

JSC DITTON PIEVADĶĒŽU RŪPNĪCA

UNAUDITED AND UNCONSOLIDATED FINANCIAL REPORT FOR 12 MONTHS OF 2016 (01.01.2016 – 31.12.2016)

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

Daugavpils

2016

JSC DITON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

Contents

Information about the Company	3-5
Management report	6-8
Balance sheet	9-10
Income statement	11
Cash flow statement	12-13
Statement of changes in equity	14
<i>Appendixes</i>	
<i>Explanatory notes</i>	<i>15</i>
<i>Explanations and analyses on separate items of financial reports</i>	<i>16</i>

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

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	Valentīna Krivoguzova
Reporting period	01.01.2016 – 31.12.2016

Persons in charge for drawing up of the financial report:

Mr. Boriss Matvejevs, phone +371 65402333, email: dpr@dpr.lv

Ms. Natalja Redzoba, phone +371 65402333, email: dpr@dpr.lv

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

**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 Council	Share ownership*	
	Quantity of shares	%
Boriss Matvejevs	no shares	-
Georgijs Sorokins	5 768	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.

* As at 27.12.2016

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

INFORMATION ON SHAREHOLDERS AND SHARES

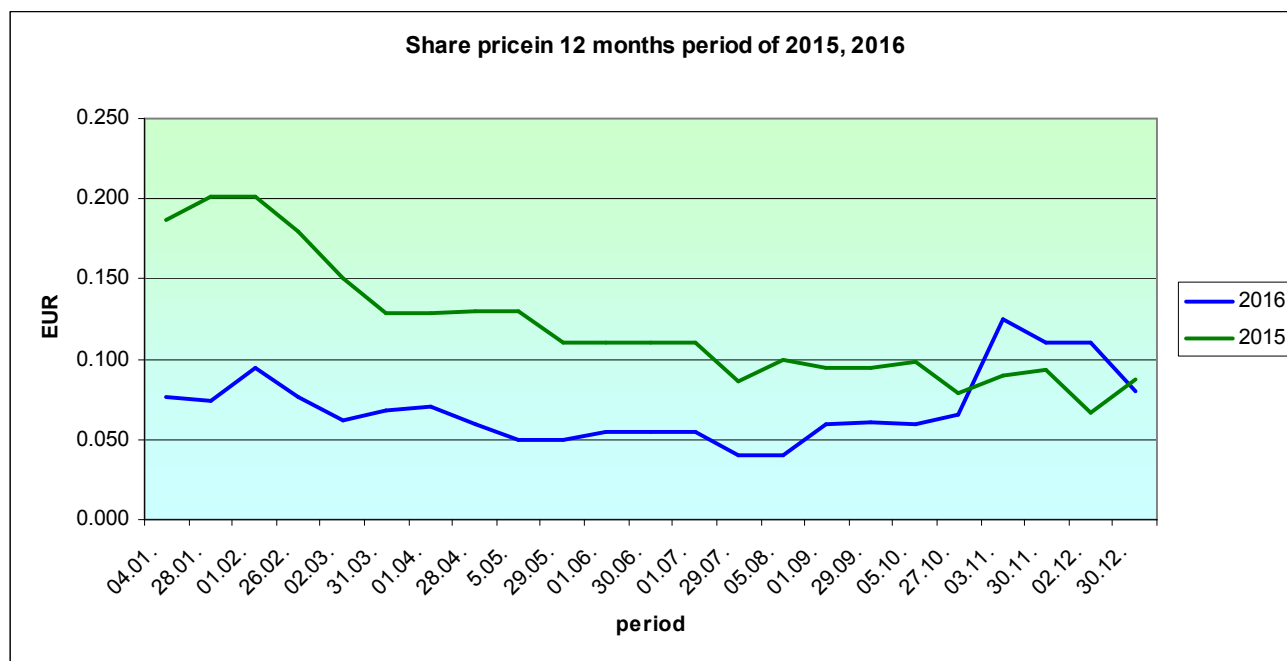
COMPANY SHAREHOLDERS (OVER 5%) *

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

** Note: (1) Information presented is based on the list of shareholders of JSC DITTON pievadķēžu rūpnīca as of 27.12.2016., taking into account the shareholders' notification of the acquisition or disposal of major holdings in the Company.*

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

SHARE PRICE DEVELOPMENT



JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

MANAGEMENT REPORT

Information on the results of the company in 12 months of 2016

The net-turnover in 12 months of 2016 reached € 7 013 thousand, being by € 659 thousand higher than the index in 12 months of 2016.

Commodity output amounting to € 3 458 thousand is by € 1 482 thousand less than in the relevant period of previous year.

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

The Company closed the 12 months period of 2016 with a pre-tax profit € 67 thousand. The after-tax rate accounted € 6 thousand.

