JSC „DITTON PIEVADĶĒŽU RŪPNĪCA”

Reg.No.40003030187

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

ANNUAL REPORT OF YEAR 2014

(01.01.2014 – 31.12.2014)

Daugavpils

2015

CONTENTS

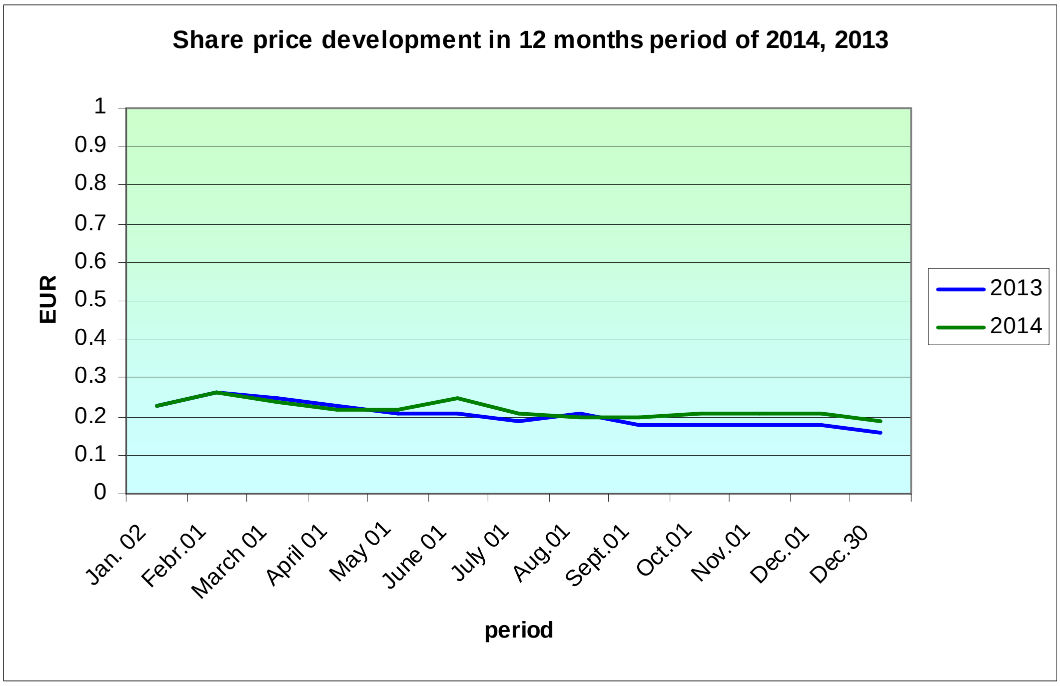
INFORMATION ABOUT THE COMPANY

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	Visku Str. 17, Daugavpils, LV-5410, Latvia
Mailing address	Visku Str. 17, Daugavpils, LV-5410, Latvia
Fixed capital (before denomination) Number of Public bearer shares Nominal value of one share	7 400 000 LVL 7 400 000 1.00 LVL
Fixed capital (before denomination, from 23.01.2015) Number of Public bearer shares Nominal value of one share	10 360 000 EUR 7 400 000 1.40 EUR
Chief accountant	Valentina Krivoguzova, p.c.191257-10218
Reporting year	01.01.2014 – 31.12.2014
Previous reporting year	01.01.2013 – 31.12.2013
Auditors and their address	SIA "Deloitte Audits Latvia" Reg. No. 40003606960 Commercial's license No.43 Gredu Str.4a, Riga, LV-1019 Jelena 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. Natalja Redzoba, phone +371 65402333, e-mail dpr@dpr.lv

INFORMATION ON SHARES AND SHAREHOLDERS

SHARE PRICE DEVELOPMENT



Before denomination the fixed capital of the company is 7 400 000 LVL, which divides into 7 400 000 public bearer shares. The nominal value of each share is 1 LVL and each share entitles to one vote. After denomination (23.01.2015) the fixed capital of the company is 10 360 000 EUR, which divides into 7400000 public bearer shares. The nominal value of each share is 1.40 EUR.

COMPANY SHAREHOLDERS (OVER 5%) *

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

** Note: Information is presented on the basis of the list of shareholders of JSC „Ditton pievadķēžu rūpnīca" dated 27.10.2014, taking into account the shareholders' notifications on acquisition and disposal significant holding in the Issuer's equity in accordance with Clause 61 of Financial Instrument Market Law.*

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

COMPANY BACKGROUND

The joint-stock company "Daugavpils pievadkezu rupnica" was formed as a result of a privatization of the State Daugavpils driving chain factory in conformity with the order of the Cabinet No.375-r dated 09 August, 1994 and the decision 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 in the Register of Enterprises on 30 August, 1995 with the registration number 000303018.

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

29.08.2003 JSC "Ditton pievadkezu rupnica" has been registered in the Commercial Register (unified registration number 40003030187).

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

Types of activity of company:
- manufacture of parts and accessories for motor vehicles
- manufacture of transport equipment n.e.c.
- 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 and 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 plastics 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
- renting 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 n.e.c.
- 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 planing 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 n.e.c.
- other professional, scientific and technical activities n.e.c.
- security systems service activities
- other activities in conformity with decisions of shareholders, the Council and the Management Board n.e.c.

INFORMATION ON THE MANAGEMENT BOARD AND COUNCIL MEMBERS

THE MANAGEMENT BOARD

Chairman of the Management Board

Rolands Zarans, elected 15.01.2014
Pjotrs Dorofejevs, elected 05.07.2010, till 15.01.2014

Members of the Management Board

Natalja Redzoba, elected 29.08.2003.
Raimonds Bruzevics, elected 10.03.2014., till līdz 15.08.2014
Jevgenijs Sokolovskis, elected 15.01.2014, till 05.03.2014

Information on shares owned by Members of the Management Board

Members of the Management Board	Share ownership *	
	Quantity of shares	**%**
Rolands Zarans, from 15.01.2014.	no shares	-
Pjotrs Dorofejevs, till 15.01.2014.	no shares	-
Natalja Redzoba	no shares	-
Raimonds Bruzevics, 10.03.2014 - 15.08.2014	1 900	0,03
Jevgenijs Sokolovskis, till 05.03.2014.	1 900	0,03

THE COUNCIL AS AT 31.12.2014

Chairman of the Council

Boriss Matvejevs, elected 05.05.2005

Deputy Chairmen of the Council

Georgijs Sorokins, elected 06.11.2000
Inga Goldberga, elected 14.08.2009, till 24.10.2014

Members of the Council

Anzelina Titkova, elected 14.08.2009
Vladimirs Bagajevs /Vladimir Bagaev/, elected 28.05.2012.

THE COUNCIL AS AT 31.12.2013

Chairman of the Council

Boriss Matvejevs, elected 05.05.2005

Deputy Chairmen of the Council

Georgijs Sorokins, elected 06.11.2000
Inga Goldberga, elected 14.08.2009

Members of the Council

Anzelina 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 Management Board	Share ownership *	
	Quantity of shares	**%**
Boriss Matvejevs	no shares	-
Georgijs Sorokins	5 768	0,08
Inga Goldberga	no shares	-
Anzelina Titkova	no shares	-
Vladimirs Bagajevs	no shares	-

For more detailed information on professional background of the Management Board and Council members please refer to our website: http://dpr.lv/index.php?lang=lv&id=about .

* as at 30.04.2015

MANAGEMENT REPORT

Information on the results of the company in year 2014

In 12 months period of 2014 net-turnover was fulfilled in the amount of 10 696 thous.EUR, which is by 1 080 thous.EUR or 12,4% more than index of the 12 months period of 2013, and it complies with the Company's expectations.

Commodity output is estimated in the amount of 7 053 thous.EUR. The result of 12 months of 2014 is by 1 043 thous.EUR higher than in the relevant period of previous year.

At present the company exports 79% of its products to the East and West: among them 52% eastwards and 27% westwards; 21% of products are sold on domestic market.

The Company closed the year 2014 with book losses before taxes in the amount of 5 963 thous.EUR. Book losses after taxes amount to 6 024 thous.EUR. The analysis of the loss structure and causes is given in the section „Significant events. Market tendencies and development of the company. Risks".

The average statistical number of employees of JSC "Ditton pievadķēžu rūpnīca" was 283 employees in 12 months of year 2014 (2013: 322).

The average salary amounted to 469 EUR in 12 months period of 2014, which is by 62 EUR more than in 12 months of 2013.

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

Own capital profitability of the company (capital using ratio) was -123,14% in year 2014 (2013: -10,56%).

Sales profitability – commercial margin shows that in year 2014 -85,41% of the gained loss accounts for one unit of salable production (2013: -12,34% of the gained loss).

Turnover ratio of long-term investments is admissible to be ≥ 1, in year 2014 it was 1,52 (2013: 1,02).

Economic profitability enables to determine that 42,94% of the gained loss accounts for one unit of company's assets (2013: 6,87% of the gained loss).

Commercial profitability indicates that in 2014 the company gained 55,75% of the loss on one net-turnover unit before taxes, and in 2013 accordingly – 7,97%.

