

JSC „DITTON PIEVADĶĒŽU RŪPNĪCA”

Reg.No.40003030187

Višķu Str.17, Daugavpils, LV-5410, Latvia

ANNUAL REPORT OF YEAR 2011

(01.01.2011 – 31.12.2011)

Daugavpils

2012

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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	Riga, 03.10.1991
Registration in Commercial Register Office	Riga, 29.08.2003.
Legal address	Visku Str. 17, Daugavpils, LV-5410, Latvia
Mailing address	Visku Str. 17, Daugavpils, LV-5410, Latvia
Fixed capital	7 400 000.00 LVL
Public bearer shares	7 400 000
Nominal value of one share	1.00 LVL
Chief accountant	Valentina Krivoguzova, p.c.191257-10218
Reporting year	01.01.2011 – 31.12.2011
Previous reporting year	01.01.2010 – 31.12.2010
Auditors and their address	SIA "DELOITTE AUDITS Latvia" Reg. No. 40003606960 Commercial's license No.43 Gredu Str.4a, Riga, LV-1019 Inguna Stasa Sworn auditor Certificate No.145

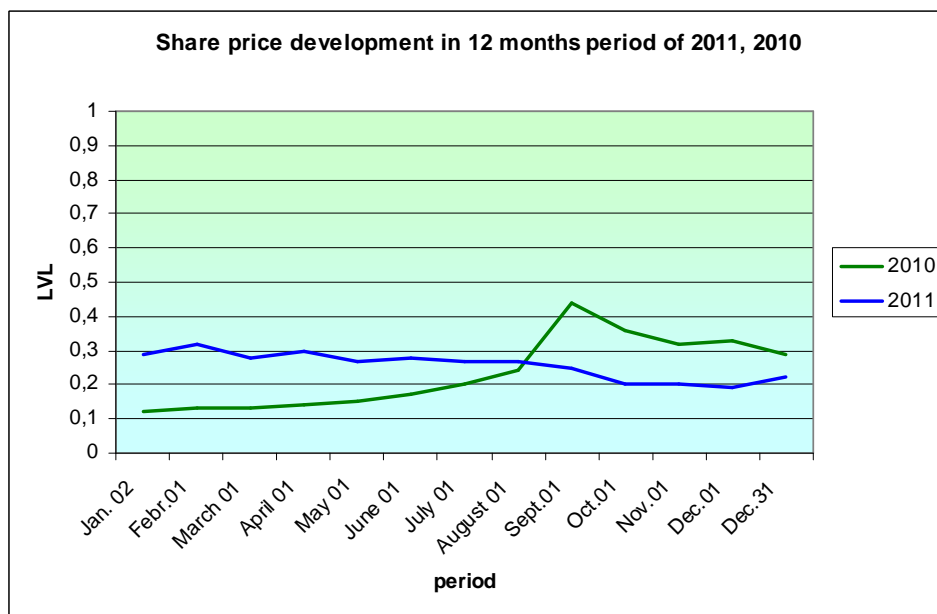
Persons in charge for drawing up of the financial report:

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

Ms. Natalja Redzoba, phone +371 65402333, e-mail dpr@dpr.lv

INFORMATION ON SHARES AND SHAREHOLDERS

SHARE PRICE DEVELOPMENT



The fixed capital of the company is 7 400 000 LVL, which divides into 7 400 000 public bearer shares. The nominal value of each share is 1 LVL and each share entitles to one vote.

COMPANY SHAREHOLDERS (OVER 5%) *

NAME	Ownership interest, %
Eduards Zavadskis	20,00
Vladislavs Driksne	19,92
MAX Invest Holding SIA	13,63
Maleks S SIA	11,10
Pavels Samuilovs	9,46

* *Note:* Information is presented on the basis of the list of shareholders of JSC „Ditton pievadķežu rūpnīca” dated 06.10.2011, as well as the shareholders’ notifications in accordance with Clause 61 of Financial Instrument Market Law.

In accordance with the Clause 56.1 of the Financial Instruments Market Law, the Company has no additional information at its disposal on rest part of the above mentioned Clause (part 1, sub-paragraphs 2), 4), 5), 6), 7), 8), 9), 10), 11)).

COMPANY BACKGROUND

The joint-stock company "Daugavpils pievadkezu rupnica" was formed as a result of a privatization of the State Daugavpils driving chain factory in conformity with the order of the Cabinet No.375-r dated 09 August, 1994 and the decision (the report No.25) of the Board of the state joint-stock company "Privatization agency" having transformed the state company into a joint-stock company.

The Company has received the status of public joint-stock company after its registration in the Register of Enterprises on 30 August, 1995 with the number 000303018.

08.01.2002 JSC "Daugavpils pievadkezu rupnica" changed its name to JSC "Ditton pievadkezu rupnica" with the registration number 40003030187.

29.08.2003 JSC "Ditton pievadkezu rupnica" has been registered in the Commercial Register.

The Company is the successor of rights and obligations of the State driving chain factory in conformity with conditions of privatization, and it acts on the basis of the Articles.

Types of activity of company:

- production of driving chains of all kinds;
- production of other plastic products;
- production of metal constructions and components of constructions;
- production of metal products used in construction;
- forging, pressing, punching and rolling of metal;
- processing of metal and facing of a surface;
- general machining processing of metal;
- production of tools;
- production of fastenings, cut products, chains and springs;
- production of others unclassified ready metal products;
- production of bearings, rack-wheels, elements of transfer and drive;
- production of machines;
- production of motorcycles and bicycles;
- production of other in another places unclassified vehicles;
- selling of motor vehicles;
- selling of motorcycles and its fixings, servicing and repairs;
- wholesale trade in machine tools;
- wholesale trade of other machines used in production, trade and navigation;
- wholesale of agricultural machines, fixings and instruments, including tractors;
- other retail trade in unspecialized shops;
- loads with motor vehicles;
- loading and unloading of loads: warehousing;
- dealership with own real estates;
- farming and renting of own real estate;
- renting of cars;
- renting of other land vehicles;
- renting of agricultural machines and instruments;
- renting of construction machines and instruments;
- renting of in other places unclassified machines and instruments;
- renting of in other places unclassified subject of individual using and the household equipment and instruments;
- consultation on questions of the program equipment, programming;
- data processing.

INFORMATION ON THE MANAGEMENT BOARD AND COUNCIL MEMBERS

THE MANAGEMENT BOARD

Chairman of the Management Board

Pjotrs Dorofejevs, elected 22.06.2010 (Member of the Management Board from 07.01.2004)

Member of the Management Board

Natalja Redzoba, elected 29.08.2003.

Jevgenijs Sokolovskis, elected 22.06.2010

Information on shares owned by Members of the Management Board

Members of the Management Board

Share ownership *

	Quantity of shares	%
Pjotrs Dorofejevs	no shares	-
Natalja Redzoba	1 900	0,03
Jevgenijs Sokolovskis	no shares	-

THE COUNCIL AS AT 31.12.2011

Chairman of the Council

Boriss Matvejevs, elected 14.08.2009

Deputy Chairmen of the Council

Georgijs Sorokins, elected 14.08.2009

Inga Goldberga, elected 14.08.2009

Members of the Council

Anzelina Titkova, elected 14.08.2009

Timo Sas, elected 16.10.2009

THE COUNCIL AS AT 31.12.2010

Chairman of the Council

Boriss Matvejevs, elected 14.08.2009

Deputy Chairmen of the Council

Georgijs Sorokins, elected 14.08.2009

Inga Goldberga, elected 14.08.2009

Members of the Council

Anzelina Titkova, elected 14.08.2009

Timo Sas, elected 16.10.2009

Information on shares owned by Members of the Council

Members of the Management Board

Share ownership *

	Quantity of shares	%
Boriss Matvejevs	no shares	-
Georgijs Sorokins	5 768	0,08
Inga Goldberga	no shares	-
Anzelina Titkova	no shares	-
Timo Sas	no shares	-

For more detailed information on professional background of the Management Board and Council members please refer to our website: http://www.dpr.lv/web_ru/for-akcioner.htm

* as at 31.12.2011

MANAGEMENT REPORT

Information on the results of the company in year 2011

In 2011 net-turnover was fulfilled in the amount of 8 670 thous.LVL (12 336 thous.EUR), which compared to the forecast is by 1 670 thous.LVL (2 376 thous.EUR) more. Compared to the level of previous year, net-turnover of the reporting year is by 1 832 thous.LVL (2 607 thous.EUR) or by 27% more.

Profit before taxes amounted to 100 thous.LVL (142 thous.EUR) in 2011. Profit after taxes amounts to 121 thous.LVL (173 thous.EUR).

Commodity output is estimated in the amount of 6 505 thous.LVL (9 256 thous.EUR). The result of 2011 is by 892 thous.LVL (1 269 thous.EUR) or by 16% higher than in previous year.

