

JSC DITTON PIEVADKĒŽU RŪPNĪCA

UNAUDITED AND UNCONSOLIDATED FINANCIAL REPORT FOR 6 MONTHS OF 2016 (01.01.2016 – 30.06.2016)

Prepared in accordance with Latvian statutory requirements
and JSC NASDAQ OMX Riga rules

Daugavpils

2016

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INFORMATION ABOUT THE COMPANY

Company name	DITTON pievadķēžu rūpnīca
Legal status	Joint Stock Company
Registrations number	40003030187
Registration in Register of Enterprises	Rīga, 03.10.1991
Registration in Commercial Register Office	Rīga, 29.08.2003.
Legal address	Višķu St. 17, Daugavpils, LV-5410, Latvia
Mailing address	Višķu St. 17, Daugavpils, LV-5410, Latvia

Fixed capital	10 360 000 EUR
Number of public bearer shares	7 400 000
Nominal value of one share	1.40 EUR

Chief accountant	Valentina Krivoguzova
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Reporting period	01.01.2016 – 30.06.2016
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Persons in charge for drawing up of the financial report:

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

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

INFORMATION ON MANAGEMENT BOARD AND COUNCIL MEMBERS

THE MANAGEMENT BOARD

Chairman of the Management Board

Rolands Zarāns, elected 15.01.2014

Member of the Management Board

Natalja Redzoba, 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,	no shares	-
Natalja 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

Member of the Council

Anželina Titkova, elected 14.08.2009

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	5 678	0,08
Anželina Titkova	no shares	-

For detailed information on professional background of the Management Board and Council members please refer to our website www.dpr.lv/en/about-us/investors-shareholders/.

* As at 25.07.2016

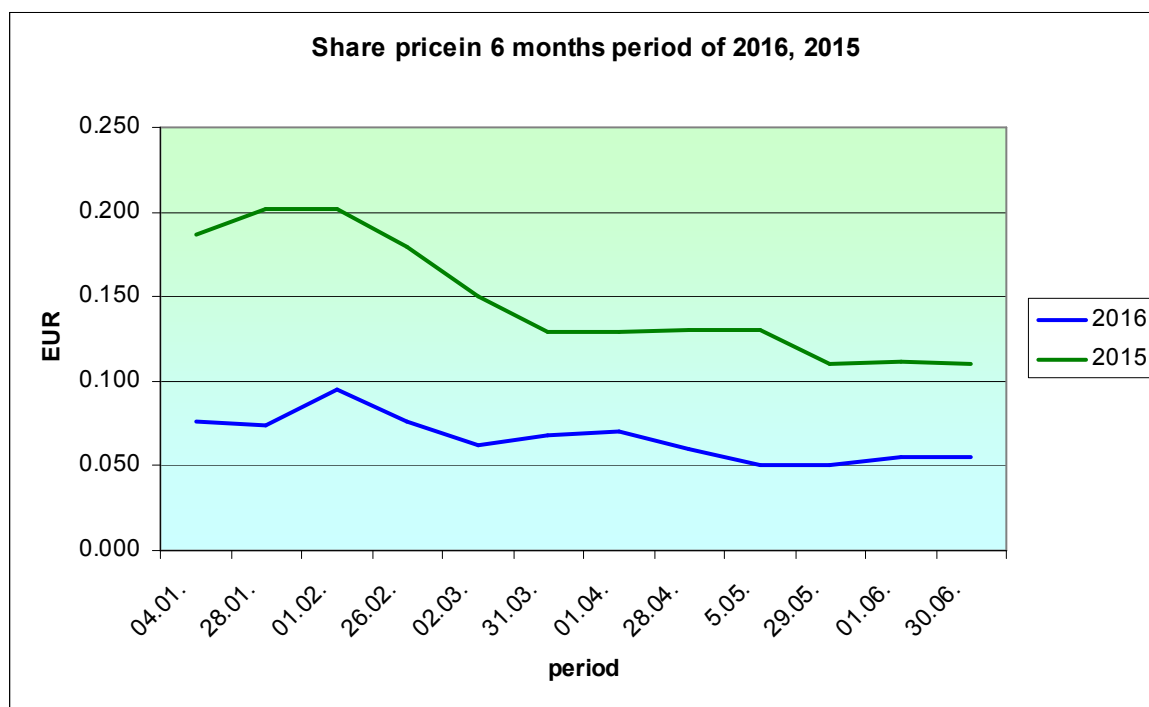
INFORMATION ON SHAREHOLDERS AND SHARES

COMPANY SHAREHOLDERS (OVER 5%) *

NAME	Ownership interest, %
Eduards Zavadskis	20,00
Vladislavs Driksne	19,92
MAX Invest Holding Ltd.	13,63
Maleks S Ltd.	12,28
DVINSK MNG Ltd.	9,46

