

**JSC “DITTON PIEVADKEZU RUPNICA”**  
**2004 ANNUAL REPORT**

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***Information about the Company***

|  |                     |   |
|--|---------------------|---|
| Company name                               |                     | Ditton pievadkezu rupnica   |
| Legal status                               |                     | Joint Stock Company   |
| Registrations number                       |                     | 40003030187   |
| Registration in Register of Enterprises    |                     | Rīga, 03.10.1991  |
| Registration In Commercial Register Office |                     | Rīga, 29.08.2003.   |
| Legal address                              |                     | Visku Str. 17, Daugavpils, LV-5410, Latvia  |
| Mailing address                            |                     | Visku Str. 17, Daugavpils, LV-5410, Latvia  |
| The Council                                | Vladislavs Driksne  | - Chairman of the Council since 29.08.2003, p.c.210863-10221  |
|  | Georgijs Sorokins   | - Deputy Chairman of the Council since 29.08.2003, p.c. 030138-10218  |
|  | Pjotrs Savostjanovs | - Member of the Council since 29.08.2003, p.c. 190952-10238   |
|  | Jevgenijs Glinkins  | - Member of the Council since 29.08.2003, citizen of Russian Federation   |
|  | Vitolds Vasilenoks  | - Member of the Council since 29.08.2003, p.c. 290567-12154   |
| The Board                                  | Eduards Zavadskis   | - Chairman of the Bord since 29.08.2003, p.c.220964-10263   |
|  | Aleksandrs Krupenko | - Deputy Chairman of the Board from 29.08.2003 till 07.01.2004, p.c. 260455-10211                               |
|  | Pjotrs Dorofejevs   | - Member of the Board since 29.08.2003. till 07.01.2004, p.c. 081258-10215                                      |
|  | Pjotrs Dorofejevs   | - Deputy Chairman of the Board since 07.01.2004, p.c. 081258-10215  |
|  | Volda Juhno         | - Member of the Board since 29.08.2003, p.c. 061146-10227   |
|  | Natalja Redzoba     | - Member of the Board since 29.08.2003, p.c. 121061-10258   |
|  | Jurijs Kostromins   | - Member of the Board since 07.01.2004, p.c. 270651-10228   |
| Fixed capital                              |                     | 7 400 000.00 LVL  |
| Nominal value of public name share         |                     | 1.00 LVL  |
| Chief accountant                           |                     | Nina Moisejeva, p.k. 200250-10263   |
| Reporting year                             |                     | 01.01.2004 – 31.12.2004   |
| Information on subsidiary enterprises:     |                     |   |
| Company name                               |                     | • Meteor Kettenfabrik GmbH  |
| Address                                    |                     | Nürnberg Str. 2,<br>36456 Barchfeld<br>Germany  |
|  |                     | • JSC „Latgales insurance company”  |
|  |                     | Visku Str.17,<br>Daugavpils, LV-5410<br>Latvia  |
| Auditors                                   |                     | Sworn auditor<br>Valda Zītare, p.c. 140955-10705<br>Certificate No. 62<br>Raiņa ielā 28,<br>Daugavpils, LV-5403 |

## ***Management Statement***

### **Kind of activity**

Daugavpils driving chain factory was established in 1949 according to USSR government decree. In 1976 the enterprise was reorganized in accordance with the needs in driving chains supply for the anew created Voldzskiy automobile factory.

The Company specializes in the manufacturing of auto-transmission and driving chains, bicycle chains and the chains for the agricultural machinery. The Company operates according to the Articles, observing the existing legislation of Latvian Republic.

### **Short description of the Company’s activity in the reporting year**

In the 2004 the Company realized a profit equal to 115 598 LVL. As compared with the previous year in 2004 the general net-turnover increased for 10.8%; sales of products Eastwards increased for 8.4% and Westwards – for 16.8%; sales of products in Latvia decreased for 1.0%. At present the Company exports 96.2% of its products to the Western and the Eastern markets. That means: for West – 35.2%, for East – 61%, and for Latvia - 3.8%.

### **Events after the reporting year ending**

None of the important events that could affect essentially upon the estimation of the financial year has occurred from the last day of the financial year and to the very present day.

### **Prospects for future and further development**

The pursuit for the new customers both with the elaboration and bringing in markets of perspective and alternative novelties will be prolonged in 2005 and in the nearest 2 years.

In connection with the soared competition from the part of chains manufacturers from South-Eastern Asian countries and with the CIS manufactured products improving the work on the increasing of the JSC “Ditton pievadkezu rupnica” products’ competitive ability and improving will be extended.

The working on the chains range widening (including the special purpose industrial chains of higher quality) will be prolonged too.

Also the efforts for the development of novelties and services for the inner market, for pre-production models manufacturing and markets and demands investigations organizing will be intensified. .

As the result of Latvia’s joining to EC the products prime cost shall increase and the necessity to carry out the additional arrangements for increasing of products’ competitive ability shall appear.

Company management is convinced that the demand for the Company’s products will be preserved in future in general and will grow up for some products’ types, and the Company will show good returns.

Eduards Zavadskis

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(signature)

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**Council Statement  
to the 2004 annual report**

Issued according to LR Commercial Law and to the Company's Articles,  
approved by Council resolution of the JSC "Ditton pievadkezu rupnica"  
dated 29.03.2005, Protocol No.91

JSC "Ditton pievadkezu rupnica" announces that the report of Company Board to the regular general stockholders meeting and report on activity in 2004 truly reflect the activity results and the financial position of the Company. Joint-Stock Company worked with profit and without the losses.