At present the company exports 94% of its products to the East and West: among them 62% eastwards and 32% westwards; 6% of products are sold on domestic market.

The average statistical number of employees of JSC "Ditton pievadķēžu rūpnīca" was 358 employees in year 2011.

The average salary amounted to 356 LVL (507 EUR) in year 2011, which is by 45 LVL (64 EUR) more than in 2010.

Key figures of financial standing of JSC „Ditton pievadķēžu rūpnīca”

Own capital profitability of the company (capital using ratio) was 1,43% in year 2011 (2010: 4,54).

Return on assets (ROA) was 1,70% in year 2011 (2010: 4,44%), and this is indicative of efficiency of using fixed assets and other non-current assets.

Sales profitability – commercial margin shows that in year 2011 1,40% of earned profit accounts for one unit of salable production (2010: 5,56%).

Turnover ratio of long-term investments is admissible to be ≥ 1 , in year 2011 it was 1,22 (2010: 0,80).

Reserves turnover ratio enables to assess the optimal size of reserves. In 2011 turnover speed of reserves was 4,88 times, in 2010: 3,69 times.

Economic profitability enables to determine that 1,06% of earned profit accounts for one unit of company's assets.

Commercial profitability indicates that company earned 1,15% of profit on one net-turnover unit before taxes, and accordingly 1,40% after taxes.

On 31.12.2011 the absolute liquidity (times) was 0,11; on 31.12.2010 – 0,09. Its level shows which part of short terms liabilities can be discharged from the available cash.

Value of current liquidity ratio at the beginning of 2011 was 1,72, but on 31.12.2011 – 2,69, i.e., this ratio increased (standard 3-2).

Ratio of quick liquidity at the beginning of 2011 was 1,00, but at the end of the year – 1,75 (standard 0,7 – 1).

Specific weight of liabilities in the balance was 0,27 at the beginning of the year, but at the end of the year – 0,25.

Analysis on influence of currency risks in 2011.

In spite of the fact that 99% from the sales volume goes outside of Latvia, the sum total of the currency differences had an insignificant influence in the form of profit. Showing individual receipt of money means in the reporting year, the share which is due to income in LVL is 13%, in EUR – 66%, in USD – 11% and in RUR – 10%. In its turn payments for raw materials and materials have been made also in foreign currency.

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

The activity of the Company in the year 2011 gives the ground to consider that in the mentioned period the situation on the market where production of the Company is represented has stabilized. It is indicated by the economic situation on the markets of the states where production of the Company is represented and by increase of purchase orders in Eastern and Western market segments. Improvement of the situation on the Eastern market is still favoured by the continuing support program for automobile manufacturers adopted by the government of Russian Federation which undoubtedly shall increase production delivery volumes on conveyors of automobile factories. Growth of demand for production in the Eastern market, where the Company's driving chains are represented, is not infinite; the Company notes the first signs of market saturation and slowing down of growth of demand and production volumes. In these circumstances development and maintenance of Eastern market (RF, CIS) represent important goals and interests for the Company. For these purposes the Company has made investments into the markets of next periods. Investments have been accepted by the shareholders on the general meeting of shareholders dated 31.05.2011. Results of 2011 results and future prospects argue a wisdom and currency of this decision for existing markets of the current period. In general, it can be assumed that all risks and market trends reflected in previous reports are effective and relevant in the reporting period.

However, the Management Board of the Company notes that up trends can be affected by price increase on metal products which started on the market in the 2nd half of 2010, as well as by the expected domestic increase of energy prices. These changes which are not controlled by the Company and often – ungrounded and non-systematic – negatively affect production programs of the Company, do not allow to enter into long-term supply contracts due to price and prime cost fluctuations.

Also the rate of turnover growth forecasted for the reporting period can be considered as fulfilled which resulted in a certain stabilization of the financial situation of the Company, at the same time, some facts and market trends, in particular, increase of prices on raw materials, may be evidence for the probability of the "second wave" of crisis phenomena. According to analysts of Latvia and the European Union, elements of the "second wave" of global economic crisis, at least in the euro area, are becoming apparent and it has a certain impact on the Company's performance.

This assumption is reinforced by general factors that may adversely affect tendencies of the Company's development, particularly, instability of global economic, to which the manufacturers responded accordingly.

In the abovementioned period in Russian Federation there can be market stabilization observed, without demonstration of features of rapid growth, which is based on ongoing customer demand support programs. The Company concedes an opportunity that there might be some changes possible in the situation on this market sector, including in an unfavorable format for the Company due to the

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end of this program, but this is not going to be global in nature. The situation in the Eastern segment of the market is constantly in the sphere of the Company's monitoring (see also forecasts for the Eastern market above).

Probability of the "second wave" of crisis, as well the fact that consumer market is growing with no surpassing the forecasts and in respect of many indicators it has not reached the pre-crisis level are taken into account by the Management Board by organization of the Company's activity in general. However, as indicated above, not all influencing factors can be evaluated and managed, which along with the Company's integration into global economics cause negative factors of dependence.

In the existing circumstances the Company is continuing to work in economy regime by using internal resources and reorganizing production processes according to the existing volumes of demand, production and costs, including optimization of staff in accordance with production volumes and its actual employment.

The Management Board considers it as its main task to continue working upon allocation of consequences of global crisis, including elements of the "second wave" of the crisis, maintaining the Company with its brand, technologies, personnel, traditional partners and market and future development together with the whole global and Latvian economics with simultaneous using of all favorable conditions appearing for development of the Company's chances and its market growth.

Taken together, the Company closed the year 2011 with profit.

On use of profit

According to the Council's recommendation, as well as taking into account market stabilization in 2011 and interests of shareholders, the Management Board intends to propose to the regular meeting of shareholders when considering an issue on the use of profit gained in 2011 to aim the part of the profit up to 10% at payment of dividends to the shareholders, including the respective proposal into draft decisions of the regular meeting of shareholders.

STATEMENT ABOUT MANAGEMENT LIABILITY

In opinion of the Management Board, according to the information at its disposal, the annual report has been prepared in accordance with the existing legislative requirements and gives a true and fair view of financial standing of the Company and its performance, cash flow and capital. In all substantial aspects there have been demands of the legislative acts of the Republic of Latvia satisfied.

The management confirms herewith that there have not been any essential events taken place after the end of the reporting period, which could have affected the annual report of the Company for year 2011.

Management report contains truthful information.

Chairman of the Management Board
of the JSC "Ditton pievadķēžu rūpnīca"
27 April 2012

Pjotrs Dorofejevs

REPORT ON CORPORATE GOVERNANCE

§ 1

By arranging corporate governance of the Issuer, the Management Board and the Council follow Principles of Corporate Governance, approved by "NASDAQ OMX Riga" and effective from June 1, 2010.

Information about application of the above-mentioned Principles regarding responsibility of the shareholders is presented to the shareholders on the annual general meeting. The shareholders may familiarize themselves with information comprised by the Principles of Corporate Governance on the web site of NASDAQ OMX Riga http://www.nasdaqomxbaltic.com/files/riga/corp_gov_May_2010_final_EN.pdf or by submitting an appropriate request to the Issuer.

Information about order and procedures of application of Principles of Corporate Governance, restrictions, exceptions and practice in 2011 has been reflected in the appendix to this report "Statement on corporate governance principles". The shareholders may familiarize themselves with information included into the appendix on the website of NASDAQ OMX Riga, in the appropriate section of the Issuer, or in CSRI-system or on the website of the Issuer on the internet.

§ 2

System of internal control is arranged in compliance with the Principles of Corporate Governance, including the institution of a revision committee. Statement of the revision committee regarding procedures of risks control and management in the course of compiling the annual report for 2011 is presented to the annual general meeting of shareholders and enclosed in its materials.

At the Issuer there exists a multi-stage system of compiling of the annual report, control and risks management at compiling the annual report.

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 in accordance with the Annual Accounts Law, Law on Accounting, Commercial Law and Financial Instrument Market Law;

4th stage: examination of the annual report by the revision committee and its statement on the annual report quality and independence of the sworn auditor;

5th stage: examination of the annual report by the Council of the Issuer and its statement about activity of the Management Board and the Issuer in general reflected in this report;

6th stage: approving of the annual report in a general meeting of shareholders of the Issuer.

It is obvious that activity of the institutions mentioned in stages 3, 4 and 5 are independent of the Issuer and ensures accuracy of the annual report and independency.

§ 3

According to the requirements of Clauses 56.¹ and 56.² of Financial Instrument Market Law the Issuer provides additional information on following:

The following shareholders have a significant holding (shares percentage of the equity capital being owned or in management is indicated as at 06.10.2011):

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- Eduards Zavadskis – 20,00%
- Vladislavs Driksne – 19,92%
- MAX Invest Holding SIA – 13,63%
- Maleks S SIA – 11,10%
- Pavel Samuilovs – 9,46%

There are no shareholders with specific control rights at the Issuer, neither restrictions to the shareholders' voting rights arising from their shares.

