JOINT STOCK COMPANY RB RAIL
(UNIFIED REGISTRATION NUMBER 40103845025)

ANNUAL REPORT
FOR THE YEAR ENDING 31.12.2018
(4th financial year)
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2019

CONTENTS

General information

Name of the company	RB Rail AS
Legal status of the company	Joint Stock Company
Unified registration number, place and date of registration	LV40103845025 Riga, 12 November 2014
Registered office	Riga, K. Valdemara iela 8-7 LV-1050, Latvia
Shareholders	Rail Baltic Estonia OÜ (33.33%) Registration No. 12734109 Endla 16, Tallinn 10142, Estonia Eiropas dzelzcela linijas SIA (33.33%) Registration No. 40103836785 Gogola street 3, Riga, LV-1050, Latvia *Rail Baltica* statyba UAB (33.33%) Registration No. 303227458 Mindaugo street 12, Vilnius, LT-03225, Lithuania
Branches	RB Rail AS Lietuvos filialas, Reg. No. 304430116 Gedimino pr. 20, Vilnius, Lithuania RB Rail AS Eesti filial, Reg. No. 14168654 Endla 16, Tallinn 10142, Estonia
Type of operations	To design, construct and market (including branding) *Rail Baltica* railway line
NACE code	42.12 Construction of railways and underground railways
Reporting period	1 January 2018 – 31 December 2018
Previous reporting period	1 January 2017 – 31 December 2017
Chief Accountant	Anita Pūka
Auditor and certified auditor name and address	Deloitte Audits Latvia SIA Grēdu iela 4A Riga, LV–1019 Latvia Certified auditor in charge: Elīna Sedliņa Certificate No. 179

Information about the company's management

Members of the Management Board

Name	Position	Elected	Released
Timo Riihimäki	CEO and Chairperson of the Management Board	11.03.2019	-
Ignas Degutis	Member of the Management Board	11.03.2019	-
Ignas Degutis	Acting CEO and Chairperson of the Management Board	28.09.2018	11.03.2019
Ignas Degutis	Member of the Management Board	01.06.2017	28.09.2018
Baiba Anda Rubesa	CEO and Chairperson of the Management Board	30.10.2015	28.09.2018
Kaspars Rokens	Member of the Management Board	24.04.2017	-
Mart Nielsen	Member of the Management Board	19.03.2018	-
Deniss Muraško	Member of the Management Board	09.05.2017	26.06.2017

Members of the Supervisory Board

Name	Position	Elected	Released
Karolis Sankovski	Chairman of the Supervisory Board	10.01.2019	-
Riia Sillave	Deputy chairperson of the Supervisory Board	10.01.2019	-
Riia Sillave	Chairperson of the Supervisory Board	19.01.2018	10.01.2019
Edvīns Bērziņš	Deputy chairman of the Supervisory Board	19.01.2018	-
Karolis Sankovski	Deputy chairman of the Supervisory Board	19.01.2018	10.01.2019
Vineta Rudzite	Member of the Supervisory Board	21.10.2016.	-
Arenijus Jackus	Member of the Supervisory Board	09.11.2017	31.07.2018
Anti Moppel	Member of the Supervisory Board	15.01.2018	-
Riia Sillave	Member of the Supervisory Board	15.01.2018	19.01.2018
Romas Švedas	Member of the Supervisory Board	31.07.2018	-

Members of the Supervisory Board (cont'd)

Edvīns Bērziņš	Deputy Chairman of the Supervisory Board	24.10.2016	20.01.2017
Edvīns Bērziņš	Chairman of the Supervisory Board	20.01.2017	20.06.2017
Edvīns Bērziņš	Member of the Supervisory Board	20.06.2017	03.07.2017
Edvīns Bērziņš	Chairman of the Supervisory Board	03.07.2017	15.01.2018
Edvīns Bērziņš	Member of the Supervisory Board	15.01.2018	19.01.2018
Karolis Sankovski	Member of the Supervisory Board	20.06.2017	03.07.2017
Karolis Sankovski	Deputy chairman of the Supervisory Board	03.07.2017	15.01.2018
Karolis Sankovski	Member of the Supervisory Board	15.01.2018	19.01.2018
Indrek Orav	Member of the Supervisory Board	21.10.2016	15.01.2018
Anti Moppel	Deputy chairman of the Supervisory Board	24.10.2016	20.06.2017
Anti Moppel	Member of the Supervisory Board	20.06.2017	03.07.2017
Anti Moppel	Deputy chairman of the Supervisory Board	03.07.2017	15.01.2018
Steponas Šaltmeris	Member of the Supervisory Board	20.06.2017	09.11.2017
Dainius Budrys	Chairman of the Supervisory Board	24.10.2016	20.01.2017
Dainius Budrys	Member of the Supervisory Board	20.01.2017	20.06.2017
Danielius Dolgich	Deputy chairman of the Supervisory Board	01.11.2016	20.06.2017

Management report

Rail Baltica is a European rail transport infrastructure project with the goal to fully integrate the Baltic States into the core European rail network. Starting in the Baltic countries, when completed, Rail Baltica will connect five European Union countries – Poland, Lithuania, Latvia, Estonia and Finland.

The joint venture RB Rail AS was established based on the joint declaration of the Prime Ministers of Estonia, Latvia and Lithuania on 21 June 2014, by approving the Shareholders' Agreement, whereby Rail Baltica is defined as a fast conventional double track 1435 mm gauge electrified continuous high speed railway line for a route that spans Tallinn-Pärnu-Riga-Panevezys-Kaunas to the Lithuanian-Polish border, including a connection from Kaunas to Vilnius.

The Rail Baltica project progress in 2018

From the political perspective, Rail Baltica was recognized as an important addition not only locally, but also internationally. Following the ratification of Intergovernmental agreement in 2017, this year in October the European Commission adopted the Implementing Decision of the cross-border Rail Baltica project for the North-Sea Baltic TEN-T Corridor, reinforcing the commitment of the European Commission and all EU Member States to implement the project on time.

Deeper cooperation with Finland and Poland was achieved. Namely, transport ministries of the Baltic states invited Finland to join the Rail Baltica. On 1 February 2019 the Government of Finland decided to establish a limited liability company Oy Suomen Rata AB, which subsidiary, the Rail Baltica company, is expected to become a shareholder of RB Rail AS, the joint venture of the Rail Baltica project. In addition, Poland announced the analysis and plans to potentially increase the speed on the railway infrastructure from Lithuanian-Polish border to town of Elk to match the Rail Baltica Global Project technical parameters.

Rail

Baltica Global Project was included in the EU Military mobility policy as a means of increasing the security and being able to apply for the funding within upcoming framework.

Rail Baltica Financial milestones

Rail Baltica Global Project secured the third Connected Europe Facility (CEF) grant. As a result, Global Project available funding until 2023 reached 824 million EUR, out of which up to 85% come from the European Union and 15% are co-funded by the national governments. On 13 July 2018 the third CEF Grant Agreement for Rail Baltica Global project signed with the Innovation and Networks Executive Agency (INEA). The total value of the Agreement is nearly 130 million euros while the CEF contribution will be of a maximum amount of 110 million euros which is 85% of total eligible costs. The money allocated under the last Grant Agreement has been divided among the beneficiaries (three Baltic States) including the contribution foreseen for RB Rail AS accordingly – Estonia receiving nearly 6 million euros (CEF contribution almost 5,1 million euros), Latvia – about 8 million euros (CEF contribution almost 6,9 million euros), and Lithuania – approximately 115.6 million euros (CEF contribution nearly 98,4 million euros).

In July 2018, RB Rail CFO Ignas Degutis was selected by Innovation and Networks Executive Agency (INEA) to become a member of Advisory Group for CEF Transport.

RB Rail procurements and governance

RB Rail AS announced 31 procurements in 2018 with the total indicative value of over 43 million EUR. In 2018, 26 contracts were signed with the total value of 1.83 million EUR. From these 53% of the contracts' value were awarded to the Baltic companies.

RB Rail AS procurement process was executed effectively - out of 31 procurements launched in 2018, only one procurement was appealed (estimated value 285 800 EUR), one cancelled (estimated value 42 000 EUR) and one – retendered (estimated value 150 000 EUR).