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

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

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 12 months of 2016, the Company's management considers the information given in the management report to the annual statement for the year 2015 and for 6 months 2016 is fully up to date and relevant for the reporting period. It states that there are observed no necessary growth tendencies in manufacturing industry, and namely in the field of metalworking and mechanical engineering, where the Company is operating. This is reflected by performance indices of Company for the reporting period.

The analysis of the previous periods for the year 2015 and 6 months of 2016 enclosed the following thesis, which are topical at present too. According to indices of the commodity output under the trade mark of JSC Ditton pievadķēžu rūpnīca the sales market of the final consumers can be structurally split into two main shares as follows:

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

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

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

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

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

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 2015).

Western market share

After having analyzed the Company's operating conditions and performance indices, as well as market situation in 12 months of 2016, the Company's management considers the information given in the management report to the annual 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 2015 and 2016 resulted: € 1,36 million (1st half 2015), € 1,50 million (2nd half 2015), € 1,59 million (1st half 2016) and € 1,40 million (2nd half 2016). These numbers prove that there are no tendencies in the fields, where Company's goods are applied.

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

Eastern market share

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

The Management 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.

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

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

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

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

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

backdrop of rising shipping prices causes sales slowdown and decrease of interest in Company's products in favour of "cheaper" manufacturers (for example, of Asian region).

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

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

Furthermore, the Company plans to activate sales opportunities of its products in other industrial sectors, where special chain gears are in demand, like agriculture facilities and production machinery. The Company is also implementing a loss minimization program due to the optimization of the internal structure and due to use of infrastructural, intellectual and human resources. The Company sees its growth potential in generation of technology-intensive variety of high added value products, as well as in promotion of services and works in addition to the main production process. Development plan for 2015-2017, endorsed by the shareholders' meeting in July 2015 and given to public, is in progress as the core stone for actions of Company's Management board. By following the plan, the Management board operates in the sequential way much more structurally and smart, as well as optimizes division of involved resources for improving financial standing of the Company. Thus way, dynamic of Company's incomes towards expenses is significantly improving. The above-mentioned allowed reaching positive indices in the second quarter of 2016 (as compared to the first quarter of 2016 and to the year 2015). In general, indices significantly improved in 12 months of 2016 in comparison to the indices of the same period of the previous year. The year 2016 was closed with a slight profit (but profit), due to this Company's development forecast is merely positive by now.

STATEMENT ABOUT MANAGEMENT LIABILITY

According to the information at our disposal, this financial statement for 12 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

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

BALANCE SHEET

ASSETS	31.12.2016 EUR	31.12.2015 EUR
1. LONG-TERM INVESTMENTS		
I. Intangible investments		
Software licences	21 185	630
Total intangible investments	21 185	630
II. Fixed assets		
Land, buildings and structures	4 482 409	4 627 340
Equipment and machinery	738 622	26 321
Other fixed assets and inventory	24 935	10 943
Costs of the establishment of fixed assets	12 649	12 649
Total fixed assets	5 258 615	4 677 253
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	5 346 960	4 745 043
2. CURRENT ASSETS		
I. Inventories		
Raw materials, basic materials and consumables	560 183	654 399
Unfinished orders	204 631	194 041
Finished products and goods for sale	212 656	233 943
Advance payments for goods and services	1 495 423	1 509 591
Total inventories	2 472 893	2 591 974
II. Debtors		
Purchasers and commissioning party debts	1 360 156	664 843
Other debtors	8 126	82 381
Next period costs	-	22 140
Total debtors	1 368 282	769 364
IV. Cash and cash equivalents	6 987	79 259
2. TOTAL CURRENT ASSETS	3 848 162	3 440 597
<u>TOTAL ASSETS</u>	<u>9 195 122</u>	<u>8 185 640</u>

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

BALANCE SHEET

LIABILITIES	31.12.2016 EUR	31.12.2015 EUR
1. Equity		
Stock or share capital (equity capital)	10 360 000	10 360 000
Other reserves	169 251	169 251
Retained profits:		
a) retained profits brought forward from the previous year	-9 907 291	-5 637 327
b) profit/loss of fiscal period	6 066	-4 269 964
1. Total equity	628 026	621 960
2. Long-term creditors		
Loans from credit institutions	1 858 390	2 054 223
Next period income	1 038 793	1 099 313
2. Total long-term creditors	2 897 183	3 153 536
3. Short-term creditors:		
Loans from credit institutions	162 134	240 000
Other loans	273 912	328 607
Prepayments received from purchasers	58 998	21 259
Accounts payable to suppliers and contractors	4 222 997	2 873 282
Taxes and State mandatory social insurance payments	384 158	204 883
Other creditors	385 536	582 763
Next period income	60 520	60 520
Accrued obligations	121 658	98 830
3. Total short-term creditors	5 669 913	4 410 144
Total creditors	8 567 096	7 563 680
<u>TOTAL LIABILITIES</u>	<u>9 195 122</u>	<u>8 185 640</u>