During the reporting period the Board was in charge of the industrial and economic activity of the Company in the accordance with the LR laws in force, with the Company Articles, general stockholders meetings' resolutions and Council recommendations.

The Council members have no claims to the Board and to individual members.

During the reporting period the Council supervised constantly for the Board activity and operated according to the Company Articles during the period between the general stockholders meetings.

In connection with the prohibition to convene and held the stockholders meetings, there was made a resolve on the 2003 annual report approval on 20 August, 2004 at the common session of Council and Board.

Altogether during the reporting period nine Council sessions were held and the following questions were examined and the resolves for the mentioned questions were made:

1. The results of the industrial and economic activity of Company were examined in every quarter;
2. Changes in the Company's activity in connection with Latvia's joining to EC on 1 May, 2004;
3. Pursuit of novelties;
4. Arrangements to improve the activity of the company „Meteor Kettenfabrik" GmbH;
5. Company strategic tasks for years 2004-2006;
6. Normative documents that were adopted according to changes in LR legislation.

There were no Board statements for the questions that demanded the Council assent.

Chairman of the Council

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(signature)

Vladislavs Driksne

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**STATEMENT OF PROFIT AND LOSS**  
**AS AT 31.12.2004**

|  | <b>Number<br/>of notes</b> | <b>2004<br/>LVL</b> | <b>2003<br/>LVL</b> |
|--|----------------------------|---------------------|---------------------|
| Net turnover   | 1                          | 7 531 276           | 6 797 382           |
| Production cost of sold products                           | 2                          | (4 455 530)         | (4 833 570)         |
| <b>Gross profit or loss</b>                                |                            | <b>3 075 746</b>    | <b>1 963 812</b>    |
| Selling costs  | 3                          | (190 393)           | (151 421)           |
| Administration costs                                       | 4                          | (2 676 995)         | (1 675 066)         |
| Other operating income                                     | 5                          | 76 026              | 46 020              |
| Other operating expenses                                   | 6                          | 103 145             | 55 846              |
| <b>Profit or loss before extraordinary items and taxes</b> |                            | <b>181 238</b>      | <b>127 499</b>      |
| Extraordinary income                                       | 7                          | -                   | 6 103               |
| Extraordinary expenses                                     | 8                          | -                   | 2 319               |
| <b>Profit or loss before taxes</b>                         |                            | <b>181 238</b>      | <b>131 283</b>      |
| Enterprise income tax in reporting year                    | 9                          | 27 307              | -                   |
| Other taxes  | 10                         | 38 333              | 39 060              |
| <b>Profit or loss of reporting year</b>                    |                            | <b>115 598</b>      | <b>92 223</b>       |

Eduards Zavadskis

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(signature)

29 March, 2005

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**BALANCE SHEET AS AT 31.12.2004**

| <b>ASSETS</b>  | <b>Number<br/>of notes</b> | <b>2004<br/>LVL</b>     | <b>2003<br/>LVL</b>      |
|--|----------------------------|-------------------------|--------------------------|
| <b>1. Long-term investments</b>  |                            |                         |                          |
| <b>I. Non-material investments</b>                                     |                            |                         |                          |
| Concessions, patents, licenses, trade mark and similar rights          |                            | <u>10 765</u>           | <u>18 136</u>            |
| <b>Non-material investments total</b>                                  | 11                         | <b>10 765</b>           | <b>18 136</b>            |
| <b>II. Fixed assets</b>  |                            |                         |                          |
| Plots of land, buildings and constructions and perennial plantations   |                            | 2 504 674               | 2 704 357                |
| Technological equipment and machinery                                  |                            | 664 609                 | 854 232                  |
| Other fixed assets and stock   |                            | 111 828                 | 127 926                  |
| Formation of fixed assets and costs of unfinished construction objects |                            | 175 367                 | 199 132                  |
| <b>Fixed assets total</b>  | 12                         | <b>3 456 478</b>        | <b>3 885 647</b>         |
| <b>III. Long-term financial investments</b>                            |                            |                         |                          |
| Participation in the capital of related enterprises                    |                            | 720 695                 | 720 695                  |
| <b>Long-term financial investments total</b>                           | 13                         | <b>720 695</b>          | <b>720 695</b>           |
| <b>1. Long-term investments total</b>                                  |                            | <b>4 187 938</b>        | <b>4 624 478</b>         |
| <b>2. Current assets</b>   |                            |                         |                          |
| <b>I. Reserves</b>   |                            |                         |                          |
| Raw materials, basic materials and subsidiary materials                |                            | 980 245                 | 1 015 772                |
| Unfinished products  |                            | 197 274                 | 154 028                  |
| Finished products and goods for sale                                   | 14                         | 1 844 725               | 1 838 377                |
| Advance payments for goods   |                            | 279 332                 | 25 738                   |
| <b>Reserves total</b>  |                            | <b>3 301 576</b>        | <b>3 033 915</b>         |
| <b>II. Debtors</b>   |                            |                         |                          |
| Debts of buyers and customers  | 15                         | 2 075 056               | 2 274 957                |
| Other debtors  | 16                         | 123 252                 | 136 061                  |
| Deferred expenses  | 17                         | 526                     | 1 912                    |
| <b>Debtors total</b>   |                            | <b>2 198 834</b>        | <b>2 412 930</b>         |
| <b>IV. Cash (total)</b>  | 18                         | <b>135 292</b>          | <b>68 242</b>            |
| <b>2. Current assets total</b>   |                            | <b>5 635 702</b>        | <b>5 515 087</b>         |
| <b><u>TOTAL ASSETS</u></b>   |                            | <b><u>9 823 640</u></b> | <b><u>10 139 565</u></b> |

