JSC DITTON PIEVADĶĒŽU RŪPNĪCA

Reg. No. 40003030187

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

ANNUAL REPORT FOR THE YEAR 2015

(01.01.2015 – 31.12.2015)

Daugavpils
2016

CONTENTS

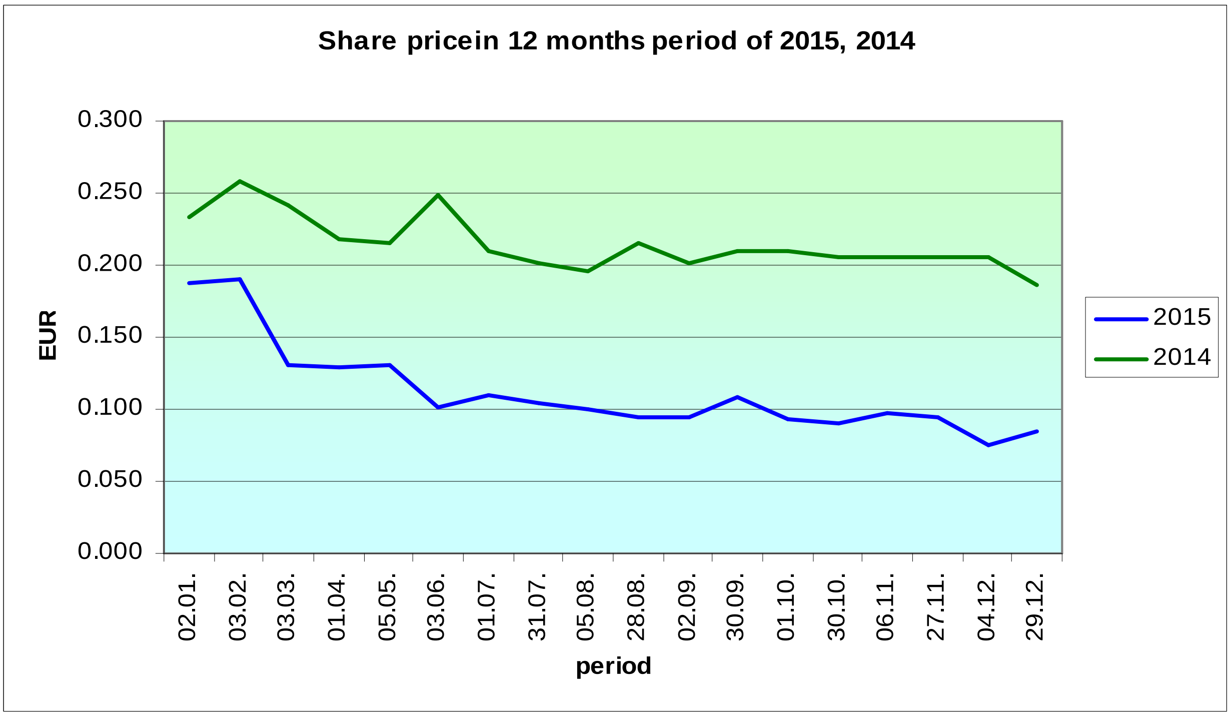
INFORMATION ABOUT THE COMPANY

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.
NACE code	28.15 Manufacture of bearings, gears, gearing and driving elements
Legal address	Višķu St. 17, Daugavpils, LV-5410, Latvia
Mailing address	Višķu St. 17, Daugavpils, LV-5410, Latvia
Fixed capital Number of Public bearer shares Nominal value of one share	10 360 000 EUR 7 400 000 1.40 EUR
Chief accountant	Valentīna Krivoguzova, p.c.191257-10218
Reporting year	01.01.2015 – 31.12.2015
Previous reporting year	01.01.2014 – 31.12.2014
Auditors and their address	Deloitte Audits Latvia Ltd Reg. No. 40003606960 Commercial license No.43 Grēdu St. 4a, Rīga, LV-1019 Jeļena Mihejenkova Sworn auditor Certificate No.166

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, 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 instrument market.

COMPANY SHAREHOLDERS (OVER 5%) *

NAME	Ownership interest, %
Eduards Zavadskis	20,00
Vladislavs Drīksne	19,92
MAX Invest Holding Ltd	13,63
Maleks S Ltd	12,24
DVINSK MNG Ltd	9,46

** Note: 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 01.02.2016. 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 Instrument Market Law.*

Under the subsections 56 [1] (1) (2, 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.

Types of activities of the company:

- manufacture of parts and accessories for motor vehicles
- manufacture of other transport equipment
- 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
- manufacture of weapons and ammunition
- forging, pressing, stamping and roll-forming of metal; powder metallurgy
- treatment and coating of metals; machining
- manufacture of cutlery, tools and general hardware
- manufacture of other fabricated metal products
- manufacture of rubber products
- manufacture of plastic products
- manufacture of general-purpose machinery
- manufacture of other general-purpose machinery
- manufacture of metal forming machinery and machine tools
- manufacture of other special-purpose machinery
- 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
- legal activities
- accounting, bookkeeping and auditing activities; tax consultancy
- activities of head offices
- management consultancy activities
- combined facilities support activities
- office administrative and support activities

- organisation of conventions and trade shows
- business support service activities
- electric power generation, transmission and distribution
- manufacture of gas; distribution of gaseous fuels through mains
- steam and air conditioning supply
- water collection, treatment and supply
- sewerage
- construction of other civil engineering projects
- technical testing and analysis
- leasing of intellectual property and similar products, except copyrighted works
- other human resources provision
- sawmilling and planning of wood
- manufacture of products of wood, cork, straw and plaiting materials
- demolition and site preparation
- electrical, plumbing and other construction installation activities
- building completion and finishing
- other specialised construction activities
- support activities for transportation
- publishing of books, periodicals and other publishing activities
- computer programming, consultancy and related activities
- data processing, hosting and related activities; web portals
- other information service activities
- other financial service activities, except insurance and pension funding
- activities auxiliary to financial services, except insurance and pension funding
- fund management activities
- advertising
- market research and public opinion polling
- other professional, scientific and technical activities
- rental and leasing of other machinery, equipment and tangible goods
- security systems service activities
- other activities in conformity with decisions of shareholders, the Council and the Management Board.