Order and procedures for amending documents of incorporation (Articles) and changing of the composition of the Management Board, including their rotation and/or recall are determined by and applied in accordance with 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 pievadkezu rupnica” and evaluation of these processes, Regulations of the convening and course of shareholders' meetings and other legal acts related to these procedures.

Rights of the Management Board members are stated in Commercial Law and the Issuer's Articles. Additional powers, including powers to issue or redeem shares, have not been granted to the Management Board members.

§ 4

The Issuer's institutions are:

- meeting of shareholders;
- 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, Principles of Corporate Governance, the Issuer's Articles and internal documents. Institutions are independent.

Independence of the shareholders' resolution is ensured in conformity with norms of the Commercial Law (Clauses 273-286), Financial Instrument Market Law (Clauses 54, 54.1 - 54.5), Principles of Corporate Governance, Articles of the Issuer, Declaration on objectives and mission of the activity and development of JSC „Ditton pievadkezu rupnica” and evaluation of these processes, Regulations of the convening and course of shareholders' meetings and other normative acts and internal documents of the Issuer.

Council and Management Board members are independent in conformity with Commercial Law, Financial Instrument Market Law, Articles, Declaration on objectives and mission of the activity and development of JSC „Ditton pievadkezu rupnica” and evaluation of these processes, Regulations of the Council and Management Board and other normative acts and Issuer's internal documents in exercising their duties and according to legal norms are accountable in front of the shareholders.

Personal composition of the Council and the Management Board is specified on page 6 of the current annual report.

Note: the Issuer – JSC „Ditton pievadkezu rupnica”

Chairman of the Management Board
of the JSC “Ditton pievadkēžu rūpnīca”
27 April 2012

Pjotrs Dorofejevs

COUNCIL REPORT **to the annual report for year 2011**

Issued in conformity with Commercial Law and to the Company's Articles,
approved by Council resolution of the JSC "Ditton pievadķēžu rūpnīca"
dated 18.04.2012, Protocol No.156

The Council of joint-stock company "Ditton pievadķēžu rūpnīca" announces that the report of the Management Board of the Company to the annual general meeting of shareholders and annual report for year 2011 truly reflects the commercial activity results and the financial position of the Company.

During the reporting period the Management Board managed production and economic activities of the Company and represented the Company in accordance with the laws of the Republic of Latvia in force, with the Company Articles, Declaration on objectives and mission of the activity and development of JSC „Ditton pievadķēžu rūpnīca” and evaluation of these processes, resolutions of general meeting of shareholders and Council recommendations.

The shareholders as well as the Council members have no claims to the Management Board and its individual members, and the Council evaluates the activity of the Management Board in the circumstances of the global crises as positive. The Company closed the year 2010 with profit which corresponds to the actual state of affairs in global markets in conditions of gradual overcoming the global economic crisis.

The Council of the Company represented interests of shareholders during the period between the general meetings, and in reporting period it supervised constantly for the Management Board activity according to the Company's Articles and Laws of the Republic of Latvia.

Altogether during the reporting period eight meetings of the Council were held. In four of the joint meetings of the Council and the Management Board there have been considered and approved interim financial reports of the Company for 12 months of 2010 and 3, 6, and 9 months of the year 2011.

Additionally the following issues have been considered in the Council meetings and decisions on them were made:

- convening general and extraordinary meetings of shareholders and approving of draft resolutions;
- considering a budget prognosis for 2012;
- considering and approving of Regulations of the Council and the Management Board, coordination of Remuneration policy of the Council and Management Board members, considering of Declaration on objectives and mission of the activity and development of JSC „Ditton pievadķēžu rūpnīca” and evaluation of these processes;
- other issues related to the activity of the Company and stipulated by the Company's Articles and laws of Republic of Latvia.

Herewith the Council of the Company draws attention of the shareholders to the following important events:

In 2009 in the Council report to the annual report the Council ascertained growth of crisis appearances in the 2nd half of the year 2008 and forecasted development of this situation at least in years 2009 and 2010.

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According to the aforementioned prognosis it was expected that till 2011 influence of the global crisis on economics shall essentially decrease, there will be stabilization and a certain growth of economic activity will begin in the European Union and worldwide as well. This determined goals and tasks of the Company in the crisis period, first of all, retaining potential of further development.

The actual development of the Company and economic efficiency on the market in 2011 appeared to be more positive, and it surpassed the forecast previously made by the Council in respect of growth rates of sales volumes. It can be definitely assessed as a positive factor; however, in prospect the growth rates on the market may not be as positive and successful as in 2011 (in relation to the previous year 2010). Scientists-economists have not yet turned away from the issue of probability of the "second wave" of global economic crisis. Therefore, the general forecast of the Council for the Company's development is moderately positive. The Company does not exclude appearing of a tendency in global economics which can be characterized as "stagnation", i.e. without an essential growth or drop of economic and production indices. The indices of the Company integrated into the global economy will fully reflect its tendencies.

Simultaneously, the Council notes that the Management Board and the Company intends to make investments in future and development of the Company and carries out them, which is being implemented (or planned) in the form of acquisition and securing of the rights on the market and new products, investments in energy saving and new technologies. One of such projects is nonmaterial investments into the market of next periods of the Company, decision on which has been adopted in the general meeting of shareholders dated 31.05.2011. Another project is collaboration with "Ditton Chain" SIA, which will help to bring new and improved types of production to the market. Indices of 2011 provide the basis for optimism in evaluation of the Company's projects and their results. On all aspects of collaboration and projects that have received support or are being implemented, the Company has timely informed shareholders and potential investors in compliance with principles of the Financial Instruments Market Law and "NASDAQ OMX Riga".

Taking notice of information mentioned above and the situation in the Company, the Council considers it appropriate to recommend to the Management Board to propose to the regular meeting of shareholders when considering an issue on the use of profit gained in 2011 to aim the part of the profit up to 10% at payment of dividends to the shareholders, as well as considers it appropriate to ask the shareholders to support this proposal.

Chairman of the Council
27 April 2012

Boriss Matvejevs

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS "Ditton pievadķēžu rūpnīca":

Report on the financial statements

We have audited accompanying financial statement (presented on pages 16 to 38) included into the annual report for year 2011 of AS "Ditton pievadķēžu rūpnīca". The audited financial statement comprises the Company's balance sheet as of 31 December 2011, the income statement, statement of changes in equity and cash flow statement for the year 2011, as well as a summary of significant accounting policies and other explanatory information in the appendix.

Management's responsibility for the preparation of the financial statement

Management is responsible for the preparation of this financial statement and fair presentation of the information supplied in accordance with Latvian Law on Annual Reports and also for such internal control which the management considers necessary in order to ensure preparation of the financial statement free from material misstatement, whether due to fraud or error.

Auditor's responsibility

We are responsible for the opinion which we express on this financial statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures are selected on the basis of the auditor's professional judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. When making this risk assessment, the auditors consider internal control designed in order to ensure preparation of the financial statement and fair presentation of the information included into it in order to determine audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate for expressing of our qualified audit opinion.

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Basis for the qualified opinion

As described in the appendix 11 of the financial statement, as at 31 December 2011 AS "Ditton pievadķēžu rūpnīca" has other non-material investments with book value in the amount of LVL 4 469 271 (31.12.2010.: LVL 5 586 589). In the item "Selling costs" (appendix 3) of the income statement of AS "Ditton pievadķēžu rūpnīca" for year 2011 there are amortization costs of the non-material asses included in the amount of LVL 1 117 318 (2010: 0). During the audit we did not have the opportunity to obtain sufficient audit evidence to ascertain assumptions of AS "Ditton pievadķēžu rūpnīca" as to the use of the asset, to assess its recoverable value and to determine whether it is necessary to establish provisions relating to a possible value decrease of this asset. Therefore we do not express our opinion about the value of the aforementioned asset included into the balance sheet of AS "Ditton pievadķēžu rūpnīca" for years 2011 and 2010.

As of 31 December 2011 there was a debtor's debt LVL 1 721 032 included into the trade receivables of AS "Ditton pievadķēžu rūpnīca". During the audit we did not have the opportunity to ascertain the recoverability of this debtor's debt and to determine whether it is necessary to establish provisions relating to a possible value decrease of this asset. Therefore we do not express our opinion about the value of the aforementioned asset included into the balance sheet of AS "Ditton pievadķēžu rūpnīca" for year 2011.