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**BALANCE SHEET AS AT 31.12.2004**

| <b><u>LIABILITIES &amp; SHAREHOLDERS' EQUITY</u></b>       | <b>Number<br/>of note</b> | <b>2004<br/>LVL</b>     | <b>2003<br/>LVL</b>      |
|--|---------------------------|-------------------------|--------------------------|
| <b>1. Shareholders' equity</b>                             |                           |                         |                          |
| Share capital (fixed capital)                              |                           | 7 400 000               | 7 400 000                |
| Retained earnings:   |                           |                         |                          |
| a) retained earnings of previous years                     |                           | 1 025 977               | 933 754                  |
| b) retained profit of reporting year                       |                           | 115 598                 | 92 223                   |
| <b>1. Shareholders' equity</b>                             |                           | <b>8 541 575</b>        | <b>8 425 977</b>         |
| <b>2. Provisions</b>                                       |                           |                         |                          |
| Provisions for deferred taxes                              | 19                        | -                       | 21 560                   |
| Other provisions   | 20                        | 50 466                  | 67 344                   |
| <b>2. Provisions total</b>                                 |                           | <b>50 466</b>           | <b>88 904</b>            |
| <b>3. Creditors</b>  |                           |                         |                          |
| <b>I. Long-term creditors:</b>                             |                           |                         |                          |
| Loans from credit institutions                             | 21                        | 585 855                 | 678 080                  |
| Deferred income  | 21                        | -                       | 28 548                   |
| <b>Long-term creditors total</b>                           |                           | <b>585 855</b>          | <b>706 628</b>           |
| <b>II. Short-terms debts:</b>                              |                           |                         |                          |
| Loans from credit institutions                             | 21                        | 312 000                 | 264 000                  |
| Deferred income  | 21                        | 28 205                  | 30 870                   |
| Advance payments from customers                            |                           | 7 026                   | 700                      |
| Debts to suppliers and contractors                         | 22                        | 114 306                 | 485 767                  |
| Taxes and social security payments                         | 23                        | 80 191                  | 74 000                   |
| Other creditors  | 24                        | 104 016                 | 62 719                   |
| <b>Short term creditors total</b>                          |                           | <b>645 744</b>          | <b>918 056</b>           |
| <b>3. Creditors total</b>                                  |                           | <b>1 231 599</b>        | <b>1 624 684</b>         |
| <b><u>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</u></b> |                           | <b><u>9 823 640</u></b> | <b><u>10 139 565</u></b> |

Eduards Zavadskis

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**STATEMENT OF CASH FLOW AS AT 31.12.2004.**  
 (according to indirect method)

|  | Number<br>of note | 2004<br>LVL     | 2003<br>LVL     |
|--|-------------------|-----------------|-----------------|
| <b>I. Cash flow of primary activity</b>  |                   |                 |                 |
| 1. Profit or loss before extraordinary items and taxes   |                   | +181 238        | +127 499        |
| <i>Corrections:</i>  |                   |                 |                 |
| Depreciation of fixed assets (+)   |                   | 781 300         | 798 118         |
| Write-off of value of non-material investments (+)   |                   | 7 371           | 7 872           |
| Loss (+), profit (-) from financing or investing activity  |                   | -               | +656190         |
| 2. Profit or loss from economic activity in reporting year (1.line (+), (-) corrections)   |                   | +969 909        | +1 589 679      |
| <i>Corrections:</i>  |                   |                 |                 |
| Decrease (+), increase (-) in balance of receivables   |                   | +212 710        | -265 513        |
| Decrease (+), increase (-) in balance of reserves  |                   | -267 661        | -934 735        |
| Decrease (+), increase (-) in deferred expenses  |                   | +1 386          | +44             |
| Decrease (+), increase in payables to suppliers and contractors  |                   | -371 462        | +380 204        |
| Decrease (+), increase in provisions   |                   | -38 438         | -196 446        |
| Decrease (+), increase in balance of other payables  |                   | +22 601         | -47 425         |
| 3. Difference of cash income from economic activity and expenses (income exceeds expenses (+), expenses exceed income (-)) (2.line (+), (-) corrections) |                   | +529 045        | +525 808        |
| 4. Expenses on payments of taxes (-)   |                   | - 65 640        | -39 060         |
| 5. Extraordinary income (+) or extraordinary expenses (-)  |                   | -               | +3 784          |
| <b>Result of economic activity</b>   |                   | <b>+463 405</b> | <b>+490 532</b> |
| <b>II. Cash flow of investing activity</b>   |                   |                 |                 |
| Expenses for purchase of fixed assets  |                   | -378 268        | -503 201        |
| Proceeds from sale of fixed assets   |                   | +26 138         | +16 869         |
| <b>Result of investing activity</b>  |                   | <b>-352 130</b> | <b>-486 332</b> |
| <b>III. Cash flow of financing activity</b>  |                   |                 |                 |
| Income or expenses from long-term loans  |                   | -92 225         | -101 920        |
| Income, expenses for short-term credit   |                   | +48 000         | -               |
| <b>Result of financing activity</b>  |                   | <b>-44 225</b>  | <b>-101 920</b> |

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**CONSOLIDATED DATA ON CASH INCOME AND EXPENSES**

|  | <b>2004</b>     | <b>2003</b>     |
|--|-----------------|-----------------|
|  | <b>LVL</b>      | <b>LVL</b>      |
| <b>Result of economic activity</b>   | <b>+463 405</b> | <b>+490 532</b> |
| <b>Result of investing activity</b>  | <b>-352 130</b> | <b>-486 332</b> |
| <b>Result of financing activity</b>  | <b>-44 225</b>  | <b>-101 920</b> |
| <b>Excess of cash income or overspending</b>                                   | <b>+67 050</b>  | <b>-97 720</b>  |
| <b>Balance of cash and cash equivalents at the beginning of reporting year</b> | <b>+68 242</b>  | <b>+165 962</b> |
| <b>Balance of cash and cash equivalents at the end of reporting year</b>       | <b>+135 292</b> | <b>+68 242</b>  |

