

JSC „DITTON PIEVADKĒŽU RŪPNĪCA”

Reg.No.40003030187

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

**AUDITED ANNUAL REPORT
OF YEAR 2005**

Prepared in accordance with Latvian statutory requirements,
International Accounting Standards,
and Riga Stock Exchange rules

Daugavpils
2006

CONTENTS

	Page
Information about the Company	- 3
Management report	- 4
Council report	- 5
Statements of profit and loss	- 6
Balance sheet	- 7-8
Statement of cash flow	- 9-10
Statement on changes in shareholders' equity	- 11
Appendix to the annual report	- 12-25
Auditor's report	- 26

Information about the Company

Company name	Ditton piedvadkezu rupnica
Legal status	Joint Stock Company
Registrations number	40003030187
Registration in Register of Enterprises	Rīga, 03.10.1991
Registration in Commercial Register	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 till 05.05.2005*, p.c.210863-10221
Boriss Matvejevs	- Chairman of the Council since 05.05.2005, p.c. 151058-10280
Georgijs Sorokins	- Deputy Chairman of the Council since 05.05.2005, p.c. 030138-10218
Jevgenijs Glinkins	- Member of the Council since 05.05.2005, citizen of Russian Federation
Vitolds Vasilenoks	- Member of the Council since 05.05.2005, p.c. 290567-12154
Tatjana Lapunova	- Member of the Council since 05.05.2005, p.c. 281075-10233

The Management Board

Eduards Zavadskis	- Chairman of the Management Board since 29.08.2003, p.c.220964-10263
Pjotrs Dorofejevs	- Member of the Management Board from 29.08.2003. till 07.01.2004, p.c. 081258-10215
Pjotrs Dorofejevs	- Deputy Chairman of the Management Board since 07.01.2004, p.c. 081258-10215
Volda Juhno	- Member of the Management Board since 29.08.2003, p.c. 061146-10227
Natalja Redzoba	- Member of the Management Board since 29.08.2003, p.c. 121061-10258
Jurijs Kostromins	- Member of the Management Board since 07.01.2004, p.c. 270651-10228

Fixed capital	7 400 000.00 LVL
Public name shares	7 400 000
Nominal value of 1 share	1.00 LVL

Chief accountant Nina Moisejeva, p.k. 200250-10263

Reporting year 01.01.2005 – 31.12.2005

Information on subsidiary enterprises:

Company name	• Meteor Kettenfabrik GmbH
Address	Nürnberger Str. 2, 36456 Barchfeld Germany 100% of capital shares

Auditor SIA “Invest-Rīga” Daugavpils”
Reg. No. LV40003227526
Commercial’s license No.81
Raina Str. 28, Daugavpils, LV-5403

Persons in charge for drawing up of the financial report:

Mr. Boriss Matvejevs, phone +371 5402333, e-mail dpr@dpr.lv
Ms. Natalja Redzoba, phone +371 5402333, e-mail dpr.fin@dpr.lv

* The authority of the Chairman of the Council has been terminated since 01.04.2005 in accordance with the application of Chairman of Council on the ground of Law on Prevention of Conflict of Interest in Activities of Public Affairs, Sections 4, 7, 8 due to his election to be the deputy of Daugavpils City Council.

MANAGEMENT REPORT

Events in year 2005

In year 2005 net-turnover in fact was fulfilled in the amount of 9 629 thous. LVL (13 701 thous.EUR) against the forecast 7 400 thous. LVL (10 529 thous.EUR), increase amounts to 2 229 thous. LVL (3 172 thous.EUR).

Profit of year 2005 amounts to 155 thous.LVL (220 thous.EUR).

In comparison with year 2004, net turnover increased by 27,8% in 2005; sales of products increased by 40,8% eastwards and by 6,8% westwards, sales in Latvia increased by 14,4%.

Main growth of sales in 2005 has been achieved due to sales of automobile and industrial chains. Besides, there can be observed constant growth of sales of general industrial chains in the course of last 3 years, which proves positive tendencies of economics development in CIS states and creates a good background for work in this segment of market.

Sales results in year 2005

- give proof to the positive sales tendencies of products of JSC “Ditton Driving Chain factory” (as a competitor of Westerns companies due to enlargement of EU) both on Eastern and Western market;

- prove the necessity to enlarge the range of products, especially, special chains;

- requires implementation of effective program, which would be intended to increase sales of automobile chains on Eastern market and gaining of such opportunity on Western market.

At present the company exports 96,6% of its products to the East and West: among them 29,3% westwards and 67,3% eastwards; 3,4% of products are sold in Latvia.

