JOINT STOCK COMPANY
“RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA”

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

CONSOLIDATED ANNUAL REPORT
FOR 6 MONTHS OF THE YEAR 2020
(NON-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	
Accounting period	1 January 2020 – 30 June 2020	
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

Business activities of the Group during the first half of 2020

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;
- Electric equipment for trolebuss;
- Cast products.

Net Volume - Group's turnover in the first half of 2020 amounted to 28.08 mil. EUR, which is 7.46 mil. EUR or 20.99% less than in the first half of 2019 (p. 6, Comprehensive income statement).

The amount of gross income amounted to 4.32 mil. EUR, which is 1.63 mil. EUR or 27.39% less than in the first half of 2019. The net profit of the Group for 6 months of the year 2020 was 2.72 mil. EUR, which is 1.33 mil. EUR less than in the first half of 2019 (p. 6, Comprehensive income statement).

The share of equity in the Group's total assets of 68.03% to 67.41% in the corresponding period of the previous year, and the ratio of current assets to current liabilities ratio (overall liquidity ratio) was 2.88 against 3.26 in the corresponding period of the previous year (p.p. 7-8, Statement of financial position).

During the first six months of 2020, no significant events have taken place that could affect the financial statements, nor have there been any significant risks to which the Group could be exposed. However, due to the effect of the spreading of COVID-19 on the market outlets for the Group's products, the volume of the products sold and, respectively, revenues received have dropped.

Other indicators

In the first half of 2020 the average number of employees was 789 people, the average monthly salary was EUR 1 161.

Risk factors related to the business activities of the Group

Financial risks have been characterized on pages 18-19 in notes to financial statements of the consolidated annual report for 6 months of the year 2020.

Significant events during the first half of 2020

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.

Further development of the Group

In the second half of 2020, the Group plans to continue to work with the growing profits, improving financial - economic stability of the Group.

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).

JSC "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 December of 2020.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.

JSC "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.

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.

On behalf of the Group,
Chairperson of the Board Mikalai Yerokhau

27 August 2020

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR 6 MONTHS OF THE YEAR 2020

Items	Note	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Net turnover	1	28 081 182	35 541 383
Production costs of the goods sold	2	(23 756 370)	(29 590 650)
Gross profit or loss		**4 324 812**	**5 950 733**
Selling expenses	3	(415 118)	(472 190)
Administration expenses	4	(1 333 456)	(1 281 798)
Other operating income	5	663 071	352 197
Other operating expenses	6	(324 275)	(366 709)
Other interest payments and similar expenses	7	(185 946)	(84 301)
Profit or loss before corporate income tax		2 729 088	4 097 932
Corporate income tax		(11 153)	(46 391)
Profit or loss of the accounting period		**2 717 935**	**4 051 541**

Attributable to:		
Non-controlling interest	1 262	87
Equity holders of a parent company	2 716 673	4 051 454
Earnings per share	0,468	0,698

Other comprehensive income / loss

Long-term investment revaluation reserve decrease		(14 369)	(4 701)
Total other comprehensive income / loss		**(14 369)**	**(4 701)**

Total comprehensive income		**2 703 566**	**4 046 840**

Attributable to:		
Non-controlling interest	1 262	87
Equity holders of a parent company	2 702 304	4 046 753

Notes on pages 11 to 28 form are integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2020