INFORMATION ON MEMBERS OF THE MANAGEMENT BOARD AND OF THE COUNCIL

THE MANAGEMENT BOARD

Chairman of the Management board

Rolands Zarāns, elected 15.01.2014

Members 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 of shares	**%**
Rolands Zarāns, from 15.01.2014.	no shares	-
Nataļja Redzoba	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

Vladimirs Bagajevs /Vladimir Bagaev/, elected 28.05.2012.

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	-
Vladimirs Bagajevs	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/en/about-us/investors-shareholders/.

* as at 01.02.2016.

MANAGEMENT REPORT

Information on the results of Company`s activities in 2015

The net-turnover in 12 months of 2015 reached EUR 6,354 thousand, being by EUR 4,342 thousand lower than the index of 12 months of 2014.

Commodity output amounted to EUR 4,940 thousand, what is by EUR 2,113 thousand less than results of the relevant period of the previous year.

By now the export of the core products to Eastern and Western markets reached 58 per cent (35% eastwards and 23% westwards), 42% of products are sold on Latvian market.

The Company closed the year of 2015 with a pre-tax loss EUR 4,209 thousand. The after-tax rate accounted to EUR 4,270 thousand. The analysis of the loss structure and causes is revealed in the section „Significant events. Market tendencies and development of the company. Risks".

The average number of employees of the JSC DITTON pievadķēžu rūpnīca was 189 employees during 12 months of 2015.

The average salary in 12 months period of 2015 amounted to EUR 470, what is by EUR 1 more than in 12 months of 2014.

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

The team of shareholders, appointed by the resolution of the shareholder`s meeting dated 20.07.2015, estimated the operations, markets, development tendencies, risks of the Company and causes of adverse results as well. The Management board finds this analysis as objective and corresponding to the Company`s position and deems of utmost importance to include it into the Management report.

It developed historically that 65-70 per cent of Company's activities are operated in the so-called East sector of the market, i.e. the Customs Union countries, the CIS and Asian countries, whereas 30-35 per cent in the so-called West market sector, and mainly in the EU countries.

The Company does not have now any objective reasons to think about correlation changes in the market and about significant growth of the Western market.

First of all, according to GDP rate of the EU there is no evidence that the Western market is remarkably increasing, e.g., what would influence Company`s shares in the market.

Secondly, all the sectors of the EU market are developing independently from each other, e.g. there is a kind of stagnation or even recession in the engineering and metalworking sectors in comparison to other sectors, which are growing.

Unfortunately, even those companies who have been operating for many years in this market are forced either to reduce their volumes, either to stop their activities or even to declare bankruptcy.

For example, some of Company's partners, such as an Italian partner since 1996 C.M.Catenico Milanese S.R.L. with turnover EUR 2.729 million as at 01.01.2006 or a German partner since 2006 KAHI-Antriebstechnik GmbH with the turnover of around EUR 1.00 million, declared their bankruptcy.

From an objective point of view, there is no cause for optimism that the Company might succeed in change of its volumes and interests in particular sector in the near future, especially if it does not depend from the Company. It is customary that a western consumer is focusing on local manufacturers.

Under such circumstances, the East market sector is and remains a core market for the Company. Therefore, shareholders made an objective and reasonable decision on injections into this market sector herewith contributing now to the trade without any additional investments or costs in the future.

Unfortunately, in comparison to favourable results of 2011, 2012 and 2013 demand and sales indicators of 2014 and 2015 slid down under the influence of the following circumstances:

(a) The fall of rouble in value against the European (EUR) and the US (USD) currency, e.g., the rouble exchange rate against the euros grew up in the period from 31.12.2013 to 31.12.2015. up to 77.22 per cent, while the weighted average of exchange rates of 2015 in comparison to the same index of 2013 went up to 60.18 per cent [Source: Audit-it.ru]. Companies trading in the Russian Federation, the Customs Union and the CIS countries in roubles and other local currency face high risks by translating local currency to euros because of adverse exchange rate dynamics.

The companies using exclusively EUR or USD currency by sale of their products in these markets cannot guarantee constant price growth in roubles equal to exchange rate dynamics, so they meet with a loss due to the loss of customers. The latest tendency results negative consequences in future prospect, e.g., loss of the market, customers switching suppliers by choosing mainly local or those foreign manufacturers, who depend less on EUR and USD exchange rate.

As a result of this, the import of goods for the period of 9 months 2015 to the Russian Federation and the Customs Union countries, compared to the index of 9 months 2014, reduced to 38.3 per cent (Source: Ministry of Economic Development of the Russian Federation, "The current economic situation in January-October 2015").

(b) Economic Sanctions Policy, which leads to reduction of goods turnover between the Russian Federation and the EU countries, for example, Eckhard Cordes, Chairman of Germany`s Committee on Eastern European Economic Relations, appraised that German exports to Russia fell by 34 per cent. According to data of the economic examinations compiled by Austrian Institute of WIPO (based on Eurostat and International Monetary Fund data) French exports to the Russian Federation decreased to 33 per cent of year income. According to the data of Latvian Ministry of Economy exports data of first quarter 2015 to Russia lowed down by 28.5 per cent compared with 2014 and by the end of 2015 this figure can exceed 35 per cent.

In view of overall positive dynamics of Latvian exports of 2014 and 2015 at the expense of other sectors of the economy, the total export structure (2015 fell to 2.9%) and monetary aggregates (in 2014 by -11.9%, 2015 compared to 2013 by -12%) of Latvian exports of metalworking industry decreased in 2014 and 2015. (Source: Ministry of Economic Affairs of the Republic of Latvian, "Report on the Economic Development of Latvia")

(c) The reduction of consumer demand due to the fall of rouble exchange rate and real income in market sectors which are bound with Company's output. For example, in the sphere of car sales, where Company`s production is used for building of cars, e.g., the total turn-down of car sales for 9 months 2015 amounted to 33.6 per cent, whereas 30.0 per cent for the model AUTOVAZ-RENAULT-NISSAN and 30.3 per cent for AVTOVAZ LADA of AVTOVAZ accordingly. The same index of previous year accounted to 10-15 per cent (Source: Press Release of the AEB Automobile Manufacturers Committee, Association of European Businesses).

The importance and relevance of recession of this industry in the Russian Federation is underlined with ambitious development programs till 2025 of the Cabinet of Ministers on support and development of automobile industry. There are overall tendencies on Company`s trade market as well.