At the same time the Management Board observes unfavorable tendencies, which do not afford ground for forecasting stable and optimal development of the Company:

- market saturation, lack of free segments of market for promotion of products;
- dumping prices from the side of Asian manufacturers;
- price growth for materials, equipment, energy resources and labour resources.

Therefore the Management Board does not see grounds for assuming that favorable tendencies of conjuncture of year 2005 will remain in following years.

The company is planning to achieve the net-turnover in the amount of 8 000 thous.LVL (11 383 thous.EUR) in year 2006; profit is forecasted to amount to 80 thous.LVL (114 thous.EUR) in year 2006.

In 2005, the average number of employees of JSC “Ditton pievadkezu rupnica” was 641, the average salary amounted to 216 LVL (307 EUR), which is by 26 (37 EUR) more than in 2004.

President

E.Zavadskis

COUNCIL REPORT
to the annual report for year 2005

Issued according to LR Commercial Law and to the Company's Articles,
approved by Council resolution of the JSC “Ditton pievadkezu rupnica”
dated 28.02.2006, Protocol No.102

The Council of joint-stock company “Ditton pievadkezu rupnica” announces that the report of the Management Board of the Company to the annual general meeting of shareholders and annual report for year 2005 truly reflect the activity results and the financial position of the Company. Joint-Stock Company worked with profit, without the losses.

During the reporting period the Management Board was in charge of the industrial and economic activity of the Company in the accordance with the laws of Republic of Latvia in force, with the Company Articles, resolutions of general meeting of shareholders and Council recommendations.

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

The Council represented interests of shareholders during the period between the general meetings, and in reporting period it supervised constantly for the Management Board activity according to the Company Articles and Laws of Republic of Latvia.

In the meeting of Council and the Management Board there was made a decision to approve the annual report for year 2005.

Altogether during the reporting period twelve meetings of the Council were held and the following issues have been examined and the resolves on them were made:

1. Strategic tasks of the Company for years 2005-2007;
2. The results of economic activity of the Company have been examined every quarter;
3. On attracting of additional investments to the Company for the purpose of expansion of the current production, introduction of new technologies;
4. Pursuit of new types of products, strategy and tasks of the Company for entry in the Asian market;
5. Arrangements to improve the activity of the subsidiary “Meteor Kettenfabrik” GmbH;
6. Participation in projects.

Chairman of the Council

B.Matvejevs

JSC “DITTON PIEVADĶĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

STATEMENT OF PROFIT AND LOSS
AS AT 31.12.2005

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	Number of notes	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Net turnover	1	9 629 137	13 701 028	7 531 276	10 713 053
Production cost of sold products	2	5 497 971	7 822 907	4 455 530	6 337 881
Gross profit or loss		4 131 166	5 878 121	3 075 746	4 375 172
Selling costs	3	206 954	294 469	190 393	270 829
Administration costs	4	2 921 752	4 157 278	2 676 995	3 807 959
Other operating income	5	92 433	131 520	76 026	108 145
Other operating expenses	6	791 105	1 125 641	103 146	146 723
Income from securities and loans forming long-term investments	7	500 000	711 436	-	-
Long-term financial investments and write-off of the short-term value of shares	8	500 000	711 436	-	-
Interest payment and similar expanses	9	56 675	80 641	-	-
Profit or loss before extraordinary items and taxes		247 113	351 612	181 238	257 806
Profit or loss before taxes		247 113	351 612	181 238	257 806
Enterprise income tax in reporting year	10	54 214	77 140	27 307	38 844
Other taxes	11	38 359	54 580	38 333	54 528
Profit or loss of reporting year		154 540	219 892	115 598	164 434
Index EPS		0,021	0,030	0,016	0,023