A S S E T S	Note	30.06.20. EUR	31.12.19. EUR
LONG-TERM INVESTMENTS			
Intangible investments	8		
Development costs		490 421	718 273
Concessions, patents, licences and similar rights		204 573	200 838
Other intangible investments		46 114	27 032
Advances for intangible assets		10 640	-
Total intangible assets		**751 748**	**946 143**
Fixed assets	8		
Real estate (land, buildings and structures)		16 224 175	16 405 055
Technology devices and equipment		6 437 857	6 098 547
Other fixed assets and inventory		301 937	335 518
Expense of tangible assets and construction in progress		3 469 410	2 270 380
Advance payments for fixed assets		632 300	682 826
Total fixed assets		**27 065 679**	**25 792 326**
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		**27 828 286**	**26 749 328**
CURRENT ASSETS			
Inventories			
Raw materials, direct materials and auxiliary materials	9	5 801 138	5 183 465
Work in progress		3 981 774	2 661 593
Finished products and goods for sale	10	1 955 109	1 314 881
Advance payments for inventories	11	2 441 171	2 871 589
Total inventories		**14 179 192**	**12 031 528**
Receivables			
Trade receivables	12	9 929 851	6 742 071
Other receivables	13	7 107 282	7 041 947
Prepaid expenses	14	105 779	158 083
Total receivables		**17 142 912**	**13 942 101**
Cash	15	138 770	384 378
TOTAL CURRENT ASSETS		**31 460 874**	**26 358 007**
TOTAL ASSETS		**59 289 160**	**53 107 335**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2020

L I A B I L I T I E S	Note	30.06.20. EUR	31.12.19. EUR
EQUITY CAPITAL			
Share capital (equity capital)	16	8 118 607	8 118 607
Long-term investment revaluation reserve	17	13 271 365	13 285 734
Reserves: a) other reserves	18	407 137	407 137
Retained earnings or uncovered losses of previous years		15 737 879	9 115 523
Profit or loss of the reporting year		2 716 673	6 622 356
Participatory share of minority stockholders		85 539	84 277
TOTAL EQUITY CAPITAL		**40 337 200**	**37 633 634**
PROVISIONS			
Other provisions	19	155 503	155 503
TOTAL PROVISIONS		**155 503**	**155 503**
CREDITORS			
Long-term liabilities			
Borrowings from credit institutions	20	6 187 500	6 187 500
Deferred income	25	1 690 202	1 727 147
Total long-term liabilities		**7 877 702**	**7 914 647**
Short-term liabilities			
Borrowings from credit institutions	20	1 562 500	937 500
Advance payments from customers	21	219 657	1 542 501
Trade payables	22	7 299 804	3 050 913
Taxes and mandatory state social insurance contributions	23	542 301	525 225
Other liabilities	24	718 392	644 592
Deferred income	25	39 731	67 871
Accrued liabilities	26	536 370	634 949
Total short-term liabilities		**10 918 755**	**7 403 551**
TOTAL CREDITORS		**18 796 457**	**15 318 198**
TOTAL LIABILITIES		**59 289 160**	**53 107 335**

Notes on pages 11 to 28 form are integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR 6 MONTHS OF THE YEAR 2020

(prepared by indirect method)

Cash flow from operating activities

Items	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Profit or loss before corporate income tax	2 729 088	4 097 932
ADJUSTMENTS		
Adjustments of decrease in value of equity capital	787 011	768 466
Amortization of intangible assets	270 689	290 708
Income from sales of fixed assets	(630)	(1 350)
Unrealized profit from fluctuations of currency exchange rate	132 445	30 382
Amounts written off fixed assets	3 593	2 813
Reserve for revaluation of long-term investments	(14 369)	(4 701)
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	**3 907 827**	**5 184 250**
ADJUSTMENTS FOR		
Increase (-)/ decrease (+) in trade and other receivables	(2 771 519)	(3 951 279)
Increase (-)/ decrease (+) in inventories	(2 569 440)	1 364 017
Increase (+)/ decrease (-) in trade and other payables	2 912 750	(3 686 925)
Gross cash flow from operating activities	**1 479 618**	**(1 089 937)**
Expenses for company tax payments	(11 153)	(46 391)
NET CASH FLOW FROM OPERATING ACTIVITIES	**1 468 465**	**(1 136 328)**

Cash flow form investing activities

Items	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Purchase of non-current assets	(2 180 136)	(920 849)
Proceeds from sale of fixed and intangible assets	630	1 350
NET CASH FLOW FROM INVESTING ACTIVITIES	**(2 179 506)**	**(919 499)**