On 31.12.2014 the absolute liquidity (times) was 0,012; on 31.12.2013 – 0,05. Its level shows which part of short terms liabilities can be discharged from the available cash.

Value of current liquidity ratio at the beginning of 2014 was 1,74, but on 31.12.2014 – -0,87, i.e., this ratio decreased (ratio standard 2-3).

Ratio of quick liquidity at the beginning of 2014 was 0,96, but at the end of the year – 0,57 (ratio standard 0,7 – 1).

Specific weight of liabilities in the balance was 0,35 at the beginning of the year, but at the end of the year – 0,57.

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

In accordance with the output indices for the products with the JSC "Ditton pievadķēžu rūpnīca" trade mark, their sales to the final consumers, that is, companies or their representatives, in the form of component assemblies or parts for future production of units and machines, or to the trade-service networks for maintenance and/or sales of the spare parts to their users (the so-called "spare parts market ") structurally is divided into the following main segments:

- "Western" market or mainly European market, and
- "Eastern" market or market of the Russian Federation, Customs Union, CIS and Ukraine.

The company is integrated into the production and economics of those countries, which belong to the above mentioned market segments of the Company's product sales, regardless of the products promotion procedures and systems on these markets (direct selling, intermediation services or processing of the customer's raw material, use of dealers or trade-service network etc.). In this way, all the trends, factors, risks, crises and other conditions on these markets have direct impact on the Company, its operations, as well as the income deriving from its activities.

The common unifying factor for all market segments is the critical parameter of the total production of the Company's own products: taking in account the permanent component in the structure of the Company's costs and prime cost, which is not differentiated according to production volumes, for example, maintenance and repair of infrastructure and immovable property taxes, as well as the variable component, which depends on these volumes, for example, raw material and resources costs of direct production, every year the Company has to produce a certain volume of production, which on the one hand ensures overall profitability of the own production, and on the other hand, a competitive market price of the products. Failure to meet this criterion will result in the imbalance of the Company's economic situation and inexpediency to continue production at the economic indicators (imbalance between the average market value and the possible price of the Company's profitable state, taking into prime cost and own costs), especially having regard to the lack of the domestic market for these products.

The above mentioned criterion obliges the Company's Management Board to take all of the measures in order to retain both market segments, to operate in proportion to the conditions and factors, to reach compromises with partners, including unfavorable for the Company, to retain all market segments, including when there are temporary adverse factors or phenomena, in its turn to practice refusal of partnership with someone only on condition if these production volumes are replaced with the analogous volumes in other market segments or with other partners.

<u>"Western" market segment</u>

Having analyzed the Company's operating conditions, performance and situation of this market segment in 12 months of 2014, the Company's management believes that information set out before in the management reports to the annual report for 2013 and report for 6 months of 2014 is fully up to date and relevant for the reporting period, and still notes that in the field of metal processing and machine building there are no increasing trends observed in the sector represented by the Company, which is also reflected in the Company's performance indices for the reporting period.

In the opinion of the management in the industrial production sector represented by the Company the reporting period still has been characterized by stagnation and lack of production growth, which previously has been defined by market analysts as "the second wave of the crisis", which becomes apparent not so much as a catastrophic or sharp decline, but more as the lack of activity. In substantiation of these conditions the Company refers to the report of the Industry, Research and Energy Committee of the European Parliament from November 15, 2013 "CARS 2020: Action Plan for a competitive and sustainable automotive industry in Europe" (2013/2062 (INI)), where the situation in the automotive market is analyzed, and addressing this issue at EU level refers to its overall relevance and importance. The Management Board focused on these circumstances in its previous management reports, making a moderately optimistic or pessimistic forecasts for its performance, and these forecasts, evaluation of the activity in market segments as well as information about other negative factors affecting the Company's remain relevant even now.

Furthermore, several European sources - mass media, automotive research centers (e.g. CAR) and research companies (e.g. Inovev) report on the anticipated closure of some automotive companies and the general decline in the branch. This is due to the slowdown in economic activity resulting in a cautious behavior of consumers and putting off larger purchases such as a car. On the background of lack of the overall economic growth as evidenced by the minimum growth rates of both European and other states' GDP (for example, the actual lack of growth in GDP), the demand for the Company's industrial chains do not indicate an increase in this sector either.

Despite these circumstances the Company managed to achieve product sales growth in this market segment by 23-25% compared to the index of 2013. These figures are comparable to the figures of 2012.

<u>"Eastern" market segment</u>

This market segment of the Company's product sales is characterized by two periods:

- stable functioning of the Russian Federation, Customs Union and CIS market in the first half of 2014 (by many indicators the first quarter showed signs of significant growth both in terms of the Company's products sales, as well as macroeconomic indicators of all markets);

- market collapse and a systemic economic crisis, which includes a critical exchange rate fall (2.5 times) of the base currency – the Russian ruble – in which the Company's products are sold to end consumers against the European currency (EUR); fall of the economic activity and financial capability by legal and natural persons to buy products produced in the euro zone both in the interests of production of new cars and aggregates, and on the "secondary market" (service, repair and maintenance).

By estimate of the Association of European Businesses (AEB), the total drop volume in production and demand on these markets, primarily in the Russian Federation and Ukraine, makes up to 12-15% even on the background of relatively successful (RF) first months of 2014.

In the second half of 2014 the reduction of automobiles and units output volume for optimization of the business and expenditure, including on the background of staff reduction and temporary suspension of production, has been made both by Russian producers (AvtoVAZ, GAZ Group, KAMAZ and others) as well as co-production enterprises (FORD, NISSAN, General Motors groups and other). A number of Western companies, such as the Spanish SEAT (part of the Volkswagen Group), Dodge (part of the Italian-American Fiat Crysler Group), Taiwan's Luxgen, announced its withdrawal from this market segment. Other Western manufacturers such as Mercedes, Daimler reduced the supply to these markets and "blocked" their production projects (The Company indirectly takes part in the provision of the above mentioned companies through the Eurochain-program in collaboration with their supplier IWIS, Germany)

The spare parts market significantly "collapsed", which was caused by the depreciation of the Russian ruble against the euro and due to this by the fall in demand for any products produced outside the "ruble zone" by trade-service and dealer structures.

Considering that a significant part in the structure of automobiles, machinery and units value, as well as in their repairs and maintenance is constituted by component parts, which are produced outside the "ruble zone", imbalance between the real demand and the financial capability of potential consumers and prices formed resulting from the ruble depreciation, as well as sales at previous prices in rubles with significant currency losses within 2-3 days after the sale made it impossible for producers, intermediaries, dealers and trading networks to fulfill their obligations in currency equivalent. Until settlement of this imbalance many dealers and trading networks stopped sales and thereby "blocked" products (component parts) of many suppliers and payments as welll. Due to this lack of proper regulation of the value of component parts a number of producers stopped assembling of the products (fro example, automobiles) in an incomplete state, with no further sales and keeping them in stock. Some representatives of dealers, service or trade centers announced the suspension of obligations fulfillment with the following insolvency.

Company's products being delivered to the Ukrainian market (especially its eastern and southern regions) through the Russian Federation and the Customs Union dealers in 2013 and 2014, due to certain events in Ukraine can be considered as finally lost. This fact which according to the general formal features and good commercial principles can be attributed to sudden, unexpected force majeure is not the fault or responsibility of the Company's dealers, but as the risk of property loss lies on the supplier. (Prior to the occurrence of the above-mentioned conditions the settlements with the above buyers generally have been fulfilled.)

In these circumstances, focusing on retaining of the production, partners and buyers, on the one hand, and on upkeep of current assets necessary for the production being gained from regular, but not postponed to "until better times" sales, on the other hand, the Company's Management Board was forced to make compromise decisions with their partners in this market segment which are related to the sharing of risks and losses in the result ruble depreciation against euro and general crisis in this segment.

Due to the above-mentioned the Company's book losses for 2014 structurally consist of:

- losses resulting from balance provisions made by the Company for the existing receivables, being affected by the unstable ruble exchange rate, as well as for overdue receivables and receivables of the insolvent company (company Milanese, Italy);

- losses from the direct market losses (Ukraine, CIS countries) and a compromise revaluation (reduction) of receivables due to the "collapse" of the sales currency against the euro, being uncontrollable and independent of the Company and its partners [Management Board notes that a scenario of similar losses for the companies operating on the Russian Federation and the CIS market has been highlighted in the public press in the forecasts made by Latvian and European economists, as well as President of Mechanical Engineering and Metalworking Industries Association];

- other operational losses related to the provisions for work in progress or write-down of invalid stocks.

Considering the prospects, the Company's Management Board is focusing on the development and increase of sales in the "western" market segment, taking into account its growth restriction due to general economic stagnation in this segment, as well as on the stabilization of the "eastern" market segment.

By estimate of the AEB and PricewaterhouseCoopers, in 2015 the overall drop in "eastern" market segment may make up 11-12% against 2014 (the actual performance of this market segment, according to Bloomberg's point of view, is better in the first quarter of 2015 than the above estimates, where the decrease makes 5-7% in relation to 2014). However, at the same time there is an inevitable price increase for goods and services forecasted, which along with the expected stabilization of the ruble in the anticipated "corridor" (± 5%) will allow adjusting the imbalance between the supply prices of component items and sales prices of finished automobiles, machinery or units (elements indicative of the ruble exchange rate stabilization in this "corridor" can be observed in March-April of this year, which has been a ground to the same Bloomberg's assessment of the ruble as a potentially promising currency of 2015).