03 April, 2006

Eduards Zavadskis

JSC “DITTON PIEVADKĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

BALANCE SHEET AS AT 31.12.2005

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	Number of notes	2005 LVL	2005 EUR	2004 LVL	2004 EUR
ASSETS					
1. Long-term investments					
I. Non-material investments					
Concessions, patents, licenses, trade mark and similar rights		5 875	8 359	10 765	15 313
Non-material investments total	12	5 875	8 359	10 765	15 313
II. Fixed assets					
Plots of land, buildings and constructions and perennial plantations		3 671 314	5 223 809	2 504 674	3 562 836
Technological equipment and machinery		329 992	469 536	664 609	945 390
Other fixed assets and stock		88 194	125 489	111 828	159 073
Formation of fixed assets and costs of unfinished construction objects		25 784	36 687	175 367	249 455
Fixed assets total	13	4 115 284	5 855 521	3 456 478	4 916 754
III. Long-term financial investments					
Participation in the capital of related enterprises		220 695	314 021	720 695	1 025 171
Loans to related companies		48 511	69 025	-	-
Long-term financial investments total	14	269 206	383 046	720 695	1 025 171
1. Long-term investments total		4 390 365	6 246 926	4 187 938	5 957 238
2. Current assets					
I. Reserves					
Raw materials, basic materials and subsidiary materials		940 110	1 337 656	980 245	1 394 374
Unfinished products		245 894	349 876	197 274	280 617
Finished products and goods for sale	15	723 553	1 029 523	1 844 725	2 624 075
Advance payments for goods		91 341	129 968	279 332	397 343
Reserves total		2 000 898	2 847 023	3 301 576	4 696 409
II. Debtors					
Debts of buyers and customers	16	3 375 855	4 803 409	2 075 056	2 951 715
Other debtors	17	795 073	1 131 287	123 252	175 323
Deferred expenses	18	417	593	526	748
Debtors total		4 171 345	5 935 289	2 198 834	3 127 786
IV. Cash (total)	19	111 041	157 997	135 292	192 450
2. Current assets total		6 283 284	8 940 309	5 635 702	8 016 645
<u>TOTAL ASSETS</u>		<u>10 673 649</u>	<u>15 187 235</u>	<u>9 823 640</u>	<u>13 973 883</u>

JSC “DITTON PIEVADKĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

BALANCE SHEET AS AT 31.12.2005

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	Number of notes	2005 LVL	2005 EUR	2004 LVL	2004 EUR
<u>LIABILITIES & SHAREHOLDERS' EQUITY</u>					
1. Shareholders' equity		7 400 000	10 529 251	7 400 000	10 526 316
Share capital (fixed capital)					
Retained earnings:					
a) retained earnings of previous years		1 129 736	1 607 469	1 025 977	1 459 427
b) retained profit of reporting year		154 540	219 892	115 598	164 434
1. Shareholders' equity total		8 684 276	12 356 612	8 541 575	12 150 177
2. Provisions					
Provisions for deferred taxes	20	-	-	-	-
Other provisions	21	60 569	86 182	50 466	71 787
2. Provisions total		60 569	86 182	50 466	71 787
3. Creditors					
I. Long-term creditors:					
Loans from credit institutions	22	1 330 295	1 892 839	585 855	833 364
Deferred income	22	-	-	-	-
Long-term creditors total		1 330 295	1 892 839	585 855	833 364
II. Short-terms debts:					
Loans from credit institutions	22	240 359	342 000	312 000	443 812
Income of next periods	22	-	-	28 205	40 121
Advance payments from customers received		4 368	6 215	7 026	9 995
Debts to suppliers and contractors	23	161 009	229 096	114 306	162 597
Taxes and social security payments	24	97 165	138 253	80 191	114 070
Other creditors	25	95 608	136 038	104 016	147 960
Short term creditors total		598 509	851 602	645 744	918 555
3. Creditors total		1 928 804	2 744 441	1 231 599	1 751 919
<u>TOTAL LIABILITIES & SHAREHOLDERS' EQUITY</u>		<u>10 673 649</u>	<u>15 187 235</u>	<u>9 823 640</u>	<u>13 973 883</u>

03 April, 2006

Eduards Zavadskis

JSC “DITTON PIEVADĶĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

STATEMENT OF CASH FLOW AS AT 31.12.2005

(according to indirect method)

1 EUR = 0,703 LVL as at 31.12.2004

1 EUR = 0,702804 as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
I. Cash flow of basic activity				
1. Profit or loss before extraordinary items and taxes	+247 113	+351 610	+181 238	+257 807
<i>Corrections:</i>				
Depreciation of fixed assets (+)	699 094	994 721	781 300	1 111 380
Write-off of value of non-material investments (+)	5 284	7 518	7 371	10 484
Loss (+), profit (-) from financing or investing activity	451 489	642 412	-	-
2. Profit or loss from economic activity in reporting year (1.line (+), (-) corrections)	1 402 980	1 996 261	+969 909	+1 379 671
<i>Corrections:</i>				
Decrease (+), increase (-) in balance of receivables	-1 972 620	-2 806 785	+212 710	+302 575
Decrease (+), increase (-) in balance of reserves	+1 300 678	+1 850 698	-267 661	-380 741
Decrease (+), increase (-) in deferred expenses	+109	+155	+1 386	+1 972
Decrease (+), increase in payables to suppliers and contractors	+46 703	+66 452	-371 462	-528 393
Decrease (+), increase in provisions	+10 103	+14 375	-38 438	-54 677
Decrease (+), increase in balance of other payables	-34 136	-48 571	+22 601	+32 148
3. Difference of cash income from economic activity and expenses (income exceeds expenses (+), expenses exceed income (-)) (2.line (+), (-) corrections)	+753 817	+1 072 585	+529 045	+752 553
4. Expenses on payments of taxes (-)	-92 573	-131 720	-65 640	-93 371
5. Extraordinary income (+) or extraordinary expenses (-)	-	-	-	-
Result of economic activity	+661 244	+940 865	+463 405	+659 182
II. Cash flow of investing activity				
Expenses for purchase of fixed assets	-1 371 952	+1 952 112	-378 268	-538 077
Proceeds from sale of fixed assets	+13 658	+19 434	+26 138	+37 181
Result of investing activity	-1 358 294	-1 932 678	-352 130	-500 896
III. Cash flow of financing activity				
Income or expenses from long-term loans	+744 440	+1 059 243	-92 225	-131 188
Income, expenses for short-term credit	-71 641	-101 936	+48 000	+68 279
Result of financing activity	+672 799	+957 307	-44 225	-62 909

