AB LIETUVOS GELEŽINKELIAI

ANNUAL REPORT FOR THE YEAR 2016

LIETUVOS GELEŽINKELIAI

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Abbreviations:
AB LG – AB Lietuvos Geležinkeliai
GAC – UAB Geležinkelių aplinkosaugos centras
GelPro – UAB Geležinkelių projektavimas
Gelsauga – UAB Gelsauga
GTC – UAB Geležinkelio tiesimo centras
RBS – UAB Rail Baltica statyba
IFRS – International Financial Reporting Standards
VLRD – UAB Vilniaus lokomotyvų remonto depas

Consolidated Annual Report, Separate and Consolidated Financial Statements for the year 2016, prepared for the period January 1, 2016 - December 31, 2016, in accordance with International Financial Reporting Standards as adopted by the European Union, presented together with the Independent Auditor's Report. The annual reports and financial statements are publicly available on the website http://www.litrail.lt.

MESSAGE OF THE DIRECTOR GENERAL

Dear Customers, Employees, Partners,

Lithuanian Railways becomes a sustainable, competitive, modern and, above all, Company oriented to your expectations.

This is the top priority of our business. Therefore, the changes that started in 2016 were not an option for the Group of companies. I call it the necessity, a solid step towards the main goal - to create the greatest benefits for the State and society.

Since 2012, the key indicators of the Group have consistently regressed. Over the past five years income has shrunk by more than a fifth (from 503.1 to 404.1 million Euros). During the abovementioned period freight transportation volumes decreased (4% from 49.4 to 47.6 million tonnes). The number of transported passengers has decreased by almost a tenth (from 4.8 to 4.4 million).

In 2016 the situation of the Group of companies has become extremely difficult: the Company with huge potential has no longer been profitable. Its reputation was tarnished by non-transparent internal transactions and suspicious public procurements, the effectiveness was reduced by the huge bureaucracy and the stagnation of assets ant personnel management, and trust was diminished by the unclear procedures of sponsorships and reticence.

That is why 2017 becomes the year of the main challenge when we need to unite forces, to fundamentally turn this page and start a new creative moment for the strategic State-owned Group of companies.

I believe that all the great works start with people – with their desire and objective to act as a united team, therefore, its consolidation is becoming one of our top five priorities. Strong team of leaders, together with experienced, motivated and proud on their Company employees, have the responsibility and privilege of turning the Lithuanian Railways to the company that creates the greatest benefit for Lithuanian people. This is the second priority of our business.

In order to achieve this goal, in the perspective, we have all the possibilities to be among the TOP-5 largest carriers in the European Union, to successfully implement the strategic Rail Baltica project and to ensure fast, safe and environmentally friendly transportation in Lithuania. These are another three of our top business priorities.

Focusing on boosting competitiveness – so that a company with a potentially international presence could operate successfully, profitably and bring the return to the State, we need to increase its efficiency and transparency, to invest in modern state-of-the-art technologies, abandon the bad habit of thinking that we are large enough to be able to dictate terms.

Lithuanian Railways operates in conditions of intense and complex competitive environment, but has all the necessary potential to become the leader of the Eastern and Central Europe, become a comfortable and pleasant travel partner for the residents, a reliable and caring provider of services for business, progressive and best performing employer.

Mantas Bartuška
CEO
AB Lietuvos Geležinkeliai

ABOUT THE GROUP AND THE COMPANY

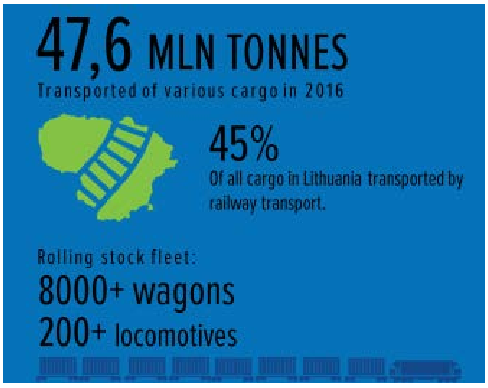
AB Lietuvos Geležinkeliai Group of companies is Lithuania's largest and one of the largest European railway transport companies.

By pursuing the main objective of delivering the greatest benefits to the State and society, the Group of companies constantly strives to increase its competitiveness by increasing transparency and efficiency of operations by investing in the rolling stock, paying special attention to customer service, IT technologies, and the quality of the services provided. Particular attention is paid to the implementation of Rail Baltica and East-West Corridor infrastructure development projects

The primary activity of AB Lietuvos Geležinkeliai includes:
- the freight transportation and other services related to transportation activities;
- the provision of passenger transportation services and other transportation services;
- management, maintenance and development of the public railway infrastructure.

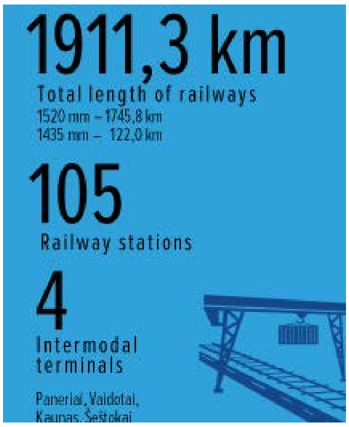
In implementing passenger transportation, the Group provides passenger services on local and international routes, postal and luggage transportation in the territory of Lithuania, and other additional services.
The main objectives of passenger transportation are:
- Providing comfortable transport conditions for passengers
- Improving of electric trains rolling stock
- Integrated and sustainable public transportation system in Lithuania
- Improvement of service quality
- Development of ticketing channels
- Online booking and sale of tickets for international trains
- New directions for passenger transportation

The Group provides freight transportation, logistics and forwarding services, carries out loading and unloading, provides wagon rental services in Lithuania and abroad, coordinates the work of locomotives and brigades in Lithuania and abroad, and also leases them.
The main objectives of freight transportation are:
- Stay and be competitive in the traditional transportation market
- Integrate into new freight markets
- Increase competitiveness in the local and international market
- Take care of establishing long-term relationships with the Company's clients, in accordance with the principles of publicity and transparency
- Ensure transparency of pricing for all market participants
- Promote transport-logistics innovations
- Ensure the continuous use of safe, environmentally friendly transport



In managing the public railway infrastructure, in its maintenance and development, the Group carries out the provision of railway infrastructure capacity for carriers, carries out maintenance and repair of railway infrastructure owned by carriers, provides intermodal terminals services, leases of railway machinery and equipment.

Primary objectives:
- Construction of the European gauge 1435 mm railway line Rail Baltica
- Connecting Rail Baltica with Kaunas Intermodal Terminal
- Increasing the capacity in Klaipeda direction
- Maximizing the weight of freight trains in Corridor IXB
- Electrification of corridor IXB



CORPORATE GOVERNANCE AND ORGANIZATIONAL STRUCTURE

As of 31 December 2016 the Group was comprised of AB Lietuvos Geležinkeliai and the companies – UAB Vilniaus lokomotyvų remonto depas, UAB Geležinkelio tiesimo centras, UAB Gelsauga, UAB Geležinkelių projektavimas, UAB Geležinkelių aplinkosaugos centras, UAB Rail Baltica statyba and associated company UAB Voestalpine VAE Legetecha.

Management bodies of AB Lietuvos Geležinkeliai: General Meeting of shareholders, Board of Directors, Head of the Company. 100% of the Company's shares belong to the State, which is entrusted by the Ministry of Transport and Communications of the Republic of Lithuania. The Board of Directors approves the company's organizational structure, appoints and terminates the chief executive.

From the end of the year 2016, implementing the necessary changes in the Company and in order to maximize efficiency and transparency, the organizational structure of its management has been modernized (see the diagram below).

The organizational structure of the Company as of 31 December 2016

STRATEGY

By the end of 2016, short-term operating plans prepared by the Group of Companies to be replaced by the decision of the Board of Directors of AB Lietuvos Geležinkeliai, which are newly appointed, to adopt the principles of strategic management that correspond to the highest international practice. Although, the Board of AB Lietuvos Geležinkeliai made a decision for the first time in the Group's history to develop a long-term strategy 2030. Its preparation started in accordance with the recommendations issued by the Management Coordination Centre to State-owned enterprises related to the strategic planning of business. It was decided to acquire the Business Strategy 2030 preparation and consultation services through the international public procurement, negotiated.

The long-term strategy of the Group should cover all activities of the Group of Lietuvos Geležinkeliai - freight and passenger transportation and related logistics services on the local and international markets. Infrastructure management, maintenance and development, implementation of the high priority Rail Baltica project. Also, other key, promising activities, such as railroad construction, repair, rolling stock production, rental of property, etc.

The task of the strategy development is to carry out an analysis of the Group external and internal factors, to assess the market of key services and its prospects, customer needs and a competitive environment. It also predicts the influence of technological and innovation development on the activities of the Group of Companies, estimates political, economic, social, environmental factors and State legal regulation. Taking into account the experience of similar multinational companies and the specifics of the activities of AB Lietuvos Geležinkeliai, there will be a potential to increase the scope of the Group's activities and reduce costs and improve operations.

The strategy will define the principles for setting long-term strategic objectives of the Company and their implementation measures. The activity indicators and financial projections have to be prepared, including sources of funding, as well as the main strategic risks and their management directions.

On the basis of the long-term strategy of AB Lietuvos Geležinkeliai, shorter-term planning documents will be prepared, decisions on strategic transformations in the Group, strategic investment projects or programs will be made.

OPERATING PLANS FOR 2017

The short-term plans and perspectives of the Company were established in the *Strategic Operational Plan for 2017-2020 of AB Lietuvos Geležinkeliai* (the Board of Directors approved the budget of AB Lietuvos Geležinkeliai for 2017 on 28 February 2017).

The plans and operational outlooks of the subsidiaries of the Company are set out in the Strategic Action Plans for 2017-2020 approved by the boards of these companies. Information about the planned economic and financial performance indicators of subsidiaries is presented in the Strategic Operational Plan of AB Lietuvos Geležinkeliai.

The primary activity carried out by AB Lietuvos Geležinkeliai during the planned period of 2017 included the provision of cargo and passenger transportation and other transport related services, management, maintenance and development of public railway infrastructure. The Company implemented the goals and tasks delegated to it by the State (it carried out special obligations, implemented investment projects of the public railway infrastructure approved in the State Capital Investment Program, etc.).

The key indicators planned by the Company

Indicators	2016	Plan 2017	Δ, +/-
Cargo transported, millions of tonnes	47.651	48.266	+0.615
Passengers carried, millions	4.428	4.611	+0.183
Turnover of sales, millions of EUR	400.5	410.3	+9.8
EBITDA, millions of EUR	66.2	132.0	+65.8
Net Profit/Loss, millions of EUR	-49.5	7.3	+56.8
EBITDA profitability, %	16.5%	32.2%	
Net Profitability, %	-12.4%	1.8%	
Investments, millions of EUR	137.0	108.1	-28.9

MOST SIGNIFICANT EVENTS IN 2016

January 2016 European Investment Bank (EIB) lent 68 millions of Euros. The credit is used for financing of the investment projects of electrification of the section from Kena to Naujoji Vilnia and the Vilnius railway junction, reconstruction of Pauostis rail yard in Klaipėda, second road construction works in the section Telšiai - Lieplaukė, other railway infrastructure projects. These funds will also be used to purchase new passenger trains.

31 May 2016 an agreement was signed with the Polish company Przewozy Regionalne on cooperation in cross-border rail passenger transport across the Polish-Lithuanian border. In June 2016 the regular service was started on the European Rail Baltica gauge on the route Kaunas - Bialystok - Kaunas. Polish 127 seat trains are used on this route at weekends.

11 July 2016 an agreement was signed on the construction of the second track on the IXB transport corridor Vilnius bypass section Pušynas - Paneriai. The configuration of the line connecting the section Vaidotai - Paneriai to the section Vilnius-Kaunas will be restructured using the funds of the EU Cohesion Fund and own funds of the Company. By constructing a double-track in place of the existing single-track, it will be possible to transport transit cargo smoother and faster in the directions of Kaunas and Klaipėda. Project worth 27.5 million Eur, over 2.5 years will be implemented by a group of partners - Eurovia CS, AB Eurovia Lietuva and UAB Vitras-S.

7 October 2016 the contract was signed for construction works of Rail Baltica railway line Jiesia - Rokai, worth 15.6 millions of Euros. On October 12th 2016 the maintenance contract for the same section was signed. Railway section Jiesia - Rokai is one of three sections connecting Kaunas intermodal terminal with Rail Baltica railway, and hence integrating it into the European railway network.

07 October 2016 the public procurement agreement of the Rail Baltica Railway project has been signed defining public procurement procedures. The purpose of this agreement is to ensure the proper implementation of the agreement on the Rail Baltica procurement scheme.

18 November 2016 a financing agreement was signed for the development of the Rail Baltica project and works in the territory of Lithuania assigning 180 million of EUR from ES funds. This will amount to 85% of expected value of works. The contract was signed by the European Commission's Innovation and Network Program Executive Agency (INEA), the joint Baltic company RB Rail AS, the Ministry of Transport and Communications of the Republic of Lithuania and the responsible ministries of Latvia and Estonia. Under the contract, the EU funds will be used to extend the European Rail Baltica track from Kaunas to the State border with Latvia.

02 December 2016 Stasys Dailydka, Director General of AB Lietuvos Geležinkeliai, presented to the Board of the Company a request to resign from the duties of the Director General of the Company.

14 December 2016 according to the order by the Minister of Transport and Communications, a new Board of Directors was appointed, whose members are Romas Švedas, Paulius Martinkus, Monika Rimkūnaitė-Bložė, Mantas Bartuška, Rolandas Zukas.

16 December 2016 the new Board of AB LG elected Romas Švedas as the Chairman of the Board of the Company and Mantas Bartuška as CEO of the Company.

23 December 2016 the Board of the Company, at the request of CEO Mantas Bartuška, suspended the provision of aid and support and instructed the Company to prepare a transparent and clear procedure for the provision of aid and support. Urgent work on the transparency of domestic transactions and public procurement, and the improvement in the efficiency of the activities of the Lietuvos Geležinkeliai Group were identified. From 2017 ensuring the sustainability of the Company and the implementation of its goals are entrusted to a new team of executives.

