JOINT STOCK COMPANY
“RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA”

Reg. No. 40003042006
Ganibu dambis 53, Riga, LV-1005

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR 2019
(AUDITED)

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE EUROPEAN UNION

CONTENT

INFORMATION ABOUT THE PARENT 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	Ganibu dambis 53, Riga, LV-1005, the Republic of Latvia	
Institution in charge of the Company	General meeting of shareholders	
The parent Company Council :		
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.
The parent Company Board:		
Chairperson of the Board	Mikalai Yerokhau	from 15.03.11.
Board Members	Aleksandrs Popadins	from 08.11.13.
	Iļja 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	
Revision Committee of the Company:		
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 (daughter) companies	AS „Latvo”, reģ. Nr. 40003184975 Ganibu 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 Certified auditor Silvija Gulbe Certified auditor’s certificate No. 142	

MANAGEMENT REPORT

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

Business activities of the Group in 2019

Basic business activities of the Group 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 Group in 2019 was stable. Net sales reached EUR 64.03 million, which is EUR 17.79 million or 38.48% higher than in the previous year (p. 7, Comprehensive 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 Group.

Gross profit in 2019 amounted to EUR 11.0 million, which is EUR 3.32 million or 43.11% higher compared to 2018, while net profit was EUR 6.62 million, which is EUR 3.01 million higher compared to 2018 (p. 7, Comprehensive income statement).

The equity of the Group in the total worth of assets reached 70.86% against 65.60% in 2018, and the current asset-to-short-term debt ratio (overall liquidity ratio) was 3.56 against 1.53 in 2018 (p.p. 8-9, Statement of financial position).

Other indicators

In 2019 the average number of employees was 738 people, the average monthly salary was EUR 1 108.

The Group 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 Group

Financial risks have been characterized on pages 20-21 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 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 Group

Group will continuously work on attaining its goals with regard to its presence on the domestic and export markets. One of the priorities the Group will be focusing on is implementation of the effective production strategy aimed at improving competitiveness of the Group.
In 2020, the Group 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 fo 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 grogram. 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 Group 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 Group 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 Group may differ from the assessment of future developments made by the Group management.

Chairperson of the Board	Mikalai Yerokhau
Board Members	Aleksandrs Popadins
	Iļja Šestakovs
	Tamāra Rogova

24 April 2020

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE YEAR 2019

Items	Note	2019 EUR	2018 EUR
Net turnover	1	64 031 232	46 236 956
Production costs of the goods sold	2	(53 033 020)	(38 551 966)
Gross profit or loss		**10 998 212**	**7 684 990**
Selling expenses	3	(912 340)	(708 237)
Administration expenses	4	(2 593 377)	(2 524 942)
Other operating income	5	991 871	605 434
Other operating expenses	6	(1 457 312)	(1 100 340)
Revenue from other securities and loans which formed long-term financial investments	7	-	35 182
Other interest income and similar income		-	25
Other interest payments and similar expenses	8	(344 058)	(349 083)
Profit or loss before corporate income tax		6 682 996	3 643 029
Corporate income tax		(61 281)	(32 969)
Profit or loss after calculating the corporate income tax		6 621 715	3 610 060
Profit or loss of the accounting period		**6 621 715**	**3 610 060**

Attributable to:		
Non-controlling interest	(641)	(3 371)
Equity holders of a parent company	3 622 356	3 613 431
Earnings per share	1,141	0,623

Other comprehensive income / loss

Long-term investment revaluation reserve decrease		(209 959)	(196 065)
Total other comprehensive income / loss		**(209 959)**	**(196 065)**

Total comprehensive income		**6 411 756**	**3 413 995**

Attributable to:		
Non-controlling interest	(641)	(3 371)
Equity holders of a parent company	6 412 397	3 417 366

Notes on pages 12 to 33 form are integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2019

A S S E T S	**Note**	**31.12.19. EUR**	**31.12.18. EUR**
LONG-TERM INVESTMENTS			
Intangible investments	9		
Development costs		718 273	1 159 885
Concessions, patents, licences and similar rights		200 838	301 516
Other intangible investments		27 032	11 485
Total intangible assets		**946 143**	**1 472 886**
Fixed assets	9		
Real estate (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		335 518	234 743
Expense of tangible assets and construction in progress		2 270 380	549 972
Advance payments for fixed assets		682 826	529 665
Total fixed assets		**25 792 326**	**23 431 916**
Long-term financial investments			
Own shares		10 289	10 289
Other securities and investments		570	570
Total long-term financial investments		**10 859**	**10 859**
TOTAL LONG-TERM INVESTMENTS		**26 749 328**	**24 915 661**
CURRENT ASSETS			
Inventories			
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
Total inventories		**12 031 528**	**11 682 976**
Receivables			
Trade receivables	13	6 742 071	2 583 814
Other receivables	14	7 041 947	7 108 120
Prepaid expenses	15	158 083	44 264
Total receivables		**13 942 101**	**9 736 198**
Cash	16	384 378	1 262 638
TOTAL CURRENT ASSETS		**26 358 007**	**22 681 812**
TOTAL ASSETS		**53 107 335**	**47 597 473**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2019

