PLLC LITHUANIAN RAILWAYS / AB LIETUVOS GELEŽINKELIAI

ACTIVITIES REPORT OF THE RAILWAY TRANSPORT FOR 2016

Drafted in accordance with the International Financial Reporting Standards, Adopted in the European Union

ABBREVIATIONS AND EXPLANATIONS:

LR, "Lithuanian Railways" or Company – PLLC Lithuanian Railways;

EU – European Union;

DK - freight transportation directorate;

DL - passenger transportation directorate;

DI - railway infrastructure directorate;

Other divisions – administration of the Company, Centre of Information technologies, Centre of Procurement Services, Centre of Assets management Services;

Costs of the Directorate / division, except procurements from other directorates / divisions – depreciation of assets or a value hereof of the Directorate of the Company / division or assumption of obligations during the reporting period to provide services.

Revenue from sales to other directorates / divisions (internal revenue) – revenue of the Directorate of the Company / division from services provided to other Directorate of the Company / division.

Costs of procurements from other directorates / divisions (internal costs) - costs of the Directorate of the Company / division on the procurement of services from other Directorate of the Company / division.

2016-12-31 Financial Statement Report

	Comments	DL	DK	DI	Other divisions	In total
Non-current assets						
Intangible assets		**363,869**	**1,276,867**	**18,542,742**	**5,418,358**	**25,601,836**
Development work		8,694	-	-	-	8,694
Software		296,602	1,244,570	18,192,174	4,272,066	24,005,412
Licenses and Similar Rights		3,104	18,883	95,992	1,129,507	1,247,486
Other intangible assets		55,469	13,414	254,576	16,785	340,244
Prepayments		-	-	-	-	-
Immovable property, plant and equipment		**161,125,059**	**257,731,960**	**1,437,478,951**	**26,078,942**	**1,882,414,912**
Land		-	16,600	146,280,662	-	146,297,262
Buildings and structures		9,143,391	28,115,311	942,785,349	5,528,812	985,572,863
Machinery and equipment		2,035,703	7,205,960	164,006,934	2,268,729	175,517,326
Vehicles		144,032,104	212,709,785	19,027,293	192,747	375,961,929
Other plants, devices and tools		1,374,847	2,538,032	65,584,815	9,141,084	78,638,778
Uncompleted construction and advance payments		4,539,014	7,146,272	99,793,898	8,947,570	120,426,754
Out of them assets acquired by public funds transferred to other divisions	2.1.	-	-	-	-	-
Investment assets		**12,455**	**591,481**	**1,044,852**	**68,182**	**1,716,970**
Financial assets		-	**5,505**	-	**43,463,128**	**43,468,633**
Investment into subsidiaries and associated companies	2.2.	-	-	-	43,463,128	43,463,128
Non-current amount receivables		-	5,505	-	-	5,505
Other non-current assets		-	-	-	-	-
Deferred tax asset	2.3.	-	-	-	**50,451**	**50,451**
Fixed assets in total		**161,501,383**	**259,605,813**	**1,457,066,545**	**75,079,061**	**1,953,252,802**
Current assets						
Inventories		3,164,733	7,273,201	17,527,948	3,993,780	31,959,662
Fixed assets held for sale		1,136,811	3,497,395	13,184	-	4,647,390
Prepayments		70,694	269,201	194,929	223,385	758,209
Trade receivables		42,881	32,884,362	166,190	2,438,543	35,531,976
Amounts receivable from associated parties		10,877	117,610	106,814	7,583	242,884
Other receivables		26,752	549,790	8,769,181	3,387,316	12,733,039
Cash and cash equivalents Funds of the Company		123,333	3,787	2,271	11,617,366	11,746,757
Cash and cash equivalents Public funds	2.4.	-	-	-	189,624	189,624
Current assets in total		**4,576,081**	**44,595,346**	**26,780,517**	**21,857,597**	**97,809,541**
ASSETS IN TOTAL		**166,077,464**	**304,201,159**	**1,483,847,062**	**96,936,658**	**2,051,062,343**

2016-12-31 Financial Statement Report (continuation)

	Comments	DL	DK	DI	Other divisions	Iš viso
STOCKHOLDER EQUITY IN TOTAL	2.6.				**1,101,531,791**	**1,101,531,791**
Authorized capital		-	-	-	1,057,958,111	1,057,958,111
Share premium		-	-	-	441	441
Compulsory reserve		-	-	-	27,065,993	27,065,993
Other reserves		-	-	-	13,306,772	13,306,772
Retained profit (loss)		-	-	-	3,200,474	3,200,474
Long-term liabilities						
Subsidies	2.7.	-	1,134,509	508,841,832	5,150,195	515,126,536
Loans		8,982,717	56,365,768	190,792,063	-	256,140,548
Received advance payments		-	-	138,357	-	138,357
Sales debts		-	-	6,436,986	-	6,436,986
Provisions		-	-	14,400,000	-	14,400,000
Payments to employees		1,907,072	7,476,341	5,142,719	1,206,575	15,732,707
Long-term liabilities in total		**10,889,789**	**64,976,618**	**725,751,957**	**6,356,770**	**807,975,134**
Short-term liabilities						
Loans		1,386,008	12,917,022	18,590,392	-	32,893,422
Received advance payments		17,787	2,879,049	39,224	480	2,936,540
Sales debts		15,642,245	3,627,181	8,368,550	4,255,436	31,893,412
Amount payable to associated parties		335,567	4,885,633	5,415,012	47,909	10,684,121
Provisions		-	-	27,873,000	-	27,873,000
Profit tax liabilities		-	-	-	2,873,964	2,873,964
Liabilities related to employment relations		3,338,620	11,236,101	8,230,570	2,156,061	24,961,352
Other payable amounts		344,789	2,919,468	1,478,729	2,696,621	7,439,607
Short-term liabilities in total		**21,065,016**	**38,464,454**	**69,995,477**	**12,030,471**	**141,555,418**
LIABILITIES ON TOTAL		**31,954,805**	**103,441,072**	**795,747,434**	**18,387,241**	**949,530,552**
STOCKHOLDER EQUITY AND LIABILITIES IN TOTAL (without internal transactions)		**31,954,805**	**103,441,072**	**795,747,434**	**1,119,919,032**	**2,051,062,343**
Net value of payable of internal transactions (receivables) *	2.5.					
Freight transportation directorate		62,246,521	-	(263,006,608)	-	
Passenger transportation directorate		-	(62,246,521)	(71,876,138)	-	
Railway infrastructure directorate		71,876,138	263,006,608	-	(1,022,982,374)	
Other divisions		-	-	1,022,982,374	-	
Total net value of payable of internal transactions (receivables)		**134,122,659**	**200,760,087**	**688,099,628**	**(1,022,982,374)**	
STOCKHOLDER EQUITY AND LIABILITIES IN TOTAL		**166,077,464**	**304,201,159**	**1,483,847,062**	**96,936,658**	