First of all, the useful life of cars, devices, machinery, industrial equipment has been extended by improvement of their wear resistance and working capacity, as well by technical repair and maintenance. In practice, this means that companies and factories have been tending in the past to write off the machinery according to warranty period given by the manufacturer, whereas nowadays the customer personally decides to extend the useful life.

Secondly, the sector of new car, devices, machinery, and industrial equipment sale collapsed, whereas the aftermarket share, including repair and maintenance service, rose up.

The demands of aftermarket are lower than sales of Company`s production in previous periods.

As all market sectors can be described as unstable due to various factors, the risks of long-term forecasts and investment are on a quit high level.

When preparing the operational plan for 2010 in the Russian Federation, the Customs Union and Ukrainian markets, the Company relied on the annual growth forecasts of 3% based on the national and regional GDP growth dynamics. In average perspective the foreseen GDP indexes amounted in 2010 and 2011 to + 4.3 per cent, and in 2012: + 3.4%. Company's markets remained stable with comparable values as well.

Since 2013, new factors came into sight, which could not be foreseen, predicted, taken into account before, and handled with Company`s resources as well. According to these factors, the market growth (GDP) slowed down significantly in 2013 to + 1.3 per cent and in 2014 to + 0.5 per cent (the forecast for 2015 promised recession to -3.5 per cent). Usually large or long-term investment or commodity markets of real estate, cars, financial instruments and recreation etc., but not of essentials, respond as first under such circumstances, and namely with a substantial reduction in sales.

The exchange rate dynamic of Russian rouble (the main currency of Company`s trade in such countries as Russia, the Customs Union and the CIS) against the euro became even more unpredictable as never before 2014.

For example, the weighted average of exchange rates in 2010 amounted to 40.298 roubles per euro, and 7.12 per cent less in 2009. Consequently, the rate increased to +1.37 per cent in 2011, then went down up to -4.13 per cent in 2012 and rose up to 5.18 per cent in 2013. In fact, it means that there was an option to determine the gap of the exchange rate, which usually was adjusted by the Central Bank of the Russian Federation. When the second half of 2014 started, the Central Bank suddenly and unpredictably stopped to govern this. Therefore, in comparison to 2013 the weighted average rate of 2015 collapsed to 33.64 per cent, later on to 79.62 per cent as at 31 December 2015, and consequently reached 108.45 per cent as at 20 January 2016. (Source: Audit-it.ru, section Currency).

Drawing a conclusion from the information revealed above, the market tendencies, especially those which launched in 2014 and 2015, and are still lasting, are unpredictable, and depend rather on factors and processes resulted by the administrative governance or consequences of its operations than upon objective economic factors and processes of free and competitive market.

For example, at request of European metal fabricators the import duties for the metal produced in the Russian Federation jumped from 19.5 to 36 per cent in 2016. By making such decision, the EU ignored the interests of the metalworking factories, who export manufactured outputs back to the Customs Union, CIS, Ukraine and Asian countries. The resolution made in favour of metal fabricators of the EU is causing loss and loss generating condition in Customs Union and the CIS countries for other manufacturers of the EU, as goods prices are growing (by 10-15 per cent) along with raw material costs. Such an upturn enhance the probability of losing this market share even without any response measures.

Consequently to this, in 2013 the Company entered the period of instability, when it's difficult to foreseen any market changes or high risks, as it is out of Company`s power in general. The Company cannot improve the adverse circumstances of this period alone as well.

The summary of Company's commercial activities in 2015 entitles results developed under the influence of the multiple scope of revealed development factors and circumstances, as well as Company's integration into the world economy and its objective processes.

When considering the prospects, the Management board has been focusing on the development of sales and an increase of its shares in West market sector, while keeping in mind its growth limits due to general economic conditions in this market, as well as stabilization on the East market sector (with stabilization of the Russian rouble rate).

As a positive factor for the Western market could be seen the currently drawn Machine industry development program of the Russian Federation (The similar program 2009-2011 significantly improved the situation in this market sector).

Whereas the Company plans to ensure the growth of its commodity output in other manufacturing sectors where the significant demand for special driving chains is present, for example, for agricultural facilities or manufacturing equipment and machinery.

The Company applies loss minimisation program based on optimisation of internal structure, proper management of intellectual and human resources.

The overall Company`s development forecast seems to be moderately positive.

On loss of the reporting year

In view of the global economic situation and actual performance indices of the Company, the Management board is planning to use the profit of 2016 and following years to cover the loss of 2015.

STATEMENT ABOUT MANAGEMENT LIABILITY

According to the information at its disposal, the Management board considers that the annual report has been prepared due to provisions of the legal acts and provides a true and fair view of financial position of the Company and its commercial activities, cash flow and capital. Requirements of the legislative acts of the Republic of Latvia have been satisfied at all essential points.

The management confirms herewith that there have been no significant events taken place after the end of the reporting year, which could have affected the annual report of the Company for year 2015.

Management report contains truthful information.

Chairman of the Management board
of the JSC Ditton pievadķēžu rūpnīca Rolands Zarāns
….. April 2016

REPORT
ON CORPORATE GOVERNANCE

§ 1

By arranging corporate governance of the Issuer, the Management board and the Council follow Corporate Governance Principles, which has 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 statement 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 2015 has been reflected in the annex to this report "Statement on corporate governance principles". Shareholders may review the information included into this appendix in the appropriate section of the Issuer on the website of NASDAQ OMX Rīga, in CSRI-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 the annual report for 2015 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 Annual Accounts Law, 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 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 on the basis of the list of shareholders of JSC Ditton pievadķēžu rūpnīca as at 01.02.2016, taking into account the shareholders' notifications on acquisition and disposal significant holding in the Issuer's equity due to section 61. of the Financial Instrument Market Law):

- Eduards Zavadskis – 20,00%
- Vladislavs Drīksne – 19,92%
- MAX Invest Holding Ltd. – 13,63%
- Maleks S Ltd. – 12,24%
- DVINSK MNG Ltd.– 9,46%

The Issuer have 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 Instrument 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.

Personal composition of the Council and of the Management board is specified on page 7 of the current annual report.

Note: the Issuer – JSC Ditton pievadķēžu rūpnīca

Chairman of the Management board — Rolands Zarāns
of the JSC Ditton pievadķēžu rūpnīca
29 April 2016

COUNCIL REPORT
to the annual report for the year 2015

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 27.04.2016, Protocol No191

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 2015 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.