A significant factor of tactical improvements in this market segment is renewal of the state program for utilization of automobiles produced in RF when buying a new car, which started in November 2014 and is expected to continue until the end of 2016. In 2009 to 2010 this program significantly improved the situation in this market sector.

In the part of strategic improvement there can be recognized the development of the automotive and engineering strategy for the Russian Federation until 2025, and its closest element may be the draft of the Federal Law on limitation of operating term for certain types of cars and other vehicles.

In addition, the Company plans to activate implementation possibilities of its own production potential in other industrial sectors, where the special chain drives are in demand, like units and machinery being used in agriculture and production. The Company is also implementing a loss minimization program due to the optimization of the internal structure, use of infrastructural, intellectual and human resources.

The Company's general outlook is 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 discharge the losses of 2014 by the profit of 2015 and following years.

STATEMENT ABOUT MANAGEMENT LIABILITY

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

The management confirms herewith that, there have not been any essential events taken place after the end of the reporting year, which could have affected the annual report of the Company for year 2014.

Management report contains truthful information.

Chairman of the Management Board
of the JSC "Ditton pievadķēžu rūpnīca" Rolands Zarans
30 April 2015

REPORT
ON CORPORATE GOVERNANCE

§ 1

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

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

Information about order and procedures of application of Principles of Corporate Governance, restrictions, exceptions and practice in 2014 has been reflected in the appendix to this report "Statement on corporate governance principles". The shareholders may familiarize themselves with information included into the appendix on the website of NASDAQ OMX Riga, in the appropriate section of the Issuer, or in CSRI-system or on the website of the Issuer on the internet.

§ 2

System of internal control is arranged in compliance with the Principles of Corporate Governance, including the internal revision carried out in accordance with the Financial Instruments Market Law and Articles of the Company. The Council's report on the internal revision regarding procedures of risks control and management in the course of compiling the annual report for 2014 is presented to the annual general meeting of shareholders and enclosed in its materials.

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

1st stage: compiling of the annual report and internal control in subdivisions of the Issuer;

2nd stage: examining and approval of the annual report by the Management Board of the Issuer;

3rd stage: auditing of the annual report by an independent sworn auditor in accordance with the Annual Accounts Law, Law on Accounting, Commercial Law and Financial Instrument Market Law;

4th stage: examination of the annual report by the Council of the Issuer and its report about activity of the Management Board and the Issuer in general reflected in this report;

5th stage: approving of the annual report in a general meeting of shareholders of the Issuer.

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

§ 3

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

The following shareholders have a significant holding (shares percentage of the equity capital being owned or in management is indicated on the basis of the list of shareholders of JSC „Ditton pievadķēžu rūpnīca" dated 27.10.2014, taking into account the shareholders' notifications on acquisition and disposal significant holding in the Issuer's equity in accordance with Clause 61 of Financial Instrument Market Law):

- Eduards Zavadskis – 20,00%
- Vladislavs Driksne – 19,92%
- MAX Invest Holding SIA – 13,63%
- Maleks S SIA – 13,63%
- DVINSK MNG – 9,46%

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

Order and procedures for amending documents of incorporation (Articles) and changing of the composition of the Management Board, including their rotation and/or recall are determined by and applied in accordance with Commercial Law, Civil Law, Labour Law, Law on the Enterprise Register of the Republic of Latvia, Law on Legal Force of Documents, Declaration on objectives and mission of the activity and development of JSC „Ditton pievadkezu rupnica" and evaluation of these processes, Regulations of the convening and course of shareholders' meetings and other legal acts related to these procedures.

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

§ 4

The Issuer's institutions are:

- meeting of shareholders;
- Council of the Issuer;
- Management Board of the Issuer.

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

Independence of the shareholders' resolution is ensured in conformity with norms of the Commercial Law (Clauses 268, 273-286), Financial Instrument Market Law (Clauses 54, $54.^1$ - $54.^5$), Principles of Corporate Governance, Articles of the Issuer, Declaration on objectives and mission of the activity and development of JSC „Ditton pievadkezu rupnica" and evaluation of these processes, Regulations of the convening and course of shareholders' meetings and other normative acts and internal documents of the Issuer.

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

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

<u>Note:</u> the Issuer – JSC „Ditton pievadkezu rupnica"

Chairman of the Management Board
of the JSC "Ditton pievadķēžu rūpnīca" Rolands Zarans
30 April 2015

COUNCIL REPORT
to the annual report for year 2014

Issued in conformity with Commercial Law and to the Company's Articles,
approved by Council resolution of the JSC "Ditton pievadķēžu rūpnīca"
dated 27.04.2015, Protocol No.185

The Council of joint-stock company "Ditton pievadķēžu rūpnīca" announces that the report of the Management Board of the Company to the regular meeting of shareholders and annual report for year 2014 truly reflects the commercial activity results and the financial position of the Company.

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

The shareholders as well as the Council members have not expressed or submitted any claims against the Management Board and its individual members, and the Council evaluates the activity of the Management Board as positive. The Company closed the year 2014 with indices which correspond to the actual state of the Company and global economic conditions. This situation on the global markets can be characterized as consequences of previous crisis phenomena (or "the second wave") in the form of general stagnation or a slight increase in activity on the background of a decline in production in some sectors of the economy due to a fall in demand for goods and services in this sector. Unfortunately, such decline in production is observed by us, for example, in the automotive industry in all regional markets where the Company's products are represented.

Serious problems in the Company's activity in 2014 have been caused by the systemic crisis in relations between the European Union and the Russian Federation (which also affected relations with other countries of the "eastern segment" of the market – the Customs Union and the CIS), as well as the actual termination of the activity in Ukraine with an irreversible loss as the result of certain events. Drop of the exchange rate and customer demand caused by this crisis, as well as a number of other conditions had a significant impact on the Company's performance in 2014.

The Council the Company's expresses its solidarity with the Management Report and its assessment of the causes of the crisis and the state of the market, and believes that, in accordance with reasonable commercial practices and customs, any effects caused by the activities of the authorities and administrative bodies and not dependent on participants of the commercial transactions themselves are deemed to be force majeure, that is, risks which can not be predicted by the participants of the commercial transactions and responsibility for setting in of which they would normally not bear.

The Company is forced to create significant savings (in more detail refer to the Management Report), which is the cause of the conclusion of the year 2014 with a loss of EUR 6 023 953.

The Council of the Company represented interests of the shareholders during the time periods between the meetings of shareholders, and according to global economic conditions in the reporting period it supervised the activities of the Management Board within the scope specified in the Company's Articles and Laws of the Republic of Latvia.

Altogether during the reporting period twelve meetings of the Council were held. In four of the joint meetings of the Council and the Management Board there have been considered and approved financial reports of the Company for 12 months of 2013 and interim financial reports for 3, 6, and 9 months of the year 2014.

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

- reviewing the annual report of 2013 and approval of the Council report;

- approving of draft resolutions on the issues of the agendas of the regular and extraordinary meetings of shareholders convened;
- Company's performance results;
- changes in the Management Board;
- updating of the Company's internal administrative documents;
- consideration of the issues on the Company's business transactions at the suggestion of the Management Board;
- other issues related to the activity of the Company and stipulated by the Company's Articles and laws of Republic of Latvia.

According to the amendments to the Articles of the Company adopted at the meeting of shareholders on 04.11.2014 and the Financial Instruments Market Law, with a view of optimization of the Company's cost the tasks of the Company's Revision Committee have been assigned to the Council. The approved Council report as of institution which performs the tasks of the revision committee shall be submitted to the regular shareholders' meeting when approving the annual report.

One of the Council members resigned from the Council in 2014 due to transfer to local government (Daugavpils City Council) for job.

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

Being based on expert opinion, in the reports of previous years (2011 to 2013) the Council informed the shareholders on the probability of the so-called "second wave" of the global crisis, which will appear as the lack of the increase in economic activity and market stagnation. These expert forecasts actually justified, as evidenced, for example, by the GDP dynamics of the European Union and its certain states. In particular, GDP growth in the EU as a whole amounted to + 1.3% in 2014 against +2.1% in 2010, in Germany, respectively +1.6% in 2014 against +4.1% in 2010, France +0.4% in 2014 against +2.0% in 2010, -0.4% in Italy in 2014 against +1.7% in 2010. By analogy, indicators of the Russian Federation make (by forecasts) -1.0% (in fact, in the first three quarters of 2014 +0.8%) in 2014 against +4.3% in 2010. Our Company is not isolated; it is included in the global commercial system and is dependent on the performance of the states on the market of which due to geographical position, logistics and actual presence we are represented.

Along with this, the actual sales performance of the Company on the market in 2014 appeared to be more positive, although the actual results of the Company's activity turned out to be lower than the forecasts previously expressed by the Council in respect of sales volumes of the Company's production and services. Moreover the Company retained its position on the global market by retaining partners, contracts and prospects for growth of production volumes.