* Net value of payable/receivable of internal transactions after deduction of mutual balances and tripartite off-setting.

2016 Profit (loss) and other comprehensive income statements

	Comments	DL	DK	DI	Other divisions	Iš viso
Sales revenue		**27,776,119**	**401,456,188**	**172,341,918**	**29,021,144**	**630,595,369**
External sales revenue		26,619,063	368,941,693	4,498,892	441,858	400,501,506
of them used public funds to compensate for unearned income	3.1.	2,222,936	-	-	-	2,222,936
Revenue from sales to other divisions	3.2.	1,157,056	32,514,495	167,843,026	28,579,286	230,093,863
Freight transportation directorate		836,054	-	150,362,123	14,522,099	165,720,276
Passenger transportation directorate		-	3,176,018	16,421,439	2,616,425	22,213,882
Railway infrastructure directorate		238,608	29,108,980	-	8,780,198	38,127,786
Other divisions		82,394	229,497	1,059,464	2,660,564	4,031,919
Cost of sales		**(57,575,305)**	**(318,070,349)**	**(179,117,600)**	**(10,162,401)**	**(564,925,655)**
Costs of the directorate, except procurement from other divisions		(35.361.423)	(152,350,073)	(140,989,814)	(6,130,482)	(334,831,792)
of them used public funds to compensate for costs	3.3.	296,037	103,000	1,767,213	8,242	2,174,492
Costs of sales to other divisions	3.4.	(22,213,882)	(165,720,276)	(38,127,786)	(4,031,919)	(230,093,863)
Freight transportation directorate		(3,176,018)	-	(29,108,980)	(229,497)	(32,514,495)
Passenger transportation directorate		-	(836,054)	(238,608)	(82,394)	(1,157,056)
Railway infrastructure directorate		(16,421,439)	(150,362,123)	-	(1,059,464)	(167,843,026)
Other divisions		(2,616,425)	(14,522,099)	(8,780,198)	(2,660,564)	(28,579,286)
Gross profit (loss)		**(29,799,186)**	**83,385,839**	**(6,775,682)**	**18,858,743**	**65,669,714**
General and administrative expenses		(3,965,936)	(18,121,158)	(67,352,735)	(18,097,334)	(107,537,163)
Profit (loss) from general activity		**(33,765,122)**	**65,264,681**	**(74,128,417)**	**761,409**	**(41,867,449)**
Income from other activities		118,044	949,765	(52,006)	19,294	1,035,097
Expenses on other activities		(218)	(18,431)	(410,413)	(655,869)	(1,084,931)
Operating profit (loss)		**(33,647,296)**	**66,196,015**	**(74,590,836)**	**124,834**	**(41,917,283)**
Financial and investment activities		**(66,477)**	**(2,043,447)**	**(3,551,568)**	**53,052**	**(5,608,440)**
Income		208,007	83,160	85,683	134,251	511,101
Financial and investment revenue from external activity		7,688	72,792	81,825	134,251	296,556
Financial and investment revenue from sales to other divisions	3.2.	200,319	10,368	3,858	-	214,545
Freight transportation directorate		-	-	3,410	-	3,410
Passenger transportation directorate		-	-	448	-	448
Railway infrastructure directorate		200,319	10,368	-	-	210,687
Other divisions		-	-	-	-	-
Expenses		(274,484)	(2,126,607)	(3,637,251)	(81,199)	(6,119,541)
Financial and investment expenses from external activity		(274,036)	(2,123,197)	(3,426,564)	(81,199)	(5,904,996)
of them used public funds to compensate for costs		-	-	-	-	-
Financial and investment expenses from procurements from other divisions	3.4.	(448)	(3,410)	(210,687)	-	(214,545)
Freight transportation directorate		-	-	(10,368)	-	(10,368)
Passenger transportation directorate		-	-	(200,319)	-	(200,319)
Railway infrastructure directorate		(448)	(3,410)	-	-	(3,858)
Other divisions		-	-	-	-	-
Part of the results of associated companies		-	-	-	-	-
Profit (loss) before tax		**(33,713,773)**	**64,152,568**	**(78,142,404)**	**177,886**	**(47,525,723)**
Profit tax	3.5.				(1,988,682)	(1,988,682)
Net Profit (loss)		**(33,713,773)**	**64,152,568**	**(78,142,404)**	**(1,810,796)**	**(49,514,405)**

Explanatory Note to the Activities Report of the Railway Transport

1. General information

The activity reports of the Railway transport for 2016 of PLLC Lithuanian Railways have been prepared in the implementation of the requirements of chapter 2 of Article 23 of the Code of Railway Transport of the Republic of Lithuania No IX-2152, as well as the requirements of the Order No 3-225 of 15 April 2013 of the Minister of Transport and Communications of the Republic of Lithuania On amendments of the Order No 3-3 of 3 January 2012 of the Minister of Transport and Communications of the Republic of Lithuania "On announcement of profit (loss) statements and balance sheets of separate activities of public railway infrastructure operator and railway companies (carriers)" and the Order No 3-40 (E) of 4 February 2014 of the Minister of Transport and Communications of the Republic of Lithuania On amendments of the Order No 3-3 of 3 January 2012 of the Minister of Transport and Communications of the Republic of Lithuania "On requirements for railway transport activity accounting and preparation of activities reports and announcement of the reports".