Efforts to improve the Global Project procurement policies to ensure transparency and best practice application throughout the project is continuously on the agenda of the Joint Venture. In 2018 common Procurement Standards and Guidelines for the Rail Baltica Project were updated, including minimum contract requirements, which shall be applied also by implementing bodies.

By end 2018, Joint Venture had 65 employees, with an expectation of 96 employees by the end 2019 as per approved budget.

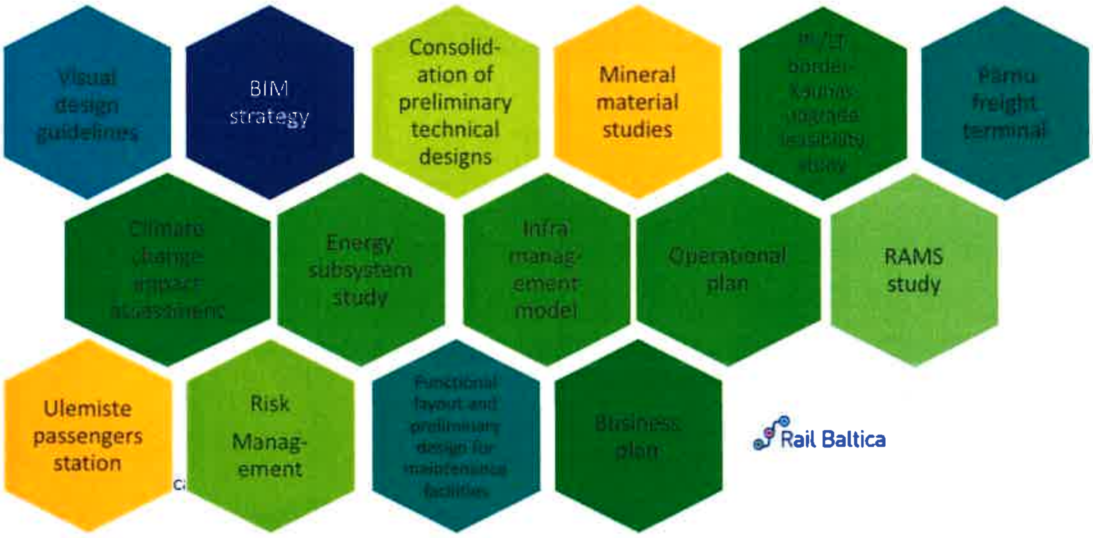
Throughout 2018 6 Rail Baltica reference groups were created covering topics of technical, operational, business, financial and communication matters. This process allows ensuring exchange of knowledge and closer alignment between involved parties within the project.

On 27 September 2018, Baiba A. Rubesa, CEO and Chair of the Management Board of the Baltic State's joint venture RB RAIL AS, submitted a resignation letter to the Supervisory Board of the joint venture. Since than Ignas Degutis was acting CEO and Chairman of Management Board until 11 March 2019, when the new CEO Timo Riihimäki was appointed by Supervisory Board.

The Joint Venture Management adequate decision-making powers (such as contract and document signing powers, setting an adequate JV Management Board sign off threshold) were improved in relation to its responsibilities under the existing agreements and sufficient margin of handling to guarantee a good implementation of the project. In addition, Joint Venture budgetary planning was improved aligning with the National budgetary procedures.

Key studies

Key studies in 2018



Several important studies relating to the future operations were developed during 2018 such as the Rail Baltica Operational Plan, Rail Baltica Infrastructure Management Model Study and Rail Baltica Business Plan.

Completed Operational Plan provides optimal infrastructure planning and realisation for Rail Baltica international passenger and cargo services as seen from the sustainable long-term perspective and covering the period by 2056. It outlines initial passenger demand assessment in each country for regional traffic providing the Baltic governments with a comprehensive regional development tool.

Furthermore, the Infrastructure Management Study, carried out by a leading international consultancy Atkins, provides an independent and fact-based assessment of the most cost-effective model of Rail Baltica infrastructure management.

In 2018 finalised feasibility study on PL/LT border -Kaunas_RRT Palemonas has proved the existing line not to be compatible with Rail Baltica design guidelines technical parameters, identifying a need of a territorial planning for a new double track line.

Status of Detailed Technical Design

In 2018 the Common Design Guidelines of Rail Baltica Global Project were approved, setting the standard of technical parameters for the railway line to ensure technical interoperability in all three countries and with European railway network and aim for safe and fast transportation for passengers as well as cargo. The key technical Design Guidelines parameters presented below.

Design Guidelines Approved

Total length of line is 870 km:
- 213 km in Estonia
- 265 km in Latvia
- 391 km in Lithuania

Standard gauge:
- 1435 mm
- Double track
- Electrified

Traffic management:
ERTMS Level 2

2x25kV AC

Design speed:
- 249 km/h for passenger trains
- 120 km/h for freight trains

Axle load 25t

Maximum length of freight trains: 1050m

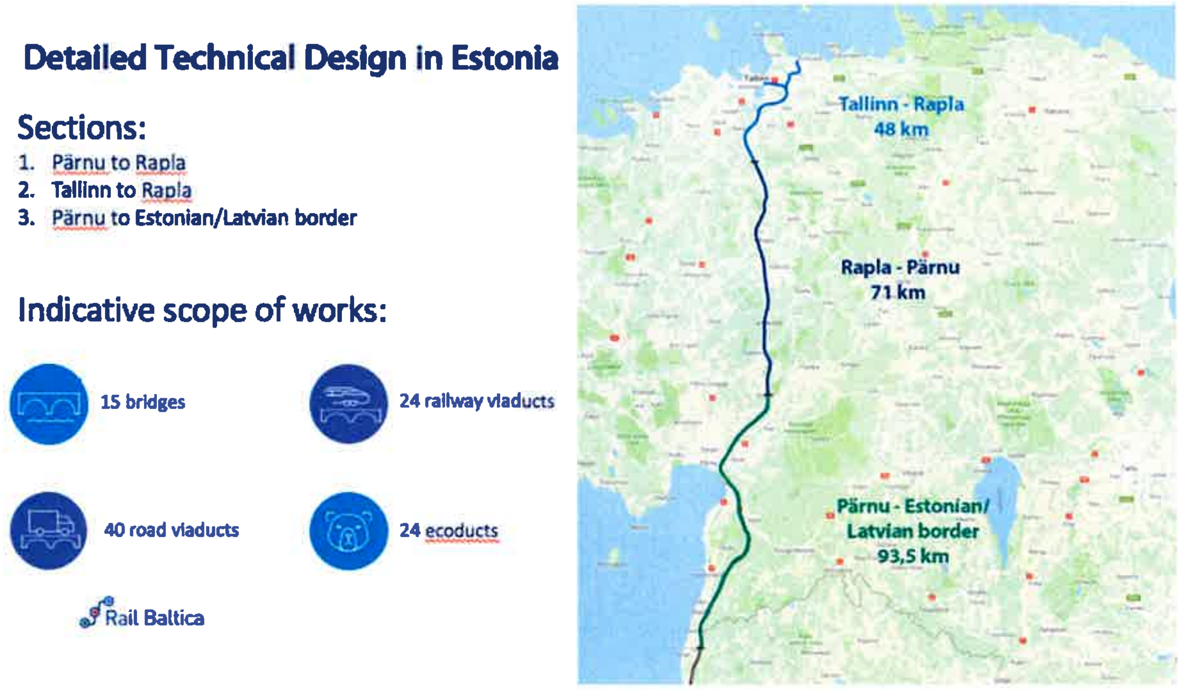
Detailed technical designs

Procurements of the detailed technical designs for the main line were launched for 7 out of 11 sections covering 57% of the entire railway line in the Baltic states.

The tenders attracted interest of the best European railway experts along with the local suppliers resulting in 53 received bids overall.

Consolidated Preliminary Technical Design – RB Rail's technical team commenced work on the consolidation of preliminary technical design in 2017-2018 after receiving the first preliminary design materials from national implementing bodies. The Consolidated Preliminary Technical Design in three Baltic states have been finalized enabling to continue with the tenders of the services for detailed technical design. This essential task is about aligning three preliminary technical designs of the national states, seeking potential design improvements that contribute to construction and operational expense savings.