The indices of the closed year 2015 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 twelve 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 statement of the Company for 12 months of 2014 and interim financial reports for 3, 6, and 9 months of the year 2015.

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

- reviewing of the annual report for the year 2014 and approval of the Council report;

- approving of draft resolutions on the issues of the agendas of the regular and extraordinary shareholders` meetings convened;
- Company's performance results;
- 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.

The Company has no information at its disposal about violation of the principle of independence of Council members. On 5 February 2016, the extraordinary shareholders` meeting assessed operations of the Council as positive and corresponding to Company`s interests and market challenges.

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

In the reports of previous years 2011 - 2014 the Council, based on expert opinion, informed the shareholders about objectivity of the annual statements 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 2015 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.

In view of the information mentioned above and the situation in the Company, the Council considers it appropriate to recommend discharging the loss of 2015 by the profit of 2016 and following years, 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
29 April 2016

Translation from Latvian

INDEPENDENT AUDITORS' REPORT

INCOME STATEMENT
FOR THE YEAR 2015

	Appendix	2015 EUR	2014 EUR
Net turnover	1	6 353 984	10 695 729
Production costs of goods sold	2	-8 047 564	-9 284 271
Gross profit/loss		**-1 693 580**	**1 411 458**
Sales costs	3	-1 596 713	-1 590 141
Administrative expenses	4	-591 401	-769 994
Other income from operating activities	5	195 227	742 223
Other costs of operating activities	6	-410 949	-5 607 535
Other interest income and similar income	7	982	1 206
Interest payment and similar expenses	8	-112 493	-150 134
Profit/loss before taxes		**-4 208 927**	**-5 962 917**
Enterprise income tax	9	-	-
Other taxes	10, 26	-61 037	-61 036
Profit/loss for the fiscal period		**-4 269 964**	**-6 023 953**
Earnings per share (EPS)		**-0,577**	**-0,814**

Appendixes from page 24 till 42 are integral parts of this financial statement.

The financial statement has been signed on behalf of the Company on 29 April 2016 by

Rolands Zarāns
Chairman of the Management board

(signature)

BALANCE SHEET AS AT 31.12.2015

ASSETS	Appendix	31.12.2015. EUR	31.12.2014. EUR
1. Long-term investments			
I. Intangible investments			
Software licenses		630	1 058
Other intangible investments		-	1 589 800
Total intangible investments	11	**630**	**1 590 858**
II. Fixed assets			
Land, buildings and structures		4 627 340	2 157 230
Equipment and machinery		26 321	18 359
Other fixed assets and inventory		10 943	3 228
Costs of the establishment of fixed assets and unfinished building objects		12 649	2 048 860
Total fixed assets	12	**4 677 253**	**4 227 677**
III. Long-term financial investments			
Participation in the capital of related companies	13	67 160	67 160
Other loans and other long-term debtors	15	-	1 167 700
Total long-term financial investments		**67 160**	**1 234 860**
1. TOTAL LONG-TERM INVESTMENTS		**4 745 043**	**7 053 395**
2. Current assets			
I. Inventories			
Raw materials, consumables and supplies		654 399	631 943
Work in progress		194 041	220 186
Finished products and goods for sale	14	233 943	461 588
Advance payments for goods and services		1 509 591	104 136
Total inventories		**2 591 974**	**1 417 853**
II. Debtors			
Trade receivables	15	664 843	2 702 872
Other debtors	16	82 381	35 287
Next period costs		22 140	11 133
Total debtors		**769 364**	**2 749 292**
IV. Cash and cash equivalents	17	**79 259**	**59 576**
2. TOTAL CURRENT ASSETS		**3 440 597**	**4 226 721**
TOTAL ASSETS		**8 185 640**	**11 280 116**

BALANCE SHEET AS AT 31.12.2015

LIABILITIES	**Appendix**	**31.12.2015. EUR**	**31.12.2014. EUR**
1. Equity			
Stock or share capital (equity capital)	18	10 529 251	10 529 251
Other reserves		169 251	-
Retained profits:			
a) retained profits brought forward from the previous year		-5 637 327	386 626
b) retained profits of fiscal period		-4 269 964	-6 023 953
1. Total equity		**621 960**	**4 891 924**
2. Long-term creditors:			
Loans from credit institutions	19	-	1 502 387
Next period income	24	1 099 313	-
2. Total long-term creditors		**1 099 313**	**1 502 387**
3. Short-terms creditors:			
Loans from credit institutions	20	2 294 223	2 096 000
Other loans		328 607	233 607
Prepayments received from purchasers		21 259	67 094
Accounts payable to suppliers and contractors	21	2 873 282	1 817 615
Taxes and State mandatory social insurance payments	22, 26	204 883	437 540
Other creditors	23	582 763	113 373
Next period income	24	60 520	-
Accrued obligations	25	98 830	120 576
3. Total short-term creditors		**6 464 367**	**4 885 805**
Total creditors		**7 563 680**	**6 388 192**
TOTAL LIABILITIES		**8 185 640**	**11 280 116**

Appendixes from page 24 till 42 are integral parts of this financial statement.

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Rolands Zarāns
Chairman of the Management board ________________
(signature)

CASH FLOW STATEMENT FOR THE YEAR 2015

	Appendix	2015 EUR	2014 EUR
I. Cash flows from operating activities			
1. Profit or loss before taxes		-4 208 927	-5 962 917
Adjustments to:			
Write-off of assignment contracts	6	-	1 036 060
Depreciation of tangible assets	12	306 687	633 492
Amortization of intangible assets	11	1 590 228	1 590 228
Gain on disposal of tangible assets, net	5, 6	-54 618	-685 043
Income from interest	7	-982	-1 206
Interest payments	8	112 493	150 134
2. Net-profit or net-loss from operating activities in fiscal period		-2 255 119	-3 239 251
Adjustments to Current assets and Short-term creditors:			
Debtors		1 990 903	2 929 924
Reserves		-1 174 121	1 824 852
Creditors		1 921 133	-1 245 431
3. Cash flows from operating activities		482 796	270 093
4. Taxes payments (corporate income and immovable property taxes)	26	-15 213	-53 607
Net cash provided by operating activities		**467 583**	**216 486**
II. Cash flows of investing activity			
Purchases of fixed assets		-1 470 528	-1 316 366
Disposal of fixed assets		1 169 683	7 808
Interest received		-	206
Net cash used in investing activities		**-300 845**	**-1 308 352**
III. Cash flows of financing activities			
Repayment of borrowings, net		-1 209 164	1 102 786
The EU aid of Investment and Development Agency of Latvia (LIAA)		1 159 833	-
Proceeds from borrowings		7 000	-
Interest payments		-104 724	-158 686
Net cash used in financing activities		**-147 055**	**944 100**