The Council of the Company evaluates its forecasts for outlooks of the global market and demand for the Company's products within the range from "slightly negative" to "moderately positive" in some geographic sectors of the market and depending on a product range. Implementation of the fforecasts 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 the Russian Federation. Due to this it can not be ruled out that, if these factors have a negative development, the Company's production volumes may decrease or remain at the current level.

Taking notice of information mentioned above and the situation in the Company, the Council considers it appropriate to recommend to discharge the losses of 2014 by the profit of 2015 and following years, as well as considers it appropriate to ask the shareholders to support this proposal. In view of the economic indicators, the Council also considers it appropriate to recommend to the Management Board to develop an action plan to improve the economic standing of the Company.

Chairman of the Council   Boriss Matvejevs
30 April 2015

Translation from Latvian

INDEPENDENT AUDITORS' REPORT

To the Shareholders of AS „Ditton pievadķēžu rūpnīca"

Report on the Financial Statements

We have audited the accompanying financial statement set out on pages 19 to 45 of the accompanying annual report for 2014 of AS „Ditton pievadķēžu rūpnīca" (hereinafter – the Company). The audited financial statement comprises the balance sheet as of 31 December 2014, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

1. As described in Note 11 to these financial statements, as of 31 December 2014 the Company had other intangible assets with a carrying value of EUR 1,589,800 (31.12.2013: EUR 3,179,599). In 2014, the Company has recognized this asset's amortization expense and recorded it in the income statement line 'Selling expenses' in the amount of EUR 1,589,000 (2013: EUR 1,589,000). In the course of audit we were unable to obtain sufficient and appropriate audit evidence to satisfy ourselves with respect to the underlying Company's assumptions regarding the use and recoverability of this asset, and to determine whether any impairment allowance is required as a result of potential impairment of this asset. Therefore, we do not express our opinion on the value of this asset as at 31 December 2014 and 2013.

2. As of 31 December 2014 included in the Company's fixed assets is a land plot with the balance sheet value of EUR 1,721,035 (31.12.2013: EUR 1,721,035).We were unable to obtain sufficient and appropriate audit evidence to satisfy ourselves as to the Company's ownership rights to this asset, as well as the recoverability on this asset. Therefore, we do not express our opinion on the value of this asset as at 31 December 2014 and 2013.
3. As of 31 December 2014 the Company is exposed to potential liabilities in the amount of EUR 715,410 (31.12.2013.: EUR 643,914) related to the Company's transactions performed in 2012, 2013 and 2014. Based on the Company's management evaluation, no provisions were created for these potential liabilities as of 31 December 2013 and 2014. In our opinion, there is a significant probability that in the future outflow of economic benefits from the Company will be required to settle the mentioned potential liabilities. Accordingly, we believe that provisions for these liabilities in amount of EUR 715,410 should be recognised in these financial statements. Had the provisions been recognized in these financial statements, the loss for the reporting year would increase by EUR 238,470, retained earnings would decrease by EUR 476,940 and the balance of creditors as of 31 December 2014 would increase by EUR 715,410.
4. As of 31 December 2014 the Company had rights of claim as per assignment contracts in the amount of EUR 3,024,380, with no provisions for potential impairment. In 2014 the above mentioned rights of claim as per assignment contracts have been sold with the loss of EUR 1,036,060 (appendix 6). In our opinion this loss should been recognized in the income statement for 2013. Therefore the loss for 2014 and the retained earnings should be reduced by EUR 1,036,060.

Qualified opinion

In our opinion, except for the potential effects of the matters described in the Basis for Qualified Opinion, the financial statement referred to above gives a true and fair view of the financial position of the Company as of 31 December 2014, and of its financial performance and its cash flows in 2014 in accordance with the Law of the Republic of Latvia on Annual Reports.

Emphasis of Matter

We draw attention to Note 28 to this financial statement. The Company's net result for 2014 is a loss in the amount of EUR 6,023,953 (2013: EUR 1,152,869) and as of 31 December 2014 the Company's current liabilities exceed its current assets by EUR 659,084, including short term borrowings from credit institutions in the amount of EUR 2,096,000. The mentioned circumstances indicate a material uncertainty in respect of the Company's ability to continue as a going concern. The Company's ability to continue as a going concern depends on the management's ability to ensure profitable operations of the Company, and to ensure further availability of funding from credit institutions. This financial statement is prepared on a going concern basis and does not contain any adjustments that might be necessary if going concern assumption would not be appropriate. Our opinion is not qualified in respect of this matter.

Deloitte Audits Latvia SIA
License No. 43

Roberts Stugis
Member of the Management Board

Jeļena Mihejenkova
Sworn Auditor of the Republic of Latvia
Certificate No. 166

Riga, Latvia
30 April 2015

INCOME STATEMENT
FOR THE YEAR 2014

	Appendix	2014 EUR	2013 EUR (corrected)*
Net turnover	1	10 695 729	9 515 844
Production cost of sold products	2	-9 284 271	-8 589 072
Gross (loss) / profit		**1 411 458**	**926 772**
Selling costs	3	-1 590 141	-1 589 800
Administration costs	4	-769 994	-793 630
Other operating income	5	742 223	1 743 421
Other operating expenses	6	-5 607 535	-934 789
Other interest income and similar income	7	1 206	800
Interest payment and similar expanses	8	-150 134	-110 920
Profit before taxes		**-5 962 917**	**-758 146**
Corporate income tax for the reporting year	9	-	-333 988
Other taxes	10, 25	-61 036	-60 735
Profit of reporting year		**-6 023 953**	**-1 152 869**
Index EPS		**-0,814**	**-0,156**

* Refer to appendix 32.

Appendixes from page 25 till 45 are integral parts of this financial statement.

On 30 April 2015 the financial statement of the Company has been signed by

Rolands Zarans
Chairman of the Management Board

(signature)

BALANCE SHEET AS AT 31.12.2014

ASSETS	Appendix	31.12.2014 EUR	31.12.2013 EUR (corrected)*
1. Long-term investments			
I. Non-material investments			
Software licenses		1 058	1 487
Other non-material investments		1 589 800	3 179 599
Non-material investments total	11	**1 590 858**	**3 181 086**
II. Fixed assets			
Plots of land, buildings and constructions		2 157 230	2 775 829
Technological equipment and machinery		18 359	6 669
Other fixed assets and stock		3 228	19 554
Formation of fixed assets		2 048 860	44 425
Fixed assets total	12	**4 227 677**	**2 846 477**
III. Long-term financial investments			
Participation in the capital of other companies	13	67 160	67 160
Assets of deferred tax	9	-	-
Other loans and other long-term debtors	15	1 167 700	3 249 572
Long-term financial investments total		**1 234 860**	**3 316 732**
1. Long-term investments total		**7 053 395**	**9 344 295**
2. Current assets			
I. Reserves			
Raw materials, basic materials and subsidiary materials		631 943	994 632
Unfinished products		220 186	291 305
Finished products and goods for sale	14	461 588	208 656
Advance payments for goods and services		104 136	1 815 535
Reserves total		**1 417 853**	**3 310 128**
II. Debtors			
Trade receivables	15	2 702 872	3 859 331
Other debtors	16	35 287	54 701
Deferred expenses		11 133	-
Debtors total		**2 749 292**	**3 914 032**
IV. Cash and cash equivalents	17	**59 576**	**207 342**
2. Current assets total		**4 226 721**	**7 431 502**
TOTAL ASSETS		**11 280 116**	**16 775 797**

* Refer to appendix 32.

BALANCE SHEET AS AT 31.12.2014

LIABILITIES	**Appendix**	**31.12.2014. EUR**	**31.12.2013. EUR (corrected)***
1. Equity capital			
Fixed capital	18	10 529 251	10 529 251
Retained earnings:			
a) retained earnings of previous years		386 626	1 539 495
b) loss of reporting year		-6 023 953	-1 152 869
1. Equity capital total		**4 891 924**	**10 915 877**
2. Long-term creditors:			
Loans from credit institutions	19	1 502 387	1 585 658
2. Long-term creditors total		**1 502 387**	**1 585 658**
3. Short-terms creditors:			
Loans from credit institutions	20	2 096 000	745 093
Other loans		233 607	391 446
Advance payments received from customers		67 094	33 825
Debts to suppliers and contractors	21	1 817 615	2 321 766
Taxes and mandatory state social insurance contributions	22, 25	437 540	318 226
Other creditors	23	113 373	359 585
Accumulated liabilities	24	120 576	104 321
3. Short-term creditors total		**4 885 805**	**4 274 262**
Creditors total		**6 388 192**	**5 859 920**
LIABILITIES TOTAL		**11 280 116**	**16 775 797**

* Refer to appendix 32.

Appendixes from page 25 till 45 are integral parts of this financial statement.

