JOINT STOCK COMPANY
“RĪGAS ELEKTROMAŠĪNBŪVES RŪPNĪCA”

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

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR 2018
(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	Stanislav Vodolazskii	from 22.07.16.
Vice-Chairperson of the Council	Kirills Nužins	from 11.11.15.
Council Members	Andrey Sarkisov	from 15.07.15.
	Natalia Sarkisova	from 15.07.15.
	Sergey Bolysov	from 20.06.17.
	Maksim Gordyukov	until 02.05.17.
The parent Company Board:		
Chairperson of the Board	Nikolajs Erohovs	from 15.03.11.
Board Members	Aleksandrs Popadins	from 08.11.13.
	Iļja Šestakovs	from 30.01.15.
	Grigorijs Kapustins	from 18.10.16.
	Olga Pētersone	until 12.10.17.
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	Obligations of the Revision Committee are performed by the Company Council according to Minutes No.1 of ordinary meeting of shareholders dated June 20, 2017.	
Annual report drawn up by	Chief Accountant Svetlana Statina	
Reporting period	1 January 2018 – 31 December 2018	
Previous reporting period	1 January 2017 – 31 December 2017	
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 2018

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 2018 was stable. Net sales reached EUR 46.24 million, which is EUR 17.20 million or 59.23% higher than in the previous year (p. 6, 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 2018 amounted to EUR 7.68 million, which is EUR 3.01 million or 64.45% higher compared to 2017, while net profit was EUR 3.61 million, which is EUR 3.09 million higher compared to 2017 (p. 6, Comprehensive income statement).

The equity of the Group in the total worth of assets reached 65.6% against 65.0% in 2017, and the current asset-to-short-term debt ratio (overall liquidity ratio) was 1.53 against 1.10 in 2017 (p.p. 7-8, Statement of financial position).

Whereas JSC "Rīgas elektromašīnbūves rūpnīca” is in the process of refinancing its loan agreements and deals with changes in certain requirements, at this point the Company does not disclose earnings before interest, taxation, depreciation & amortization (EBITDA), net debt to EBITDA ratio (Leverage), and debt service coverage ratio (DSCR).

Other indicators

In 2018 the average number of employees was 682 people, the average monthly salary was EUR 999.

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 16-17 in notes to financial statements of the annual report 2018.

Significant events in 2018

In May of 2018, JSC "Rīgas elektromašīnbūves rūpnīca” (RER) received notice of acquisition of substantial interest, according to which the shareholder MEASURESTEP ENTERPRISES LIMITED (Cyprus) directly owning 33.04% of RER shares indirectly acquired 64.19% shares in the voting share capital of RER. In November of 2018, indirect interest of MEASURESTEP ENTERPRISES LIMITED in the voting share capital of RER was reduced by 18.19% to 46%.

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 2019, the Group plans to provide a significant increase in the net - the turnover in relation to the achieved in 2018 and continue to work with the growing profits, improving financial - economic stability of the Holding Company.

Development Measures

JSC „Rīgas elektromašīnbūves rūpnīca" on January 29, 2018 signed an agreement with Central Finance and Contracting Agency (CFCA) about project "Complex solutions for increasing of energy efficiency in AS Rīgas Elektromašīnbūves Rūpnīca" implementation, funding and supervision.

The goal of the project is to promote the efficient use of energy resources and to reduce energy consumption in AS RER.

Within the project, 11 production equipment / equipment sets will be purchased, set-up and put into operation. 5 production buildings will be renovated.

JSC "Rīgas elektromašīnbūves rūpnīca" plans to implement the project called "Development of the Production Line of Electrical Equipment for 25kV AC Electric Train with Asynchronous Traction Drive". It is planned to purchase equipment and carry out research and development necessary to launch production of the new product.

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).

Events after the balance sheet date

On 22 February 2019, an extraordinary meeting of shareholders of RER was held during which a new Supervisory Council and the Audit Committee were elected.

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.

There have not been any significant or extraordinary events between the last day of the reporting year and the day when the management signed the report that could essentially influence data or financial position of the company

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

26 April 2019

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE YEAR 2018

Items	Note	2018 EUR	2017 EUR
Net turnover	1	46 236 956	29 036 417
Production costs of the goods sold	2	(38 551 966)	(24 370 635)
Gross profit or loss		**7 684 990**	**4 665 782**
Selling expenses	3	(708 237)	(675 541)
Administration expenses	4	(2 524 942)	(2 429 238)
Other operating income	5	605 434	491 634
Other operating expenses	6	(1 100 340)	(1 496 531)
Revenue from other securities and loans which formed long-term financial investments	7	35 182	-
Other interest income and similar income		25	2
Adjustments of decrease in value of long-term and short-term financial investments	8	-	(5 675)
Other interest payments and similar expenses	9	(349 083)	(390 360)
Profit or loss before corporate income tax		3 643 029	160 073
Corporate income tax		(32 969)	-
Profit or loss after calculating the corporate income tax		3 610 060	160 073
Retained corporate income tax	10	-	359 945
Profit or loss of the accounting period		**3 610 060**	**520 018**