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

INCOME STATEMENT

	31.12.2016	31.12.2015
	EUR	EUR
Net turnover	7 012 663	6 353 984
Production costs of goods sold	-6 926 514	-8 047 564
Gross profit	86 149	-1 693 580
Sales costs	-25 766	-1 596 713
Administrative expenses	- 625 387	-591 401
Other income from economic activities	906 208	195 227
Other costs of economic activities	-150 911	-410 949
Other interest income and similar income	-	982
Interest payments and similar expenses	-123 190	-112 493
Profit / (loss) before taxes	67 103	-4 208 927
Enterprise income tax	-	-
Other taxes	-61 037	-61 037
Profit / (loss) for the fiscal period	<u>6 066</u>	<u>-4 269 964</u>
Earnings per share (EPS)	0,001	-0,577

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

CASH FLOW STATEMENT

	31.12.2016	31.12.2015
	EUR	EUR
I. Cash flows from operating activities		
1. Profit or loss before taxes	67 103	-4 208 927
<i>Adjustments to:</i>		
Depreciation of fixed assets	231 223	306 687
Amortization of intangible assets	3 609	1 590 228
Gain on disposal of fixed assets, net	-1 853	-54 618
Income from interest	-	-982
Interest payments	123 190	112 493
Amortization income of the received Structural Funds	-62 628	-
2. Net-profit or net-loss from economic activities in fiscal period	360 644	-2 255 119
<i>Adjustments to Current assets and Short-term creditors:</i>		
Debtors	-601 486	1 990 903
Reserves	119 081	-1 174 121
Creditors	955 855	1 921 133
3. Cash flows from operating activities	834 094	482 796
4. Taxes payments (corporate income and immovable property taxes)	-10 301	-15 213
Net cash provided by operating activities	<u>823 793</u>	<u>467 583</u>
II. Cash flows from investing activities		
Purchases of fixed assets	-456 700	-1 470 528
Disposal of fixed assets	1 853	1 169 683
Interests received	2 568	-
Net cash used in investing activities	<u>-452 279</u>	<u>-300 845</u>
III. Cash flows from financing activities		
Proceeds from borrowings or repayment of borrowings and the aid of Investment and Development Agency of Latvia (LIAA), net	-328 394	-42 331
Interest payment	-115 392	-104 724
Net cash used in financing activities	<u>-443 786</u>	<u>-147 055</u>

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

CASH FLOW STATEMENT
SUMMARY

	31.12.2016 EUR	31.12.2015 EUR
Cash flows from operating activities	823 793	467 583
Cash flows from investing activities	-452 279	-300 845
Cash flows of financing activities	-443 786	-147 055
Net decrease / increase in cash and cash equivalents	-72 272	19 683
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>6 987</u>	<u>79 259</u>

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

STATEMENT OF CHANGES IN EQUITY
for the period from 01.01.2016 till 31.12.2016

	Equity capital	Other reserves	Retained profits of previous periods	Profit / loss of fiscal period	Total
	EUR		EUR	EUR	EUR
At 31.12.2014	10 529 251		386 626	-6 023 953	4 891 924
Profit or loss of 2014 was reclassified to the retained profits of previous periods	-	-	-6 023 953	6 023 953	-
Other reserves	-169 251	169 251	-		
Loss of fiscal period	-	-	-	-4 269 964	-4 269 964
At 31.12.2015	10 360 000	169 251	-5 637 327	-4 269 964	621 960
Profit or loss of 2015 was reclassified to the retained profits of previous periods	-	-	-4 269 964	4 269 964	-
Profit of fiscal period	-	-	-	6 066	6 066
At 31.12.2016	<u>10 360 000</u>	<u>169 251</u>	<u>-9 907 291</u>	<u>6 066</u>	<u>628 026</u>

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

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 of JSC DITTON pievadķēžu rūpnīca, based on source documents, presents fairly the financial position of the JSC as at 31 December 2016, its' operating results and cash flows for 12 months starting from 1 January and ending on 31 December 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 12 months of 2016 has not been audited by sworn auditor.

The interim report has been prepared in euros.

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
FINANCIAL REPORT FOR 12 MONTHS OF 2016

Explanations and analyses on separate items of financial reports

Commodity output in 12 months of 2016 (thousand euros)

Commodity output accounted € 3 458 thousand in 12 months of this year, being by € 1 482 thousand less than in the relevant period of previous year.

Production of driving chains in 12 months of 2016 (thousand meters)

The index of the produced driving chains is by 24 thousand meters less than in 12 months of 2015.

Production of driving chains in 12 months of 2016 (thousand euros)

The value of the produced driving chains in these 12 months reached € 3 458 thousand, what is by € 1 402 thousand less than the index of the same period of the previous fiscal year.

Sales (net-turnover) in 12 months of 2016 (thousand euros)

The net-turnover of the fiscal period is fulfilled by € 7 013 thousand, being by € 659 thousand higher than the index in the same period of previous year.

Core product sales in 12 months of 2016 (thousand euros)

Core product sales amounting to € 5 220 thousand in the reporting period are by € 1 128 thousand less than the result of the same period in previous year.