

**JOINT STOCK COMPANY  
“RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA”**

Reg. No. 40003042006  
Ganību dambis 53, Rīga, LV-1005

**ANNUAL REPORT  
FOR THE YEAR 2019  
(AUDITED)**

## CONTENT

Information about the Company	3
Management report	4
Profit and loss account	7
Balance sheet	8
Cash flow statement	10
Statement of changes in equity	11
Notes to financial statements	12
Management confirmation report	29
Auditors report	30

## INFORMATION ABOUT THE COMPANY

Name of the Company	AS (Joint Stock Company) "Rīgas elektromašīnbūves rūpnīca" (AS "RER")	
Legal status of the Company	Joint Stock Company	
Registration No. in the Register of Enterprises, date and place of registration	No. 000304200, Riga, 29 November 1991	
Unified Registration No. in the Commercial Register, date and place of registration	No. 40003042006, Riga, 29 September 2004	
Registered office	Ganību dambis 53, Riga, LV-1005, the Republic of Latvia	
Institution in charge of the Company	General meeting of shareholders	
<u>The Company Council :</u>		
Chairperson of the Council	Mikhail Barbarovich	from 28.03.19.
	Stanislav Vodolazskii	until 27.03.19.
Vice-Chairperson of the Council	Stanislav Vodolazskii	from 28.03.19.
	Kirill Nuzhyn	until 27.03.19.
Council Members	Liubov Akimova	from 28.03.19.
	Alexey Kostennikov	from 28.03.19.
	Alexey Shestakov	from 28.03.19.
	Andrey Sarkisov	until 27.03.19.
	Natalia Sarkisova	until 27.03.19.
	Sergey Bolysov	until 27.03.19.
<u>The Company Board:</u>		
Chairperson of the Board	Mikalai Yerokhau	from 15.03.11.
Board Members	Aleksandrs Popadins	from 08.11.13.
	Ilja Šestakovs	from 30.01.15.
	Tamāra Rogova	from 17.01.19.
	Armantas Jasaitis	from 17.01.19. until 28.02.20
	Grigorijs Kapustins	until 17.01.19.
The quantity of shares which belong to the members of Council and to the members of Board (%)	Owns no shares	
<u>Revision Committee of the Company:</u>		
Members of the Revision Committee	Karim Tuzani	from 22.02.19.
	Irina Zinina	from 22.02.19.
	Viktor Dobrov	from 22.02.19.
	Liubov Akimova	from 22.02.19.
Annual report drawn up by	Chief Accountant Svetlana Statina	
Reporting period	1 January 2019 – 31 December 2019	
Previous reporting period	1 January 2018 – 31 December 2018	
Subsidiary companies	AS „LATVO”, reģ. Nr. 40003184975 Ganību dambis 53, Riga, the Republic of Latvia Shares – 98.7 %	
Auditor	SIA "Grant Thornton Baltic Audit", licence Nr.183 Blaumaņa iela 22, Riga, LV-1011, Latvija	

## MANAGEMENT REPORT

JSC "Rīgas elektromašīnbūves rūpnīca" (hereinafter – RER) is the biggest company in the Baltic states that produces electric equipment. It specializes in production of electric motors, generators, transformers and other production for railway stock, metro, dump trucks and public urban transport.

### Business activities of the Company in 2019

Basic business activities of JSC "Rīgas elektromašīnbūves rūpnīca" are manufacturing of electric machines and machinery (NACE code 2711). The main types of products are as follows:

- Electrical equipment for electric trains;
- Electric equipment for passenger cars;
- Electric equipment for metro cars;
- Cast products.

### *Financial Indicators*

The financial situation of the Company in 2019 was stable. Net sales reached EUR 63.95 million, which is EUR 17.82 million or 38.62% higher than in the previous year (p. 7, Income statement). This increase is the result of extensive introduction of new or upgraded products into production and of cohesive teamwork of employees of the Company.

Gross profit in 2019 amounted to EUR 10.99 million, which is EUR 3.39 million or 44.70% higher compared to 2018, while net profit was EUR 6.67 million, which is EUR 2.8 million higher compared to 2018 (p. 7, Income statement).

The equity of the Company in the total worth of assets reached 70.52% against 64.91% in 2018, and the current asset-to-short-term debt ratio (overall liquidity ratio) was 2.72 against 1.09 in 2018 (p.p. 8-9, Balance Sheet).

### *Other indicators*

In 2019 the average number of employees was 729 people, the average monthly salary was EUR 1 107.

RER has to fulfill environmental protection requirements while carrying out its operating activities. In order to comply with the said requirements the Company conducts the relevant activities on a regular basis, yet proportion of costs related to those activities is not significant in the total production cost price.

### Risk factors related to the business activities of the Company

Financial risks have been characterized on pages 16-17 in notes to financial statements of the annual report 2019.

### Significant events in 2019

On 27 March 2019, a trilateral agreement was signed by VTB Bank (Europe) SE (Germany), the creditor DANSKE BANK, AS (Latvia), and JSC "Rīgas elektromašīnbūves rūpnīca" on refinancing of the loan contracts with regard to the loans extended to the latter. On 01 April 2019, a loan contract was signed by JSC "Rīgas elektromašīnbūves rūpnīca" and VTB Bank (Europe) SE (Germany) regarding a loan of EUR 10 000 000 maturing in 5 years.

In March 2019, JSC "Rīgas elektromašīnbūves rūpnīca" (JSC RER) completed the project Nr. 4.1.1.0/17/A/019 "Complex Solutions for Implementation of Energy Efficiency of JSC Rīgas elektromašīnbūves rūpnīca".

Within the project, a high frequency soldering system for soldering the winding ends of electric machines, two air compressors, a composite joint for cutting stator sheet blanks, a multipurpose welding machine MMA + MIG / MAG + TIG with pulse and two-pulse welding modes, press with a set of nozzles for assembly of nozzles, vertical milling machining center with CPV, drying oven, abrasive scrubber for surface

cleaning prior to painting, hydro-abrasive cutting equipment and 800 LED lighting devices, as well as simplified renovation of five production buildings.

JSC RER has achieved all the goals planned in the Project, as well as implemented the Project in full for two months faster than initially planned. The project has significantly increased the energy efficiency of the plant. The implementation of the project is co-financed by the Cohesion Fund. The project is being implemented in cooperation with the Central Finance and Contracting Agency.

#### Further development of the Company

RER will continuously work on attaining its goals with regard to its presence on the domestic and export markets. One of the priorities the Company will be focusing on is implementation of the effective production strategy aimed at improving competitiveness of the Company.

In 2020, the plans to match the volume of net sales achieved in 2019 and to continue working with increasing profit thus improving its financial and economic stability.

#### Development Measures

JSC „Rīgas elektromašīnbūves rūpnīca” signed on 07.02.2019 an agreement with Central Finance and Contracting Agency (CFCA) about project Nr. [4.1.1.0/18/A/030](#) “Complex solutions for increasing of energy efficiency in AS Rīgas Elektromašīnbūves Rūpnīca, stage 2” implementation, funding and supervision. The total cost of the project is EUR 2 243 309. The total eligible costs of the project are EUR 1 986 023. The total cost of the project is EUR 595 807 for Cohesion Funding for the project.

The overall objective of the project is to promote the efficient use of energy resources and the reduction of energy consumption in the RER plant. The specific objective of the project is to purchase, install and put into operation 12 new energy-efficient production facilities (replacing existing installations), replace inefficient lighting devices with 1551 efficient lighting devices and make 3 production buildings simpler with the aim of increasing the energy performance of buildings.

Project implementation is expected to be completed by the end of 2020. The project is co-financed by the Central Finance and Contracting Agency and the Cohesion Fund.

JSC “Rīgas elektromašīnbūves rūpnīca” is implementing the project No 1.2.1.4/18/A/051 “Electrical equipment for 25kV AC electric train with asynchronous drives”. The project is being implemented in cooperation with the Central Finance and Contract Agency within the second round of the Support Program “1.2.1.4. Support for the introduction of new products into production”. The project is scheduled to be completed by 31 December 2020. The total cost of the project is approximately EUR 2 million, 35% of which will be covered by ERDF (European Regional Development Fund).

Joint Stock Company “Rīgas elektromašīnbūves rūpnīca” (JSC RER) on 4th of April 2019 had signed an agreement with the Central Finance and Contracting Agency for ERDF co-financed project no. 1.1.1.1/18/A/055 “Developing a New Generation Synchronous Relay Engine”. The planned project implementation period is 18 months. Total eligible costs of the project EUR 990 354 excluding VAT.