Eduards Zavadskis

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29 March, 2005

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**STATEMENT ON CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR PERIOD ENDED 31.12.2004**

|   | <b>Share<br/>capital</b> | <b>Retained<br/>profit<br/>of previous<br/>years</b> | <b>Retained profit<br/>of reporting<br/>year</b> | <b>Total</b>     |
|---|--------------------------|--|--|------------------|
|   | <b>LVL</b>               | <b>LVL</b>   | <b>LVL</b>                                       | <b>LVL</b>       |
| <b>As at 31.12.2003</b>   | <b>7 400 000</b>         | <b>933 754</b>                                       | <b>92 223</b>                                    | <b>8 425 977</b> |
| Profit of 2003<br>transferred to retained<br>profit of previous years | -                        | 92 223   | (92 223)   | -                |
| retained profit of reporting year                                     | -                        | -  | 115 598  | 115 598          |
| <b>As at 31.12.2004</b>   | <b>7 400 000</b>         | <b>1 025 977</b>                                     | <b>115 598</b>                                   | <b>8 541 575</b> |
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Eduards Zavadskis

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(signature)

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**APPENDIX TO 2004 ANNUAL REPORT**

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

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

08.01.2002 JSC “Daugavpils pievadkezu rupnica” changed the 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 Office.

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.

Kinds of activity of company:

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

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

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It is expected that during the next years the competition in the Western market is going to increase essentially, by full increase volume of the goods turnover the structure of the market will change: the part of the western market will increase and, in money terms, will make approximately 40 % from the common turnover of the goods.

The same as in 2004, the search for new consumers of production of the factory will be preceded, as well as work on improvement of quality of production and increase of competitiveness and receiving of necessary quality certificates.

The important direction will be development and introduction on the market of new alternative kinds of production and services.

The administration is planning to enter a complex of actions directed on increase of demand for production of the factory and on increase of the profit.

### Principles of bookkeeping and methods of evaluation

The annual report is prepared in conformity with Law On Bookkeeping and Law On Annual Reports of Enterprises. Statement on profit and loss is done in conformity with the method of turnover expenses.

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

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

The bookkeeping in 2004 was kept on united bookkeeping accounts, which have been approved on 13 May, 1993, detailing the plan of accounts in conformity with features of economic activity of the company.

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

The reporting period is from 01 January 2004 till 31 December 2004.

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

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|     | <b>31.12.2004</b>  | <b>31.12.2003</b>  |
|-----|--------------------|--------------------|
| USD | 1 USD = 0,516 LVL  | 1 USD = 0,541 LVL  |
| EUR | 1 EUR = 0,703 LVL  | 1 EUR = 0,674 LVL  |
| RUR | 1 RUR = 0,0186 LVL | 1 RUR = 0,0184 LVL |

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

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 articles.

All fixed assets are stated at historical cost, less depreciation. Depreciation is calculated using the straight-line method during the period of useful using of the fixed assets.

Reserves are estimated using a method of the average expenses. Reserves have been accounted under the cost price. In case of need the value of out-of-date, damaged reserves or reserves with slow turnover is written off, or the their stocks are formed. The rests of resources have been checked in an annual inventory.

Investments in the capital of other companies are reflected in cost of purchase.

Net turnover is the income received during the year from sale of manufactured and purchased products without value added tax (VAT).

For more precise reflecting of financial standing of the company, the management of the company reflects tax provisions in the annual report, i.e. provisions for expected taxes.

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**Notes to the statement of profit and loss**

**(1) Net turnover**

Turnover is income that was gained during the year from the produced and purchased products of the company without VAT, less discounts.

Breakdown of net turnover according to geographical markets:

| <b>Market</b>     | <b>LVL<br/>2004</b>     | <b>LVL<br/>2003</b>     |
|-------------------|-------------------------|-------------------------|
| Latvia            | 289 514                 | 292 430                 |
| CIS and Lithuania | 4 597 758               | 4 241 259               |
| Other states      | <u>2 644 004</u>        | <u>2 263 693</u>        |
| <b>TOTAL</b>      | <b><u>7 531 276</u></b> | <b><u>6 797 382</u></b> |

**(2) Production costs of sold products**

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

| <b>Type of costs</b>   | <b>2004</b>             | <b>2003</b>             |
|--|-------------------------|-------------------------|
| Material costs   | 1 997 602               | 2 408 371               |
| Salary costs for production staff                            | 1 111 478               | 1 213 040               |
| Social tax and social security payments for production staff | 268 812                 | 279 139                 |
| Electricity costs  | 394 813                 | 476 303                 |
| Depreciation of fixed assets                                 | 781 746                 | 787 172                 |
| Material delivery costs                                      | 17 010                  | 19 766                  |
| Heating and gas costs  | 117 758                 | 166 438                 |
| Repair expenses  | 99 023                  | 241 868                 |
| Security expenses  | 53 140                  | 42 703                  |
| Business trip expenses                                       | 42 723                  | 70 595                  |
| Water costs  | 18 334                  | 31 668                  |
| Environment protection costs                                 | 1 515                   | 2 823                   |
| Insurance costs  | 5 416                   | 6 996                   |
| Stock changes  | (516 060)               | (1 009 311)             |
| Other production costs                                       | <u>62 220</u>           | <u>95 999</u>           |
| <b>TOTAL</b>   | <b><u>4 455 530</u></b> | <b><u>4 833 570</u></b> |