Attributable to:		
Non-controlling interest	(3 371)	-
Equity holders of a parent company	3 613 431	520 018
Earnings per share	0,623	0,089

Other comprehensive income / loss

Long-term investment revaluation reserve decrease		(196 065)	(198 977)
Long-term investment revaluation reserve increase - effect of deferred enterprise income tax		-	2 089 161
Total other comprehensive income / loss		**(196 065)**	**1 890 184**

Total comprehensive income		**3 413 995**	**2 410 202**

Attributable to:		
Non-controlling interest	(3 371)	-
Equity holders of a parent company	3 417 366	2 410 202

Notes on pages 11 to 29 form are integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2018

A S S E T S	Note	31.12.18. EUR	31.12.17. EUR
LONG-TERM INVESTMENTS			
Intangible investments	11		
Development costs		1 159 885	1 581 122
Concessions, patents, licences and similar rights		301 516	327 352
Other intangible investments		11 485	24 470
Prepayments for intangible investments		-	3 625
Total intangible assets		**1 472 886**	**1 936 569**
Fixed assets	11		
Real estate (land, buildings and structures)		16 136 712	15 266 356
Technology devices and equipment		5 980 824	6 088 719
Other fixed assets and inventory		234 743	257 612
Expense of tangible assets and construction in progress		549 972	901 770
Advance payments for fixed assets		529 665	177 139
Total fixed assets		**23 431 916**	**22 691 596**
Long-term financial investments			
Own shares		10 289	14 551
Other securities and investments		570	-
Other long-term debtors	12	-	6 835 781
Total long-term financial investments		**10 859**	**6 850 332**
TOTAL LONG-TERM INVESTMENTS		**24 915 661**	**31 478 497**
CURRENT ASSETS			
Inventories			
Raw materials, direct materials and auxiliary materials	13	4 309 973	3 677 582
Work in progress		2 587 995	2 019 058
Finished products and goods for sale	14	2 309 442	755 409
Advance payments for inventories	15	2 475 566	3 400 671
Total inventories		**11 682 976**	**9 852 720**
Receivables			
Trade receivables	16	2 583 814	505 753
Other receivables	17	7 108 120	297 420
Prepaid expenses	18	44 264	4 888
Total receivables		**9 736 198**	**808 061**
Short-term financial investments	19		
Other securities and interest in capital		-	90 000
Total short-term financial investments		**-**	**90 000**
Cash	20	1 262 638	715 764
TOTAL CURRENT ASSETS		**22 681 812**	**11 466 545**
TOTAL ASSETS		**47 597 473**	**42 945 042**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2018

L I A B I L I T I E S	Note	31.12.18. EUR	31.12.17. EUR
EQUITY CAPITAL			
Share capital (equity capital)	21	8 118 607	8 118 607
Long-term investment revaluation reserve	22	13 495 693	13 691 758
Reserves: a) other reserves	23	407 137	407 137
Retained earnings or uncovered losses of previous years		5 502 092	5 070 363
Profit or loss of the reporting year		3 613 431	520 018
Participatory share of minority stockholders		84 918	-
TOTAL EQUITY CAPITAL		**31 221 878**	**27 807 883**
PROVISIONS			
Other provisions	24	158 247	169 396
TOTAL PROVISIONS		**158 247**	**169 396**
CREDITORS			
Long-term liabilities			
Borrowings from credit institutions	25	-	3 202 067
Deferred income	26	1 373 945	1 306 115
Total long-term liabilities		**1 373 945**	**4 508 182**
Short-term liabilities			
Borrowings from credit institutions	25	5 683 067	3 128 330
Advance payments from customers	27	2 939 838	4 541 164
Trade payables	28	4 812 994	1 475 130
Taxes and mandatory state social insurance contributions	29	421 187	497 531
Other liabilities	30	553 664	445 146
Deferred income	26	45 333	45 333
Accrued liabilities	31	387 320	326 947
Total short-term liabilities		**14 843 403**	**10 459 581**
TOTAL CREDITORS		**16 217 348**	**14 967 763**
TOTAL LIABILITIES		**47 597 473**	**42 945 042**

Notes on pages 11 to 29 form are integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR 2018 (prepared by indirect method)

Cash flow from operating activities

Items	2018 EUR	2017 EUR
Profit or loss before corporate income tax	3 643 029	160 073
ADJUSTMENTS		
Adjustments of decrease in value of equity capital	1 648 578	2 448 146
Amortization of intangible assets	618 361	771 827
Income from sales of fixed assets	(3 765)	(5 630)
Provisions	(11 149)	163 084
Unrealized profit from fluctuations of currency exchange rate	435 248	902 772
Adjustments of reduction in the value of long-term and short-term financial investments	4 262	-
Amounts written off fixed assets	11 606	7 149
Changes to the reserve for revaluation of long-term investments	(196 065)	(198 977)
Profit or loss before adjustments influenced by changes of balance of current assets and short-term liabilities	**6 150 105**	**4 248 444**
ADJUSTMENTS FOR		
Increase (-)/ decrease (+) in trade and other receivables	(1 528 083)	(1 149 924)
Increase (-)/ decrease (+) in inventories	(2 755 361)	(122 609)
Increase (+)/ decrease (-) in trade and other payables	3 048 694	3 719 077
Gross cash flow from operating activities	**4 915 355**	**6 694 988**
Expenses for company tax payments	(32 969)	-
NET CASH FLOW FROM OPERATING ACTIVITIES	**4 882 386**	**6 694 988**

