

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

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

**ANNUAL REPORT  
FOR THE YEAR 2018  
(AUDITED)**

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## INFORMATION ABOUT THE COMPANY

Name of the Company	AS (Joint Stock Company) "Rīgas elektromašīnbūves rūpnīca" (AS "RER")	
Legal status of the Company	Joint Stock Company	
Registration No. in the Register of Enterprises, date and place of registration	No. 000304200, Riga, 29 November 1991	
Unified Registration No. in the Commercial Register, date and place of registration	No. 40003042006, Riga, 29 September 2004	
Registered office	Ganību dambis 53, Riga, LV-1005, the Republic of Latvia	
Institution in charge of the Company	General meeting of shareholders	
The Company Council :		
Chairperson of the Council	Stanislav Vodolazskii	from 22.07.16.
Vice-Chairperson of the Council	Kirill Nuzhin	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 Company Board:		
Chairperson of the Board	Mikalai Yerokhau	from 15.03.11.
Board Members	Aleksandrs Popadins	from 08.11.13.
	Ilja 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 companies	AS „LATVO”, reģ. Nr. 40003184975 Ganību dambis 53, Riga, the Republic of Latvia Shares – 98.7 %	
Auditor	SIA "Grant Thornton Baltic Audit", licence Nr.183 Blaumaņa iela 22, Riga, LV-1011, Latvija Certified auditor Silvija Gulbe Certified auditor's certificate No. 142	

## MANAGEMENT REPORT

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

### Business activities of the Company in 2018

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

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

### *Financial Indicators*

The financial situation of the Company in 2018 was stable. Net sales reached EUR 46.13 million, which is EUR 17.28 million or 59.90% higher than in the previous year (p. 6, Income statement). This increase is the result of extensive introduction of new or upgraded products into production and of cohesive teamwork of employees of the Company.

Gross profit in 2018 amounted to EUR 7.6 million, which is EUR 3.08 million or 68.14% higher compared to 2017, while net profit was EUR 3.87 million, which is EUR 2.41 million higher compared to 2017 (p. 6, Income statement).

The equity of the Company in the total worth of assets reached 64.91% against 63.79% in 2017, and the current asset-to-short-term debt ratio (overall liquidity ratio) was 1.09 against 1.10 in 2017 (p.p. 7-8, Balance Sheet).

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 676 people, the average monthly salary was EUR 997.

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

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

Financial risks have been characterized on page 14 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 Company

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

In 2019, the Company 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 Company.

#### Development Measures

AS „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 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

#### Distribution of profit

The shareholders of JSC “Rīgas elektromašīnbūves rūpnīca” are offered to redirect company’s profit of 2018 in the amount of EUR 3 869 348 to development of the Company.

Chairperson of the Board

Mikalai Yerokhau

Board Members

Aleksandrs Popadins

Ilja Šestakovs

Tamāra Rogova

Armantas Jasaitis

26 April 2019

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**INCOME STATEMENT**

Items	Note	2018 EUR	2017 EUR
Net turnover	1		
a) from other main activity types		46 132 748	28 845 596
Production cost of goods sold, acquisition cost of goods sold or services provided	2	(38 534 405)	(24 330 436)
<b>Gross profit or loss</b>		<b>7 598 343</b>	<b>4 515 160</b>
Selling expenses	3	(674 863)	(632 676)
Administration expenses	4	(2 437 552)	(2 342 195)
Other operating income	5	601 986	541 961
Other operating expenses	6	(836 539)	(589 125)
Other interest income and similar income:			
a) from other persons		25	2
Interest payments and similar expenses:	7		
a) to other persons		(349 083)	(390 360)
Profit or loss before the corporate income tax		3 902 317	1 102 767
Corporate income tax for the reporting year		(32 969)	-
Profit or loss after calculating the corporate income tax		3 869 348	1 102 767
Income or expenditure from changes to deferred tax assets or liabilities	8	-	359 945
<b>Profit or loss of the reporting year</b>		<b>3 869 348</b>	<b>1 462 712</b>

Earnings per share	0.667	0.252
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Notes on pages 11 to 25 form are integral part of these financial statements.