The aim of the project is to support research of JSC RER, which contributes to achieving goals in accordance to Latvian Smart Specialization Strategy, since and technology development with human capital and creation of new knowledge base to improve the competitiveness of state economy.

The specific objective of the project is the development of a new energy efficient electricity driven traction based on synchronous relativity engine, as well as gaining new collective competence in the development and testing of a new type of complete electrical equipment. As a result of the project, a new product is to be developed: a synchronous releasing electric engine.

Joint Stock Company “Rīgas elektromašīnbūves rūpnīca” on March 27, 2019 had signed an agreement with Competence Center of Energy and Transport (Competence Center) on the implementation of the research “Design and development of traction drive systems with supercapacitors for the metro” within the framework of the Competence Center of Energy and Transport program. Project number – Nr.1.2.1.1/18/A/001.

The area of intellectual specialization chosen by Competence Center is intellectual energy, which includes three main trends:

- General issues of intellectual energy;
- Solutions for intellectual engineering systems and energy production;

- Intellectual energy and transport.

Project implementation period from 01.04.2019 till 31.12.2021. The total project amount funding from the ERAF is 4 708 112 EUR.

The aim of the research is to develop a traction drive with energy storage by means of supercapacitors for the needs of the rolling stock of the subway. Electrical equipment set is provided for installation in metro trains moving in tunnels and in open sections of the track with a maximum speed of 90 km/h. Scope of research support 420 000 EUR. Period of research from 01.04.2019 till 31.03.2021.

#### Events after the balance sheet date

After the end of the fiscal year, in March 2020 the Republic of Latvia, as many other countries, imposed certain restrictions to curb spreading of corona virus Covid-19. These measures have considerably slowed down the economic development in the country and across the world. It is hard to predict how the situation will pan out and, understandably, the economic uncertainty prevails. Management of the Company is assessing the current situation on an ongoing basis. At this point, the crisis caused by the corona virus has not had any considerable effect on the operations of the Company or on its perspective operations. However, this conclusion is based on information available at the time of signing these financial statements. The impact of future events on the activities of the Company may differ from the assessment of future developments made by the Company management.

#### Distribution of profit

The shareholders of JSC "Rīgas elektromašīnbūves rūpnīca" are offered to redirect company's profit of 2019 in the amount of EUR 6 671 047 to development of the Company.

Chairperson of the Board

Mikalai Yerokhau

Board Members

Aleksandrs Popadins

Iļja Šestakovs

Tamāra Rogova

24 April 2020

### INCOME STATEMENT

Items	Note	2019 EUR	2018 EUR
Net turnover	1		
a) from other main activity types		63 947 861	46 132 748
Production cost of goods sold, acquisition cost of goods sold or services provided	2	(52 953 114)	(38 534 405)
<b>Gross profit or loss</b>		<b>10 994 747</b>	<b>7 598 343</b>
Selling expenses	3	(883 896)	(674 863)
Administration expenses	4	(2 517 551)	(2 437 552)
Other operating income	5	930 789	601 986
Other operating expenses	6	(1 447 703)	(836 539)
Other interest income and similar income:			
a) from other persons		-	25
Interest payments and similar expenses:	7		
a) to other persons		(344 058)	(349 083)
Profit or loss before the corporate income tax		6 732 328	3 902 317
Corporate income tax for the reporting year		(61 281)	(32 969)
Profit or loss after calculating the corporate income tax		6 671 047	3 869 348
Profit or loss of the reporting year		<b>6 671 047</b>	<b>3 869 348</b>

Earnings per share	1.150	0.667
--------------------	-------	-------

Notes on pages 12 to 28 form are integral part of these financial statements.

## BALANCE SHEET

<b>A S S E T S</b>	<b>Note number</b>	<b>31.12.19. EUR</b>	<b>31.12.18. EUR</b>
<b>LONG-TERM INVESTMENTS</b>			
<b>Intangible assets</b>	8		
Development expenses		703 273	1 159 885
Concessions, patents, licences and similar rights		200 838	301 516
Other intangible assets		27 032	11 485
<b>Total intangible assets</b>		<b>931 143</b>	<b>1 472 886</b>
<b>Fixed assets</b>	8		
Real estate:			
a) land, buildings and structures		16 405 055	16 136 712
Technology devices and equipment		6 098 547	5 980 824
Other fixed assets and inventory		331 591	234 584
Expense of tangible assets and construction in progress		2 270 380	549 972
Advance payments for fixed assets		682 826	529 665
<b>Total fixed assets</b>		<b>25 788 399</b>	<b>23 431 757</b>
<b>Long-term financial investments</b>			
Shareholding in the capital of subsidiary companies	9	5 499 400	5 499 400
<b>Total long-term financial investments</b>		<b>5 499 400</b>	<b>5 499 400</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>32 218 942</b>	<b>30 404 043</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Raw materials, direct materials and auxiliary materials	10	5 183 465	4 309 973
Work in progress		2 661 593	2 587 995
Finished products and goods for sale	11	1 314 881	2 309 442
Advance payments for inventories	12	2 871 589	2 475 566
<b>Total inventories</b>		<b>12 031 528</b>	<b>11 682 976</b>
<b>Receivables</b>			
Trade receivables	13	6 591 583	2 502 409
Amounts owed by related companies	14	249 589	229 000
Other receivables	15	367 423	409 128
Prepaid expenses	16	157 906	44 135
<b>Total receivables</b>		<b>7 366 501</b>	<b>3 184 672</b>
<b>Cash</b>	17	340 498	1 227 314
<b>TOTAL CURRENT ASSETS</b>		<b>19 738 527</b>	<b>16 094 962</b>
<b>TOTAL ASSETS</b>		<b>51 957 469</b>	<b>46 499 005</b>



## BALANCE SHEET

LIABILITIES	Note number	31.12.19. EUR	31.12.18. EUR
<b>EQUITY CAPITAL</b>			
Share capital (equity capital)	18	8 118 607	8 118 607
Long-term investment revaluation reserve	19	13 285 734	13 495 693
Reserves:			
a) other reserves		407 137	407 137
Retained earnings or uncovered losses of previous years		8 159 515	4 290 167
Profit or loss of the reporting year		6 671 047	3 869 348
<b>TOTAL EQUITY CAPITAL</b>		<b>36 642 040</b>	<b>30 180 952</b>
<b>PROVISIONS</b>			
Other provisions	20	152 241	153 497
<b>TOTAL PROVISIONS</b>		<b>152 241</b>	<b>153 497</b>
<b>CREDITORS</b>			
<b>Long-term liabilities</b>			
Borrowings from credit institutions	21	6 187 500	-
Deferred income	22	1 727 147	1 373 945
<b>Total long-term liabilities</b>		<b>7 914 647</b>	<b>1 373 945</b>
<b>Short-term liabilities</b>			
Borrowings from credit institutions	21	937 500	5 683 067
Advance payments from customers	23	1 465 501	2 929 108
Trade payables	24	3 045 282	4 603 387
Taxes and mandatory state social insurance contributions	25	517 620	416 871
Other liabilities	26	633 698	548 680
Deferred income	22	45 333	45 333
Accrued liabilities	27	603 607	564 165
<b>Total short-term liabilities</b>		<b>7 248 541</b>	<b>14 790 611</b>
<b>TOTAL CREDITORS</b>		<b>15 163 188</b>	<b>16 164 556</b>
<b>TOTAL LIABILITIES</b>		<b>51 957 469</b>	<b>46 499 005</b>

Notes on pages 12 to 28 form are integral part of these financial statements.