Qualified opinion

In our opinion, except for the effects of possible corrections which would be necessary if we would be able to ascertain matter mentioned in the paragraph "Basis for the qualified opinion", except for the effects of possible corrections which may result from the matter described in the previous paragraph, the abovementioned financial statement gives a true and fair view of the financial position of AS "Ditton pievadķēžu rūpnīca" as of 31 December 2011, and its financial performance and its cash flows in year 2011, in accordance with Latvian Law on Annual Reports.

Report on other legal and regulatory requirements

We got acquainted with the management report for 2011, which is presented on pages 7-9 of the attached annual report for 2011, and we have not found significant discrepancies between the financial information reflected in this management report and in the annual report for 2011.

SIA Deloitte Audits Latvia
License No. 43

Roberts Stugis
Member of the Management Board

Riga, Latvia
28 April 2012

Inguna Stasa
Sworn Auditor of the Republic of Latvia
Certificate No. 145

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**INCOME STATEMENT
FOR THE YEAR 2011**

1 EUR = 0,702804 LVL

	Appen- dix	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Net turnover	1	8 670 416	12 336 891	6 837 694	9 729 162
Production cost of sold products	2	-6 661 177	-9 478 001	-6 216 710	-8 845 581
Gross (loss) / profit		2 009 239	2 858 890	620 984	883 581
Selling costs	3	-1 119 628	-1 593 087	-255 849	-364 040
Administration costs	4	-727 939	-1 035 764	-753 749	-1 072 488
Other operating income	5	45 338	64 510	879 442	1 251 334
Other operating expenses	6	-27 635	-39 321	-89 174	-126 884
Other interest income and similar income	7	24 978	35 540	49 651	70 647
Interest payment and similar expanses	8	-104 490	-148 675	-87 428	-124 399
Profit before taxes		99 863	142 093	363 877	517 751
Corporate income tax	9	63 060	89 726	56 181	79 938
Other taxes	10	-41 506	-59 058	-40 158	-57 140
Profit of reporting year		<u>121 417</u>	<u>172 761</u>	<u>379 900</u>	<u>540 549</u>
Index EPS		0,016	0,023	0,051	0,073

Appendixes from page 23 till 38 are integral parts of this financial statement.

On 27 April 2012 the financial statement of the Company has been signed by

Pjotrs Dorofejvss
Chairman of the Management Board

(signature)

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

BALANCE SHEET AS AT 31.12.2011

1 EUR = 0,702804 LVL

ASSETS	Appen- dix	31.12.2011 LVL	31.12.2011 EUR	31.12.2010 LVL	31.12.2010 EUR
1. Long-term investments					
I. Non-material investments					
Software licenses		549	781	8	11
Other non-material investments (purchase of market)		4 469 271	6 359 200	5 586 589	7 949 000
Non-material investments total	11	4 469 820	6 359 981	5 586 597	7 949 011
II. Fixed assets					
Plots of land, buildings and constructions and perennial plantations		1 748 766	2 488 270	2 369 111	3 370 941
Technological equipment and machinery		20 577	29 278	12 540	17 843
Other fixed assets and stock		39 868	56 727	105 311	149 844
Formation of fixed assets and costs of unfinished construction objects		31 222	44 425	7 261	10 332
Fixed assets total	12	1 840 433	2 618 700	2 494 223	3 548 960
III. Long-term financial investments					
Participation in the capital of other companies	13	47 200	67 160	47 200	67 160
Long-term loan	13	619 190	881 028	333 518	474 554
Assets of deferred tax	9	148 108	210 738	85 048	121 012
Long-term financial investments total		814 498	1 158 926	465 766	662 726
1. Long-term investments total		7 124 751	10 137 607	8 546 586	12 160 697
2. Current assets					
I. Reserves					
Raw materials, basic materials and subsidiary materials		895 385	1 274 018	679 921	967 441
Unfinished products		292 430	416 090	257 381	366 220
Finished products and goods for sale	14	243 759	346 838	250 280	356 116
Advance payments for goods		41 903	59 623	68 272	97 142
Reserves total		1 473 477	2 096 569	1 255 854	1 786 919
II. Debtors					
Trade receivables	15	2 254 213	3 207 456	947 090	1 347 588
Other debtors	16	301 087	428 408	622 927	886 344
Debtors total		2 555 300	3 635 864	1 570 017	2 233 932
IV. Cash (total)	17	164 367	233 873	154 436	219 743
2. Current assets total		4 193 144	5 966 306	2 980 307	4 240 594
<u>TOTAL ASSETS</u>		<u>11 317 895</u>	<u>16 103 913</u>	<u>11 526 893</u>	<u>16 401 291</u>

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

BALANCE SHEET AS AT 31.12.2011

1 EUR = 0,702804 LVL

<u>LIABILITIES</u>	Appen- dix	31.12.2011 LVL	31.12.2011 EUR	31.12.2010 LVL	31.12.2010 EUR
1. Equity capital					
Fixed capital	18	7 400 000	10 529 251	7 400 000	10 529 251
Retained earnings:					
a) retained earnings of previous years		969 052	1 378 837	589 152	838 288
b) profit of reporting year		121 417	172 761	379 900	540 549
1. Equity capital total		8 490 469	12 080 849	8 369 052	11 908 088
2. Long-term creditors:					
Loans from credit institutions	19	1 269 113	1 805 785	1 429 422	2 033 885
2. Long-term creditors total		1 269 113	1 805 785	1 429 422	2 033 885
3. Short-terms debts:					
Loans from credit institutions	20	581 991	828 099	160 309	228 099
Other loans		138 962	197 725	186 877	265 902
Advance payments received from customers		17 019	24 216	6 199	8 820
Debts to suppliers and contractors	21	452 591	643 979	638 812	908 948
Taxes and compulsory social security contributions	22	162 048	230 573	532 598	757 819
Other creditors	23	119 922	170 634	107 714	153 263
Accumulated liabilities	24	85 780	122 053	95 910	136 468
3. Short-term creditors total		1 558 313	2 217 279	1 728 419	2 459 319
Creditors total		2 827 426	4 023 064	3 157 841	4 493 204
<u>LIABILITIES TOTAL</u>		<u>11 317 895</u>	<u>16 103 913</u>	<u>11 526 893</u>	<u>16 401 291</u>

Appendixes from page 23 till 38 are integral parts of this financial statement.

On 27 April 2012 the financial statement of the Company has been signed by

Pjotrs Dorofejevs
Chairman of the Management Board

(signature)

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

STATEMENT OF CASH FLOW
FOR THE YEAR 2011

1 EUR = 0,702804

	Appen- dix	2011 LVL	2011 EUR	2010 LVL	2010 EUR
I. Cash flow of basic activity					
1. Profit before taxes		99 863	142 093	363 877	517 751
<i>Corrections:</i>					
Depreciation of fixed assets	12	698 328	993 631	764 319	1 087 528
Amortization of non-material investments	11	1 117 354	1 589 852	87	124
Provisions for long-term loans		-	-	-124 750	-177 503
Income from exclusions of fixed assets, net	5	1 932	2 749	-1 957	-2 785
Interest income	7	-24 978	-35 540	-49 651	-70 647
Interest expense	8	104 490	148 675	87 428	124 398
2. Profit from economic activity in reporting year		1 996 989	2 841 460	1 039 353	1 478 866
<i>Corrections:</i>					
In Debtors		-975 775	-1 388 403	-1 742 364	-2 479 161
In Reserves		-217 623	-309 650	859 374	1 222 779
In Creditors		-548 114	-779 896	603 654	858 923
3. Cash flow of basic activity, gross		255 477	363 511	760 017	1 081 407
4. Expenses for tax payments (tax on immovable property)	25	-39 076	-55 600	-182 220	-259 276
Cash flow of basic activity net		<u>216 401</u>	<u>307 911</u>	<u>577 797</u>	<u>822 131</u>
II. Cash flow of investing activity					
Loans issued		-270 202	-384 463	-258 197	-367 382
Purchase of fixed assets		-47 047	-66 942	-134 089	-190 791
Sale of fixed assets		-	-	1 957	2 785
Cash flow of investing activity net		<u>-317 249</u>	<u>-451 405</u>	<u>-390 329</u>	<u>-555 388</u>
III. Cash flow of financing activity					
Loans received / (repaid), net		213 458	303 722	-104 866	-149 210
Interest paid		-102 679	-146 099	-81 586	-116 086
Cash flow of financing activity net		<u>110 779</u>	<u>157 624</u>	<u>-186 452</u>	<u>-265 296</u>

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

**STATEMENT OF CASH FLOW
 FOR THE YEAR 2011**
 (continuation)

CONSOLIDATED DATA ON CASH INCOME AND EXPENSES

			<i>1 EUR = 0,702804 LVL</i>		
	Appen- dix	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Cash flow of basic activity net		216 401	307 911	577 797	822 131
Cash flow of investing activity net		-317 249	-451 405	-390 329	-555 388
Cash flow of financing activity net		110 779	157 624	-186 452	-265 296
Increase of cash and cash equivalents		9 931	14 130	1 016	1 446
Balance of cash and cash equivalents at the beginning of reporting year		<u>154 436</u>	<u>219 743</u>	<u>153 420</u>	<u>218 297</u>
Balance of cash and cash equivalents at the end of reporting year	17	<u>164 367</u>	<u>233 873</u>	<u>154 436</u>	<u>219 743</u>

Appendixes from page 23 till 38 are integral parts of this financial statement.