CASH FLOW STATEMENT
FOR THE YEAR 2015
(Continuation)

SUMMURY

	Appendix	2015 EUR	2014 EUR
Cash flows from operating activities, net		**467 583**	**216 486**
Cash flows of investing activities, net		**-300 845**	**-1 308 352**
Cash flows of financing activities, net		**-147 055**	**944 100**
Net (decrease)/increase in cash and cash equivalents		**19 683**	**-147 766**
Cash and cash equivalents at the beginning of fiscal period		59 576	207 342
Cash and cash equivalents at the end of fiscal period	17	79 259	59 576

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Rolands Zarāns
Chairman of the Management board ________________
(signature)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2015

	Equity capital	Other reserves	Retained profit of previous years	Profit/loss of the reporting year	TOTAL equity capital
	EUR	EUR	EUR	EUR	EUR
At 31.12.2013	**10 529 251**	**-**	**1 539 495**	**-1 152 869**	**10 915 877**
Profit/loss of 2013 was reclassified to the retained profits of previous periods	-	-	-1 152 869	1 152 869	-
Profit/loss of the reporting year	-	-	-	-6 023 953	-6 023 953
At 31.12.2014	**10 529 251**	**-**	**386 626**	**-6 023 953**	**4 891 924**
Profit/loss of 2014 was reclassified to the retained profits of previous periods	-	-	-6 023 953	6 023 953	-
Other reserves	-169 251	169 251	-	-	-
Profit/loss of the reporting year	-	-	-	-4 269 964	-4 269 964
At 31.12.2015	**10 360 000**	**169 251**	**-5 637 327**	**-4 269 964**	**621 960**

Appendixes from page 24 till 42 are integral parts of this financial statement.

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APPENDIX TO THE ANNUAL REPORT

Principles of bookkeeping and methods of evaluation

Fundamental principles of the preparation of the financial statement

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

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

a) There is an assumption that the Company is a going concern.
b) There are used the same evaluation methods as the last year.
c) 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.
d) There are take 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.
e) There are evaluated separately component parts of assets and liabilities;
f) The closing balance in the previous year is in line with the opening balance of the fiscal year.
g) There are revealed the economic bargains in view of their economic content and entity, but not their legal form.

In 2015, 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.

In Company's management opinion, the Company has had no related party transactions in the reporting year, which should be reflected in this financial statement due to provisions of the section 53.1 of the Annual Accounts Law.

The reporting year is from 1 January 2015 till 31 December 2015.

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.

	31.12.2015.	**31.12.2014.**
USD	1 USD = 1,0887 EUR	1 USD = 1,2141 LVL
RUB	1 RUB = 80,6736 EUR	1 RUB = 72,337 LVL

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
Property and buildings	10
Technological equipment	10-50
Other tangible assets	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 and cash equivalents

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

Leases

Leases of fixed assets where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance lease is capitalised as a fixed asset at the lease price which is equal to fair value of the leased property or set the minimum lease payment when lease price is lower than fair value of the leased property. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability ensuring a constant periodic rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in liabilities. Finance charges are included into income statement as interest costs. Fixed assets acquired under finance leasing contracts are depreciated over their useful life. All other leases are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term.

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.

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 statement 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 statement, the Management board 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 board of the Company has assessed accounts receivable and loans, it has taken decision to create additional provisions as of 31 December 2015 (Appendix 15 and 19).

- 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 2015.

- 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 board of the Company has reviewed the advances paid, and considered that there is no necessity for additional provisions as at 31 December 2015.

(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:

	2015 EUR	2014 EUR
Market		
Eastern countries	2 207 665	5 598 840
Western countries	1 487 536	2 911 137
Latvia	2 658 783	2 185 752
TOTAL	**6 353 984**	**10 695 729**

(2) Production costs of goods sold

This account contains costs related to volumes produced.

Type of costs	2015 EUR	2014 EUR
Material costs	5 412 132	6 162 173
Salary costs for production staff	699 526	1 146 938
Electricity costs	645 499	844 393
Depreciation of fixed assets	283 656	590 476
State mandatory social insurance payments	162 975	266 772
Heating and gas costs	46 308	147 886
Material delivery costs	143 021	71 508
Water costs	21 108	24 087
Current repair expenses	227 368	17 509
Insurance costs	6 581	23 890
Environment protection costs	5 384	8 620
Stock changes	314 979	-133 407
Other production costs	79 027	113 426
TOTAL	**8 047 564**	**9 284 271**

(3) Sales costs

	2015 EUR	2014 EUR
Amortization of intangible investments*	1 589 800	1 589 799
Other	6 913	342
TOTAL:	**1 596 713**	**1 590 141**

*Refer to appendix 11 of this financial statement.

(4) Administrative expenses

	2015 EUR	2014 EUR
Administrative expenses	347 784	444 189
State mandatory social insurance payments	79 853	101 927
Depreciation and amortization	23 460	43 445
Security expenses	56 342	62 680
Business travel expenses	14 037	16 473
Communication service expenses	12 297	12 686
Expenses relating to annual report and audit*	17 919	16 554
Bank fees	6 509	4 789
Office expenses	390	1 107
Other administration costs	32 810	66 144
TOTAL:	**591 401**	**769 994**

* Deloitte Audits Latvia Ltd. has audited only Company`s annual report for the year 2015.

(5) Other income from operating activities

	2015 EUR	2014 EUR
Net income from sale of tangible assets	54 618	685 043
Decrease in provisions for doubtful accounts receivable (appendix 15)	61 080	-
Decrease in provisions for inventories with low turnover (appendix 14)	70 852	2 246
Decrease in provisions for vacations	8 677	10 668
Other income	-	44 266
TOTAL:	**195 227**	**742 223**

(6) Other costs of operating activities

	2015 EUR	2014 EUR
Penalties	40 898	80 670
Net loss from exchange rate differences	85 957	6 412
Fixed assets disposal costs	-	7 808
State entrepreneurial risk fee	880	1 284
Increase in provisions for doubtful accounts receivable (appendix 15)	44 931	4 258 054
Increase in provisions for inventories with low turnover (appendix 14)	37 816	205 757
Other costs of operating activities	12 503	11 490
Increase in provisions (appendix 23)	187 964	-
Loss from write-off of the assignment contracts *	-	1 036 060
TOTAL:	**410 949**	**5 607 535**

* On 31 December 2013, the Company had the claim right for EUR 3,024,380 due to four assignment contracts. In December 2014, these claims had been sold to a third party (a legal entity of the Republic of Latvia) for remuneration lower than the nominal value of the assignment contracts. As a result, the Company incurred a loss EUR 1,036,060 from the assignment contracts write-downs.