JSC “DITTON PIEVADKĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

CONSOLIDATED DATA ON CASH INCOME AND EXPENSES

1 EUR = 0,703 LVL as at 31.12.2004

1 EUR = 0,702804 as at 31.12.2005

	2005	2005	2004	2004
	LVL	EUR	LVL	EUR
Result of economic activity	+661 244	+940 865	+463 405	+659 182
Result of investing activity	-1 358 294	-1 932 678	-352 130	-500 896
Result of financing activity	+672 799	+957 307	-44 225	-62 909
Excess of cash income or overspending	-24 251	-34 506	+67 050	+95 377
Balance of cash and cash equivalents at the beginning of reporting year	+135 292	+192 503	+68 242	+97 073
Balance of cash and cash equivalents at the end of reporting year	+111 041	+157 997	+135 292	+192 450

03 April, 2006

Eduards Zavadskis

JSC “DITTON PIEVADKĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

STATEMENT ON CHANGES IN SHAREHOLDERS' EQUITY
FOR PERIOD ENDED 31.12.2005

	Share capital, LVL	Retained profit of previous years, LVL	Retained profit of reporting year, LVL	TOTAL LVL
As at 31.12.2004	7 400 000	1 025 977	115 598	8 541 575
Profit of 2004 transferred to retained profit of previous years	-	103 759	(103 759)	-
Distributed dividends in 2004	-	-	(11 839)	(11 839)
Retained profit of reporting year	-	-	154 540	154 540
As at 31.12.2005	7 400 000	1 129 736	154 540	8 684 276

1 EUR = 0,703 LVL as at 31.12.2004

1 EUR = 0,702804 LVL as at 31.12.2005

	Share capital, EUR	Retained profit of previous years, EUR	Retained profit of reporting year, EUR	TOTAL EUR
As at 31.12.2004	10 526 316	1 459 427	164 434	12 150 177
Profit of 2004 transferred to retained profit of previous years	-	147 595	(147 595)	-
Distributed dividends in 2004	-	-	(16 841)	(16 841)
Retained profit of reporting year	-	-	219 892	219 892
Difference from foreign currency reevaluation	2 935	449	-	3 384
As at 31.12.2005	10 529 251	1 607 496	219 892	12 356 612

03 April, 2006

Eduards Zavadskis

APPENDIX TO 2005 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 into 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 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.

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.

JSC “DITTON PIEVADKĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

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.

Company shareholders (over 5%) as of 05.05.2005 *

<u>Name</u>	<u>Number of shares</u>	<u>Ownership interest</u>
Eduards Zavadskis	1 480 000	20%
Vladislavs Driksne	1 480 000	20%
Berg Invest Holding SIA	728 808	13,16%
Vladis Spāre	973 660	9,99%
Steplux LLC	739 000	9,85%

Information on the shares owned by the members of the Council and Management Board

Council

Georgijs Sorokins	5 678
-------------------	-------

Management Board

Eduards Zavadskis	1 480 000
Natalja Redzoba	1 900

* Note: This data has been indicated as at 05.05.2005 in compliance with the list of shareholders of Latvian Central Depository. According to the Law on the Financial Instruments Market the Company has not received notifications from shareholders about changes in the volume of their financial instruments above 5%.

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 48 % from the common turnover of the goods.

The same as in year 2005, the search for new consumers of the factory's production will be preceded, as well as work on improvement of production quality 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.

JSC “DITTON PIEVADĶĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

- 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 was kept in 2005 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 2005 till 31 December 2005.

Data reflected in these financial reports is expressed in national currency – in lats (LVL), and in EUR as well. 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.

	31.12.2005	31.12.2004
USD	1 USD = 0,593 LVL	1 USD = 0,516 LVL
EUR	1 EUR = 0,702804 LVL	1 EUR = 0,703 LVL
RUR	1 RUR = 0,0206 LVL	1 RUR = 0,0186 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).