Estonian section



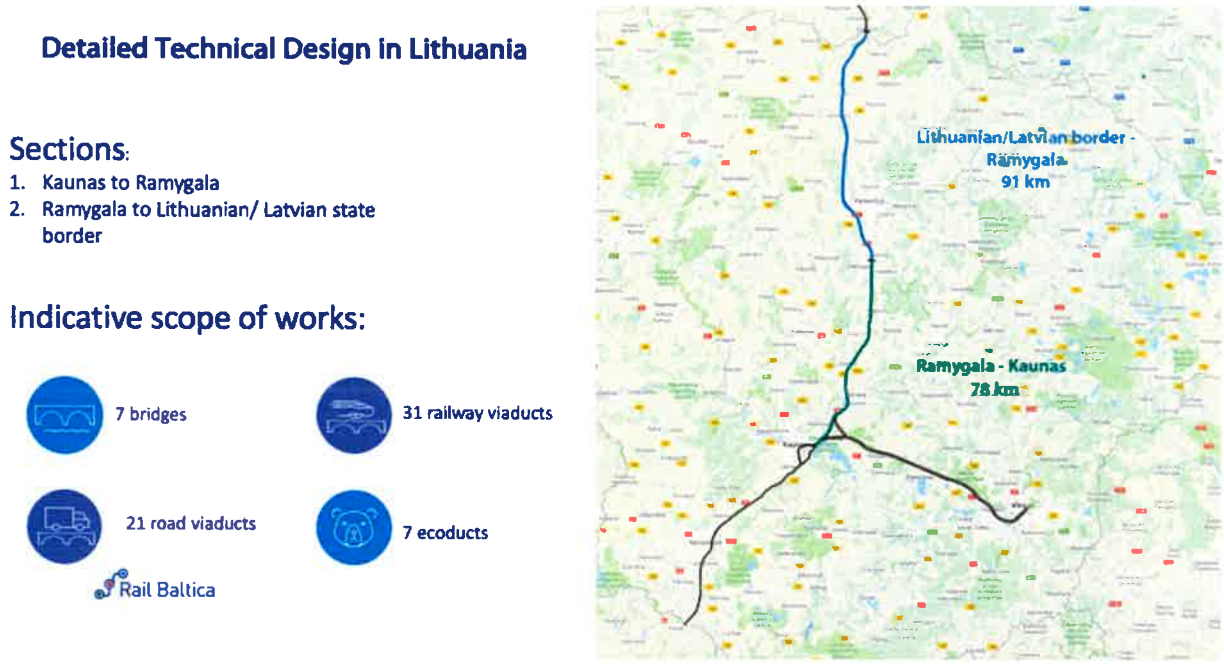
For Estonia, the detailed technical design procurements are underway for the entire line from Latvia/Estonia state border to Tallinn. Currently, the review and evaluation of the received offers as well as tender submission for railway sections are ongoing.

Latvian section

In Latvia, 2 out of 4 designs have been launched for approximately 120 km section around Riga, which are expected to be signed in Q2 of 2019. Also, financing opportunities are being actively seek for 2 remaining sections: Vangaži – Estonian border and Misa – Lithuanian border.

Lithuanian section

In Lithuania 2 sections out of 4 are being procured for the length of 120 km section, spanning from Kaunas to Lithuanian/Latvian state border.

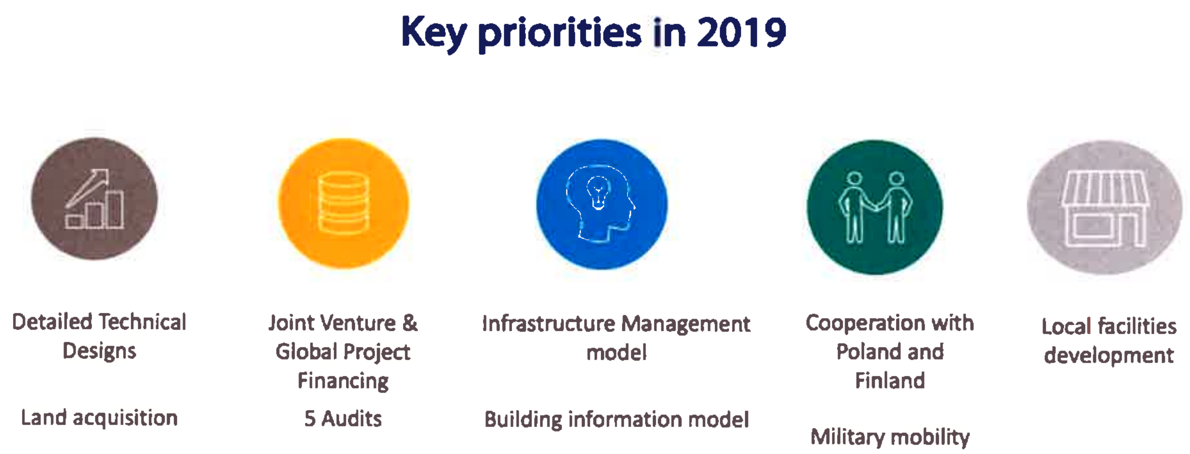


Vilnius, the capital city of Lithuania, is also planned to be a part of the Rail Baltica project.

Recently, the government of Lithuania approved start of preparation for the territorial planning documentation for Kaunas node area, Kaunas–Vilnius connection, Poland border–Jiesa section and Infrastructure maintenance facilities. After the process is completed, RB Rail will start the design procurements for these sections.

Priorities for 2019

In 2019 the key focus of RB Rail AS together with the implementing bodies will be on starting timely delivery of the detailed technical designs, which is a precondition for strengthening the project maturity as well as to apply for next phase funding to start construction works on the main line by 2021.



Attention will be directed towards ensuring the joint venture and Global project financing by providing support for the governments in their efforts to negotiate for the importance of Rail Baltica in the next Multiannual Financial Framework of the EU. In 2019 the project will be audited by 5 different audit institutions, which include the EU Court of Auditors as well as three national audit institutions.

Several significant studies will be carried out in 2019 to help with decisions regarding energy supply; railway maintenance facilities; control, command and signaling; and safety. In addition, we will explore how to ensure synergy between 1435mm and 1520mm railway networks to unlock full commercial potential of the Rail Baltica line in the future. In 2019 decisions regarding construction supply materials procurement system and construction logistics will also be taken aimed at accelerating a resource-efficient project implementation.

In 2019 RB Rail AS will focus on deepening cooperation with Finland and Poland, aim to secure Global Project sustainable financing beyond 2023 and enable development of local infrastructure facilities.

During 2018 RB Rail participated in the following fairs: Rail Live fair, Bilbao, April; Round table discussion TEN-T Days fair, Ljubljana; TransBaltica fair, Vilnius, May; Infrarail fair, London, May; Supplier seminar in cooperation with RIA InnoTrans fair, Berlin, September; Supplier seminar in cooperation with Advantage Austria; Finance seminar with SNCF, Gov of France, October; and others.

In 2019 RB Rail expect participating in the fairs presented in the map. In addition the third Rail Baltica Global Forum shall take place on 3-4th April in Vilnius.

Financial performance and the Financial position for the Reporting Period

The reporting period from 1st January 20178 through 31st December 2018 was the Company's fourth year of operations.

In 2018 the Company recognised income from EU grants of 5 647 018 EUR (in 2017 – 2 646 653 EUR), and closed the year with a loss of 1 462 151 EUR (in 2017 – loss of 752 983 EUR) increasing the total accrued loss to 3 427 684 EUR.
During the year, the Share capital was increased by 3 EUR and 1 949 997 EUR as a share premium. At 31st December 2018 the equity remained positive at 6 322 316 EUR.

Financial risk management

On 28 February 2019 Joint Venture's Supervisory board approved an agreement for interim financing of RB Rail AS with the Ministry of Economic Affairs and Communications of the Republic of Estonia, Ministry of Transport of the Republic of Latvia, Ministry of Transport and Communications of the Republic of Lithuania, Rail Baltic Estonia OÜ, Eiropas Dzelzceļa līnijas SIA, Rail Baltica Statyba UAB. The agreement secures RB Rail AS financing for 2019. Additional annexes shall be agreed and signed separately.

Unfortunately, the decision on long-term sustainable RB Rail AS financing remains outstanding. Based on the 2019 interim financing agreement, before mid 2019 the relevant parties shall discuss conceptual approach to the financing of RB Rail activities for Global Project implementation and before 30 September 2019 conclude an agreement on sustainable financing of the operation of RB Rail AS activities in relation to the implementation of the Global Project from 2020 and onwards.