L I A B I L I T I E S	Note	31.12.19. EUR	31.12.18. EUR
EQUITY CAPITAL			
Share capital (equity capital)	17	8 118 607	8 118 607
Long-term investment revaluation reserve	18	13 285 734	13 495 693
Reserves: a) other reserves	19	407 137	407 137
Retained earnings or uncovered losses of previous years		9 115 523	5 502 092
Profit or loss of the reporting year		6 622 356	3 613 431
Participatory share of minority stockholders		84 277	84 918
TOTAL EQUITY CAPITAL		**37 633 634**	**31 221 878**
PROVISIONS			
Other provisions	20	155 503	158 247
TOTAL PROVISIONS		**155 503**	**158 247**
CREDITORS			
Long-term liabilities			
Borrowings from credit institutions	21	6 187 500	-
Deferred income	22	1 727 147	1 373 945
Total long-term liabilities		**7 914 647**	**1 373 945**
Short-term liabilities			
Borrowings from credit institutions	21	937 500	5 683 067
Advance payments from customers	23	1 542 501	2 939 838
Trade payables	24	3 050 913	4 614 144
Taxes and mandatory state social insurance contributions	25	525 225	421 187
Other liabilities	26	644 592	553 664
Deferred income	22	67 871	45 333
Accrued liabilities	27	634 949	586 170
Total short-term liabilities		**7 403 551**	**14 843 403**
TOTAL CREDITORS		**15 318 198**	**16 217 348**
TOTAL LIABILITIES		**53 107 335**	**47 597 473**

Notes on pages 12 to 33 form are integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR 2019 (prepared by indirect method)

Cash flow from operating activities

Items	2019 EUR	2018 EUR
Profit or loss before corporate income tax	6 682 996	3 643 029
ADJUSTMENTS		
Adjustments of decrease in value of equity capital	1 547 192	1 648 578
Amortization of intangible assets	572 442	618 361
Income from sales of fixed assets	(1 980)	(3 765)
Provisions	(2 744)	(11 149)
Unrealized profit from fluctuations of currency exchange rate	(944)	435 248
Adjustments of reduction in the value of long-term and short-term financial investments	-	4 262
Amounts written off fixed assets	3 983	11 606
Changes to the reserve for revaluation of long-term investments	(209 959)	(196 065)
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	**8 590 986**	**6 150 105**
ADJUSTMENTS FOR		
Increase (-)/ decrease (+) in trade and other receivables	(4 714 864)	(1 528 083)
Increase (-)/ decrease (+) in inventories	47 471	(2 755 361)
Increase (+)/ decrease (-) in trade and other payables	(2 399 576)	3 048 694
Gross cash flow from operating activities	**1 524 017**	**4 915 355**
Expenses for company tax payments	(61 281)	(32 969)
NET CASH FLOW FROM OPERATING ACTIVITIES	**1 462 736**	**4 882 386**

Cash flow form investing activities

Items	2019 EUR	2018 EUR
Acquisition of stocks or shares of other undertakings	-	(570)
Proceeds from investment properties	-	90 000
Purchase of non-current assets	(3 804 124)	(2 206 281)
Proceeds from sale of fixed and intangible assets	1 980	3 765
NET CASH FLOW FROM INVESTING ACTIVITIES	**(3 802 144)**	**(2 113 086)**

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)
NET CASH FLOW FROM FINANCING ACTIVITIES	**1 441 933**	**(1 775 000)**

Summary of cash inflow and outflow

Items	2019 EUR	2018 EUR
Net cash flow from operating activities	1 462 736	4 882 386
Net cash flow from investing activities	(3 802 144)	(2 113 086)
Net cash flow from financing activities	1 441 933	(1 775 000)
Result of fluctuations of currency exchange rates	19 215	(447 426)
Net increase/decrease in cash and cash equivalents	**(878 260)**	**546 874**
Cash and its equivalents in the beginning of the accounting period	**1 262 638**	**715 764**
Cash and its equivalents at the end of the accounting period	**384 378**	**1 262 638**

Notes on pages 12 to 33 form are integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2019, EUR

Type of change	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Participatory share of minority stockholders	Total equity
As at 31.12.17.	**8 118 607**	**13 691 758**	**407 137**	**5 590 381**	**-**	**27 807 883**
Profit or loss for the financial year	-	-	-	3 613 431	(3 371)	**3 610 060**
Other comprehensive income	-	(196 065)	-	-	-	**(196 065)**
Total comprehensive income	**-**	***(196 065)***	**-**	***3 613 431***	***(3 371)***	***3 413 995***
Consolidation adjustments	-	-	-	(88 289)	88 289	**-**
As at 31.12.18.	**8 118 607**	**13 495 693**	**407 137**	**9 115 523**	**84 918**	**31 221 878**
Profit or loss for the financial year	-	-	-	6 622 356	(641)	**6 621 715**
Other comprehensive income	-	(209 959)	-	-	-	**(209 959)**
Total comprehensive income	**-**	***(209 959)***	**-**	***6 622 356***	***(641)***	***6 411 756***
As at 31.12.19.	**8 118 607**	**13 285 734**	**407 137**	**15 737 879**	**84 277**	**37 633 634**

Notes on pages 12 to 33 form are integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

Consolidated financial reports include the financial statement of the parent company JSC "Rīgas elektromašīnbūves rūpnīca" (hereinafter referred to as JSC "RER") and the financial statement of its subsidiary company of "Latvo" JSC.

These financial statements were authorised for issue by the Board of Directors of the Company on 24 April 2020.