In order to ensure the compliance with the requirements of the aforementioned legal acts for the separation of railway transport activities of PLLC Lithuanian Railways (hereinafter the Company), separate activity reports for each Directorate of the Company – the Freight Transportation Directorate, the Passenger Transportation Directorate and the Railway Infrastructure Directorate – are formed and separate income statements and balance sheets are drawn up. Besides, accounts of the other divisions of the Company, i.e., Company administration, Information Technology Centre, Centre of Procurement Services, Centre of Assets management Services are also kept separately. In the package of the activity report of the Company, the financial data of the activities of these divisions are consolidated into a single profit (loss) and general income statement and balance sheets.

In terms of business management the Directorates / divisions of the Company operate as independent economic entities. Each Directorate / division manages and accounts on its balance sheet the assets used for its activities, the liabilities assumed by and subsidies / grants (including public funds) received by the Directorate / division, accounts income for the services of the Directorate / division and expenses incurred for the provision of those services.

For the purposes of separating the accounts of the activities of the Company, internal transactions between the Directorates / divisions (as well as between divisions of the Directorates and other structural units of the Company, i.e., the Company Administration, Information Technology Centre, Centre of Procurement Services, Centre of Assets Management Services and Rail Baltica project Directorate / division). It means that Directorates / divisions of the Company operate as separate economic entities both in relations with other natural and legal persons (customers, suppliers, etc.) and in relations with other Directorates / divisions of the Company. The Directorates / divisions of the Company sell their services to other Directorates / divisions of the Company and purchase services from them (i.e., sell / purchase internal services). Sales revenues from internal services (or expenses of the purchase hereof) are recorded on account in the same manner as sales revenue from external services (or expenses of the purchase thereof).

Determination of the rate for Internal services depends on the type of the Internal services (revenues and expenses from grouped internal services are provided in Tables Nos 3.2 and 3.4 of the Comments) and complies with the requirements set forth for the internal transactions in the Order No 3-225 of 15 April 2013 of the Minister of Transport and Communications of the Republic of Lithuania On amendments of the Order No 3-3 of 3 January 2012 of the Minister of Transport and Communications of the Republic of Lithuania "On announcement of profit (loss) statements and balance sheets of separate activities of public railway infrastructure operator and railway companies (carriers)".

This packages presents explanations to the separate articles of activity reports of the Company, profit (loss) statements and general revenue reports.

2. Explanation of the items of Financial Statement Report

2.1. Assets acquired by public funds transferred to / received from other directorates / divisions

By internal transactions the Directorates / divisions of the Company may transfer to each other non-current assets, plants, and equipment and / or intangible assets. The item of the balance sheet "Assets acquired from public funds and transferred to / received from other Directorates / divisions" discloses information on the transfer / receipt of assets acquired from public funds.

In 2016, the Directorates / divisions of the Company did not transfer such assets to each other.

2.2. Investment into subsidiaries and associated companies

As a shareholder / partner in the subsidiaries and associated companies, the Company operates as a single legal entity. The rights of the shareholder / partner are implemented by the Company Administration. Orders of the Director General are held equal to decisions of general meetings of shareholders of the subsidiaries, therefore investments into subsidiaries and associated companies are assigned to the Company Administration and are not distributed to other Directorates / divisions.

2.3. Deferred corporate income tax assets

The Company accounts deferred income tax assets in the Company Administration because the Company accounts and pays corporate income tax as a single legal entity.

2.4. Public funds

A separate bank account is opened for the receipt of public funds for each project thus ensuring that no other funds, except for those intended for the project, are entered to it.
The balance of public funds at the end of a year shows the public funds that were received but not used by the end of the year as well as accrued interest on those accounts.

On exceptional occasions, when several Directorates / divisions of the company participate in projects financed from public funds (for instance, Internal Safety Fund programme), a single special account of the Company is opened for the receipt of public funds for each project, the balances of the funds available on which are accounted on the balance sheet of the Company Administration before their distribution to the Directorates / divisions.

The amount of 189 624 EUR indicated on the balance sheet for 2016 is the funds received from the EU funds not distributed by the end of the year.

2.5. Net value of payables / receivables of internal transactions

The items "Receivables of internal transactions" and "Payables of internal transactions" reflect the balances of accumulated accounts receivable and accounts payable between the company divisions, which are formed in the course of executing economic and financial transactions between the Directorates / divisions of the Company. The following are examples of transactions between the Directorates / divisions:

- registration of internal services (as described in noted 3.2., 3.4.), which the Directorates / divisions render to each other;
- assignment of assets from one Directorate / division to another (e.g., to minimize reserve balance in the Company, the Directorate / division which is short of reserves first of all searches for possibilities to use for own needs the reserves accumulated in other Directorates / divisions rather than purchasing from external suppliers; accordingly, the Directorate / division which has sufficient amount of reserves can transfer such reserves to another Directorate / division according to the value entered in the books). The assets are transferred from one Directorate / division to another according to the non-current asset balance value and current asset value entered in the books, i.e., the Directorates / divisions earn no profit and have no losses from such mutual transactions;
- transfer of funds (payments for services, transfer of funds borrowed in a centralized manner, transfer of funds to the Administration of the centralized payments, etc.);
- distribution of expenses incurred while purchasing services in a centralized manner to the Directorates / divisions (e.g., training services, telecommunication services, representation services procured in a centralized manner, taxes paid in a centralized manner; the services or taxes are paid by one Directorate / division, whereas the expenses are registered in the other Directorates / divisions where such expenses are incurred);
- distribution of centralized sales revenues to the Directorates / Divisions (e.g., when performing centralized sales of metal scrap, the income from which is transferred to the Directorates / Divisions that generated the corresponding quantity of metal scrap);
- settlement of accounts between the Directorates / divisions;
- settlement of accounts between the Directorates / divisions (accounts receivable and accounts payable formed between the Directorates / divisions are consolidated at the end of the month), etc.