On 27 April 2012 the financial statement of the Company has been signed by

Pjotrs Dorofejevs
 Chairman of the Management Board

 (signature)

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

**STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR 2011**

(LVL)

	Equity capital	Profit / (loss) of reporting year	Retained profit of previous years	Equity capital TOTAL
	LVL	LVL	LVL	LVL
31.12.2009	7 400 000	-1 043 131	1 632 282	7 989 151
Loss of 2009 transferred to retained profit of previous years	-	1 043 131	-1 043 131	-
Profit of reporting year	-	379 900	-	379 900
31.12.2010	7 400 000	379 900	589 152	8 369 052
Profit of 2010 transferred to retained profit of previous years	-	-379 900	379 900	-
Profit of reporting year	-	121 417	-	121 417
31.12.2011	<u>7 400 000</u>	<u>121 417</u>	<u>969 052</u>	<u>8 490 469</u>

Appendixes from page 23 till 38 are integral parts of this financial statement.

On 27 April 2012 the financial statement of the Company has been signed by

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 Chairman of the Management Board

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JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

**STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR 2011**

(EUR)

1 EUR = 0,702804 LVL

	Equity capital EUR	Profit / (loss) of reporting year EUR	Retained profit of previous years EUR	Equity capital TOTAL EUR
31.12.2009	10 529 251	-1 484 241	2 322 528	11 367 538
Loss of 2009 transferred to retained profit of previous years	-	1 484 241	-1 484 241	-
Profit of reporting year	-	540 549	-	540 549
31.12.2010	10 529 251	540 549	838 288	11 908 088
Profit of 2010 transferred to retained profit of previous years	-	-540 549	540 549	-
Profit of reporting year	-	172 761	-	172 761
31.12.2011	<u>10 529 251</u>	<u>172 761</u>	<u>1 378 837</u>	<u>12 080 849</u>

Appendixes from page 23 till 38 are integral parts of this financial statement.

On 27 April 2012 the financial statement of the Company has been signed by

Pjotrs Dorofejevs
 Chairman of the Management Board

 (signature)

APPENDIX TO THE ANNUAL REPORT

Principles of bookkeeping and methods of evaluation

The annual report is prepared in conformity with requirements of Law On Accounting and Annual Accounts Law. Statement on profit and loss is prepared in conformity with the method of turnover expenses.

Items of the annual report are evaluated in conformity with the following accounting principles:

- a) it is accepted that the Company will be working further;
- b) the same evaluation methods are used as in the last year;
- c) the evaluation of items is made with due foresight, i.e.
 - in the report there is the profit included received before the day of working up of balance sheet;
 - all expected sums of risk and loss which have appeared in the accounting period, or in the previous years, are taken into account, also then, if they became known during time between date of balance and day of working up of the annual report;
 - all sums of deterioration and depreciation are estimated and taken into account, no matter if the fiscal year is finished with profit or loss;
- d) income and expenses related to the accounting period are taken into account irrespective of the settlement date and date of reception or making out a bill. Expenses are coordinated with incomes in the reporting period;
- e) components of items of assets and liabilities have been evaluated separately;
the balance of the beginning of the reporting period coincides with balance of the closing of the previous year;
- f) economic bargains are reflected considering their economic contents and essence, but not the legal form.

The bookkeeping was kept in 2011 on united bookkeeping accounts, which have been approved on 13 May, 1993, detailing the plan of accounts in conformity with features of economic activity of the Company.

The bookkeeping register of the synthetic accounting is the Ledger, where the records are made from the statements of grouping of economic activity operations. Kinds of registers of the analytical accounting are books, cards, lists etc..

The reporting year is from 01 January 2011 till 31 December 2011.

Data reflected in these financial reports is expressed in national currency – in Latvian lats (LVL), and in Euro (EUR) as well. All monetary items of assets and liabilities and shareholders' equity are counted in lats at the rate of the Latvian bank on last day of reporting year.

	31.12.2011	31.12.2010
USD	1 USD = 0,544000 LVL	1 USD = 0,535000 LVL
EUR	1 EUR = 0,702804 LVL	1 EUR = 0,702804 LVL
RUR	1 RUR = 0,017000 LVL	1 RUR = 0,017600 LVL

In the result of fluctuation in exchange rate of foreign currencies, the received profit or loss is reflected in the income statement for the appropriate period.

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

Long-term and short-term items

In the long-term items there are the sums indicated, whose receipt, payment or write-off terms come later than one year after the termination of the proper reporting year. The sums, which have to be received, paid or written off during one year, are specified in short-term items.

Intangible assets

Intangible non-current assets are stated at cost and amortised over their estimated useful lives on a straight-line basis. Amortisation period covers 5 years. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Losses from impairment are immediately recognised in the income statement where the carrying value of intangible non-current assets exceeds their recoverable amount.

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and any impairment in value. The cost of items comprises their purchase price, including import duties and any directly attributable costs of bringing the assets into working condition for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	% p.a.
Land and buildings	10
Technological equipment	10-50
Other tangible assets	10-40

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of equipment is the higher of an asset's net selling price and its value in use. In assessing the 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. Impairment losses are recognised in the income statement in the cost of sales caption.

Trade and other receivables

Trade receivables are accounted by sales value less provisions for doubtful accounts receivable. 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.

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

Inventories

Raw materials are stated at cost. Cost comprises purchase price plus expenses directly attributable to the purchase. Raw materials are stated as the lower of cost and the market price. Provisions are made for slow moving inventories. Inventories are valued using the FIFO method. Work in progress is valued at the direct cost of materials used. The cost of finished goods is valued at manufacturing costs and includes direct manufacturing costs - cost of materials and direct labour costs, other manufacturing costs - energy, ancillary materials, equipment and maintenance costs, depreciation and general manufacturing costs – service costs related to manufacturing.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits with an original maturity of three months or less.

Loans and borrowings

Loans and borrowings are recognized initially at the amount of proceeds received, net of transaction costs incurred. In subsequent periods, loans and borrowings are stated at amortized cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of borrowings.

Borrowing costs

Borrowing costs are expensed in the period to which they are attributable. Amounts are disclosed in the profit and loss statement as interest and similar expense.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Investments in capital of other parties

Investments in capital of other parties are valued at cost. Cost method is investment accounting method when investments are accounted based on costs incurred. Investor recognizes income only when investor receives from investee distribution of accrued profit resulting after the date of acquisition. Receiving distribution exceeding profit, such excess is considered as a recovery of an investment and accounted as a decrease in the cost of an investment.

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.

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

Leases

Leases of fixed assets where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The equipment acquired under finance leasing contracts is depreciated over the useful life of the assets.

All other leases are classified as operating leases. Lease payments under an operating lease are recognized as an expense in the profit and loss statement on a straight-line basis over the lease term.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and 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 sale when the risks are transferred to the buyer.

Expenses

Expenses are recognised in the period to which they relate 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, in the reporting year and the number of accrued unused vacation days as at the last day of the reporting year.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is expected that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Corporate income tax

Corporate income tax includes current and deferred taxes. 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 arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The principal temporary timing differences arise from differing rates of accounting and tax depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent five years.

The deferred corporate income tax liability is stated in the balance sheet as non-current liabilities.

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

Application of estimates and key assumptions

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- The Company assesses accounts receivable and loans and evaluates their retrieval, when necessary creating provisions for doubtful accounts receivable and loans. The Company's management has assessed accounts receivable and believes that there is no need to make additional provisions as of 31 December 2011.
- The Company evaluates book value of fixed assets and non-material investments and assess whether there are any signs which indicate that recoverable value of assets is lower than their book value. Management of the Company calculates and recognizes loss from impairment of assets and non-material investments based on estimates on their future use. The Company's management believes that there is no need for significant adjustments of value of fixed assets and non-material investments as of 31 December 2011.
- At the end of each reporting year the Company makes evaluation of the useful lives of fixed assets. This assessment and hence the calculated depreciation may vary.

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

(1) Net turnover

Net turnover is income that was gained during the year from sale of produced and purchased products of the Company, as well as income from services rendered without VAT less discounts.