**(3) Selling costs**

| <b>Type of costs</b>              | <b>2004</b>           | <b>2003</b>           |
|-----------------------------------|-----------------------|-----------------------|
| Shipping costs                    | 174 713               | 93 951                |
| Exhibitions and advertising costs | 4 283                 | 42 838                |
| Other selling costs               | <u>11 397</u>         | <u>14 632</u>         |
| <b>TOTAL</b>                      | <b><u>190 393</u></b> | <b><u>151 421</u></b> |

**(4) Administration costs**

| <b>Type of costs</b>                                      | <b>2004</b> | <b>2003</b> |
|---|-------------|-------------|
| Administration salary                                     | 437 019     | 415 492     |
| Social tax and social security payments of administration | 104 482     | 100 663     |
| Provisions for doubtful debts                             | -           | (2 297)     |
| Expenses relating to annual report and audit              | 2 800       | 2 500       |
| Medical services costs                                    | -           | 8 162       |

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|  |                         |                         |
|--|-------------------------|-------------------------|
| Telecommunication costs                    | 31 290                  | 31 164                  |
| Bank services                              | 5 295                   | 10 615                  |
| Paid interests                             | -                       | 66 153                  |
| Training expenses                          | -                       | 2 798                   |
| Office expenses                            | 2 184                   | 2 508                   |
| Sponsorship and donations                  | -                       | 10 973                  |
| Other administration costs                 | 46 932                  | 64 250                  |
| Other management and administrations costs | 2 046 993               | 962 085                 |
| <b>TOTAL</b>                               | <b><u>2 676 995</u></b> | <b><u>1 675 066</u></b> |

**(5) Other incomes of economic activity of enterprise**

|  | <b>2004</b>          | <b>2003</b>          |
|--|----------------------|----------------------|
| Income from write-off of non-liquid goods                  | 1 353                | 872                  |
| Income from sale of fixed assets                           | 40 212               | 9 593                |
| Income from other periods which refer to accounting period | 31 212               | 30 828               |
| Other income   | <u>3 249</u>         | <u>4 727</u>         |
| <b>TOTAL</b>   | <b><u>76 026</u></b> | <b><u>46 020</u></b> |

**(6) Other operating expenses**

|                                    | <b>2004</b>           | <b>2003</b>          |
|------------------------------------|-----------------------|----------------------|
| Medical services                   | 8 730                 | -                    |
| Paid interests                     | 65 082                | -                    |
| Provisions for doubtful debts      | 5 735                 | -                    |
| Training expenses                  | 1 351                 | -                    |
| Sponsorship and donations          | 14 720                | -                    |
| Infrastructure maintenance costs   | 6 112                 | -                    |
| Loss from decline in exchange rate | (12 872)              | 48 931               |
| State fee on entrepreneurship risk | 3 608                 | 6 915                |
| Other operating expenses           | 10 680                | -                    |
| <b>TOTAL</b>                       | <b><u>103 146</u></b> | <b><u>55 846</u></b> |

**(7) Extraordinary income**

|                     | <b>2004</b> | <b>2003</b>         |
|---------------------|-------------|---------------------|
| Material on stock - | 6 103       |                     |
| <b>TOTAL</b>        | <b>=</b>    | <b><u>6 103</u></b> |

**(8) Extraordinary expenses**

|                           | <b>2004</b> | <b>2003</b>         |
|---------------------------|-------------|---------------------|
| Material deficit on stock | -           | 2 319               |
| <b>TOTAL</b>              | <b>=</b>    | <b><u>2 319</u></b> |

**(9) Enterprise income tax in the reporting year**

|                       | <b>2004</b>          | <b>2003</b> |
|-----------------------|----------------------|-------------|
| Enterprise income tax | <u>27 307</u>        | =           |
| <b>TOTAL</b>          | <b><u>27 307</u></b> | <b>=</b>    |



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**(10) Other taxes**

|                        |            | <b>2004</b>          | <b>2003</b>          |
|------------------------|------------|----------------------|----------------------|
| Immovable property tax | (land tax) | 2 541                | 3 459                |
| Immovable property tax |            | <u>35 792</u>        | <u>35 601</u>        |
| <b>TOTAL</b>           |            | <b><u>38 333</u></b> | <b><u>39 060</u></b> |

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**Notes to the balance sheet items**

| (11) | Intangible Assets                   | Licenses             | Intangible<br>assets total |
|------|-------------------------------------|----------------------|----------------------------|
|      | <b>Initial value</b>                |                      |                            |
|      | 31.12.03.                           | 39 359               | 39 359                     |
|      | Purchased in 2004                   | -                    | -                          |
|      | 31.12.04.                           | 39 359               | 39 359                     |
|      | <b>Depreciation</b>                 |                      |                            |
|      | 31.12.03.                           | 21 224               | 21 224                     |
|      | Charged depreciation 2004           | 7 370                | 7 370                      |
|      | 31.12.04.                           | 28 594               | 28 594                     |
|      | <b>Book value as at 31.12.2003.</b> | <b><u>18 136</u></b> | <b><u>18 136</u></b>       |
|      | <b>Book value as at 31.12.2004.</b> | <b><u>10 765</u></b> | <b><u>10 765</u></b>       |

Computer program licenses are included into non-material investments. The planned period for write-off of the licenses – 5 years.