OVERVIEW OF THE COMPANY'S ACTIVITIES

Freight volumes		2016	2015	Δ, +/-	Δ, %
Freight transportation total	millions t	47.65	48.05	-0.40	-0.8%
Freight transportation segments					
Local transportation	millions t	15.05	14.42	+0.63	4.3%
International transportation	millions t	32.60	33.63	-1.03	-3.0%
Transit	millions t	9.05	8.92	+0.13	1.4%
Export from Lithuania	millions t	3.84	4.10	-0.26	-6.3%
Import to Lithuania	millions t	19.71	20.61	-0.90	-4.4%
Freight turnover	billions t km	13.790	14.036	-0.246	-1.8%
Average distance travelled per tonne	km	289	292	-3	-1.0%
Cargo types					
Chemical and mineral fertilizers	millions t	14.33	15.53	-1.20	-7.8%
Oil and its products	millions t	14.46	14.30	+0.16	1.1%
Foodstuffs (incl. cereals)	millions t	5.57	5.72	-0.15	-2.6%
Construction materials	millions t	4.60	3.93	+0.67	17.2%
Coal	millions t	2.69	2.49	+0.20	8.0%
Ferrous metals	millions t	3.03	3.51	-0.48	-13.6%
Other cargo	millions t	2.97	2.57	+0.40	15.6%
Passengers transportation total	millions of pass.	4.428	4.226	+0.202	4.8%
Domestic	millions of pass.	3.580	3.430	+0.150	4.4%
International	millions of pass.	0.848	0.796	+0.052	6.5%
Passenger turnover	millions pass. km	395.9	360.7	+35.2	9.7%
Average distance travelled by passenger	km	89	85	+4	4.7%

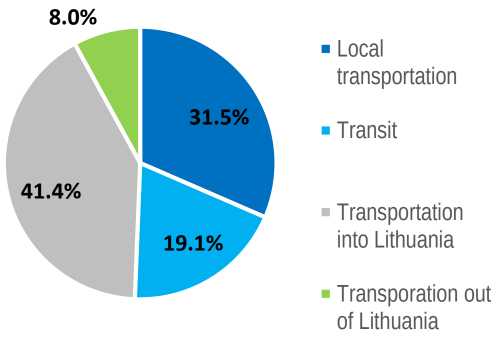
FREIGHT TRANSPORTATION

When transporting cargo, the Company is in competition with:

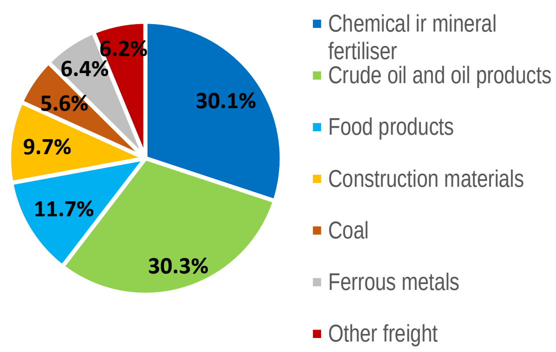
- Carriers of other modes of transport (road, air transport);
- Rail networks of neighbouring countries' (with ports and freight terminals);
- New railway carriers on the Lithuanian railway network.

Changes in freight flows are often determined not by local but geopolitical, macroeconomic reasons (transport policy of neighbouring countries, economic changes in the region (e.g., the economic crisis in Ukraine, the economic recession in Russia), trends in global markets). In 2016 the volume of cargo transportation by rail companies of neighbouring countries operating in the same international transportation market decreased in the case of Latvian railways - 14.1%, Estonia - 19.0%, Belarus - 3.6%, Ukraine - 1.9%.

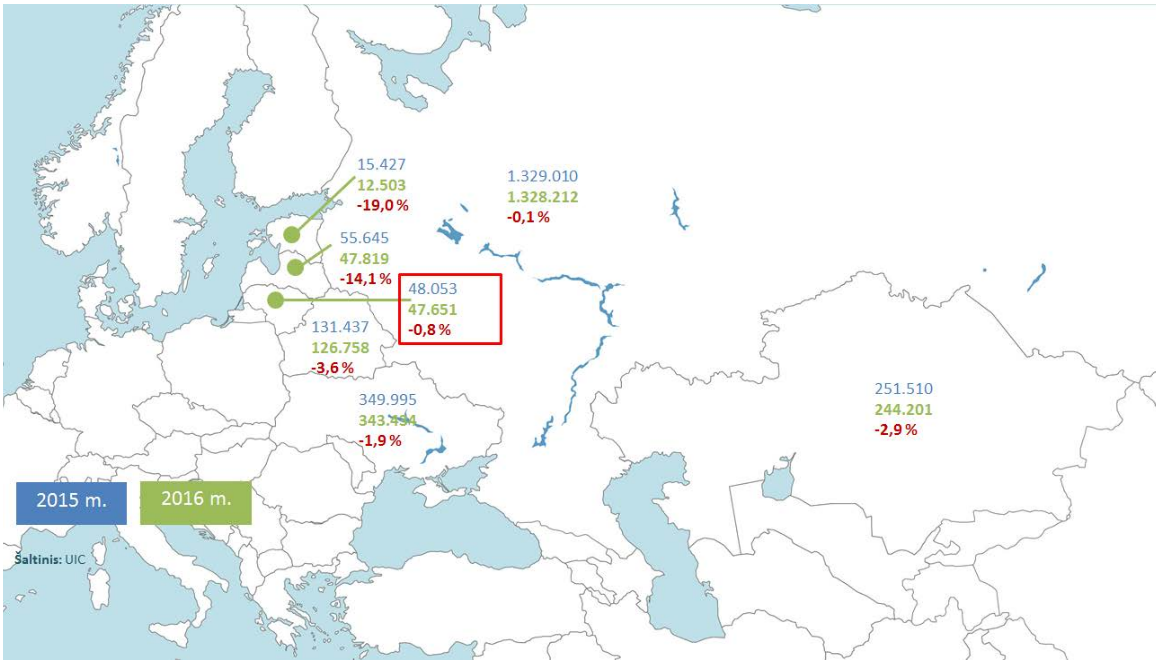
AB LG freight transportation segments in 2016, %



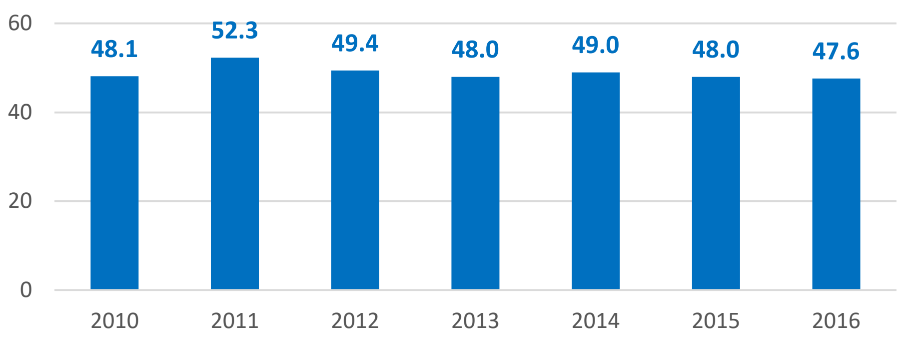
AB LG freight transportation structure in 2016, %



Rail freight changes in 2015-2016 (in million tonnes)



AB LG freight transportation volumes in 2010-2016 (in million tonnes)



Freight transportation volumes in 2016 amounted to 47.6 million tonnes, i.e. 0.8 % or 0.4 millions of tonnes less than in 2015.

The largest cargo flows in the international transport market forms freight from and to Belarus and Russia. Compared to 2015, international cargo transportation decreased by 3.0% or 1.0 million tonnes. Changes were caused by reduced transit through Klaipėda port, mainly of oil and chemical and mineral fertilizers from Russia and Belarus.

The main Lithuanian industries, whose production volumes have a significant impact on the transportation of goods by rail in the local, export and import markets - AB ORLEN Lietuva, AB Lifosa, AB Achema, AB Akmenes Cementas and AB Dolomitas. The transportation for these customers in 2016 amounted to 33.1% of all the amount of goods carried by rail.

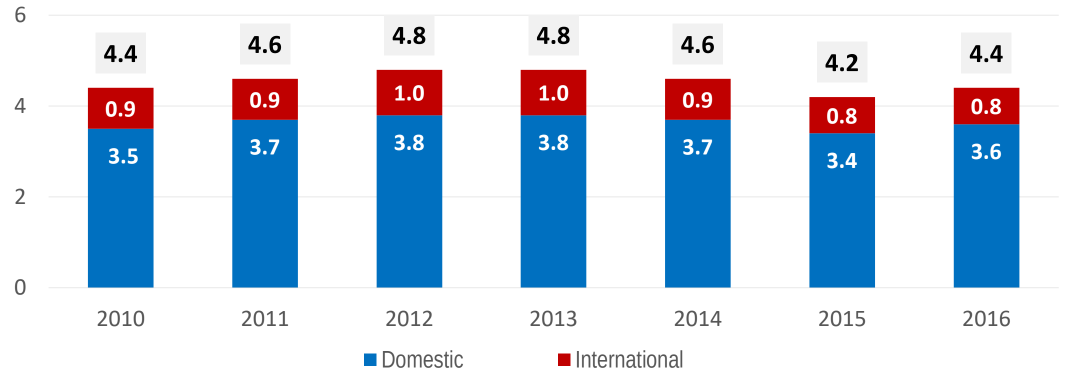
Local transportation, compared to 2016, grew by 4.3% or 0.6 million tons. Substantial changes in the local market were caused by higher volumes of transported oil and mineral products. Meanwhile, the transportation of cereals in local routes in 2016 decreased by a quarter. The decline was driven by a worse grain yield than was predicted and new elevators launched, allowing to store until spring grain purchased at reduced prices, waiting for more favourable stock prices in international markets.

PASSENGER TRANSPORTATION

In the passenger transportation, AB Lietuvos geležinkeliai compete with:

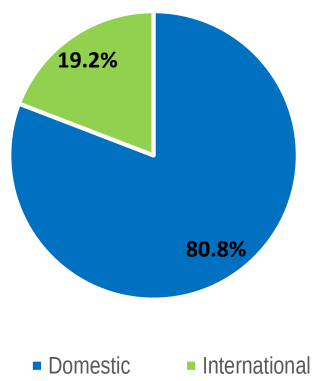
- road transport companies
- airline companies

The scale of AB LG passenger transportation in 2010-2016 (mln of passengers)

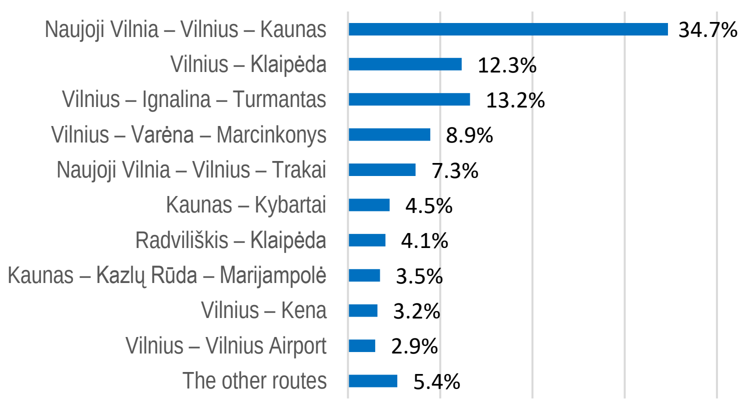


AB LG in 2016 transported 4,428 million passengers, i.e. 4.8 % or 202 thousand passengers more than in 2015. Transportation increased both on local and international routes.

Passenger market segments in 2016 (%)



Domestic transportation structure in 2016 (%)



Transportation via local routes in 2016 compared with 2015 when 3.430 million of passengers were transported increased by 4.4%. More than a third of passengers are transported by the local route "New Vilnia - Vilnius - Kaunas". The growth of the number of passengers is influenced by the renewal of the passenger rolling stock (7 diesel and 1 electric train purchased in 2016), the increase of frequency of train running on different routes, the use of other marketing tools to attract passenger flows (development of ticket sales channels, etc.)

Transfers via international routes in 2016 compared with 2015 when 0.796 million of passengers were transported increased by 6.5%. Positive changes in 2016 were caused by increase in the flow of transit train passengers mainly on "Kaliningrad - Moscow" route. Meanwhile, international transportation by Company's formed trains in 2016 declined. Due to the massive drop in passenger flows in 2015 the Company eliminated the inefficient route Vilnius-St. Petersburg. In the future, it is planned to develop only a prospective international route "Vilnius-Minsk ", popularity of which is related to the section's electrification and the shortened time of travel between Vilnius and Minsk. Also in 2016 the cross-border connection between Lithuania and Poland was renewed. First regular travels on the route "Kaunas - Bialystok" took place in June of 2016.

SERVICES OF THE PUBLIC RAILWAY INFRASTRUCTURE MANAGER

The functions of the Public Railway Infrastructure Manager are carried out by the Railway Infrastructure Directorate which in accordance with the Railway Transport Code of the Republic of Lithuania provides services of the access to the public railway infrastructure capacities and service facilities for all cargo and passenger carriers on non-discriminatory terms and ensures the safe movement of trains on the railway network.

The fees for the services provided by the public railway infrastructure manager, namely the minimum access package and access to railway infrastructure objects, are set by the State Road Transport Inspectorate under the Ministry of Transport and Communications in accordance with the *Rules for the calculation and publication of the amount of the fee for the minimum access package, and for the calculation and payment of the amount payable by the specific railway undertaking (carrier) for the minimum access package* approved by the Government Resolution No. 1226 on 7 December 2016.

The rules of the railway network, the procedure for the use of the public railway infrastructure and taxation, and other documents necessary for access to the public railway infrastructure and its facilities are published on the website: http://www.litrail.lt.

ANALYSIS OF FINANCIAL AND OPERATIONAL PERFORMANCE

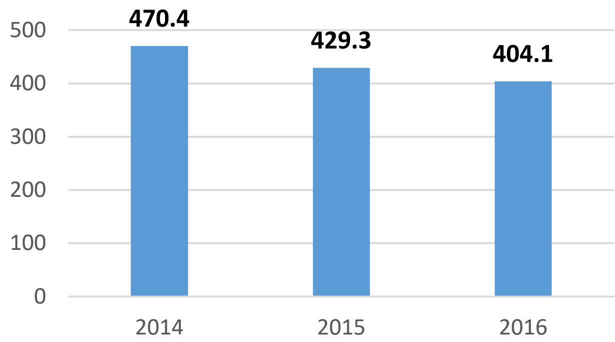
ANALYSIS OF GROUP ACTIVITIES

GROUP REVENUES

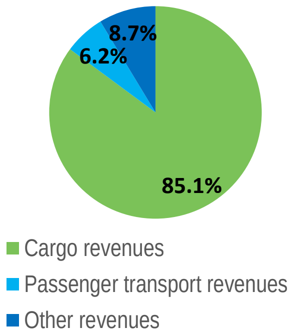
The revenues earned by the Group in 2016 amounted to 404.1 million EUR, i.e. 25.2 million EUR or 5.9 % less as compared to the year 2015. The largest proportion of revenues, i.e. 85.1 %, was earned from cargo activities.

- The decrease in revenues in 2016 was mostly influenced by the reduced cargo revenues. The proportion of these revenues earned in 2016 amounted to EUR 344.1 million, i.e. EUR 26.3 million or 7.1 % less than in 2015. The fundamental changes were conditioned by the reduced scope of international carpo and the changes in cargo stucture; for instance, considerably fewer oil products were transported to Kaliningrad the average shipping cost of which is relatively high, while more coal and food products were transported whose shipping price is considerably lower. Following the reduced international cargo scope, the scope of services related with international cargo and the revenue earned thereof also decreased in 2016.
- As the scope of transportation grew, passenger transport revenues were 5.0 % higher than in 2015, and they amounted to 25.0 million EUR, and they costituted 6.2 % of the revenues in the Group revenue structure.
- Other additional services are also privided by the Group, i.e. rolling stock, property rent, raw metal sales, cargo handling, storage etc.

Group sales revenues, million EUR



Group sales revenue structure in 2016 (%)



GROUP EXPENSES

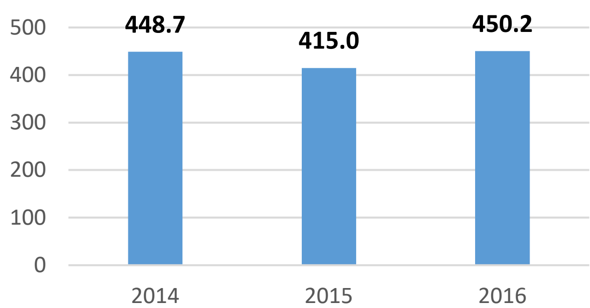
The Group expenses for the main and other activities constituted in EUR 450.2 million in 2016. The expenses increased by EUR 35.2 million or 8.5 % as compared to the year 2015.