Cash flow from financing activities

Items	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Loans from credit institutions received	1 000 000	10 000 000
Loans from credit institutions repaid	(375 000)	(5 683 067)
NET CASH FLOW FROM FINANCING ACTIVITIES	**625 000**	**4 316 933**

Summary of cash inflow and outflow

Items	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Net cash flow from operating activities	1 468 465	(1 136 328)
Net cash flow from investing activities	(2 179 506)	(919 499)
Net cash flow from financing activities	625 000	4 316 933
Result of fluctuations of currency exchange rates	(159 567)	(11 183)
Net increase/decrease in cash and cash equivalents	**(245 608)**	**2 249 923**
Cash and its equivalents in the beginning of the accounting period	**384 378**	**1 262 638**
Cash and its equivalents at the end of the accounting period	**138 770**	**3 512 561**

Notes on pages 11 to 28 form are integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 6 MONTHS OF THE YEAR 2020, EUR

Type of change	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Participatory share of minority stockholders	Total equity
As at 01.01.19.	**8 118 607**	**13 495 693**	**407 137**	**9 115 523**	**84 918**	**31 221 878**
Profit or loss for the financial year	-	-	-	4 051 454	87	4 051 541
Other comprehensive income	-	(4 701)	-	-	-	(4 701)
Total comprehensive income	**-**	***(4 701)***	**-**	***4 051 454***	***87***	***4 046 840***
As at 30.06.19.	**8 118 607**	**13 490 992**	**407 137**	**13 166 977**	**85 005**	**35 268 718**
As at 01.01.20.	**8 118 607**	**13 285 734**	**407 137**	**15 737 879**	**84 277**	**37 633 634**
Profit or loss for the financial year	-	-	-	2 716 673	1 262	2 717 935
Other comprehensive income	-	(14 369)	-	-	-	(14 369)
Total comprehensive income	**-**	***(14 369)***	**-**	***2 716 673***	***1 262***	***2 703 566***
As at 30.06.20.	**8 118 607**	**13 271 365**	**407 137**	**18 454 552**	**85 539**	**40 337 200**

Notes on pages 11 to 28 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 its subsidiary company of "Latvo" JSC.

Subsidiary (daughter) companies:

Name	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

Principles of preparing the financial statement

The Group'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.

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.

The share belonging to the minority group of shareholders of subsidiary company JSC 'Latvo' is recognized separately.

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

Accounting principles applied

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

- Assuming the Group 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.

Notes to the consolidated financial statements (cont.)

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:

- 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.

During the first six months of 2020, the Group 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.

Notes to the consolidated financial statements (cont.)

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.

During the first six months of 2020, the Group was not involved in any lease transactions where the Group is a lessee.

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

Notes to the consolidated financial statements (cont.)

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 %

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.

Notes to the consolidated financial statements (cont.)

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.

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.

Notes to the consolidated financial statements (cont.)

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.

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

Notes to the consolidated financial statements (cont.)

unused vacations.These liabilities are calculated based on the relevant contract price and the actual goods or provision of services, supporting documents.

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

Government grants

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

Corporate income tax

The corporate income tax for the reporting period consists of the calculated tax for such period. The corporate income tax is recognised in the profit or loss statement. The tax for the reporting period is calculated according to the provisions of the law "Enterprise Income Tax Law".
As of taxation year of 2018, corporate income tax is calculated for distributed profit (dividends) and conditionally distributed profit by applying the rate of 20%. Corporate income tax is recognised at the moment when the participants of the Company will make a decision on distribution of profit, or when the costs not promoting further development of the Company (conditionally distributed profit) will be recorded.
As of 2018, when the taxable basis for the corporate income tax changes, temporary differences in provision on depreciation of the fixed assets do not form; differences for debts of debtors are insignificant; but tax losses to be transferred to the next reporting periods are limited in time and options of use thereof (for 50% from the calculated dividends may be used for no longer than 5 years). On the basis of above, as of 2017 the 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.

