

JSC „DITTON PIEVADKĒŽU RŪPNĪCA”

**NON-AUDITED AND NON-CONSOLIDATED
FINANCIAL REPORT
FOR 6 MONTHS OF YEAR 2006
(01.01.2006 – 30.06.2006)**

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

Daugavpils

2006

JSC "DITTON PIEVADKEZU RUPNICA"
FINANCIAL REPORT FOR 6 MONTHS OF 2006

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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 one bearer share	1.00 LVL

Chief accountant	Nina Moisejeva, p.c. 200250-10263
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Reporting period	01.01.2006 – 30.06.2006
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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 6 months of year 2006

In 6 months of year 2006 net-turnover in fact was fulfilled in the amount of 3479 thous. LVL (4 950 thous.EUR) against the forecast 3 930 thous. LVL (5 592 thous.EUR), decrease amounts to 451 thous. LVL (642 thous.EUR).

Profit of 6 months of 2006 amounts to 63 thous.LVL (90 thous.EUR).

In comparison with the period of 6 months of year 2005, net turnover in 6 months of 2006 decreased by 1 461 thous.LVL (2 079 thous.EUR).

At present the company exports 98% of its products to the East and West: among them 54% westwards and 44% eastwards; 2% of products are sold in Latvia.

Net-turnover for the 3rd quarter of 2006 has been predicted to amount to 2 070 thous.LVL (2 945 thous.EUR); profit in the 3rd quarter of 2006 is forecasted to be 44 thous.LVL (63 thous.EUR).

The total sales amount to the subsidiary „Meteor Kettenfabrik” GmbH amounted to 143 832 LVL (204 654 EUR) in 6 months of the current year, but in proper period of 2005 it was 135 222 LVL (192 404 EUR).

The average statistical number of employees of JSC “Ditton pievadkezu rupnica” was 635 in 6 months of year 2006.

The economic situation in the 1st half of 2006 (as continuation of trend of the 2nd half of 2005) is characterized as stabilization of supply-demand situation on the market of joint-stock company's products. Increase of production volume in natural units has been achieved due to optimization of production cost (income-cost ratio) and execution of single orders. Optimization of production process by decrease of total net-turnover of the company enabled to maintain profit at the predictive volume (at the level of previous year) and the level of achieved salary.

Owing to market saturation and aggressive promotion of dumped products of some South-East region manufacturers the forecast for substantial increase in production is unfavourable.

Experience of processing of customer-owned raw material is positive, in the framework of which the company decreases its own risks (supply of raw materials, sales of finished products).

***Notification about conclusion of the contract
with company "Berg Invest LLC"
about processing of customer-owned raw material***

Following the instructions the Financial and Capital Market Commission, the Management Board of JSC "Ditton pievadķēžu rūpnīca" is informing herewith investors about conclusion of the contract with company "Berg Invest LLC" on 05 April, 2004 about processing of customer-owned raw material

In accordance with the terms of the contract the issuer is executing the processing of raw material, owned by company "Berg Invest LLC", into finished products in separate lots, whereby it is agreed upon delivery time, volume and value of each lot, proceeding from production capabilities. There are no long-term liabilities, which might burden the issuer with prices and volumes of processing, included into the contract. The contract has been estimated to be effective because some common production risks transfer to the owner of raw materials and finished products – company "Berg Invest LLC".

The financial results of execution of orders of the company "Berg Invest LLC" in compliance with the terms of the contract from 05 April 2004 are the following: in year 2004 – 3.938 million LVL (5.603 million EUR), in year 2005 – 5.882 million LVL (8.396 million EUR), in year 2006 (6 months) – 1.305 million LVL (1.857 million EUR).

The issuer is planning to continue cooperation with the company "Berg Invest LLC" within the framework of the contract about processing the customer-furnished raw material, dated 05 April, 2004.

At the same time the issuer is informing the investors that the company "Berg Invest LLC" is not the sole representative and monopolist on this market segment, where the issuer is operating and its products are being effectively promoted.

STATEMENT ABOUT MANAGEMENT LIABILITY

According to our information, the presented interim financial statements for 6 months of year 2006 ended 30 June, 2006 have been prepared in accordance with the existing legislative requirements and give a true and fair view of the assets, liabilities, financial position and profits of the joint-stock company "Ditton pievadķezu rūpnīca".

Interim Management report contains truthful information.