Subsidiary (daughter) companies:

Name, Registration No.	Addres	Type of operations	Share capital, EUR	Participation Interest, %
AS „Latvo", 40003184975	Ganibu dambis 53, Riga	Realisation of electrical equipment and technical (constructor) support	5 495 420	98.7

ACCOUNTING POLICY

<u>Principles of preparing the financial statement</u>

The holding company's financial statement was prepared in compliance with the International Financial Reporting Standards (IFRS). To apply these standards there were not made any significant changes in the Group's financial principles.

The consolidated financial statements are prepared based on the initial cost accounting principle additionally applying the revaluation method for real estate (included in the fixed assets). 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.

Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period (entering into force by 2019):

- IFRS 16 "Leases" (effective for annual periods beginning on January 1, 2018, or after). The new standard defines the principles for recognition, evaluation and disclosure of lease agreements. All leases provide the lessee with the right to use the asset and, if the lease payments are made within a specified time period, also includes the financing component. Accordingly, IFRS 16 excludes the possibility of classifying leases as operating or finance leases, as previously defined in IAS 17. Instead, IFRS 16 introduces a single lessee accounting model. In its accounting the lessee recognises: (a) assets and liabilities from all lease agreements with a lease term of more than 12 months, except for lease contracts for low value assets; and (b) the depreciation cost of leased assets, separately from interest expense on lease obligations. Accounting of leaseholders according to IFRS 16 is largely similar to the requirements of the IAS 17. Accordingly, leaseholders continue to classify lease contracts as operating or finance leases, and maintain a different accounting according to the classification.
- Advance payment funds with negative compensation – amendments to the International Financial Reporting Standards 9 (IFRS).
- Annual amendments to IFRS for the 2015-2017 fiscal cycle.
- Amendments to IFRS 9 "Financial Instruments".
- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments".

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Group's accounting policies or financial statements.

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Principles of consolidation

The balance data of the consolidated financial report of the holding company, the parent company's financial report and the subsidiary company financial report are identical. Processing the financial report the subsidiary company of the Holding applies the same accounting methods and other regulations of valuation as the parent company of the Holding does.

In the course of consolidation all both mutual transactions and residual values that are in the frames of the Holding have been excluded.

The share of JSC 'RER' in the own capital of the subsidiary company as well as the investment of JSC 'RER' into the subsidiary company's capital have been mutually excluded. The negative equity arisen out from that mutual exclusion is included into the calculations of consolidated profit or of loss.

Prior to 2017, interest owned by minority shareholders in the subsidiary Latvo, AS was not recognized separately, since these minority shareholders were also shareholders in the parent company of the Group. In 2018, the minority shareholders of the subsidiary Latvo, AS sold their shares in the parent company, which is why starting 2018 interest owned by the minority shareholders is recognized separately.

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.*

Lease agreements

In the process of entering into an agreement, the Company establishes whether the agreement is a lease or it contains a lease. An agreement is a lease or it contains a lease where it gives the right to control the use of an identifiable asset over a certain period of time against a consideration. In order to establish whether an agreement is a lease or contains a lease, the Company evaluates:

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

- whether the agreement provides for the use of an identifiable asset, where the asset may be named directly or indirectly, and it must be physically separable or it must reflect the full capacity of the asset from the physically separable asset. Where the supplier has the essential right to replace the asset, the asset is not identifiable;
- whether the Company is entitled to all economic benefits arising from the use of the identifiable asset over the entire period of its use;
- whether the Company has the right to determine the manner in which the identifiable asset is to be used. The Company also can make decision as to how and for what purpose the asset is to be used. Where decisions on how and for what purpose the asset should be used have been made previously, the Company shall assess if it has the right to operate the asset or determine how the asset can be operated in a certain way, or the Company has developed the asset in such a manner that prescribes how and for what purpose the asset should be used.

Company is a lessor – operating lease

Operating lease is a type of lease which is not a financial lease and under which practically no risks inherent in the use of the asset and no rights to the variable returns are essentially transferred to the lessee. Assets leased through the operating lease are recognized within fixed assets at their acquisition price minus depreciation. Depreciation is calculated by using the linear method. Lease income from the operating lease and advance payments from clients are included in the profit and loss statement for the respective lease period by using the linear method.

In 2019, the Company leased the buildings and structures not used in its economic activities. The Company has leased only a small portion of its buildings and structures, and income from leasing is quite modest.

Company is a lessee

Leasing (including financial leasing) means the right to use an asset and have respective asset-related liabilities starting with the date when the leased asset is available to the Company.
The right to use the asset is amortized according to the linear method starting with the commencement date and until the end of the useful life of the underlying asset. Depreciation is calculated using the linear method starting with the lease commencement date and until the end of the leasing period, unless it is planned that the asset will be purchased.
Assets and liabilities arising out of the lease on the initial application date are measured at present value of the remaining lease payments that is discounted by using the Company's reference interest rate. Lease liabilities include present value of the following lease payments:
- fixed lease payments (including essential fixed lease payments) less payment fees;
- variable lease payments that depend on the interest rate;
- payments due from the lessee under the remaining value guarantees;
- purchase option price, provided that there are sufficient grounds to believe that the lessee will use this option, and
- fine payments for lease termination, if the lease term is indicative of the fact that the lessee uses the option to terminate the lease.

Each lease payment is divided to cover both lease liabilities and interest on lease liabilities. Interest on lease liabilities is recognized in the profit or loss statement during the lease period with the purpose to create the constant periodic interest rate for the remaining lease liability within each period.

Short-term lease and lease with the underlying asset having low value.

Lease payments related to a short-term lease or a lease with the underlying asset having low value are recognized as costs using the linear method in the profit or loss statement. A short-term lease is a lease whose leasing period at the commencement date is twelve months or less.