**CASH FLOW STATEMENT**  
(indirect method)

Cash flow from operating activities

Items	2019 EUR	2018 EUR
Profit or loss before taxation	6 732 328	3 902 317
<b>ADJUSTMENTS</b>		
Adjustments of decrease in value of equity capital	1 546 561	1 648 367
Amortization of intangible assets	572 442	618 361
Income from sales of fixed assets	(1 980)	(3 765)
Increase / decrease in provisions	(1 256)	(8 027)
Unrealized profit from fluctuations of currency exchange rate	(1 732)	172 667
Amounts written off fixed assets	3 983	11 606
Reserve for revaluation of long-term investments	(209 959)	(196 065)
<b>Cash Flow before adjustments on changes in current assets and liabilities</b>	<b>8 640 387</b>	<b>6 145 461</b>
<b>ADJUSTMENTS FOR</b>		
Increase (-)/ decrease (+) in trade and other receivables	(4 690 788)	(1 842 110)
Increase (-)/ decrease (+) in inventories	47 471	(2 755 361)
Increase (+)/ decrease (-) in trade and other payables	(2 501 796)	3 075 594
<b>Gross cash flow from operating activities</b>	<b>1 495 274</b>	<b>4 623 584</b>
Corporate tax paid	(61 281)	(32 969)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1 433 993</b>	<b>4 590 615</b>

Cash flow from investing activities

Items	2019 EUR	2018 EUR
Proceeds from investment properties	-	90 000
Purchase of non-current assets	(3 784 725)	(2 206 281)
Proceeds from sale of fixed and intangible assets	1 980	3 765
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(3 782 745)</b>	<b>(2 112 516)</b>

Cash flow from financing activities

Items	2019 EUR	2018 EUR
Loans from credit institutions received	10 000 000	-
Loans from credit institutions repaid	(8 558 067)	(1 775 000)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>1 441 933</b>	<b>(1 775 000)</b>

Summary of cash inflow and outflow

Items	2019 EUR	2018 EUR
Net cash flow from operating activities	1 433 993	4 590 615
Net cash flow from investing activities	(3 782 745)	(2 112 516)
Net cash flow from financing activities	1 441 933	(1 775 000)
Result of fluctuations of currency exchange rates	20 003	(184 845)
<b>Net increase/decrease in cash and cash equivalents</b>	<b>(886 816)</b>	<b>518 254</b>
<b>Cash and its equivalents in the beginning of the accounting period</b>	<b>1 227 314</b>	<b>709 060</b>
<b>Cash and its equivalents at the end of the accounting period</b>	<b>340 498</b>	<b>1 227 314</b>

Notes on pages 12 to 28 form are integral part of these financial statements.

#### STATEMENT OF CHANGES IN EQUITY, EUR

Kind of changes	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Total equity
<b>As at 31.12.2017.</b>	<b>8 118 607</b>	<b>13 691 758</b>	<b>407 137</b>	<b>4 290 167</b>	<b>26 507 669</b>
Long-term investment revaluation reserve decrease	-	(196 065)	-	-	(196 065)
Profit or loss for the financial year	-	-	-	3 869 348	3 869 348
<b>As at 31.12.2018.</b>	<b>8 118 607</b>	<b>13 495 693</b>	<b>407 137</b>	<b>8 159 515</b>	<b>30 180 952</b>
Long-term investment revaluation reserve decrease	-	(209 959)	-	-	(209 959)
Profit or loss for the financial year	-	-	-	6 671 047	6 671 047
<b>As at 31.12.2019.</b>	<b>8 118 607</b>	<b>13 285 734</b>	<b>407 137</b>	<b>14 830 562</b>	<b>36 642 040</b>

Notes on pages 12 to 28 form are integral part of these financial statements.

## NOTES

### ACCOUNTING POLICY

#### Basis for report preparation

Annual report has been prepared in accordance with the Laws of the Republic of Latvia "On Accounting", the Annual Accounts and consolidated annual accounts of the law and "Annual report Law enforcement regulations", regulations of the Cabinet of Ministers Nr 775.

Profit and loss account has been prepared according per function of expenditure method. Cash flow statement has been prepared in accordance with the indirect method.

#### Accounting principles applied

Annual report items have been assessed according to the following accounting principles:

- Assuming the Company will continue its activities;
- The same valuation methods as previous year have also been used this year;
- The annual report includes the profit made to the date of balance sheet only;
- All losses made over the accounting year or previous years have been taken into account;
- All depreciation amounts have been calculated and taken into account, regardless of whether the accounting year was ended with profit or loss;
- All costs and income pertaining to the accounting year have been taken into account, irrespective of the date of payment, as well as the date when invoice has been received or issued. The costs and income over the reporting period have been coordinated.

#### Income recognition and net turnover

Net turnover is a total amount of the value of products sold and services rendered over the year without discounts and value added tax.

Income means a consideration received by the Company from its main business, including:

- *Income from the sale of goods* is recognized as soon as most essential property rights to goods and goods-related risks are transferred to the buyer, and consideration may be reasonably assessed).
- *Income from provision of services* is recognized at the time when the services are provided.

Other income:

- *Income from renting* is recognized at the time when it is paid.
- *Income from penalties and late fees* is recognized, complying with the prudence concept, only after it is received.
- *Dividends* are recognized at the time when there appear legitimate dividend rights.
- *Income from leasing*.

#### Intangible assets

Intangible investments are recognized in the balance sheet at their acquisition cost less accumulated depreciation. Intangible investments have established and limited time of use.

Further expenses are capitalized, thus increasing the value of the intangible investment, or are recognized as a separate intangible investment only if the Company expects them to bring economic benefits in the future, and if these expenses can be measured reliably. Other expenses are written off in the profit or loss statement at the time of their occurrence.

Depreciation of intangible investments is calculated by using the linear method in order to write off their acquisition cost over the period of their useful life, and depreciation is included in the profit or loss statement for the respective period.

Intangible assets the following depreciation norms (% a year) approved by the Management has been used:  
Intangible assets:

---

- Development costs	33.3% - 20%
- Licences	20%
- Software	50%

---

Notes (cont.)

Accounting policy (cont.)

An intangible asset arising from a particular development project is recognized only if the company can prove that completing the intangible asset is technically feasible so that it can be sold, as well as their commitment to complete the intangible asset and the ability to use or sell, and if the company can demonstrate that the asset will generate future economic benefits, as well as the completion of the asset during the development costs. Any capitalized costs are amortized over the period of expected future sales from the related project assets.

#### Capital assets

Capital assets have been reflected on the balance sheet in their purchase prices or revalued acquisition cost, excluding depreciation.

Real estate revalued in the balance sheet net of accumulated depreciation.

An increase in carrying value resulting from revaluation is recognized in other income and as a revaluation reserve in the equity. Any reductions in value of fixed assets, for which an increase in value was registered previously, are recognized in other income and the revaluation reserve in the equity is reduced respectively. In other situations, a decrease in value as a result of revaluation is recognized in the profit or loss statement. If fixed assets are sold or written off, the revaluation reserve included in the equity is reclassified as retained profit.

Depreciation accumulated as of the date of revaluation is excluded against the initial value of the asset, and the net amount is included in the adjusted value so as the book value of the fixed asset after the revaluation equals its adjusted value.

Other categories of fixed assets are recognized according to the acquisition costs method, where fixed assets are recognized at their acquisition costs less accumulated depreciation and accumulated impairment, if any. Only costs directly attributable to the acquisition of the fixed asset are included in the acquisition costs. The value of fixed assets created by the Company itself is comprised of the material costs and direct labor costs plus any other costs directly related to ensuring that the fixed asset is in working condition to serve its purpose.

Depreciation of capital assets and intangible assets has been calculated according to the straight-line method. No depreciation of land has been calculated.

In order to calculate depreciation of capital assets the following depreciation norms (% a year) approved by the Management has been used:

- Premises, buildings	1.1 – 1.9 %
- Equipment and machinery	2 – 20 %
- Other capital assets and inventory	10 – 50 %

Repair or maintenance costs of capital assets have been included in the profit and loss account of the period during which they have been incurred. Repair (renovation) and modernization costs that increase value of the capital assets or prolong period of using them have been capitalized and written off during the period they were used effectively.

Borrowing costs (interest), which is directly related to the acquisition or creation, are not capitalized to the acquisition or the creation of value.

#### Unfinished construction and costs of capital asset creation

The assets that at the time of their acquisition are not ready to be used for the designated purpose or are in the process of construction or installation are classified as "Pending construction projects costs and fixed assets creation costs."

Unfinished construction reflects costs of construction objects. The unfinished construction has been given in its initial value. The initial value includes construction costs and other direct costs.

At the time when construction projects are ready to be used, they are reclassified into the respective category of fixed assets and calculation of depreciation starts.

Notes (cont.)

Accounting policy (cont.)

#### Financial investments

Investments into related companies (including companies with over 50% of capital assets owned by the Company) and into the capital of associated companies are calculated according with the cost of acquisition. After initial recognition, investments into related companies and associated companies are calculated according with their initial cost with the deduction of decrease in value loss. In case any developments or change of circumstances show that balance value of investments into related companies cannot be refunded, the cost of correspondent investment into related company is reconsidered in order to define its decrease. Dividends received from subsidiary companies are recognized as revenue at the moment when legal right to dividends appears.

#### Financial leasing

In cases capital assets have been acquired on conditions of financial leasing, leasing interest payments and payments considered as such have been included in the profit and loss account of the period they were incurred.

#### Receivables

Evaluation of the remaining amounts of materials and primary materials has been carried out by employing the FIFO method.