RB Rail AS 2019 and 2020 budgets were approved by its Supervisory Board on 2 November 2018 with the aim to increase RB Rail AS headcount to 96 employees by the end of 2019. The budget can be reviewed depending on the financing amounts to be made available by the Shareholders and the Beneficiaries.

The Company has been recovering input VAT in anticipation of earning VAT-taxable income in future from railway infrastructure management services when the infrastructure will be completed, and project management services to other Rail Baltica implementing bodies and responsible ministries during design and construction stage. However, State Revenue Service of Latvia declined a repayment of input VAT for the 3rd quarter of 2018 on the grounds that the Company did not have VAT taxable income yet. The Company appealed the decision and provided the required additional information, however, State Revenue Service did not change the decision. Interim financing agreement foresees coverage of non-deductible VAT by the respective Beneficiary, however, accrued interest and potential penalties' payments are not clear and no foreseen to be fully paid by Beneficiaries. As the VAT deductability of the past periods risk is unclear, Shareholders and Beneficiaries have not yet foreseen budget for financing it.

The interim financing agreement stipulates that, in case RB Rail AS may experience adverse financial effects because of input VAT non-recoverability, a same amount of additional financing should be provided to RB Rail by Beneficiary or shareholder of the respective country. No provisions for additional costs were made accordingly, except a provision for input VAT claimed by the Company for third and forth quarters of 2018. VAT balancing mechanism was introduced with an aim for VAT costs to be financed by national budget of a country, where such costs were incurred. However, VAT balancing model and equity contribution by Latvian shareholder still has to be confirmed by Latvian Government.

CEF 1 (No INEA/CEF/TRAN/M2014/1045990) is under revision by INEA with an aim to extent eligibility period of the facility by 2 years. The exercise shall take place by mid 2019.

RB Rail AS finalised Risk management framework, establishing a thorough Risk Management manual, including strategy, updated policy and procedures. The Company's current Risk management policy is disclosed in Note 20.

Events after the balance sheet date

Subsequent events are disclosed in Note 21.

Timo Riihimäki
Chairman of the Management Board

Kaspars Rokens
Member of the Management Board

Ignas Degutis
Member of the Management Board

Mart Nielsen
Member of the management Board

18 March 2019

The annual report was approved by the shareholders' meeting on ______ ____________ 2019.

Statement of comprehensive income

	Notes	01.01.2018-31.12.2018 EUR	01.01.2017-31.12.2017 EUR
Other operating income	5	5 647 018	2 646 653
Personnel costs	6	(3 411 795)	(1 895 331)
a) remuneration for work		*(2 683 658)*	*(1 521 439)*
b) mandatory state social insurance contributions		*(727 981)*	*(373 796)*
c) other social insurance costs		*(156)*	*(96)*
Depreciation	9	(73 736)	(24 077)
Other costs of economic activity	7	(3 622 730)	(1 480 222)
Loss before corporate income tax		**(1 461 243)**	**(752 977)**
Corporate income tax for the financial year	8	(908)	(6)
Loss for the year after corporate income tax		**(1 462 151)**	**(752 983)**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year, net of tax		**(1 462 151)**	**(752 983)**

The accompanying notes form an integral part of these financial statements.

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Member of the management Board

Anita Pūka
Chief Accountant

18 March 2019

Statement of financial position

ASSETS

ASSETS

	Notes	31.12.2018 EUR	31.12.2017 EUR
NON-CURRENT ASSETS			
Intangible assets			
Intangible assets	9	53 407	18 208
Development costs of intangible assets	9	24 822	11 760
TOTAL		**78 229**	**29 968**
Property, plant and equipment	9	**130 253**	**94 892**
TOTAL NON-CURRENT ASSETS		**208 482**	**124 860**
CURRENT ASSETS			
Receivables			
Other receivables	10	40 928	58 846
Prepaid expense	11	77 686	25 337
Accrued income	12	1 603 673	1 277 664
TOTAL		**1 722 287**	**1 361 847**
Cash	13	**7 340 074**	**9 428 508**
TOTAL CURRENT ASSETS		**9 062 361**	**10 790 355**
TOTAL ASSETS		**9 270 843**	**10 915 215**

The accompanying notes form an integral part of these financial statements.

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Anita Pūka
Chief accountant

18 March 2019

Statement of financial position

EQUITY AND LIABILITIES

	Notes	31.12.2018 EUR	31.12.2017 EUR
EQUITY			
Share capital	14	1 950 012	1 950 009
Share issue premium	14	7 799 988	5 849 991
Retained losses		(1 965 533)	(1 212 551)
Losses for the financial year		(1 462 151)	(752 983)
TOTAL EQUITY		**6 322 316**	**5 834 466**
LIABILITIES			
Non-current liabilities			
Deferred revenue	15	111 141	53 030
TOTAL		**111 141**	**53 030**
Current liabilities			
Accounts payable to suppliers and contractors		368 939	102 442
Payables to related parties	19	-	790 504
Taxes payable	16	36	69
Other payables	17	1 589 029	3 970 298
Deferred revenue	15	401 104	43 105
Accrued liabilities	18	478 278	121 301
TOTAL		**2 837 386**	**5 027 719**
TOTAL LIABILITIES		**2 948 527**	**5 080 749**
TOTAL EQUITY AND LIABILITIES		**9 270 843**	**10 915 215**

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Chief accountant

18 March 2019

Statement of cash flows

	Notes	01.01.2018-01.12.2018 EUR	01.01.2017-01.12.2017 EUR
Cash flows to/ from operating activities			
Loss before tax		**(1 461 243)**	**(752 977)**
Adjustments for:			
Reduction of non-current assets value	9	73 736	27 567
Income from INEA co-financing		(5 647 018)	(2 646 653)
Operating profit or (loss) before working capital changes		***(7 034 525)***	***(3 372 063)***
Decrease / (increase) in receivables		(34 181)	14 193
(Decrease) in payables		248 503	(35 580)
Increase in accrued expense		356 977	63 688
Cash generated from operations		***(6 463 226)***	***(3 329 762)***
Corporate income tax paid		(1 125)	(3)
Net cash flows to operating activities		**(6 464 351)**	**(3 329 765)**
Cash flows to investing activities			
Purchase of intangible assets		(53 680)	(18 500)
Purchase of tangible assets		(90 615)	(76 260)
Net cash flows to investing activities		**(144 295)**	**(94 760)**
Cash flows from financing activities			
Paid in share capital	14	3	3
Paid in Share premium	14	1 949 997	1 949 997
Grants / Pre-financing from INEA attributable to the Company	13	5 737 119	1 343 405
Net cash flows to/ from financing activities		**7 687 119**	**3 293 405**
Change in cash		1 078 473	(131 120)
Cash at the beginning of the period	13	4 673 839	4 804 959
Cash at the end of the year attributable to the Company		**5 752 312**	**4 673 839**
Cash at the end of the year attributable to the other Beneficiaries		**-**	**790 504**
Undistributed CEF financing		**1 587 762**	**3 964 165**
Total cash at the end of the year		**7 340 074**	**9 428 508**

The accompanying notes form an integral part of these financial statements.

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Anita Pūka
Chief Accountant

18 March 2019

Statement of changes in equity

	Share capital	Share premium	Accumulated losses	Loss for the period	Total
Balance as at 31 December 2016	**1 950 006**	**3 899 994**	**(668 754)**	**(543 797)**	**4 637 449**
(Loss) for the reporting year	-	-	-	(752 983)	(752 983)
Transfer of prior year result	-	-	(543 797)	543 797	-
Issue of share capital	3	1 949 997	-	-	1 950 000
Balance as at 31 December 2017	**1 950 009**	**5 849 991**	**(1 212 551)**	**(752 983)**	**5 834 466**
(Loss) for the reporting year	-	-	-	(1 462 151)	(1 462 151)
Transfer of prior year result	-	-	(752 983)	752 983	-
Issue of share capital	3	1 949 997	-	-	1 950 000
Balance as at 31 December 2018	**1 950 012**	**7 799 988**	**(1 965 534)**	**(1 462 151)**	**6 322 315**

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Anita Pūka
Chief Accountant

18 March 2019

Notes to the financial statements

1. Corporate information

RB Rail AS (hereinafter – the Company) was registered with the Republic of Latvia Enterprise Register on 12 November 2014. The registered office of the Company is at K.Valdemāra iela 8-7, Riga. The shareholders of the Company are Rail Baltic Estonia OÜ, Eiropas dzelzcela linijas SIA and *Rail Baltica* statyba UAB.