JSC “DITTON PIEVADĶĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

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.

In compliance with the loan contract No.2.2.1-05/93 JSC “Ditton pievadķēžu rūpnīca” received from JSC “Parex Banka” loan in the amount of 2 291 838,74 EUR. The amount of loan has been secured with the immovable property of the borrower.

JSC “DITTON PIEVADĶĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

Notes to the statement of profit and loss

(1) Net turnover

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

Breakdown of net turnover according to geographical markets:

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Market				
Latvia	276 115	392 876	289 514	411 826
CIS and Lithuania	6 474 292	9 212 088	4 597 758	6 540 197
Other states	2 878 730	4 096 064	2 644 004	3 761 030
TOTAL	<u>9 629 137</u>	<u>13 701 028</u>	<u>7 531 276</u>	<u>10 713 053</u>

(2) Production costs of sold products

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

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Type of costs				
Material costs	1 937 154	2 756 322	1 997 602	2 841 539
Salary costs for production staff	1 209 864	1 721 481	1 111 478	1 581 050
Social tax and social security payments for production staff	284 018	404 121	268 812	382 378
Electricity costs	416 150	592 128	394 813	561 612
Depreciation of fixed assets	702 793	999 984	781 746	1 112 014
Material delivery costs	39 216	55 799	17 010	24 196
Heating and gas costs	131 685	187 371	117 758	167 510
Repair expenses	129 842	184 749	99 023	140 858
Security expenses	59 285	84 355	53 140	75 590
Business trip expenses	30 258	43 053	42 723	60 772
Water costs	12 807	18 223	18 334	26 080
Environment protection costs	1 720	2 447	1 515	2 155
Insurance costs	15 743	22 400	5 416	7 704
Stock changes	481 795	685 533	(516 060)	(734 083)
Other production costs	45 641	64 941	62 220	88 506
TOTAL	<u>5 497 971</u>	<u>7 822 907</u>	<u>4 455 530</u>	<u>6 337 881</u>

JSC "DITTON PIEVADKĒŽU RŪPNĪCA"
2005 ANNUAL REPORT

(3) Selling costs

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Type of costs				
Shipping costs	189 572	269 737	174 713	248 525
Exhibitions and advertising costs	2 934	4 174	4 283	6 092
Other selling costs	14 448	20 558	11 397	16 212
TOTAL	<u>206 954</u>	<u>294 469</u>	<u>190 393</u>	<u>270 829</u>

(4) Administration costs

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Type of costs				
Administration salary	427 112	607 726	437 019	621 649
Social tax and social security payments for administration	106 508	151 547	104 482	148 623
Provisions for doubtful debts	-	-	-	-
Expenses relating to annual report and audit	2 700	3 842	2 800	3 983
Telecommunication costs	28 946	41 186	31 290	44 509
Bank services	21 064	29 971	5 295	7 532
Office expenses	2 954	4 203	2 184	3 107
Other administration costs	88 176	125 463	46 932	66 760
Other management and administrations costs	2 244 292	3 193 340	2 046 993	2 911 796
TOTAL	<u>2 921 752</u>	<u>4 157 278</u>	<u>2 676 995</u>	<u>3 807 959</u>

(5) Other incomes of economic activity of enterprise

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Income from material surplus in stock	3 562	5 068	1 353	1 925
Income from sale of fixed assets	8 814	12 541	40 212	57 201
Income from other periods which refer to accounting period	28 205	40 132	31 212	44 398
Other income	51 852	73 779	3 249	4 621
TOTAL	<u>92 433</u>	<u>131 520</u>	<u>76 026</u>	<u>108 145</u>

JSC “DITTON PIEVADKĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

(6) Other operating expenses

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005	2005	2004	2004
	LVL	EUR	LVL	EUR
Medical services	11 185	15 915	8 730	12 418
Paid fines	287	408	65 082	92 578
Provisions for doubtful debts	16 637	23 672	5 735	8 158
Training expenses	2 509	3 571	1 351	1 922
Sponsorship and donations	-	-	14 720	20 939
Infrastructure maintenance costs	-	-	6 112	8 694
Loss from decline in exchange rate	108 752	154 740	(12 872)	(18 310)
State fee on entrepreneurship risk	2 770	3 941	3 608	5 132
Other operating expenses	648 965	923 394	10 680	15 192
TOTAL	<u>791 105</u>	<u>1 125 641</u>	<u>103 146</u>	<u>146 723</u>

(7) Income from securities and loans forming long-term investments

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005	2005	2004	2004
	LVL	EUR	LVL	EUR
Income from financial investments	500 000	711 436	-	-
TOTAL	<u>500 000</u>	<u>711 436</u>	<u>-</u>	<u>-</u>