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**BALANCE SHEET**

<b>A S S E T S</b>	<b>Note number</b>	<b>31.12.18. EUR</b>	<b>31.12.17. EUR</b>
<b>LONG-TERM INVESTMENTS</b>			
<b>Intangible assets</b>	9		
Development expenses		1 159 885	1 581 122
Concessions, patents, licences and similar rights		301 516	327 352
Other intangible assets		11 485	24 470
Advance payments for intangible assets		-	3 625
<b>Total intangible assets</b>		<b>1 472 886</b>	<b>1 936 569</b>
<b>Fixed assets</b>	9		
Real estate:			
a) 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		234 584	257 242
Expense of tangible assets and construction in progress		549 972	901 770
Advance payments for fixed assets		529 665	177 139
<b>Total fixed assets</b>		<b>23 431 757</b>	<b>22 691 226</b>
<b>Long-term financial investments</b>			
Shareholding in the capital of subsidiary companies	10	5 499 400	5 499 400
<b>Total long-term financial investments</b>		<b>5 499 400</b>	<b>5 499 400</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>30 404 043</b>	<b>30 127 195</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Raw materials, direct materials and auxiliary materials	11	4 309 973	3 677 582
Work in progress		2 587 995	2 019 058
Finished products and goods for sale	12	2 309 442	755 409
Advance payments for inventories	13	2 475 566	3 400 671
<b>Total inventories</b>		<b>11 682 976</b>	<b>9 852 720</b>
<b>Receivables</b>			
Trade receivables	14	2 502 409	293 005
Amounts owed by related companies	15	229 000	325 670
Other receivables	16	409 128	155 637
Prepaid expenses	17	44 135	3 988
<b>Total receivables</b>		<b>3 184 672</b>	<b>778 300</b>
<b>Short-term financial investments</b>			
Other securities and interest in capital	18	-	90 000
<b>Total Short-term financial investments</b>		<b>-</b>	<b>90 000</b>
<b>Cash</b>	19	1 227 314	709 060
<b>TOTAL CURRENT ASSETS</b>		<b>16 094 962</b>	<b>11 430 080</b>
<b>TOTAL ASSETS</b>		<b>46 499 005</b>	<b>41 557 275</b>

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**BALANCE SHEET**

<b>LIABILITIES</b>	<b>Note number</b>	<b>31.12.18. EUR</b>	<b>31.12.17. EUR</b>
<b>EQUITY CAPITAL</b>			
Share capital (equity capital)	20	8 118 607	8 118 607
Long-term investment revaluation reserve	21	13 495 693	13 691 758
Reserves:			
a) other reserves		407 137	407 137
Retained earnings or uncovered losses of previous years		4 290 167	2 827 455
Profit or loss of the reporting year		3 869 348	1 462 712
<b>TOTAL EQUITY CAPITAL</b>		<b>30 180 952</b>	<b>26 507 669</b>
<b>PROVISIONS</b>			
Other provisions	22	153 497	161 524
<b>TOTAL PROVISIONS</b>		<b>153 497</b>	<b>161 524</b>
<b>CREDITORS</b>			
<b>Long-term liabilities</b>			
Borrowings from credit institutions	23	-	3 202 067
Deferred income	24	1 373 945	1 306 115
<b>Total long-term liabilities</b>		<b>1 373 945</b>	<b>4 508 182</b>
<b>Short-term liabilities</b>			
Borrowings from credit institutions	23	5 683 067	3 128 330
Advance payments from customers	25	2 929 108	4 506 224
Trade payables	26	4 802 237	1 463 481
Taxes and mandatory state social insurance contributions	27	416 871	492 802
Other liabilities	28	548 680	438 073
Deferred income	24	45 333	45 333
Accrued liabilities	29	365 315	305 657
<b>Total short-term liabilities</b>		<b>14 790 611</b>	<b>10 379 900</b>
<b>TOTAL CREDITORS</b>		<b>16 164 556</b>	<b>14 888 082</b>
<b>TOTAL LIABILITIES</b>		<b>46 499 005</b>	<b>41 557 275</b>

Notes on pages 11 to 25 form are integral part of these financial statements.