In 2019, the Company was not involved in any lease transactions where the Company is a lessee.

Notes (cont.)
Accounting policy (cont.)

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:

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

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 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 %

Notes (cont.)
Accounting policy (cont.)

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.

Financial Instruments

Classification of financial instruments
Financial instruments of the Company are composed of financial assets (financial assets at amortized acquisition cost and financial assets at fair value with revaluation in the profit or loss statement) and financial liabilities (financial liabilities at amortized acquisition cost).

Recognition and discontinuation of recognition
Financial assets are recognized at the time when the Company has become a contracting party and has fulfilled the terms of the transaction, i.e. on the sale date.

Recognition of financial assets is discontinued when the contractual obligations of the Company with regard to the cash flow created by the financial assets end, or if the Company transfers the financial asset to another party, or transfers essential risks the asset is exposed to and the consideration receivable from the asset. Purchase and sale of financial assets executed within the main business of the Company are recognized on the trading day, i.e., on the date when the Company decides to buy or sell the asset.

Recognition of financial liabilities is discontinued when the underlying obligation is withdrawn, cancelled or expires.

Valuation
At the time of initial recognition, financial instruments are recognized at their fair value. In case with financial assets and financial liabilities with amortized acquisition cost, their fair value at the time of initial recognition is adjusted by factoring in the transaction costs directly attributable to the financial instrument.

Financial assets at fair value revalued in the profit or loss statement

This category includes financial instruments owned by the Company that form the item Other Securities and Investments. These investments are recognized in long-term assets, unless the management of the Company plans to sell them within twelve months after the annual report date. Fair value of these financial assets is determined based on the estimates made by the management of the Company by taking into consideration financial information pertaining to these investments. Any changes of fair value are recognized in the profit or loss statement.
Dividends from the investments are recognized in the profit or loss statement at the time when there occur legitimate rights of the Company to dividends.

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

Financial assets at amortized acquisition cost

Financial assets at amortized acquisition cost are debt instruments with a fixed or to be determined payment schedule that are not held for trading and whose future cash flows include the principal and interest payments only. Financial assets at amortized acquisition cost include debts of buyers and customers and other accounts receivable as well as debts of related companies and cash and cash equivalents.
Short-term accounts receivable are not discounted.
Financial assets at amortized acquisition cost are initially recognized at their fair value and are further reflected at their amortized acquisition cost by applying the effective interest rate method less provisions for value impairment.
Book value of liquid and short-term (maturity arrives within not later than three months) financial instruments, such as cash and cash equivalents, short-term deposits, short-term accounts receivable from buyers and customers, and accounts payable to suppliers and contractors, approximately corresponds to their fair value.
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.

Financial liabilities at amortized acquisition cost

Financial liabilities at amortized acquisition cost are recognized in the following categories: “Loans from credit institutions”, “Other loans”, “Accounts payable to suppliers and contractors and other creditors” and “Accounts payable to related companies”.
Financial liabilities at amortized acquisition cost are initially recognized at their fair value. In further periods, financial liabilities at amortized acquisition cost are reflected at their amortized acquisition cost by applying the effective interest rate.

Loans
Loans are initially recognized at their fair value minus expenses related to receipt of the loan. In further periods, loans are reflected at their amortized acquisition cost by applying the effective interest rate. The differential between the amount of money received minus expenses related to receipt of the loan, and loan payoff fees, is gradually included in the profit or loss statement by applying the effective interest rate. The differential is recognized in financial costs.

Fair value of loans from credit institutions, finance lease liabilities and other long-term liabilities is established by discounting future cash flows and by applying market interest rates. Whereas the interest rates applied to the loans from credit institutions, finance lease liabilities and other long-term liabilities are primarily floating interest rates and they do not significantly differ from market interest rates, fair value of long-term liabilities is closely in line with their book value.

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.

Currency unit and recalculation of foreign currency

Indicators reflected in the annual report have been given in eiro (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.

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

	31.12.19., 1 EUR	**31.12.18., 1 EUR**
USD	1.1234	1.145
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.

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 Group 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.

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

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 Group does not form deferred tax.

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.

Investments into capital of subsidiaries and associated companies

Investments into capital of subsidiaries and associated companies are recognized at their acquisition cost from which the amount of the impairment is deducted. The Company recognizes income only when it receives from its subsidiary or associated company its share of profit that is gained after the acquisition date. Any amounts exceeding this profit are treated as return on investment and are recorded as reduction in the acquisition cost of the investment.

Where there is objective evidence that the carrying value of the investment into a subsidiary or associated company has decreased, the loss from the impairment is calculated as a difference between the balance sheet value of the investment and the recoverable amount thereof. The recoverable amount is the greater of the following two indices: investment fair value minus cost of sale and its value in use. Losses caused by the investment impairment can be reversed if after the impairment losses were recognized last time the estimates used to project impairment have changed.

A subsidiary of the Company is a company whose finances and operation are controlled by the Company. It is considered that control exists if the Company owns more than 50% of stock or capital shares of the subsidiary and it is able to control all operational decisions made by the subsidiary.
An associated company is a company where the Company has substantial participating interest (directly or indirectly) but which the Company does not control and where participating interest usually is 20% to 50% of the number of voting shares.

Application of assumptions

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management shall make an estimates and judgements applying the accounting policies adopted by the Group.
Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities shown in the financial statements, and disclosures in the notes at the date of the balance sheet as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates.