(7) Other interest income and similar income

	2015 EUR	2014 EUR
Interest income on loans	982	1 206
TOTAL:	**982**	**1 206**

(8) Interest payment and similar expenses

	2015 EUR	2014 EUR
Interest payment for loans	112 493	150 134
TOTAL:	**112 493**	**150 134**

(9) Enterprise income tax

	2015 EUR	2014 EUR
Enterprise income tax for the reporting year (appendix 27)	-	-
Deferred tax	-	-
TOTAL:	-	-

(9) Enterprise income tax (continuation)

Calculation of deferred tax:

	31.12.2015. EUR	31.12.2014. EUR
Depreciation of fixed assets, 15%	325 521	364 759
Provisions for vacations, 15%	6 144	7 443
Provisions for inventories with low turnover, 15%	27 441	32 396
Tax loss, 15%	674 603	21 104
Unrecognized deferred tax assets	-1 033 709	-425 702
Assets of deferred tax	-	-

On 31 December 2015, accumulated losses for provisions of enterprise income tax were EUR 4,497,356. Tax losses occurred in 2014 and 2015 have no usage time limits.

(10) Other taxes

	2015 EUR	2014 EUR
Immovable property tax (buildings)	54 458	54 457
Immovable property tax (land)	6 579	6 579
TOTAL:	**61 037**	**61 036**

(11) Intangible investments

	Other intangible investments* EUR	Software licenses EUR	Total intangible investments EUR
Initial value 31.12.2014	**7 949 000**	**34 711**	**7 983 711**
31.12.2015	7 949 000	34 711	7 983 711
Accumulated amortization 31.12.2014	**6 359 200**	**33 653**	**6 392 853**
Charged amortization	1 589 800	428	1 590 228
31.12.2015	7 949 000	34 081	7 983 081
Book value as at 31.12.2014	**1 589 800**	**1 058**	**1 590 858**
Book value as at 31.12.2015	**-**	**630**	**630**

* 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 is 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).

(12) Fixed assets

	Land, buildings and structures EUR	Equipment and machinery EUR	Other fixed assets and inventory EUR	Formation of fixed assets* EUR	Total EUR
Initial value 31.12.2014	**13 233 980**	**5 560 536**	**471 273**	**2 048 860**	**21 314 649**
Purchased	-	15 207	14 032	727 024	756 263
Reclassified	2 763 235	-	-	-2 763 235	-
Disposal	-868	-285 646	-8 464	-	-294 978
31.12.2015	**15 996 347**	**5 290 097**	**476 841**	**12 649**	**21 775 934**
Accumulated depreciation 31.12.2014	**11 076 750**	**5 542 177**	**468 045**	**-**	**17 086 972**
Charged depreciation	293 125	7 245	6 317	-	306 687
Disposal	-868	-285 646	-8 464	-	-294 978
31.12.2015	**11 369 007**	**5 263 776**	**465 898**	**-**	**17 098 681**
Book value as at 31.12.2014	**2 157 230**	**18 359**	**3 228**	**2 048 860**	**4 227 677**
Book value as at 31.12.2015	**4 627 340**	**26 321**	**10 943**	**12 649**	**4 677 253**

On 31 December 2015, the fixed assets of the Company with the initial value EUR 16,867,786 (EUR 13,960,786 as at 31.12.2014) have been fully depreciated, but are still in operation.

Cadastral value of the land property amounted to EUR 438,595 as at 31.12.2015. (EUR 438,595 as at 31.12.2014) and of the buildings to EUR 3,630,500 (EUR 3,630,500 as at 31.12.2014).

On 2 February 2015, the Company received a certified real estate appraisers report on the Company's real estate market value of EUR 5,100,000.

* 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 launched was 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).

(13) Participation in the capital of related companies

	31.12.2015. EUR	31.12.2014. EUR
Participation in the capital of the Ditton Chain Ltd. 15% from the fixed capital	67 160	67 160
TOTAL:	**67 160**	**67 160**

(14) Finished products and goods for sale

	31.12.2015. EUR	31.12.2014. EUR
Finished products for sale	233 943	461 588
Inventory with low turnover rate	182 937	215 973
Provisions for inventory with low turnover rate	-182 937	-215 973
TOTAL:	**233 943**	**461 588**

Provisions for inventory with low turnover rate:		
As at the beginning of the year	215 973	12 462
Decrease/increase (appendices 5 and 6)	-33 036	203 511
As at the end of the year	**182 937**	**215 973**

(15) Other loans and other long-term debtors, and trade receivables

	31.12.2015. EUR	31.12.2014. EUR
Assignment contracts	-	1 167 700
TOTAL:	**-**	**1 167 700**

In 2014, the Company concluded two Assignment contracts with repayment period until 31 December 2016, but without any interests. Assignments are not secured. One of the Assignment contracts for EUR 1,167,700 signed in 2015 with the resident of the Republic of Latvia (legal entity) has been fully paid prior to maturity.

Trade receivables (current assets)

	31.12.2015. EUR	31.12.2014. EUR
Book value of trade receivables	1 989 731	7 239 620
Assignment contracts*	-	676 142
Provisions for doubtful accounts receivable	-1 324 888	-5 212 890
TOTAL:	**664 843**	**2 702 872**

* Assignment contract, which has been concluded with the Latvian resident (legal entity) for EUR 676,142 has been fully paid in 2015 prior to maturity.