Turnover of payables / receivables of internal transactions

	DK	DL	DI	Other divisions	In total
Receivables from DK (payables to DK)					
Balance on the beginning of the reporting period 31/12/2015	-	**(78,471,541)**	**281,024,359**	-	**202,552,818**
Receivables accumulated during 2016	-	16,225,020	(18,017,751)	-	(1,792,731)
Balance on the end of the reporting period 31/12/2016	-	**(62,246,521)**	**263,006,608**	-	**200,760,087**
Receivables from DL (payables to DL)					
Balance on the beginning of the reporting period 31/12/2015	**(78,471,541)**	-	**37,405,217**	-	**115,876,758**
Receivables accumulated during 2016	16,225,020	-	34,470,921	-	18,245,901
Balance on the end of the reporting period 31/12/2016	**(62,246,521)**	-	**71,876,138**	-	**134,122,659**
Receivables from DI (payables to DI)					
Balance on the beginning of the reporting period 31/12/2015	**(281,024,359)**	**(37,405,217)**	-	**967,799,163**	**649,369,587**
Receivables accumulated during 2016	18,017,751	(34,470,921)	-	55,183,211	38,730,041
Balance on the end of the reporting period 31/12/2016	**(263,006,608)**	**(71,876,138)**	-	**1,022,982,374**	**688,099,628**
Receivables from the other divisions (payables to the other divisions)					
Balance on the beginning of the reporting period 31/12/2015	-	-	**(967,799,163)**	-	**(967,799,163)**
Receivables accumulated during 2016	-	-	(55,183,211)	-	(55,183,211)
Balance on the end of the reporting period 31/12/2016	-	-	**(1,022,982,374)**	-	**(1,022,982,374)**
Amounts of payables / receivables of internal transaction in total on 31/12/2016	**(200,760,087)**	**(134,122,659)**	**(688,099,628)**	**1,022,982,374**	-

Note. In the Table receivables are specified with no brackets, while payables are specified in brackets.

None of assets acquired by public funds was transferred to / received from other directorates / divisions.

Since the Company's equity is registered in the Company Administration balance (note 2.6.), in the past after the first preparation of activity reports a debt to the Company Administration was registered in the accounting while forming the assets of the Directorates / divisions; accordingly, these amounts are reflected in the balance of receivables of the Company Administration and in the balance of payables of the Directorates / divisions to the Company Administration.

2.6. Shareholders' equity

2.6.1. Equity and reserves

Since the Company is registered as a single legal entity, which has its own authorized capital, the Company shows the available equity and reserves in the scale of the whole Company and assigns them to the Company Administration. All movements of the equity and reserves are also shown in the accounts of the Company Administration.

2.6.2. Retained profit (loss)

Pursuant to the legal acts of the Republic of Lithuania, the general meeting of shareholders of the Company approves the distribution of the profit (loss), which is shown on the balance sheet of the Company Administration.

2.7. Grants

	DK	DL	DI	Other divisions	In total
Balance on 31/12/2015	**1,334,894**	**223**	**325,040,013**	**169,607,805**	**495,982,935**
Funds received during 2016	58,845	2,719,000	34,966,562	2,996,888	40,741,295
Repaid / transferred / withdrawn during 2016	-	(223)	(6,206,244)	(150,032)	(6,356,499)
part of partners' contributions to the grant	-	-	(2,674,649)	-	(2,674,649)
Public funds used for the compensation of non-received income during 2016	-	(2,222,936)	-	-	(2,222,936)
VAT paid on non-received income compensation during 2016	-	(200,064)	-	-	(200,064)
Used (+) and unused (-) funds allocated to the Directorates / divisions within 2016	(24,263)	37	166,669,189	(166,644,963)	-
Used for the compensation of expenses during 2016	-	(296,037)	-	-	(296,037)
Used for reducing expenses of non-current assets depreciation during 2016	(131,967)	-	(9,860,475)	(1,064)	(9,993,506)
Used for reducing other expenses during 2016	(103,000)	-	(1,767,213)	(8,242)	(1,878,455)
Increase in share capital during 2016	-	-	-	(650,197)	(650,197)
Balance on 31/12/2016	**1,134,509**	**-**	**508,841,832**	**5,150,195**	**515,126,536**

Major part of grants is directly related to funding of investment programmes, grants and assets received under the trust agreement to be used for minimization of depreciation expenses and compensation of other expenses.