Property, plant and equipment useful life

The Group's management determines the useful life of property, plant and equipment based on historical information, technical inspections, assessing the current state of the active and external evaluations. During the reporting year and previous year the Groups has not identified factors that indicate a need to change the useful life period of the Group's property, plant and equipment. Total carrying amount of property, plant and equipment at the end of the reporting year is EUR 25 792 326 (31.12.2018. - EUR 23 431 916).

Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. The total carrying amount of receivables at the end of the reporting period is EUR 7 362 659 (31.12.2018. - EUR 3 156 756).

Notes to the consolidated financial statements (cont.)
Accounting policy (cont.)

Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realisation probability and net selling value of the inventories shall be considered. The total carrying amount of inventory at the end of the reporting period is EUR 12 031 528 (31.12.2018. - EUR 11 682 976).

The recoverable amount of loans

The calculation of recoverable value is assessed for every loan individually. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Changes in provisions are included in the income statement.

The total carrying amount of long-term loan at the end of the reporting period is EUR 6 579 442 (31.12.2018. – EUR 6 579 442).

Risk management

Risk management is an integral part of management process of the holding companies. Risk management in the Group is controlled by the Council and the Board of the parent company. In its activities holding companies 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 assets fraudulence and protection, efficiency of actions and information system and their compliance with regulatory documents, procedures and agreements.

The most substantial risks holding companies 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.

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 Holding Company's income was in euro and USA dollar, major part of its costs was in euro. All received loans were in euro.

The Group's significant open currency position is: :

	31.12.19.	**31.12.18.**
Financial assets, USD	0	770 461
Financial liabilities, USD	0	(89)
Open position USD, net	0	770 372
Open position USD calculated in euro, net	0	672 814
Financial assets, RUB	32 282 099	17 873 448
Financial liabilities, RUB	(37 119 775)	(35 282 500)
Open position RUB, net	(4 837 676)	(17 409 052)
Open position RUB calculated in euro, net	(69 153)	(218 390)

The following table demonstrates the sensitivity to a reasonably possible change in currency rates on outstanding foreign currency financial assets and liabilities. With all the other variables held constant the Group's profit before tax is affected as follows :

Notes to the consolidated financial statements (cont.)

	31.12.19.		**31.12.18.**	
	Change in exchange rates	Effect on equity, EUR	Change in exchange rates	Effect on equity, EUR
USD	+10 % -10 %	- -	+10 % -10 %	88 858 (88 858)
RUB	+10 % -10 %	13 983 (13 983)	+10 % -10 %	9 682 (9 682)

Interest rate risk

The Group is at the interest rate risk due to its short-term and long-term. The Group 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 Group's financial assets are interest-free receivables, therefore the Group is exposed to floating interest rate risk. In 2019, the floating interest rate liabilities of the Group 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 Group 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 Group 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 Group exceeded its short-term liabilities by 18,95 million. The Group is capable of meeting its short-term liabilities within the required timeframe.
As of 31.12.19, the line of credit awarded to the Group has been paid off; as of 31.12.2018, the credit line resources available to the Group were in the amount of EUR 194 581.
The Group's overall liquidity ratio and the short-term liquidity ratio for two years are as follows: 2019 - 3,56; 2018 – 1,53.

Credit risk

Credit risk is the risk that the Group 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 Group 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 Group manages credit risk involved in accounts receivable from buyers and customers in accordance with the policies of the Company. Prior to entering into an agreement, the Company assesses creditworthiness of the buyers and customers. The Company monitors balances of receivables on an ongoing basis in order to minimize the likelihood of irrecoverable debts. Possible impairment of receivables from buyers and customers is analyzed on a regular basis.
The Group 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 (Note (30)).
As of 31 December 2019, the Group's credit risk concentration per one transaction partner reached 98.8% of the total accounts receivable from buyers and customers (31.12.2018: 72.2%).

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 70.86% to 65.60% in 2018.

Notes to the consolidated financial statements (cont.)

Segment information

Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Group is involved in only one business segment corresponding to its main economic activity, i.e., manufacture and sale of electric machinery and equipment (Note (1)).

Earnings per share

Profit per one share is calculated by dividing net profit or loss attributable to the shareholders of the parent Company by the number of shares.

Subsequent events

Post-year-end events that provide additional information about the Group’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	64 031 232	46 236 956

Net sales by geographical markets

Country	2019 EUR	2018 EUR
Latvia	274 640	320 866
Russia	60 016 958	43 466 554
Ukraine	258 040	179 450
Belarus	55 294	176 693
Slovakia	262 304	237 509
Georgia	36 300	36 543
Uzbekistan	3 105 690	1 819 341
Estonia	2 260	-
Kazakhstan	18 450	-
Lithuania	1 296	-
Total	**64 031 232**	**46 236 956**

Major customers

Split of the net sales among the customers amount to 10 percent or more of total revenues are:

Pircējs	2019 EUR	2018 EUR
AO Krona Grup, Russia	59 971 400	43 413 629

Notes to consolidated comprehensive income statement (cont.)