**(12) Fixed assets**

In the balance sheet all fixed assets are reflected at their purchasing price, less depreciation. The depreciation has been accounted according to straight-line method, where the following norms of the depreciation have been chosen as the basis:

|                             | % for year |
|-----------------------------|------------|
| Buildings and constructions | 5          |
| Manufacturing equipment     | 10-50      |
| Other fixed assets          | 10-40      |

**Movement in fixed assets**

|                                   | Buildings,<br>constructions<br>and plots | Equipment<br>and<br>machinery | Other<br>fixed<br>assets | Formation<br>of fixed<br>assets | Total            |
|-----------------------------------|--|-------------------------------|--------------------------|---------------------------------|------------------|
| <b>Initial cost</b>               |  |                               |                          |                                 |                  |
| 31.12.03.                         | 4 726 604                                | 6 217 464                     | 417 212                  | 199 132                         | 11 560 412       |
| Purchased for year 2004           | 24 204                                   | 339 110                       | 38 716                   | -                               | 402 030          |
| Disposals for 2004                | 9 203                                    | 216 041                       | 25 464                   | 23 765                          | 274 473          |
| 31.12.04.                         | 4 741 605                                | 6 340 533                     | 430 464                  | 175 367                         | 11 687 969       |
| <b>Depreciation</b>               |  |                               |                          |                                 |                  |
| 31.12.03.                         | 2 022 247                                | 5 363 232                     | 289 286                  | -                               | 7 674 765        |
| Charged depreciation for 2004     | 216 531                                  | 522 048                       | 42 722                   | -                               | 781 301          |
| Disposals                         | 1 847                                    | 209 356                       | 13 372                   | -                               | 224 575          |
| 31.12.04.                         | 2 236 931                                | 5 675 924                     | 318 636                  | -                               | 8 231 491        |
| <b>Book value as at 31.12.03.</b> | <b>2 704 357</b>                         | <b>854 232</b>                | <b>127 926</b>           | <b>199 132</b>                  | <b>3 885 647</b> |
| <b>Book value as at 31.12.04</b>  | <b>2 504 674</b>                         | <b>664 609</b>                | <b>111 828</b>           | <b>175 367</b>                  | <b>3 456 478</b> |

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**(13) Participation in capital of related enterprises**

|  | <b>2004</b>    | <b>2003</b>    |
|--|----------------|----------------|
| Participation in subsidiary enterprise Meteor Kettenfabrik, Germany, 100% of capital     | 220 695        | 220 695        |
| Participation in subsidiary enterprise JSC „Latgales Insurance company”, 100% of capital | 500 000        | 500 000        |
| <b>TOTAL</b>   | <b>720 695</b> | <b>720 695</b> |

**(14) Finished products and goods for sale**

|  | <b>2004</b>             | <b>2003</b>             |
|--|-------------------------|-------------------------|
| Finished products for sale                 | 1 870 399               | 1 570 401               |
| Baiter products for sale                   | 18 242                  | 324 950                 |
| Provisions for reserves with slow turnover | <u>(43 916)</u>         | <u>(56 974)</u>         |
| <b>Book value</b>                          | <b><u>1 844 725</u></b> | <b><u>1 838 377</u></b> |

**(15) Debts of buyers and customers**

|   | <b>2004</b>             | <b>2003</b>             |
|---|-------------------------|-------------------------|
| Book value of debts of buyers and customers | 2 080 444               | 2 277 186               |
| Debts of baiter products suppliers          | 565                     | 29                      |
| Provisions for doubtful debts               | <u>(5 953)</u>          | <u>(2 258)</u>          |
| <b>Book value</b>                           | <b><u>2 075 056</u></b> | <b><u>2 274 957</u></b> |

There are special provisions for doubtful debts established in the amount of 100%.

**(16) Other debtors**

|                                      | <b>2004</b>           | <b>2003</b>           |
|--------------------------------------|-----------------------|-----------------------|
| VAT overpayment                      | 79 630                | 68 598                |
| VAT from non-paid bills              | 16 247                | 9 329                 |
| Overpayment of enterprise income tax | 2 336                 | 1 574                 |
| Other debtors                        | 25 039                | 56 864                |
| Provisions for doubtful debts        | <u>(-)</u>            | <u>(304)</u>          |
| <b>Book value</b>                    | <b><u>123 252</u></b> | <b><u>136 061</u></b> |

**(17) Expenses of future periods**

|                    | <b>2004</b>       | <b>2003</b>         |
|--------------------|-------------------|---------------------|
| Insurance payments | -                 | 857                 |
| Other payments     | <u>526</u>        | <u>1 055</u>        |
| <b>Book value</b>  | <b><u>526</u></b> | <b><u>1 912</u></b> |

Insurance payments are payments for insurance of enterprise property and health insurance, insurance of supplementary pension of employees.

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**(18) Cash assets as at 31.12.04**

|                   | <b>2004</b>           | <b>2003</b>          |
|-------------------|-----------------------|----------------------|
| Cash on hand      | 849                   | 2 403                |
| Cash in bank      | <u>134 443</u>        | <u>65 839</u>        |
| <b>Book value</b> | <u><b>135 292</b></u> | <u><b>68 242</b></u> |

|              | <b>31.12.2004</b>     |              | <b>31.12.2003</b>    |            |
|--------------|-----------------------|--------------|----------------------|------------|
|              | <b>Currency</b>       | <b>LVL</b>   | <b>Currency</b>      | <b>LVL</b> |
| LVL          | -                     | 34 713       | -                    | 4 391      |
| USD          | 25 002                | 12 901       | 11 916               | 6 446      |
| EUR          | 115 393               | 81 121       | 84 522               | 57 036     |
| RUR          | <u>352 526</u>        | <u>6 557</u> | <u>20 134</u>        | <u>369</u> |
| <b>TOTAL</b> | <u><b>135 292</b></u> |              | <u><b>68 242</b></u> |            |