On 30 April 2015 the financial statement of the Company has been signed by

Rolands Zarans
Chairman of the Management Board _______________
(signature)

STATEMENT OF CASH FLOW FOR THE YEAR 2014

	Appendix	2014 EUR	2013 EUR (corrected)*
I. Cash flow of basic activity			
1. Loss before taxes		-5 962 917	- 758 146
Corrections:			
Result of assignment contracts write-off	6	1 036 060	-
Depreciation of fixed assets	12	633 492	746 282
Amortization of non-material investments	11	1 590 228	1 590 229
Income from exclusions of fixed assets, net	5, 6	-685 043	-1 681 112
Interest income	7	-1 206	-800
Interest expense	8	150 134	110 920
2. Loss from economic activity in the year		-3 239 251	7 375
Corrections in current assets and short-term creditors			
In Debtors		2 929 924	698 684
In Reserves		1 824 852	-1 489 651
In Creditors		-1 245 431	-694 562
3. Cash flow of basic activity		270 093	-1 478 156
4. Expenses for tax payments (tax on immovable property and corporate income tax)	25	-53 607	-53 997
Cash flow of basic activity, net		**216 486**	**-1 532 153**
II. Cash flow of investing activity			
Purchase of fixed assets		-1 316 366	-66 146
Sale of fixed assets		7 808	1 690 335
Interest received		206	-
Cash flow of investing activity net, net		**-1 308 352**	**1 624 189**
III. Cash flow of financing activity			
Loans received, net		1 102 786	71 885
Interest paid		-158 686	-104 255
Cash flow of financing activity, net		**944 100**	**-32 370**

STATEMENT OF CASH FLOW FOR THE YEAR 2014
(continuation)

CONSOLIDATED DATA ON CASH INCOME AND EXPENSES

	Appendix	2014 EUR	2013 EUR
Cash flow of basic activity, net		**216 486**	**-1 532 153**
Cash flow of investing activity, net		**-1 308 352**	**1 624 189**
Cash flow of financing activity, net		**944 100**	**-32 370**
Increase / (decrease) of cash and cash equivalents		**-147 766**	**59 666**
Balance of cash and cash equivalents at the beginning of reporting year		**207 342**	**147 676**
Balance of cash and cash equivalents at the end of reporting year	17	**59 576**	**207 342**

* Refer to appendix 32.

Appendixes from page 25 till 45 are integral parts of this financial statement.

On 30 April 2015 the financial statement of the Company has been signed by

Rolands Zarans
Chairman of the Management Board ________________
(signature)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2014

	Equity capital EUR	Retained profit of previous years EUR	Profit / (loss) of reporting year EUR	Equity capital TOTAL EUR
31.12.2012	**10 529 251**	**1 535 804**	**3 692**	**12 068 747**
Profit of 2012 transferred to retained profit of previous years	-	3 692	-3 692	**-**
Profit of reporting year	-	-	3 884	**3 884**
31.12.2013 (before correction)	**10 529 251**	**1 539 495**	**3 884**	**12 072 630**
Correction*	-	-	-1 156 753	-1 156 753
31.12.2013 (after correction)	**10 529 251**	**1 539 495**	**-1 152 869**	**10 915 877**
Loss of 2013 transferred to retained profit of previous years	-	-1 152 869	1 152 869	**-**
Loss of reporting year	-	-	-6 023 953	**-6 023 953**
31.12.2014	**10 529 251**	**386 626**	**-6 023 953**	**4 891 924**

* Refer to appendix 32.

Appendixes from page 25 till 45 are integral parts of this financial statement.

On 30 April 2015 the financial statement of the Company has been signed by

Rolands Zarans
Chairman of the Management Board ________________
(signature)

APPENDIX TO THE ANNUAL REPORT

Principles of bookkeeping and methods of evaluation

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

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

a) it is accepted that the Company will be working further;

b) the same evaluation methods are used as in the last year except for the evaluation methods described in the appendix 32;

c) the evaluation of items is made with due foresight, i.e.

- in the report there is the profit included received before the day of working up of balance sheet;
- all expected sums of risk and loss which have appeared in the accounting period, or in the previous years, are taken into account, also then, if they became known during time between date of balance and day of working up of the annual report;
- all sums of deterioration and depreciation are estimated and taken into account, no matter if the fiscal year is finished with profit or loss;

d) income and expenses related to the accounting period are taken into account irrespective of the settlement date and date of reception or making out a bill. Expenses are coordinated with incomes in the reporting period;

e) components of items of assets and liabilities have been evaluated separately;

f) the balance of the beginning of the reporting period coincides with balance of the closing of the previous year; except for the items described in the appendix 32;

g) economic bargains are reflected considering their economic contents and essence, but not the legal form.

The bookkeeping was kept in 2014 on united bookkeeping accounts, which have been approved on 13 May, 1993, detailing the plan of accounts in conformity with features of economic activity of the Company.

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

The Company's management believes that in the reporting year the Company has had no related party transactions, which should be reflected in this financial statement in accordance with the requirements of the Article 53.[1] of the Annual Accounts Law.

The reporting year is from 01 January 2014 till 31 December 2014.

Data reflected in these financial reports is expressed in united European currency – in Euro (EUR). All monetary items of assets and liabilities and shareholders' equity are counted in euro at the rate of the European Central bank on last day of reporting year.

	31.12.2014.	**31.12.2013.**
USD	1 USD = 1,2141 EUR	1 USD = 0,515000 LVL
EUR	-	1 EUR = 0,702804 LVL
RUB	1 RUB = 72,337 EUR	1 RUB = 0,015600 LVL

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

Long-term and short-term items

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

Intangible assets

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

Tangible assets

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

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

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of equipment is the higher of an asset's net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement in the cost of sales caption.

Recognition of book value of fixed assets is terminated when the asset is disposed of or when no economic benefits are expected from its use in future. Any profit or loss arising from derecognition of the asset (which is calculated as the difference between the net disposal proceeds and the carrying value) is recognized in the income statement in the year when the asset is derecognised.

Costs related to capital improvements of the leased property are capitalized and reflected as fixed assets. Depreciation of these assets is calculated by the straight-line method over the shortest period of the useful life of capital improvements and lease.

Trade and other receivables

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

Cash and cash equivalents

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

Loans and borrowings

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

Borrowing costs

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

Contingencies

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

Investments in capital of other parties

Investments in capital of other parties are valued at cost. Cost method is investment accounting method when investments are accounted based on costs incurred. Investor recognizes income only when investor receives from investee distribution of accrued profit resulting after the date of acquisition. 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 leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The equipment acquired under finance leasing contracts is depreciated over the useful life of the assets.
All other leases are classified as operating leases. Lease payments under an operating lease are recognized as an expense in the profit and loss statement on a straight-line basis over the lease term.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, less value added tax and sales-related discounts. Revenue is recognized on an accrual basis. Revenue is recognized at the moment of sale when the risks are transferred to the buyer.

Expenses

Expenses are recognised in the period to which they relate irrespective of the date of payment.

Accruals for unused vacations

The amount of accrued liabilities is calculated by multiplying employee's average salary, including social tax, in the reporting year and the number of accrued unused vacation days as at the last day of the reporting year.

Provisions

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

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period.
Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The principal temporary timing differences arise from differing rates of accounting and tax depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as tax losses carried forward for the subsequent five years.
The deferred corporate income tax liability is stated in the balance sheet as non-current liabilities.
In cases where the total result of deferred tax asset should be included 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
In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

- The Company assesses accounts receivable and loans and evaluates their retrieval, when necessary creating provisions for doubtful accounts receivable and loans. The Company's management has assessed accounts receivable and has taken decision to create additional provisions as of 31 December 2014 (Appendix 15).

- The Company evaluates book value of fixed assets and non-material investments and assess whether there are any signs which indicate that recoverable value of assets is lower than their book value. Management of the Company calculates and recognizes loss from impairment of assets and non-material investments based on estimates on their future use. The Company's management believes that there is no need for significant adjustments of value of fixed assets and non-material investments as of 31 December 2014.

- At the end of each reporting year the Company makes evaluation of the useful lives of fixed assets. This assessment and hence the calculated depreciation may vary.

- The Company evaluates the advances paid and assesses their recoverability, if necessary, making provisions for irrecoverable advances. The Company's management has assessed the advances paid, and does not consider it necessary to create additional provisions as at 31 December 2014.

(1) Net turnover

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

Breakdown of net turnover according to geographical markets:

	2014 EUR	2013 EUR
Market		
Eastern countries	5 598 840	6 046 149
Western countries	2 911 137	2 622 287
Latvia	2 185 752	847 408
TOTAL	**10 695 729**	**9 515 844**

(2) Production costs of sold products

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

Type of costs	2014 EUR	2013 EUR
Material costs	6 162 173	5 139 017
Salary costs for production staff	1 146 938	1 136 751
Electricity costs	844 393	770 033
Depreciation of fixed assets	590 476	674 804
Mandatory state social insurance contributions	266 772	270 420
Heating and gas costs	147 886	187 110
Material delivery costs	71 508	106 392
Water costs	24 087	23 799
Current repair expenses	17 509	15 638
Insurance costs	23 890	24 596
Environment protection costs	8 620	12 521
Stock changes	-133 407	158 693
Other production costs	113 426	69 298
TOTAL	**9 284 271**	**8 589 072**

(3) Selling costs

	2014 EUR	2013 EUR
Amortization of non-material investments*	1 589 799	1 589 800
Other	342	-
TOTAL:	**1 590 141**	**1 589 800**

*Refer to appendix 11 of this financial statement.