Inventory of low value has been recorded on the basis of purchase cost price written off 100% after having been put into operation.

Remaining amounts of finished products and unfinished products have been assessed according to their cost prices. Remaining amounts of receivables have been audited at the annual inventory.

Whenever necessary, provisions are created to compensate for impairment of obsolete, slow circulation or damaged inventories. The amount of the provisions is included in the profit or loss statement.

Provisions for stocks of slow-turnover are individually made for every type of stocks.

#### Debts of debtors

Debts of debtors have been reflected on the balance sheet in their net values subtracting special provisions for doubtful debtors. Special provisions for doubtful debtors are created for those cases when the Management believes that the debtors are not likely to repay their debts.

#### Currency unit and recalculation of foreign currency

Indicators reflected in the annual report have been given in the euro (EUR). All transactions carried out in foreign currencies have been recalculated in euros according to the exchange rate of the European Central Bank set on day when the relevant transaction is takes place. Profit made or loss incurred as a result of fluctuations of exchange rates has been reflected in the profit and loss account of the corresponding period.

	31.12.19., 1 EUR	31.12.18., 1 EUR
USD	1.1234	1.1450
RUB	69.9563	79.7153

#### Long-term and short-term items

Long-term items comprise amounts whose terms of receipt, payment or write-off fall due later than after the end of the corresponding accounting year. Amounts to be received, paid or written off in a year are given in the short-term items.

#### Other securities

Short-term investments in securities not quoted in stock exchange have been given in their purchase values.

Notes (cont.)

Accounting policy (cont.)

#### Long-term investment revaluation reserve

Long-term investments revaluation reserve is reduced when the revalued item of property to be seized, liquidated or appreciation is no longer justified. The revaluation reserve includes a reduction in the income statement as revenue in the reporting year in which the reductions are made.

The Company calculates depreciation of revaluation reserves to ensure that the expenses involved in depreciation of fixed assets as reflected in the profit or loss statement are consistent with the changes in revaluation reserves.

#### Provisions

Provisions are recognized if the Company has liabilities due to some event in the past and there is a possibility that in order to meet those liabilities resources promising economic gains could be diverted from the Company and if amount of liabilities can be assessed properly.

*Provisions for warranty repairs.* A warranty period of the Company's basic products is 2 - 3 years. In 2019 warranty repair costs is of no high importance, provisions for warranty repairs are not created.

*Provisions for benefits for damages to health.* Benefits are paid in accordance with Regulations No. 378 of the Cabinet of Ministers of the Republic of Latvia, Procedure for Calculation, Financing and Payment for Benefits for Damage Caused in the Work. In the reporting year the amount of provisions will be revised and calculated according to the methodology developed. Expenses involved in payment of benefits under a certain benefit program are determined by applying the method of crediting the planned unit and by performing actuarial valuations every year at the end of the reporting period.

#### Accrued liabilities

Caption "Accrued liabilities" indicates clearly known liabilities to suppliers and contractors for the reporting year received the goods or services for which the supply, purchase, or the company's contract terms and conditions or other reasons the balance sheet date has not yet received a relevant payment document (invoice), as well as unused vacations. These liabilities are calculated based on the relevant contract price and the actual goods or provision of services, supporting documents.

*Provisions for unused vacation compensation* are calculated by multiplying the average earnings of an employee by the average number of holidays not taken by an employee.

#### Government grants

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

#### Corporate income tax

The corporate income tax for the reporting period consists of the calculated tax for such period. The corporate income tax is recognised in the profit or loss statement. The tax for the reporting period is calculated according to the provisions of the law "Enterprise Income Tax Law".

As of taxation year of 2018, corporate income tax is calculated for distributed profit (dividends) and conditionally distributed profit by applying the rate of 20%. Corporate income tax is recognised at the moment when the participants of the Company will make a decision on distribution of profit, or when the costs not promoting further development of the Company (conditionally distributed profit) will be recorded.

As of 2018, when the taxable basis for the corporate income tax changes, temporary differences in provision on depreciation of the fixed assets do not form; differences for debts of debtors are insignificant; but tax losses to be transferred to the next reporting periods are limited in time and options of use thereof (for 50% from the calculated dividends may be used for no longer than 5 years). On the basis of above, as of 2017 the Company does not form deferred tax.

Notes (cont.)

Accounting policy (cont.)

#### Research and development costs

Research costs are recognized in the profit or loss statement of the period when they occur. Development costs related to engineering of a certain asset intended for sale or to be used by the Company are capitalized in the balance sheet in the intangible investments item and depreciated using the linear method starting with the commencement of commercial manufacturing of the product and over the period during which it is expected to have a return on this intangible investment.

#### Application of assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as income and expenses. The management has assessed its income statement and concluded that the financial statements give a true and fair view of the financial position of the Company, based on all the information currently available.

#### Loans and accounts payable to suppliers

Loans and accounts payable to suppliers are initially recognized at their fair value, not taking into account transaction related expenses. Further, loans and accounts payable to suppliers are recognized in the amortized payments by applying the effective interest rate method. The effective interest rate method ensures fulfilment of financial liabilities, as it allows for calculation of the amortized payments and interest income for a respective period. Effective interest rate is the rate that precisely deducts planned future cash payments from financial liabilities during the stipulated period or during a shorter period.

#### Borrowing costs

Borrowing costs that directly correspond to the criteria of asset acquisition, building or manufacturing, provided that a considerable period of time is required for preparation of the asset for the planned use or sale, are added to the asset-related costs until that time when the asset is basically ready for the planned use or sale. All other loan-related costs are recognized in the profit or loss of the period during which they occurred.

#### Risk management

Risk management is an integral part of management process of the Company. Risk management in the Company is controlled by the Council and the Board of the Company. In its activities AS RER follows the general principles of risk management listed below:

- The Company undertakes no major and uncontrollable risks regardless of related asset yield;
- Risk management methods applied by the Company are cautious, compliant with types and specifics of commercial activity of the Company and ensure efficient reduction of overall risk;
- Risk management is based upon awareness of all employees of the company about transactions and related risks being under their competence;
- The Company constantly enforces internal control after processes of commercial activities aimed to prevent risks related to compliance and consequence of financial and operative information, possibility of asset fraudulence and protection, efficiency of actions and information system and their compliance with regulatory documents, procedures and agreements.

The most substantial risks AS RER is exposed to in the course of commercial activities, are financial risks.

The main financial instruments of the Group are accounts payable from buyers and customers, issued loans and received loans, debts of creditors, financial lease, cash and cash equivalents. The main purpose of these financial instruments is to provide the Group with necessary finances. The main financial risks related to the use of financial instruments are interest risk, currency risk, credit risk and liquidity risk.



## Notes (cont.)

### *Currency risk*

The Company's financial assets and liabilities that are at the foreign currency risk include cash, debts of customers and clients, debts to suppliers and contractors and short-term and long-term loans. In 2019 a significant part of the Company's income was in euro and USA dollar, major part of its costs was in euro. All received loans were in euro.

### *Interest rate risk*

The Company is at the interest rate risk due to its short-term and long-term. The Company is exposed to interest rate risk as the most liabilities are interest-bearing with the floating interest rate (Note (21)), while the main part of the Company's financial assets are interest-free receivables, therefore the Company is exposed to floating interest rate risk. In 2019, the floating interest rate liabilities of the Company increased due to the receipt of a new loan.

	31.12.19.	31.12.18.
Financial liabilities with variable interest rate, EUR	7 125 000	5 683 067
Interest payments, EUR	344 058	349 083

### *Liquidity risk*

The Company adheres to prudent liquidity risk management, making sure that relevant borrowing resources are available to it for meeting its obligations in a timely manner. The management of the Company manages liquidity and cash flow risk by providing sufficient finances, taking loans, using lines of credit, by monitoring forecasted and actual cash flows, and by taking a maturity-matching approach in regard to financial assets and liabilities. As of 31 December 2019, current assets of the Company exceeded its short-term liabilities by 12,5 million. The Company is capable of meeting its short-term liabilities within the required timeframe.

As of 31.12.19, the line of credit awarded to the Company has been paid off; as of 31.12.2018, the credit line resources available to the Company were in the amount of EUR 194 581.

The Company's overall liquidity ratio and the short-term liquidity ratio for two years are as follows: 2019 - 2,72; 2018 - 1,09.

### *Credit risk*

Credit risk is the risk that the Company may incur financial losses if its client or partner in the transaction using financial instruments fails to meet his contractual obligations. Book value of financial assets and contract assets reflects maximum credit risk.