**CASH FLOW STATEMENT**  
(indirect method)

**Cash flow from operating activities**

Items	2018 EUR	2017 EUR
Profit or loss before taxation	3 902 317	1 102 767
<b>ADJUSTMENTS</b>		
Adjustments of decrease in value of equity capital	1 648 367	2 447 918
Amortization of intangible assets	618 361	771 827
Income from sales of fixed assets	(3 765)	(5 630)
Increase / decrease in provisions	(8 027)	161 524
Unrealized profit from fluctuations of currency exchange rate	172 667	(47 639)
Amounts written off fixed assets	11 606	7 149
Reserve for revaluation of long-term investments	(196 065)	(198 977)
<b>Cash Flow before adjustments on changes in current assets and liabilities</b>	<b>6 145 461</b>	<b>4 238 939</b>
<b>ADJUSTMENTS FOR</b>		
Increase (-)/ decrease (+) in trade and other receivables	(1 842 110)	(2 052 065)
Increase (-)/ decrease (+) in inventories	(2 755 361)	(122 609)
Increase (+)/ decrease (-) in trade and other payables	3 075 594	3 688 666
<b>Gross cash flow from operating activities</b>	<b>4 623 584</b>	<b>5 752 931</b>
Corporate tax paid	(32 969)	-
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>4 590 615</b>	<b>5 752 931</b>

**Cash flow from investing activities**

Items	2018 EUR	2017 EUR
Proceeds from investment properties	90 000	850 000
Purchase of non-current assets	(2 206 281)	(2 043 040)
Proceeds from sale of fixed and intangible assets	3 765	5 630
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(2 112 561)</b>	<b>(1 187 410)</b>

**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)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(1 775 000)</b>	<b>(3 980 949)</b>

**Summary of cash inflow and outflow**

Items	2018 EUR	2017 EUR
Net cash flow from operating activities	4 590 615	5 752 931
Net cash flow from investing activities	(2 112 561)	(1 187 410)
Net cash flow from financing activities	(1 775 000)	(3 980 949)
Result of fluctuations of currency exchange rates	(184 845)	51 382
<b>Net increase/decrease in cash and cash equivalents</b>	<b>518 254</b>	<b>635 954</b>
<b>Cash and its equivalents in the beginning of the accounting period</b>	<b>709 060</b>	<b>73 106</b>
<b>Cash and its equivalents at the end of the accounting period</b>	<b>1 227 314</b>	<b>709 060</b>

Notes on pages 11 to 25 form are integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY, EUR

Kind of changes	Share capital	Revaluation reserve of long-term investments	Reserves	Retained earnings	Total equity
<b>As at 31.12.2016.</b>	<b>8 118 607</b>	<b>11 801 574</b>	<b>407 137</b>	<b>2 827 455</b>	<b>23 154 773</b>
Long-term investment revaluation reserve decrease	-	(198 977)	-	-	(198 977)
Long-term investment revaluation reserve increase – effect of deferred enterprise income tax	-	2 089 161	-	-	2 089 161
Profit or loss for the financial year	-	-	-	1 462 712	1 462 712
<b>As at 31.12.2017.</b>	<b>8 118 607</b>	<b>13 691 758</b>	<b>407 137</b>	<b>4 290 167</b>	<b>26 507 669</b>
Long-term investment revaluation reserve decrease	-	(196 065)	-	-	(196 065)
Profit or loss for the financial year	-	-	-	3 869 348	3 869 348
<b>As at 31.12.2018.</b>	<b>8 118 607</b>	<b>13 495 693</b>	<b>407 137</b>	<b>8 159 515</b>	<b>30 180 952</b>

Notes on pages 11 to 25 form are integral part of these financial statements.