(4) Administration costs

	2014 EUR	2013 EUR
Administration salary	444 189	437 542
Mandatory state social insurance contributions	101 927	102 544
Depreciation and amortization	43 445	71 906
Security expenses	62 680	70 902
Expenses on business trips	16 473	12 388
Communication services costs	12 686	12 282
Expenses relating to annual report and audit*	16 554	12 530
Bank services	4 789	6 088
Office expenses	1 107	1 209
Other administration costs	66 144	66 239
TOTAL:	**769 994**	**793 630**

* Deloitte Audits Latvia SIA provided the Company only annual report audit services for the year 2014.

(5) Other incomes of economic activity

	2014 EUR	2013 EUR
Net income from sale of fixed assets net	685 043	1 690 335
Decrease of provisions for doubtful accounts receivable (appendix 15)	-	32 094
Decrease of provisions for reserves with slow turnover speed	2 246	3 561
Decrease of provisions for vacations	10 668	15 804
Other income	44 266	1 627
TOTAL:	**742 223**	**1 743 421**

(6) Other operating expenses

	2014 EUR	2013 EUR (corrected)*
Penalties	80 670	41 585
Loss from exchange rate differences, net	6 412	36 471
Fixed assets selling costs	7 808	9 223
State fee on entrepreneurship risk	1 284	1 434
Training expenses	469	603
Increase of provisions for unsecured debts (appendix 15)	4 258 054	827 103
Provisions for reserves with slow turnover speed, net (appendix 14)	205 757	-
Other operating expenses	11 021	18 370
Loss from write-off of the assignment contracts value	1 036 060	-
TOTAL:	**5 607 535**	**934 789**

* Refer to appendix 32.

** On 31 December 2013 the Company had the right of claim in the amount of EUR 3 024 380 within four assignment contracts. In 2014 the above claims as per assignment contracts had been sold to a third party (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 from the assignment contracts write-downs of EUR 1,036,060.

(7) Other interest income and similar income

	2014 EUR	2013 EUR
Interest income from loans	1 206	800
TOTAL:	**1 206**	**800**

(8) Interest payment and similar expenses

	2014 EUR	2013 EUR
Interest payment for loans	150 134	110 920
TOTAL:	**150 134**	**110 920**

(9) Corporate income tax

	2014 EUR	2013 EUR (corrected)*
Corporate income tax for the reporting year (appendix 25)	-	-58 310
Deferred tax	-	-275 678
TOTAL:	**-**	**-333 988**

* Refer to appendix 32.

(9) Corporate income tax (continuation)

Calculation of deferred tax:

	31.12.2014 EUR	31.12.2013 EUR (corrected)*
Depreciation of fixed assets, 15%	364 759	318 739
Accrued liabilities for vacations, 15%	7 443	9 042
Provisions for stocks with slow turnover speed, 15%	32 396	1 870
Tax loss, 15%	21 104	-
Unrecognized deferred tax assets	-425 702	-329 651
Assets of deferred tax	**-**	**-**

* Refer to appendix 32.

On 31 December 2014 accumulated losses for the purpose of corporate income tax were EUR 140 696. Tax losses occurred in 2014 and have no restriction on the use term.

(10) Other taxes

	2014 EUR	2013 EUR
Immovable property tax (buildings)	54 457	54 166
Immovable property tax (land)	6 579	6 569
TOTAL:	**61 036**	**60 735**

(11) Intangible assets

	Other non-material investments* EUR	Software licenses EUR	Intangible assets total EUR
Initial value 31.12.2013.	**7 949 000**	**58 833**	**8 007 833**
Disposals	-	24 122	24 122
31.12.2014.	7 949 000	34 711	7 983 711
Accumulated amortization 31.12.2013	**4 769 401**	**57 346**	**4 826 747**
Charged amortization	1 589 799	429	1 590 228
Disposals	-	24 122	24 122
31.12.2014	6 359 200	33 653	6 392 853
Book value as at 31.12.2013	**3 179 599**	**1 487**	**3 181 086**
Book value as at 31.12.2014	**1 589 800**	**1 058**	**1 590 858**

* According to the Purchase contract from 29.12.2010 (entered into force on the basis of the shareholder's decision approved on 31.05.2011) between the Company and a non-resident of the Republic of Latvia (legal person), the parties agreed that the last passes on to, but the Company takes over from this person the market (i.e. receives control) on the territory of RF and CIS states belonging to this company for sales of the Company's products and pays for it, by determining acquisition value of non-material investments on the basis of external and internal estimates and calculations and business prognosis for next five years in the amount of EUR 7 949 000. Other non-material investments are subject to amortization within 5 years by a straight-line method. Amortization is included into the item "Selling costs" of the income statement (appendix 3).

(12) Fixed assets

	Land plots, buildings and constructions	Equipment and machinery	Other fixed assets and inventory	Formation of fixed assets*	Total
Initial value 31.12.2013	**13 233 980**	**6 207 141**	**518 763**	**44 425**	**20 004 309**
Purchased	-	15 800	2 264	2 038 529	2 056 593
Disposals	-	662 405	49 754	34 094	746 253
31.12.2014	13 233 980	5 560 536	471 273	2 048 860	21 314 649
Accumulated depreciation 31.12.2013	**10 458 151**	**6 200 472**	**499 209**	**-**	**17 157 832**
Charged depreciation	618 599	4 112	10 781	-	633 492
Disposals	-	662 407	41 945	-	704 352
31.12.2014	11 076 750	5 542 177	468 045	-	17 086 972
Book value as at 31.12.2013	**2 775 829**	**6 669**	**19 554**	**44 425**	**2 846 477**
Book value as at 31.12.2014	**2 157 230**	**18 359**	**3 228**	**2 048 860**	**4 227 677**

As at 31 December 2014 the fixed assets of the Company with the initial value EUR 13 960 786 (as at 31.12.2013: EUR 11 040 469) were fully depreciated, but is still used in economic activity.

Cadastral value of landed property as at 31 December 2014 was EUR 441 285 (as at 31.12.2013: EUR 441 285). Cadastral value of buildings on 31 December 2014 was EUR 3 627 810 (as at 31.12.2013: EUR 3 627 810).

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

*On 14 March 2014 the Company signed with the Latvian Investment and Development Agency an Agreement No.L-IZI-14-0003 on implementation of the project "Establishment of the production premises in free production areas of JSC "Ditton pievadkezu rupnica"". The project started on 14 March 2014, the project deadline is 14 June 2015. The total cost of the project amounts to EUR 3 376 313, including the eligible costs of EUR 2 796 430. Construction works within the project have been performed by SIA "Ditton Būve" according to the Construction works contract No.DPR/2014/01 dated 25 July 2014. In accordance with the acceptance deed from 25 February 2015 construction works have been executed in the amount of EUR 2 750 704.

(13) Participation in equity of other companies

	31.12.2014. EUR	31.12.2013. EUR
Participation in the capital of Ditton Chain SIA, 15% from the fixed capital	67 160	67 160
TOTAL:	**67 160**	**67 160**

(14) Finished products and goods for sale

	31.12.2014. EUR	31.12.2013. EUR
Finished products for sale	461 588	208 656
Stocks with slow turnover speed	215 973	12 462
Provisions for stocks with slow turnover speed	-215 973	-12 462
TOTAL:	**461 588**	**208 656**

Provisions for stocks with slow turnover speed:		
As at beginning of year	12 462	16 023
(Decrease) / increase (appendices 5 and 6)	203 511	-3 561
As at end of year	**215 973**	**12 462**

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

	31.12.2014. EUR	31.12.2013. EUR (corrected)*
Assignment contracts	1 167 700	3 249 572
TOTAL:	**1 167 700**	**3 249 572**

In the reporting year the Company has concluded 2 Assignment contracts with repayment period until 31st December 2016. No interest is payable. Assignments are not secured. On the date of approval of this annual report one of the Assignment contracts, which has been concluded with the Latvian resident (entity) for the amount of EUR 1 167 700, has been fully paid prior to maturity.

Trade receivables (current assets)

	31.12.2014. EUR	31.12.2013. EUR (corrected)*
Book value of trade receivables	7 239 620	3 596 549
Assignment contracts*	676 142	1 217 618
Provisions for doubtful accounts receivable	-5 212 890	-954 836
TOTAL:	**2 702 872**	**3 859 331**

* Assignment contract which has been concluded with the Latvian resident (entity) for the amount of EUR 676 142 has been fully paid on the date of approval of this annual report and the related receivables are reflected in this report among short-term receivables.

Provisions for doubtful accounts receivable:		
As at the beginning of year (before correction)	127 733	986 930
Correction (appendix 32)	827 103	-
As at the beginning of year (after correction)	954 836	986 930
(Decrease) / increase (appendixes 5 and 6)	4 258 054	-32 094
As at the end of year	5 212 890	954 836

* Refer to appendix 32.