Cash flow form investing activities

Items	2018 EUR	2017 EUR
Acquisition of stocks or shares of other undertakings	(570)	-
Proceeds from investment properties	90 000	850 000
Purchase of non-current assets	(2 206 281)	(2 043 285)
Proceeds from sale of fixed and intangible assets	3 765	5 630
NET CASH FLOW FROM INVESTING ACTIVITIES	**(2 113 086)**	**(1 187 655)**

Cash flow from financing activities

Items	2018 EUR	2017 EUR
Loans from credit institutions received	-	65 000
Loans from credit institutions repaid	(1 775 000)	(4 045 949)
NET CASH FLOW FROM FINANCING ACTIVITIES	**(1 775 000)**	**(3 980 949)**

Summary of cash inflow and outflow

Items	2018 EUR	2017 EUR
Net cash flow from operating activities	4 882 386	6 694 988
Net cash flow from investing activities	(2 113 086)	(1 187 655)
Net cash flow from financing activities	(1 775 000)	(3 980 949)
Result of fluctuations of currency exchange rates	(447 426)	(899 029)
Net increase/decrease in cash and cash equivalents	**546 874**	**627 355**
Cash and its equivalents in the beginning of the accounting period	**715 764**	**88 409**
Cash and its equivalents at the end of the accounting period	**1 262 638**	**715 764**

Notes on pages 11 to 29 form are integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2018, EUR

Izmaiņu veids	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Participatory share of minority stockholders	Total equity
As at 31.12.16.	**8 118 607**	**11 801 574**	**407 137**	**5 070 363**	**-**	**25 397 681**
Profit or loss for the financial year	-	-	-	520 018		520 018
Other comprehensive income	-	1 890 184	-	-		1 890 184
Total comprehensive income	-	*1 890 184*	-	*520 018*		*2 410 202*
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*	-	***3 417 366***
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**

* See consolidation principles (p. 12)

Notes on pages 11 to 29 form are integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

Consolidated financial reports include the balance data of both (the Holding) JSC “Rīgas elektromašīnbūves rūpnīca” (hereinafter referred to as JSC “RER”) and its subsidiary company of “Latvo” JSC.

These financial statements were authorised for issue by the Board of Directors of the Company on 26 April 2019.

Subsidiary (daughter) companies:

Name	Addres	Type of operations	Share capital, EUR	Participation Interest, %
AS „Latvo”	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 Holding’s financial principles.

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):

Amendments to IFRS 2 “Share Payment” (effective for annual periods beginning on or after January 1, 2018, not yet accepted in the EU).

Amendments to IFRS 4 “Insurance Contracts” - application of IFRS 9 “Financial Instruments” to IFRS 4 “Insurance Contracts” (effective for annual periods beginning on January 1, 2018, or after).

IFRS 9 “Financial Instruments” (effective for annual periods beginning on January 1, 2018, or after).

IFRS 15 “Revenue from contracts with customers” (effective for annual periods beginning on January 1, 2018, or after). A new standard introduces the recognition of revenue together with the delivery of goods or services to the buyer, according to the transaction price. When individual goods and services are combined into offer bundles, the sale of each individual item or service is recognised as an individual transaction and any contractual discounts should normally be attributed to each element of the transaction. For transactions with variable remuneration, a minimum amount, that is not subject to a substantial cancellation risk, should be recognised. The costs, associated with the conclusion of customer contracts, are capitalised and can be amortised over the life of the contract.

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.

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

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.

Amendments to IAS 40 "Investment Property" (effective for annual periods beginning on January 1, 2018, or after, not yet accepted in the EU).

IFRIC 22 "Foreign Currency Transactions and Advance Consideration".

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.

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.

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

Accounting principles applied

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

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

Income recognition and net turnover

Net turnover is a total amount of the value of products sold and services rendered over the year without discounts and value added tax. Income from the sale of products is recognized as soon as the most significant title is conferred on the customer and risks to the products and remuneration can be assessed properly. Income from service rendering is recognized as soon as the service is rendered. Other types of income are recognized as follows:

- Income from rent – at the moment it is generated;
- Income from penalty and delay payments – at the moment they are received;
- Dividends – at the moment legal rights to the dividends are established.

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

Capital assets and intangible assets

Capital assets and intangible 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. Value resulting from revaluation gains are recognized in equity under "Long-term investments revaluation reserve".
Capital assets and intangible assets have been reflected on the balance sheet in their purchase prices, excluding depreciation.
Depreciation of capital assets and intangible assets has been calculated according to the straight-line method. No depreciation of land has been calculated. In order to calculate depreciation of capital assets and intangible assets the following depreciation norms (% a year) approved by the Management has been used:

Intangible assets:	
- Development costs	33.3% - 20%
- Licences	20%
- Software	50%
Capital assets:	
- 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.

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.

Unfinished construction and costs of capital asset creation

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. Depreciation of the unfinished construction has not been calculated, since the relevant assets have not been finished and put into operation.