The core business activity of the Company is to design, construct and market (including branding) *Rail Baltica* railway line.

The Company has registered branch offices:

RB Rail AS Lietuvos filialas with the registered address at Gedimino pr. 20, Vilnius, Lithuania,

RB Rail AS Eesti filial registered at Endla 16, Tallin, Estonia.

The financial statements of the Company for the period from 1 January 2018 through 31 December 2018 were approved by a resolution of the Company's shareholders on ______ ____________ 2019.

2. Summary of significant accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter - EU).

The financial statements have been prepared on a historical cost basis. The monetary unit used in the financial statements is *euro* (hereinafter - EUR), the monetary unit of the Republic of Latvia.

Cash flow statement is prepared using indirect cash flow method.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current / non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

2. Summary of significant accounting policies (cont'd)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Other operating income

The following specific recognition criteria must be met before income is recognised:

Income from CEF co-financing is recognized when direct eligible costs are incurred, applying CEF co-financing rate in the grant agreement:

INEA/CEF/TRAN/M2014/1045990	- 85%
INEA/CEF/TRAN/M2015/1129482	- 85%
INEA/CEF/TRAN/M2016/1360716	- 85%

Corporate income tax

Current corporate income tax for 2017 and prior periods was applied at the rate of 15% on taxable income generated by the Company. In accordance with Corporate Income Tax law, which entered into force on 1 January 2018, tax is payable only at the moment of distribution of profits or for transactions considered as deemed distribution.

2. **Summary of significant accounting policies (cont'd)**

Intangible assets

Intangible assets are stated at costs less amortization and any impairment of value, and are amortised over their useful lives. Software licences are amortised over the licence period. Development costs of software applications are capitalized and amortised over the period of three years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Office furniture	- 7 years
Other fixed assets	- 3 years

Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.
To the extent that the Company depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's net selling price and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the statement of comprehensive income in the decrease in value adjustments caption.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the depreciation caption.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (hereinafter - EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Cash

Cash comprises balances of current accounts with banks.

2. Summary of significant accounting policies (cont'd)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Grants received from the European Union for the purchase, development or construction of non-current assets are initially recognised as deferred income and taken to the statement of comprehensive income on a systematic basis over the useful life of the relevant non-current assets. Other government grants are recognised as income on a systematic basis over the period when the Company expenses the costs that the grants compensate. A government grant that becomes receivable as compensation for expenses already incurred is recognised as income of the period in which it becomes receivable.

Deferred income

Deferred income is recognised when funds from European Union have been used for acquiring non-current assets. Deferred income is taken to income gradually over the useful lives of the relevant non-current assets. Part of the deferred income, which will be recognized in income later than one year, is classified as non-current deferred income. Balances of grant pre-financing received, and not yet used for planned eligible expenses, are also recognized as deferred income and classified as current or non-current depending of the estimated period of use.

Transactions with related parties

The Company is exempt from the disclosure requirements of IAS 24 paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with:
(a) a government that has control or joint control of, or significant influence over, the reporting entity; and
(b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

Subsequent events

Post-period-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.

3. Changes in accounting policies

Changes in IFRS effective from 1 January 2018

IFRS 9, "Financial instruments" became effective on 1 January 2018. The standard defines classification categories for financial assets and liabilities, especially debt instruments, and measurement principles for each category. It also provides easier requirements for hedge accounting than IAS 39 – less strict hedge effectiveness tests and hedge items and instruments. Standartd has an impact on financial sector companies, and the related amendments to IFRS 4, "Insurance contracts" – on insurers. Management has considered the implications of the standard on accounting policies of the Company, and concluded that there is no material impact as Company does not operate with significant financial instruments and is not using hedge accounting.

IFRS 15,"Revenue from contracts with customers" introduced requirement to recognize revenue from variable consideration even before it is received; time-value of money where financing is an important element of sale; stand-alone price for each good or service in a complex sales; recognition timing criteria for sale of IP licences and sales contracts. As RB Rail did not yet have any commercial sales revenue, the standard does not have any impact on Company's accounting policies.

Amendments to IFRS 2, "Share based payments" and IAS 40 "Investment property" did not have impact on Company's accounting policies as RB Rail can not use any share based payments or own investment property. Similarly, changes in IFRS 4 "Insurance contracts", IFRS 1 "First time adoption of IFRS", IAS 28 "Investments in Assocoates and Joint Ventures" due to Improvements to IFRSs (cycle 2014-2016) and adoption of IFRIC 22 "Foreign VCurrency Transactions and Advance Consideration" did not have a material impact on accounting policies of RB Rail.

Standards issued, but not yet effective

IFRS16, "Leases" becomes effective for periods starting from 1 January 2019. The Company did not choose earlier application. The standard requires to recognise on a balance sheet of a lessee outstanding lease obligation discounted to present value using an incremental borrowing rate for the Company, as well as a right-to-use lease asset, which should be amortised over the period of a lease and assessed for impairment.

The Company chose to apply a modified retrospective transition method, which does not require a restatement of comparatives, but involves adjusting the opening balance of the retained earnings. The standard has a definition of leases, but Company opted to apply the standard to those leases which were classified as operating leases previously.

The contracts in case are office leases in Riga, Vilnius and Tallin, and lease of three management cars. In case of cars and contract for Vilnius office the lease value includes also a service element, not priced separately, but maintenance and utility costs for the offices in Riga and Vilnius will be accounted as services separately from the lease asset and liability. The amount of lease asset on recognition will be assumed equal to lease liability, adjusted for any prepaid amounts.

The Company will use the allowed expedients when applying the standard:

- A single discount rate will be used as lease terms are not substantially different;
- Short-term leases with maturity under 12 months will be expensed in the current period;
- Leases of low value assets (under 5000 EUR) will be expensed through profit and loss.

The long-term non-cancellable lease commitments relate only to management cars, and amount to 47 000 EUR.

All office leases can be cancelled by a 6 months prior notice. However, it is assumed that all offices will be leasesed at least 36 months, which is the term of the shortest lease contract.

A preliminary assessment indicates that the Company will recognise a right-of use asset of 667 880 EUR, and a corresponding lease liability of EUR 650 880 in respect of those leases. The estimated impact on profit or loss in 2019 is to decrease Office rent expenses by 217 418 EUR, increase in depreciation of 222 627 EUR and interest expense of 15 751 EUR.

The Company does not anticipate that amendments to IFRS 9 "Financial instruments" and adoption of IFRIC "Uncertainty over Income Tax Treatments" will have material impact on Company's accounting policies.

4. Use of significant accounting judgements and estimate

Use of estimates
The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

The carrying amounts of property, plant and equipment
The Company's management reviews the carrying amounts of property, plant and equipment and assesses whenever indications exist that the assets' recoverable amounts are lower than their carrying amounts. Taking into consideration the Company's planned level of activities and the estimated total value of *Rail Baltica* project, the Company's management considers that no significant adjustments to the carrying values of property, plant and equipment are necessary as of 31 December 2018.

Recognition of income from CEF grants
The Company recognizes income from CEF grants based on eligible costs incurred for each Action covered by a grant agreement. Cost eligibility of the Company is based on Eligibility Policy, as adopted in the Supervisory board on 13 December 2016 and Eligibility guidelines ("Travel", "Services and works", "Staff costs") as adopted by the Management board on 6 February 2017. In February 2018 INEA (European Innovation and Networks Executive Agency) audited the first interim statement for Grant Agreement number INEA/CEF/TRAN/M2014/1045990, covering financial years 2015 and 2016, and considered all declared costs eligible.

Accrued income
Accrued income represents the excess of eligible costs incurred over the grant financing already received and allocated to the Company.

Distribution of grant financing received
According to the Grant agreement, the Company is responsible for payment requests on behalf of all Beneficiaries of the whole *Rail Baltica* project. After receipt of the funding (either advances or final payments), the Company is responsible for transferring the funds without undue delay.