The Company is exposed to credit risk in connection with accounts receivable from its buyers and customers, issued short-term loans, as well as cash and cash equivalents. The Company manages its credit risk by constantly assessing its customers' debt repayment history and offering customized lending terms to each customer. In addition, to minimize the possibility of irrecoverable debts, the Company monitors balances of accounts receivable on an ongoing basis. Possible impairment of receivables from buyers and customers is analyzed on a regular basis.

The Company is at the credit risk due to its debts of customers and clients. It is characteristic of the Company that credit risk concentrates on a separate business partner. As of 31 December 2019, the Company's credit risk concentration per one transaction partner reached 95.4% of the total accounts receivable from buyers and customers (31.12.2018 - 65.4%).

### Capital management

According to the Latvian Commercial Law requirements if the equity of the Company falls below 50% of the share capital, the Board is required to address shareholders to make decisions on Company's going concern. Equity of the Company meets the Latvian legal requirements. Company's management manages the capital structure on going concern basis. During the reporting period there were no changes in capital management objectives, policies or processes.

The share of equity in the Group's total assets of 70.52% to 64.91% in 2018.

### Earnings per share

Earnings per share are determined by dividing the net profit or loss by the number of shares.

Notes (cont.)

#### Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

### NOTES TO INCOME STATEMENT FOR THE YEAR 2019

#### Note No. 1 – Net turnover

Type of company's activity	NACE code	2019 EUR	2018 EUR
Manufacturing of electric machines and machinery	2711	63 947 861	46 132 748

#### Net sales by geographical markets

Country	2019 EUR	2018 EUR
Latvia	1 006 860	1 404 108
Russia	59 388 008	42 446 104
Belarus	4 784	117 293
Slovakia	262 304	237 509
Ukraine	225 760	71 850
Uzbekistan	3 021 585	1 819 341
Georgia	36 300	36 543
Estonia	2 260	-
<b>Total</b>	<b>63 947 861</b>	<b>46 132 748</b>

#### Note No. 2 – Production cost of goods sold, acquisition cost of goods sold or services provided

Indicators	2019 EUR	2018 EUR
Salaries	7 453 768	5 871 586
Social insurance contributions	1 752 538	1 379 134
Costs of materials	36 346 226	26 047 953
Energy resources	1 317 494	1 151 388
Depreciation of capital assets and intangible assets	1 908 318	1 921 293
Business trip costs	80 910	97 794
Repair costs and remuneration for works from outside	3 164 801	1 672 554
Losses due to rejects	62 060	65 649
Environmental protection costs	35 728	34 851
Research and development costs	622 373	128 057
Other costs	208 898	164 146
<b>Total</b>	<b>52 953 114</b>	<b>38 534 405</b>

#### Note No. 3 – Selling expenses

Indicators	2019 EUR	2018 EUR
Packing material and package	119 198	96 688
Transportation expenses	568 148	416 713
Salaries	138 160	123 069
Social insurance contributions	32 752	29 121

Other selling costs	25 638	9 272
<b>Total</b>	<b>883 896</b>	<b>674 863</b>

Notes (cont.)

**Note No. 4 – Administrative expenses**

Indicators	2019 EUR	2018 EUR
Communications costs	18 443	20 409
Annual report and auditing services	12 300	12 000
Cash circulation and expense and extra costs	51 827	38 019
Transportation expenses	6 502	11 780
Representation expenses	6 646	8 271
Salaries	1 497 879	1 458 405
Social insurance contributions	346 319	337 944
Energy resources	69 628	70 683
Depreciation of capital assets	174 691	180 490
Business trip costs	34 257	34 500
Real estate tax	94 032	93 798
Other administrative costs	205 027	171 253
<b>Total</b>	<b>2 517 551</b>	<b>2 437 552</b>

**Note No. 5 – Other operating income**

Indicators	2019 EUR	2018 EUR
Profit gained as a result of other sales (lease, other)	218 965	176 808
Income from sales of fixed assets*	1 980	3 765
Decrease in revaluation reserve of capital assets	209 959	196 065
Decrease in deferred income (European funds)	226 125	212 597
Net gains from exchange rate fluctuations	1 732	-
Decrease in provisions for benefits for damages to health	1 256	8 252
Writing off unclaimed debts to suppliers and contractors	797	3 954
Financial aid for the implementation of EU projects	269 743	-
Other income	232	545
<b>Total</b>	<b>930 789</b>	<b>601 986</b>

\* Information of profit or loss from alienation of long-term investment objects in reporting period

Long-term investment object	Balance value at the moment of exclusion	Alienation income	Alienation expenses	Gross income or profit	Profit or loss from the object's alienation
Equipment	0	1 980	0	1 980	1 980

**Note No. 6 – Other operating expenses**

Indicators	2019 EUR	2018 EUR
Penalty and contractual penalties	-	21 656
Costs related to maintenance of social sphere	28 909	36 581
Costs not related to operating activities of the Company	124 611	88 570
Loss from exchange rate fluctuations	-	172 667
Removal of capital assets	3 983	11 606
Write-off of bad debtors	4 806	4 891
Increase in holiday provision	67 276	59 658
Write-off of inventories	-	17 588
Inventory downpricing	417 233	118 811
Increase in provisions for stocks of slow-turnover	129 523	187 656
Increase in provisions for doubtful debtors	5 489	10 744
Refinancing costs	196 367	-
Expenditure for sustainable activities of personnel	5 500	99 728
Staff meal expenses	240 874	-
Losses due to the court judgment	186 565	-

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca", Reg.No.40003042006  
Gaiību dambis 53, Rīga, LV-1005  
Audited Annual Report for the year 2019

Other costs	36 567	6 383
<b>Total</b>	<b>1 447 703</b>	<b>836 539</b>

Notes (cont.)

**Note No. 7 – Interest payments and similar expenses**

Indicator	2019 EUR	2018 EUR
Loan agreements	235 970	233 236
Credit line agreements	108 088	115 847
<b>Total</b>	<b>344 058</b>	<b>349 083</b>

**NOTES TO BALANCE SHEET FOR THE YEAR 2019**

**Note No. 8 – Intangible assets and fixed assets, EUR**

**Intangible assets**

	Research and development costs	Concessions, patents, licenses, trade marks and similar rights	Other intangible assets	Advances for intangible assets	Total intangible assets
Acquisition value 01.01.19.	2 264 580	935 760	158 604	-	3 358 944
Additions	-	-	30 699	17 004	47 703
Disposal	-	-	-	(17 004)	(17 004)
Acquisition value 31.12.19.	2 264 580	935 760	189 303	-	3 389 643
Accumulated amor- tization 01.01.19.	1 104 695	634 244	147 119	-	1 886 058
Amortization charge	456 612	100 678	15 152	-	572 442
Amortization of disposals	-	-	-	-	-
Accumulated amor- tization 31.12.19.	1 561 307	734 922	162 271	-	2 458 500
Net book value 01.01.19.	1 159 885	301 516	11 485	-	1 472 886
Net book value 31.12.19.	703 273	200 838	27 032	-	931 143

In 2013, JSC "Riga Electric Machine Building Works" entered into an agreement with the LLC "Center for the Competence of Transport Engineering" on the implementation of 5 projects approved by the Latvian Investment and Development Agency on the topic "Entrepreneurship and innovation", the sub-topic "Competent Centers". In 2015, the implementation of these projects was completed. The costs associated with the implementation of these projects have been capitalized and amortized over the entire period of their restoration.

Development costs include the research costs that are being spent to create and scientifically justify the production of a new product.

All intangible assets of JSC "RER" have been pledged as security for a loan.

**Fixed assets**

	Real estate*	Machinery and equipment	Other fixed assets and inventory	Fixed assets under construction	Advances for fixed assets	Total fixed assets
Acquisition value 01.01.19.	18 965 283	15 510 606	829 038	549 972	529 665	36 384 564
Additions	604 797	1 251 897	176 924	3 761 420	2 380 235	8 175 273
Disposal	(6 356)	(163 717)	(51 133)	(2 041 012)	(2 227 074)	(4 489 292)
Acquisition value 31.12.19.	19 563 724	16 598 786	954 829	2 270 380	682 826	40 070 545
Accumulated amortization 01.01.19.	2 828 571	9 529 782	594 454	-	-	12 952 807
Amortization charge	336 454	1 130 190	79 917	-	-	1 546 561
Amortization of disposals	(6 356)	(159 733)	(51 133)	-	-	(217 222)
Accumulated amortization	3 158 669	10 500 239	623 238	-	-	14 282 146

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca", Reg.No.40003042006  
Ganību dambis 53, Rīga, LV-1005  
Audited Annual Report for the year 2019

<b>31.12.19.</b>						
Net book value 01.01.19.	16 136 712	5 980 824	234 584	549 972	529 665	23 431 757
Net book value 31.12.19.	16 405 055	6 098 547	331 591	2 270 380	682 826	25 788 399

Notes (cont.)