Breakdown of net turnover according to geographical markets:

1 EUR = 0,702804 LVL

Market	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Latvia	480 311	683 421	257 730	366 717
Eastern countries	5 389 397	7 668 421	4 374 374	6 224 173
Western countries	<u>2 800 708</u>	<u>3 985 049</u>	<u>2 205 590</u>	<u>3 138 272</u>
TOTAL	<u>8 670 416</u>	<u>12 336 891</u>	<u>6 837 694</u>	<u>9 729 162</u>

(2) Production costs of sold products

In the item there are the costs for achievement of turnover indicated.

1 EUR = 0,702804 LVL

Type of costs	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Material costs	3 625 249	5 158 264	2 813 761	4 003 620
Salary costs for production staff	1 167 619	1 661 372	983 901	1 399 965
Compulsory social security contributions	279 143	397 185	235 303	334 806
Electricity costs	726 736	1 034 052	601 137	855 341
Depreciation of fixed assets	568 954	809 549	564 187	802 766
Material delivery costs	69 241	98 521	61 383	87 340
Heating and gas costs	153 344	218 189	236 275	336 189
Current repair expenses	65 227	92 810	54 189	77 104
Water costs	34 786	49 496	20 158	28 682
Environment protection costs	5 766	8 204	6 240	8 879
Insurance costs	15 195	21 620	18 597	26 461
Stock changes	-110 942	-157 856	570 960	812 403
Other production costs	<u>60 859</u>	<u>86 595</u>	<u>50 619</u>	<u>72 025</u>
TOTAL	<u>6 661 177</u>	<u>9 478 001</u>	<u>6 216 710</u>	<u>8 845 581</u>

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

(3) Selling costs

	2011	2011	<i>1 EUR = 0,702804 LVL</i>	
	LVL	EUR	2010	2010
			LVL	EUR
Amortization of non-material investments*	1 117 318	1 589 800	-	-
Costs for agent's upkeep**	-	-	255 849	364 040
Other	<u>2 310</u>	<u>3 287</u>	=	=
TOTAL:	<u>1 119 628</u>	<u>1 593 087</u>	<u>255 849</u>	<u>364 040</u>

*Refer to appendix 11 of this financial statement.

** In 2009 the Company signed an agent agreement with the aim to ensure sales of the products on one of the geographic markets by using existing professional opportunities and work experience of the agent (these services have been received both in 2009 and in 2010).

(4) Administration costs

	2011	2011	<i>1 EUR = 0,702804 LVL</i>	
	LVL	EUR	2010	2010
			LVL	EUR
Administration salary	362 725	516 111	316 287	450 036
Compulsory social security contributions	85 684	121 917	75 099	106 856
Depreciation and amortization	129 410	184 134	200 132	284 762
Expenses relating to annual report and audit*	8 504	12 100	8 223	11 700
Communication services costs	10 803	15 372	11 019	15 679
Bank services	5 627	8 006	4 273	6 080
Office expenses	967	1 376	1 282	1 824
Expenses on business trips	19 585	27 867	19 285	27 440
Security expenses	49 830	70 902	49 830	70 902
Other administration costs	<u>54 804</u>	<u>77 979</u>	<u>68 319</u>	<u>97 209</u>
TOTAL:	<u>727 939</u>	<u>1 035 764</u>	<u>753 749</u>	<u>1 072 488</u>

* Deloitte Audits Latvia SIA provided the Company only annual report audit services for the year 2011.

(5) Other incomes of economic activity

	2011	2011	<i>1 EUR = 0,702804 LVL</i>	
	LVL	EUR	2010	2010
			LVL	EUR
Income from sale of fixed assets net	1 932	2 750	1 957	2 785
Decrease of provisions for unsecured debtors	-	-	779 032	1 108 463
Income from exchange rate differences net	11 668	16 602	8 038	11 437
Income from rendering services (demolition works)	-	-	88 950	126 564
Decrease of provisions for reserves with slow turnover speed	5 025	7 150	-	-
Income from remission of penalty	19 012	27 052	-	-
Other income	<u>7 701</u>	<u>10 956</u>	<u>1 465</u>	<u>2 085</u>
TOTAL:	<u>45 338</u>	<u>64 510</u>	<u>879 442</u>	<u>1 251 334</u>

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
ANNUAL REPORT FOR YEAR 2011

(6) Other operating expenses

	<i>1 EUR = 0,702804 LVL</i>			
	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Medical services costs	-	-	3 280	4 667
Penalties	-	-	38 296	54 490
Increase of provisions for unsecured debts	10 161	14 458	-	-
Provisions for reserves with slow turnover speed	-	-	14 810	21 073
Training expenses	546	777	678	965
Fixed assets selling costs	1 932	2 749	-	-
State fee on entrepreneurship risk	1 112	1 582	1 084	1 542
Other operating expenses	<u>13 884</u>	<u>19 755</u>	<u>31 026</u>	<u>44 147</u>
TOTAL:	<u>27 635</u>	<u>39 321</u>	<u>89 174</u>	<u>126 884</u>

(7) Other interest income and similar income

	<i>1 EUR = 0,702804</i>			
	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Interest income from loans	<u>24 978</u>	<u>35 540</u>	49 651	70 647
TOTAL:	<u>24 978</u>	<u>35 540</u>	<u>49 651</u>	<u>70 647</u>

(8) Interest payment and similar expenses

	<i>1 EUR = 0,702804</i>			
	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Interest payment for loans	<u>104 490</u>	<u>148 675</u>	87 428	124 399
TOTAL:	<u>104 490</u>	<u>148 675</u>	<u>87 428</u>	<u>124 399</u>

(9) Corporate income tax

	<i>1 EUR = 0,702804 LVL</i>			
	2011	2011	2010	2010
	LVL	EUR	LVL	EUR
Deferred tax	<u>63 060</u>	<u>89 726</u>	<u>56 181</u>	<u>79 938</u>
TOTAL:	<u>63 060</u>	<u>89 726</u>	<u>56 181</u>	<u>79 938</u>

Accrued loss for the aims of corporate income tax as at 31 December 2011 amounted to LVL 292 290 (EUR 415 891).

	Accrued tax loss	Period of use
	LVL	
Unused tax losses from 2009	262 885	termless
Unused tax losses from 2010	<u>29 405</u>	termless
TOTAL:	<u>292 290</u>	

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By calculating deferred tax as at 31 December 2011, accumulated tax losses of the Company have not been taking into account due to precautionary principle.

Calculation of deferred tax

	2011		2010	
	LVL	EUR	LVL	EUR
			<i>1 EUR = 0,702804 LVL</i>	
Depreciation of fixed assets, 15%	139 424	198 382	74 828	106 471
Accrued liabilities for vacations, 15%	7 314	10 407	8 096	11 519
Provisions for goods with slow turnover speed, 15%	<u>1 370</u>	<u>1 949</u>	<u>2 124</u>	<u>3 022</u>
Assets of deferred tax	<u>148 108</u>	<u>210 738</u>	<u>85 048</u>	<u>121 012</u>

(10) Other taxes

	2011		2010	
	LVL	EUR	LVL	EUR
			<i>1 EUR = 0,702804 LVL</i>	
Immovable property tax (land)	4 881	6 945	4 301	6 120
Immovable property tax (buildings)	<u>36 625</u>	<u>52 113</u>	<u>35 857</u>	<u>51 020</u>
TOTAL	<u>41 506</u>	<u>59 058</u>	<u>40 158</u>	<u>57 140</u>

(11) Statement on movement of long-term intangible assets

	Other non-material investments*		Software licenses		Intangible assets total	
	LVL	EUR	LVL	EUR	LVL	EUR
Initial value						
31.12.2010	5 586 589	7 949 000	39 843	56 691	5 626 432	8 005 691
Acquired	-	-	577	822	577	822
31.12.2011	5 586 589	7 949 000	40 420	57 513	5 627 009	8 006 513
Accumulated amortization						
31.12.2010	-	-	39 835	56 680	39 835	56 680
Charged amortization	1 117 318	1 589 800	36	51	1 117 354	1 589 851
31.12.2011	<u>1 117 318</u>	<u>1 589 800</u>	<u>39 871</u>	<u>56 731</u>	<u>41 157 189</u>	<u>1 646 531</u>
Book value as at 31.12.2010	5 586 589	7 949 000	8	11	5 586 597	7 949 011
Book value as at 31.12.2011	<u>4 469 271</u>	<u>6 359 200</u>	<u>549</u>	<u>781</u>	<u>4 469 820</u>	<u>6 359 981</u>

* According to the Purchase contract from 29.12.2010 (entered into force on the basis of the shareholder's decision approved on 31.05.2010) between the Company and a non-resident of the Republic of Latvia (legal person), the parties agreed that the last passes on to, but the Company takes over from this person the market (i.e. receives control) on the territory of RF and CIS states belonging to this company for sales of the Company's products and pays for it, by determining acquisition value of non-material investments on the basis of external and internal estimates and calculations and business prognosis for next five years in the amount of 5 586 589 LVL. Other non-material investments are subject to amortization within 5 years by a straight-line method. Amortization is included into the item "selling costs" of the income statement.