## NOTES

### ACCOUNTING POLICY

#### Basis for report preparation

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

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

#### Accounting principles applied

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

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

#### Income recognition and net turnover

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

#### 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".

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.

Notes (cont.)

Accounting policy (cont.)

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 investments

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

Financial leasing

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

Receivables

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

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

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

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

Debts of debtors

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

Currency unit and recalculation of foreign currency

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

Notes (cont.)

Accounting policy (cont.)

	31.12.18., 1 EUR	31.12.17., 1 EUR
USD	1.1450	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.

#### 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".

Notes (cont.)

Accounting policy (cont.)

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

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

Application of assumptions

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

Risk management

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

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

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

*Financial risk*

*Currency risk*

The Company's financial assets and liabilities that are at the foreign currency risk include cash, debts of customers and clients, debts to suppliers and contractors and short-term and long-term loans. In 2018 a significant part of the Company's income was in euro and USA dollar, major part of its costs was in euro. All received loans were in euro.

*Interest rate risk*

The Company is at the interest rate risk due to its short-term and long-term loans and financial leasing transactions.

*Liquidity risk*

The Company has control over its liquidity risk by ensuring the appropriate financing with the help of a credit line granted by a Latvian credit institution.

*Credit risk*

The Company is at the credit risk due to its debts of customers and clients. It is characteristic of the Company that credit risk concentrates on a separate business partner or a group of business partners of similar type.

Earnings per share

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

Notes (cont.)

Subsequent events

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

**NOTES TO INCOME STATEMENT FOR THE YEAR 2018**

**Note No. 1 – Net turnover**

Type of company's activity	NACE code	2018 EUR	2017 EUR
Manufacturing of electric machines and machinery	2711	46 132 748	28 845 596

**Net sales by geographical markets**

Country	2018 EUR	2017 EUR
Latvia	1 404 108	1 979 214
Russia	42 446 104	22 736 484
Belarus	117 293	259 151
Slovakia	237 509	363 796
Ukraine	71 850	26 900
Uzbekistan	1 819 341	3 474 705
Georgia	36 543	-
Other	-	5 346
<b>Total</b>	<b>46 132 748</b>	<b>28 845 596</b>

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

Indicators	2018 EUR	2017 EUR
Salaries	5 871 586	5 251 119
Social insurance contributions	1 379 134	1 205 721
Costs of materials	26 047 953	12 524 168
Energy resources	1 151 388	1 129 763
Depreciation of capital assets and intangible assets	1 921 293	2 751 065
Business trip costs	97 794	73 876
Repair costs and remuneration for works from outside	1 672 554	667 604
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
<b>Total</b>	<b>38 534 405</b>	<b>24 330 436</b>

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 expenses**

Indicators	2018 EUR	2017 EUR
Packing material and package	96 688	84 675
Transportation expenses	416 713	384 861
Salaries	123 069	98 259
Social insurance contributions	29 121	22 803
Other selling costs	9 272	42 078
<b>Total</b>	<b>674 863</b>	<b>632 676</b>

Notes (cont.)

**Note No. 4 – Administrative expenses**

Indicators	2018 EUR	2017 EUR
Communications costs	20 409	19 807
Annual report and auditing services	12 000	12 000
Cash circulation and expense and extra costs	38 019	64 980
Transportation expenses	11 780	24 684
Representation expenses	8 271	7 297
Salaries	1 458 405	1 201 000
Social insurance contributions	337 944	274 481
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	171 253	105 739
<b>Total</b>	<b>2 437 552</b>	<b>2 342 195</b>

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

Indicators	2018 EUR	2017 EUR
Profit gained as a result of other sales (lease, other)	176 808	75 651
Income from sales of fixed assets*	3 765	5 630
Decrease in revaluation reserve of capital assets	196 065	198 977
Decrease in deferred income (European funds)	212 597	212 597
Net gains from exchange rate fluctuations	-	47 639
Decrease in provisions for benefits for damages to health	8 252	-
Writing off unclaimed debts to suppliers and contractors	3 954	-
Other income	545	1 467
<b>Total</b>	<b>601 986</b>	<b>541 961</b>