Note No. 2 – Production costs of products sold

Indicators	**2019 EUR**	**2018 EUR**
Salaries	7 512 244	5 881 944
Social insurance contributions	1 766 398	1 381 630
Costs of materials	36 346 226	26 047 953
Energy resources	1 317 494	1 151 388
Depreciation of capital assets and intangible assets, write-off off intangible investments value	1 908 949	1 921 504
Business trip costs	87 628	102 290
Repair costs and remuneration for works from outside	3 165 022	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
Total	**53 033 020**	**38 551 966**

Note No. 3 – Selling costs

Indicators	**2019 EUR**	**2018 EUR**
Packing material and package	119 198	96 688
Transportation expenses	580 221	431 653
Salaries	150 160	135 069
Social insurance contributions	35 644	32 013
Other selling costs	27 117	12 814
Total	**912 340**	**708 237**

Note No. 4 – Administrative costs

Indicators	**2019 EUR**	**2018 EUR**
Communications costs	19 951	21 967
Annual report and auditing services	15 300	15 000
Cash circulation and expense and extra costs	51 827	38 019
Transportation expenses	6 502	11 780
Representation expenses	6 720	9 321
Salaries	1 554 028	1 523 259
Social insurance contributions	359 695	353 566
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	206 746	172 559
Total	**2 593 377**	**2 524 942**

Note No. 5 – Other income from operating activities

Indicators	**2019 EUR**	**2018 EUR**
Profit gained as a result of other sales (lease and other)	217 086	174 838
Sale of capital assets*	1 980	3 765
Decrease in revaluation reserve of capital assets	209 959	196 065
Profit from fluctuations of exchange rates	944	-
Decrease in deferred income (Eurofound)	226 125	212 597
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	332 004	-
Other income	1 720	5 963
Total	**991 871**	**605 434**

Notes to the consolidated financial statements (cont.)

* 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 costs of operating activities

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 fluctuations of exchange rates	-	435 248
Removal of capital assets	3 983	11 606
Write-off of bad debtors	4 806	4 891
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
Increase in holiday provision	76 842	60 373
Expenditure for sustainable activities of personnel	5 500	99 728
Refinancing costs	196 367	-
Staff meal expenses	240 874	-
Losses due to the court judgment	186 565	-
Other costs	36 610	6 888
Total	**1 457 312**	**1 100 340**

Note No. 7 – Revenue from other securities and loans which formed long-term financial investments

Indicator	2019 EUR	2018 EUR
Earnings from the sale of own shares	-	35 182

Note No. 8 – Other interest payments and similar costs

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

Notes to the consolidated financial statements (cont.)

NOTES TO BALANCE SHEET FOR THE YEAR 2019

Note No. 9 – 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	15 000	-	30 699	17 004	**62 703**
Disposal	-	-	-	(17 004)	**(17 004)**
Acquisition value 31.12.19.	**2 279 580**	**935 760**	**189 303**	**-**	**3 404 643**
Accumulated amortization 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 amortization 31.12.19.	**1 561 307**	**734 922**	**162 271**	**-**	**2 458 500**
Net book value 01.01.18.	**1 159 885**	**301 516**	**11 485**	**-**	**1 472 886**
Net book value 31.12.19.	**718 273**	**200 838**	**27 032**	**-**	**946 143**

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 the Group are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from banks.

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**	**835 801**	**549 972**	**529 665**	**36 391 327**
Additions	604 797	1 251 897	181 323	3 761 420	2 380 235	**8 179 672**
Disposal	(6 356)	(163 717)	(52 542)	(2 041 012)	(2 227 074)	**(4 490 701)**
Acquisition value 31.12.19.	**19 563 724**	**16 598 786**	**964 582**	**2 270 380**	**682 826**	**40 080 298**
Accumulated amortization 01.01.19.	**2 828 571**	**9 529 782**	**601 058**	**-**	**-**	**12 959 411**
Amortization charge	336 454	1 130 190	80 548	-	-	**1 547 192**
Amortization of disposals	(6 356)	(159 733)	(52 542)	-	-	**(218 631)**
Accumulated amortization 31.12.19.	**3 158 669**	**10 500 239**	**629 064**	**-**	**-**	**14 287 972**
Net book value 01.01.19.	**16 136 712**	**5 980 824**	**234 743**	**549 972**	**529 665**	**23 431 916**
Net book value 31.12.19.	**16 405 055**	**6 098 547**	**335 518**	**2 270 380**	**682 826**	**25 792 326**

Notes to the consolidated financial statements (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 the Group are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from banks.

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)
Total	**5 183 465**	**4 309 973**

Changes in provisions

Indicators	31.12.19. EUR	31.12.18. EUR
Provisions at the beginning of the year	302 924	115 268
Decrease	(113 769)	-
Increase	129 523	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

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
Total	**2 871 589**	**2 475 566**

Note No. 13 – Trade receivables

Indicators	31.12.19. EUR	31.12.18. EUR
Debts of customers and clients	6 774 203	2 609 049
Provisions for doubtful debtors	(32 132)	(25 235)
Total	**6 742 071**	**2 583 814**

Changes in provisions for doubtful debtors

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

Notes to the consolidated financial statements (cont.)

Note No. 14 – Other receivables

Indicators	31.12.19. EUR	31.12.18. EUR
Taxes paid in advance	92 733	117 036
Overpaid taxes (see note 25)	215 086	85 496
Processing of goods	55 946	237 894
Advance payments for services	62 472	56 449
Financing (European funds project)	28 000	28 000
Long-term loan of the subsidiary (daughter) company (until 01.01.2019)*	6 625 597	6 625 597
Provisions for long-term loan*	(46 155)	(46 155)
Other	8 268	3 803
Total	**7 041 947**	**7 108 120**

* The collateral is a natural person guarantee.

The method of profitability is used to estimate the long-term receivables at fair value. The difference between the debt book value and market value, which is calculated taking into account the individual discount rate, a provision is created.

