

JSC „DITTON PIEVADKĒŽU RŪPNĪCA”

FINANCIAL REPORT

FOR YEAR 2005

(UNAUDITED AND NON-CONSOLIDATED)

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

Daugavpils

2006

JSC "DITTON PIEVADKEZU RUPNICA"
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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	Riga, 03.10.1991
Registration In Commercial Register Office	Riga, 29.08.2003.
Legal address	Visku Str. 17, Daugavpils, LV-5410, Latvia
Mailing address	Visku Str. 17, Daugavpils, LV-5410, Latvia

The Council

Chairman of the Council	- Boriss Matvejevs
Members of the Council	- Georgijs Sorokins
	- Tatjana Lapunova
	- Jevgenijs Glinkins
	- Vitolds Vasilenoks

The Board

Chairman of the Board	- Eduards Zavadskis
Members of the Board	- Pjotrs Dorofejevs
	- Natalja Redzoba
	- Volda Juhno
	- Jurijs Kostromins

Fixed capital	7 400 000.00 LVL
Nominal value of public name share	1.00 LVL

Chief accountant	Nina Moisejeva, p.c. 200250-10263
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Reporting period	01.01.2005 – 31.12.2005
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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

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

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BALANCE SHEET		31.12.2005	31.12.2004	31.12.2005	31.12.2004
ASSETS					
CURRENT ASSETS	LVL	LVL	EUR	EUR	
Cash and bank	111 041	135 292	157 997	192 450	
Short-term investments		0	0	0	
Customer receivables					
Accounts receivable	3 396 938	2 081 009	4 833 407	2 960 183	
Accounts receivable from Group companies	0	0	0	0	
Allowance for uncollectible receivables	-21 083	-5 953	-29 998	-8 467	
Total	3 375 855	2 075 056	4 803 409	2 951 716	
Other receivables					
Other current receivables	774 969	43 622	1 102 682	62 051	
Short-term loans given	0	0	0	0	
Derivative financial instruments	0	0	0	0	
Total	774 969	43 622	1 102 682	62 051	
Accrued income					
Other accrued income	0	0	0	0	
Total	0	0	0	0	
Prepaid expenses					
Prepaid taxes	20 104	79 630	28 605	113 272	
Other prepaid expenses	417	526	593	748	
Total	20 521	80 156	29 198	114 020	
Inventories					
Raw materials	940 110	980 245	1 337 656	1 394 374	
Work-in-progress	245 894	197 274	349 876	280 617	
Finished goods	723 553	1 844 725	1 029 523	2 624 075	
Prepayments to suppliers	91 341	279 332	129 966	397 343	
Total	2 000 898	3 301 576	2 847 021	4 696 409	
TOTAL CURRENT ASSETS	6 283 284	5 635 702	8 940 307	8 016 646	
NON-CURRENT ASSETS					
Long-term financial assets					
incl. Shares in subsidiaries	220 695	720 695	314 021	1 025 171	
Loans to related companies	48 511	-	69 025	-	
Total	269 206	720 695	383 046	1 025 171	
Non-current physical assets					
Plant and equipment	12 420 782	11 257 505	17 673 180	16 013 521	
Other equipment and fixtures	459 298	430 464	653 522	612 324	
Accumulated depreciation	-8 764 796	-8 231 491	-12 471 181	-11 709 091	
Total	4 115 284	3 456 478	5 855 521	4 916 754	
Intangible assets					
Purchased licenses, trademarks etc.	5 875	10 765	8 360	15 313	
Goodwill	0	0	0	0	
Prepayments for intangible assets	0	0	0	0	
Total	5 875	10 765	8 360	15 313	
TOTAL NON-CURRENT ASSETS	4 390 365	4 187 938	6 246 927	5 957 238	
TOTAL ASSETS	10 673 649	9 823 640	15 187 234	13 973 884	

1 EUR =

0.702804 LVL

0.703 LVL

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BALANCE SHEET				
LIABILITIES & OWNERS' EQUITY	31.12.2005	31.12.2004	31.12.2005	31.12.2004
CURRENT LIABILITIES	LVL	LVL	EUR	EUR
Debt obligations				
Short-term loans from financial institutions	240 359	312 000	342 000	443 813
Derivative financial instruments	0	0	0	0
Short-term capital lease obligations	0	0	0	0
Total	240 359	312 000	342 000	443 813
Customer prepayments for goods and services	4 368	7 026	6 215	9 994
Supplier payables	105 609	173 618	150 268	246 967
Total	109 977	180 644	156 483	256 961
Tax liabilities	97 165	80 191	138 253	114 070
Accrued expenses				
Salary-related accrued expenses	94 333	67 676	134 224	96 267
Interest payable	56 675	5 233	80 642	7 444
Total	248 173	72 909	353 119	103 711
Provisions	60 569	50 466	86 182	71 786
Total	60 569	50 466	86 182	71 786
TOTAL CURRENT LIABILITIES	659 078	696 210	937 784	990 341
NON-CURRENT LIABILITIES	0	0	0	0
Long-term liabilities	1 330 295	585 855	1 892 839	833 364
Long-terms capital lease obligation	0	0	0	0
Total	1 330 295	585 855	1 892 839	833 364
TOTAL NON-CURRENT LIABILITIES	1 330 295	585 855	1 892 839	833 364
TOTAL LIABILITIES	1 989 373	1 282 065	2 830 623	1 823 705
OWNERS' EQUITY	7 400 000	7 400 000	10 529 251	10 526 316
Share capital	0	0	0	0
Paid in capital over par	0	0	0	0
Reserves	0	0	0	0
Other reserves	0	0	0	0
Total	7 400 000	7 400 000	10 529 251	10 526 316
Retained earnings	1 129 736	1 025 977	1 607 470	1 459 428
Net profit for the reporting period	154 540	115 598	219 890	164 435
Currency translation reserve	0	0	0	0
TOTAL OWNERS' EQUITY	8 684 276	8 541 575	12 356 611	12 150 179
TOTAL LIABILITIES AND OWNERS' EQUITY	10 673 649	9 823 640	15 187 234	13 973 884
	1 EUR =		0.702804 LVL	0.703 LVL