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

Long-term investment object	Balance value at the moment of exclusion	Alienation income	Alienation expenses	Gross income or profit	Profit or loss from the object's alienation
Equipment	0	3 765	0	3 765	3 765

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

Indicators	2018 EUR	2017 EUR
Penalty and contractual penalties	21 656	26 009
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 exchange rate fluctuations	172 667	-
Removal of capital assets	11 606	7 149
Write-off of bad debtors	4 891	5 813
Increase in holiday provision	59 658	74 891
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
Expenditure for sustainable activities of personnel	99 728	-
Other costs	6 383	1 149
<b>Total</b>	<b>836 539</b>	<b>589 125</b>



Notes (cont.)

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

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

**Note No. 8 – Income or expenditure from changes to deferred tax assets or liabilities**

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. 9 – Intangible assets and fixed assets, EUR**  
**Intangible assets**

	Research and development costs	Concessions, patents, licenses, trade marks and similar rights	Other intangible assets	Advances for intangible assets	Total intangible assets
Acquisition value 01.01.18.	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 JSC "RER" have been pledged as security for a loan.

Joint Stock Company "Rīgas elektromašīnbūves rūpnīca"  
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Notes (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	810 792	901 770	177 139	34 088 013
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	829 038	549 972	529 665	36 384 564
Accumulated amortization 01.01.18.	2 405 220	8 438 017	553 550	-	-	11 396 787
Amortization charge	423 506	1 158 180	66 681	-	-	1 648 367
Amortization of disposals	(155)	(66 415)	(25 777)	-	-	(92 347)
Accumulated amortization 31.12.18.	2 828 571	9 529 782	594 454	-	-	12 952 807
Net book value 01.01.18.	15 266 356	6 088 719	257 242	901 770	177 139	22 691 226
Net book value 31.12.18.	16 136 712	5 980 824	234 584	549 972	529 665	23 431 757

\*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 JSC "RER" have been pledged as security for a loan.

**Note No. 10 – Participation in capital of related companies (subsidiaries)**

Indicators	31.12.18.	31.12.17.
<b>AS „LATVO”, reģ. Nr. 40003184975, Ganību dambis 53, Rīga, the Republic of Latvia</b>		
Shares, %	98.7	98.7
Shareholders' equity, EUR	6 532 183	6 791 471
Profit or loss, EUR	(259 288)	(942 694)
Net turnover, EUR	1 187 450	1 970 184

Indicators	31.12.18. EUR	31.12.17. EUR
AS „LATVO”	5 499 400	5 499 400
<b>Total</b>	<b>5 499 400</b>	<b>5 499 400</b>

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

**Note No. 11 – 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)
<b>Total</b>	<b>4 309 973</b>	<b>3 677 582</b>

**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

Notes (cont.)

**Note No. 12 – 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
<b>Total</b>	<b>2 309 442</b>	<b>755 409</b>

**Note No. 13 – 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
<b>Total</b>	<b>2 475 566</b>	<b>3 400 671</b>

**Note No. 14 – Trade receivables**

Indicators	31.12.18. EUR	31.12.17. EUR
Debts of customers and clients	2 527 644	333 634
Provisions for doubtful debtors	(25 235)	(40 629)
<b>Total</b>	<b>2 502 409</b>	<b>293 005</b>

**Changes in provisions**

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

**Note No. 15 – Debts of related companies (subsidiaries)**

Indicators	31.12.18. EUR	31.12.17. EUR
AS „LATVO”	229 000	325 670
<b>Total</b>	<b>229 000</b>	<b>325 670</b>

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

**Note No. 16 – Other receivables**

Indicators	31.12.18. EUR	31.12.17. EUR
Taxes paid in advance	27 994	7 590
Overpaid taxes (see note 27)	71 451	114 580
Processing of goods	237 894	12 710
Advance payments for services	40 027	16 723
Financing (European funds project)	28 000	-
Other	3 762	4 034
<b>Total</b>	<b>409 128</b>	<b>155 637</b>

**Note No. 17 – Prepaid expenses**

Indicators	31.12.18. EUR	31.12.17. EUR
Insurance	2 450	2 027
Service services	40 000	-
Other	1 685	1 961
<b>Total</b>	<b>44 135</b>	<b>3 988</b>

Notes (cont.)