Financial leasing

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

Receivables

Evaluation of the remaining amounts of materials and primary materials has been carried out by employing the FIFO method.
Inventory of low value has been recorded on the basis of purchase cost price written off 100% after having been put into operation.
Remaining amounts of finished products and unfinished products have been assessed according to their cost prices. Remaining amounts of receivables have been audited at the annual inventory.
Provisions for stocks of slow-turnover are individually made for every type of stocks.

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

Debts of debtors

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

Currency unit and recalculation of foreign currency

Indicators reflected in the annual report have been given in 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.

	31.12.18., 1 EUR	**31.12.17., 1 EUR**
USD	1.145	1.1993
RUB	79.7153	69.392

Long-term and short-term items

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

Other securities

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

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.
In 2017 the Group changed the accounting policy for the fixed asset revaluation reserve and began to calculate the depreciation of revaluation reserve so that the costs of depreciation of fixed assets in the profit or loss statement correspond to changes in the revaluation reserve.

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 2018 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.

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.

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

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.

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 23 431 916 (31.12.2017. - EUR 22 691 596).

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 3 156 756 (31.12.2017. - EUR 808 061).

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 11 682 976 (31.12.2017. - EUR 9 852 720).

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 (31.12.2017. – EUR 6 835 781).

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

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:

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 2018 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: :

	31.12.18.	**31.12.17.**
Financial assets, USD	770 461	12 590
Financial liabilities, USD	(89)	(122 489)
Open position USD, net	770 372	(109 899)
Open position USD calculated in euro, net	672 814	(91 636)
Financial assets, RUB	17 873 448	57 002 378
Financial liabilities, RUB	(35 282 500)	(1 614 137)
Open position RUB, net	(17 409 052)	55 388 241
Open position RUB calculated in euro, net	(218 390)	798 193

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 :

	31.12.18.		**31.12.17.**	
	Change in exchange rates	Effect on equity, EUR	Change in exchange rates	Effect on equity, EUR
USD	+10 %	88 858	+10 %	3 943
	-10 %	(88 858)	-10 %	(3 943)
RUB	+10 %	9 682	+10 %	2 169
	-10 %	(9 682)	-10 %	(2 169)

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 (25)), 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 2018 the Group's liabilities with floating interest rates decreased.

	31.12.18.	31.12.17.
Financial liabilities with variable interest rate, EUR	5 683 067	6 130 397

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

Liquidity risk
The Group has control over its liquidity risk by ensuring the appropriate financing with the help of a credit line granted by a Latvian credit institution (Note (25)). In 2018 ratio of current assets to current liabilities ratio of 1.53 to 1.10 in 2017. At the end of the reporting period the Group had unused credit line resources EUR 194 581 (31.12.2017. – EUR 1 322 251).

Credit risk
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 (34)).
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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 65.6% to 65.0% in 2017.

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 2018

Note No. 1 – Net turnover

Type of company's activity	**NACE code**	**2018, EUR**	**2017, EUR**
Manufacturing of electric machines and machinery	2711	46 236 956	29 036 417

Net sales by geographical markets

Country	2018 EUR	2017 EUR
Latvia	320 866	199 851
Russia	43 466 554	24 528 104
Ukraine	179 450	162 620
Belarus	176 693	299 912
Slovakia	237 509	363 954
Georgia	36 543	-
Uzbekistan	1 819 341	3 474 705
Other	-	7 271
Total	**46 236 956**	**29 036 417**

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

Pircējs	2018 EUR	2017 EUR
AO Krona Grup, Russia	43 413 629	24 481 510
TVSRZ, Uzbekistan	-	3 474 705
Kopā	**43 413 629**	**27 956 215**

Notes to consolidated comprehensive income statement (cont.)

Note No. 2 – Production costs of products sold

Indicators	2018 EUR	2017 EUR
Salaries	5 881 944	5 261 009
Social insurance contributions	1 381 630	1 208 054
Costs of materials	26 047 953	12 524 168
Energy resources	1 151 388	1 129 763
Depreciation of capital assets and intangible assets, write-off off intangible investments value	1 921 504	2 751 293
Business trip costs	102 290	76 011
Repair costs and remuneration for works from outside	1 672 554	693 217
Costs of production quality control	-	473 183
Losses due to rejects	65 649	61 751
Environmental protection costs	34 851	32 426
Research and development costs	128 057	-
Other costs	164 146	159 760
Total	**38 551 966**	**24 370 635**

Parent company's development expenditures in 2018 amounted to EUR 157,752, of which EUR 29,695 were capitalized and recognized in the balance sheet as intangible investments.