In 2016 the expenses increased mainly as a result of provisionfor the fine due to the European Comission case regarding the dismantling of railway track between Mazeikiai and Renge.

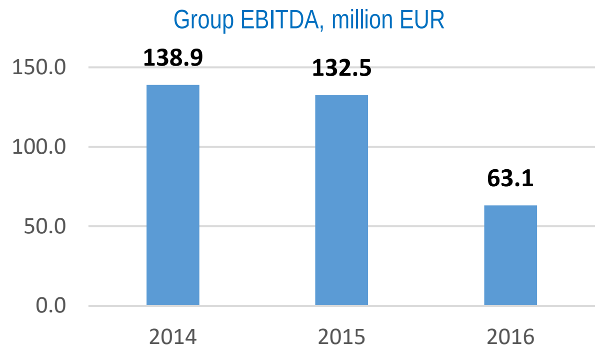
The larger proportion of the Group expenses is constituted by the labour costs (36.3 %), depreciation and amortisation (24.0 %) and fuels (9.1 %).

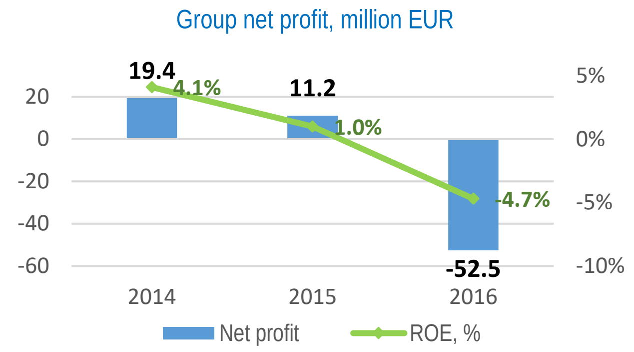
In 2016, the costs incurred with regard to labour costs and fuels were lower than in 2015 due to the decreased number of employees and the reduced diesel fuel price.

Group expenses, million EUR



GROUP OPERATIONAL PERFORMANCE





Main Group financial indicators (amounts in million EUR, unless otherwise specified)

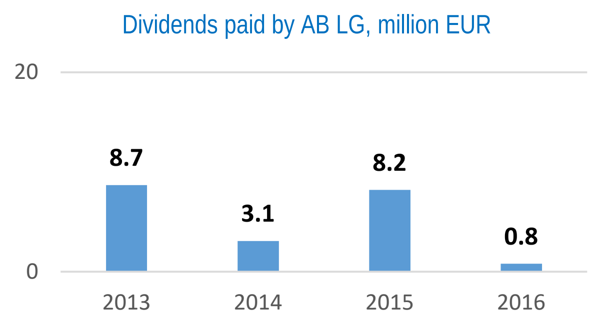
		2016	2015	Δ, +/-
Sales revenue	million EUR	404.1	429.3	-25.2
Cost of sales	million EUR	334.8	350.2	-15.4
Operating expenses	million EUR	117.3	68.6	+48.7
EBITDA	million EUR	63.1	132.5	-69.4
Adjusted EBITDA[1]	million EUR	115.9	141.4	-25.5
EBITDA margin	%	15.6%	30.9%	
Adjusted EBITDA margin	%	28.7%	32.9%	
EBIT	million EUR	-44.9	16.6	-61.5
EBIT margin	%	-11.1%	3.9%	
Net profit	million EUR	-52.5	11.2	-63.7
Net profit margin	%	-13.0%	2.6%	
		31/12/2016	31/12/2015	Δ, +/-
Fixed assets	million EUR	1,958.9	1,959.0	-0.1
Current assets	million EUR	118.8	119.3	-0.5
Total assets	million EUR	2,077.7	2,078.3	-0.6
Own capital	million EUR	1,111.7	1,164.4	-52.7
Financial loan of the Group	million EUR	301.5	320.7	-19.2
Financial loan of subsidiaries	million EUR	4.1	2.4	+1.7
Net debt	million EUR	280.8	306.0	-25.2
Return on equity capital (ROE)	%	-4.7%	1.0%	
Net debt / Adjusted EBITDA	times	2.42	2.16	
Debt / Adjusted EBITDA	times	2.74	2.38	
Equity ratio	%	53.5%	56.0%	
Loan servicing ratio	times	2.07	3.40	
Debt / Equity	%	28.6%	28.9%	
Net debt / Own capital	times	0.25	0.26	
Asset turnover indicator	times	0.19	0.21	
Total liquidity rate		0.82	1.17	

[1] Adjusted EBITDA – Profit (loss) before taxes + Interest expenses – Interest income + Depreciations and amortisation expenses + impairment expenses of non-current assets + write-off expenses of non-current assets + write-off inventories and amounts receivable + expenses on provisions related with one-off items

DIVIDEND POLICIES

The payment of dividends by State-owned enterprises is regulated by Order No. 786 by the Government of the Republic of Lithuania as of 11 August 2016 which determines the proportion of profit to be paid as dividends, by also relating in with the rate of return on capital. In case the return on the own capital for the accounting year does not exceed 1 %, the proportion of profit allocated for dividends shall be no less than 85 % of the company's distribution. The cases are provided for in the Order where the Government of the Republic of Lithuania can set a lower proportion of profit to be paid as dividends; one of them is if a company is implementing projects of national importance recognised by the Government of the Republic of Lithuania or is participating in implementing such project. In the case of the Company it is the projects of Rail Baltica and the Lithuanian part of the East-West transport corridor (Klaipėda national harbour, roads and railway infrastructure complex).

According to Order No. 628 by the Government of the Republic of Lithuania as of 22 June 2016, other decisions taken on the basis of documents handled by the Ministry of Transport and Communications of the Republic of Lithuania, EUR 847 thousand were allocated for dividends from the Company's distribution of 2015.



GROUP FUNDING

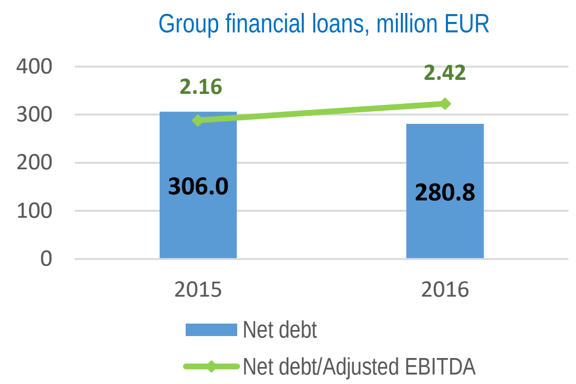
As of 31 december 2016, the net debt of the Group amounted to EUR 280.8 million. Compared with 2015, the rate decreased by 8.2 % or EUR 25.2 million. The reduction of the net debt was conditioned by the reduction of the financial debts of the Group by EUR 19.2 million and the monetary funds accumulated in 2016.

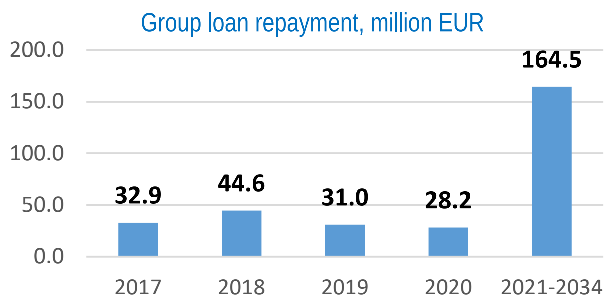
As of 31 december 2016, the weighted average interest rate of the loan portfolio of the AB LG amounted to 1.9 % (2.2 % in 2015).

The balance of monetary funds of the companies of the Group constituted EUR 20.7 million as of 31 December 2016, i.e. EUR 6.0 million more than as of 31 December 2015.

The ratio between net debt and adjusted EBITDA of the last 12 months increased from 2.16 in 2015 to 2.42 in 2016.

The ratio between the net debt of the Group and the property decreased from 0.26 in 2015 to 0.25 in 2016. The Group net debt level remains relatively low with regard to both the profits earned and the capital structure. Compared with 2015, the general liquidity ratio of the Group was reduced from 1.17 to 0.82.





OPERATIONAL PERFORMANCE OF THE GROUP COMPANIES

In 2016 the Group was consisted of AB Lietuvos Geležinkeliai and its main subsidiaries:

- UAB Vilniaus lokomotyvų remonto depas;
- UAB Geležinkelio Tiesimo Centras;
- UAB Gelsauga;
- UAB Geležinkelių Projektavimas;
- UAB Geležinkelių aplinkosaugos centras.

OPERATIONAL PERFORMANCE

AB Lietuvos Geležinkeliai

Main activities: carriage and passenger railway transport services, railway network administration, public railway infrastructure management, maintenance and development.

Indicators, million EUR	2016	2015	Δ, +/-
Revenue[2]	400.5	429.0	-28.5
Costs[3]	445.3	416.3	+29.0
Adjusted EBITDA	118.8	141.9	-23.1
Net profit/losses	-49.5	13.8	-63.3
Property	2,051.1	2,049.7	+1.4
Own capital	1,101.5	1,151.3	-49.8
Financial debts	289.0	312.9	-23.9
Net debt	277.1	304.4	-27.3
Adjusted EBITDA margin, %	29.7%	33.1%	
Net debt/Adjusted EBITDA	2.3	2.1	
Returns on own capital, %	-4.5%	1.2%	
Own capital/property, %	53.7%	56.2%	

UAB Vilniaus Lokomotyvų Remonto Depas

The main activities: – production of new locomotives, road cars, their maintenance and modernisation, major and current repair work of rolling stock and internal combustion engines of all types.

Indicators, million EUR	2016	2015	Δ, +/-
Revenue	20.3	34.2	-13.9
Costs	20.1	34.1	-14.0
EBITDA	1.1	1.6	-0.5
Net profit/losses	0.1	0.2	-0.1
Property	24.1	23.7	+0.4
Own capital	21.2	21.1	+0.1
Financial debts	0.0	0.0	0.0
Net debt	-4.7	-3.8	-0.9
EBITDA margin, %	5.7%	4.6%	
Net debt/EBITDA	-4.1	-2.4	
Returns on own capital, %	0.6%	0.8%	
Own capital/property, %	87.9%	88.7%	

[2] Revenue – sales revenue;
[3] Costs – cost of sales + operating expenses.

UAB Geležinkelio Tiesimo Centras

The main activities: construction and repairs of railway track, other transport buildings and construction of buildings, rent of cars of railway track repairs.

Indicators, million EUR	2016	2015	Δ, +/-
Revenue	20.0	33.6	-13.6
Costs	23.4	33.1	-9.7
EBITDA	-0.1	3.6	-3.7
Net profit/losses	-2.9	0.4	-3.3
Property	40.5	39.9	+0.6
Own capital	21.3	23.9	-2.6
Financial debts	12.1	7.3	+4.8
Net debt	10.8	7.2	+3.6
EBITDA margin, %	-0.4%	10.6%	
Net debt/EBITDA	-123.6	2.0	
Returns on own capital, %	-13.8%	1.8%	
Own capital/property, %	52.5%	59.9%	

UAB Gelsauga

The main activities: provision of object protection, video surveillance, repairs and maintenance, public utility (cleaning of premises and territories as well as space inside the train) services.

Indicators, million EUR	2016	2015	Δ, +/-
Revenue	17.7	12.3	+5.4
Costs	17.0	12.1	+4.9
EBITDA	1.4	0.7	+0.7
Net profit/losses	0.6	0.1	+0.5
Property	7.4	6.8	+0.6
Own capital	4.7	4.1	+0.6
Financial debts	0.02	0.07	-0.05
Net debt	-0.5	-1.1	+0.6
EBITDA margin, %	7.9%	5.8%	
Net debt /EBITDA	-0.4	-1.6	
Returns on own capital, %	13.6%	3.1%	
Own capital/property, %	64.2%	60.4%	

UAB **Geležinkelių projektavimas**

The main activities: design of railway lines, access roads and other railway infrastructure objects, territory planning, technical and authorial maintenance, innovative technology installation, maintenance and construction contract work.

Indicators, million EUR	2016	2015	Δ, +/-
Revenue	10.5	7.2	+3.3
Costs	10.4	6.5	+3.9
EBITDA	0.2	0.8	-0.6
Net profit/losses	0.1	0.6	-0.5
Property	3.6	3.8	-0.2
Own capital	1.4	1.3	+0.1
Financial debts	0.0	0.0	0.0
Net debt	-0.8	-0.4	-0.4
EBITDA margin, %	2.0%	11.2%	
Net debt/EBITDA	-3.7	-0.5	
Returns on own capital, %	8.7%	50.8%	
Own capital/property, %	38.8%	32.7%	

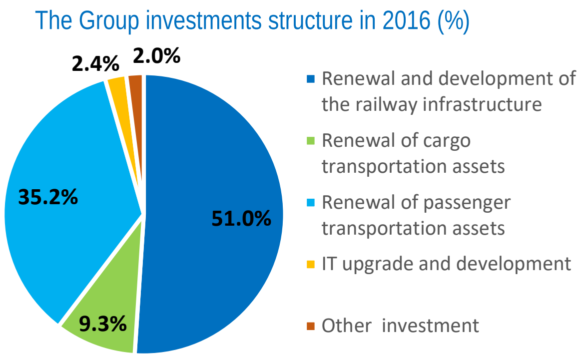
UAB **Geležinkelių Aplinkosaugos Centras**

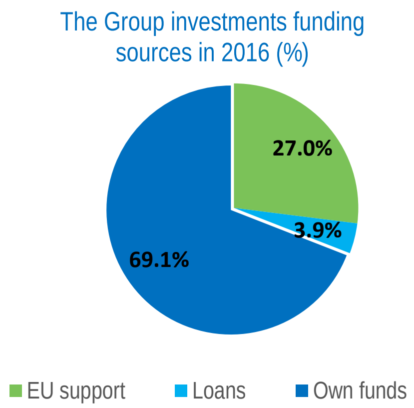
The main activities: waste management and logistics, maintenance of waste water processing equipment, freight wagon washing and disinfection services, laboratory research/measurement, protection and maintenance of forests and green areas in the protection zone of railway green areas.

Indicators, million EUR	2016	2015	Δ, +/-
Revenue	5.0	5.2	-0.2
Costs	4.8	5.4	-0.6
EBITDA	0.8	0.2	+0.6
Net profit/losses	0.3	-0.1	+0.4
Property	5.6	5.4	+0.2
Own capital	4.8	4.5	+0.3
Financial debts	0.3	0.5	-0.2
Net debt	-0.86	-0.04	-0.82
EBITDA margin, %	16.0%	4.7%	
Net debt/EBITDA	-1.1	-0.2	
Returns on own capital, %	5.4%	-2.6%	
Own capital/property, %	85.7%	84.4%	

INVESTMENTS

Investment of the Group in 2016 amounted to 139.7 million euros, of which the Company's investment comprised 137.0 million EUR. For most of the 2016 investment, i.e. 69%, the Group companies used their own funds as well as 37.7 million EUR of EU support.