**Note No. 18 – Other securities and interest in capital**

Indicators	31.12.18. EUR	31.12.17. EUR
SIA „RER-Termināls”	-	90 000

**Note No. 19 – Cash**

Indicators	31.12.18. EUR	31.12.17. EUR
Current accounts in banks	1 227 314	709 060

**Note No. 20 – 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 Depository:

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
<b>Total</b>	<b>8 118 607</b>	<b>8 118 607</b>

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

**Note No. 21 – 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'.

Notes (cont.)

Item of fixed assets	Revaluation reserve surplus, EUR		Value of the fixed asset in the beginning of the period, EUR	Decrease of revaluating reserve, EUR	Value of fixed assets at the end of the period, EUR	
	01.01.18.	31.12.18.			without revaluating	with revaluating
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. 22 – Other provisions**

Indicators	31.12.18. EUR	31.12.17. EUR
Provisions for benefits for damages to health	153 497	161 524

**Note No. 23 – Long-term and short-term loans from credit institutions**

Indicators	31.12.18. EUR	31.12.17. EUR
<b>Latvian credit institutions, loan agreement (from 1 until 5 years), including</b>	<b>3 377 648</b>	<b>5 152 648</b>
Long-term debt	-	3 202 067
Short-term debt	3 377 648	1 950 581
<b>Latvian credit institutions, credit line, including</b>	<b>2 305 419</b>	<b>1 177 749</b>
Short-term debt	2 305 419	1 177 749
<b>Total</b>	<b>5 683 067</b>	<b>6 330 397</b>

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

- (i) mortgage on all real estate belonged to the Company;
- (ii) commercial pledge of all property of the Company as a totality of belongings at the mortgage moment, including the Company's shares in subsidiaries, as well as totality of belongings for the next components. The value of Company mortgaged assets on 31 December 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.

Notes (cont.)

**Note No. 24 – Long-term and short-term deferred income**

Indicators	31.12.18. EUR	31.12.17. EUR
<b>Long-term deferred income</b>	<b>1 373 945</b>	<b>1 306 115</b>
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	-
<b>Short-term deferred income</b>	<b>45 333</b>	<b>45 333</b>
<b>Total long-term and short-term deferred income</b>	<b>1 419 278</b>	<b>1 351 448</b>

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

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

Indicators	31.12.18. 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

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 Aģentūra (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. 25 – Advance payments from customers**

Indicators	31.12.18. EUR	31.12.17. EUR
Local customers	319	6 514
Foreign customers	2 928 789	4 499 710
<b>Total</b>	<b>2 929 108</b>	<b>4 506 224</b>

Notes (cont.)

**Note No. 26 – Short-term trade payables**

Indicators	31.12.18. EUR	31.12.17. EUR
Local suppliers	1 589 024	1 161 366
Foreign suppliers	3 213 213	302 115
<b>Total</b>	<b>4 802 237</b>	<b>1 463 481</b>

**Note No. 27 – 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	492 802	761 742
Changes within the reporting year	(75 931)	(268 940)
Tax contributions and state social insurance contributions at the end of the year	416 871	492 802