Public funds received in 2016

Hereinunder we provide main public funds received in 2016 for the following purposes:

a) The funds of the State budget are allocated to the Company as per Agreement No SK-95 signed between the Ministry of Transport and Communications of the Republic of Lithuania and the Company on 16 March 2016 and its amendments (hereinafter the Agreement) regarding the use of the State budget funds allocated for implementation of the programme of PLLC Lithuanian Railways *Provision of Railway Communication*. As per the Agreement, the Company undertook to implement objectives of the programme *Provision of Railway Communication* of the strategic activity plan for 2016-2018 of the Ministry of Transport and Communications of the Republic of Lithuania approved by the Order No 3-527 of 23 December 2015 of the Minister of Transport and Communications of the Republic of Lithuania and its amendments;

b) The funds of the State budget and of the European Union are allocated to the Company as per the European Commission Decision No K(2008) 7561 dated 4 December 2008, as partially amended by the Decision No K(2010) 1089 dated 25 February 2010, the Decision No K(2011) 910 dated 9 February 2011, the Decision No K(2011) 5019 dated 6 July 2011 and the Decision No K(2013) 6603 dated 3 October 2013, related to provision of the Community's financial aid for the projects of common interest "analysis of Rail Baltica Project in the territory of Lithuania": 1) European gauge railway section Poland border — Marijampole, 2) improvement of the existing line, 3) cooperation in the implementation of the general analysis of "Rail Baltica Project European gauge" 2007-LT-27040-S - in the field of Trans-European Transport Network (TEN-T), as well as per the agreement between the Company and the Transport Investment Directorate No 1.15-2/SK-130 on the Distribution of rights and obligations of the implementing institution and project executor in the course of implementation of the development projects in the field of Trans-European Transport Network (TEN-T) provided with the financial support of TEN-T Community and State budget funds for funding of the project approved by the Order No 3-92 of 25 March 2016 of the Minister of Transport and Communications of the Republic of Lithuania Regarding approval of the list of 2016 equity investment distribution for transport, communication and information society development according to investment projects' implementation programmes, project contractors and investment projects specified in the programme of the state investment for 2016-2018 and amendment of this Order);

c) The funds of the State budget and of the European Union are allocated to the Company as per the grant agreement No INEA/CEF/TRAN/M2014/1046150 on the activity No 2014-LT-TMC-0109-M development of missing connection of Rail Baltica Project European gauge railway section Poland - Lithuania border to Kaunas and preparation for construction of the European gauge railway from Kaunas to Lithuania - Latvia state border signed on 13/11/2015 between the Company, the Innovations and Networks Programmes executive authority and the Ministry of Transport and Communications of the Republic of Lithuania as per the agreement No SK-354/EITP-1 of 06/10/2016 signed by the Company and the Transport Investment Directorate regarding development of missing connection of Rail Baltica transport sector project European gauge railway section from Poland - Lithuania border to Kaunas and preparation for construction of the European gauge railway from Kaunas to Lithuania - Latvia state border, No 2014-LT-TMC-0109-M;

Public funds received in 2016 (continued)

d) The EU Seventh Framework Program (FP7) funds for the project "Railway-Industrial Partnership for the Integrated Security of Rail Transport" implementation based on agreement No SK-213 as of 22 November 2010;

e) The funds from the Nordic Investment Bank allocated for the project Removing obstacles to intermodal transportation in Poland, Lithuania and Belarus in accordance with the Grant Agreement No SK-177 signed on 26 June 2015;

f) The funds from the EU Structural Funds according to the measure No VP3-1.4-AM-06-R Handling of previously contaminated areas of Priority 1 Local and urban development, conservation of cultural heritage and nature, and adaptation for tourism development of Operational Programme Promotion of Cohesion adopted by the decision No K(2007) 3740 of the European Commission on 30 July 2007 and the State budget funds according to the Resolution No 787 On the approval of the annex of Operational Programme Promotion of Cohesion of the Government of the Republic of Lithuania dated 23 July 2008 for the project Clean-up of Kaunas fuel storage area contaminated with petroleum products. The funds are intended to offset the depreciation costs;

g) The funds from the Road Fund allocated according to the Resolution No 443 Regarding distribution for 2001 of the part of the fund reserve of the Road Fund for financing of the other state needs in the field of roads of the Government of the Republic of Lithuania dated 18 April 2001;

h) The funds of the TEN-T Fund allocated in accordance with regulation of the European Commission of the European Parliament and the Council No 913/2010 "Competitive European rail freight network" and the decision of the European Commission No C (2012) 8082 „The financial aid of the Union for the needs of the common interest projects „Preparatory researches and actions - 2011-EU-95090-S - of railway freight by corridor No 8 (Bremenhafen / Rotterdam / Antwerp-Aachen / Berlin-Warsaw-Terespol (Polish-Belarusian border) /Kaunas) - in the field of Trans-European Networks (TEN-T);

i) The funds from the Internal Safety Fund are allocated based on the financial aid agreement No 2016/4-17-6/1S-60/SK-148 signed on 21 April 2016 on the Internal safety fund part "Special Transit Scheme" financial aid allocation project for PLLC Lithuanian Railways for additional operating expenses as per 2016-2018 "Special Transit Scheme" programme of the Internal Safety Fund part;

j) The funds from the Internal Security Fund are allocated based on the financial aid agreement No 1S-474/2014/4-17-8/SK-368 on 18 December 2014 on the Internal safety fund part "Special Transit Scheme" financial aid allocation project for PLLC Lithuanian Railways for additional operating expenses as per 2015 "Special Transit Scheme" programme of the Internal Safety Fund part;

k) State budget funds appointed for implementing the activity areas of the Minister of Transport and Communication of the Republic of Lithuania for 2016-2018 strategic plan of action, approved by the Order No 3-527 of the Minister of Transport and Communication of the Republic of Lithuania as of 23 December 2015 and its amendments, including *Implementation of transport and communication policy* program instrument "To ensure the activities of the joint Lithuanian, Latvian and Estonian company in implementation of the project Rail Baltica 2 and by referring to the Decision No 912 "State property investment and increase of the authorized capital of AB Lietuvos Geležinkeliai" as of 15 September 2016;

l) Financial assistance from the European Union is allocated to the projects approved by the Order No 3-5276 of 23 December 2015 of the Minister of Transport and Communications of the Republic of Lithuania regarding the approval of the list of investment projects and its amendments, as well as Order No 3-92 of 25 March 2016 of the Minister of Transport and Communications of the Republic of Lithuania regarding the approval of the list of 2016 equity investment distribution for transport, communication and information society development according to investment projects' implementation programmes, project contractors and investment projects specified in the programme of the state investment for 2016-2018 and amendment of this Order;