Notes to the consolidated financial statements (cont.)

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 on 30 June 2020 is EUR 27 065 679 (31.12.2019. – EUR 25 792 326).

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 on 30 June 2020 is EUR 10 563 470 (31.12.2019. – EUR 7 362 659).

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 on 30 June 2020 is EUR 14 179 192 (31.12.2019. – EUR 12 031 528).

The recoverable amount of long-term 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 (31.12.2019. – EUR 6 579 442).

Risk management

Risk management is an integral part of management process of the holding companies. Risk management in the holding companies 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.

Notes to the consolidated financial statements (cont.)

Currency risk

The Company's financial assets and liabilities that are at the foreign currency risk include cash, debts of customers and clients, debts to suppliers and contractors and short-term and long-term loans. In the first half of 2020 a significant part of the Group's income was in euro and USA dollar, major part of its costs was in euro. All received loans were in euro.

Interest rate risk

The 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 (20)), while the main part of the Group's financial assets are interest-free receivables, therefore the Group is exposed to floating interest rate risk.

	30.06.20.	31.12.19.
Financial liabilities with variable interest rate, EUR	7 750 000	7 125 000
Interest payments, EUR	185 946	344 058

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 30 June 2020, current assets of the Group exceeded its short-term liabilities by 20,54 million. The Group is capable of meeting its short-term liabilities within the required timeframe.
The Group's overall liquidity ratio and the short-term liquidity ratio for two years are as follows: 30.06.20. - 2,88; 30.06.19. – 3,56.

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 (28)).
As of 30 June 2020, the Group's credit risk concentration per one transaction partner reached 98.29% of the total accounts receivable from buyers and customers.

<u>Capital management</u>

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.
In the first six months of 2020 the share of equity in the Group's total assets of 68,03% to 67,41% in the corresponding period of the previous year.

<u>Segment information</u>

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.

Notes to the consolidated financial statements (cont.)

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.

NOTES TO CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR 6 MONTHS OF THE YEAR 2020

Note No. 1 – Net turnover

Type of company's activity	NACE code	30.06.20., EUR	30.06.19., EUR
Manufacturing of electric machines and machinery	2711	28 081 182	35 541 383

Note No. 1 – Net turnover

Country	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Latvia	112 505	122 110
Russia	27 474 250	32 092 977
Ukraine	309 494	28 880
Belarus	32 747	55 294
Slovakia	80 506	161 066
Uzbekistan	69 625	3 062 030
Georgia	-	11 730
Kazakhstan	-	6 000
Lithuania	-	1 296
Estonia	2 055	-
Total	**28 081 182**	**35 541 383**

Major customers

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

Pircējs	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
AO Krona Grup, Russia	27 462 924	32 068 797

Note No. 2 – Production costs of products sold

Indicators	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Salaries	3 958 648	3 580 979
Social insurance contributions	930 484	842 592
Costs of materials	15 027 717	21 605 028
Energy resources	609 598	721 206
Depreciation of capital assets and intangible assets, write-off off intangible investments value	902 639	981 596
Business trip costs	13 559	55 084
Repair costs and remuneration for works from outside	1 728 529	1 406 053
Losses due to rejects	30 042	30 779
Environmental protection costs	16 881	16 140
Research and development costs	428 221	239 324
Other costs	110 052	111 869
Total	**23 756 370**	**29 590 650**

Notes to the consolidated financial statements (cont.)