** Note: Information presented is based on the list of shareholders of JSC DITTON pievadķēžu rūpnīca as at 25.07.2016, taking into account the shareholders' notification of the acquisition or disposal of major holdings in the Company.*

SHARE PRICE DEVELOPMENT



MANAGEMENT REPORT

Information on the results of the company in 6 months of year 2016

The net-turnover in 6 months of 2016 reached € 3,530 thousand, being by € 343 thousand or 11 per cent higher than the index in 6 months of 2015.

Commodity output resulted € 1,839 thousand, what is by € 802 thousand lower than in the relevant period of previous year.

The export of the core products to Eastern and Western markets amounted to 61 per cent (35% eastwards and 26% westwards), 39% of products sold on Latvian market.

The Company closed the 6 months period of 2016 with a pre-tax loss € 459 thousand. The after-tax rate accounted € 489 thousand. The analysis of the loss structure and causes given in the section „Significant events. Market tendencies and development of the company. Risks” of the management report to Company`s annual statement for the year 2015 is relevant for indices of this fiscal period as well.

The average number of employees of JSC DITTON pievadķēžu rūpnīca during 6 months of 2016 was 166 employees.

The average salary in 6 months period of 2016 amounted to € 570, what is by € 114 more than in 6 months of 2015.

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

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

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

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

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

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

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

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Whereas the waiver for partnership with someone is possible only under condition, when production volumes are replaced by ones at the same level on another market share or by collaboration with other partners (more detailed analysis thereof is given in the management report to the annual statement for 2014 and 2015).

Western market share

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

For example, production volumes by the end of each next 6 months of years 2014, 2015 and 2016 resulted: € 1,82 thousand (1st half 2014), € 3,18 thousand (2nd half 2014), € 1,36 thousand (1st half 2015), € 1,50 thousand (2nd half 2015), € 1,59 thousand (1st half 2016). These numbers prove that there are no tendencies in the fields, where Company's goods are applied.

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

Eastern market share

The Management gave a detailed analysis of the situation in this market share in the annual report of Company for 2014, including the examination of stages and processes arising there.

The management pointed out that one of the disadvantages was instability of the exchange rate of the ruble being as a value in trading operations in the Customs Union. It was caused by transnational prohibition proceedings, instability in oil values and crisis phenomena resulted by these adverse factors in economies of the Customs Union and the CIS.

These circumstances disrupted the balance in economies of these countries, reducing business activity and demand, as well as increasing value of products which incorporate Company's goods.

Despite the relative stability of these factors, such as, the predicted stabile gap of the exchange rate of the Russian Federation currency, the consequences caused by these factors could not be completely overcome and are still affecting this market share. Having mutual sanctions policy still going on in the background and clearly expressed attraction of Chinese manufacturers, possible risks of loss, first of all, of customers and decreased demand for Company's goods, are quite high. Therefore, the management finds it of utmost importance to focus shareholders' attention on these obstacles.

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

One another result of the economic political relations between EU and Russian Federation mentioned above, are additional import duties for the metal produced in the Russian Federation (18 -30 per cent), what the management noted in its reports.

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

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

Furthermore, the Company plans to activate sales opportunities of its products in other industrial sectors, where special chain gears are in demand, like agriculture facilities and production machinery. The Company is also implementing a loss minimization program due to the optimization of the internal structure and due to use of infrastructural, intellectual and human resources.