Provisions for doubtful accounts receivable:

At the beginning of the year	5 212 890	954 836
Write-off	-3 871 853	-
Recovered provisions (appendix 5)	- 61 080	-
Increase in provisions (appendix 6)	44 931	4 258 054
At the end of the year	**1 324 888**	**5 212 890**

(16) Other debtors

	31.12.2015. EUR	31.12.2014. EUR
Overpayment of the enterprise income tax (appendix 26)	33 880	-
Overpayment of the value added tax (VAT) (appendix 26)	29 519	-
VAT on unpaid bills	-	10 287
Income from interests	982	-
Proceeds from borrowings	18 000	25 000
TOTAL:	**82 381**	**35 287**

(17) Cash and cash equivalents

	31.12.2015. EUR	31.12.2014. EUR
Cash at bank	79 259	59 576
TOTAL:	**79 259**	**59 576**

(18) Equity capital

The equity capital of the Company before denominations was LVL 7,400,000 split into 7,400,000 public bearer shares with nominal value of each share LVL 1,00. Each share entitled to one vote.

As of 1 January 2014, when Latvia joined the Euro zone and the Latvian lat was replaced by the euro, the fixed capital of the Company accounted to EUR 10,529,251 due to the official exchange rate of the Bank of Latvia and provisions of the Law on the Procedure for Introduction of Euro.

On 4 November 2014, under provisions of the Commercial Law and Law on the Procedure for Introduction of Euro the extraordinary shareholders' meeting of the Company decided to carry out denomination of the fixed capital resulting that the equity capital of the Company accounts to EUR 10,360,000 split into 7,400,000 public bearer shares with nominal value of each share EUR 1,40. The difference of the fixed capital EUR 169,251 after the denomination on 23 January 2015, was reclassified to other reserves.

The shareholders owning over 5 per cent of the shares of the whole capital of the Company as at 31.12.2015 and as at 31.12.2014:

NAME	Shares owned, % 31.12.2015	Shares owned, % 31.12.2014
Eduards Zavadskis	20,00	20,00
Vladislavs Drīksne	19,92	19,92
MAX Invest Holding Ltd.	13,63	13,63
Maleks S Ltd.	12,24	13,63
DVINSK MNG Ltd.	9,46	9,46

(19) Long-term loans from credit institutions

	31.12.2015. EUR	31.12.2014. EUR
Loan from the JSC Citadele banka (long-term part)	**-**	**1 502 387**

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

(20) Short-term loans from credit institutions

	31.12.2015. EUR	31.12.2014. EUR
Short-term loan from the JSC Bank M2M Europe	240 000	1 400 000
Credit line from the JSC Citadele banka	555 000	588 000
Loan from the JSC Citadele banka (short-term part)	1 499 223	108 000
TOTAL:	**2 294 223**	**2 096 000**

Information on loans received by the JSC Citadele banka as at 31.12.2015 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	09.11.2015.
Credit line No.CI2011-2.3/218 dated 25.11.2011	EUR	600 000 EUR	09.09.2015.

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) not less than 1,5. 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 2015 was plus 7,2 and in 2014 - minus 4,4.

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, so the payments from 25.05.2015 to 09.11.2015 according to repayment schedule on loan were EUR 3, 980 a month.

The interest rate from 25.09.2014 and 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 monthly payment of the principal sum of the credit line starting from 25.09.2014 and up to 25.02.2015 amounted to EUR 3,000. After 26 April 2015, the monthly payment of the principal sum on the loan was EUR 3,500. In October 2015, there have been made two payments EUR 6,000 (on 05.10.2015 and on 31.10.2015) in total.

As JSC Ditton pievadķēžu rūpnīca and JSC Citadele banka have done no amendments concerning extensions of loan (and credit line loan) repayment terms, the loan liabilities are recorded in short-term part. Besides the Company`s management is striving to achieve this goal together with JSC Citadele banka.

Information on loans received by the JSC Bank M2M Europe as at 31.12.2015 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.

The received loans have been repaid under the terms of contracts and agreements signed with the banks during the reporting year and until the date of approval of the annual report by the Management board.

Refer also to appendix 31.

(21) Accounts payable to suppliers and contractors

	31.12.2015. EUR	**31.12.2014. EUR**
For services	2 176 856	1 219 657
For materials	696 426	597 958
TOTAL:	**2 873 282**	**1 817 615**

(22) Taxes and State mandatory social insurance payments

	31.12.2015. EUR	**31.12.2014. EUR**
Personal income tax	26 959	171 109
State mandatory social insurance payments	32 550	112 154
Enterprise income tax	-	5 714
Immovable property tax	145 094	101 616
Nature resources tax	214	486
State entrepreneurial risk fee	66	94
Value added tax	-	46 367
TOTAL:	**204 883**	**437 540**

(23) Other creditors

	31.12.2015. EUR	31.12.2014. EUR
VAT on prepayments received	250 160	-
Payments of December salaries	72 166	40 091
Trade union membership fee, 0,2% from salary	52 837	53 646
Debts for purchased shares	19 636	19 636
Provisions (Guarantee agreement)	10 183	-
Provisions (penalties to be paid to the State Revenue Service)	177 781	-
TOTAL:	**394 799**	**113 373**

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.

(24) Next period income

	31.12.2015. EUR	31.12.2014. EUR
Aid of the Investment and Development Agency of Latvia (LIAA) No. L-IZI-14-0003 (long-term)	1 099 313	-
Aid of the Investment and Development Agency of Latvia (LIAA) No. L-IZI-14-0003 (short-term)	60 520	-
TOTAL:	**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.

(25) Accrued obligations

	31.12.2015. EUR	31.12.2014. EUR
Unused vacations	40 940	49 618
Electricity costs	43 191	49 279
Auditor`s service expenses	10 500	16 000
Communication service expenses	-	279
Gas expenses	4 199	5 400
TOTAL:	**98 830**	**120 576**

(26) Tax movement chart

Type of tax	Tax liabilities as at 31.12.2014.	Charged in 2015	Penalties charged in 2015	Recovered in 2015	Paid in 2015	Penalties paid in 2015	Penalties paid for/from other taxes in 2015	Transferred to/from other taxes	Tax liabilities as at 31.12.2015
	EUR	EUR	EUR	EUR		EUR	EUR		EUR
Value added tax	46 367	1 038 617	3 909	23 744	-1 883 345	-221	40 461	700 949	-29 519
State entrepreneurial risk fee	94	880	-	-	-908	-	-	-	66
Enterprise income tax	5 714	-	4 247	-	-1 208	-	-6 983	-35 650	-33 880
Immovable property tax for buildings and facilities	92 449	54 458	-	-	-13 119	-3 372	-	-	130 416
State mandatory social insurance payments	112 154	356 964	6 671	-	-35 662	-118	-7 550	-399 909	32 550
Personal income tax	171 109	169 229	11 260	-	-32 809	-512	-25 928	-265 390	26 959
Natural resources tax	486	916	-	-	-1 188	-	-	-	214
Immovable property tax for land	9 167	6 579	-	-	-886	-182	-	-	14 678
TOTAL:	**437 540**	**1 627 643**	**26 087**	**23 744**	**-1 969 125**	**-4 405**	**-**	**-**	**141 484**
Including									
** Overpayments, appendix 16*	**-**								**-63 399**
** Liabilities, appendix 22*	**437 540**								**204 883**