\*In 2019 assessed value of the premises accounted EUR 4 938 781, assessed value of the plot accounted for EUR 1 328 026.

The last valuation of the real estate was provided on 08 April 2020. The valuation was provided by independent appraiser Colliers International Advisor SIA. Market price of the real estate is EUR 17 696 000.

All fixed assets of JSC "RER" have been pledged as security for a loan.

**Note No. 9 – Participation in capital of related companies (subsidiaries)**

Indicators	31.12.19.	31.12.18.
<b>AS „LATVO”, reģ. Nr. 40003184975, Ganību dambis 53, Rīga, the Republic of Latvia</b>		
Shares, %	98.7	98.7
Shareholders' equity, EUR	6 482 851	6 532 183
Profit or loss, EUR	(49 332)	(259 288)
Net turnover, EUR	877 872	1 187 450

Indicators	31.12.19. EUR	31.12.18. EUR
AS „LATVO”	5 499 400	5 499 400
<b>Total</b>	<b>5 499 400</b>	<b>5 499 400</b>

Company management considers that the return on investments into related company covers the size of investment. Company management doesn't have any information about developments or circumstances which would lead to reconsideration of value of correspondent investment.

**Note No. 10 – Raw materials, direct materials and auxiliary materials**

Indicators	31.12.19. EUR	31.12.18. EUR
Raw materials, direct materials and auxiliary materials	5 502 143	4 612 897
Provisions for stocks of slow-turnover	(318 678)	(302 924)
<b>Total</b>	<b>5 183 465</b>	<b>4 309 973</b>

**Changes in provisions**

Indicators	31.12.19. EUR	31.12.18. EUR
Provisions at the beginning of the year	302 924	115 268
Decrease / increase	15 754	187 656
Provisions at the end of the year	318 678	302 924

**Note No. 11 – Finished goods and goods for sale**

Indicators	31.12.19. EUR	31.12.18. EUR
Electrical equipment for electric trains and for metro cars	1 314 881	2 309 442
<b>Total</b>	<b>1 314 881</b>	<b>2 309 442</b>

**Note No. 12 – Advance payments for inventories**

Indicators	31.12.19. EUR	31.12.18. EUR
Local customers	2 624	16 105
Foreign customers	2 868 965	2 459 461
<b>Total</b>	<b>2 871 589</b>	<b>2 475 566</b>

Notes (cont.)

**Note No. 13 – Trade receivables**

Indicators	31.12.19. EUR	31.12.18. EUR
Debts of customers and clients	6 623 715	2 527 644
Provisions for doubtful debtors	(32 132)	(25 235)
<b>Total</b>	<b>6 591 583</b>	<b>2 502 409</b>

**Changes in provisions**

Indicators	31.12.19. EUR	31.12.18. EUR
Provisions at the beginning of the year	25 235	40 629
Increase	6 897	10 274
Loss of receivables	-	(25 668)
Provisions at the end of the year	32 132	25 235

**Note No. 14 – Debts of related companies (subsidiaries)**

Indicators	31.12.19. EUR	31.12.18. EUR
AS „LATVO”	249 589	229 000
<b>Total</b>	<b>249 589</b>	<b>229 000</b>

Transactions with associated enterprises are in conformity with ordinary market provisions and were performed at the same prices as transactions with non-associated enterprises.

**Note No. 15 – Other receivables**

Indicators	31.12.19. EUR	31.12.18. EUR
Taxes paid in advance	3 735	27 994
Overpaid taxes (see note 25)	210 465	71 451
Processing of goods	55 946	237 894
Advance payments for services	62 472	40 027
Financing (European funds project)	28 000	28 000
Other	6 805	3 762
<b>Total</b>	<b>367 423</b>	<b>409 128</b>

**Note No. 16 – Prepaid expenses**

Indicators	31.12.19. EUR	31.12.18. EUR
Insurance	3 295	2 450
Service services	40 000	40 000
Services of Rīgas Ūdens SIA (water supply company)	112 672	-
Other	1 939	1 685
<b>Total</b>	<b>157 906</b>	<b>44 135</b>

**Note No. 17 – Cash**

Indicators	31.12.19. EUR	31.12.18. EUR
Current accounts in banks	340 498	1 227 314

**Note No. 18 – Stock capital (fixed capital)**

Total number of stocks of AS "RER" is 5 799 005 shares. A nominal value of each share is EUR 1.40. The Company's fixed capital is EUR 8 118 607, which is split into: 5 799 005 regular voting shares.

Company's shares are listed on the Stock Exchange Nasdaq Riga AS, on the Baltic Secondary List.

Notes (cont.)

Composition of shareholders according to the database of the Latvian Central Depository:

Shareholder	31.12.19.		31.12.18.	
	EUR	%	EUR	%
AO Krona Grup, Russia	3 734 559	46.00	3 734 559	46.00
Measurestep Enterprises Limited, Cyprus	2 796 595	34.45	2 682 109	33.04
CROWNING FINANCE CYPRUS LIMITED, Cyprus	1 476 957	18.19	1 476 957	18.19
Other	110 496	1.36	224 982	2.77
<b>Kopā</b>	<b>8 118 607</b>	<b>100.00</b>	<b>8 118 607</b>	<b>100.00</b>

Company shareholders (over 5%) as of 31.12.2019.

Name	Ownership interest (%)
AO Krona Grup, Russia	46
Measurestep Enterprises Limited, Cyprus	34.45
CROWNING FINANCE CYPRUS LIMITED, Cyprus	18.19

#### Note No. 19 – Reserve for revaluation of long-term investments

When revaluation was done in 2015, the real estate was valued at the market price. Immovable property was evaluated according to its market value. Evaluation was carried out by independent evaluator *Colliers International Advisor*. Market value of immovable property was determined by means of income method and market method. Revaluation is processed for whole group of capital assets 'Land plots, buildings and constructions'(see note 8) .

As result of evaluation increase of active value, that was included into equity capital position 'Long-term investment revaluation reserve'.

Item of fixed assets	Revaluation reserve surplus, EUR		Value of the fixed asset in the beginning of the period, EUR	Decrease of revaluating reserve, EUR	Value of fixed assets at the end of the period, EUR	
	01.01.19.	31.12.19.			without revaluating	with revaluating
			01.01.19.	2019	31.12.19.	31.12.19.
Real estate (land, buildings and structures)	13 495 693	13 285 734	16 136 712	209 959	7 054 530	16 405 055

#### Note No. 20 – Other provisions

Indicators	31.12.19. EUR	31.12.18. EUR
Provisions for benefits for damages to health	152 241	153 497

#### Note No. 21 – Long-term and short-term loans from credit institutions

Indicators	31.12.19. EUR	31.12.18. EUR
<b>Latvian credit institutions, loan agreement (from 1 until 5 years), including</b>	<b>-</b>	<b>3 377 648</b>
Long-term debt	-	-
Short-term debt	-	3 377 648
<b>Latvian credit institutions, credit line, including</b>	<b>-</b>	<b>2 305 419</b>
Short-term debt	-	2 305 419
<b>Foreign credit institutions, loan agreement (from 1 until 5 years), including</b>	<b>7 125 000</b>	<b>-</b>

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca", Reg.No.40003042006  
Gaiķu dambis 53, Rīga, LV-1005  
Audited Annual Report for the year 2019

Long-term debt	6 187 500	-
Short-term debt	937 500	-

Notes (cont.)

The implementation of obligations of the Company are provided and strengthened by:

- (i) mortgage on all real estate belonged to the Company;
- (ii) commercial pledge of all property of the Company as a totality of belongings at the mortgage moment, including the Company's shares in subsidiaries, as well as totality of belongings for the next components. The value of Company mortgaged assets on 31 December 2019 is EUR 51 957 469 (31.12.2018. – EUR 46 499 005);
- (iii) guarantees from related parties.