Chairman of the Management Board,
President of the JSC "Ditton pievadķēžu rūpnīca"

Eduards Zavadskis

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BALANCE SHEET		30.06.2006	30.06.2005	30.06.2006	30.06.2005
ASSETS					
CURRENT ASSETS		LVL	LVL	EUR	EUR
Cash and bank		256 806	68 267	365 402	97 135
Short-term investments		0	0	0	0
Customer receivables					
Accounts receivable		3 084 414	3 054 975	4 388 726	4 346 838
Accounts receivable from Group companies		0	0	0	0
Allowance for uncollectible receivables		-7 484	-4 911	-10 649	-6 988
Total		3 333 736	3 050 064	4 743 479	4 339 850
Other receivables					
Other current receivables		878 711	134 557	1 250 293	191 457
Short-term loans given		0	0	0	0
Derivative financial instruments		0	0	0	0
Total		878 711	134 557	1 250 293	191 457
Accrued income					
Other accrued income		0	0	0	0
Total		0	0	0	0
Prepaid expenses					
Prepaid taxes		123 438	22 724	175 637	32 333
Other prepaid expenses		209	263	297	374
Total		123 647	22 987	175 943	32 707
Inventories					
Raw materials		959 905	1 002 644	1 365 822	1 426 634
Work-in-progress		257 784	228 286	366 793	324 822
Finished goods		662 084	1 178 273	942 061	1 676 531
Prepayments to suppliers		114 114	409 573	162 369	582 770
Total		1 993 887	2 818 776	2 837 045	4 010 757
TOTAL CURRENT ASSETS		6 329 981	6 094 651	9 006 751	8 671 907
NON-CURRENT ASSETS					
Long-term financial assets		269 206	720 695	383 046	1 025 457
incl. Shares in subsidiaries		220 695	720 695	314 021	1 025 457
Total		269 206	720 695	383 046	1 025 457
Non-current physical assets					
Plant and equipment		13 043 315	11 145 177	18 558 965	15 858 158
Other equipment and fixtures		443 225	439 743	630 652	625 698
Accumulated depreciation		9 033 859	8 446 893	12 854 023	12 018 846
Total		4 452 681	3 138 027	6 335 594	4 465 010
Intangible assets					
Purchased licenses, trademarks etc.		3 736	7 951	5 316	11 313
Goodwill		0	0	0	0
Prepayments for intangible assets		0	0	0	0
Total		3 736	7 951	5 316	11 313
TOTAL NON-CURRENT ASSETS		4 725 623	3 866 673	6 723 956	5 501 780
TOTAL ASSETS		11 055 604	9 961 324	15 730 707	14 173 687

1 EUR =

0.702804 LVL 0.702804 LVL

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BALANCE SHEET				
LIABILITIES & OWNERS' EQUITY	30.06.2006	30.06.2005	30.06.2006	30.06.2005
CURRENT LIABILITIES	LVL	LVL	EUR	EUR
Debt obligations				
Short-term loans from financial institutions	120 179	156 000	170 999	221 968
Derivative financial instruments	0	0	0	0
Short-term capital lease obligations	10 194	0	14 505	0
Total	130 373	156 000	185 504	221 968
Customer prepayments for goods and services	13 572	8 184	19 311	11 645
Supplier payables	171 333	301 755	243 785	429 359
Total	184 905	309 939	263 096	441 004
Tax liabilities	78 231	75 184	111 313	106 977
Accrued expenses				
Salary-related accrued expenses	115 779	108 223	164 738	153 987
Interest payable	48 535	27 902	69 059	39 701
Total	242 545	136 125	345 110	193 688
Provisions	43 211	47 169	61 484	67 115
Total	43 211	47 169	61 484	67 115
TOTAL CURRENT LIABILITIES	601 034	724 417	855 194	1 030 752
NON-CURRENT LIABILITIES	0	0	0	0
Long-term liabilities	1 687 432	585 855	2 400 999	833 597
Long-terms capital lease obligation	35 794	0	50 931	0
Total	1 723 226	585 855	2 451 930	833 597
TOTAL NON-CURRENT LIABILITIES	1 723 226	585 855	2 451 930	833 597
TOTAL LIABILITIES	2 324 260	1 310 272	3 307 124	1 864 349
OWNERS' EQUITY	7 400 000	7 400 000	10 529 251	10 529 251
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	10 529 251
Retained earnings	1 268 736	1 129 736	1 805 249	1 607 469
Net profit for the reporting period	62 608	121 316	89 083	172 618
Currency translation reserve	0	0	0	0
TOTAL OWNERS' EQUITY	8 731 344	8 651 052	12 423 583	12 309 338
TOTAL LIABILITIES AND OWNERS' EQUITY	11 055 604	9 961 324	15 730 707	14 173 687
	<i>1 EUR =</i>		<i>0.702804 LVL</i>	<i>0.702804</i>