Note No. 3 – Selling costs

Indicators	2018 EUR	2017 EUR
Packing material and package	96 688	84 675
Transportation expenses	431 653	411 651
Salaries	135 069	110 259
Social insurance contributions	32 013	25 635
Other selling costs	12 814	43 321
Total	**708 237**	**675 541**

Note No. 4 – Administrative costs

Indicators	2018 EUR	2017 EUR
Communications costs	21 967	21 593
Annual report and auditing services	15 000	15 000
Cash circulation and expense and extra costs	38 019	64 980
Transportation expenses	11 780	24 684
Representation expenses	9 321	8 245
Salaries	1 523 259	1 265 710
Social insurance contributions	353 566	289 745
Energy resources	70 683	71 016
Depreciation of capital assets	180 490	433 923
Business trip costs	34 500	30 346
Real estate tax	93 798	96 922
Other administrative costs	172 559	107 074
Total	**2 524 942**	**2 429 238**

Note No. 5 – Other income from operating activities

Indicators	2018 EUR	2017 EUR
Profit gained as a result of other sales (lease and other)	174 838	72 961
Sale of capital assets*	3 765	5 630
Decrease in revaluation reserve of capital assets	196 065	198 977
Decrease in deferred income (Eurofound)	212 597	212 597
Decrease in provisions for benefits for damages to health	8 252	-
Writing off unclaimed debts to suppliers and contractors	3 954	-
Other income	5 963	1 469
Total	**605 434**	**491 634**

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	3 765	0	3 765	3 765

Note No. 6 – Other costs of operating activities

Indicators	2018 EUR	2017 EUR
Penalty and contractual penalties	21 656	26 244
Costs related to maintenance of social sphere	36 581	28 945
Costs not related to operating activities of the Company	88 570	72 148
Loss from fluctuations of exchange rates	435 248	902 772
Removal of capital assets	11 606	7 149
Write-off of bad debtors	4 891	5 813
Write-off of inventories	17 588	18 113
Inventory downpricing	118 811	-
Increase in provisions for stocks of slow-turnover	187 656	80 755
Increase in provisions for doubtful debtors	10 744	112 629
Provisions for benefits for damages to health	-	161 524
Increase in holiday provision	60 373	77 628
Expenditure for sustainable activities of personnel	99 728	-
Other costs	6 888	2 811
Total	**1 100 340**	**1 496 531**

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

Indicator	2018 EUR	2017 EUR
Earnings from the sale of own shares	35 182	-
Kopā	**35 182**	**-**

Note No. 8 – Adjustments of decrease in value of long-term and short-term financial investments

Indicator	2018 EUR	2017 EUR
Adjustments of decrease in value of long-term loan (subsidiary (daughter) company)	-	5 675
Kopā	**-**	**5 675**

Note No. 9 – Other interest payments and similar costs

Indicator	2018 EUR	2017 EUR
Loan agreements	233 236	278 494
Credit line agreements	115 847	111 866
Total	**349 083**	**390 360**

Notes to the consolidated financial statements (cont.)

Note No.10 – Income or expenditure from changes to deferred tax assets or liabilities

Deferred enterprise income tax displayed in the balance statement

Indicators	2018 EUR	2017 EUR
Deferred corporate income tax at the beginning of year	-	2 449 107
Increase/decrease of deferred corporate income tax for reporting period	-	(2 449 107)
Deferred corporate income tax at the end of year	-	-

Deferred enterprise income tax displayed in the profit or loss statement

Rādītāji	2018 EUR	2017 EUR
Deferred tax expenditure in profit and loss account of accounting year	-	(359 945)

NOTES TO BALANCE SHEET FOR THE YEAR 2018

Note No. 11 – 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 01.01.18.	**2 234 885**	**822 909**	**142 847**	**3 625**	**3 204 266**
Additions	29 695	112 851	15 757	-	**158 303**
Disposal	-	-	-	(3 625)	**(3 625)**
Acquisition value 31.12.18.	**2 264 580**	**935 760**	**158 604**	**-**	**3 358 944**
Accumulated amortization 01.01.18.	**653 763**	**495 557**	**118 377**	**-**	**1 267 697**
Amortization charge	450 932	138 687	28 742	-	**618 361**
Amortization of disposals	-	-	-	-	**-**
Accumulated amortization 31.12.18.	**1 104 695**	**634 244**	**147 119**	**-**	**1 886 058**
Net book value 01.01.18.	**1 581 122**	**327 352**	**24 470**	**3 625**	**1 936 569**
Net book value 31.12.18.	**1 159 885**	**301 516**	**11 485**	**-**	**1 472 886**

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 01.01.18.	**17 671 576**	**14 526 736**	**817 555**	**901 770**	**177 139**	**34 094 776**
Additions	1 294 325	1 061 428	44 023	2 076 437	1 288 127	**5 764 340**
Disposal	(618)	(77 558)	(25 777)	(2 428 235)	(935 601)	**(3 467 789)**
Acquisition value 31.12.18.	**18 965 283**	**15 510 606**	**835 801**	**549 972**	**529 665**	**36 391 327**
Accumulated amortization 01.01.18.	**2 405 220**	**8 438 017**	**559 943**	**-**	**-**	**11 403 180**
Amortization charge	423 506	1 158 180	66 892	-	-	**1 648 578**
Amortization of disposals	(155)	(66 415)	(25 777)	-	-	**(92 347)**
Accumulated amortization 31.12.18.	**2 828 571**	**9 529 782**	**601 058**	**-**	**-**	**12 959 411**
Net book value 01.01.18.	**15 266 356**	**6 088 719**	**257 612**	**901 770**	**177 139**	**22 691 596**
Net book value 31.12.18.	**16 136 712**	**5 980 824**	**234 743**	**549 972**	**529 665**	**23 431 916**

*In 2018 assessed value of the premises accounted EUR 4 925 183, assessed value of the plot accounted for EUR 1 328 026.