(8) Extraordinary expenses

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005	2005	2004	2004
	LVL	EUR	LVL	EUR
Long-term financial investments and short-term write-off of the value of shares	500 000	711 436	-	-
TOTAL	<u>500 000</u>	<u>711 436</u>	<u>-</u>	<u>-</u>

(9) Interest payment and similar expenses

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005	2005	2004	2004
	LVL	EUR	LVL	EUR
Paid interests	56 675	80 641	-	-
TOTAL	<u>56 675</u>	<u>80 641</u>	<u>-</u>	<u>-</u>

(10) Enterprise income tax in reporting year

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005	2005	2004	2004
	LVL	EUR	LVL	EUR
Enterprise income tax	54 214	77 140	27 307	38 844
TOTAL	<u>54 214</u>	<u>77 140</u>	<u>27 307</u>	<u>38 844</u>

JSC "DITTON PIEVADĶĒŽU RŪPNĪCA"
2005 ANNUAL REPORT

(11) Other taxes

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

		2005	2005	2004	2004
		LVL	EUR	LVL	EUR
Immovable property tax	(land tax)	3 036	4 320	2 541	3 615
Immovable property tax		35 323	50 260	35 792	50 913
TOTAL		<u>38 359</u>	<u>54 580</u>	<u>38 333</u>	<u>54 528</u>

JSC “DITTON PIEVADKĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

Notes to the balance sheet items

(12) Intangible Assets

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	Licenses		Intangible assets total	
Initial value	LVL	EUR	LVL	EUR
31.12.04.	39 359	55 987	39 359	55 987
Purchased in 2005	395	562	359	562
31.12.05.	39 754	56 565	39 754	56 565
Depreciation				
31.12.04.	28 594	40 674	28 594	40 674
Charged depreciation 2005	5 285	7 520	5 285	7 520
31.12.05.	33 879	48 205	33 879	48 205
Book value as at 31.12.2004	10 765	15 313	10 765	15 313
Book value as at 31.12.2005	5 875	8 359	5 875	8 359

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

(13) 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 (LVL)

	Buildings, constructions and plots	Equipment and machinery	Other fixed assets	Formation of fixed assets	TOTAL
Initial cost					
31.12.04	4 741 605	6 340 533	430 464	175 367	11 687 969
Purchased for year 2005	1 398 936	107 009	15 196	-	1 521 141
Disposals for 2005	13 889	153 412	12 146	149 583	329 030
31.12.05	6 126 652	6 294 130	433 514	25 784	12 880 080
Depreciation					
31.12.04	2 236 931	5 675 924	318 636	-	8 231 491
Charged depreciation for	219 001	441 626	38 467	-	699 094

JSC “DITTON PIEVADĶĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

2005					
Disposals	594	153 412	11 783	-	165 789
31.12.05	2 455 338	5 964 138	345 320	-	8 764 796
Book value as at 31.12.04	2 504 674	664 609	111 828	175 367	3 456 478
Book value as at 31.12.05	3 671 314	329 992	88 194	25 784	4 115 284

Movement in fixed assets (EUR)

1 EUR = 0,703 LVL as at 31.12.2004

1 EUR = 0,702804 LVL as at 31.12.2005

	Buildings, constructions and plots	Equipment and machinery	Other fixed assets	Formation of fixed assets	TOTAL
Initial cost					
31.12.04	6 744 815	9 019 250	612 324	249 455	16 625 845
Purchased for year 2005	1 990 507	152 260	21 622	-	2 164 389
Disposals for 2005	19 762	218 286	17 282	212 837	468 168
31.12.05	8 717 440	8 955 740	616 835	36 687	18 326 708
Depreciation					
31.12.04	3 181 979	8 073 860	453 251	-	11 709 091
Charged depreciation for 2005	311 610	628 377	54 734	-	994 721
Disposals	845	218 286	16 766	-	235 896
31.12.05	3 493 631	8 486 204	491 346	-	12 471 181
Book value as at 31.12.04	3 562 836	945 390	159 073	249 455	4 916 754
Book value as at 31.12.05	5 223 809	469 536	125 489	36 687	5 855 521

(14) Participation in capital of related enterprises

1 EUR = 0,703 LVL as at 31.12.2004

1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Participation in subsidiary enterprise Meteor Kettenfabrik, Germany, 100% of capital	220 695	314 021	220 695	313 933
Loan to related companies	48 511	69 025	-	-
Participation in subsidiary enterprise JSC „Latgales Insurance company”, 100% of capital	-	-	500 000	711 238
TOTAL	<u>269 206</u>	<u>383 046</u>	<u>720 695</u>	<u>1 025 171</u>