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INCOME STATEMENT	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	LVL	LVL	EUR	EUR
Net sales	9 629 137	7 531 276	13 701 028	10 713 053
Other operating income	540 658	76 026	769 287	108 145
Total income	10 169 795	7 607 302	14 470 315	10 821 198
Direct cost of goods sold or services rendered	-3 271 967	-3 673 784	-4 655 590	-5 225 866
Marketing, advertising and public relations expenses	-2 084	-774	-2 965	-1 101
Bad receivables	0	0	0	0
Operating expenses	-682 352	-63 834	-970 899	-90 802
Salaries, bonuses and social expenses	-2 065 534	-541 501	-2 938 990	-770 272
Depreciation expense	-702 793	-781 746	-999 984	-1 112 014
Other expenses	-3 084 301	-2 278 161	-4 388 565	-3 240 627
Operating expenses	-9 809 031	-7 339 800	-13 956 993	-10 440 682
EBIT	360 764	267 502	513 322	380 516
Percents paid	-56 675	-5 233	-80 641	-7 444
Financial items				
Financial income (except Foreign Exchange rate difference)	0	0	0	0
Financial costs (except Foreign Exchange rate difference)	0	0	0	0
Exchange rate +gain / -loss	-56 976	-81 031	-81 070	-115 265
Financial items	-113 651	-86 264	-161 711	-122 709
Profit before extraordinary items and taxes	247 113	181 238	351 611	257 807
EBT	247 113	181 238	351 611	257 807
Provisions for taxes	-92 573	-65 640	-131 720	-93 371
Profit after taxes	154 540	115 598	219 891	164 436
Net profit	154 540	115 598	219 891	164 436
Index EPS	0,021	0,016	0,030	0,023
	1 EUR =		0.702804 LVL	0.703 LVL

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CASH FLOW STATEMENT	31.12.2005 LVL	31.12.2004 LVL	31.12.2005 EUR	31.12.2004 EUR
CASH GENERATED FROM OPERATIONS	717 919	463 405	1 021 507	659 182
Cash received from customers	7 665 589	1 189 422	10 907 150	1 691 923
Cash received from ML Group	0	0	0	0
Cash paid to suppliers and employees	-6 947 670	-726 017	-9 885 643	-1 032 741
Cash paid to suppliers and employees ML Group	0	0	0	0
NET CASH USED IN INVESTING ACTIVITIES	- 1 358 294	-352 130	-1 932 678	-500 896
Cash paid for purchasing shares in subsidiary ML Group	0	0	0	0
Business acquisition	0	0	0	0
Cash paid for purchasing non-current physical assets	13 658	-378 268	19 434	-538 077
Cash paid for purchasing non-current physical assets ML Group	0	0	0	0
Cash received from the sale of non-current physical assets	-1 371 952	26 138	-1 952 112	37 181
Loans given	0	0	0	0
Interest received	0	0	0	0
NET CASH USED IN FINANCING ACTIVITIES	616 124	-44 225	876 665	-62 909
Short-term loans received	672 799	-92 225	957 307	-131 188
Repayment of short-term loans	0	48 000	0	68 279
Cash paid as capital lease payments	-4 727	0	-6 726	0
Paid interest	-51 948	0	-73 916	0
Paid interest ML Group	0	0	0	0
TOTAL CASH FLOW	-24 251	67 050	-34 506	95 377
Cash and cash equivalents as at the beginning of period	135 292	68 242	192 503	-97 073
Cash and cash equivalents as at the end of period	111 041	135 292	157 997	192 450
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	-24 251	67 050	-34 506	95 377
	1 EUR =		0.702804 LVL	0.703 LVL