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INCOME STATEMENT	30.06.2006	30.06.2005	30.06.2006	30.06.2005
	LVL	LVL	EUR	EUR
Net sales	3 479 001	4 939 863	4 950 172	7 028 792
Other operating income	23 830	19 345	33 907	27 525
Total income	3 502 831	4 959 208	4 984 079	7 056 317
Direct cost of goods sold or services rendered	-1 590 439	-2 045 958	-2 262 991	-2 911 136
Marketing, advertising and public relations expenses	-400	-6 924	-569	-9 852
Bad receivables	0	0	0	0
Operating expenses	-26 769	-44 441	-38 089	-63 234
Salaries, bonuses and social expenses	-1 028 941	-960 392	-1 464 051	-1 366 515
Depreciation expense	-288 792	-371 550	-410 914	-528 668
Other expenses	-375 524	-1 325 144	-534 322	-1 885 510
Operating expenses	-3 310 865	-4 754 409	-4 710 936	-6 764 915
EBIT	191 966	204 799	273 143	291 402
Percents paid	-48 535	-27 902	-69 059	-39 701
Financial items	0	0	0	0
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	-26 686	-8 116	-37 971	-11 548
Financial items				
Profit before extraordinary items and taxes	116 745	168 781	166 113	240 153
EBT	116 745	168 781	166 113	240 153
Provisions for taxes	-54 137	-47 465	-77 030	-67 536
Profit after taxes	62 608	121 316	89 083	172 617
Net profit	62 608	121 316	89 083	172 617
Index EPS	0.008	0.016	0.011	0.023

1 EUR =

0.702804 LVL 0.702804 LVL

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CASH FLOW STATEMENT	30.06.2006 LVL	30.06.2005 LVL	30.06.2006 EUR	30.06.2005 EUR
CASH GENERATED FROM OPERATIONS	535 599	167 885	762 089	238 879
Cash received from customers	38 500	2 546 328	54 780	3 623 098
Cash received from ML Group	0	0	0	0
Cash paid to suppliers and employees	574 099	-2 378 443	816 869	-3 384 219
Cash paid to suppliers and employees ML Group	0	0	0	0
NET CASH USED IN INVESTING ACTIVITIES	-624 244	-51 008	-888 219	-72 578
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	-632 959	-51 371	-900 619	-73 094
Cash paid for purchasing non-current physical assets ML Group	0	0	0	0
Cash received from the sale of non-current physical assets	8 715	363	12 400	516
Loans given	0	0	0	0
Interest received	0	0	0	0
NET CASH USED IN FINANCING ACTIVITIES	234 410	-183 902	333 535	-261 669
Short-term loans received	282 945	-156 000	402 594	-221 968
Repayment of short-term loans	0	0	0	0
Cash paid as capital lease payments	-1 653	-2 311	-2 352	-3 288
Paid interest	-46 882	-25 591	-66 707	-36 413
Paid interest ML Group	0	0	0	0
TOTAL CASH FLOW	145 765	-67 025	207 405	-95 368
Cash and cash equivalents as at the beginning of period	111 041	135 292	157 997	192 503
Cash and cash equivalents as at the end of period	256 806	68 267	365 402	97 135
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	145 765	-67 025	207 405	-95 368
	<i>1 EUR =</i>		<i>0.702804 LVL</i>	<i>0.702804 LVL</i>

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Statement of changes in equity for the period from 01.01.2006 till 30.06.2006 (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, 2006	7 400 000	-	-	-	1 284 276	-	8 684 276
Issue of share capital	-	-	-	-	-	-	-
Costs of issue of share capital	-	-	-	-	-	-	-
Dividend relating to 2005	-	-	-	-	-	-	-
Allocation of profit of 2005 to dividends	-	-	-	-	-15 540	-	-15 540
Issue of share capital	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	-	-	-
Profit for the current period of 6 months of 2006	-	-	-	-	-	62 608	62 608
As at 30 June, 2006	7 400 000	-	-	-	1 268 736	62 608	8 731 344
As at 1st January, 2005	7 400 000	-	-	-	1 141 575	-	8 541 575
Dividend relating to 2004	-	-	-	-	-	-	-
Allocation of profit of 2004 to dividends	-	-	-	-	-11 839	-	-11 839
Currency translation difference	-	-	-	-	-	-	-
Profit for the current period 6 months of 2005	-	-	-	-	-	121 316	121 316
As at 30 June, 2005	7 400 000	-	-	-	1 129 736	121 316	8 651 052