Indicators	Personal income tax	Mandatory social insurance contributions	Corporate income tax	Value added tax	Natural resources tax	Real estate tax on land	Real estate tax on premises (buildings)	State business risk fee
<b>01.01.18. debt</b>	<b>261 660</b>	<b>223 514</b>	-	-	<b>6 150</b>	<b>1 195</b>	<b>61</b>	<b>222</b>
<b>01.01.18. overpayment</b>	-	-	-	<b>114 580</b>	-	-	-	-
Calculated	1 386 799	2 760 559	32 969	3 594 244	21 709	19 920	73 878	2 920
Penalty calculated	16 047	-	-	1	-	-	-	-
Allocated to other taxes	-	29	-	439 506	8	-	-	-
Repaid from the budget	-	-	-	591 378	-	-	-	-
Paid	1 326 374	2 457 515	29 175	4 581 999	21 778	21 115	73 939	2 898
Penalty paid	16 047	-	-	1	-	-	-	-
Tax debt is settled from excess payment of other tax	192 269	249 659	-	-	-	-	-	-
<b>31.12.18. debt</b>	<b>129 816</b>	<b>276 928</b>	<b>3 794</b>	-	<b>6 089</b>	-	-	<b>244</b>
<b>31.12.18. overpayment</b>	-	-	-	<b>71 451</b>	-	-	-	-

As for 31.12.2018. the Company has no current tax debts.

**Note No. 28– Short-term other liabilities**

Indicators	31.12.18. EUR	31.12.17. EUR
Salary debt	545 459	436 119
Other	3 221	1 954
<b>Total</b>	<b>548 680</b>	<b>438 073</b>

**Note No. 29 – Accrued liabilities**

Indicators	31.12.18. EUR	31.12.17. EUR
Provisions for unused vacation compensation	365 315	305 657

**Note No. 30 – Average number of employees**

Indicators	31.12.18.	31.12.17.
Members of the Council	5	5
Members of the Board	4	5
Other employees	667	592
<b>Average number of employees</b>	<b>676</b>	<b>602</b>

Notes (cont.)

**Note No. 31 – Information about remuneration to the Council and Board Members**

Indicators	31.12.18. EUR	31.12.17. EUR
Wages to the Council Members	10 600	10 600
Wages to the Board Members	8 106	9 918
Mandatory state social insurance contributions	4 506	4 840
<b>Total</b>	<b>23 212</b>	<b>25 358</b>

**Note No. 32 – Information about remuneration for services of the commercial company of certified auditors (amounts given including VAT)**

Indicators	31.12.18. EUR	31.12.17. EUR
Remuneration for auditing annual report and consolidated annual report	14 520	14 520

**Note No. 33 - Transactions with related parties**

Related party	Services rendered and goods sold	Services rendered and goods purchased	Amounts owed by related parties	Payables to related parties
	2018 EUR	2018 EUR	31.12.18. EUR	31.12.18. EUR
AS „LATVO”	1 085 212	-	229 000	-
AO Krona Grup	42 393 179	643 342	1 785 293	-

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

There are none

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

There are none

**Significant agreements**

There are none

**Information on pledged or otherwise encumbered assets**

As on 31.12.2018. all assets of JSC "RER" 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



Notes (cont.)

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

There are none

**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.

**Distribution of profit**

The shareholders of JSC "Rīgas elektromašīnbūves rūpnīca" are offered to redirect company's profit of 2018 in the amount of EUR 3 869 348 to development of the Company.

Notes on pages 11 to 25 form are integral part of these financial statements.

Chairperson of the Board

Mikalai Yerokhau

Board Members

Aleksandrs Popadins

Ilja Šestakovs

Tamāra Rogova

Armantas Jasaitis

Annual report drawn up by  
Chief Accountant

Svetlana Statina

26 April 2019

## MANAGEMENT CONFIRMATION REPORT

The Management of the Company is responsible for preparation of financial statements and confirms that the annual report give a true and fair view of the financial position of the Company and of its financial performance for the period ended 31 December 2018.

The Management of the Company confirms that during preparation of the annual report 2018 appropriate accounting methods were used and employed consistently, moreover, reasonable and careful decisions have been taken.