01 January 2019 was the expiration date of the two loan agreements entered into with Investicionnij Aljans Ltd. In January 2019, LATVO AS commenced collection proceedings. As of the time of signing the Annual Report, it is known that legal proceedings have started in the Russian Federation, although we know nothing of the developments. Whereas the aforementioned borrower has a solvent guarantor, no provisions were created for these loans.

Note No. 15 – 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	2 116	1 814
Total	**158 083**	**44 264**

Note No. 16 – Cash

Indicators	31.12.19. EUR	31.12.18. EUR
Current accounts in banks	384 378	1 262 638

Note No. 17 – Parent Company's 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.

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

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
Total	**8 118 607**	**100.00**	**8 118 607**	**100.00**

Notes to the consolidated financial statements (cont.)

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. 18 – 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 9).

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	
					without revaluating	with revaluating
	01.01.19.	31.12.19.	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. 19 – Other reserves

Indicators	31.12.19. EUR	31.12.18. EUR
Share denomination from lat to euro	132 634	132 634
Other	274 503	274 503
Kopā	**407 137**	**407 137**

Note No. 20 – Other provisions

Indicators	31.12.19. EUR	31.12.18. EUR
Provision for warranty repairs of the subsidiary (daughter) company	3 262	4 750
Provisions for benefits for damages to health of the parent company	152 241	153 497
Total	**155 503**	**158 247**

Provision is calculated at 0.004 of the net turnover of the subsidiary in the reporting period.

Changes in other provisions

Indicators	31.12.19. EUR	31.12.18. EUR
Provisions at the beginning of the year	158 247	169 396
Decrease	(2 744)	(11 149)
Provisions at the end of the year	155 503	158 247

Notes to the consolidated financial statements (cont.)

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

Indicators	31.12.19. EUR	31.12.18. EUR
Latvian credit institutions, loan agreement (from 1 until 5 years), including	**-**	**3 377 648**
Long-term debt	-	-
Short-term debt	-	3 377 648
Latvian credit institutions, credit line, including	**-**	**2 305 419**
Short-term debt	-	2 305 419
Foreign credit institutions, loan agreement (from 1 until 5 years), including	**7 125 000**	**-**
Long-term debt	6 187 500	-
Short-term debt	937 500	-

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 parent Company's 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
Total			**-**	**5 683 067**

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
Deferred income at the beginning of the year	1 419 278	1 351 448
Changes within the reporting year	375 740	67 830
Deferred income at the end of the year	1 795 018	1 419 278

Notes to the consolidated financial statements (cont.)

Indicators	31.12.19. EUR	31.12.18. EUR
Long-term deferred income	**1 727 147**	**1 373 945**
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	-
Short-term deferred income	**67 871**	**45 333**
Total long-term and short-term deferred income	**1 795 018**	**1 419 278**

*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.

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	1 542 401	2 939 519
Total	**1 542 501**	**2 939 838**

Notes to the consolidated financial statements (cont.)

Note No. 24 – Short-term trade payables

Indicators	31.12.19. EUR	31.12.18. EUR
Local suppliers	1 165 000	1 425 416
Foreign suppliers	1 885 913	3 188 728
Total	**3 050 913**	**4 614 144**

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	421 187	497 531
Changes within the reporting year	104 040	(76 344)
Tax contributions and state social insurance contributions at the end of the year	525 227	421 187

Indicators	Personal income tax	Mandatory social insurance contributions	Corporate income tax	Corporate income tax paid in advance	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	**131 230**	**279 830**	**3 794**	**-**	**-**	**6 089**	**-**	**-**	**244**
01.01.19. overpayment	**-**	**-**	**-**	**89 042**	**85 496**	**-**	**-**	**-**	**-**
Calculated	1 704 644	3 349 241	61 281	44	5 137 109	18 860	19 920	74 112	3 180
Repaid from the budget	-	-	-	-	964 070	-	-	-	-
Paid	1 659 923	3 285 400	65 930		6 229 914	19 612	19 920	74 112	3 158
31.12.19. debt	**175 951**	**343 671**	**-**	**-**	**-**	**5 337**	**-**	**-**	**266**
31.12.19. overpayment	**-**	**-**	**855**	**88 998**	**214 231**	**-**	**-**	**-**	**-**

* As for 31.12.2019. the Group has no current tax debts.

Note No. 26 – Short-term other liabilities

Indicators	31.12.19. EUR	31.12.18. EUR
Salary debt	640 579	550 010
Other	4 013	3 654
Total	**644 592**	**553 664**

Note No. 27 – Accrued liabilities

Indicators	31.12.19. EUR	31.12.18. EUR
Provisions for unused vacation compensation	463 934	387 320
Liabilities to suppliers	171 015	198 850
Total	**634 949**	**586 170**

Note No. 28 – Average number of employees

Indicators	31.12.19.	31.12.18.
Members of the Council	8	8
Members of the Board	6	5
Other employees	724	669
Average number of employees	**738**	**682**

Notes to the consolidated financial statements (cont.)

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 *	5 400	16 000
Wages to the Board Members	9 677	8 106
Mandatory state social insurance contributions	3 632	5 807
Total	**18 709**	**29 913**

* 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 - Transactions with related parties

Related parties

A related party is a person or a company that is related to the Company in question.
A company is considered related to the Company in question if they both are members of the same group of enterprises. Also, a company is considered related to the Company in question, if a person related to the Company in question exercises control, joint control or significant influence on the company.