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Statement of changes in equity for the period from 01.01.2005 till 31.12.2005 (LVL)							
	Share capital	Share premium	Other reserves	Currency translation reserves	Accumulated profit	Current period's profit	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
As at 1st January, 2005	7 400 000	-	-	-	1 141 575	-	8 541 575
Issue of share capital	-	-	-	-	-	-	-
Costs of issue of share capital	-	-	-	-	-	-	-
Dividend relating to 2004	-	-	-	-	-	-	-
Allocation of profit of 2004 to dividends	-	-	-	-	-11 839	-	- 11 839
Issue of share capital	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	-	-	-
Profit for the current period of 2005	-	-	-	-	-	154 540	154 540
As at 31 December, 2005	7 400 000	-	-	-	1 129 736	154 540	8 684 276
As at 1st January, 2004	7 400 000	-	-	-	1 025 977	-	8 425 977
Currency translation difference	-	-	-	-	-	-	-
Profit for the current period of 2005	-	-	-	-	-	115 598	115 598
As at 31 December, 2004	7 400 000	-	-	-	1 025 977	115 598	8 541 575

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Statement of changes in equity for the period from 01.01.2005 till 31.12.2005 (EUR)							
	Share capital	Share premium	Other reserves	Currency translation reserves	Accumulated profit	Current period's profit	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 1st January, 2005 (0.702804)	10 529 251	-	-	-	1 624 315	-	12 153 566
Issue of share capital	-	-	-	-	-	-	-
Costs of issue of share capital	-	-	-	-	-	-	-
Dividend relating to 2004	-	-	-	-	-	-	-
Allocation of profit of 2004 to dividends	-	-	-	-	- 16 846	-	- 16 846
Issue of share capital	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	-	-	-
Profit for the current period of 2005 (0.702804)	-	-	-	-	-	219 891	219 891
As at 31 December, 2005 (0.702804)	10 529 251	-	-	-	1 607 469	219 891	12 356 611
1st January 2004 (0.674)	10 979 228	-	-	-	1 522 221	-	12 501 449
Currency translation difference	-452 912	-	-	-	-62 794	-	-515 706
Profit for the current period (0.703)	-	-	-	-	-	164 435	164 435
As at 31 December, 2004 (0.703)	10 526 316	-	-	-	1 459 427	164 435	12 150 178

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Appendix

**Summary of financial results
for year 2005**

(thous. LVL)

Name of index	Forecast for 2005	2005 in fact	Deviation (+ / -)
Production of commodity products	7 000	7 789	+ 789
Sales volume	7 400	9 629	+ 2 229
Costs of sold products	7 232	9 362	+ 2 130
Profit or loss before taxes	178	247	+ 69
Taxes	93	92	- 1
Profit or loss after taxes	85	155	+ 70

(thous. EUR)

Name of index	Forecast for 2005	2005 in fact	Deviation (+ / -)
Production of commodity products	9 960	11 083	+ 1 123
Sales volume	10 529	13 701	+ 3 172
Costs of sold products	10 290	13 321	+3 031
Profit or loss before taxes	253	351	+ 98
Taxes	132	130	- 2
Profit or loss after taxes	121	221	+ 100

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Explanations and analyses on separate items of financial reports

Production of commodity products in year 2005 (thous.LVL / thous.EUR)

Output of commodity products is estimated in the amount 7 789 thous.LVL (11 083 thous.EUR). The result of this year is by 1 123 thous.LVL (1 598 thous.EUR) or 16,8% higher than the result of year 2004.

Production of driving chains in year 2005 (thous.meters)

Production of driving chains in the natural units exceeded the forecast by 932 thous.meters, and it is by 730 thous. meters more than in year 2004.

Production of driving chains in year 2005 (thous.LVL / thous.EUR)

Production of driving chains in money terms exceeded the forecast by 746 thous.LVL (1 061 thous.EUR) and it was by 1 202 thous.LVL (1 710 thous.EUR) more than in year 2004.

Sales (net-turnover) in year 2005 (thous. LVL / thous.EUR)

Net-turnover has been forecasted to amount to 7 400 thous.LVL (10 529 thous.EUR) in year 2005, in fact it has been fulfilled in the amount 9 629 thous.LVL (13 701 thous.EUR), excess is equal to 2 229 thous.LVL (3 172 thous.EUR). The volume of net-turnover of this reporting year is by 2 098 thous. LVL (2 985 thous.EUR) higher than the volume of the previous year.

Sales of main products in year 2005 (thous. LVL / thous.EUR)

Forecast for sales of main products has been exceeded by 2 195 thous.LVL (3 123 thous.EUR), the actual result of the reporting year is by 2 066 thous.LVL (2 940 thous.EUR) higher than the result of prior year.

Sales of driving chains in year 2005 (thous. meters)

In comparison with previous year, in year 2005 sales of driving chains in natural units increased on the Eastern market by 26,2% or by 788 thous.meters, whereas the sales on the Western market decreased by 4,8% or by 98 thous.meters.

Comparing the structure of sold products in year 2005 in natural units with the prior year, it can be observed that increase of sales of driving chains was 13,7%, where the sales level of automobile chains increased by 26,7%, and sales of industrial chains increased by 9,6%.

Sales volume of consumer goods decreased by 45% owing mainly to the decrease of sales of bicycle pedals.