m) The EU funds by the Partnership agreement with the Ministry of Transport and Communication of the Republic of Lithuania for the project implementation "Improvement of the express train Vilnius-Minsk route" based on the Council Regulation (EB)
No 1638/2006 as of 24 October 2006, Commission Regulation (EB) No 951/2007 as of 9 August 2007 and EK Decision No K(2008)8113 as of 18 December 2008, which approves the European Neighborhood and Partnership Instrument program for the period 2007-2013 of the Cross Border Cooperation Program of Latvia, Lithuania and Belarus";

n) On 26 June 2013 a joint operations agreement No SP-265 was signed with Kaunas City Municipality Administration and Lithuanian Road Administration under the Ministry of Transport and Communications (on 3 November 2014 an additional agreement No SP-371 signed) for the implementation of a project Design and Construction of the Intermodal Terminal in Kaunas Public Logistics Centre. According to the agreement all partners committed themselves to jointly develop and finance the project. Under this joint operations agreement the Company is the managing partner and accounts for all partners' accumulated construction in progress and funding received (received allocations) for the project. After implementation of the project a part of its assets created during the execution and financing of the project received from the EU funds will have to be transferred to the partners in accordance with the legislation;

Public funds received in 2016 (continued)

o) Part of the State budget funds allocated to the Company by the Use agreement No SK-116/1F-60 as of 28 May 2015 and its amendments for the *program "Railway transportation assurance"* implementation, unused for the program aims (due to the lower amount of discounts granted to passengers than planned);

p) The funds from the Territorial Labour Exchange are allocated based on the Law on Military Obligations of the Republic of Lithuania and Resolution No. 165 of the Government of the Republic of Lithuania of 25 January 2012 on the determination of subsidies for the permanent compulsory initial military service wage or basic salary for soldiers who completed military service and determination of the amount of this subsidy".

Seq. No.	Purpose of public funds	Total on 31 December 2016	
		Received*	Used**
1. Passenger transportation directorate			
1.1. Compensation of expenses and loss of profit			
1.1.1.	State budget funds	2,718,777	2,518,936
1.1.2.	Other sources of funding	37	37
	IN TOTAL (1)	**2,718,814**	**2,518,973**
2. Railway infrastructure directorate			
2.1. Compensation of expenses			
2.1.1.	State budget funds	1,603,133	1,603,133
2.1.2.	Funds from the Internal Safety Fund	77,830	86,569
2.1.3.	Funds from Trans-European Transport Network (TEN-T) Fund	(6,711)	75,686
2.1.4.	Other sources of funding	1,825	1,825
	In total	**1,676,077**	**1,767,213**
2.2. Grants related to assets used for minimization of depreciation expenses			
2.2.1.	State budget funds	4,456,035	112,403
2.2.2.	Funds from the EU Structural Funds	177,280,256	8,179,084
2.2.3.	Funds from Trans-European Transport Network (TEN-T) Fund	16,993,830	317,584
2.2.4.	Road maintenance and development funding program	-	20,932
2.2.5.	Assets received free of charge	78,850	1,230,472
	In total	**198,808,971**	**9,860,475**
2.3.	***Land plots provided by municipalities under the right of trust at their indexed value***	**1,134,499**	-
	In total	**1,134,499**	-
2.4. Funding received for partners' part of assets			
2.4.1.	Funds from the EU Structural Funds	(2,674,649)	
	In total	**(2,674,649)**	-
	IN TOTAL (2):	**198,944,898**	**11,627,688**
3. Freight transportation directorate			
3.1. Compensation of expenses			
3.1.1.	Funds from the EU Trans-European Transport Network (TEN-T) Fund	3,707	3,707
3.1.2.	Funds from the Nordic Investment Bank (NIB)	56,000	96,448
3.1.3.	Other sources of funding	2,845	2,845
	In total	**62,552**	**103,000**
3.2. Grants related to assets used for minimization of depreciation expenses			
3.2.1.	State budget funds	1,318	19,480
3.2.2.	Funds from European Regional Development Fund (ERDF)	-	110,348
3.2.3.	Funds from the EU Trans-European Transport Network (TEN-T) Fund	4,985	26
3.2.4.	Other sources of funding	(34,273)	2,113
	In total	**(27,970)**	**131,967**
3.3. Funding received for partners' part of assets			
	In total	-	-
	IN TOTAL (3):	**34,582**	**234,967**
4. Administration and other divisions			
4.1. Compensation of expenses			
4.1.1.	Funds from the EU Trans-European Transport Network (TEN-T) Fund	7,363	7,363
4.1.2.	Other sources of funding	879	879
	In total	**8,242**	**8,242**
4.2. Grants related to assets used for minimization of depreciation expenses			
4.2.1.	State budget funds	(3,730,750)	650,197
4.2.2.	Funds from the EU Structural Funds	(145,230,431)	-
4.2.3.	Funds from Trans-European Transport Network (TEN-T) Fund	(16,922,409)	-
4.2.4.	Funds from European Infrastructure Network (EIN) Fund	2,193,000	-
4.2.5.	Other sources of funding	34,273	1,064
	In total	**(163,656,317)**	**651,261**
	IN TOTAL (4)	**(163,648,075)**	**659,503**
In total (1+2+3+4)		**38,050,219**	**15,041,131**

*Received under consideration of repayments and transfers between the directorates
** Used under consideration of balances

3. Explanation of Profit (loss) and other comprehensive income statement items

3.1. Used public funds to compensate for unearned income

The item Public funds used for the compensation of non-received income shows the funds received by the Company from the State budged and used for the compensation of non-received income in the course of carriage of passengers by local transportation routes under privileged conditions (as per the agreement described in note 2.7).