(15) Finished products and goods for sale

1 EUR = 0,703 LVL as at 31.12.2004

1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Finished products for sale	752 096	1 070 136	1 870 399	2 660 596
Baiter products for sale	9 882	14 061	18 242	25 948
Provisions for reserves with slow turnover	(38 425)	(54 674)	(43 916)	(62 469)
Book value	<u>723 553</u>	<u>1 029 523</u>	<u>1 844 725</u>	<u>2 624 075</u>

JSC “DITTON PIEVADKĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

(16) Debts of buyers and customers

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Book value of debts of buyers and customers	3 396 937	4 833 406	2 080 444	2 959 380
Debts of baiter products suppliers	-	-	565	804
Provisions for doubtful debts	(21 082)	(29 997)	(5 953)	(8 468)
Book value	<u>3 375 855</u>	<u>4 803 409</u>	<u>2 075 056</u>	<u>2 951 716</u>

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

(17) Other debtors

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
VAT overpayment	165 032	234 819	79 630	113 272
VAT from non-paid bills	100 224	142 606	16 247	23 111
Overpayment of enterprise income tax	5 881	8 368	2 336	3 323
Other debtors	523 936	745 494	25 039	35 617
Book value	<u>795 073</u>	<u>1 131 287</u>	<u>123 252</u>	<u>175 323</u>

(18) Expenses of future periods

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Other payments	417	593	526	748
Book value	<u>417</u>	<u>593</u>	<u>526</u>	<u>748</u>

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

(19) Cash assets as at 31.12.05

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Cash on hand	795	1 131	849	1 208
Cash in bank	110 246	156 866	134 443	191 242
Book value	<u>111 041</u>	<u>157 997</u>	<u>135 292</u>	<u>192 450</u>

JSC “DITTON PIEVADKĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

	Currency	2005 LVL	2005 EUR	Currency	2004 LVL	2004 EUR
LVL	-	2 000	2 846	-	34 713	49 378
USD	134 431	79 718	113 428	25 002	12 901	18 352
EUR	6 043	4 247	6 043	115 393	81 121	115 393
RUR	1 217 268	25 076	35 680	352 526	6 557	9 327
TOTAL		<u>111 041</u>	<u>157 997</u>		<u>135 292</u>	<u>192 450</u>

(20) Reserves for planned taxes
 (Enterprise income tax)

2005 2004
 _____ _____

(21) Other provisions

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Provisions for doubtful debts	21 083	29 998	5 953	8 468
Provisions for goods with slow turnover	38 425	54 674	43 916	62 469
Provisions from unused vacations	855	1 217	481	684
Social tax provisions from unused vacations	206	293	116	166
Balance value	<u>60 569</u>	<u>86 182</u>	<u>50 466</u>	<u>71 787</u>

(22) Debts to suppliers and contractors

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Received credit from A/S “Parex Banka” according to the contract No.2.2.1.-05/93 dated 06.09.2005 total	<u>1 570 654</u>	<u>2 234 839</u>	<u>897 855</u>	<u>1 277 176</u>
Long-term	1 330 295	1 892 839	585 855	833 364
Short-term	240 359	342 000	312 000	443 812
Income of future periods related to privatization	-	-	28 205	40 121
Short-term	-	-	-	-
Long-term	-	-	28 205	40 121

(23)

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Settlements with suppliers (materials)	66 414	94 499	35 840	50 981
Settlements with suppliers and contractors (services)	94 595	134 597	78 466	111 616
Balance value	<u>161 009</u>	<u>229 096</u>	<u>114 306</u>	<u>162 597</u>

JSC “DITTON PIEVADKĒŽU RŪPNĪCA”
2005 ANNUAL REPORT

(24) Taxes and social security payments

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
State fee on entrepreneurship risk for December 2005	225	320	235	334
Property tax for IV quarter of 2005	1 402	1 995	191	272
Social security payments for December of 2005	58 913	83 825	48 912	69 576
Personal income tax for December of 2005	35 419	50 397	29 770	42 347
Nature resources tax for IV quarter of 2005	1 206	1 716	1 083	1 541
Balance value	<u>97 165</u>	<u>138 253</u>	<u>80 191</u>	<u>114 070</u>

(25) Other debtors

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Employees' deposits in banks	-	-	-	-
Social insurance	-	-	-	-
VAT paid in advance	1 275	1 814	36 340	51 693
Settlements of salaries for December 2005	106	151	396	563
Salary on charge cards for December 2005	75 520	107 455	50 430	71 735
Labor union member's fee for December 2005	1 069	1 521	918	1 306
Alimony payment for December 2005	801	1 140	538	766
Deductions into fund of labor union	15 379	21 882	12 098	17 209
Transfers into pension fund for December of 2005	1 458	2 075	3 296	4 688
TOTAL	<u>95 608</u>	<u>136 038</u>	<u>104 016</u>	<u>147 960</u>