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(12) Fixed assets

	Buildings, constructions and land plots	Equipment and machinery	Other fixed assets	Formation of fixed assets	(LVL) Total
Initial value					
31.12.2010	8 063 926	5 572 277	498 230	7 261	14 141 694
Purchased	-	17 025	5 484	23 961	46 470
Disposals	2 582	97 464	20 843	-	120 889
31.12.2011	8 061 344	5 491 838	482 871	31 222	14 067 275
Accumulated depreciation					
31.12.2010	5 694 815	5 559 737	392 919	-	11 647 471
Charged depreciation	620 345	8 988	68 995	-	698 328
Disposals	2 582	97 464	18 911	-	118 957
31.12.2011	<u>6 312 578</u>	<u>5 471 261</u>	<u>443 003</u>	-	<u>12 226 842</u>
Book value as at 31.12.2010	<u>2 369 111</u>	<u>12 540</u>	<u>105 311</u>	<u>7 261</u>	<u>2 494 223</u>
Book value as at 31.12.2011	<u>1 748 766</u>	<u>20 577</u>	<u>39 868</u>	<u>31 222</u>	<u>1 840 433</u>

	Buildings, constructions and land plots	Equipment and machinery	Other fixed assets	Formation of fixed assets	(EUR) Total
					<i>1 EUR = 0,702804 LVL</i>
Initial value					
31.12.2010	11 473 934	7 928 635	708 917	10 332	20 121 818
Purchased	-	24 224	7 803	34 093	66 120
Disposals	3 674	138 679	29 657	-	172 010
31.12.2011	11 470 260	7 814 180	687 063	44 425	20 015 928
Accumulated depreciation					
31.12.2010	8 102 993	7 910 792	559 073	-	16 572 858
Charged depreciation	882 671	12 789	98 171	-	993 631
Disposals	3 674	138 679	26 908	-	169 261
31.12.2011	<u>8 981 990</u>	<u>7 784 902</u>	<u>630 336</u>	-	<u>17 397 228</u>
Book value as at 31.12.2010	<u>3 370 941</u>	<u>17 843</u>	<u>149 844</u>	<u>10 332</u>	<u>3 548 960</u>
Book value as at 31.12.2011	<u>2 488 270</u>	<u>29 278</u>	<u>56 727</u>	<u>44 425</u>	<u>2 618 700</u>

(12) Fixed assets (continuation)

As at 31 December 2011 the fixed assets of the Company with the initial value 7 897 069 LVL (11 236 517 EUR) were fully depreciated.

Cadastral value of landed property on 31 December 2011 was 307 772 LVL (437 920 EUR). Cadastral value of buildings on 31 December 2011 was 2 636 182 LVL (3 750 949 EUR).

On 8 March 8 2010 the Company received statement of certified real estate appraisers about valuation of the Company's immovable property at the amount of 5 000 000 LVL (7 114 359 EUR).

As of 31 December 2011 immovable property (buildings and structures) of the Company with book value 1 748 766 LVL (2 488 270 EUR) has been pledged as a loan security in favour of Latvian commercial bank (appendix 20).

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(13) Long-term financial investments

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Participation in the capital of Ditton Chain SIA, 15% from the fixed capital	47 200	67 160	47 200	67 160
Long-term loans to Ditton Chain SIA	<u>619 190</u>	<u>881 028</u>	<u>333 518</u>	<u>474 554</u>
TOTAL	<u>666 390</u>	<u>948 188</u>	<u>380 718</u>	<u>541 714</u>

1 EUR = 0,702804 LVL

*Information on loans granted to Ditton Chain SIA as at 31.12.2011:

Security	Currency	Fixed interest rate per annum	Repayment	Maximum limit
Without security	LVL	4.00 %	Up to 31.12.2013	325 000 LVL
Without security	EUR	4.00 %	Up to 31.12.2017	1 000 000 EUR

(14) Finished products and goods for sale

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Finished products for sale	243 759	346 838	250 280	356 116
Stocks with slow turnover speed	9 134	12 997	14 159	20 146
Provisions for goods with slow turnover speed	<u>-9 134</u>	<u>-12 997</u>	<u>-14 159</u>	<u>-20 146</u>
TOTAL:	<u>243 759</u>	<u>346 838</u>	<u>250 280</u>	<u>356 116</u>

1 EUR = 0,702804 LVL

(15) Trade receivables

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Book value of trade receivables	2 343 100	3 333 931	1 025 816	1 459 605
Provisions for doubtful accounts receivable	<u>-88 887</u>	<u>-126 475</u>	-78 726	-112 017
TOTAL:	<u>2 254 213</u>	<u>3 207 456</u>	<u>947 090</u>	<u>1 347 588</u>

1 EUR = 0,702804 LVL

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(16) Other debtors

	2011	2011	<i>1 EUR = 0,702804 LVL</i>	
	LVL	EUR	2010	2010
			LVL	EUR
Value added tax (VAT) overpayment* (appendix 25)	161 810*	230 235	334 519*	475 978
VAT from non-paid bills	46 932	66 778	45 588	64 866
Overpayment of corporate income tax (appendix 25)	1 317	1 874	63 609	90 507
Accrued interest income	22 113	31 464	12 605	17 935
Other	<u>68 915</u>	<u>98 057</u>	<u>166 606</u>	<u>237 058</u>
TOTAL:	<u>301 087</u>	<u>428 408</u>	<u>622 927</u>	<u>886 344</u>

* The management of the Company intends to aim an overpaid value added tax occurred in December 2011 for payment of other taxes (for compulsory social insurance contributions and personal income tax debt settlement). Value added tax overpaid in 2010 has been aimed at payment of other taxes (compulsory social insurance contributions and personal income tax) in 2011.

(17) Cash and cash equivalents

	2011	2011	<i>1 EUR = 0,702804 LVL</i>	
	LVL	EUR	2010	2010
			LVL	EUR
Cash in paying counter	1 528	2 174	21	30
Cash in bank	<u>162 839</u>	<u>231 699</u>	<u>154 415</u>	<u>219 713</u>
Book value	<u>164 367</u>	<u>233 873</u>	<u>154 436</u>	<u>219 743</u>

	Currency	2011	2011	Currency	2010	2010
		LVL	EUR		LVL	EUR
LVL	-	29 064	41 354	-	6 097	8 675
USD	81	44	62	269	144	205
EUR	192 457	135 259	192 457	194 585	136 755	194 585
RUR	-	=	=	650 000	<u>11 440</u>	<u>16 278</u>
TOTAL:		<u>164 367</u>	<u>233 873</u>		<u>154 436</u>	<u>219 743</u>

(18) Fixed capital

The fixed capital of the Company is 7 400 000 LVL, which divides into 7 400 000 public bearer shares. The nominal value of each share is 1 LVL and each share entitles to one vote. The shareholders who own over 5% from the shares of the whole capital of the Company as at 31.12.2011 and at 31.12.2010 were:

NAME	Shares owned, % 31.12.2011	Shares owned, % 31.12.2010
Vladislavs Driksne	20,39	20,39
Eduards Zavadskis	20,00	20,00
MAX Invest Holding SIA	13,16	13,16
Maleks S SIA	11,10	9,65
Pavels Samuilovs	9,46	9,46

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(19) Long-term loans from credit institutions

1 EUR = 0,702804 LVL

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Loan from JSC "Citadele banka" (long-term part)	1 269 113	1 805 785	1 429 422	2 033 885

For information about the loan refer to appendix 20 of this financial statement.

(20) Short-term loans from credit institutions

1 EUR = 0,702804 LVL

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
Credit line from JSC "Citadele banka"	421 682	600 000	-	-
Loan from JSC "Citadele banka" (short-term part)	<u>160 309</u>	<u>228 099</u>	<u>160 309</u>	<u>228 099</u>
TOTAL:	<u>581 991</u>	<u>828 099</u>	<u>160 309</u>	<u>228 099</u>

As at 31.12.2011 information on loan received from JSC "Citadele banka" is following:

Number and date on the contract	Currency	Limit	Interest rate	Repayment term
Loan No.CI2010-2.3/1 dated 10.09.2010	EUR	2 300 000 EUR	6 months Euribor + 3.85 %	09.09.2015
Credit line No.CI2010-2.3/218 dated 25.11.2011	EUR	600 000 EUR	6 months Euribor + 4.00 %	24.11.2012

Loan security is a commercial pledge on all fixed assets, stocks and all rights to demand of the Company as a community of things at the moment of pledging, as well as on future constituents of the community of things. In accordance with the terms of this credit contract, the Company and SIA "Ditton Chain" (resident of the Republic of Latvia) undertake to ensure total DSCR (debt-service coverage ratio) ratio not less than 1.5. According to estimations of the Company's management in the reporting year this requirement has been fulfilled.