On 15 May 2017 a second pre-financing payment of 5 781 200 EUR according the grant agreement INEA/CEF/TRAN/M2014/1045990 was received from INEA following the payment request based on a consolidated Activity Status Report 2017. Subsequently it appeared that the total *Rail Baltica* project financing requirements for year 2018 were overstated in the initial Activity Status Report, and the funds remained on RB Rail AS CEF financing account undistributed until further agreement among all Beneficiaries. In the Interim Financing Agreement of RB Rail AS signed by the Beneficiaries on 13 December 2017, they allocated EUR 483 810 pre-financing to the Ministry of Transport of Republic of Latvia, and EUR 1 333 225 – to RB Rail AS. Following the RB Rail AS Budget 2018 approval in spring of 2018, and implementing the Interim Financing Agreement of RB Rail AS, additional 2 376 402 EUR from the second pre-financing amount were allocated to RB Rail by the Latvian and Estonian beneficiaries. Balance of 1 587 762 EUR remained undistributed until further agreement by the Beneficiaries.

4. Use of significant accounting judgements and estimate cont'd

Contingent liabilities

As of 31 December 2018 some activities under the CEF grant agreements have been delayed for approximately two years. If the delayed activities are not completed in the period set out in the grant agreements – until 31.12.2020, a part of grant financing may become unavailable. The first two grant agreements signed with European Commission is currently under amendment process, and it is planned that their term will be extended until 31.12.2022, thus allowing to mitigate the risk of cost ineligibility.

According to Section II.3.1. of the Grant Agreements "Liability for damages", the Company shall not be held liable for any damage caused or sustained by any of the beneficiaries and the beneficiaries shall compensate the agency for any damage sustained by it as a result of the implementation of the project or because project was not implemented or implemented poorly, partially or late.

The Company has been recovering input VAT in anticipation of earning VAT-taxable income in future from railway infrastructure management services when the infrastructure will be completed, and project management services to other *Rail Baltica* implementing bodies and responsible ministries during design and construction stage. However, State Revenue Service of Latvia declined a repayment of input VAT for the 3rd quarter of 2018 on the grounds that the Company has not had VAT taxable income yet. The Company appealed the decision and provided the required additional information, however, the State Revenue Service decision was not changed.

Management of the Company together with shareholders and Rail Baltica project beneficiaries have drafted an Interim Financing Agreement of RB Rail AS 2019, and Supervisory Board approved it on 28 February 2019 The agreement is expected to be signed by all parties in March 2019. The agreement stipulates that , in case RB Rail AS may experience adverse financial effects because of input VAT non-recoverability, a same amount of additional financing should be provided to RB Rail by Beneficiary or shareholder of the respective country. No further provisions for unrecoverable VAT for previous periods are considered to be necessary and are not recognized.

Going concern

During the preparation of these financial statements the manangement of the Company has assessed ability of the Company to continue its operations at least for one year after 31.12.2018 (see also Note 23).

5. Other operating income

Other operating income is income from CEF grants to compensate the following expenses:

	2018 EUR	2017 EUR
Project implementation support measures	3 500 200	2 034 389
Technical and operational studies including designs	1 810 345	370 887
Communication, PR and business development	336 473	241 377
TOTAL:	**5 647 018**	**2 646 653**

On 24 November 2015 the Company has concluded a Grant Agreement number INEA/CEF/TRAN/M2014/1045990 (hereinafter CEF1 agreement) under the Connecting Europe Facility (hereinafter CEF), Transport sector, with the European Innovation and Networks Executive Agency (hereinafter INEA) for the action entitled "Development of a 1435 mm standard gauge railway line in the Rail Baltica corridor trough Estonia, Latvia and Lithuania". The action runs from 1 March 2015 until 31 December 2020. The grant for the action is a maximum amount of 442.2 million EUR, and total estimated eligible costs are 540.4 million EUR.

On 18 November 2016, the Company signed a Grant Agreement number INEA/CEF/TRAN/M2015/1129482 (Grant Agreement CEF2) under the Connecting Europe Facility/Transport sector, with INEA for the action entitled "Development of a 1435 mm standard gauge railway line in the Rail Baltica (RB) corridor through Estonia, Latvia and Lithuania (Part II)". This agreement is meant to supplement the Grant Agreement (number INEA/CEF/TRAN/M2014/1045990; further - Grant Agreement I) signed in 2015. The action runs from 16 February 2016 until 31 December 2020. The grant for the action is a maximum amount of 191 million EUR , and total estimated eligible costs are 225 million EUR.

Both above mentioned Grant Agreement (INEA/CEF/TRAN/M2014/1045990 and INEA/CEF/TRAN/M2015/1129482) implementation progress have been evaluated by the INEA during a mid -term review, which concluded with the decision to allow to amend the Grant Agreements by extending the end date until 31.12.2022, thus allowing to use the allocated funds to maximum extent possible. Currently Grant Agreement amendments process is ongoing and will be completed after submission of Action Status reports (to be submitted by end of March 2019).

On 13 June 2018 Company signed a third Grant Agreement No. INEA/CEF/TRAN/M2016/1360716 (grant agreement CEF3), which allows to continue the development of Rail Blatica Global project, foreseeing significant budget for further technical studies, such as consolidated preliminary technical design, supplier market studies, electrification studies, risk management, as well implementation of building information management system. Also budget for design in one of the Latvian sections, as well the third phase of construction in Lithuania has been foreseen. Third Grant Agreement also focused on the improvements of global Project delivery and the possible ways forward to setup the best project delivery organization. The maximum amount of eligible expenditure under the CEF Grant Agreement No. INEA/CEF/TRAN/M2016/1360716 is 130 million EUR, and the amount of the grant is 110.5 million EUR. The Action runs from 6 February 2017 to 31 December 2023.

As the main task of the Company, as set by shareholders, is to design, construct and market *Rail Baltica,* all Company's expenses are regarded as fully CEF eligible (hereinafter – full eligibility), with exception of certain type of expenses of clearly administrative nature, which are specifically referred to in the CEF Grant Agreements as non-eligible.

In 2018 and 2017 income from CEF grants was recognized in amount of 85% from eligible expenses incurred during the reporting year.

6. Personnel costs

a) Remuneration for work	2018 EUR	2017 EUR
Project management team remuneration	2 116 498	1 117 637
Management board remuneration	381 109	217 799
Supervisory board remuneration	186 051	186 003
TOTAL:	**2 683 658**	**1 521 439**

b) Mandatory state social insurance contributions	2018 EUR	2017 EUR
Project management team	575 381	286 561
Management Board members	101 074	37 836
Supervisory board members	51 526	49 399
TOTAL:	**727 981**	**373 796**

c) Other social insurance costs	2018 EUR	2017 EUR
Entrepreneurship state risk duty	156	96
TOTAL:	**156**	**96**

At the end of financial year 2018 the Company employed 65 employees and had 6 Supervisory Board members (2017: 36 and 6 respectively). The average number of employees during the reporting year was 52 (2017: 27).

7. Other costs of economic activity

	2018 EUR	2017 EUR
Professional service fees	2 259 689	712 057
Travel costs	320 117	199 246
Public relations and communication	230 086	187 276
Office rent and maintenance expense	325 030	158 213
Other project implementation support measures	189 590	162 980
Recruitment and training	140 962	60 450
Provision for non-recoverable input VAT	157 256	-
TOTAL:	**3 622 730**	**1 480 222**

8. Corporate income tax

	2018 EUR	2017 EUR
Current corporate income tax charge for the reporting year in Latvia	804	-
Current corporate income tax charge for the reporting year in Estonia	104	6
Total corporate income tax expense:	**908**	**6**

9. Property, plant and equipment

	Intangible assets	Advance Payments for intangible assets	Other fixed assets	TOTAL
Carrying amount as at **31 December 2016**	-	-	**45 907**	**45 907**
Additions 2017	18 500	11 760	76 260	106 520
Disposals	-	-	(3 490)	(3 490)
Depreciation charge 2017	(292)	-	(23 785)	(24 077)
Carrying amount as at **31 December 2017**	**18 208**	**11 760**	**94 892**	**124 860**
Additions 2018	41 920	24 822	90 616	157 358
Reclassification	11 760	(11 760)		-
Depreciation charge 2018	(18 482)	-	(55 254)	(73 736)
Carrying amount as at **31 December 2018**	**53 406**	**24 822**	**130 254**	**208 482**

Property, plant and equipment is financed from CEF grants. Company claims asset acquisition costs as eligible according to the Grant Agreements, clause II.19.2. Depreciation of assets is included as eligible Project implementation support cost in these financial statements (see Note 5). Grant income from CEF co-financing has been recognized accordingly in amount of 85% of the depreciation charge, 62 676 EUR in 2018 (2017: 20 465).