General information

(a) Taxes (LVL)

Type of tax	Tax commit- ments as at 31.12.04	Charged in year 2005	Paid in year 2005	Transfer- red to/ from other taxes	Credited for customs payments	Tax commit- ments as at 31.12.05
VAT	(79 630)	(1 051 073)	(-)	709 311	256 360	(165 032)
Fee on entrepreneurship risk	235	2 769	(2 779)	-	-	225
Enterprise income tax	(2 336)	54 214	-	(57 759)	-	(5 881)
Immovable property tax for buildings and facilities	191	35 323	(34 112)	-	-	1 402
Social security payments	48 912	538 300	-	(528 299)	-	58 913
Personal income tax	29 769	306 447	-	(300 797)	-	35 419
Natural resources tax	1 083	5 231	-	(5 108)	-	1 206
Immovable property tax for land	-	3 036	(3 306)	-	-	-
TOTAL:	<u>(1 776)</u>	<u>(105 753)</u>	<u>(39 927)</u>	<u>(182 652)</u>	<u>256 360</u>	<u>(73 748)</u>

JSC "DITTON PIEVADKĒŽU RŪPNĪCA"
2005 ANNUAL REPORT

Taxes (EUR)

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

Type of tax	EUR exchange rate differ rence	Tax commit- ments as at 31.12.04	Charged in year 2005	Paid in year 2005	Transfer- red to/ from other taxes	Credited for customs payments	Tax commit- ments as at 31.12.05
VAT	(31)	(113 272)	(1 495 542)	(-)	1 009 259	364 767	(234 819)
Fee on entrepreneurship risk	-	334	3 940	(3 954)	-	-	320
Enterprise income tax	(1)	(3 322)	77 139	-	(82 184)	-	(8 368)
Immovable property tax for buildings and facilities		272	50 260	(48 537)	-	-	1 995
Social security payments	20	69 576	765 932	-	(751 702)	-	83 826
Personal income tax	11	42 346	436 035	-	(427 995)	-	50 397
Natural resources tax	1	1 540	7 443	-	(7 268)	-	1 716
Immovable property tax for land		-	4 320	(4 320)	-	-	-
TOTAL:		(2 526)	(150 473)	(56 811)	(259 890)	364 767	(104 933)

Explanation: tax overpayment and reduction is reflected in brackets.

(b) Average number of employees

	2005	2004
Average number of employees during the reporting year	<u>641</u>	<u>690</u>

(c) Personnel expenses

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

Type of payments	2005 LVL	2005 EUR	2004 LVL	2004 EUR
Salaries	1 658 776	2 360 226	1 573 105	2 237 703
Social tax	375 399	534 144	375 006	533 436
TOTAL:	<u>2 034 175</u>	<u>2 894 370</u>	<u>1 948 111</u>	<u>2 771 139</u>

(d) Information about remuneration to Members of the Council and Management Board

1 EUR = 0,703 LVL as at 31.12.2004
1 EUR = 0,702804 LVL as at 31.12.2005

	Council		Management Board		TOTAL	
	LVL	EUR	LVL	EUR	LVL	EUR
Salaries	28 808	40 990	49 541	70 490	78 349	111 480
Social tax 24,09%	6 940	9 875	11 934	16 981	18 874	26 856
TOTAL	35 748	50 865	61 475	87 471	97 223	138 336

**JSC “DITTON PIEVADĶĒŽU RŪPNĪCA”
2005 ANNUAL REPORT**

Translation from Latvian

AUDITOR’S REPORT

Daugavpils, 24 March, 2006

To the management and shareholders of JSC “Ditton pievadķēžu rūpnīca”

We have audited the accompanying financial statements of JSC “Ditton pievadķēžu rūpnīca”, registration no.40003030187, for the year 2005. Financial statements include the balance sheets as at 31 December 2004, statement of profit and loss, statement in changes in shareholder’s equity, cash flow for year 2005 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 assurance 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 the structure of debtors of JSC “Ditton pievadķēžu rūpnīca” there are doubtful debtors included 172591 LVL. Except this, in our opinion, the financial statements for the year 2005 present fairly, in all material aspects, the financial positions of the JSC “Ditton pievadķēžu rūpnīca” at the end of reporting year and is performed in accordance with Latvian laws “On accounting”, “On the Annual Report of Enterprises”.

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

V.Zitare
personal code 140955-10705
Jury auditor
Certificate No.62