Loans and credit agreements with Danske Bank AS (EUR)

Contract number	% rate for year	Date of payment	Sum, EUR 31.12.19.	Sum, EUR 31.12.18.
DB/C31-213/30	4,5% + 1mon.EURIBOR	29.04.19.	-	2 305 419
DB/C31-213/31	5,0% + 3mon.EURIBOR	29.04.19.	-	2 233 600
DB/C31-213/127	5,0% + 3mon.EURIBOR	29.04.19.	-	832 290
DB/C31-214/85	5,0% + 3mon.EURIBOR	29.04.19.	-	311 758
<b>Total</b>			-	<b>5 683 067</b>

Due to Danske Bank AS's decision to close its branches in Latvia and stop its activity on Latvian market, in order to refinance Company's outstanding obligations, as well as to obtain additional funds for Company's development, JSC "Rīgas elektromašīnbūves rūpnīca" signed a loan agreement with VTB Bank (Europe) SE (Rüsterstrasse 7-9, 60325 Frankfurt am Main, Germany), according to which Company was granted a loan of EUR 10 000 000 for time period of 5 years.

Loans and credit agreements with VTB Bank (Europe) SE (EUR)

Contract number	% rate for year	Date of payment	Sum, EUR 31.12.19.	Sum, EUR 31.12.18.
Contract 01.04.19.	5,0% + 3mon.EURIBOR	31.03.24.	7 125 000	-

**Note No. 22 – Long-term and short-term deferred income**

Indicators	31.12.19. EUR	31.12.18. EUR
<b>Long-term deferred income</b>	<b>1 727 147</b>	<b>1 373 945</b>
Support for the project implementation in the frames of the Centre of Competence	72 629	145 258
Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	808 292	948 260
Support for the project "Complex solutions for increasing of energy efficiency in AS Rīgas Elektromašīnbūves Rūpnīca" implementation *	311 146	280 427
Support for the project "Complex solutions for increasing of energy efficiency in AS Rīgas Elektromašīnbūves Rūpnīca, stage 2" implementation	535 080	-
<b>Short-term deferred income</b>	<b>45 333</b>	<b>45 333</b>
<b>Total long-term and short-term deferred income</b>	<b>1 772 480</b>	<b>1 419 278</b>

\* In March 2019, JSC "Rīgas elektromašīnbūves rūpnīca" (JSC RER) completed the project "Complex Solutions for Implementation of Energy Efficiency of JSC Rīgas elektromašīnbūves rūpnīca".

JSC RER has achieved all the goals planned in the Project, as well as implemented the Project in full for two months faster than initially planned. The project has significantly increased the energy efficiency of the plant.

Indicators	31.12.19.	31.12.18.
------------	-----------	-----------



Joint Stock Company "Rīgas elektromašīnbūves rūpnīca", Reg.No.40003042006  
 Ganību dambis 53, Rīga, LV-1005  
 Audited Annual Report for the year 2019

	EUR	EUR
Deferred income at the beginning of the year	1 419 278	1 351 448
Changes within the reporting year	353 202	67 830
Deferred income at the end of the year	1 772 480	1 419 278

Notes (cont.)

Explanation on the financial assistance received in the reporting year and previous years

Provider of financial assistance	Year of receipt	Sum, EUR	Receipt objective	Conditions	The sum to be paid back in the reporting year if any of the conditions is not reached	Notes
Transporta mašīnbūves kompetences centrs SIA	2014 - 2016	359 473	New product development	conditions fulfilled	-	-
Latvijas Investīciju un Attīstības Aģentūru (LIAA)	2014 - 2016	1 396 272	New technological equipment	conditions fulfilled	-	-
Centrālā finanšu un līgumu aģentūra (CFLA)	2018 - 2019	324 675	Increasing energy efficiency	conditions fulfilled	-	The period of implementation of the project operation from 01.02.18 to 31.05.19.
Centrālā finanšu un līgumu aģentūra (CFLA)	2019	535 080	Increasing energy efficiency (stage 2)	conditions fulfilled	-	The period of implementation of the project operation from 07.02.19 to 31.12.20.

The Company has an obligation during 5 year period from the receiving of the funds to comply with the terms of grant contract is respect of use of assets in the place of Project activity and for the intended purpose, not alienating and not to transfer the assets for use by third parties, insuring the property and performing of other duties.

**Note No. 23 – Advance payments from customers**

Indicators	31.12.19. EUR	31.12.18. EUR
Local customers	100	319
Foreign customers	1 465 401	2 928 789
<b>Total</b>	<b>1 465 501</b>	<b>2 929 108</b>

**Note No. 24 – Short-term trade payables**

Indicators	31.12.19. EUR	31.12.18. EUR
Local suppliers	1 160 569	1 419 379
Foreign suppliers	1 884 713	3 184 008
<b>Total</b>	<b>3 045 282</b>	<b>4 603 387</b>

**Note No. 25 – Taxes and mandatory state social insurance contributions, EUR**

Indicators	31.12.19. EUR	31.12.18. EUR
Tax contributions and state social insurance contributions at the beginning of the year	416 871	492 802
Changes within the reporting year	100 749	(75 931)
Tax contributions and state social insurance contributions at the end of the year	517 620	416 871

Notes (cont.)

Indicators	Personal income tax	Mandatory social insurance contributions	Corporate income tax	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
01.01.19. debt	129 816	276 928	3 794	-	6 089	-	-	244
01.01.19. overpayment	-	-	-	71 451	-	-	-	-
Calculated	1 679 391	3 305 379	61 281	4 971 119	18 860	19 920	74 112	3 147
Repaid from the budget	-	-	-	964 070	-	-	-	-
Paid	1 635 937	3 243 562	65 930	6 073 348	19 612	19 920	74 112	3 123
31.12.19. debt	173 270	338 745	-	-	5 337	-	-	268
31.12.19. overpayment	-	-	855	209 610	-	-	-	-

As for 31.12.2019. the Company has no current tax debts.

**Note No. 26– Short-term other liabilities**

Indicators	31.12.19. EUR	31.12.18. EUR
Salary debt	630 240	545 459
Other	3 458	3 221
<b>Total</b>	<b>633 698</b>	<b>548 680</b>

**Note No. 27 – Accrued liabilities**

Indicators	31.12.19. EUR	31.12.18. EUR
Provisions for unused vacation compensation	432 592	365 315
Liabilities to suppliers	171 015	198 850
<b>Total</b>	<b>603 607</b>	<b>564 165</b>

**Note No. 28 – Average number of employees**

Indicators	31.12.19.	31.12.18.
Members of the Council	5	5
Members of the Board	5	4
Other employees	719	667
<b>Average number of employees</b>	<b>729</b>	<b>676</b>

**Note No. 29 – Information about remuneration to the Council and Board Members**

Indicators	31.12.19. EUR	31.12.18. EUR
Wages to the Council Members*	-	10 600
Wages to the Board Members	9 677	8 106
Mandatory state social insurance contributions	2 331	4 506
<b>Total</b>	<b>12 008</b>	<b>23 212</b>

\*Remuneration for members of the Council of the parent Company is not paid according to the decision of the extraordinary meeting of shareholders of Rīgas elektromašīnbūves rūpnīca, AS held on 22 February 2019.

**Note No. 30 – Information about remuneration for services of the commercial company of certified auditors**

Indicators	31.12.19. EUR	31.12.18. EUR
Remuneration for auditing annual report and consolidated annual report (amounts given without VAT)	12 300	12 000

Notes (cont.)

**Note No. 31 - Transactions with related parties**

Related party	Services rendered and goods sold	Services rendered and goods purchased	Amounts owed by related parties	Payables to related parties
	2019 EUR	2019 EUR	31.12.19. EUR	31.12.19. EUR
AS „LATVO”	734 119	-	249 589	-
AO Krona Grup	59 342 450	1 085 453	6 524 784	318 481

**Note No. 32**

**Information on issued guarantees, warranties, and other possible liabilities and pledged assets**

There are none

**Information on lease and rent agreements, that have important influence on company's activity**

There are none

**Significant agreements**

There are none

**Information on pledged or otherwise encumbered assets**

As on 31.12.2019. all assets of JSC "RER" have been pledged as security for a loan(see note 21) .

**Liabilities for pensions**

There are none

**Potential liabilities that may arise in relation to a certain past event**

There are none

**Significant events not included in the balance sheet or income statement**

There are none

During the period between the closing date of the reporting year and the date of the signature of these financial statements, there were no events which would necessitate entering corrections in these financial statements or require explanations to these financial statements.

**Events after the balance sheet date**

After the end of the fiscal year, in March 2020 the Republic of Latvia, as many other countries, imposed certain restrictions to curb spreading of corona virus Covid-19. These measures have considerably slowed down the economic development in the country and across the world. It is hard to predict how the situation will pan out and, understandably, the economic uncertainty prevails. Management of the Company is assessing the current situation on an ongoing basis. At this point, the crisis caused by the corona virus has not had any considerable effect on the operations of the Company or on its perspective operations. However, this conclusion is based on information available at the time of signing these financial statements. The

impact of future events on the activities of the Company may differ from the assessment of future developments made by the Company management.