The Group investments, million EUR	2016	2015	Δ, +/-	Δ, %
Renewal and development of railway infrastructure	71.3	135.0	-63.7	-47.2%
Renewal of cargo transportation assets	13.0	21.5	-8.5	-39.5%
Renewal of passenger transportation assets	49.2	7.9	+41.3	522.8%
IT upgrade and development	3.4	4.8	-1.4	-29.2%
Other investment	2.8	8.8	-6.0	-68.2%
In total	139.7	178.0	-38,3	-21.5%

Renovation and development of railway infrastructure in 2016

- In implementation of the "Rail Baltica" project of national importance, the following works were completed during 2016:

– Procedures in relation to the preparation, evaluation and publicity of the special plan and environmental impact assessment documentation for the new section of the 1435 mm gauge railway "Kaunas - Panevėžys - Lithuania and Latvia's State Border" with the participation of the public. The special plan was approved by the Government of the Republic of Lithuania on 1 January, 2017, and draft project started for the acquisition of the necessary land for the benefit of society;

– Preparation of the technical project for reconstruction of the existing section "Jiesia - Rokai" of the "Rail Baltica", obtaining of construction permits, carrying out of the public works tender. In October 2016, contracts were signed for the reconstruction works and technical maintenance of this section;

– Preparation and approval of the technical project for reconstruction of the existing section "Rokai - Palemonas - Kaunas", obtaining of construction permits, public announcements and carrying out of the public works tender;

– Preparation of the feasibility study for electrification of the existing section "Poland and Lithuania's Border - Kaunas" of the "Rail Baltica". In the scope of this study a feasibility study was also prepared regarding the section development and speeding up to 240 km/h.

- Great attention in 2016 was devoted to the implementation of part-financed EU-funded investment projects such as electrification of the section "Kena - Naujoji Vilnia", construction of the second railway track in the section "Telšiai – Lieplaukė", and the Second railway track in the section "Pušynas-Paneriai" of IXB Corridor Vilnius bypass;
- All major electrification works of the project in the section "Kena - Naujoji Vilnia" were completed. In October 2016, the electric train traffic, which was limited during the project implementation at Naujoji Vilnia Station and in the section "Naujoji Vilnia - Vilnius", was restarted. By 2017, it is planned to finalise the project ensuring operation of the contact network up to the State border with Belarus;
- Contractual works were carried out for the project of construction of the Second railway track in the section "Telšiai - Lieplaukė". About 38% of works were finished;
- Contracts were signed regarding the supervision of technical maintenance, contractor and project implementation for the Second railway track in the section "Pušynas-Paneriai" of IXB Corridor Vilnius bypass, and works were carried for such purposes as forest clearing, water purification, water and gas pipeline disassembly. About 38% of works were finished;
- Electrification work was carried out for Vilnius railway unit (road section), project implementation work was carried out for Klaipėda railway unit development phase II, and procurement was carried out for Pauostis railway reconstruction contractual works;
- The Company at its own expense and partly using the capacities of contractors carried out repairs of the rails and structures for 94,83 km of the railway in general, including 16.5 km of rails replaced by the used longitudinal rails, 30,26 km of rails replaced by the new longitudinal rails, 40 sets of switches replaced, 7 railway crossings repaired, 8 railway bridges reconstructed, 2 bridges painted etc.).

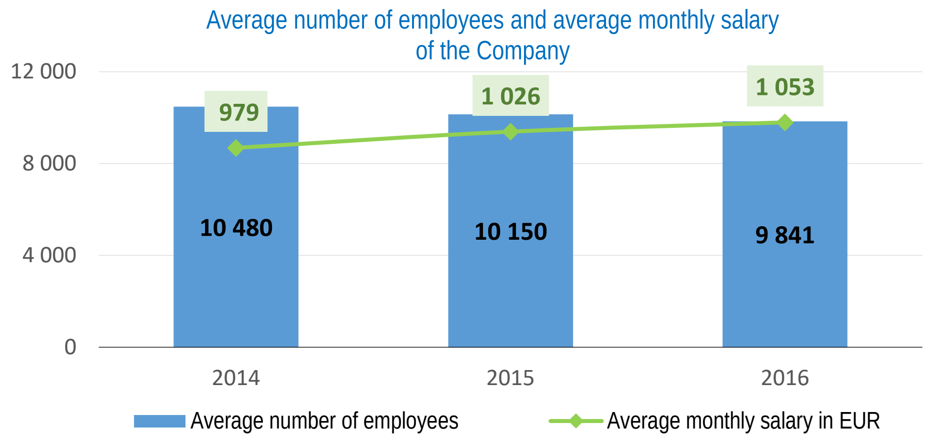
Rolling stock fleet renewal in 2016

- The Company acquired 7 new diesel and 1 electric passenger train. Diesel trains will be for the route Vilnius – Klaipėda, and will replace the termal traction trains, and the electric train will be used to serve the route Vilnius-Minsk after electrification of the "Naujoji Vilnia - Kena" section;
- The Company purchased 56 cargo wagons (for cement transportation), carried out a repair program for cargo, passenger, refrigerator and other wagons.

HUMAN RESOURCES

Average number of employees of the Group in 2016 amounted to 11.941. The majority of the Group employees work at AB Lietuvos geležinkeliai.

Group	Employees	Average salary, EUR
AB Lietuvos geležinkeliai	9.841	1 053
UAB Vilniaus lokomotyvų remonto depas	412	918
UAB Geležinkelio tiesimo centras	454	958
UAB Gelsauga	1.006	676
UAB Geležinkelių projektavimas	85	1 243
UAB Geležinkelių aplinkosaugos centras	140	1 013
UAB Rail Baltica statyba	3	2 049
In total	11.941	



The Average number of employees of the Company in 2016 amounted to 9.841, and compared to 2015 it was 3.0% lower. The average monthly salary as compared to 2015 increased from 1 026 EUR to 1 053 EUR, i.e. 2.6 %. The growth of the Average employee salary has been affected by increase of the minimum monthly salary up to 380 EUR since 1 July 2016, and decrease in the number of employees due to changes in the work organization and technological improvements.

Average number of the Company's employees

Employee groups by position	Numbers of employees		
	2014	2015	2016
Top level executives	6	6	6
Middle managers, senior specialists	1.341	1.332	1.354
Specialist, workers	9.133	8.812	8.481
Average number of the enlisted employees of the Company	10.480	10.150	9.841

Average monthly salary paid by the Company

Employee groups by position	Average monthly salary in EUR		
	2014	2015	2016
Top level executives	5 535	5 860	5 800
Middle managers, senior specialists	1 588	1 652	1 674
Specialist, workers	886	925	948
Average monthly salary paid by the Company	979	1 026	1 053

SOCIAL RESPONSIBILITY

Collective agreement

In order to enable the Group to work in a sustainable manner, to improve the economic, labour and social conditions of employees, to strengthen the social partnership, the Collective Agreement is concluded between the employers and employees. The Collective Agreement regulates the relations between the contracting parties and other persons specified in the Collective Agreement insofar as this is not regulated by the legal norms established in the legal acts of the Republic of Lithuania, ratified international agreements, and conventions. The Collective Agreement is applicable and mandatory for all employees of the Company.

The Collective Agreement provides for these additional social guarantees for employees:

- a material allowance after the death of a close member of the employee's family (spouse, child, parents, carers), a material allowance for the funeral expenses after the death of the employee of the Company
- a one-time material allowance to the employee who has suffered a loss due to a natural disaster or other circumstances beyond his/her control
- a one-time material allowance given at the time of her/ his child's birth
- in the event of an accident on the road in which a person was injured or killed, after receiving a written request from a railway vehicle driver and a driver's assistant, the cost of rehabilitation in the sanatorium is paid
- a one-time bonus (up to one average monthly salary) for a good job (according to the results of work, and work discipline) is paid to employees with a minimum of ten years of work experience in the Company celebrating the 50th and 60th anniversaries
- a one-time bonus (up to one average monthly salary according to the results of work, and work discipline) is paid to employees with a minimum of twenty-five years of work experience in the Company who have reached the retirement age and therefore terminate their employment relationship with the Company as gratitude for the many years of good work
- for overtime work – payment not less than 1.7 of the wages and salaries of employees
- 2 week additional annual leave for the rolling stock drivers and instructors of the drivers

Trade Unions

In the Company, there are trade unions which unite 53% of employees of the Company. Occasionally, meetings of the trade union representatives and The Company's management are held to discuss and resolve issues of relevance to the staff and the Company.

Competence development and cooperation with educational institutions

The Company cooperates with educational institutions and enables students of universities, colleges, and vocational schools to apply their theoretical knowledge and gain practical skills. In 2016, 420 students of higher education institutions and colleges were practicing in the Company.

The Company provides financial support to the employees studying with good results, and seeking a specialty related to the railway transport. In the 2016-2017 academic year, 399 employees of the Company studied at the higher educational establishments, and colleges. The principle of part-study coverage was adapted to motivate 25 employees.

Worker safety

The Company is involved in the prevention of work-related accidents, health problems and occupational diseases. In the process of creation of the safe working culture, the Company constantly evaluates the occupational risk in the workplaces attempting to involve as many unit managers and employees as possible, implements the professional risk assessment and management systems to remove inconsistencies specified during evaluation and audits, and carries out prevention of the alcohol abuse. The aim is to ensure that every employee cares about the safety and health of one's own and other colleagues.

All workers are provided with work clothes, work footwear, caps, helmets, respiratory protection, crash protection and other personal and collective protective equipment. The Company organizes practical training on the proper use of personal protective equipment to preserve health and conducts employee surveys to improve safety by choosing the personal protective equipment to be purchased.

Worker health

The funds are allocated for periodic compulsory and advanced diagnostic health checks, the Company's employees are vaccinated against tick-borne encephalitis (1,894 employees were vaccinated in 2016), and influenza (1,578 employees in 2016 people were vaccinated).
The Company's employees participate in various social events, conferences on health promotion issues.

Prevention of corruption

In order to ensure an effective system for the implementation and control of corruption prevention, to define general guidelines for the implementation of corruption prevention and to develop zero tolerance of corruption, in 2017, the AB Lietuvos geležinkeliai and Group companies approved the policy of transparency for their activities. It is prepared taking into account recommendations of the national and international transparency institutions.

Throughout the Group companies, the transparency of staff selection and public procurement has been ensured, responsibility for nepotism, exposure to trading in influence and other corrupt practices has been established. Responsibility for disregarding of legal provisions regarding the conflicts of interest, misuse of duties, bribery, trade in influence, gift donation and other benefits, nepotism, and other forms of protection, confidentiality provisions has been determined.

In comparison, the transparency and corruption prevention procedures approved by the end of 2016 had no real impact. For example, no manifestations of nepotism were controlled, and direct subordination or supervision of employees was not regulated. There was no sanction imposed on employees who had violated the procedures. In the new transparency policy, breach of its provisions is subject to disciplinary or more severe liability.

There are also changes in supervision of the employee credibility. By the end of 2016 only 13 top managers had been inspected. From 2017, the credibility of the 160 top management positions is checked.

Individuals can report violations at any time using the following means of trust:

- toll-free the Company's trust phone – (8 5) 269 3600;
- e-mail: prevencija@bekorupcijos.lt;
- leaving a message on the Corruption Prevention section of the Company's website at the address:

http://www.ltrail.lt/korupcijos-prevencija.

Corruption Prevention section of the Company's website at the address: http://www.ltrail.lt/korupcijos-prevencija provides a survey form created for filling out a report on fraud and corruption. Using this survey form, the interested parties can also submit proposals on the implementation of measures to prevent corruption or to propose the new ones.

In order to prevent mistakes and/or irregularities in the course of procurement, the Company approved the *Description of the Procedure for Identification and Management of Risky Procurement*.

Environmental protection

Environmental services for the Company in 2016 were provided by the Group company UAB Geležinkelių apsaugos centras which organized and carried out the management of the Company's structural divisions, maintenance of waste water treatment plants, preservation and development of green areas in the protection zone of railway, provision of freight wagon washing and disinfection services, performing of laboratory tests/measurements, preparation of environmental documentation.[4]

In the course of monitoring the environmental impact of the Company's economic activities and preventing environmental violations, in 2016, environmental inspections of controlled objects were carried out in the structural subdivisions of the Company. Under the supervision, there were 20 stationary sources of ambient air pollution, 27 domestic waste water treatment plants, 69 surface water treatment plants, 7 water reservoirs, 40 shaft wells and 10 underground water monitoring units. By the intervals specified in accordance with the requirements of legal acts, the control measurements of environment emission, monitoring of pollution of the discharged water, maintenance of wastewater treatment facilities, and technical maintenance works were carried out. No violations have been detected.

[4] From September 2017, the GAC has been liquidated, the activities optimized, and majority of the services purchased on the market.

In 2016, 10 140 tons of waste including 6 360 tons of hazardous waste were disposed and treated by waste management companies. The amount of waste managed increased by 38% compared to 2015. In 2016, due to the projects of modernization of the railway track network carried out by the Company, there was an increase in the volume of ground moving works and the amount of sleepers handed over to process.

The employees of the Company are encouraged to participate in the process of sorting and collecting waist packaging developing the social responsibility. For this aim, the Company uses special waste bins.

The Company invests in renewal of the rolling stock fleet and improvement of the infrastructure parameters. Renewal of rolling stock reduces fuel consumption and environmental pollution. In 2016, the cost of environmental pollution from mobile sources, which is calculated on the basis of annual fuel consumption, decreased by 11% compared to 2015. Electrification of IXB corridor roads and change of the railway heat traction by powerheads will increase the future environmental effect.

Guidelines for ensuring the transparency or State – controlled enterprises

The Company implements requirements of the "Description of the guidelines for ensuring transparency in the operation of State-owned enterprises" approved by the Resolution of the Government of the Republic of Lithuania of 14 July 2010:

- finacial statements and explanatory notes of the companies and Group for 2016 are prepared in accordance with the International Accounting Standards
- annual and interim reports of 6-month along with the financial statements of companies and Group are publicly available at the wesite http://www.litrail.lt
- the Company's annual financial statements are audited in accordance with the International Auditing Standards. UAB KPMG Baltics won the public procurement 2016-2019 for the purpose of auditing of consolidated and Company's, and individual corporate financial statements prepared in accordance with the international financial reporting standards.

The Company also provides information on the specific commitments that it is undertaking to perform in order to ensure the implementation of specific social, strategic and political goals of the State. In addition, for the purpose of implementation of the requirements of the EU directives on accounting for separate activities in the field of rail transport (freight transport, passenger transport, management of public railway infrastructure), the Company prepares and publicly publishes reports on railway activities (balance sheet, profit and loss account and explanatory statement of activity reports).

RISKS AND THEIR MANAGEMENT

The risk management of activities of the Company and its subsidiaries is regulated by the *Description of AB Lietuvos geležinkeliai Operational Risk Management Process* approved by corporate legal acts. In accordance with the provisions of the description, risk managers are appointed and periodically trained, a periodic risk assessment is carried out using the installed *Risk Management Information System*. The results of the assessment are presented to the management of the Company. Management plans for unacceptable risks are approved, monitoring of their implementation is performed.

The Company, implementing the tasks determined by the shareholder, faces uncertainty about external and internal factors, identifies operational risks (strategic, financial, performance and compliance), assesses their impact and probability in advance and seeks to reduce such impact and probability at least to some extent.

Taking into account the strategic goals of the Company, generalised groups of operational risks, which are to be considered the major ones, are formed, which can have a significant impact on the achievement of the Company's business goals. The Company assesses the potential financial impact of operational risks, their legal impact and impact on reputation.

The main risks associated with the implementation of the strategic goals

- ### The risk of political changes in Lithuania and foreign countries

The Company's activities depend directly on political decisions in Lithuania, neighbouring countries, Russia and the EU. Geopolitical factors create unpredictable changes in cargo flows (import, export and transit account for about 70% of the volume of transported cargo and about 45% of the Company's earnings).

- ### Risk of growing competition in the railway sector

Competitive risk is related to possible loss of freight. Freight carriage revenue accounts for about 85% of all the earnings of the Company. The Company is competing for transit freight traffic with railways, cargo terminals/ports of the neighbouring countries. Recently, there has been extremely fierce competition with Latvian railways for Belarusian cargoes carried by transit via the Klaipėda port. In 2016, 13.6 million tons of Belarusian cargoes were carried by transit through the port, which accounted for 29% of the total cargo quantity transported by the Company, and revenue of EUR 65 million was earned, i.e. 16% of the total revenue of the Company.