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. 12 – Other long-term debtors

Indicators	31.12.18. EUR	31.12.17. EUR
Long-term loan of the subsidiary (daughter) company (until 01.01.2019)*	-	6 881 936
Provisions for long-term loan	-	(46 155)
Total	**-**	**6 835 781**

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.

* On 01 January 2019, two loan agreements with Investicionnij Aljans, SIA expired. In January of 2019 LATVO, AS started the debt recovery proceedings. As of the date of signature of the Annual Report, no information was available as to the progress of the debt recovery proceedings. Taking into consideration that the borrower has a solvent guarantor and also that the parties are engaged in negotiations about extension of the maturity date (not less than for 3 years), we have not made any provisions for outstanding amounts under these loan agreements.
The amounts of the aforementioned loans as of 31.12.18 were recognized in the consolidated financial statements in the short-term item "Other receivables" (see note 17).

Changes in provisions for long-term loan

Indicators	31.12.18. EUR	31.12.17. EUR
Provisions at the beginning of the year	46 155	40 480
Decrease / increase	-	5 675
Provisions at the end of the year	46 155	46 155

Notes to the consolidated financial statements (cont.)

Note No. 13 – Raw materials, direct materials and auxiliary materials

Indicators	31.12.18. EUR	31.12.17. EUR
Raw materials, direct materials and auxiliary materials	4 612 897	3 792 850
Provisions for stocks of slow-turnover	(302 924)	(115 268)
Total	**4 309 973**	**3 677 582**

Changes in provisions

Indicators	31.12.18. EUR	31.12.17. EUR
Provisions at the beginning of the year	115 268	34 512
Decrease / increase	187 656	80 756
Provisions at the end of the year	302 924	115 268

Note No. 14 – Finished goods and goods for sale

Indicators	31.12.18. EUR	31.12.17. EUR
Electrical equipment for electric trains and for metro cars	2 309 442	755 409
Total	**2 309 442**	**755 409**

Note No. 15 – Advance payments for inventories

Indicators	31.12.18. EUR	31.12.17. EUR
Local customers	16 105	4 086
Foreign customers	2 459 461	3 396 585
Total	**2 475 566**	**3 400 671**

Note No. 16 – Trade receivables

Indicators	31.12.18. EUR	31.12.17. EUR
Debts of customers and clients	2 609 049	546 382
Provisions for doubtful debtors	(25 235)	(40 629)
Total	**2 583 814**	**505 753**

Changes in provisions for doubtful debtors

Indicators	31.12.18. EUR	31.12.17. EUR
Provisions at the beginning of the year	40 629	-
Decrease (repaid debts)	10 274	40 629
Loss of receivables	(25 668)	-
Provisions at the end of the year	25 235	40 629

Note No. 17 – Other receivables

Indicators	31.12.18. EUR	31.12.17. EUR
Taxes paid in advance	117 036	96 676
Overpaid taxes (see note 29)	85 496	165 813
Processing of goods	237 894	12 710
Advance payments for services	56 449	16 723
Financing (European funds project)	28 000	-
Long-term loan of the subsidiary (daughter) company (until 01.01.2019)*	6 625 597	-
Provisions for long-term loan*	(46 155)	-
Other	3 803	5 498
Total	**7 108 120**	**297 420**

* See note 12.

Notes to the consolidated financial statements (cont.)

Note No. 18 – Prepaid expenses

Indicators	31.12.18. EUR	31.12.17. EUR
Insurance	2 450	2 027
Service services	40 000	-
Certification	-	900
Other	1 814	1 961
Total	**44 264**	**4 888**

Note No.19 – Short-term financial investments

Rādītāji	31.12.18.	31.12.17.
	EUR	EUR
Shareholding in the capital of SIA „RER-Termināls”	-	90 000

On 31.12.2017 Participation of JSC Rīgas elektromašīnbūves rūpnīca in the share capital of the subsidiary company LTD RER-Termināls, Reg. No. 40203010535, has fallen from 100% to 7.89%.

On January 19, 2018, participation of JSC Rīgas elektromašīnbūves rūpnīca in the share capital of the subsidiary LTD *RER-Termināls*, Reg. No. 40203010535, has expired, the second participant - LTD *BSCT* owns 11 400 shares of the share capital of LTD RER-Termināls, or 100%.

Note No. 20 – Cash

Indicators	31.12.18. EUR	31.12.18. EUR
Current accounts in banks	1 262 638	715 764

Note No. 21 – 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:

Indicators	31.12.18. EUR	31.12.17. EUR
Residents, including	208 220	199 171
- physical entities	172 935	162 627
- legal entities	35 285	36 544
Non-residents, including	7 910 387	7 919 436
- Russia	3 737 405	3 737 405
- Canada	7 167	7 167
- British Virgin Islands	-	814 829
- Belize	-	1 867 279
- Lithuania	546	9 848
- Estonia	5 132	5 951
- Cyprus	4 160 137	1 476 957
Total	**8 118 607**	**8 118 607**

Company shareholders (over 5%) as of 31.12.2018.