10. Other receivables

	31.12.2018 EUR	31.12.2017 EUR
Tax receivables	187 065	57 535
Less provision for non-recoverable input VAT*	(157 256)	-
Total tax receivables (See Note 15)	*29 809*	*57 535*
Security deposit for office rent	9 249	1 280
Other receivables	1 870	31
TOTAL:	**40 928**	**58 846**

*The Company has not received re-payments of input VAT for third and forth quarters of 2018. State Revenue Service of Latvia investigates the grounds for VAT deductability (see also Note 20).

11. Prepaid expense

	31.12.2018 EUR	31.12.2017 EUR
Insurance	8 049	7 350
Other prepaid expense	42 344	13 883
Participation in exhibitions	24 456	4 000
Travelling expense	2 280	-
Advances to suppliers	557	104
	77 686	**25 337**

12. Accrued Income

Accrued income of 1 603 673 EUR (2017: 1 277 664) comprises grant financing receivable under the two Grant Agreements (CEF1 and CEF3) with the European Union's Innovation and Network's Executive Agency (hereinafter -INEA) based on the eligible costs of the Company incurred until the end of the reporting year.

Actual eligible costs related to project activities under the grant agreement CEF2 in 2018 were lower than the financing received. Balance of the CEF2 financing is reflected in deferred income (see note 15).

13. Cash

	31.12.2018 EUR	31.12.2017 EUR
CEF financing account	1 587 762	6 098 074
Company's operational account	5 752 312	3 330 434
TOTAL:	**7 340 074**	**9 428 508**

The bank account designated for CEF financing contains restricted cash attributable to the Company and the other Beneficiaries of the Project. According to the Inter-Beneficiary Agreement, RB Rail AS as the Coordinator of the Grant must distribute the CEF pre-financing to the other Beneficiaries without undue delay. Direct pre-financing payments are distributed between the Beneficiaries in proportion to each Beneficiaries' planned eligible costs according to indicative budget in the Grant Agreement and forecast activities in next year.

CEF financing account

	31.12.2018 EUR	31.12.2017 EUR
Undistributed CEF Financing*	1 587 762	3 964 165
Attributable to RB Rail AS	-	1 343 405
Attributable to Ministry of Transport of the Republic of Latvia	-	483 810
Attributable to Ministry of Economic Affairs and Communication of the Republic of Estonia	-	306 694
Attributable to Ministry of Transport and Communications of the Republic of Lithuania	-	-
TOTAL:	**1 587 762**	**6 098 074**
Attributable to the Company:	-	1 343 405
Attributable to other Beneficiaries, (see also Note 19):	-	790 504
Undistributed CEF Financing*	1 587 762	3 964 165

* Part of the undistributed CEF financing at 31.12.2017 was distributed to beneficiaries in 2018 as shown above. The remaining undistributed amount at 31.12.2018 may be distributed to beneficiaries based on the actual spending and future financing needs shown in the next Activity Satus Reports (ASR) for grant agreement INEA/CEF/TRAN/M2014/1045990.

14. Share capital

As at 31 December 2018 the share capital of the Company is 1 950 012 EUR (31.12.2017: 1 950 009 EUR), and consists of 1 950 012 shares. The share capital is fully paid up. The par value of each share is 1 EUR. As at 31 December 2018, the share premium amounted to 7 799 988 EUR (31.12.2017: 5 849 991 EUR).

As at 31 December 2018, the shares were distributed as follows:

	%	Number of shares	Share premium
Rail Baltic Estonia OU	33.33	650 004	2 599 996
Eiropas dzelzcela linijas SIA	33.33	650 004	2 599 996
Rail Baltica Statyba UAB	33.33	650 004	2 599 996
TOTAL:	**100**	**1 950 012**	**7 799 988**

15. Deferred income

CEF financing under the three Grant Agreements is eligible for implementation of the first stage of Rail Baltica construction: activities that were started during 2015 and will be completed till 2023: preparation for Rail Baltica construction and initiation of construction phase.

Non-current deferred income comprises grant financing used for acquisition of non-current assets recognised as income gradually over the useful life of the assets in periods later than one year, and balances of grant pre-financing, if they are expected to be used for eligible costs later than in one year's time.

Current deferred income comprises unused balances of grant financing received and expected to be used for eligible costs in one year's time as well as financing used for acquisition of non-current assets to be recognised in income next year.

	31.12.2018 EUR	31.12.2017 EUR
Non-current portion of deferred income related to non-current assets	111 141	53 030
Current portion of deferred income related to non-current assets	66 069	43 105
Current portion of deferred income related to balance of CEF2 financing	335 035	-
TOTAL:	**512 245**	**96 135**

16. Taxes (payable) /overpaid

	31.12.2018 EUR	31.12.2017 EUR
Latvia		
Value added tax	1 999	52 964
Personal income tax	20	5
Mandatory state social insurance contributions	120	(63)
Corporate income tax	(36)	-
Estonia		
Value added tax	17 641	1 856
Corporate income tax	250	(3)
Statutory social insurance contributions	255	(3)
Personal income tax	131	-
Lithuania		
Value added tax	9 393	2 710
TOTAL:	**29 773**	**57 466**
TOTAL LIABILITY:	**(36)**	**(69)**
TOTAL OVERPAYMENT (See note 9):	**29 809**	**57 535**

17. Other payables

	31.12.2018 EUR	31.12.2017 EUR
Undistributed CEF financing	1 587 762	3 964 165
Compensation to employees, travel	1 267	4 139
Other liabilities	-	1 994
TOTAL:	**1 589 029**	**3 970 298**

18. Accrued liabilities

	31.12.2018 EUR	31.12.2017 EUR
Accrued liabilities for unused vacations	122 333	55 016
Accrued liabilities for professional services	323 410	46 703
Accrued liabilities for audit services	26 000	10 400
Other accrued liabilities	6 535	9 182
TOTAL:	**478 278**	**121 301**

19. Related party disclosures

Related parties are defined as shareholders that have the ability to control the Company or exercise significant influence over the Company in making financial and operating decisions, members of the key management personnel of the Company or its shareholders, and close members of the families of any individual referred to previously, and entities over which these persons exercise significant influence or control.

The Company is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

(a) a government that has control or joint control of, or significant influence over, the reporting entity; and

(b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

The Company is a joint venture by Rail Baltic Estonia OÜ, Eiropas dzelzcela linijas SIA and Rail Baltica statyba UAB, each of them owning 33.33% of the Company's shares. The Company's shareholders have been established by the respective Ministry in each country: Estonia, Latvia and Lithuania (by state owned company Lithuanian Railways – Lieuvos Geležinkeliai AB).

The Company is a joint venture by Rail Baltic Estonia OÜ, Eiropas dzelzcela linijas SIA and *Rail Baltica* statyba UAB, each of them owning 33.33% of the Company's shares. The Company's shareholders have been established by the respective Ministry in each country: Estonia, Latvia and Lithuania (by state owned company Lithuanian Railways – Lietuvos Geležinkeliai AB).

Payables to related parties for CEF grant financing received:

	31.12.2018 EUR	31.12.2017 EUR
Ministry of Transport of the Republic of Latvia	-	483 810
Ministry of Economic Affairs and Communication of the Republic of Estonia	-	306 694
Ministry of Transport and Communications of the Republic of Lithuania	-	-
TOTAL:	-	**790 504**

See also note 13 on restricted cash CEF pre-financing account. There were no other payables to or receivables from related parties at the end of the current period and previous reporting period.

During 2018 the Company as a coordinator received pre-financing amounts from INEA in line with all three grant agreements currently enacted. All pre-financing was distributed to beneficiaries during the year with no delays.

20. Financial and operational risks

The main financial risks arising from the Company's financial instruments are liquidity risk, credit risk and operational risk.

Liquidity risk

The Company manages its liquidity risk by arranging adequate amount of Shareholder's financing and applying for CEF pre-financing payments, planning of payment terms for trade payables, developing and analyzing future cash flows, as well as consolidated cash flows for the Project.