- ### The risk of changes in the legal and regulatory environment

Implementation of the EU and national legal requirements creates new requirements and plays a significant role in the Company's activities and development, its organizational structure and financial accounting.

- ### Risk of insufficient financing for priority projects

As a result of the prioritization of projects, projects financed with EU funds are subject to the risk of uncertainty of co-financing from the State budget and projects entirely financed from the State budget face the risk of inadequate financing.

Financial risks are disclosed in the notes to the set of financial statements of AB Lietuvos geležinkeliai and the Group prepared in accordance with the IFRS, published at http://www.litrail.lt.

The Company applies control measures to manage risks – processes, policies, procedures and other actions implemented by AB Lietuvos geležinkeliai or the Group companies are aimed at reducing the negative impact of a risk.

In the Company, the assessment of operational risks is carried out periodically at least once a year, but in the event of new risks or changes in the level of risk, their assessment is performed immediately.

MAIN INFORMATION ABOUT THE COMPANY AND THE GROUP

Name	AB Lietuvos geležinkeliai
Legal form	Public limited liability company
Registration date	24 December 1991
Legal entity code	110053842
Address	Mindaugo g. 12, LT-03603 Vilnius
Telephone	(+370 5) 269 2038
E-mail	info@litrail.lt
Website	http://www.litrail.lt; http://www.traukiniobilietas.lt
MAIN ACTIVITIES	Freight and passenger carriage by railways, railway network administration, public railway infrastructure management, maintenance and development
GOVERNANCE BODIES Members of the Board:	Romas Švedas – an independent member of the Board, chairman of the Board, lecturer at the Vilnius University Institute of International Relations and Political Science
	Vladislav Kondratovič – Director of the Road Transport and Civil Aviation Policy Department of the Ministry of Transport and Communications of the Republic of Lithuania
	Mantas Bartuška – General Manager of AB Lietuvos geležinkeliai
	Monika Rimkūnaitė-Bložė – an independent member of the Board, General Manager of UAB Mobilieji mokėjimai
	Rolandas Zukas – an independent member of the Board, General Manager of UAB EPSO-G
	Christian Kuhn – an independent member of the Board, member of the Board of the Kazakhstan railway company Kazakhstan Temir Zholy, Chairman of the Strategy and Innovation Committee (since February 2018)
	Alditas Saulius – an independent member of the Board, member of the Board of UAB Investicijų ir verslo garantijos (since February 2018)
CEO	Mantas Bartuška
Shareholders	100 % of shares are owned by the State
COMPANIES AND ASSOCIATED COMPANIES OF LIETUVOS GELEŽINKELIAI GROUP[5]: **UAB Vilniaus lokomotyvų remonto depas**	Rolling stock repair and production Švitrigailos St. 39/16, LT-03209 Vilnius, http://vlrd.lt
UAB Geležinkelio tiesimo centras	Railway infrastructure tracks repair and construction Trikampio St. 10, LT-25112 Lentvaris, Trakai region, http://www.gtc.lt
UAB Gelsauga	Provision of security and cleaning services Prūsų St. 1, LT-02151 Vilnius, http://www.gelsauga.lt
UAB Geležinkelių projektavimas (in September 2017, the company was deregistered, transferring its design activities to UAB Geležinkelio tiesimo centras)	Design and exploration work for railways, construction and repairs of buildings Iešmininkų St. 17A, LT-02151 Vilnius, http://www.gelpro.lt
UAB Geležinkelių aplinkosaugos centras (in liquidation since September 2017)	Waste management and logistics, maintenance of waste water treatment plant, operation, protection and maintenance of the railway line buffer forests and plants Konstitucijos St. 8A, LT-09308 Vilnius, http://www.uabgac.lt
UAB voestalpine VAE Legetecha	Production of railway switches Draugystės St. 8, LT-13220 Valčiūnai, Vilnius region, http://www.voestalpine.com/vae
VšĮ Geležinkelių logistikos parkas	Institution owned by the Vilnius City Municipality and AB Lietuvos geležinkeliai (the Company's contribution accounts for 80%), responsible for the development and management of the logistics park of the Vilnius Public Logistics Centre Švitrigailos St. 39, LT-03209 Vilnius, http://www.logisticspark.lt

[5] These companies of the Group have not registered any branches and representative offices.

BRANCHES OF THE COMPANY:	
Vilniaus geležinkelių infrastruktūra, branch of AB Lietuvos geležinkeliai	Pelesos St. 24, LT-02109 Vilnius
Kauno geležinkelių infrastruktūra, branch of AB Lietuvos geležinkeliai	Čiurlionio St. 16, LT-44362 Kaunas
Klaipėdos geležinkelių infrastruktūra, branch of AB Lietuvos geležinkeliai	Priestočio St. 11, LT-92228 Klaipėda
Šiaulių geležinkelių infrastruktūra, branch of AB Lietuvos geležinkeliai	Dubijos St. 26, LT-77208 Šiauliai
REPRESENTATIVE OFFICES ABROAD:	
Representative office in the Russian Federation	Novoriazanskaya St. 12, office No. 414, 107228, Moscow
Representative office in the Republic of Belarus	Internacionalnaya St. 36-1, office No. 423, 220030, Minsk
Representative office in the People's Republic of China	XiaGuangLi 15, XiaoYun Center B, Office 2307, Chaoyang District, Beijing, 100125
Representative office in the Republic of Kazakhstan	Kunajevo St. 6, office 310/10, Astana
Representative office in Poland	al. Jerozolimskie 65/79, 00-687, Warsaw (established on 28 February 2018)
Company membership in international organizations	Community of European Railway and Infrastructure Companies (CER), International Union of Railways (UIC), International Rail Transport Committee (CIT), European Union Agency for Railways (ERA), Organisation for Co-operation between Railways (OSJD,) Rail Transport Council for the CIS countries, Estonia, Latvia, Lithuania and Bulgaria (GTT), etc.

AB LIETUVOS GELEŽINKELIAI

Consolidated and Separate Financial Statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, Independent Auditor's Report
For the financial year ended 31 December 2016

LIETUVOS GELEŽINKELIAI

CONTENT

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Lithuania

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Website: kpmg.com/lt

Independent Auditor's Report

To the Shareholders of AB Lietuvos Geležinkeliai

Report on the Audit of the Separate and the Consolidated Financial Statements

Qualified Opinion

We have audited the separate financial statements of AB Lietuvos Geležinkeliai ("the Company") and the consolidated financial statements of AB Lietuvos Geležinkeliai and its subsidiaries ("the Group"). The Company's separate and the Group's consolidated financial statements comprise:

- the separate and the consolidated statement of financial position as at 31 December 2016,
- the separate and the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the separate and the consolidated statement of changes in equity for the year then ended,
- the separate and the consolidated statement of cash flows for the year then ended, and
- the notes to the separate and the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying separate and consolidated financial statements give a true and fair view of the non-consolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2016, and of their non-consolidated and consolidated financial performance and their non-consolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Qualified Opinion

We were appointed as auditors of the Company's separate and Group's consolidated financial statements for the year ended 31 December 2016 on 17 January 2018 and thus did not observe the counting of the physical inventories at 31 December 2016 and at 1 January 2016. We were unable to satisfy ourselves by alternative means concerning quantities of those inventories held at those dates. Since inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the unconsolidated and consolidated financial performance reported in the separate and consolidated statement of profit or loss and other comprehensive income, respectively and the unconsolidated and consolidated net cash flows from operating activities reported in the separate and consolidated statement of cash flows, respectively.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Company code: 111494971
VAT code: LT114949716

Other Matter

The separate and consolidated financial statements of the Company and the Group prepared in accordance with Business Accounting Standards of the Republic of Lithuania as at and for the year ended 31 December 2015 were audited by another auditors who expressed an unmodified opinion on these separate and consolidated financial statements on 18 March 2016.

Other Information

The other information comprises the information included in the consolidated annual management report, including the Corporate Social Responsibility Report, but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were appointed as auditors on 17 January 2018 and thus did not observe the counting of the physical inventories as at 31 December 2016 and at 1 January 2016, and were also unable to satisfy ourselves regarding inventory quantities as at those dates by alternative means. Accordingly, we were unable to conclude whether or not the other information is materially misstated with respect to this matter.

In addition, our responsibility is to consider whether information included in the consolidated annual management report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements and whether consolidated annual management report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of the separate and consolidated financial statements, in our opinion, in all material respects:

- The information given in the consolidated annual management report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- The consolidated annual management report has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Report on Other Legal and Regulatory Requirements

Under order of the Minister of Transport and Communications of the Republic of Lithuania we were appointed on 17 January 2018 for the first time to audit the Company's and the Group's separate and consolidated financial statements. Our appointment to audit the Company's and the Group's separate and consolidated financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 2 years.

We confirm that our qualified opinion expressed in the *Qualified Opinion* section of our report is consistent with the additional report presented to the Company.

We confirm that to the best of our knowledge and belief, we have not provided to the Company and the Group any prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In addition to services provided to the Company and the Group in the course of audit and disclosed in the consolidated annual management report or the separate and consolidated financial statements, we have provided the services of translation of the separate and consolidated financial statements into English language.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner
Certified Auditor

Vilnius, the Republic of Lithuania
30 June 2018

(all amounts are in EUR thousand unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION
31 DECEMBER 2016

	Notes	Group			Company		
		2016	2015	2015	2016	2015	2015
		31 December		1 January	31 December		1 January
NON-CURRENT ASSETS							
Intangible assets	7	26 096	14 494	13 651	25 602	13 913	13 350
Software		24 176	12 665	12 274	24 005	12 475	12 006
Licences and similar rights		1 251	1 367	1 249	1 248	1 367	1 249
Other intangible assets		669	462	128	349	71	95
Property, plant and equipment	8	1 925 206	1 937 465	1 850 953	1 882 415	1 891 608	1 806 673
Land		146 304	145 169	144 241	146 297	145 163	144 234
Buildings and structures		998 467	703 846	683 370	985 573	689 903	671 048
Machinery and plant		194 768	169 268	171 081	175 517	147 067	149 058
Vehicles		383 676	352 323	342 781	375 962	343 340	336 900
Other equipment, fittings and tools		80 378	65 483	60 989	78 639	63 250	59 197
Construction in progress and prepayments		121 613	501 376	448 491	120 427	502 885	446 236
Investment property	9	1 717	1 825	2 527	1 717	1 825	2 527
Financial assets		4 497	4 198	3 267	43 469	42 551	40 705
Investments	10	4 447	3 946	3 259	43 463	42 544	40 697
Trade and other receivables		50	252	8	6	7	8
Deferred tax assets	26	1 421	996	1 109	50	-	-
Total non-current assets		1 958 937	1 958 978	1 871 507	1 953 253	1 949 897	1 863 255
CURRENT ASSETS							
Inventories	11	36 346	45 643	51 685	31 959	39 553	40 631
Non-current assets held-for-sale	12	4 759	882	617	4 647	882	617
Prepayments	13	2 230	2 860	3 169	758	875	1 838
Trade and other receivables	14	54 779	55 240	98 610	48 509	50 026	87 671
Cash and cash equivalents	15	20 666	14 682	42 496	11 936	8 480	37 117
Total current assets		118 780	119 307	196 577	97 809	99 816	167 874
TOTAL ASSETS		2 077 717	2 078 285	2 068 084	2 051 062	2 049 713	2 031 129

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

(all amounts are in EUR thousand unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION 31 DECEMBER 2016

	Notes	Group			Company		
		2016	2015	2015	2016	2015	2015
		31 December		1 January	31 December		1 January
EQUITY							
Share capital	16	1 057 958	1 057 387	940 557	1 057 958	1 057 387	940 557
Legal reserve	18	27 066	26 927	24 833	27 066	26 927	24 833
Other reserves	18	13 307	12 542	26 266	13 307	12 542	26 266
Retained earnings		13 352	67 554	76 785	3 201	54 464	61 009
Total equity		**1 111 683**	**1 164 410**	**1 068 441**	**1 101 532**	**1 151 320**	**1 052 665**
NON-CURRENT LIABILITIES							
Grants	19	515 251	496 184	534 194	515 127	495 983	533 909
Loans and borrowings	20	268 482	296 618	286 359	256 140	289 034	284 257
Provisions	22	14 400	-	-	14 400	-	-
Employee benefits	21	16 665	16 166	15 096	15 733	15 357	14 287
Trade and other payables	23	6 441	1 862	125	6 437	1 947	125
Received prepayments		138	83	-	138	83	-
Deferred tax liabilities	26	28	961	2 788	-	897	2 677
Total non-current liabilities		821 405	811 874	838 562	807 975	803 301	835 255
CURRENT LIABILITIES							
Loans and borrowings	20	32 987	24 090	24 863	32 893	23 852	20 373
Provisions	22	28 152	5 845	4 780	27 873	5 292	4 139
Received prepayments		2 943	4 534	4 413	2 937	4 197	4 371
Trade and other payables	23	49 310	38 278	98 521	50 017	35 765	88 954
Employee benefits	21	28 332	27 987	28 144	24 961	24 898	25 090
Corporate income tax liabilities		2 905	1 267	360	2 874	1 088	282
Total current liabilities		144 629	102 001	161 081	141 555	95 092	143 209
Total liabilities		**966 034**	**913 875**	**999 643**	**949 530**	**898 393**	**978 464**
TOTAL EQUITY AND LIABILITIES		**2 077 717**	**2 078 285**	**2 068 084**	**2 051 062**	**2 049 713**	**2 031 129**

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

Financial statements and explanatory notes on pages from 33 to 82 were approved and signed on 30 June 2018.