In the implementation of the provisions of the Law of the Republic of Lithuania on Transport Privileges, the Company carries by local transport routes those passengers who are entitled to acquire tickets with an 80 % and 50 % discount. The non-received income as a result of the grant of privileges under actually provided services is compensated from the State budget by providing assignations to the Company.

3.2. Revenue from sales to other Directorates / divisions

The item Revenue from sales to other Directorates / divisions shows the income received by the Directorates / divisions(by each Directorate / division) for the services provided to other Directorates / divisions. The table below presents detailed data on the revenue received by each Directorate / division from another Directorate / division broken down by the main groups of services.

	DL	DK	DI	Other divisions	In total
Income of the Passenger Transportation Directorate for internal services:	-	**836,054**	**238,608**	**82,394**	**1,157,056**
Carriage of office correspondence	-	74,855	19,205	10,777	104,837
Technical maintenance and repair	-	688,088	196,718	-	884,806
Other services	-	73,111	22,685	71,617	167,413
Income of the Freight Transportation Directorate for internal services:	**3,176,018**	-	**29,108,980**	**229,497**	**32,514,495**
Train traffic organization	-	-	27,560,158	-	27,560,158
Technical maintenance and repair	667,371	-	414,734	-	1,082,105
Freight carriages	7,216	-	273,735	14,722	295,673
Services of rolling stock and crews thereof	2,117,156	-	572,615	-	2,689,771
Other services	384,275	-	287,738	214,775	886,788
Income of the Railway Infrastructure Directorate for internal services:	**16,421,439**	**150,362,123**	-	**1,059,464**	**167,843,026**
Infrastructure charges	13,920,981	147,497,883	-	-	161,418,864
Charge for the contact electrical network	881,992	-	-	-	881,992
Fee for use of intermodal terminal	-	22,286	-	-	22,286
Technical maintenance and repair	82,012	165,124	-	426	247,562
Electricity, gas, steam, and water supply	1,238,422	1,701,947	-	284,931	3,225,300
Other services	298,032	974,883	-	774,107	2,047,022
Income of the other divisions for internal services:	**2,616,425**	**14,522,099**	**8,780,198**	-	**25,918,722**
Administration services	1,770,515	8,569,376	6,593,796	-	16,933,687
ITC services	630,255	3,934,782	1,880,583	-	6,445,620
Other services	215,655	2,017,941	305,819	-	2,539,415
In total	**22,213,882**	**165,720,276**	**38,127,786**	**1,371,355**	**227,433,299**
Income from internal transactions between the other divisions				2,660,564	2,660,564
Total, including internal transactions between other divisions	**22,213,882**	**165,720,276**	**38,127,786**	**4,013,919**	**230,093,863**
Income from financial and investment activities					
Income of the Passenger Transportation Directorate for internal services:	-	-	**200,319**	-	**200,319**
Fines and compensation for delays and cancellations of passenger trains	-		200,319	-	200,319
Income of the Freight Transportation Directorate for internal services:	-		**10,368**	-	**10,368**
Fines and compensation for delays and cancellations of passenger freight trains	-		10,368	-	10,368
Income of the Railway Infrastructure Directorate for internal services:	**448**	**3,410**	-	-	**3,858**
Fines and compensation for delays and cancellations of trains	448	3,410	-	-	3,858
Total internal income from financial and investment activities	**448**	**3,410**	**210,687**	-	**214,545**

3.3. Public funds used for the compensation of expenses

The item Public funds used for the compensation of expenses of the cost of sales shows the public funds received by the Company from the State budget, the EU and other funds and used for the compensation of operating expenses incurred in the execution of the following:
obligations of the services for the public on terms and conditions commercially unfavourable for the Company, compensation of public assets registration charges, arrangement of railway protection areas plantations in the implementation of projects supported by the EU, TEN-T and other funds programmes and other projects (as per the agreements described in Note 2.7.).

In the implementation of the provisions of the laws of the Republic of Lithuania (the Law of the Republic of Lithuania on the Basics of Transport Activities, the Code of Railway Transport of the Republic of Lithuania), the Company carries passengers by local transportation routes on commercially unfavourable conditions. The expenses incurred by the Company in the course of the execution of loss-making activities are compensated from the State budget by providing assignations to the Company. The assignation of the funds of the State budget is regulated by the agreement concluded on an annual basis between the Ministry of Transport and Communications of the Republic of Lithuania as the manager of assignations, on the one part, and the Company as the implementing authority, on the other part.

3.4. Costs of purchases from other Directorates / divisions

The item Cos/s of purchases from other Directorates / division shows the expenses of the Directorates / division (by each Directorate / division) incurred in the course of purchasing services from another Directorate / division. The table below presents detailed data on the expenses of each Directorate / division incurred in the course of purchasing services from another Directorate / division broken down by the main groups of services.