Notes (cont.)

#### **Distribution of profit**

The shareholders of JSC "Rīgas elektromašīnbūves rūpnīca" are offered to redirect company's profit of 2019 in the amount of EUR 6 671 047 to development of the Company.

Notes on pages 12 to 28 form are integral part of these financial statements.

Chairperson of the Board

Mikalai Yerokhau

Board Members

Aleksandrs Popadins

Ilja Šestakovs

Tamāra Rogova

Annual report drawn up by  
Chief Accountant

Svetlana Statina

24 April 2020

## MANAGEMENT CONFIRMATION REPORT

The Management of the Company is responsible for preparation of financial statements and confirms that the annual report give a true and fair view of the financial position of the Company and of its financial performance for the period ended 31 December 2019.

The Management of the Company confirms that during preparation of the annual report 2019 appropriate accounting methods were used and employed consistently, moreover, reasonable and careful decisions have been taken.

The Management of the Company is responsible for organizing accounting, preserving the Company's capital, as well as for preventing deceit and other dishonest activities.

Chairperson of the Board

Mikalai Yerokhau

Board Members

Aleksandrs Popadins

Iļja Šestakovs

Tamāra Rogova

24 April 2020





## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Rīgas Elektromašīnbūves Rūpnīca AS

#### *Our Qualified Opinion on the Financial Statements*

We have audited the accompanying financial statements of AS "Rīgas Elektromašīnbūves Rūpnīca" ("the Company") set out on pages 7 to 28 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2019,
- the profit and loss statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

**In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of AS "Rīgas Elektromašīnbūves Rūpnīca" as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.**

#### *Basis for Qualified Opinion*

As disclosed in the accompanying Note 9 to the accompanying financial statements, as at 31 December 2019, the Company reported investment in its subsidiary "LATVO" in an amount of EUR 5,499,400. In accordance with Article 23 of the Republic of Latvia Law on Annual Accounts and Consolidated Annual Accounts (LAACAA), the value of a long-term investment object at the balance sheet date is less than the value calculated in accordance with LAACAA Article 14 first paragraph point 10 and first paragraph of this Article. And the asset is expected to be impaired, then on an ongoing basis, the asset is subject to impairment at the lowest value of the balance sheet date and whether the asset has or has not an indefinite useful life. The subsidiary has concluded the reporting years 2019 with a loss of EUR 49,332 and its equity on 31 December 2019 amounted to EUR 6,482,851. Nevertheless, the balance sheet asset item "Other debtors" of the subsidiary "LATVO" as at 31 December 2019 includes receivables in the amount of EUR 6,579,442, for which the payment term is significantly overdue. The management of the subsidiary considers that the recovery of receivables is ensured by the guarantor and therefore no additional provisions are required. The auditors of the subsidiary could not obtain sufficient assurance on the recoverable amount of the debtor, on which the qualified opinion was issued on 22 April 2020. Based on the above, we were not able to verify the recoverability of the assets of the subsidiary LATVO, therefore we were not able to obtain reasonable assurance about the value of investments and whether on 31 December 2019 adjustments had to be made for impairment of investments.

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.



Grant Thornton

An instinct for growth™

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

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have identified the following questions as the main key audit matters to be communicated in our report in our audit of the financial statements of the current period:

Audit questions	Measures taken
<u>Revenue completeness and periodization</u>	In order to assess the risk of non-compliance with the periodization of revenues, we have conducted the following audit procedures:
<p>The core business of the group is the production of electrical machinery and apparatus. More than 95% of revenues are generated by exporting products to approximately 7 different countries globally.</p> <p>The appropriate selling conditions vary between customers, and the transfer of ownership depends on the incoterms used for each transaction. The duration of the transportation of products sold varies significantly depending on the location of the customer. This necessitates the introduction and maintenance of consistent accounting and control procedures for revenue recognition, which ensures a precise periodicity and completeness of said revenue recognition. Therefore, we consider the aspects of accounting and control as a significant audit issue.</p> <p>More detailed information on this issue is provided in Note 1 of Financial Statement and on page 12 of Accounting Policy (Revenue Recognition and Net Turnover).</p>	<ul style="list-style-type: none"><li>• have met with the financial management of the Company and discussed the current market situation, revenue structure of the Group, changes during the reporting year as well as the most significant risks while ensuring revenue completeness and periodization</li><li>• became aware of the appropriateness of income traceability methods used and assessed the appropriateness, implementation and operational efficiency of control procedures used</li><li>• carried out detailed analytical procedures, comparing the actual indicators with our forecasts, as well as while assessing changes in recognized revenue in relation to the previous year, analysed monthly and significant fluctuations. Additionally, have performed detailed comparison of supporting documentation with accounting data;</li><li>• conducted an individual sales transaction check-up, when the sale is performed just before or straight after the end of the reporting year. Have obtained evidence that justifies the correctness of the recognition period based on terms and conditions stated/contained in sales and delivery contracts/documents.</li><li>• Additionally, have asked for sample letters of correspondence and checked the balance of sales receivables at the balance date.</li></ul>
<u>Existence of inventories and net realizable value</u>	In order to assess the risk of non-compliance with the net realizable value of inventories, we conducted the following audit procedures:
As noted in Notes 10, 11, 12, as at 31 December 2019, the Company's inventories total EUR 12	<ul style="list-style-type: none"><li>• We have met with the financial management of the Company to discuss the current</li></ul>





<p>032 thousand and a provision for possible impairment of EUR 319 thousand has been created.</p> <p>Detailed information on this issue is provided in Appendices 10, 11, 12 (financial information) and accounting policies on page 14 in the financial statements (stock accounting principles).</p> <p>Considering the rapid development of the technology industry and the volume of inventories in the separate accounts of the Company, the determination of the net realizable value of inventories is essential, therefore it is considered the main audit issue.</p>	<p>market situation, the Company's revenue and expenditure structure, changes during the reporting year, the most significant risks in securing the existence of inventories and net realizable value;</p> <ul style="list-style-type: none"> <li>• Evaluate the performance of internal control services in stock inventory and other control measures;</li> <li>• reviewed the results of the inventory;</li> <li>• we participated in inventory and warehouse inventory surveys, observing inventory procedures and progress;</li> <li>• We randomly tested the compliance of inventory acquisition values;</li> <li>• Detailed analytical procedures were carried out to reconcile the inventory sales figures with the management conditions set by the management;</li> <li>• We carried out a detailed examination of the key supporting documents for the sample transactions;</li> <li>• We evaluated stock turnover indicators, as well as reviewed stock age data and evaluated compliance of established stocks with stock accumulation policy conditions.</li> </ul>
---	---

#### *Reporting on Other Information*

The Company management is responsible for the other information. The other information comprises:

- the Management Report, as set out on page 4. till 6. of the accompanying Annual Report,
- the information about Company as set out on page 3. of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 29 of the accompanying Annual Report,
- the Statement of Corporate Governance and the Consolidated non-financial statement, as published on homepage of Nasdaq Baltic market [www.nasdaqbaltic.com](http://www.nasdaqbaltic.com) and is publicly available.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia – other information*

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and



Grant Thornton

An instinct for growth™

- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement our responsibility is to report whether the Company has prepared the Non-financial Statement and whether the Non-financial Statement is included in the management Report or prepared as a separate element of the Annual Report or is included in the consolidated non-financial statement of the Company's parent company ("the Consolidated non-financial statement 2019").

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance ("the Statement of Corporate Governance of Reporting year 2019"), our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.<sup>1</sup>, first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.<sup>2</sup>, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.<sup>2</sup> second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance ("the Statement of Corporate Governance of Reporting year 2019") includes the information required in section 56.1, first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.<sup>2</sup>, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.<sup>2</sup> second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### *Auditor's Responsibility for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions



Grant Thornton

An instinct for growth™

that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

*Other reporting responsibilities in accordance with the legislation of the Republic of Latvia*

We were appointed by those charged with governance on 26 June 2019 to audit the financial statements of AS "Rīgas Elektromašīnbūves Rūpnica" for the year ended 31 December 2019. Our total uninterrupted period of engagement is 4 years, covering the periods ending 31 December 2017 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014 (Article 5 (1)). We also remained independent of the audited entity in conducting the audit.

The responsible certified auditor on the audit resulting in this independent auditors' report is Silvija Gulbe.

SIA „Grant Thornton Baltic Audit”  
License No. 183

Silvija Gulbe  
Sworn auditor  
Certificate No. 142  
Member of the Board

Riga, 28 April 2020