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

Chairperson of the Board

Mikalai Yerokhau

Board Members

Aleksandrs Popadins

Ilja Šestakovs

Tamāra Rogova

Armantas Jasaitis

26 April 2019



## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Rīgas Elektromašīnbūves Rūpnīca AS

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

We have audited the accompanying financial statements of AS "Rīgas Elektromašīnbūves Rūpnīca" ("the Company") set out on pages 6 to 25 of the accompanying annual report, which comprise:

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

**In our opinion, the accompanying financial statements give a true and fair view of the financial position of AS "Rīgas Elektromašīnbūves Rūpnīca" as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.**

#### *Basis for 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 Company 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 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
<u>Revenue completeness and periodization</u>	In order to assess the risk of non-compliance with the periodization of revenues, we have conducted the following audit procedures:
<p>The core business of the group is the production of electrical machinery and apparatus. More than 95% of revenues are generated by exporting products to approximately 7 different countries globally.</p> <p>The appropriate selling conditions vary between customers, and the transfer of ownership depends on the incoterms used for each transaction. The duration of the transportation of products sold varies significantly depending on the location of the customer. This necessitates the</p>	<ul style="list-style-type: none"><li>• 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</li><li>• became aware of the appropriateness of income traceability methods used and assessed the appropriateness, implementation and operational efficiency of control procedures used</li></ul>



<p>introduction and maintenance of consistent accounting and control procedures for revenue recognition, which ensures a precise periodicity and completeness of said revenue recognition. Therefore, we consider the aspects of accounting and control as a significant audit issue.</p> <p>More detailed information on this issue is provided in Note 1 of Financial Statement and on page 11 of Accounting Policy (Revenue Recognition and Net Turnover).</p>	<ul style="list-style-type: none"> <li>• 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;</li> <li>• conducted an individual sales transaction check-up, when the sale is performed just before or straight after the end of the reporting year. Have obtained evidence that justifies the correctness of the recognition period based on terms and conditions stated/contained in sales and delivery contracts/documents.</li> <li>• Additionally, have asked for sample letters of correspondence and checked the balance of sales receivables at the balance date.</li> </ul>
<p><u>Existence of inventories and net realizable value</u></p>	<p>In order to assess the risk of non-compliance with the net realizable value of inventories, we conducted the following audit procedures:</p>
<p>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.</p> <p>Detailed information on this issue is provided in Appendices 11, 12, 13 (financial information) and accounting policies on page 12 and 13 in the financial statements (stock accounting principles).</p> <p>Considering the rapid development of the technology industry and the volume of inventories in the separate and consolidated accounts of the Company and the Group, the determination of the net realizable value of inventories is essential, therefore it is considered the main audit issue.</p>	<ul style="list-style-type: none"> <li>• 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;</li> <li>• Evaluate the performance of internal control services in stock inventory and other control measures;</li> <li>• reviewed the results of the inventory;</li> <li>• we participated in inventory and warehouse inventory surveys, observing inventory procedures and progress;</li> <li>• • We randomly tested the compliance of inventory acquisition values;</li> <li>• • Detailed analytical procedures were carried out to reconcile the inventory sales figures with the management conditions set by the management;</li> <li>• • We carried out a detailed examination of the key supporting documents for the sample transactions;</li> <li>• • We evaluated stock turnover indicators, as well as reviewed stock age data and evaluated compliance of established stocks with stock accumulation policy conditions.</li> </ul>

#### *Reporting on Other Information*

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

- the Management Report, as set out on page 4. till 5. of the accompanying Annual Report,
- the information about Company as set out on page 3. of the accompanying Annual Report,



- the Statement on Management Responsibility, as set out on page 26 of the accompanying Annual Report.

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

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

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

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

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

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

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

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.<sup>1</sup>, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.<sup>2</sup>, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.<sup>2</sup> second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

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

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

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

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

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





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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

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

We were appointed by those charged with governance on 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 2017 to 31 December 2018.



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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.

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License No. 155

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

Riga, 26 April 2019