	DL	DK	DI	Other divisions	In total
Costs of the Passenger Transportation Directorate:	**-**	**3,176,018**	**16,421,439**	**2,616,425**	**22,213,882**
Infrastructure charges	-	-	13,920,981	-	13,920,981
Charge for the contact electrical network	-	-	881,992	-	881,992
Technical maintenance and repair	-	667,371	82,012	-	749,383
Freight carriages	-	7,216	-	-	7,216
Services of rolling stock and crews thereof	-	2,117,156	-	-	2,117,156
Electricity, gas, steam, and water supply	-	-	1,238,422	-	1,238,422
Administration services	-	-	-	1,770,515	1,770,515
ITC services	-	-	-	630,255	630,255
Other services	-	384,275	298,032	215,655	897,962
Costs of the Freight Transportation Directorate:	**836,054**	**-**	**150,362,123**	**14,522,099**	**165,720,276**
Infrastructure charges	-	-	147,497,883	-	147,497,883
Fee for use of intermodal terminal	-	-	22,286	-	22,286
Technical maintenance and repair	688,088	-	165,124	-	853,212
Carriage of office correspondence	74,855	-	-	-	74,855
Electricity, gas, steam, and water supply	11,745	-	1,701,947	-	1,713,692
Administration services	-	-	-	8,569,376	8,569,376
ITC services	-	-	-	3,934,782	3,934,782
Other services	61,366	-	974,883	2,017,941	3,054,190
Costs of the Railway Infrastructure Directorate:	**238,608**	**29,108,980**	**-**	**8,780,198**	**38,127,786**
Train traffic organisation	-	27,560,158	-	-	27,560,158
Technical maintenance and repair	196,718	414,734	-	-	611,452
Freight carriages	-	273,735	-	-	273,735
Services of rolling stock and crews thereof	-	572,615	-	-	572,615
Carriage of office correspondence	19,205	-	-	-	19,205
Administration services	-	-	-	6,593,796	6,593,796
ITC services	-	-	-	1,880,583	1,880,583
Other services	22,685	287,738	-	305,819	616,242
Costs of other divisions:	**82,394**	**229,497**	**1,059,464**	**-**	**1,371,355**
Technical maintenance and repair	-	-	426	-	426
Freight carriages	-	14,722	-	-	14,722
Electricity, gas, steam, and water supply	-	-	284,931	-	284,931
Carriage of office correspondence	10,777	-	-	-	10,777
Other services	71,617	214,775	774,107	-	1,060,499
In total	**1,157,056**	**32,514,495**	**167,843,026**	**25,918,722**	**227,433,299**
Costs of internal transactions between the other divisions	-	-	-	2,660,564	2,660,564
Total, including internal transactions between other divisions	**1,157,056**	**32,514,495**	**167,843,026**	**28,579,286**	**230,093,863**
Internal costs from financial and investment activities					
Costs of the Passenger Transportation Directorate for internal services:	**-**	**-**	**448**	**-**	**448**
Fines and compensation for delays and cancellations of trains	-	-	448	-	448
Costs of the Freight Transportation Directorate for internal services:	**-**	**-**	**3,410**	**-**	**3,410**
Fines and compensation for delays and cancellations of passenger freight trains	-	-	3,410	-	3,410
Costs of the Railway Infrastructure Directorate for internal services:	**200,319**	**10,368**	**-**	**-**	**210,687**
Fines and compensation for delays and cancellations of freight trains	200,319	10,368	-	-	210,687
Fines and compensation for delays of freight trains	**200,319**	**10,368**	**3,858**	**-**	**214,545**
Total internal costs from financial and investment activities	**200,319**	**10,368**	**-**	**-**	**210,687**

3.5. Corporate income tax

Corporate income tax is accounted at the Company Administration because the Company accounts and pays corporate income tax as a single legal entity.

4. Income and expenses and financial result of public passenger carriage services by rail

		Public passenger carriage services by rail	Commercial passenger carriage services by rail and other activities	In total
1.	**Sales revenue**	**11,163,530**	**16,612,589**	**27,776,119**
1.1.	Sales to customers	8,940,594	16,612,589	25,553,183
1.2.	Used public funds to compensate for unearned income	2,222,936*	-	2,222,936*
2.	**Cost of sales**	**(45,024,230)**	**(12,551,075)**	**(57,575,305)**
2.1.	Cost of sales, except public funds used for compensation of expenses	(45,320,230)	(12,551,112)	(57,871,342)
2.1.1.	Salaries and social security expenses	(12,093,730)	(3,299,153)	(15,392,883)
2.1.2.	Materials for repairs and maintenance	(1,265,983)	(494,062)	(1,760,045)
2.1.3.	Fuel	(2,246,233)	(1,143,032)	(3,389,265)
2.1.4.	Depreciation	(8,780,074)	(2,663,316)	(11,443,390)
2.1.5.	Repairs and maintenance works, carried by internal and external contractors, and other costs	(2,076,287)	(1,529,298)	(3,605,585)
2.1.6.	Infrastructure charges and charges for contact electrical network	(11,677,114)	(3,125,860)	(14,802,974)
2.1.7.	Electricity for traction	(824 775)	(140)	(824,915)
2.1.8.	Other internal costs (not included in items 2.1.6 - 2.1.7 of this table)	(6,356,034)	(296,251)	(6,652,285)
2.2.	Funds used for compensation of expenses	296,000**	37	296,037**
3.	**Operating expenses**	**(3,102,846)**	**(863,090)**	**(3,965,936)**
4.	**Profit (loss)**	**(36,963,546)**	**3,198,424**	**(33,765,122)**
5.	**Other activities**	-	**117,826**	**117,826**
5.1.	Income from other activities	-	118,044	118,044
5.2.	Expenses on other activities	-	218	218
6.	**Financial and investment activities**	**(61,317)**	**(5,160)**	**(66,477)**
6.1.	Revenue from financial and investment activities	191,917	16,151	208,068
6.2.	Costs of financial and investment activities	(253,234)	(21,311)	(274,545)
7.	**Profit (loss) before tax**	**(37,024,863)**	**3,311,090**	**(33,713,773)**

* The State budget funds allocated to the Company for compensation of non-received income for provision of socially necessary transport services to the society — carriage of passengers (pensioners, people with disabilities, students, etc.) entitled to purchase discounted tickets. The State budget funds were allocated to the Company under the Law of the Republic of Lithuania on Transport Privileges and the agreement No SK-95 signed between the Company and the Ministry of Transport and Communications of the Republic of Lithuania on 16 March 2016 on the use of state budget funds.

** The State budget funds for compensation of loss for provision of passenger carriage services by the routes which are commercially unprofitable for the Company. The State budget funds were allocated to the Company under the Law of the Republic of Lithuania on Transport Privileges and the agreement No SK-95 signed between the Company and the Ministry of Transport and Communications of the Republic of Lithuania on 16 March 2016 on the use of state budget funds.