Annual Accounts and Consolidated Annual Accounts of the Republic of Latvia.

In our opinion based only on procedures performed within our audit as follows:

- the information given in the Management report on financial year for which the financial statements are prepared corresponds to the financial statements, and
- the Management report is prepared in accordance with requirements of the Law on Annual Accounts and Consolidated Annual Accounts of the Republic of Latvia.

In addition to this, our responsibility is to conclude whether the information set out in the Report on Corporate Governance is consistent with the provisions of subsections 3, 4, 6, 8 and 9 of section 56^1 (1) and of subsection 5 of the section 56^2 (2) of the Financial Instruments Market Law of the Republic of Latvia.

In our opinion, the information given in the Report on Corporate Governance complies with the requirements of subsections 3, 4, 6, 8 and 9 of the section 56^1 (1) and of subsection 5 of the section 56^2 (2) of the Financial Instruments Market Law of the Republic of Latvia.

Management`s and those in charge with responsibility for the financial statements

The Management board is responsible for the preparation and fair presentation of the financial statements due to the Law on Annual Accounts and Consolidated Annual Accounts of the Republic of Latvia, and for such internal control as Management determines as 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, the Management is responsible for assessing of 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 have a responsibility for overseeing the preparation of the financial statements.

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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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

The engagement partner on the audit resulting in this independent auditor's report is Diāna Krišjāne

Ernst & Young Baltic Ltd.

Licence No. 17

Diāna Krišjāne

Chairman of the Management Board

Sworn auditor of the Republic of Latvia

Certificate No.124

Rīga,31. May 2017