(16) Other debtors

	31.12.2014. EUR	31.12.2013. EUR
Value added tax (VAT) overpayment* (appendix 25)	-	25 183
VAT from non-paid bills	10 287	-
Accrued interest income	-	960
Other	25 000	28 558
TOTAL:	**35 287**	**54 701**

(17) Cash and cash equivalents

	31.12.2014. EUR	31.12.2013. EUR
Cash in bank	59 576	207 342
TOTAL:	**59 576**	**207 342**

(18) Fixed capital

The fixed capital of the Company before denominations was 7 400 000 LVL, which divides into 7 400 000 public bearer shares. The nominal value of each share is 1 LVL and each share entitles to one vote.
With the January 1, 2014, when Latvia joined the euro zone and the Latvian lats were replaced by the euro, in the balance sheet the fixed capital has been expressed in euros in the amount of EUR 10,529,251 in accordance with the official exchange rate set by the European Council and conditions of the Law on Introduction of Euro.
On November 4, 2014, in accordance with the conditions of the Commercial Law and Law on Introduction of Euro the Company's extraordinary shareholders' meeting decided to carry out denomination of the fixed capital, according to which after the denomination of the fixed capital from lats to the euro the Company's fixed capital totals EUR 10,360,000 with a par value per share of EUR 1.40 and the total number of shares is 7,400,000. The denomination date is January 23, 2015.

The shareholders who own over 5% from the shares of the whole capital of the Company as at 31.12.2014 and at 31.12.2013 were:

NAME	Shares owned, % 31.12.2014	Shares owned, % 31.12.2013
Eduards Zavadskis	20,00	20,00
Vladislavs Driksne	19,92	19,92
MAX Invest Holding SIA	13,63	13,63
SIA "Maleks S"	13,63	13,50
Vladimirs Bagajevs /Vladimir Bagaev/	-	9,46
SIA "DVINSK MNG"	9,46	-

(19) Long-term loans from credit institutions

	31.12.2014. EUR	31.12.2013. EUR
Loan from JSC "Citadele banka" (long-term part)	**1 502 387**	**1 585 658**

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

(20) Short-term loans from credit institutions

	31.12.2014. EUR	31.12.2013. EUR
Short-term loan from JSC „Bank M2M Europe"	1 400 000	-
Credit line from JSC "Citadele banka"	588 000	600 000
Loan from JSC "Citadele banka" (short-term part)	108 000	145 093
TOTAL:	**2 096 000**	**745 093**

As at 31.12.2014 information on loans received from JSC "Citadele banka" is following:

Number and date on the contract	Currency	Limit	Interest rate	Repayment term
Loan No.CI2010-2.3/1 dated 10.09.2010	EUR	2 300 000 EUR	6 months Euribor + 4.00 %	25.06.2023.
Credit line No.CI2011-2.3/218 dated 25.11.2011	EUR	600 000 EUR	6 months Euribor + 4.00 %	09.09.2015.

Loan security is a commercial pledge on all fixed assets, stocks and all rights to demand of the Company as a community of things at the moment of pledging, as well as on future constituents of the community of things. In accordance with the terms of this credit contract, the Company and SIA "Ditton Chain" (resident of the Republic of Latvia) undertake to ensure total DSCR (debt-service coverage ratio) ratio not less than 1.5. According to estimations of the Company's management this requirement has not been fulfilled on the balance date. The actual DSCR ratio for 2014 was minus 4.4; but in 2013 – minus 6.4. The Company's management is convinced that because of the failure to fulfill the mentioned ratio JSC „Citadele banka" will not demand from the Company loan repayment prior to maturity. Consequently, the long-term loan is divided into long-term and short-term parts.

According to the Agreement No.3 dated 26.09.2014 on Amendments to the Loan Agreement No.CI2010-2.3/1 dated 10.09.2010 for the period from 26.09.2014 to 27.02.2015 there has been the interest rate changed to 4% plus 0.27%. Starting with 25.09.2014 up to 25.02.2015 the monthly payment of the loan principal sum is EUR 9000.00. The maturity date is 25.06.2023.

According to the Agreement No.7 dated 26.09.2014 on Amendments to the Credit Line Agreement No.CI2011-2.3/218 dated 25.11.2011 for the period from 25.09.2014 to 09.09.2015 there has been the interest rate changed to 4% plus 0.32%. Starting with 25.09.2014 up to 25.02.2015 the monthly payment of the credit line principal sum is EUR 3000.00. The maturity date has been prolonged up to 09.09.2015.

The maturity period was extended until 09.09.2015. The Company's management believes that the credit line will be prolonged.

As at 31.12.2014 information on loans received from JSC "Bank M2M Europe" is following:

Number and date on the contract	Currency	Limit	Interest rate	Repayment term
Credit, Nr.4.1-11.6/16FL-1FK from 28.07.2014.	EUR	1 400 000 EUR	1,2%	28.07.2015

The credit security is the first ranking financial pledge over the financial resources owned by the Company on the current account. The Credit agreement does not contain any performance conditions of financial indicators. Credit funds are expected to be repaid by the funds, which after the project implementation are expected to be received from the Latvian Investment and Development Agency, within the term set in the contract.

During the financial year and until the date of approval of the annual report by the Management Board, received loans have been repaid in accordance with the conditions of contracts and agreements concluded with the banks.

Refer also to appendix 30.

(21) Debts to suppliers and contractors

	31.12.2014. EUR	31.12.2013. EUR
For services	1 219 657	562 845
For materials	597 958	1 758 921
TOTAL:	**1 817 615**	**2 321 766**

(22) Taxes and mandatory state social insurance contributions

	31.12.2014 EUR	31.12.2013 EUR
Personal income tax	171 109	131 278
Mandatory state social insurance contributions	112 154	96 757
Corporate income tax	5 714	54 685
Immovable property tax	101 616	35 196
Nature resources tax	486	196
State fee on entrepreneurship risk	94	114
Value added tax	46 367	-
TOTAL:	**437 540**	**318 226**

Tax arrears payment deadlines have been agreed with the State Revenue Service, appropriate payment schedules have been set up and the payments are made in accordance with these schedules.

(23) Other creditors

	31.12.2014 EUR	31.12.2013 EUR
Advance payers' VAT	-	214 851
Settlements of salaries for December	40 091	71 010
Labor union member's fee 0,2% from salary	53 646	54 088
Debts for purchased shares	19 636	19 636
TOTAL:	**113 373**	**359 585**

(24) Accumulated liabilities

	31.12.2014 EUR	31.12.2013 EUR
Unused vacations	49 618	60 287
Electricity	49 279	28 025
Interest for loan	-	8 372
Auditing services	16 000	7 259
Communication services	279	378
Gas	5 400	-
TOTAL:	**120 576**	**104 321**

(25) Tax movement chart

Type of tax	Tax liabilities as at 31.12.2013. EUR	Charged in year 2014 EUR	Fines charged in 2014 EUR	Paid in year 2014 EUR	Fines paid in 2014 EUR	Transfer-red to /from other taxes EUR	Tax liabilities as at 31.12.2014 EUR
VAT	-25 183	1 086 492	220	-1 495 378	-	480 216	46 367
State entrepreneurial risk fee	114	1 284	-	-1 304	-	-	94
Corporate income tax	54 685	-	3 474	-51 706	-739	-	5 714
Immovable property tax for buildings and facilities	31 266	54 457	6 726	-	-	-	92 449
Mandatory state social insurance contributions	96 757	532 785	6 398	-53 898	-8 528	-461 360	112 154
Personal income tax	131 278	264 538	23 410	-218 458	-10 803	-18 856	171 109
Natural resources tax	196	2 146	-	-1 856	-	-	486
Immovable property tax for land	3 930	6 579	657	-1 901	-98	-	9 167
TOTAL:	**293 043**	**1 948 281**	**40 885**	**-1 824 501**	**-20 168**	**-**	**437 540**
Including (Overpayment) (appendix 16)	**-25 183**						**-**
Liabilities (appendix 22)	**318 226**						**437 540**

(26) Average number of employees

	2014	2013
Average number of persons employed by the Company during the year	283	322

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

	Council	Management Board	TOTAL
	EUR	EUR	EUR
Salaries and remuneration	19 855	32 942	52 797
Mandatory state social insurance contributions	4 684	7 771	12 455
TOTAL:	**24 539**	**40 713**	**65 252**

(28) Going concern principle

The Company closed the year 2014 with the loss in the amount of EUR 6 023 953 and current liabilities exceed its current assets by EUR 659 084, which to a large extent is related to the short-term loans from financial institutions in the amount of EUR 2 096 000 with a maturity date in 2015 (appendix 20). In the existing circumstances the Company is continuing to work in economy regime by using internal resources and reorganizing production processes according to the existing volumes of demand, production and costs, including optimization of staff in accordance with production volumes and its actual employment. The Company has also launched the second phase of modernization. In the first phase there were prevailing programs related to building renovation and energy saving, which ensured funds economy, created additional income prospects from industrial area lease and conditions for the second phase. The second phase of modernization, which was launched in 2014, provides programs related to the replacement of the existing worn-out production facilities to new ones, ensuring a higher level of product quality and ergonomics, and at the same time reduction of resources, including manpower, and raw material cost. This is simultaneously related to the development of new technologies, possibility to produce new types of products and more active promotion of our products in new and existing markets, with an emphasis on the European Union market. According to the Company's management forecasts, the second phase of modernization will be financed from the own funds, generated from resource-saving and product cost reduction, and from loan funds. Modernization will be carried out in accordance with the action plan. The Company intends to close the year 2015 without losses.