Director General	(signature)	Mantas Bartuška
Chief Financial Officer	(signature)	Andrej Kosiakov
Director of accounting services centre	(signature)	Rasa Gudė

(all amounts are in EUR thousand unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Group		Company	
		2016	2015	2016	2015
Revenue	24	404 120	429 299	400 502	428 994
Other income		1 105	468	1 035	354
Total income		405 225	429 767	401 537	429 348
Salaries and social security		(163 231)	(173 662)	(159 104)	(159 131)
Depreciation and amortisation		(107 986)	(115 920)	(107 896)	(114 334)
Fuel		(41 104)	(48 186)	(41 152)	(47 634)
Decrease (increase) in provisions and accruals		(37 309)	(1 971)	(37 349)	(2 323)
Materials		(23 759)	(27 612)	(21 850)	(23 831)
Services rendered by other foreign railway Companies		(17 709)	(18 471)	(17 709)	(18 471)
Decrease (increase) in impairment and write down		(12 929)	(2 949)	(12 791)	(2 904)
Repairs		(6 533)	(793)	(6 581)	(2 767)
Electricity		(6 147)	(6 505)	(6 155)	(6 679)
Other expenses		(33 522)	(18 894)	(32 867)	(34 442)
Operating profit (loss)		(45 004)	14 804	(41 917)	16 832
Finance income	25	354	(338)	297	(391)
Finance costs	25	(6 002)	(1 893)	(5 905)	(1 747)
Share of profit of equity accounted investees		(102)	(210)	-	-
Profit (loss) before tax		(50 754)	12 363	(47 525)	14 694
Corporate income tax	26	(1 699)	(1 205)	(1 989)	(850)
Net profit (loss)		(52 453)	11 158	(49 514)	13 844
Other comprehensive income (expenses)		-	-		-
Items that will never be reclassified to profit or loss		-	-	-	-
Items that are or may be reclassified to profit or loss		-	-	-	-
Total comprehensive income (expenses)		(52 453)	11 158	(49 514)	13 844

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

(all amounts are in EUR thousand unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

Group	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2015		940 556	1	24 833	26 267	76 785	1 068 441
Net profit (loss)		-	-	-	-	11 158	11 158
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	*11 158*	*11 158*
Increase of authorised capital	16	117 083	1	-	(23 787)	-	93 297
Reduction of authorised capital	16	(253)	(1)	-	-	-	(254)
Reserves allocated	18	-	-	2 094	12 542	(14 636)	-
Reserves used	18	-	-	-	(2 479)	2 479	-
Dividends	17					(8 232)	(8 232)
Total transactions with owners of the Company		*116 830*	-	*2 094*	*(13 724)*	*(20 389)*	*84 811*
Balance as at 31 December 2015		1 057 386	1	26 927	12 542	67 554	1 164 410
Net profit (loss)		-	-	-	-	(52 453)	(52 453)
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	*(52 453)*	*(52 453)*
Increase of authorised capital	16	650	-	-	-	-	650
Reduction of authorised capital	16	(78)	(1)	-	-	-	(79)
Reserves allocated	18	-	-	139	3 244	(3 383)	-
Reserves used	18	-	-	-	(2 479)	2 479	-
Dividends	17	-	-	-	-	(845)	(845)
Total transactions with owners of the Company		*572*	*(1)*	*139*	*765*	*(1 749)*	*(274)*
Balance as at 31 December 2016		1 057 958	-	27 066	13 307	13 352	1 111 683

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

(all amounts are in EUR thousand unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

Company	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2015		940 556	1	24 833	26 266	61 009	1 052 665
Net profit (loss)		-	-	-	-	13 844	13 844
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	*13 844*	*13 844*
Increase of authorised capital	16	117 083	1	-	(23 787)	-	93 297
Reduction of authorised capital	16	(253)	(1)	-	-	-	(254)
Reserves allocated	18	-	-	2 094	12 542	(14 636)	-
Reserves used	18	-	-	-	(2 479)	2 479	-
Dividends	17	-	-	-	-	(8 232)	(8 232)
Total transactions with owners of the Company		*116 830*	-	*2 094*	*(13 724)*	*(20 389)*	*84 811*
Balance as at 31 December 2015		1 057 386	1	26 927	12 542	54 464	1 151 320
Net profit (loss)		-	-	-	-	(49 514)	(49 514)
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	*(49 514)*	*(49 514)*
Increase of authorised capital	16	650	-	-	-	-	650
Reduction of authorised capital	16	(78)	(1)	-	-	-	(79)
Reserves allocated	18	-	-	139	3 244	(3 383)	-
Reserves used	18	-	-	-	(2 479)	2 479	-
Dividends	17	-	-	-	-	(845)	(845)
Total transactions with owners of the Company		*572*	*(1)*	*139*	*765*	*(1 749)*	*(274)*
Balance as at 31 December 2016		1 057 958	-	27 066	13 307	3 201	1 101 532

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

(all amounts are in EUR thousand unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Group		Company	
		2016	2015	2016	2015
Cash flows from operating activities					
Net profit (loss)		(52 453)	11 158	(49 514)	13 844
Adjustment to non-cash items					
Depreciation and amortisation expenses	7, 8, 9	123 827	124 563	118 309	119 203
(Depreciation) of grants	19	(10 336)	(4 448)	(10 259)	(4 367)
(Gain) loss from disposal/write-off of non-current assets		880	(2 961)	875	(3 050)
Impairment (reversal)		15 848	2 948	15 709	2 903
Change in accrued income / expenses		303	(3 558)	85	(4 015)
Interest (income) expenses		5 881	4 242	5 785	4 102
Increase (decrease) in provisions		37 206	2 134	37 357	2 223
Effect of currency exchange fluctuations		76	340	76	339
Corporate income tax expenses (income)		1 699	1 205	1 989	850
(Profit) loss of an associated company		102	210	-	-
Cash flows from operating activities after adjustment to non-cash items		123 033	135 833	120 412	132 032
Changes in working capital					
Decrease (increase) in inventories		9 937	12 460	8 371	7 537
Decrease (increase) in trade and other receivables and prepayments		(1 909)	38 721	(1 753)	34 050
Increase (decrease) in current and non-current trade payables and prepayments		15 025	(52 291)	19 369	(46 256)
Increase (decrease) in employment related liabilities		344	(156)	63	(192)
Increase (decrease) in other non-current and current payables		2 178	3 700	3 083	4 951
(Paid) corporate income tax		(3 250)	(2 533)	(2 775)	(1 935)
Net cash flows from operating activities		142 439	135 734	143 851	130 187
Cash flows from investing activities					
(Acquisition) disposal of non-current assets		(142 590)	(212 592)	(141 697)	(205 830)
(Acquisition) disposal of financial assets		-	(670)	(315)	(1 619)
Received interest		3	6	3	4
Loans granted		(191)	(3 240)	(191)	(3 240)
Recovery of loans granted		742	-	742	-
Net cash flows from investing activities		(142 036)	(216 496)	(141 458)	(210 685)
Cash flows from financing activities					
Loans received		12 120	42 802	-	28 596
Loans (repaid)		(31 341)	(33 369)	(23 835)	(20 392)
Grants received (repaid)		31 783	58 159	31 783	58 159
Interest (paid)		(6 136)	(6 411)	(6 039)	(6 269)
Dividends (paid)		(845)	(8 233)	(846)	(8 233)
Net cash flows from financing activities		5 581	52 948	1 063	51 861
Net increase (decrease) in cash flows		5 984	(27 814)	3 456	(28 637)
Cash and cash equivalents at the beginning of the period	15	14 682	42 496	8 480	37 117
Cash and cash equivalents at the end of the period	15	20 666	14 682	11 936	8 480

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

(all amounts are in EUR thousand unless otherwise stated)

EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2016

1. General information

AB Lietuvos Geležinkeliai (hereinafter referred to as the Company) was registered in the Register of Legal Entities of the Republic of Lithuania on 2 May 1995 after the reorganisation of SPAB Lietuvos Geležinkeliai. In its activities the Company follows the Constitution of the Republic of Lithuania, Law on Companies of the Republic of Lithuania, Railway Transport Code of the Republic of Lithuania, and other valid legal acts of the Republic of Lithuania.

The Company is a limited liability legal entity independently organising economic, financial, organisational and legal activities. The Company's registration code 110053842, VAT payer's code LT100538411, legal (registration) address: Mindaugo St. 12, LT-03603 Vilnius.

The main activities of the Company are freight and passenger transportation by rail, infrastructure management and provision of transportation services, as well as provision of additional freight-related services, namely, baggage, mail transportation, freight protection during transportation, cleaning of wagons, preparation of tank-wagons, provision of other services to third parties, resales of products, lease of immovable property, etc.

As at 31 December 2016 and 2015 the Republic of Lithuania represented by the Ministry of Transport and Communications was the sole shareholder of the Company.

As at 31 December 2016, the authorised capital of the Company was formed by 3 652 918 ordinary registered shares with the nominal value per one share equal to EUR 289.62. The authorised capital amounted to EUR 1 057 958 thousand. The Company has not acquired its own shares.

As at 31 December 2016 the Group comprised the Company and its subsidiaries.

Company	Company's address	Owned share, %			Main activities
		2016	2015	2014	
UAB Geležinkelio Tiesimo Centras	Trikampio St. 10, Lentvaris	100	100	100	Railway construction
UAB Vilniaus Lokomotyvų Remonto Depas	Švitrigailos St. 39/16, Vilnius	100	100	100	Major overhauls to locomotives and diesel trains
UAB Geležinkelių Projektavimas	Iešmininkų St. 17 A, Vilnius	100	100	100	Design and exploration work on the railway
UAB Gelsauga	Prūsų St. 1, Vilnius	100	100	100	Railway security services, cleaning, installation and maintenance of video surveillance systems
UAB Geležinkelių Aplinkosaugos Centras	Konstitucijos Ave. 8 A, Vilnius	100	100	100	Greenery protection and up keeping
UAB Rail Baltica Statyba	Mindaugo St. 12, Vilnius	100	100	100	Development and implementation of international railway infrastructure project in the Baltic states
BAB Lietuvos Jūrų Laivininkystė	Malūnininkų St. 3, Klaipėda	56.66	56.66	-	In bankruptcy, non-consolidated
VšĮ Geležinkelių Logistikos Parkas	Konstitucijos Ave. 3, Vilnius	79.61	79.61	79.61	Searching for investment opportunities. The Company is not significant thus not material for consolidation

The investments into associated companies UAB Voestalpine VAE Legetecha, RB Rail AS and UAB Lokomotyvai ir Transporto Komponentai are accounted for using equity method in the consolidated financial statements and at cost in the Company's separate financial statements.

(all amounts are in EUR thousand unless otherwise stated)

1. General information (continued)

Investments to the associated companies are specified below.

Company	Company's address	Owned share, %			Main activities
		2016	2015	2014	
UAB Voestalpine VAE Legetecha	Draugystės St. 8, Vilnius district, Valčiūnai	34	34	34	Manufacture of railway switches
RB Rail AS	Gogolio St. 3, Riga	33.33	33.33	33.33	Implementation of international railway infrastructure project in the Baltics. Controlled through UAB Rail Baltica Statyba
UAB Lokomotyvai ir Transporto Komponentai	Švitrigailos St. 39, Vilnius	25	25	25	Provision of railway transport services. Controlled through UAB Vilniaus Lokomotyvų Remonto Depas

The Company consists of the Freight and Passengers transportation directorates, the Railway Infrastructure Directorate, the Administration and other units.

As at 31 December 2016, the number of the Group's and the Company's employees was 11 532 and 9 514 respectively (at 31 December 2015 12 435 and 10 077 respectively).

The Company's management authorised these financial statements on 30 June 2018. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

2. Significant accounting policies

Basis of preparation. The consolidated and the separate financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRSs). These consolidated financial statements of the Group and the Company have been prepared in accordance with all effective requirements of IFRS as at transition to IFRS date as at 1 January 2015.

These financial statements are the first financial statements of the Group and the Company, prepared in accordance with IFRS, as adopted by the European Union (EU). In preparation of these financial statements the Group and the Company applied IFRS 1 *First-time Adoption of International Financial Reporting Standards.* Prior financial statements were prepared in accordance with Business Accounting Standards (BAS) of the Republic of Lithuania. The impact of transition to IFRS to the Company's financial position, financial results and cash flows is explained in Note 5.

The financial statements are prepared on the historical cost basis.

The Group's and the Company's financial year coincides with the calendar year.

The Group and the Company have consistently applied the accounting policies set out below to all periods presented in these consolidated and separate financial statements.

The Group reflects acquisitions of property, plant and equipment in the statements of cash flows by adjusting them with liabilities for property, plant and equipment and prepayments made in the beginning and the end of the period.

The main accounting policies are set out below:

Use of estimates and judgements. The preparation of financial statements in conformity with IFRS requires the use of certain significant accounting estimates and assumptions which have influence on application of accounting principles and amounts related to assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on the historical experience and other factors, including future events, based on current circumstances and expectations. Judgements made by the management in the application of IFRSs that have significant effect on the consolidated and separated financial statements and estimates with a significant risk within the next financial year are discussed in paragraph No. 4 Significant accounting estimates and judgements.

Going concern. These financial statements for the year ended 31 December 2016 have been prepared under the assumption that the Group and the Company will continue as a going concern.

2. Significant accounting policies (continued)

Consolidated financial statements. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Associates. Associates are entities over which the Group and the Company have significant influence (directly or indirectly), but not control. Generally, it is assumed that when owning a shareholding of between 20 and 50 percent of the voting rights a significant influence can be made. Interests in associates are accounted for using equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence ceases. Dividends received from associates reduce the carrying amount of the investments in associates.

Functional and presentation currency. The amounts presented in these financial statements are presented in euro, unless otherwise stated. The functional currency of the Company and its subsidiaries is euro. In these financial statements, all amounts are expressed in euros and rounded down to the nearest thousand (EUR '000).

Foreign currency. Transactions in foreign currency are measured at functional currency applying the effective exchange rate on the date of the transaction. Monetary assets and monetary liabilities in foreign currencies are translated into functional currency as at the date of the preparation of the financial statements applying the exchange rates set and announced by the European Central Bank. Currency exchange gains or losses are stated as profit or loss in the statements of profit or loss and other comprehensive income. Non-monetary assets and liabilities, denominated in foreign currency and measured at fair value, are translated into functional currency using exchange rates valid at the date when the fair value was determined. Non-monetary assets and liabilities denominated in a foreign currency and measured at cost are translated into functional currency applying the exchange rates effective as at the date of recognition of assets and liabilities in the consolidated statements of financial position. Currency exchange gains or losses are stated as profit or loss in the statements of profit or loss and other comprehensive income.

Property, plant and equipment. Property, plant and equipment are tangible assets which: a) are intended for use in the production or supply of goods or services or for administrative purposes; and b) expected to be used for a period longer than one reporting period. The cost of property, plant and equipment shall only be recognised as assets when: a) the entity reasonably expects a flow of economic benefits from such asset in future periods; and b) the entity can reliably measure the acquisition (production) cost of the asset.

Property, plant and equipment are attributed to non-current tangible assets and are stated at cost less accumulated depreciation and accumulated impairment losses. The initial value of non-current tangible assets comprises their acquisition cost, including unrecoverable taxes of acquisition, capitalised borrowing costs and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the tangible non-current assets have been put into operation are normally charged to profit or loss in the period the costs are incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (components) of property, plant and equipment. The cost of replacing part of an item of property, plant and equipment is capitalised only if it is probable that the part will generate economic benefit and its cost can be measured reliably. The carrying amount of the replaced part is written off. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

At the end of each reporting period, if any indication of impairment exists, property, plant and equipment are tested for impairment. If any indication of impairment exists, the recoverable amount, which is the higher of the fair value less costs to sell and its value in use, is estimated. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statements of profit or loss and other comprehensive income. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. The impairment of assets is reversed to the extent of the increase in the recoverable amount but not exceeding the carrying amount prior to the accounted impairment, assessing the estimated depreciation.

Subsequent to their recognition, property, plant and equipment shall be stated at cost less any accumulated depreciation and any accumulated impairment losses.

The costs of repair are added to the carrying amount of property, plant and equipment, if it is probable that the Group and the Company will obtain economic benefits from these costs and they can be measured reliably. The carrying amount of the replaced part is written off. All other repairs and maintenance costs are expensed when incurred.

Gains or losses from disposal of property, plant and equipment are determined comparing the income from disposal with their carrying amount and are recognised in the statement of profit or loss and other comprehensive income.

(all amounts are in EUR thousand unless otherwise stated)

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation. Land is not depreciated. Depreciation on other groups of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Groups of property, plant and equipment	Useful life
Buildings and structures	8-140
Machinery and plant	5-40
Road transport	4-15
Rolling stock (including wagons)	12-32
Computers and hardware	3-15
Other equipment, fittings and tools	4-50

The residual value of an asset is the estimated amount that the Group and the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress. It is stated at acquisition cost (except for the initial transition to IFRS date, refer to Note 5). This includes the cost of construction, plant and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and put into operation.