Note No. 3 – Selling costs

Indicators	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Packing material and package	60 636	59 110
Transportation expenses	256 355	318 508
Salaries	78 333	75 901
Social insurance contributions	18 555	17 996
Other selling costs	1 239	675
Total	**415 118**	**472 190**

Note No. 4 – Administrative costs

Indicators	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Communications costs	8 984	7 210
Cash circulation and expense and extra costs	23 463	26 273
Transportation expenses	2 820	3 098
Salaries	818 868	790 987
Social insurance contributions	188 243	183 180
Energy resources	21 493	38 197
Depreciation of capital assets	94 370	86 943
Business trip costs	11 305	13 977
Real estate tax	47 001	47 046
Other administrative costs	116 909	84 887
Total	**1 333 456**	**1 281 798**

Note No. 5 – Other income from operating activities of the Company

Indicators	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Profit gained as a result of other sales (materials, lease, other)	194 554	82 369
Sale of capital assets	630	1 350
Decrease in revaluation reserve of capital assets	14 369	4 701
Decrease in deferred income (European Union Structural Funds support programme)	122 532	106 298
Financial assistance for the implementation of projects (European Union Structural Funds support programme)	327 208	156 829
Other income	3 778	650
Total	**663 071**	**352 197**

Note No. 6 – Other costs of operating activities of the Company

Indicators	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Costs related to maintenance of social sphere	12 643	16 205
Costs not related to operating activities of the Company	26 037	55 585
Loss from fluctuations of exchange rates	132 445	30 382
Refinancing expenses	-	110 000
Catering expenses for employees	133 538	114 773
Bond issue expenses	-	30 000
Expenditure for sustainable activities of personnel	1 046	3 500
Write-off of inventories	5 929	-
Increase in provisions for doubtful debtors	3 127	-
Other costs	9 510	6 264
Total	**324 275**	**366 709**

Notes to the consolidated financial statements (cont.)

Information of profit or loss from alienation of long-term investment objects

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	0.00	630	0.00	630	630

Note No. 7 – Other interest payments and similar costs

Indicator	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Loan agreements	185 946	47 741
Credit line agreements	-	36 560
Total	**185 946**	**84 301**

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR 6 MONTHS OF THE YEAR 2020

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

Intangible assets

	Research and development costs	Concessions, patents, licenses, trade marks and similar rights	Other intangible assets	Advances for intangible assets	Total intangible assets
Acquisition value 01.01.20.	**2 279 580**	**935 760**	**189 303**	**-**	**3 404 643**
Additions	-	28 224	37 430	10 640	**76 294**
Disposal	-	-	-	-	**-**
Acquisition value 30.06.20.	**2 279 580**	**963 984**	**226 733**	**10 640**	**3 480 937**
Accumulated amortization 01.01.20.	**1 561 307**	**734 922**	**162 271**	**-**	**2 458 500**
Amortization charge	227 852	24 489	18 348	-	**270 689**
Amortization of disposals	-	-	-	-	**-**
Accumulated amortization 30.06.20.	**1 789 159**	**759 411**	**180 619**	**-**	**2 729 189**
Net book value 01.01.20.	**718 273**	**200 838**	**27 032**	**-**	**946 143**
Net book value 30.06.20.	**490 421**	**204 573**	**46 114**	**10 640**	**751 748**

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.

Notes to the consolidated financial statements (cont.)

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 01.01.20.	**19 563 724**	**16 598 786**	**964 582**	**2 270 380**	**682 826**	**40 080 298**
Additions	-	900 396	15 056	2 114 483	1 334 570	**4 364 505**
Disposal	(3 365)	(114 529)	(10 321)	(915 453)	(1 385 096)	**(2 428 764)**
Acquisition value 30.06.20.	**19 560 359**	**17 384 653**	**969 317**	**3 469 410**	**632 300**	**42 016 039**
Accumulated amortization 01.01.20.	**3 158 669**	**10 500 239**	**629 064**	**-**	**-**	**14 287 972**
Amortization charge	178 054	560 320	48 637	**-**	**-**	**787 011**
Amortization of disposals	(539)	(113 763)	(10 321)	**-**	**-**	**(124 623)**
Accumulated amortization 30.06.20.	**3 336 184**	**10 946 796**	**667 380**	**-**	**-**	**14 950 360**
Net book value 01.01.20.	**16 405 055**	**6 098 547**	**335 518**	**2 270 380**	**682 826**	**25 792 326**
Net book value 30.06.20.	**16 224 175**	**6 437 857**	**301 937**	**3 469 410**	**632 300**	**27 065 679**