Name	**Ownership interest (%)**
AO Krona Grup, Russia	46
Measurestep Enterprises Limited, Cyprus	33.04
CROWNING FINANCE CYPRUS LIMITED, Cyprus	18.19

Notes to the consolidated financial statements (cont.)

Note No. 22 – Reserve for revaluation of long-term investments

In 2015 the Company carried out revaluation of immovable property. 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'.

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
	01.01.18.	31.12.18.	01.01.18.	2018	31.12.18.	31.12.18.
Real estate (land, buildings and structures)	13 691 758	13 495 693	15 266 356	196 065	6 555 561	16 136 712

Note No. 23 – Other reserves

Indicators	31.12.18.	31.12.17.
	EUR	EUR
Share denomination from lat to euro	132 634	132 634
Other	274 503	274 503
Kopā	**407 137**	**407 137**

Note No. 24 – Other provisions

Indicators	31.12.18. EUR	31.12.17. EUR
Provision for warranty repairs of the subsidiary (daughter) company	4 750	7 872
Provisions for benefits for damages to health of the parent company	153 497	161 524
Total	**158 247**	**169 396**

Changes in other provisions

Indicators	31.12.18. EUR	31.12.17. EUR
Provisions at the beginning of the year	169 396	6 312
Decrease / increase	(11 149)	163 084
Provisions at the end of the year	158 247	169 396

Provision is calculated at 0.004 of the net turnover of the subsidiary in the reporting period.
Provisions for benefits for damages to health was calculated according to an independent actuarial valuation.

Note No. 25 – Long-term and short-term loans from credit institutions

Indicators	31.12.18. EUR	31.12.17. EUR
Latvian credit institutions, loan agreement, including	**3 377 648**	**5 152 648**
Long-term debt	-	3 202 067
Short-term debt	3 377 648	1 950 581
Latvian credit institutions, credit line, including	**2 305 419**	**1 177 749**
Short-term debt	2 305 419	1 177 749
Total	**5 683 067**	**6 330 397**

Notes to the consolidated financial statements (cont.)

The implementation of obligations of the Company are provided and strengthened by:
(i) mortgage on all real estate belonged to the Company;
(ii) commercial pledge of all property of the Company as a totality of belongings at the mortgage moment, including the Company's shares in subsidiaries, as well as totality of belongings for the next components. The value of parent Company's mortgaged assets on 31 December 2018 is EUR 46 499 005 (31.12.2017. - EUR 41 557 275);
(iii) guarantees from related parties.

Loans and credit agreements with Danske Bank AS (EUR)

Contract number	% rate for year	Date of payment	Sum, EUR 31.12.18.	Sum, EUR 31.12.17.
DB/C31-213/30	4,5% + 1mon.EURIBOR	29.04.19.	2 305 419	1 177 749
DB/C31-213/31	5,0% + 3mon.EURIBOR	29.04.19.	2 233 600	3 208 600
DB/C31-213/127	5,0% + 3mon.EURIBOR	29.04.19.	832 290	1 252 290
DB/C31-214/85	5,0% + 3mon.EURIBOR	29.04.19.	311 785	491 758
K-005/0216 C	3.2%	10.02.19.	-	200 000

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.

Note No. 26 – Long-term and short-term deferred income

Indicators	31.12.18. EUR	31.12.17. EUR
Long-term deferred income	**1 373 945**	**1 306 115**
Support for the project implementation in the frames of the Centre of Competence	145 258	217 887
Support for the project implementation in the frames of the European Regional Fund of Development (ERAF) "Investments of high-level added value"	948 260	1 088 228
Support for the project "Complex solutions for increasing of energy efficiency in AS Rīgas Elektromašīnbūves Rūpnīca" implementation*	280 427	-
Short-term deferred income	**45 333**	**45 333**
Total long-term and short-term deferred income	**1 419 278**	**1 351 448**

*In March 2019, JSC "Rīgas elektromašīnbūves rūpnīca" (JSC RER) completed the project "Complex Solutions for Implementation of Energy Efficiency of JSC Rīgas elektromašīnbūves rūpnīca ".
JSC RER has achieved all the goals planned in the Project, as well as implemented the Project in full for two months faster than initially planned. The project has significantly increased the energy efficiency of the plant.

Indicators	31.12.18. EUR	31.12.17. EUR
Deferred income at the beginning of the year	1 351 448	1 518 712
Changes within the reporting year	67 830	(167 264)
Deferred income at the end of the year	1 419 278	1 351 448

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	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	280 427	Increasing energy efficiency	conditions fulfilled	-	The period of implementation of the project operation from 01.02.18 to 31.05.19.