Investment property. Investment property, including part of buildings and structures, is held for earning rentals and/or for capital appreciation rather than for use in the production, provision of services, or for administration purposes or sale. Investment property is stated at historical cost less accumulated depreciation and adjusted for impairment loss, if any. Depreciation is calculated on the straight-line method to write-off the cost of each asset to their residual values over their estimated useful life: 10–50 years. Transfers to and from investment property are made only when there is an evidence of change in an asset's use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value of investment property at the date of change in use. If owner-occupied property becomes an investment property the Company and the Group account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The deemed cost for subsequent investment property accounting is the carrying value at the time of assets' transfer.

Intangible assets. The Group's and the Company's intangible assets have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences. Acquired computer software, licences, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group and the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives, lasting between 2 and 20 years. Amortisation period shall be reviewed at the end of each financial year.

The residual value of intangible assets used in the Group and the Company has to be considered as zero, except for the cases when the third party commits to purchase the assets at the end of their useful life or there is an active market for those assets which can be used as a basis for determining the residual value; furthermore, it is probable that this market will also be present at the end of the useful life.

Useful lives of non-amortised intangible assets shall be reviewed during every reporting period, in order to determine whether the events and circumstances confirm such assessment of indefinite useful life. If not, the reversal of indefinite useful life to definite has to be recorded as an adjustment to accounting estimate.

The Group and the Company test intangible assets for possible impairment by comparing their recoverable amount to carrying amount once a year or whenever there are indications that intangible assets might be impaired. If intangible assets are impaired, the carrying amount of the intangible assets is reduced to their fair value.

Leased property. At the beginning of contract performance the Group and the Company determine whether contract is or contains a lease. Leases when substantially all the risks and rewards of ownership of the asset are transferred are recognised as finance leases. Leases are recognised as operating leases if substantially all the risks and rewards of ownership of the asset are retained.

The following criteria, applied in aggregate or individually, determine that the leases are classified as finance leases (IAS 17-10):

- The ownership right is transferred to the lessee by the end of lease term;
- The lessee has a right of choice to purchase assets at a price which is probably lower than the fair value of the asset when the right becomes valid, and at the commencement of the lease it is known that this opportunity will be used;
- The period of lease covers the larger part of the useful live of the asset, even if the ownership right is not transferred;

2. Significant accounting policies (continued)

Leased property (continued)

- The present value of minimal lease payments at the beginning of lease at least approximately equals the fair value of the assets leased;
- The assets leased are of a specialised nature; therefore, unless major changes are made, the lessee has a right to utilise it.

At the beginning of contract execution or subsequent to its re-assessment, the Group and the Company differentiate between the payments and other amounts which are indicated in the contract, into lease payments and other payments respectively, based on their relative fair value. If the Group and the Company decide that the payments cannot be reliably differentiated with regard to finance lease, then the asset and the liabilities are carried at amount equal to the fair value of related assets. Subsequently, the amount of liabilities is decreased by payments made, and finance costs incurred are accounted for respectively, applying the Group's and the Company's incremental borrowing rate.

Assets held-for-sale. The Group and the Company classify non-current assets and disposal groups as held-for-sale if their carrying amount will be recoverable from disposal rather than their continued utilisation. Such non-current assets and disposal groups classified as held-for-sale, are assessed at the lower of their carrying amount and fair value less costs to sell. Costs to sell are expenses directly attributed to sales, except for finance costs and income tax expenses.

Impairment of property plant and equipment and intangible assets excluding goodwill. At each statements of financial position date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Group's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Non-derivative financial instruments. Non-derivative financial instruments comprise trade debtors and other amounts receivable, cash and cash equivalents, loans, borrowings, trade creditors and other amounts payable.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

During 2016 and 2015, the Group and the Company had no financial assets and financial liabilities which are stated at fair value through profit or loss.

Derivative financial instruments. The Group and the Company have no derivative financial instruments.

Financial assets. In accordance with IAS 39, financial assets are classified into financial assets measured at fair value through profit or loss, held-to-maturity financial assets, loans granted and amounts receivable, and financial assets available for sale. The attribution of financial assets depends on the type and purpose of financial assets and it is determined upon initial recognition.

Classification of financial assets. Financial assets are classified into the following groups - (a) loans and amounts receivable, (b) available-for-sale financial assets.

2. Significant accounting policies (continued)

Classification of financial assets (continued)

Financial assets are presented as at the transaction date when the purchase or sale is carried out under the agreement, the conditions of which require the delivery of financial assets on the term fixed by respective market. Financial assets are assessed at fair value at initial recognition, including direct costs related to the transaction, if the investments are not accounted for at fair value through profit or loss. The Group's and the Company's financial assets include cash, trade and other amounts receivable, and available-for-sale financial assets.

Loans and receivables. Loans and receivables (which are non-derivative financial instruments that are not quoted in an active market) are financial assets with fixed or determinable payments. After initial recognition, such financial assets are carried at amortised cost using the effective interest rate method (except for current amounts receivable, which interest income recognition would be insignificant), less any allowance for impairment, which represents unrecoverable amounts. Gains and losses are recognised in the statements of profit or loss and comprehensive income when these assets are written off, amortised or impaired.

Effective interest rate method. The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.
Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Available-for-sale financial assets. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value in statements of profit or loss and other comprehensive income. The Company's management determines how the investments will be classified upon their acquisition.

Unrealised gains or losses, arising due to changes in fair value of available-for-sale financial assets, are accounted for directly through equity, excluding impairment losses and the result of foreign currency exchange. When these assets are derecognised, all revaluation result accumulated in equity is transferred to profit or loss in the statements of profit or loss and other comprehensive income. However, interest for these financial assets, calculated applying effective interest rate, are recognised as income for the reporting period. Accounting for financial assets subsequent to initial recognition depends on to what group the financial assets are designated.

Derecognition of financial assets. Financial assets (or, where appropriate, part of financial assets or part of the Group of similar financial assets) are derecognised when:
- The rights to cash flows from the assets expire;
- The Group and the Company retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement;
- The Group and the Company have transferred the rights to the cash flows and/or:
  a) Transfer substantially all the risks and rewards of ownership of the assets,
  b) Neither transfer nor retain substantially all the risks and rewards of ownership but do not retain control of financial assets.

When the Group and the Company have transferred their rights to receive cash flows from an asset and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay.

Cash and cash equivalents. Cash comprises cash in hand and at bank. Cash equivalents are short-term, highly liquid investments which can be readily converted into a known amount of cash. The term of such investments does not exceed three months and the risk of value changes is insignificant. Cash and cash equivalents reported in the cash flow statements comprise cash in hand, deposits with current accounts and other short-term highly liquid investments.

Trade and other receivables. Trade and other amounts receivable are recognised at fair value upon initial recognition; subsequently they are recognised at amortised cost applying effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of payment of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group and the Company determine that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, they include the asset in a group of financial assets with similar credit risk characteristics, and collectively assess them for impairment. The primary factors that the Group and the Company consider in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

2. Significant accounting policies (continued)

Impairment of financial assets carried at amortised cost (continued)

- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- The counterparty considers bankruptcy or a financial reorganisation;
- There is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- The value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts in accordance with the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of the Company's management in respect of managing losses of the previous periods and the success of recovery of overdue amounts.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Uncollectible assets are written off against the related impairment loss allowance after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the statements of profit or loss and other comprehensive income.

Trade and other payables. Trade payables are accrued when the counterparty performs its contractual obligations and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities. The Group derecognises financial liabilities when, and only when the Group's obligations are discharged, cancelled or they expire.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowing costs that are directly related to the acquisition, construction of an asset that takes a substantial period of time to get ready for its intended use or sale are added to the acquisition value of this asset until it is substantially ready for its use or sale. Interest income related to investment of borrowings until they are utilised for acquisition of assets are deducted from cost of those assets.

Other borrowing costs are recognised as costs in profit or loss when incurred.

Capitalisation of borrowing costs. General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets since the commencement date for capitalisation.

The commencement date for capitalisation is when:
a) The Group and the Company incur expenditures for the qualifying asset;
b) The Group and the Company incur borrowing costs;
c) The Group and the Company undertake activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

2. Significant accounting policies (continued)

Capitalisation of borrowing costs (continued)

The Group and the Company capitalise borrowing costs that could have been avoided if they had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's and the Company's average funding cost (the weighted average interest rate is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group and the Company to make specified payments to reimburse the holder of the guarantee for a loss they incur because a specified debtor fails to make payment when due in accordance with the original or updated terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

Operating leases. Where the Group and the Company are lessees in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group and the Company, the total lease payments are charged to profit or loss in statements of profit or loss and other comprehensive income on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.
Leases embedded in other agreements are separated if:
a) Fulfilment of the arrangement is dependent on the use of a specific asset or assets;
b) The arrangement conveys a right to use the asset.
When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term. IFRIC 4 explicitly interprets the criteria based on which it is determined whether the contract is attributable to a lease contract.

Finance lease liabilities. Where the Group and the Company are lessors in a lease which has not transferred substantially all the risks and rewards incidental to ownership to the Group and the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease liabilities, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group and the Company are reasonably certain that they will obtain ownership by the end of the lease term.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the statements of profit or loss and other comprehensive income, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Income tax rate for the Companies in Lithuania for the years 2016 and 2015 was 15%.
Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than income tax are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets and liabilities are measured at valid tax rates that will to apply in the period in which these differences are expected to be covered or paid, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle its assets and liabilities.

2. Significant accounting policies (continued)

Income taxes (continued)

Deferred tax assets have been recognised in the statements of financial position to the extent the management believes they will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and can only be used to reduce the taxable income earned from the transactions of the same nature.

From 2014 tax losses carried forward can cover not more than 70 percent of the taxable profit of a taxable period according to Lithuanian laws.

Inventories. Inventories are measured at acquisition (production) cost, and subsequently are carried at the lower of cost or net realisable value. Net realizable value is a sale price under normal business conditions less expenses of completion and possible costs to sel. Cost is calculated under the FIFO method. The cost of inventories is net of volume discounts and rebates received from suppliers during the reporting period but applicable to the inventories still held in stock. The inventories that may not be realised are fully written off.

Dividends. Dividends are recognised as a liability and deducted from equity in the period in which they are declared and approved. Dividends are accounted for in the financial statements in the period when they are approved by the annual General Shareholders' Meeting. If dividends are declared subsequent to reporting period, but antecedent the approval of financial statements by the Company's management, they are disclosed in the explanatory notes.

Ordinary shares. Ordinary shares are classified as authorised capital. Costs directly attributed to the issue of new shares or options, net of taxes, are stated in equity reducing the proceeds received. Only the nominal value of shares is recorded in the authorised capital account. If the share issue price exceeds the nominal value, the surplus over the nominal value is recorded under share premium account.

Equity. Equity and equity related reserves are presented in accounting books by type, in accordance with legal regulations and the Parent company's articles of association.

The Group's and the Company's equity is the assets value less value of all liabilities. The Group's and the Company's equity include:

- share capital - The share capital is equity paid in by shareholders and is stated at nominal value in accordance with the Parent company's articles of association and the entry in the Centre of Registers;
- share premium - Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs;
- legal reserve - According to Lithuanian legislation an annual transfer of 5% of net profit to the legal reserve is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses;
- other reserves - Other reserves are formed according to the decision of the shareholder for specified purpose;
- retained earnings (loss).

Provisions. Provisions are accounted for only when the Group and the Company have a present obligation (legal or irrevocable) as a result of 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. The Group and the Company re-evaluate provisions at each balance sheet date and adjust them in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses which are expected to be incurred to settle the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expenses.

Provisions for retirement benefits. According to the legislative requirements of the Republic of Lithuania, each employee at the age of retirement is entitled to a one-off payment in the amount of 2-month salary. The past service costs are recognised as an expense on a straight-line basis in profit or loss immediately after the assessment of such liability. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in profit or loss as incurred. The above-mentioned employee benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Obligation is recognised in the statements of financial position and reflects the present value of these benefits on the preparation date of the statements of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognised in other comprehensive income as incurred. Therefore, provisions are formed for the possible benefits. Actuarial estimates are carried out in order to assess the liability of such retirement payments. The liability is carried at present value discounted using the market interest rate.

2. Significant accounting policies (continued)

Employee benefits: The Group does not have any adopted defined contribution and benefit plans and has no share based payment schemes. Post-employment obligations to employees retired on pension are borne by the State. Short-term payments to employees are recognised as current costs in the period the services are rendered by employees. The payments include salaries, social insurance contributions, bonuses, paid leave, etc. There are no long-term payments to employees.

Plans of bonuses. The Group and the Company recognise the liability and expenses of bonuses when a contractual liability is present or a practice which created a constructive liability was applied in the past. Based on the provisions of Collective Agreement, the liabilities are recognised for possible benefits to employees reaching the jubilees of 50 and 60.

Revenue recognition. Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Revenue from services is recognised when services are rendered. Revenue from sales of goods is recognised when delivery has taken place and transfer of risks and rewards has been completed.

The revenues generated by the Group comprise:
- Cargo and infrastructure assess revenues representing revenues from cargo transportation, provision of access to the infrastructure and locomotive traction services;
- Passenger revenues representing revenues obtained from transportation of passengers;
- Logistic revenues mainly represented by revenues from logistic services;
- Other revenues including revenues obtained from repair of rolling stock, constructions services, other revenues.

Cargo and passenger transportation

In respect of services related to cargo transportation, revenue is recognised by reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. In the event that either of the conditions above is not met as at the reporting date, the recognition of revenue is deferred to the date when the transportation is completed, i.e. cargo delivered to the place of destination. The stage of completion is determined as a percentage of services performed to date to total services to be performed.

In respect of services related to long distance passenger transportation, revenue is recognised when transportation is completed. In respect of services related to suburban passenger transportation, revenue is recognised when the ticket is sold.

Logistic revenues

Revenue from logistic services is recognised when services are rendered.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

Revenue from repair services

Revenue from repair services is recognised by the reference to the stage of completion method.

Other income

Other income includes gain from sales of non-current assets and other income.

Government grants. Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Government grant can be provided in a variety of forms which may differ both in nature of granting and conditions which are normally determined providing the grant.

Asset-related grants. Grants and subsidies (hereinafter "grants") intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants (mainly received from the EU and other structural funds). Assets received free of charge are also allocated to this group of grants. The amount of the asset related grants is recognised in profit and loss gradually according to the depreciation rate of the assets associated with this grant. In profit or loss, a relevant expense account is reduced by the amount of grant amortisation.

2. Significant accounting policies (continued)

Income-related grants. Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. These grants are accounted for in the statements of profit or loss and other comprehensive income, less related expenses.

Recognition of expenses. Expenses are recognized on an accrual basis and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was paid.

Financial income and cost. Finance income comprises interest income. Interest income is recognised on an accrual basis, using the effective interest rate method. Finance costs comprise interest expense. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest rate method. Currency exchange gain or loss in profit or loss is presented at a net value. Dividend income from subsidiaries is recognised in the Company's stand-alone financial statements when the dividends are declared by the subsidiary.

Contingent assets and liabilities. Contingent liabilities are not recognised in the financial statements, except for contingent liabilities associated with acquisitions. 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 or economic benefits are probable.

Subsequent events. Subsequent events which provide additional information on the Group's and the Company's standing as at the reporting date (adjusting events) are reported in the financial statements. Non-adjusting subsequent events are described in the notes, if significant.

Related parties. Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

3. Standards and interpretations to published standards that are not yet effective

New standards, amendments to standards and interpretations that are applied to annual periods beginning on or after 1 January 2017 and have not been applied in preparing these financial statements are provided below:

The following new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on 1 January 2017 and have not been applied in preparing these financial statements. The Group plans to adopt these pronouncements when they become effective.

(i) IFRS 9 Financial Instruments (2014) Effective for annual periods beginning on or after 1 January 2018, to be applied retrospectively with some exemptions. The restatement of prior periods is not required and is permitted only if information is available without the use of hindsight. Early application is permitte).