*In 2020 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. 9 – Raw materials, direct materials and auxiliary materials

Indicators	30.06.20. EUR	31.12.19. EUR
Raw materials, direct materials and auxiliary materials	6 119 816	5 502 143
Provisions for stocks of slow-turnover	(318 678)	(318 678)
Total	**5 801 138**	**5 183 465**

Note No. 10 – Finished goods and goods for sale

Indicators	30.06.20. EUR	31.12.19. EUR
Electrical equipment for electric trains and for metro cars	1 955 109	1 314 881

Note No. 11 – Advance payments for inventories

Indicators	30.06.20. EUR	31.12.19. EUR
Local customers	57 762	2 624
Foreign customers	2 383 409	2 868 965
Total	**2 441 171**	**2 871 589**

Note No. 12 – Trade receivables

Indicators	30.06.20. EUR	31.12.19. EUR
Debts of customers and clients	9 963 784	6 774 203
Provisions for doubtful debtors	(33 933)	(32 132)
Total	**9 929 851**	**6 742 071**

Notes to the consolidated financial statements (cont.)

Note No. 13 – Other receivables

Indicators	30.06.20. EUR	31.12.19. EUR
Taxes paid in advance	248 180	92 733
Overpaid taxes	20 726	215 086
Processing of goods	155 931	55 946
Advance payments for services	60 315	62 472
Financial support for the project (European Union Structural Funds support programme)	28 000	28 000
Long-term loan of the subsidiary (daughter) company *	6 625 597	6 625 597
Provisions for long-term loan*	(46 155)	(46 155)
Other	14 688	8 268
Total	**7 107 282**	**7 041 947**

* 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. 14 – Prepaid expenses

Indicators	30.06.20. EUR	31.12.19. EUR
Insurance	2 649	3 295
Service	20 000	40 000
Services of Rīgas Ūdens SIA (water supply company)	80 480	112 672
Other	2 650	2 116
Total	**105 779**	**158 083**

Note No. 15 – Cash

Indicators	30.06.20. EUR	31.12.19. EUR
Current accounts in banks	138 770	384 378

Note No. 16 – 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	30.06.20.		31.12.19.	
	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.)

Note No. 17 – Reserve for revaluation of long-term investments

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

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

Note No. 18 – Other reserves

Indicators	30.06.20. EUR	31.12.19. EUR
Share denomination from lat to euro	132 634	132 634
Other	274 503	274 503
Kopā	**407 137**	**407 137**

Note No. 19 – Other provisions

Indicators	30.06.20. EUR	31.12.19. EUR
Provision for warranty repairs of the subsidiary (daughter) company	3 262	3 262
Provisions for benefits for damages to health of the parent company	152 241	152 241
Total	**155 503**	**155 503**

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

Note No. 20 – Long-term and short-term loans from credit institutions

Indicators	30.06.20. EUR	31.12.19. EUR
Long-term debt, including	**6 187 500**	**6 187 500**
Foreign credit institutions, loan agreement	6 187 500	6 187 500
Short-term debt, including	**1 562 500**	**937 500**
Foreign credit institutions, loan agreement	562 500	937 500
Foreign credit institutions, credit line	1 000 000	-
Total	**7 750 000**	**7 125 000**

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 30 June 2020 is EUR 58 034 199 (31.12.2019. - EUR 51 957 469).

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

Contract number	% rate for year	Date of payment	Sum, EUR 30.06.19.	Sum, EUR 31.12.18.
Credit agreement from 01.04.19.	5,0% + 3mon.EURIBOR	31.03.24.	6 750 000	7 125 000
Credit agreement from 01.04.19. - credit line	5,0% + 3mon.EURIBOR	29.11.19.	1 000 000	-
Total			**7 750 000**	**7 125 000**

Notes to the consolidated financial statements (cont.)