On 13 December 2017 RB Rail signed an Agreement for Interim Financing of RB Rail AS with the Ministry of Economic Affairs and Communications of the Republic of Estonia, Ministry of Transport of the Republic of Latvia, Ministry of Transport and Communications of the Republic of Lithuania, Rail Baltic Estonia OÜ, Eiropas Dzelzceļa līnijas SIA, Rail Baltica Statyba UAB. The agreement secured RB Rail AS financing for 2018.

An agreement on interim financing of RB Rail AS in 2019 had been drafted in cooperation with the same Beneficiaries and shareholders of RB Rail AS and approved by Supervisory Board on 28 february 2019. The draft Interim financing agreement 2019 foresees a number of different financing mechanisms, including share capital increase of RB Rail AS, grant financing re-allocation, possible state subsidies and bridge financing to cover periods of RB Rail operations when costs eligible for grant financing had been incurred, but final grant payments are not yet received. When signed and implemented, the interim financing agreement 2019 would ensure operations of RB Rail AS according the approved budget in 2019.

Unfortunately, the decision on long-term sustainable RB Rail AS financing remains outstanding. The draft interim financing agreement 2019 envisage that the parties should conclude an agreement on sustainable financing of RB Rail AS activities in relation to the implementation of Rail Baltica project from 2020 and onwards before 30 September 2019.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted payments.

	31.12.2018 EUR	31.12.2017 EUR
Payable:		
Less than 3 months	368 939	102 511
Within 3 months to other beneficiaries	-	790 504
CEF financing distributable within one year	1 587 762	3 964 165
TOTAL:	1 624 701	4 857 180

The operations of company will depend on the ability of the Management to reach agreements on sustainable financing with Rail Baltica project stakeholders.

Credit risk

The Company is exposed to credit risk through its other receivables and cash. The main component of other receivables is the reclaimable VAT. The Company is performing standard input VAT recovery process in Latvia since the beginning of operations in anticipation of future taxable income from VAT-taxable services, such as infrastructure management services, once the railway infrastructure would be operational, and project management services to national project implementing bodies and responsible ministries during the design and construction stage. State Revenue Service of Latvia has rejected input VAT repayment for the third quarter of 2018 on the basis that company has not yet started to earn VAT-taxable income. The Company appealed the decision and provided the required additional information, however, the State Revenue Service decision was not changed.

In case input VAT deductability would not be possible, there is a principal agreement among the shareholders of RB Rail that additiobnal financing should be provided to Company by the country where VAT would be payable. However, the parties shall agree separately about the financing of any related costs, such as but not limited to VAT related late payment interest and possible penalties.

Eligibility risk

The Company is exposed to eligibility risk through assigning European Union co-financing for *Rail Baltica* project implementation. Based on the provisions of the Inter-beneficiary agreement, each party shall be liable for its own actions or omissions which are in breach of the grant agreement. However, based on the provisions of grant agreements, RB Rail AS as the project Coordinator has assumed liability to repay INEA amounts, even if it has not been the final recipient of the amounts due. The Company manages its Eligibility risk through developing Eligibility Policy and Guidelines, and implementing internal control systems to ensure that eligibility compliance conditions are embedded in its operations

Operational risk

As of 31 December 2018 some activities under the CEF grant agreements have been delayed for approximately two years. The delayed activities will not be completed in the period set out in the grant agreements – until 31.12.2020. The first two grant agreements signed with European Commission is currently under amendment process, and it is planned that their term will be extended until 31.12.2022, thus allowing to mitigate the risk of cost ineligibility. The potential additional delays might occur due to an additional need of territorial planning, Environmental impact assessment procedures, land acquisition process and financing issues, design and construction procurements processes.

Joint Venture has finalized Risk management framework, which is in force since beginning 2019.

21. Subsequent events

On 17.01.2018 the Company appealed the decision of State Revenue Service of Latvia not to repay input VAT for the third quarter of 2018 in amount of 87 981 EUR, and provided additional information as requested on 28.02.2019. however, State Revenue Service decision was not changed.

Management of the Company together with shareholders and Rail Baltica project beneficiaries have drafted an Interim Financing Agreement of RB Rail AS 2019, and Supervisory Board approved it on 28 February 2019 The agreement is expected to be signed by all parties in March 2019. The agreement stipulates that , in case RB Rail AS may experience adverse financial effects because of input VAT non-recoverability, a same amount of additional financing should be provided to RB Rail by Beneficiary or shareholder of the respective country. No further provisions for unrecoverable VAT for previous periods are considered to be necessary and are not recognized.

As of the last day of the reporting year until the date of signing these financial statements, there have been no other events that could produce a substantial impact on the results of the year.

22. Going concern

Currently the Company is financed from shareholders equity and CEF financing received based on the signed grant agreements for acitivities specifically earmarked for RB Rail AS. The Company closed the year with a loss of 1 462 151 EUR increasing the total accrued loss to 3 427 684 EUR.

As of 31 December 2018, the Company had 5 752 312 EUR in the operational cash account. Further, during the year 2019, the Company expects to receive additional 1 950 000 EUR equity injection from shareholders and other financing, based on the provisions of the draft Interim financing agreement 2019 of RB Rail. Based on Management's estimates, the Company's liquidity will be sufficient to cover the Companys activities in 2019 as indicated in the Budget for 2019 if the Interim financing agreement will be fully implemented. However, part of the financing still depends on potential grant agreement INEA/CEF/TRAN/M2014/1045990 amendments. Management of the Company and Supervisory Board should review RB Rail 2019 budget in case additional activities are not approved by Beneficiaries during the grant agreement amendment process.

For 2020 and going forward, the Management of the Company together with other stakeholders of Rail Baltica project is in the process of developing financing plan for RB Rail AS. The operations of the Company will depend on the ability of the Management to reach agreements with stakeholdrs on sustainable long-term financing.

These financial statements are prepared on a going concern basis and do not include any adjustments that might be required if the going concern principle was not applicable.

Timo Riihimäki
Chairman of the Management Board

Kaspars Rokens
Member of the Management Board

Ignas Degutis
Member of the Management Board

Mart Nielsen
Member of the Management Board

Anita Pūka
Chief Accountant

18 March 2019

Independent auditors' report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of RB Rail AS

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of RB Rail AS ("the Company") set out on pages 15 to 36 of the accompanying annual report, which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in equity and 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.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of RB Rail AS as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance 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 *Auditors' 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 22 of the financial statements, which discloses that currently the Company is financed from shareholders equity and CEF financing received based on the signed grant agreements for activities specifically earmarked for RB Rail AS. The Company closed the year with a loss of 1 462 151 EUR increasing the total accrued loss to 3 427 684 EUR.

As of 31 December 2018, the Company had 5 752 312 EUR in the operational cash account. Further, during the year 2019, the Company expects to receive additional 1 950 000 EUR equity injection from shareholders and other financing, based on the provisions of the draft Interim financing agreement 2019 for Interim Financing of RB Rail. Based on Management's estimates, the Company's liquidity will be sufficient to cover the Companys activities in 2019 as indicated in the Budget for 2019 if the Interim financing agreement will be fully implemented. However, part of the financing still depends on potential grant agreement INEA/CEF/TRAN/M2014/1045990 amendments. The management of the Company and Supervisory Board should review RB rail 2019 budget in case additional activities are not approved by Beneficiaries during the grant agreement amendment process.

For 2020 and going forward, the Management of the Company together with other stakeholders of Rail Baltica project is in the process of developing financing plan for RB Rail AS. The operations of the Company will depend on the ability of the Management to reach agreements with stakeholders on sustainable long-term financing.

These circumstances indicate that material uncertainty exists that may cast doubts on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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INDEPENDENT AUDITORS' REPORT (continued)

Reporting on Other Information

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

- Information about the Company, as set out on pages 3 to 5 of the accompanying Annual Report,
- the Management Report, as set out on pages 6 to 14 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

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.

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 IFRSs as adopted by the European Union 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.

Auditors' 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.

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INDEPENDENT AUDITORS' REPORT (continued)

Auditors' Responsibility for the Audit of the Financial Statements (continued)

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.

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Inguna Staša
Board member

Elīna Sedliņa
Certified auditor
Certificate No. 179

Riga, Latvia
18 March, 2019

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