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. 27 – Advance payments from customers

Indicators	31.12.18. EUR	31.12.17. EUR
Local customers	319	6 514
Foreign customers	2 939 519	4 534 650
Total	**2 939 838**	**4 541 164**

Note No. 28 – Short-term trade payables

Indicators	31.12.18. EUR	31.12.17. EUR
Local suppliers	1 595 061	1 173 015
Foreign suppliers	3 217 933	302 115
Total	**4 812 994**	**1 475 130**

Note No. 29 – Taxes and mandatory state social insurance contributions, EUR

Indicators	31.12.18. EUR	31.12.17. EUR
Tax contributions and state social insurance contributions at the beginning of the year	497 531	767 746
Changes within the reporting year	(76 344)	(270 215)
Tax contributions and state social insurance contributions at the end of the year	421 187	497 531

Notes to the consolidated financial statements (cont.)

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
01.01.18. debt	**263 257**	**226 657**	**-**	**-**	**-**	**6 150**	**1 195**	**61**	**211**
01.01.18. overpayment	**-**	**-**	**-**	**89 086**	**165 804**	**-**	**-**	**-**	**-**
Calculated	1 404 067	2 791 161	32 969	44	3 860 473	21 709	19 920	73 878	2 942
Penalty calculated	16 047	-	-	-	1	-	-	-	-
Allocated to other taxes	-	29	-	-	439 506	8	-	-	-
Repaid **from the budget**	-	-	-	-	591 378	-	-	-	-
Paid	1 343 825	2 488 358	29 175	-	4 811 049	21 778	21 115	73 939	2 909
Penalty paid	16 047	-	-	-	1	-	-	-	-
Tax debt is settled from excess payment of other tax	192 269	249 659	-	-	-	-	-	-	-
31.12.18. debt	**131 230**	**279 830**	**3 794**	**-**	**-**	**6 089**	**-**	**-**	**244**
31.12.18. overpayment	**-**	**-**	**-**	**89 042**	**85 496**	**-**	**-**	**-**	**-**

* As for 31.12.2018. the Group has no current tax debts.

Note No. 30 – Short-term other liabilities

Indicators	31.12.18. EUR	31.12.17. EUR
Salary debt	550 010	443 030
Other	3 654	2 116
Total	**553 664**	**445 146**

Note No. 31 – Accrued liabilities

Indicators	31.12.18. EUR	31.12.17. EUR
Provisions for unused vacation compensation	387 320	326 947
Total	**387 320**	**326 947**

Note No. 32 – Average number of employees

Indicators	31.12.18.	31.12.17.
Members of the Council	8	8
Members of the Board	5	6
Other employees	669	594
Average number of employees	**682**	**608**

Note No. 33 – Information about remuneration to the Council and Board Members

Indicators	31.12.18. EUR	31.12.17. EUR
Wages to the Council Members	16 000	15 254
Wages to the Board Members	8 106	8 551
Mandatory state social insurance contributions	5 807	5 616
Total	**29 913**	**29 421**

Notes to the consolidated financial statements (cont.)

Note No. 34 - 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	31.12.18. EUR	31.12.17. EUR
Claims	1 866 698	438 041
Liabilities	325 335	-
Sale of goods	43 413 629	24 481 510
Purchase of goods	645 702	537 593

Note No. 35 – Information about remuneration for services of the commercial company of certified auditors

Indicators	31.12.18. EUR	31.12.17. EUR
Remuneration for auditing annual report and consolidated annual report (amounts given including VAT)	18 150	18 150
Total	**18 150**	**18 150**

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 31.12.2018. all assets of parent Company have been pledged as security for a loan.

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

Notes to the consolidated financial statements (cont.)

Events after the balance sheet date

There have not been any significant or extraordinary events between the last day of the reporting year and the day when the management signed the report that could essentially influence data or financial position of the company.

Notes on pages 11 to 29 form are integral part of these financial statements.

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

26 April 2019

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 2018.

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
	Armantas Jasaitis

26 April 2019

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Rīgas Elektromašīnbūves Rūpnīca AS

Our 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 6 to 29 of the accompanying consolidated annual report, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2018,
- the consolidated statement of financial position as at 31 December, 2018,
- consolidated statement of cash flows for the year then ended, and
- the consolidated statement of changes in equity for the year then ended,
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, 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 2018, 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

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

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	• 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

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 12 of Accounting Policy (Revenue Recognition and Net Turnover).	assessed the appropriateness, implementation and operational efficiency of control procedures used • carried out detailed analytical procedures 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.
<u>Existence of inventories and net realizable value</u>	In order to assess the risk of non-compliance with the net realizable value of inventories, we conducted the following audit procedures:
As noted in Notes 11, 12, 13, as at 31 December 2018, the Company's inventories total EUR 11 683 thousand and a provision for possible impairment of EUR 303 thousand has been created. The consolidated balance sheet of the Group has a net balance of EUR 11,683 thousand, respectively. Detailed information on this issue is provided in Appendices 13, 14, 15 (financial information) and accounting policies in pages 13 and 14 the financial statements (stock accounting principles). 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 valuc of inventories is essential, therefore it is considered the main audit issue.	• 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; • 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.

Key audit matters

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

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 5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 30 of the accompanying Annual Report,
- the Statement of Corporate Governance, 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, 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 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.

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 8 June 2018 to audit the financial statements of AS "Rīgas Elektromašīnbūves Rūpnīca" for the year ended 31 December 2018. Our total uninterrupted period of engagement is 3 years, covering the periods ending 31 December 2016 to 31 December 2018.

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. 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, 26 April 2019