Development plan for 2015-2017, endorsed by the shareholders' meeting in July 2015 and given to public, is in progress as the core stone for actions of Company's management. By following the plan, the management operates in the sequential way much more structurally and smart, as well as optimizes division of involved resources for improving financial standing of the Company. Thus way, dynamic of Company's incomes towards expenses is significantly improving. The above-mentioned allowed reaching positive indices in the second quarter of 2016 (in comparison to first quarter of 2016 and to the year 2015). In general, indices in 6 months of 2016 are significantly better compared to the indices of the same period of the previous year. Due to this Company's development forecast is merely positive.

STATEMENT ABOUT MANAGEMENT LIABILITY

According to the information at our disposal, this financial statement for 6 months of the year 2016 has been prepared in compliance with the existing legislative requirements, gives a true and fair view of the assets, liabilities, financial standing and profits of the Company.

Management report contains truthful information.

Chairman of the Management Board
of JSC DITTON pievadķēžu rūpnīca

Rolands Zarāns

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BALANCE SHEET

ASSETS	30.06.2016. EUR	30.06.2015. EUR
1. Long-term investments		
1. LONG-TERM INVESTMENTS		
I. Intangible investments		
Concessions, patents, licenses, trademarks and similar rights	23 775	844
Other intangible investments	-	794 900
Total intangible investments	23 775	795 744
II. Fixed assets		
Land, buildings and structures	4 553 630	4 730 414
Equipment and machinery	787 680	15 132
Other fixed assets and inventory	34 100	5 342
Costs of the establishment of fixed assets and unfinished building objects	12 649	10 331
Total fixed assets	5 388 059	4 761 219
III. Long-term financial investments		
Participation in the capital of related companies	67 160	67 160
Total long-term financial investments	67 160	67 160
1. TOTAL LONG-TERM INVESTMENTS	5 478 994	5 624 123
2. CURRENT ASSETS		
I. Inventories		
Raw materials, basic materials and consumables	528 414	974 128
Unfinished orders	246 268	199 611
Finished products and goods for sale	230 024	498 973
Advance payments for goods and services	1 523 570	2 098 665
Total inventories	2 528 276	3 771 377
II. Debtors		
Purchasers and commissioning party debts	967 932	1 009 414
Other debtors	57 554	137 444
Next period costs	-	22 416
Total debtors	1 025 486	1 169 274
IV. Cash and cash equivalents	115 493	61 678
2. TOTAL CURRENT ASSETS	3 669 255	5 002 329
<u>TOTAL ASSETS</u>	<u>9 148 249</u>	<u>10 626 452</u>

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BALANCE SHEET

LIABILITIES	30.06.2016. EUR	30.06.2015. EUR
1. Equity capital	10 360 000	10 360 000
Stock or share capital (equity capital)	169 251	169 251
Other reserves		
Retained profits:		
a) retained profits brought forward from the previous year	-9 907 291	-5 637 329
b) retained profits of fiscal period	-489 038	-1 770 689
1.Total equity	132 922	3 121 233
2. Long-term creditors:		
Loans from credit institutions	-	1 502 387
Next period income	1 099 313	-
2.Total long-term creditors	1 099 313	1 502 387
3. Short-term creditors:		
Loans from credit institutions	2 054 223	2 025 672
Other loans	280 091	328 607
Prepayments received from purchasers	29 585	48 786
Accounts payable to suppliers and contractors	4 809 773	2 873 282
Taxes and State mandatory social insurance payments	267 563	194 987
Other creditors	395 079	478 680
Next period income	30 260	-
Accrued obligations	49 440	52 818
3. Total short-term creditors	7 916 014	6 002 832
Total creditors	9 015 327	7 505 219
<u>TOTAL LIABILITIES</u>	<u>9 148 249</u>	<u>10 626 452</u>

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INCOME STATEMENT

	30.06.2016. EUR	30.06.2015. EUR
Net turnover	3 530 413	3 187 012
Production costs of goods sold	-3 875 663	-3 815 176
Gross profit	-345 250	-628 164
Sales costs	-9 394	-794 900
Administrative expenses	-308 307	-286 114
Other income from economic activities	241 065	122 838
Other costs of economic activities	-35 888	-70 269
Interest payments and similar expenses	-745	-54 521
Profit or loss before taxes	-458 519	-1 711 130
Other taxes	-30 519	-59 559
Profit or loss for the fiscal period	-489 038	-1 770 689
Earnings per share (EPS)	-0,066	-0,171