**(19) Reserves for planned taxes**  
 (Enterprise income tax)

| <b>2004</b> | <b>2003</b>          |
|-------------|----------------------|
| <u>-</u>    | <u><b>21 560</b></u> |

**(20) Other provisions**

|   | <b>2004</b>          | <b>2003</b>          |
|---|----------------------|----------------------|
| Provisions for doubtful debts               | 5 953                | 2 562                |
| Provisions for goods with slow turnover     | 43 916               | 56 974               |
| Provisions from unused vacations            | 481                  | 6 292                |
| Social tax provisions from unused vacations | 116                  | 1 516                |
| <b>Book value</b>                           | <u><b>50 466</b></u> | <u><b>67 344</b></u> |

|  | <b>2004</b>    | <b>2003</b>    |
|--|----------------|----------------|
| <b>(21)</b> Received credit from A/S “Parex Banka” according to the contract No.7532 dated 10.11.2001. total | <b>897 855</b> | <b>942 080</b> |
| Long-term  | 585 855        | 678 080        |
| Short-term   | 312 000        | 264 000        |
| Income of future periods related to privatization  | <b>28 205</b>  | <b>59 418</b>  |
| Short-term   | -              | 28 548         |
| Long-term  | 28 205         | 30 870         |

**(22) Debts to suppliers and contractors**

|   | <b>2004</b>           | <b>2003</b>           |
|---|-----------------------|-----------------------|
| Settlements with suppliers (materials)                | 35 840                | 415 421               |
| Settlements with suppliers and contractors (services) | <u>78 466</u>         | <u>70 346</u>         |
| <b>Book value</b>                                     | <u><b>114 306</b></u> | <u><b>485 767</b></u> |

**(23) Taxes and social security payments**

|  | <b>2004</b> | <b>2003</b> |
|--|-------------|-------------|
| State fee on entrepreneurship risk for December 2004 | 235         | -           |
| Property tax for IV quarter of 2004                  | 191         | 1 929       |
| Social security payments for December of 2004        | 48 912      | 43 798      |

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|   |                      |                      |
|---|----------------------|----------------------|
| Personal income tax for December of 2004    | 29 770               | 28 182               |
| Nature resources tax for IV quarter of 2004 | <u>1 083</u>         | <u>91</u>            |
| <b>Book value</b>                           | <b><u>80 191</u></b> | <b><u>74 000</u></b> |

**(24) Other debtors**

|  | <b>2004</b>    | <b>2003</b>   |
|--|----------------|---------------|
| Employees' deposits in banks                     | -              | 122           |
| Social insurance                                 | -              | 5             |
| Previously paid VAT                              | 36 340         | -             |
| Settlements of salaries for December 2004        | 396            | 485           |
| Salary on charge cards for December 2004         | 50 430         | 49 453        |
| Labor union member's fee for December 2004       | 918            | 874           |
| Alimony payment for December 2004                | 538            | 741           |
| Deductions into fund of labor union              | 12 098         | 8 991         |
| Transfers into pension fund for December of 2004 | 3 296          | 2 048         |
| <b>TOTAL</b>                                     | <b>104 016</b> | <b>62 719</b> |

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**General information**

**(a) Taxes**

| Type of tax   | Tax commitments as at 31.12.03 | Charged in year      | Paid in year 2004      | Transferred to/from other taxes | Credited for customs payments | Tax commit as at 31.12.04. |
|---|--------------------------------|----------------------|------------------------|---------------------------------|-------------------------------|----------------------------|
|   | LVL                            | LVL                  | LVL                    | LVL                             | LVL                           | LVL                        |
| VAT   | (68 598)                       | (861 436)            | (100)                  | 569 136                         | 281 368                       | (79 630)                   |
| Fee on entrepreneurship risk                        | (-)                            | 2 999                | (2 764)                | -                               | -                             | 235                        |
| Enterprise income tax                               | 1 929                          | 48 867               | (7 314)                | (45 818)                        | -                             | (2 336)                    |
| Immovable property tax for buildings and facilities | (1 574)                        | 35 791               | (34 026)               | -                               | -                             | 191                        |
| Social sec.payments                                 | 43 798                         | 513 502              | (1000)                 | (507 388)                       | -                             | 48 912                     |
| Personal income tax                                 | 28 181                         | 298 819              | -                      | (297 231)                       | -                             | 29 769                     |
| Natural resources tax                               | 91                             | 4 043                | -                      | (3 051)                         | -                             | 1 083                      |
| Immovable property tax for land                     | -                              | 2 542                | (2 542)                | -                               | -                             | -                          |
| <b>TOTAL</b>  | <b><u>(3 827)</u></b>          | <b><u>45 127</u></b> | <b><u>(47 746)</u></b> | <b><u>(284 352)</u></b>         | <b><u>281 368</u></b>         | <b><u>(1 776)</u></b>      |

Explanation: tax overpayment and reduction is reflected in brackets.