Note No. 21 – Advance payments from customers

Indicators	30.06.20. EUR	31.12.19. EUR
Local customers	856	100
Foreign customers	218 801	1 542 401
Total	**219 657**	**1 542 501**

Note No. 22 – Short-term trade payables

Indicators	30.06.20. EUR	31.12.19. EUR
Local suppliers	2 047 693	1 165 000
Foreign suppliers	5 252 111	1 885 913
Total	**7 299 804**	**3 050 913**

Note No. 23 – Taxes and mandatory state social insurance contributions, EUR

Indicators	30.06.20. EUR	31.12.19. EUR
Personal income tax	175 160	175 951
Mandatory social insurance contributions	360 903	343 671
Corporate income tax	1 470	-
Natural resources tax	4 486	5 337
State business risk fee	282	266
Total	**542 301**	**525 225**

As for 30.06.2020. the Group has no current tax debts.

Note No. 24 – Short-term other liabilities

Indicators	30.06.20. EUR	31.12.19. EUR
Salary debt	714 540	640 579
Other	3 852	4 013
Total	**718 392**	**644 592**

Note No. 25 – Long-term and short-term deferred income

Indicators	30.06.20. EUR	31.12.19. EUR
Long-term deferred income	**1 690 202**	**1 727 147**
Support for the project implementation in the frames of the Centre of Competence	36 315	72 629
Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	738 308	808 292
Support for the project "Complex solutions for increasing of energy efficiency in AS Rīgas elektromašīnbūves rūpnīca" implementation	294 913	311 146
Support for the project "Complex solutions for increasing of energy efficiency in AS Rīgas elektromašīnbūves rūpnīca, stage 2" implementation	536 226	535 080
Support for the project "Electrical equipment fo 25kV AC electric train with asynchronous drives" implementation	84 440	-
Short-term deferred income	**39 731**	**67 871**
Total long-term and short-term deferred income	**1 729 933**	**1 795 018**

Notes to the consolidated financial statements (cont.)

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

Provider of financial assistance	Year of receipt	Sum, EUR	Receipt objective	Conditions	The sum to be paid back in the reporting year if any of the conditions is not reached
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	-
Centrālā finanšu un līgumu aģentūra (CFLA)	2019-2020	536 226	Increasing energy efficiency (stage 2)	conditions fulfilled	-
Centrālā finanšu un līgumu aģentūra (CFLA)	2020	84 440	New technological equipment	conditions fulfilled	-

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. 26 – Accrued liabilities

Indicators	30.06.20. EUR	31.12.19. EUR
Provisions for unused vacation compensation	463 934	463 934
Liabilities to suppliers	72 436	171 015
Total	**536 370**	**634 949**

Note No. 27 – Average number of employees

Indicators	30.06.20. EUR	31.12.19. EUR
Members of the Council	8	8
Members of the Board	6	6
Other employees	775	724
Average number of employees	**789**	**738**

Note No. 28 - Transactions with related parties

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	30.06.20. EUR	31.12.19. EUR
Claims	9 760 177	6 664 482
Liabilities	36 258	318 481

Indicators	01.01.20. - 30.06.20. EUR	01.01.19. - 30.06.19. EUR
Sale of goods	27 462 924	32 068 797
Purchase of goods	186 421	841 172

Notes to the consolidated financial statements (cont.)

Information on pledged or otherwise encumbered assets

As on 30.06.2020. all assets of parent Company have been pledged as security for a loan.

Notes on pages 11 to 28 form are integral part of these financial statements.

On behalf of the Group,
Chairperson of the Board Mikalai Yerokhau

27 August 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 30 June 2020.

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.

On behalf of the Group,
Chairperson of the Board Mikalai Yerokhau

27 August 2020