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Statement of changes in equity for the period from 01.01.2006 till 30.06.2006 (EUR)							
(1 EUR = 0,702804 LVL)							
	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, 2006	10 529 251	-	-	-	1 827 360	-	12 356 611
Issue of share capital	-	-	-	-	-	-	-
Costs of issue of share capital	-	-	-	-	-	-	-
Dividend relating to 2005	-	-	-	-	-	-	-
Allocation of profit of 2005 to dividends	-	-	-	-	-22 111	-	-22 111
Issue of share capital	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	-	-	-
Profit for the current period 6 months of 2006	-	-	-	-	-	89 083	89 083
As at 30 June, 2006	10 529 251	-	-	-	1 805 249	89 083	12 423 583
1st January, 2005	10 529 251	-	-	-	1 624 315	-	12 153 566
Dividend relating to 2004	-	-	-	-	-	-	-
Allocation of profit of 2004 to dividends	-	-	-	-	-16 846	-	-16 846
Currency translation difference	-	-	-	-	-	-	-
Profit for the current period 6 months of 2005	-	-	-	-	-	172 617	172 617
As at 30 June, 2005	10 529 251	-	-	-	1 607 469	172 617	12 309 337

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Appendix

**Summary of financial results
for 6 months of year 2006**

LVL

Name of index	Forecast for 2006	6 months of year 2006		Deviation (+ / -)
		forecast	In fact	
Production of commodity products	7 600	3 804	4 267	+463
Production of main products	7 565	3 787	4 240	+453
Driving chains	7 479	3 674	4 151	+477
Incl. automotive		1 616	1 602	-14
industrial		2 058	2 549	+491
Sales volume	8 000	3 930	3 479	-451
Sales of main products	7 800	3 830	3 359	-471
Profit after taxes	80	40	63	+23

EUR

1 EUR = 0,702804 LVL

Name of index	Forecast for 2006	6 months of year 2006		Deviation (+ / -)
		forecast	In fact	
Production of commodity products	10 814	5 413	6 071	+658
Production of main products	10 764	5 388	6 033	+645
Driving chains	10 642	5 228	5 906	+678
Incl. automotive		2 299	2 279	-20
industrial		2 928	3 627	+699
Sales volume	11 383	5 592	4 950	-642
Sales of main products	11 098	5 450	4 779	-671
Profit after taxes	114	57	90	+33

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Explanations and analyses on separate items of financial reports

Production of commodity products in the period of 6 months of year 2006 (thous.LVL/thous.EUR)

Output of commodity products is estimated in the amount 4 267 thous.LVL (6071 thous.EUR). The result of reporting period is by 281 thous.LVL (400 thous.EUR) or 7% higher than the result of relevant period of year 2005.

Production of driving chains in 6 months of year 2006 (thous.meters)

Production of driving chains in the natural units exceeded the forecast by 118 thous.meters, and it is by 154 thous. meters more than the index of the same period of 2005.

Production of driving chains in 6 months of year 2006 (thous.LVL/thous.EUR)

Production of driving chains in money terms exceeded the forecast by 477 thous.LVL (679 thous.EUR), and it was by 259 thous.LVL (369 thous.EUR) more than in the relevant period of previous year.

Sales (net-turnover) in the 1st half of 2006 (thous. LVL/thous.EUR)

Net-turnover has been forecasted to amount to 3 930 thous.LVL (5 592 thous.EUR) in the 1st half of year 2006, in fact it has been fulfilled in the amount 3 479 thous.LVL (4 950 thous.EUR), decrease is equal to 451 thous.LVL (642 thous.EUR). The index of this reporting period is by 1 461 thous. LVL (2 079 thous.EUR) or 29,6% lower than the index of the same period of previous year.

Sales of main products in 6 months of 2006 (thous. LVL/ thous.EUR)

Sales of main products in the reporting period is by 471 thous.LVL (670 thous.EUR) lower than the forecast, and it is by 1 463 thous.LVL (2 082 thous.EUR) less than the result of the relevant period of prior year.

Proceeds from other activities exceeded the result of the relevant period of last year by 2 thous.LVL (3 thous.EUR) or by 2%, and they amounted to 120 thous.LVL (171 thous.EUR).