**(b) Average number of employees**

|   | <b>2004</b> | <b>2003</b> |
|---|-------------|-------------|
| Average number of employees during the reporting year | <u>690</u>  | <u>817</u>  |

**(c) Personnel expenses**

| Type of payments | <b>2004</b>             | <b>2003</b>             |
|------------------|-------------------------|-------------------------|
| Salaries         | 1 573 105               | 1 606 508               |
| Social tax       | 375 006                 | 378 332                 |
| <b>TOTAL</b>     | <b><u>1 948 111</u></b> | <b><u>1 984 840</u></b> |

**(d) Information about remuneration to Council and Board Members**

|                   | <b>Council</b>       | <b>Board</b>         | <b>Total</b>          |
|-------------------|----------------------|----------------------|-----------------------|
| Salaries          | 34 546               | 55 476               | 90 022                |
| Social tax 24,09% | 8 322                | 13 364               | 21 686                |
| <b>TOTAL</b>      | <b><u>42 868</u></b> | <b><u>68 840</u></b> | <b><u>111 708</u></b> |

Eduards Zavadskis

\_\_\_\_\_  
(signature)

29 March, 2005

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**AUDITOR’S REPORT**

**Translation from Latvian**

Daugavpils, 29 March, 2005

To the management and shareholders of JSC “Ditton pievadkezu rupnica”

We have audited the accompanying financial statements of JSC “Ditton pievadkezu rupnica”, registration no.40003030187, for the year 2004. Financial statements include the balance sheets as at 31 December 2004, statement of profit and loss, statement on donations and gifts and appendix. These financial statements are the responsibility of the Company’s management. Our responsibility is to submit the report on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform audits to obtain reasonable insurance about whether the financial statements are free of material misstatement. An audit includes examining evidence supporting the amounts and disclosures in the financial statements by using sample method. An audit includes also assessing the accounting principles used and significant estimate made by government, as well as evaluating the overall financial statements presentation. The legal representatives of the company have submitted to the auditor the requested information and explanations. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements for the year 2004 present fairly, in all material aspects, the financial positions of the JSC “Ditton pievadkezu rupnica” at the end of reporting year and is performed in accordance with Latvian laws “On accounting”, “On the Annual Report of Enterprises”.

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V.Pjankovskis  
Personal code 150255-10202  
Director of SIA “Invest-Riga” Daugavpils”  
Commercial’s license No.81

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V.Zitare  
personal code 140955-10705  
Sworn Auditor  
Certificate No.145

**Minutes of the annual general meeting  
of shareholders No.3**

Daugavpils

05 May, 2005, 11.am.

Registered and paid capital of the Company is 7 400 000 LVL.

There are 11 shareholders and their authorized representatives present in the meeting. They represent 5 413 227 shares, which is 73,15 % of fixed capital of the Company.

The following persons are present in the meeting: Chairman of the Council V.Driksne, Members of the Council G.Sorokins, J.Glinkins; Chairman of the Board E.Zavadskis, Members of Board P.Dorofejevs, N.Redzoba, V.Juhno, J.Kostromins.

The elected counting board in person of O.Isupovs, V.Zaika.

The elected chairperson of meeting: I.Mlijevskā.

The elected secretary of meeting: B.Matvejevs.

The elected shareholders for assuring the accuracy of the minutes: R.Bruzevics, P.Samuilovs.

The meeting is legally competent.

First item of agenda:

**Confirmation of the annual report for 2004.**

Resolution:

The regular general meeting of shareholders of joint-stock company “Ditton pievadkezu rupnica” (05.05.2005) considered and takes notice of Report of Council and Board for results of work for 2004 and approves Report of JSC “Ditton pievadkezu rupnica” for year 2004 (enclosed).

Results of voting:

|             |                |
|-------------|----------------|
| “Pro”       | 100% of shares |
| “Contra”    | 0 % of shares  |
| “Abstained” | 0 % of shares  |

Second item of agenda:

**Profit distribution of year 2004.**

Resolution:

2.1. To direct the sum in the amount of 11 840 Ls or 10,24 % of profit of JSC “Ditton pievadkezu rupnica”, which is 0,0016 Ls for one share, on payment of dividends to shareholders in accordance with the requested list of shareholders from Latvian CSD as at 05.05.2005.

2.2. To leave the sum in the amount of 103 758 Ls or 89,76 % of profit of JSC “Ditton pievadkezu rupnica” unshared and to direct it on development of company.

2.3. To ensure the payment of dividends to shareholders starting from 15.05.2005. in accordance with the shareholder’s application and personal ID of shareholder.



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The persons, who enjoy the rights of demand for dividends on other grounds as it is stated in the item 2.1, should present documents, which prove the right to demand, in original or notarized copies of them when applying for payment of dividends.

2.4. In accordance with the Law On Enterprise Income Tax to include the not received dividends by shareholders within the legal terms into the profit of JSC “Ditton pievadkezu rupnica”.

Results of voting:

|             |                   |
|-------------|-------------------|
| “Pro”       | 86,35 % of shares |
| “Contra”    | 0 % of shares     |
| “Abstained” | 13,65 % of shares |

Third item of agenda:

**Election of the jury auditor of Company for year 2005.**

Resolution:

To choose the auditor firm “Invest-Rīga” Daugavpils” Ltd. (registration No.40003227526, legal address Raiņa Str.28, Daugavpils, LV-5403) to be the auditor of JSC “Ditton pievadkezu rupnica” for realization of audit in the company for year 2005 considering its written approval, and to conclude the contract with “Invest-Rīga” Daugavpils” Ltd..

Results of voting:

|             |                |
|-------------|----------------|
| “Pro”       | 100% of shares |
| “Contra”    | 0 % of shares  |
| “Abstained” | 0 % of shares  |

|                        |             |             |
|------------------------|-------------|-------------|
| Chairperson of meeting | (signature) | I.Mlijevskā |
| Secretary of meeting   | (signature) | B.Matvejevs |
| Shareholder:           | (signature) | R.Bruzevics |
| Shareholder:           | (signature) | P.Samuilovs |