More detailed information about the Company's business principles, goals and mission are set out in the Management Report (pages 8-12) and the Council report (pages 15-16) of this Annual Report, and also in the Declaration on objectives and mission of the activity and development of JSC "Ditton pievadķēžu rūpnīca" and evaluation of these processes approved by shareholders, refer to the Company's website www.dpr.lv .

Until the date of approval of the annual report by the Management Board, the Company's creditors don't have submitted any claims regarding the insolvency or applications for the Company's insolvency proceedings. The Company's obligations against the creditors are fulfilled in accordance with the agreed procedures and within the agreed deadlines. There are no procedures and decisions against the Company concerning compulsory recovery of such obligations.

(28) Going concern principle (continuation)

During the financial year and until the date of approval of the annual report by the Management Board, received loans have been repaid in accordance with the conditions of contracts and agreements concluded with the banks.

Funds which after completion of the project (refer to Annex 12) are expected to be received from the Latvian Investment and Development Agency, are planned to be aimed at loan repayments. In addition, in accordance with the conditions of the project implementation production facilities being set up shall be leased to tenants that will generate additional income.

The Company's ability to continue as a going concern depends on the management's ability to ensure profitable operations of the Company, and to ensure further availability of funding from credit institutions.

This financial statement has been prepared in accordance with the going concern principle and does not include any adjustments that might be necessary if the going concern principle is not applicable.

(29) Events after the end of reporting period

On November 4, 2014, in accordance with the conditions of the Commercial Law and Law on Introduction of Euro the Company's extraordinary shareholders' meeting decided to carry out denomination of the fixed capital, according to which after the denomination of the fixed capital from lats to the euro the Company's fixed capital totals EUR 10,360,000 with a par value per share of EUR 1.40 and the total number of shares is 7,400,000. The denomination date is January 23, 2015.

In the time period from the last day of the reporting year till the day of signing of this financial statement there have not been any other significant events, which would significantly influence the financial standing of the Company as at 31 December 2014.

(30) Eventual liabilities, pledges and guarantees

On 10.09.2010 the Company concluded Credit contract Nr.CI2010-2.3/1 with JSC "Citadele banka". In conformity with the Credit contract there is a commercial pledge on the whole property as a community of things fixed in favour of the JSC "Citadele banka", as well as there is a financial pledge fixed on all settlement accounts opened in JSC "Citadele banka" in favour of the JSC "Citadele banka". The pledge serves as a security of received credit resources. Along with the Credit contract are have been Pledge Agreement No. CI2010-2.3/1-IE1, Pledge Agreement No. CI2010-2.3/1-IE2 and Commercial Pledge Agreement No.CI2010-2.3/1-KL3 concluded.

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

- Pledge Agreement Nr.CI2011-2.3/218-IE1: subject of the pledge – immovable property under cadastral No. 0500 507 1401 (buildings and constructions), Mendelejeva Str. 11, Visku Str. 17, Daugavpils;

- Pledge Agreement Nr.CI2011-2.3/218-IE2: subject of the pledge – immovable property under cadastral No. 0500 007 1402 (land), Visku Str.17, Daugavpils;

- Commercial Pledge Agreement No.CI2011-2.3/218-KL3: subject of the pledge: movable property of the JSC „Ditton pievadķēžu rūpnīca", commercial pledge registration deed No.100154408;

- Commercial Pledge Agreement No.CI2011-2.3/218-KL4: subject of the pledge: movable property of SIA „Ditton Chain" (pledgor SIA „Ditton Chain"), commercial pledge registration deed No.100154409;

(30) Eventual liabilities, pledges and guarantees (continuation)

- Guarantee Agreement Nr.CI2011-2.3/218-GL-7; subject: guarantee; guarantor SIA „Ditton Chain”.

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

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

On 30.09.2013 the Company concluded with JSC „Citadele banka” a Guarantee Agreement No.2.3-13/59 in favor of Investment and Development Agency of Latvia. Guarantee amount is 27 964,30 EUR, guarantee expiry date – 29th February 2016.

On 28.07.2014 the Company concluded with JSC „Bank M2M Europe” the Credit Contract No.4.1-11.6/16FL/1FK.

The credit security is the first ranking financial pledge over the financial resources owned by the Company on the current account.

In accordance with the assessment of the Company’s management, additional charges are no expected within the issued guarantees and securities, so creation of provisions for the above mentioned guarantees of 31 December 2014 is not required.

(31) 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 will have financial loss from unfavorable fluctuations in exchange rates. This risk arises when financial assets in foreign currency do not match with the financial liabilities in the same currency, so there appear open currency positions for the Company. The Company has no significant financial assets and liabilities expressed in other currencies, excluding the Latvian lats and the euro. On 1st January, 2014 Latvia joined the euro zone and the Latvian Lats have been replaced by the euro. Thus, in the accounting year the Company’s exposure to foreign currency risk was not significant.

Interest rate risk
Interest rate risk is the risk that the Company will have financial loss from unfavorable fluctuations in interest rates. Interest rate risk appears for the Company mainly from long-term and short-term loans from credit institutions, to which fixed interest rate applies (refer to appendix 20). The Company does not use any tools to mitigate the interest rate risk.

(31) Financial risk management (continuation)

Credit risk
Credit risk is the risk that the Company will have financial loss if a business partner fails to fulfill his obligations towards the Company. Credit risk is mainly caused by money means, trade receivables and advance payments.

Money means
Credit risk related to money in banks is managed by balancing the financial asset allocation in order to maintain simultaneously the possibility to choose the best offers and reduce the probability of financial means. The Company regularly evaluates credit ratings of the banks set by international rating agencies, as well as assesses the banks' financial performance.

Trade receivables
The Company has a significant credit risk concentration. As at 31 December 2014 in the result of transactions with one partner trade receivables, other loans and other long-term receivables the Company made 51% of the total Company's trade receivables, other loans and other long-term receivables (31.12.2013: 93%), and in 2014 income from transactions with the given partner made 50% of the Company's net turnover (in 2013: 56%). The Company regularly monitors overdue trade receivables. The balance value of trade receivables has been reduced by provisions for bad and doubtful trade receivables (appendix 15).

Liquidity risk
Liquidity risk is the risk that the Company will not be able promptly and fully to ensure fulfillment of its obligations. Liquidity risk appears, when repayment terms of financial assets and liabilities are not consistent. 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 fulfill its obligations within the set time limits. The Company regularly assesses the consistency of the financial assets and liabilities terms, as well as stability of the funding sources of long-term investments. In the opinion of the Company's management the Company will have sufficient cash resources to ensure that its liquidity is not at risk.

(32) Corrections of errors of previous years

In 2014 the Company detected errors in applying accounting policies in the Annual Report for 2013. In the Annual Report for 2014 there has been made correction of this error with retroactive effect, whose impact on the comparative figures of 2013 is as follows:

1) Income statement for 2013

Item name	Item sum for 2013 before correction, EUR	Amount of correction, EUR	Item sum for 2013 after correction, EUR
Other operating expenses	-107 686	-827 103	-934 789
Corporate income tax	-4 338	-329 651	-333 989
Profit of reporting year	**3 884**	**-1 156 753**	**-1 152 869**

(32) Corrections of errors of previous years (continuation)

2) Balance sheet as at 31 December 2013

Item name	**Item sum for 2013 before correction, EUR**	**Amount of correction, EUR**	**Item sum for 2013 after correction, EUR**
ASSETS			
Long-term financial investments			
Assets of deferred tax	329 651	-329 651	-
Other loans and other long-term debtors	4 076 674	-827 103	3 249 572
Long-term investments total	**10 501 049**	**-1 156 753**	**9 344 295**
Current assets			
Debtors			
Trade receivables	3 680 729	+178 602	3 859 331
Other debtors	233 303	-178 602	54 701
Assets total	**17 932 550**	**-1 156 753**	**16 775 797**
LIABILITIES			
Equity capital			
Retained earnings / (loss) of previous years	3 884	-1 156 753	-1 152 869
Equity capital total	**12 072 630**	**-1 156 753**	**10 915 877**
Liabilities total	**17 932 550**	**-1 156 753**	**16 775 797**

(32) Corrections of errors of previous years (continuation)

3) Statement of cash flow

Item name	**Item sum for 2013 before correction, EUR**	**Amount of correction, EUR**	**Item sum for 2013 after correction, EUR**
Cash flow of basic activity			
Profit before taxes	68 957	-827 103	-758 146
Profit from economic activity in reporting year	834 476	-827 103	7 375
Corrections in Debtors	-128 419	-827 103	698 684

4) Statement of changes in equity

Item name	Item sum for 2013 before correction, EUR	Amount of correction, EUR	Item sum for 2013 after correction, EUR
(Loss) / profit of reporting year	3 884	-1 156 753	-1 152 869
Equity capital total	**12 072 630**	**-1 156 753**	**10 915 877**

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