(27) Average number of employees in the Company

	2015	2014
Average number of persons employed by the Company during the year	189	283

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

	Council	Management Board	TOTAL
	EUR	EUR	EUR
Salaries and remuneration	13 139	30 766	43 905
State mandatory social insurance payments	3 100	7 258	10 358
TOTAL:	**16 239**	**38 024**	**54 263**

(29) Going concern principle

The Company closed the year 2015 with the loss EUR 4,269,964 and current liabilities exceeded its current assets by EUR 3,023,770, what primarily is related to short-term loans from credit institutions EUR 2,294,223 with a maturity date in 2016 (appendix 20).

Under the present circumstances, the Company is continuing the implementation of the costs saving policy by using internal resources and reorganizing production processes in line with current volumes of demand, production and costs, as well as optimizing staff correspondingly to production volumes and actual employment. The Company has also launched the second phase of modernization. Programs of the first phase focusing on building renovation and energy saving to ensure resource savings created additional income prospects from industrial area lease and preconditions for the second phase. Programs of the second phase of modernization launched in 2014 were related to the replacement of the existing worn-out production facilities with new ones, thus way ensuring a higher level of product quality and ergonomic, as well as reducing resources, e.g. human resources, and raw material costs. At the same time, the second phase is associated with development of new technologies that contributes to production of new types of products and more active promotion of our goods in new and current markets, with an emphasis on the European Union market. According to the Company's management forecasts, the second phase of modernization will be financed by own financial instruments obtained by resource savings and reduction of product costs, and funds raised. Modernization will be carried out due to the action plan. The Company intends to close the year 2016 without losses.

Please refer to Company's website www.dpr.lv for more detailed information about Company's business principles, goals and mission stated in the Management report (pages 8-11) and the Council report (pages 14-15) of this Annual statement, as well as in 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.

There are no claims submitted by creditors regarding the insolvency or bankruptcy petition against the Company on the date when Management Board approved the annual report. The Company's obligations towards the creditors are fulfilled pursuant to the agreed procedures and deadlines. There are no proceedings and decisions against the Company concerning enforcement measures of such obligations.

The received loans have been repaid under terms of contracts and agreements signed with the banks during the reporting year and until the date of approval of the annual report by the Management board.

Funds received from the Investment and Development Agency of Latvia upon completion of the project (refer to annex 12) were transferred to cover Company`s loan balances. Herewith, production facilities constructed due to conditions of the project implementation shall be leased to tenants generating some additional income.

The Company's ability to continue as a going concern depends on the management's ability to ensure Company profitable operations, as well as continued availability of funds from financial institutions.

This financial statement has been prepared under the concept of the going concern without any adjustments that might be necessary when the going concern principle is not applicable.

(30) Events after the end of reporting period

Under provisions of the Commercial Law and Law on the Procedure for Introduction of Euro the extraordinary shareholders' meeting of the Company resolved on 4 November 2014 to denominate the fixed capital on 23 January 2015. Hereafter the equity capital of the Company accounted to EUR 10,360,000 split into 7,400,000 public bearer shares with nominal value of each share EUR 1.40.

In the time spread between balance sheet date and date of signing this financial statement, there have been no other significant events, which would affect the financial position of the Company as at 31 December 2015.

(31) Eventual liabilities, pledges and guarantees

Under the Loan agreement No. CI2010-2.3/1 dated 10.09.2010 signed between the Company and the JSC Citadele banka, the commercial pledge for the entire property as a pool of things, as well for all current accounts opened in the JSC Citadele banka go in favour of the JSC Citadele banka. The guarantees serve as a resource security for the received loans.

Along with the Loan agreement, there have been concluded the Pledge Agreement No. CI2010-2.3/1-IE1, Pledge Agreement No. CI2010-2.3/1-IE2 and Commercial Pledge Agreement No.CI2010-2.3/1-KL3.

On 25 November 2011, the Company signed 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), Mendeļejeva St. 11, Višķu St. 17, Daugavpils;
- Pledge Agreement Nr.CI2011-2.3/218-IE2: subject of the pledge – immovable property under cadastral No. 0500 007 1402 (land), Višķu St.17, Daugavpils;
- Commercial Pledge Agreement No.CI2011-2.3/218-KL3: subject of the pledge - movable property of the JSC Ditton pievadķēžu rūpnīca, the registration deed number of the commercial pledges - 100154408;
- Commercial Pledge Agreement No.CI2011-2.3/218-KL4: subject of the pledge - movable property of the Ditton Chain Ltd. (pledgor - Ditton Chain Ltd.), the registration deed number of the commercial pledges - 100154409;
- Guarantee agreement Nr. CI2011-2.3/218-GL-7; subject - guaranty; guarantor - Ditton Chain Ltd.

To assign security to commitments of the partner Ditton Chain Ltd., the Company concluded with the JSC Citadele banka the Pledge Agreement No. CI2010-2.3/2-IE1, the Pledge Agreement No. CI2010-2.3/2-IE2, the Commercial Pledge Agreement No. CI2010-2.3/2-KL4 and the Guarantee agreement No. CI2010-2.3/2-GL8. The maximum amount of the guarantee is EUR 4, 400, 000.

Taking into account that Ditton Chain Ltd. has granted 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 a Guarantee agreement No. 2.3-13/59 in favour of the Investment and Development Agency of Latvia for a guarantee of EUR 27,964,30. The maturity repayment deadline is set on 29 February 2016.

On 28.07.2014., the Company signed with the JSC Bank M2M Europe a Loan agreement No.4.1-11.6/16FL/1FK. The credit is secured by first ranking right of pledge over the bank accounts with Company`s financial resources.

(32) 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 20). 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 appendixes 19 and 20) 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.

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