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CASH FLOW STATEMENT

	30.06.2016. EUR	30.06.2015. EUR
I. Cash flows from operating activities		
1. Profit or loss before taxes	-458 519	-1 711 130
<i>Adjustments to:</i>		
Gain on amortization of received EU funds	-30 260	-
Depreciation of fixed assets	101 778	195 888
Amortization of intangible assets	1 021	214
Interest payments	745	54 521
Amortization of other intangible assets	-	794 900
2. Net-profit or net-loss from economic activities in fiscal period	-385 235	-665 607
<i>Adjustments to Current assets and Short-term creditors:</i>		
Debtors	-256 122	2 747 716
Reserves	63 698	-2 353 524
Creditors	1 770 423	1 092 355
3. Cash flows from operating activities	1 192 764	820 940
4. Taxes payments (corporate income and immovable property taxes)	-30 519	-59 559
Net cash provided by operating activities	<u>1 162 245</u>	<u>761 381</u>
II. Cash flows from investing activities		
Purchases of fixed assets	-836 750	-729 430
Net cash used in investing activities	<u>-836 750</u>	<u>-729 430</u>
III. Cash flow from financing activities		
Proceeds from borrowings or repayment of borrowings, net	-288 516	24 672
Interest payments	-745	-54 521
Net cash used in financing activities	<u>-289 261</u>	<u>-29 849</u>

**CASH FLOW STATEMENT
SUMMURY**

	30.06.2016. EUR	30.06.2015. EUR
Cash flows from operating activities	1 162 245	761 381
Cash flows from investing activities	-836 750	-729 430
Cash flows of financing activities	-289 261	-29 849
Net (decrease)/increase in cash and cash equivalents	36 234	2 102
Cash and cash equivalents at the beginning of fiscal period	<u>79 259</u>	<u>59 576</u>
Cash and cash equivalents at the end of fiscal period	<u>115 493</u>	<u>61 678</u>

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STATEMENT OF CHANGES IN EQUITY
for the period from 01.01.2016 till 30.06.2016

	Equity capital	Other reserves	Retained profit of previous periods	Profit or loss of fiscal period	Total
	EUR	EUR	EUR	EUR	EUR
At 1 January 2016	10 360 000	169 251	-9 907 291	-	621 960
Profit or loss of 6 months period 2016	-		-	-489 038	-489 038
At 30 June 2016	10 360 000	169 251	-9 907 291	-489 038	132 922
At 1 January 2015	10 529 251	-	1 543 379	-	12 072 630
Other reserves	-169 251	169 251	-	-	-
Profit or loss of 6 months period 2015	-	-	-	-1 770 689	-1 770 689
At 30 June 2015	10 529 251		1 543 379	2 290	12 074 920

Appendix

Explanatory notes

Accounting policies and methods applied in present interim financial statement are consistent with those applied in the last Annual report.

This financial statement based on source documents presents fairly the financial position of the Joint Stock Company as at 30 June 2016, its` operating results and cash flows for 6 months starting from 1 January and ending on 30 June 2016.

This financial report has been prepared in compliance with statutory regulations of the Republic of Latvia on a going concern basis. Appropriate accounting policies have been applied on a consistent base.

The interim financial report for 6 months of the year 2016 has not been audited by the sworn auditor.

The interim report has been prepared in euros.

Explanations and analyses on separate items of financial reports

Production of driving chains in 6 months of 2016 (thousand euros)

The value of the produced driving chains in these 6 months reached € 1,839 thousand, what is by € 802 thousand less than the index of the same period of previous fiscal year.

Production of driving chains in 6 months of 2016 (thousand meters)

The index of the produced driving chains is by 4 thousand meters less than in 6 months of 2015.

Sales (net-turnover) in 6 months of 2016 (thousand euros)

The net-turnover of the fiscal period is fulfilled by € 3,530 thousand, being by € 343 thousand less than the index in the same period of previous year.

Core product sales in 6 months of 2016 (thousand euros)

Core product sales amounted to € 2,749 thousand in the reporting period, what is by € 196 thousand or 8 per cent more than the result of the same period in previous year.