(21) Debts to suppliers and contractors

1 EUR = 0,702804 LVL

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
For materials	201 285	286 403	348 847	496 365
For services	<u>251 306</u>	<u>357 576</u>	<u>289 965</u>	<u>412 583</u>
TOTAL:	<u>452 591</u>	<u>643 979</u>	<u>638 812</u>	<u>908 948</u>

(22) Taxes and social security payments

1 EUR = 0,702804 LVL

	2011 LVL	2011 EUR	2010 LVL	2010 EUR
State fee on entrepreneurship risk	87	124	92	131
Immovable property tax	9 226	13 127	6 778	9 644
Compulsory social security contributions	53 920	76 721	322 868	459 400
Personal income tax	98 759	140 521	202 444	288 052
Nature resources tax	<u>56</u>	<u>80</u>	<u>416</u>	<u>592</u>
TOTAL:	<u>162 048</u>	<u>230 573</u>	<u>532 598</u>	<u>757 819</u>

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(23) Other creditors

	2011	2011	<i>1 EUR = 0,702804 LVL</i>	
	LVL	EUR	2010	2010
			LVL	EUR
Settlements of salaries for December	70 784	100 717	60 921	86 682
Labor union member's fee 0,2% from salary	35 338	50 281	32 993	46 945
Debts for purchased shares	<u>13 800</u>	<u>19 636</u>	<u>13 800</u>	<u>19 636</u>
TOTAL:	<u>119 922</u>	<u>170 634</u>	<u>107 714</u>	<u>153 263</u>

(24) Accumulated liabilities

	2011	2011	<i>1 EUR = 0,702804 LVL</i>	
	LVL	EUR	2010	2010
			LVL	EUR
Electricity	19 726	28 068	18 495	26 316
Auditing services	5 102	7 259	4 934	7 020
Gas	2 668	3 796	11 501	16 364
Interest for loan	8 601	12 238	6 790	9 662
Communication services	276	393	215	306
Unused vacations	48 758	69 376	53 975	76 800
Transport services	626	890	-	-
Customs warehouse services	<u>23</u>	<u>33</u>	=	=
TOTAL:	<u>85 780</u>	<u>122 053</u>	<u>95 910</u>	<u>136 468</u>

(25) Tax movement chart

Type of tax	Tax liabilities as at 31.12.2010	Charged in year 2011	Fines charged in 2011	Paid in year 2011	Fines paid in 2011	Transferred from/to other taxes	Refunded	Tax liabilities as at 31.12.2011
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
VAT	-334 519	111 875	-	-462 283	-	863 218	-340 101	-161 810
State entrepreneurial risk fee	92	1 112	-	-1 117	-	-	-	87
Corporate income tax	-63 609	-	-	-	-1 317	63 609	-	-1 317
Immovable property tax for buildings and facilities	6 778	36 625	70	-34 195	-52	-	-	9 226
Compulsory social insurance contributions	322 868	531 408	35	-127 157	-10 088	-663 146	-	53 920
Personal income tax	202 444	272 361	3 146	-107 854	-7 893	-263 445	-	98 759
Natural resources tax	416	1 519	-	-1 643	-	-236	-	56
Immovable property tax for land	-	4 881	-	-4 881	-	-	-	-
TOTAL:	134 470	959 781	3 251	-739 130	-19 350	-	-340 101	-1 079
<i>Including overpayment (liabilities)</i>	-398 128							-163 127
	532 598							162 048

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(25) Tax movement chart (continuation)

1 EUR = 0,702804 LVL

Type of tax	Tax liabilities as at 31.12.2010 EUR	Charged in year 2011 EUR	Fines charged in 2011 EUR	Paid in year 2011 EUR	Fines paid in 2011 EUR	Transferred from/to other taxes EUR	Refunded EUR	Tax liabilities as at 31.12.2011 EUR
VAT	-475 978	159 184	-	-657 769	-	1 228 248	-483 920	-230 235
State entrepreneurial risk fee	131	1 582	-	-1 589	-	-	-	124
Corporate income tax	-90 509	-	-	-	-1 874	90 509	-	-1 874
Immovable property tax for buildings and facilities	9 644	52 112	100	-48 655	-74	-	-	13 127
Compulsory social insurance contributions	459 400	756 125	50	-180 928	-14 352	-943 574	-	76 721
Personal income tax	288 052	387 535	4 476	-153 462	-11 233	-374 847	-	140 521
Natural resources tax	592	2 161	-	-2 338	-	-336	-	80
Immovable property tax for land	-	6 945	-	-6 945	-	-	-	-
TOTAL:	191 333	1 365 644	4 626	-1 051 686	-27 533	-	-483 920	-1 536
<i>Including overpayment (liabilities)</i>	-566 487							-232 109
	757 819							230 573

(26) Average number of employees

	2011	2010
Average number of persons employed by the Company during the year	<u>358</u>	<u>386</u>

(27) Remuneration Report of the Council and Management Board members

1 EUR = 0,702804 LVL

	Council		Management Board		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
Salaries and remuneration	12 562	17 874	23 757	33 803	36 319	51 677
Compulsory social insurance contributions	<u>3 026</u>	<u>4 306</u>	<u>5 723</u>	<u>8 143</u>	<u>8 749</u>	<u>12 449</u>
TOTAL	<u>15 588</u>	<u>22 180</u>	<u>29 480</u>	<u>41 946</u>	<u>45 068</u>	<u>64 126</u>

(28) Going concern principle

The Company closed the year 2011 with profit in the amount of LVL 121 417. In the existing circumstances the Company is continuing to work in economy regime by using internal resources and reorganizing production processes according to the existing volumes of demand, production and costs, including optimization of staff in accordance with production volumes and its actual employment.

The Company intends to close the year 2012 without losses.

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(29) Events after the end of reporting period

In the time period from the last day of the reporting year till the day of signing of this financial statement there have not been any significant events, which would significantly influence the financial standing of the Company as at 31 December 2011.

(30) Eventual liabilities and pledges

On 10.09.2010 the Company concluded Credit contract Nr.CI2010-2.3/1 with JSC "Citadele banka". In conformity with the Credit contract there is a commercial pledge on the whole property as a community of things fixed in favour of the JSC "Citadele banka", as well as there is a financial pledge fixed on all settlement accounts opened in JSC "Citadele banka" in favour of the JSC "Citadele banka". The pledge serves as a security of received credit resources. Along with the Credit contract are have been Pledge Agreement No. CI2010-2.3/2-IE1, Pledge Agreement No. CI2010-2.3/2-IE2 and Commercial Pledge Agreement No.CI2010-2.3/2-KL4 concluded.

On 25.11.2011 the Company concluded a Credit Line Agreement No.CI2011-2.3/218 with the JSC „Citadele banka”.

- Pledge Agreement Nr.CI2011-2.3/218-IE1: subject of the pledge – immovable property under cadastral No. 0500 507 1401 (buildings and constructions), Mendelejeva Str. 11, Visku Str. 17, Daugavpils;
- Pledge Agreement Nr.CI2011-2.3/218-IE2: subject of the pledge – immovable property under cadastral No. 0500 007 1402 (land), Visku Str.17, Daugavpils;
- Commercial Pledge Agreement No.CI2011-2.3/218-KL3: subject of the pledge: movable property of the JSC „Ditton pievadķēžu rūpnīca”, commercial pledge registration deed No.100154408;
- Commercial Pledge Agreement No.CI2011-2.3/218-KL4: subject of the pledge: movable property of SIA „Ditton Chain” (pledgor SIA „Ditton Chain”), commercial pledge registration deed No.100154409;
- Guarantee Agreement Nr.CI2011-2.3/218-GL-7; subject: guarantee; guarantor SIA „Ditton Chain”.

The Company has also granted a security for the partner’s SIA “Ditton Chain” liabilities by concluding with JSC “Citadele banka” Pledge Agreement No.CI2010-2.3/2-IE1, Pledge Agreement No.CI2010-2.3/2-IE2, Commercial Pledge Agreement No.CI2010-2.3/2-KL4 and Guarantee Agreement No.CI2010-2.3/2-GL8, maximum amount of the guarantee is 4 400 000 EUR (3 092 337,61 LVL)..

Taking into account that SIA „Ditton Chain” has issued mutual guarantees in respect of JSC „Ditton pievadķēžu rūpnīca”, and SIA „Ditton Chain” has also received credit funds, which are actually invested into the immovable property of JSC „Ditton pievadķēžu rūpnīca”, in case, if contractual obligations become terminated regardless of reasons, investment made by SIA „Ditton Chain” remain at disposal of JSC „Ditton pievadķēžu rūpnīca” without any compensation to SIA „Ditton Chain”.