The biggest shareholder AO Krona Grup, Russia have a significant influence in Group's policy and decision making. Disclosed below is information on transactions with these company.

Indicators	31.12.19. EUR	31.12.18. EUR
Claims	6 664 482	1 866 698
Liabilities	318 481	325 335
Sale of goods	59 971 400	43 413 629
Purchase of goods	1 085 453	645 702

Note No. 31 – 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)	15 300	15 000

Note No. 32

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

A subsidiary company of JSC "Latvo" guarantee of the parent company received to secure the borrowings.

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 parent Company have been pledged as security for a loan(see note 21).

Notes to the consolidated financial statements (cont.)

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 Group 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 Group 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 Group may differ from the assessment of future developments made by the Group management.

Notes on pages 12 to 33 form are integral part of these financial statements.

Chairperson of the Board	Mikalai Yerokhau
Board Members	Aleksandrs Popadins
	Iļja Šestakovs
	Tamāra Rogova
Annual report drawn up by Chief Accountant	Svetlana Statina

24 April 2020

MANAGEMENT CONFIRMATION REPORT

Consolidated financial statements are prepared to the best of our knowledge, in accordance with International Financial Reporting Standards adopted by the European Union. These financial statements give a true and fair view of the financial position of the Group and of its financial perfomance for the period ended 31 December 2019.

In preparing those financial statements, management selected suitable accounting policies, made judgments and estimates that are reasonable and prudent, prepared the financial statements on the going concern basis to presume that the Group will continue in business.

The Management Board is responsible for organizing accounting, they are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Chairperson of the Board	Mikalai Yerokhau
Board Members	Aleksandrs Popadins
	Iļja Šestakovs
	Tamāra Rogova

24 April 2020

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Rīgas Elektromašīnbūves Rūpnīca AS

Our Qualified Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AS RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA ("the Company") and its subsidiaries ("the Group") set out on pages 7 to 33 of the accompanying consolidated annual report, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2019,
- the consolidated statement of financial position as at 31 December, 2019,
- the consolidated statement of cash flows for the year then ended, and
- the consolidated statement of changes in equity for the year then ended,
- the consolidated notes to the consolidated 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 consolidated financial statements give a true and fair view of the consolidated financial position of AS RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA and its subsidiaries as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for Opinion

As disclosed in the accompanying Note 14 to the accompanying consolidated financial statements, as at 31 December 2019 includes a subsidiary issued loan to OOO "Investicionnij aljans" in the balance sheet with the value of EUR 6,579,442. The payment of loan has been significantly overdue and legal proceedings have been initiated in the territory of the Russian Federation for debt recovery. The recovery of loans depends on the outcome of the proceedings and the ability of the borrower and the guarantor (physical person) to reimburse the debt. Considering the nature of the transaction and the progress of the loan recovery, we were not able to obtain sufficient evidence at the time of issuance of the auditor's report to determine with reasonable assurance the recoverability of the debt, and whether the consolidated financial statements should be adjusted.

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.

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

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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
Revenue completeness and periodization	In order to assess the risk of non-compliance with the periodization of revenues, we have conducted the following audit procedures:
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. 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. More detailed information on this issue is provided in Note 1 of Financial Statement and on page 13 of Accounting Policy (Revenue Recognition and Net Turnover).	• have met with the financial management of the Group 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 • became aware of the appropriateness of income traceability methods used and assessed the appropriateness, implementation and operational efficiency of control procedures used • 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; • 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. • Additionally, have asked for sample letters of correspondence and checked the balance of sales receivables at the balance date.
Existence of inventories and net realizable value	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 12 032 thousand and a provision for possible impairment of EUR 319 thousand has been created. The consolidated balance sheet of the Group has a net balance of EUR 12 032 thousand, respectively. Detailed information on this issue is provided in Appendices 10, 11, 12, (financial information) and accounting policies in page 17 the financial statements (stock accounting principles).	• We have met with the financial management of the Group to discuss the current 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; • Evaluate the performance of internal control services in stock inventory and other control measures; • reviewed the results of the inventory;

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Considering the rapid development of the technology industry and the volume of inventories in the separate and consolidated accounts of the Company and the Group, the determination of the net realizable value of inventories is essential, therefore it is considered the main audit issue.	• we participated in inventory and warehouse inventory surveys, observing inventory procedures and progress; • We randomly tested the compliance of inventory acquisition values; • Detailed analytical procedures were carried out to reconcile the inventory sales figures with the management conditions set by the management; • We carried out a detailed examination of the key supporting documents for the sample transactions; • We evaluated stock turnover indicators, as well as reviewed stock age data and evaluated compliance of established stocks with stock accumulation policy conditions.

Reporting on Other Information

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

- the Management Report, as set out on pages 4 to 6 of the accompanying Consolidated Annual Report,
- the information about the Group as set out on page 3. of the accompanying Consolidated Annual Report,
- the Statement on Management Responsibility, as set out on page 34 of the accompanying Consolidated Annual Report,
- the Statement of Corporate Governance and the Consolidated non-financial statement, as published on homepage of Nasdaq Baltic market 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 consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- 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.

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 2019 reporting year"), our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.[1], first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.[2], second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.[2] 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 2019 reporting year") includes the information required in section 56.[1], first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.[2], second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.[2] second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

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").

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Rūpnīca" for the year ended 31 December 2019. Our total uninterrupted period of engagement is 4 years, covering the periods ending 31 December 2016 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