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets - amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:
- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, the Group may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in FVOCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in FVOCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

3. Standards and interpretations to published standards that are not yet effective (continued)

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships - fair value, cash flow and foreign operation net investment - remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items. Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

As to the preliminary assessment of the Company's management, the application of this standard will have limited or no impact because the Company owns these financial instruments, for which no changes in classification and measurement are forecasted, mainly trade creditors and debtors, and bank loans receivable. As the majority of transactions are executed at market prices, it is expected that it will have limited or no impact on the financial statements.

(ii) IFRS 15 Revenue from contracts with customers and Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016). Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:
- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:

- identify a performance obligation - the promise to transfer a good or a service to a customer - in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide entities with two additional practical expedients:

- An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns. The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS, therefore the presentation requirements will increase the volume of the disclosures significantly.

(iii) IFRS 16 Leases Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

3. Standards and interpretations to published standards that are not yet effective (continued)

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Group does not expect that the new Standard, when initially applied, will have material impact on the financial statements because the Group has no significant operating lease agreements.

(iv) Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The European Commission decided to defer the endorsement indefinitely).

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while;
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group does not expect that the amendments, when initially applied, will have material impact on the Group's financial statements. However, the quantitative impact of the adoption of the Amendments can only be assessed in the year of initial application of the Amendments, as this will depend on the transfer of asset or businesses to the associate or joint venture that take place during that reporting period.

There are no other new or amended standards or their interpretations, which are not yet effective and which may have material impact on the Group and the Company, are present.

4. Significant accounting estimates and judgements

The preparation of the financial reporting in accordance with IFRS, as adopted by the EU, requires from the Company's management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimates.

Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements

Recognition of property, plant and equipment. The Company manages part of the assets, namely, the land and public railways under the right of trust under the Trust Agreement signed with Ministry of Transportation of the Republic of Lithuania, as the trustee of the assets owned by the Republic of Lithuania) in 2007. The Company manages, uses and disposes the assets under the right of trust and is responsible for the maintenance, repairs and control of the assets. Also, the Company receives economic benefits related to the use of assets under the right of trust.

Neither period of assets utilisation nor payment for assets utilisation are determined in the Trust Agreement. Based on the Railway Transport Code (RTC) and National Communication Development Programme, the Company must invest in public railway infrastructure. Such a requirement might be considered a payment for the use of assets; however, the requirement to invest into railway infrastructure is of general nature and does not specify neither the amounts nor periods of investments. Aspects of payments for utilisation of railway infrastructure are not analysed in the Trust Agreement, and other legal acts only provide limited or none at all regulations on what infrastructure services shall operator provide, who is the subject and what is the price of provision.

4. Significant accounting estimates and judgements (continued)

Recognition of property, plant and equipment (continued)

The Trust Agreement establishes that this Agreement is concluded for a term until the State's public railway infrastructure manager is established and starts its activities. Civil Code (CC) provides that the Trust Agreement shall not be concluded for a period longer than twenty years. The Code also gives a clear priority to other laws, specifying that the law in regulation of the matters of property trust agreement, related to the management of state-owned assets by the right of trust, may set a different regulation than that set by the CC.

Despite of the trust agreement, the primary basis for AB Lietuvos Geležinkeliai right to manage public railway infrastructure by right of trust is the law (the Railway Transport Code). It is specifically stated in the Article 23(1) of the Railway Transport Code that public railway infrastructure is possessed, used and disposed of under the right of trust by its manager AB Lietuvos Geležinkeliai. Currently only AB Lietuvos Geležinkeliai acts as a manager of the public railway infrastructure, on the basis of Article 23 of the Railway Transport Code. In order to change this situation, the Railway Transport Code has to be amended. If the State would decide to transfer the public railway infrastructure assets to a separate state-owned company, such decision can be implemented only by changing the Railway Transport Code (and related laws).

Therefore it was concluded that the assets by the right of trust are transferred to the Company for the term of exercising such function; the exercise of the function as such does not have a finite term; therefore, the management of assets by the right of trust is also indefinite.

RTC provides that the public railway infrastructure is controlled under the Property Trust Agreement concluded by the Government's authorised institution with manager of public railway infrastructure. RTC provides that the public railway infrastructure is controlled, utilised and disposed by the manager of public railway infrastructure – AB Lietuvos Geležinkeliai – which also provides services related to managing of public railway infrastructure and maintenance.

According to the Resolution of the Government of the Republic of Lithuania No. 1677 on the approval of the procedure for transfer of state land to the Company under the right of trust to be used public railway infrastructure facilities as at 30 December 2004, the municipalities transferred to the Company a part of land plots located near railways, which the Company controls by the right of trust.

Taking into account the aforementioned facts, the Company's management is of the opinion that the assets controlled by the right of trust, i.e. the land and public usage railways or assets that under the law may only be property of the State, shall be accounted for in the statements of financial position. Therefore the assets controlled by the right of trust are recognised as the property plant and equipment of the Company and the Group.

The date when assets are brought into use. An asset is included in operations and starts depreciation when it is prepared for usage, i.e. the assets is in the right place and conditions are set for it to be used according to the management's intended method. The Group's management included the asset into operations after it was properly tested and all permissions to begin activities were obtained.

Information on significant estimates and assumptions is provided below:

Useful lives of intangible assets and property, plant and equipment. The useful lifetime of all the property, plant and equipment was assessed during the independent valuation performed on the transition date of 1 January 2015. The useful lives are reviewed on an annual basis and, if necessary, are adjusted to reflect the current estimate of remaining useful life, taking into account technological changes, future economic use of assets and their physical condition. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate in accordance with IAS 8.

Impairment losses of property, plant and equipment. The fair value of all the property, plant and equipment was assessed during the independent valuation performed on the transition date of 1 January 2015. The carrying amounts of the Group's and the Company's property, plant and equipment are reviewed at each reporting date to determine, whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The carrying amounts of the Group's property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

The recoverable amount is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. The recoverable amount of an asset that does not generate cash flows is estimated based on the recoverable amount of a cash-generating unit to which the asset belongs. For impairment analysis of property, plant and equipment refer to Note 5.

4. Significant accounting estimates and judgements (continued)

Impairment losses of amounts receivable. The Group and the Company assess the impairment of amounts receivable at least quarterly. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, national or local economic conditions that influence the receivables. The management evaluates probable cash flows from the debtors based on historical loss experience related to the debtors with a similar credit risk. Methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. For ageing analysis and impairment losses refer to Note 14.

Write down of inventories to net realisable value. The Group reviews its list of inventories at least annually to establish their net realisable value. Inventories acquired earlier than one year before, are reviewed in order to determine whether they will be realisable in the future. In case of slow moving spare parts and other materials, a write down is registered for the entire acquisition cost of the inventories, if inventories have been on the list of inventories for longer than 2 years and determine that they will not be realisable in the future..

Provisions and contingent liabilities. The Group exercises considerable judgement in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, such as legal council. Revisions to the estimates may significantly affect future operating result of the Group. For the analysis of provisions refer to Note 22.

Deferred income tax. Deferred tax is calculated using the balance sheet method, providing for temporary differences between the financial and tax values of assets and liabilities. The amount of deferred tax provided is based on the expected manner of realisation of assets and settlement of liabilities. A deferred tax asset is recognised only to the extent that it is probable that sufficient future taxable profits will be available against which temporary difference can be utilised. Values of deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

5. Transition from BAS to IFRS

By Order No. Į-22 of 11 January 2017, the Company's management adopted a decision to prepare the Group's and the Company's financial statements for the year 2016 in accordance with International Financial Reporting Standards as adopted by EU. In order to enforce this decision, the Group's and the Company's accounting policies were changed, which comply with the requirements of IFRS as of 1 January 2015.

Transition from Business Accounting Standards (BAS) to IFRS was accounted for applying all mandatory exemptions and privileges of IFRS 1. 1 January 2015 was set as the date of transition to IFRS. The Group and the Company have consistently applied the accounting policies in the first financial statements both as at the date of transition to IFRS and for every financial year presented in the first financial statements. Upon the initial application of IFRS, the Group and the Company:

- Recognised all assets and liabilities whose recognition is required by IFRSs;
- Did not recognise items as assets or liabilities if IFRSs do not permit such recognition;
- Reclassified items that were recognised in accordance with BAS as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with IFRSs; and
- Applied IFRSs in measuring all recognised assets and liabilities.

IFRS 1 list mandatory exceptions prohibiting retrospective application of some IFRS aspects. Mandatory exceptions relevant to the Group and the Company are: 1) accounting estimates, 2) derecognition of financial assets and financial liabilities.

IFRS 1 also provides a list of optional exemptions allowing a non-entirely retrospective application of IFRS. The Group and the Company may but shall not use these exemptions at the end of reporting period for which the financial statements are prepared in accordance with IFRS for the first time. The Group and the Company used the following optional exemptions: 1) "deemed" cost of non-current tangible and intangible assets due to assessment, 2) borrowing costs.

The Group and the Company prepared the first financial statements in accordance with IFRS as if International Accounting Standards were always applied, applying all mandatory exemptions and privileges of IFRS 1, which were in force and relevant at the end of first financial year in accordance with IFRS with certain exceptions applicable to transition to IFRS date. All adjustments to the balances of initial financial position arising from transition to IFRS are recognised as at the date of transition as retained earnings.

(all amounts are in EUR thousand unless otherwise stated)

5. Transition from BAS to IFRS (continued)

Impact of transition to IFRS and correction of errors on the Group's and the Company's equity and the statements of profit or loss and other comprehensive income:

	Notes	Group		Company	
		31 December 2015	1 January 2015	31 December 2015	1 January 2015
EQUITY IN ACCORDANCE WITH BAS		1 099 419	1 014 966	1 098 606	1 012 045
IFRS impact:					
Change in value of intangible assets	1)	(4 755)	(4 755)	(4 300)	(4 300)
Change in value of property, plant and equipment	1)	(5 211)	(5 211)	(20 407)	(20 407)
Change in value of investment property	1)	1 333	1 333	1 333	1 333
Asset depreciation change	1)	(10 792)	-	(6 710)	-
Change in value of grants due to valuation	2)	84 711	84 711	84 711	84 711
Grant depreciation change		(4 183)	-	(4 183)	-
Impairment provision for financial assets	3)	98	98	(1 367)	(1 367)
Write down to the value of inventories	4)	(4 858)	(4 858)	(4 614)	(4 614)
Change in deferred tax assets	5)	(3 742)	(5 022)	(4 445)	(5 815)
Capitalised repair costs	6)	19 964	-	17 775	-
Capitalised borrowing costs	7)	1 986	-	1 986	-
Change in disposal of non-current assets	8)	(2 470)	-	(2 470)	-
Change in other expenses		529	-	(988)	-
BAS error corrections:					
Accruals for jubilees under Collective Agreement	9)	(7 491)	(7 436)	(7 188)	(7 116)
Grant depreciation	2)	7 123	1 873	7 123	1 873
Provisions for repairs	10)	(497)	(612)	-	-
Accruals for variable remuneration part	11)	(3 129)	(3 045)	(3 129)	(3 045)
Change in income tax	12)	(1 088)	(282)	(1 088)	(282)
Deferred income from long term contracts	13)	(3 212)	(2 968)	-	-
Correction of other mistakes		1 026	-	1 026	-
Fixed assets held for sale		(351)	(351)	(351)	(351)
EQUITY IN ACCORDANCE WITH IFRS		1 164 410	1 068 441	1 151 320	1 052 665

	Notes	Group	Company
		2015	2015
PROFIT OR LOSS IN ACCORDANCE WITH BAS		669	2 776
IFRS impact:			
Depreciation change	1)	(10 792)	(6 710)
Capitalised repair costs	6)	19 964	17 775
Change in grant depreciation	2)	(4 183)	(4 183)
Capitalisation of borrowing costs	7)	1 986	1 986
Change in disposal of non-current assets	8)	(2 470)	(2 470)
Change in deferred tax assets	8)	1 279	1 370
Change in other expenses		529	(988)
BAS error corrections:			
Grant depreciation	2)	5 250	5 250
Change in income tax	12)	(806)	(806)
Accruals for jubilees	9)	(55)	(72)
Provisions for repairs	10)	115	-
Accruals for variable remuneration part	11)	(84)	(84)
Deferred and other income	13)	(244)	-
TOTAL COMPREHENSIVE INCOME (EXPENSES) IN ACCORDANCE WITH IFRS		11 158	13 844

(all amounts are in EUR thousand unless otherwise stated)

5. Transition from BAS to IFRS (continued)

IFRS impact

When preparing the initial statements of financial position in accordance with IFRS the Company adjusted amounts previously stated in financial statements prepared in accordance with BAS. Explanations on the effect of transition to IFRS on the Company's financial position, its financial performance and cash flows are presented in the notes below:

1) Property, plant and equipment (PPE) of the Group and the Company were valuated at fair value by the valuators on 1 January 2015. The fair value of PPE estimated by the valuators during the transition is subsequently treated as "deemed" cost, i.e. non-current assets are carried at acquisition cost taking into consideration their impairment and depreciation.

Considering the operating specifics and the nature of use of PPE of the Group and the Company and as provided in the recommendations of methodology of International Valuation Standards, the assets' valuation methods provided below were applied:

- For valuation of fair value of specialised assets a cost method was selected. The cost method was applied for the Group's and the Company's constructions, railway infrastructure, locomotives, wagons, traffic regulation equipment, networks, construction in progress, specialised motor vehicles, intangible assets and other equipment and plant which had no active secondary market.
- For fair value of not specialised assets, when information about comparable assets is sufficient, a market approach was selected. The market approach was applied for buildings and structures, land, vehicles, which had an active secondary market and which had reliable market information as at the date of valuation.

Independent asset valuators have also tested the recoverability (economic depreciation) of the Group's and the Company's assets as at the transition date. One of the main valuation methods of the income approach - discounted cash flow method - was applied. The Group's and the Company's cash flows were analysed as a single cash generating unit and economic depreciation was attributed to all units of assets pro rata, except for the assets that are not utilised and should be written-off; a residual value determined by the Group and the Company was attributed to these assets. The economic depreciation of certain principal groups of assets used by the Group and the Company was reduced by the difference (the amount of which is insignificant in the general valuation of the Group's and the Company's assets) between the unused assets depreciated replacement cost (further DRC) and their residual value in proportion respectively.

Group	Carrying amount in accordance with BAS	Determined total amount of fair values	Total amount of adjustments
Land	154 267	144 241	(10 026)
Buildings and structures	453 699	683 370	229 671
Machinery and plant	213 912	171 081	(42 831)
Vehicles	449 933	342 781	(107 152)
Other equipment, fittings and tools	72 135	60 989	(11 146)
Construction in progress and prepayments	512 218	448 491	(63 727)
Investment property	1 194	2 527	1 333
Total	1 857 358	1 853 480	(3 878)

Company	Carrying amount in accordance with BAS	Determined total amount of fair values	Total amount of adjustments
Land	154 261	144 234	(10 027)
Buildings and structures	447 897	671 048	223 151
Machinery and plant	189 905	149 058	(40 847)
Vehicles	448 246	336 899	(111 347)
Other equipment, fittings and tools	70 758	59 197	(11 561)
Construction in progress and prepayments	516 013	446 236	(69 777)
Investment property	1 194	2 527	1 333
Total	1 828 274	1 809 199	(19 075)

(all amounts are in EUR thousand unless otherwise stated)

5. Transition from BAS to IFRS (continued)

Furthermore, at the transition date the recoverable amount of intangible assets was estimated and impairment allowance was recorded.

Group	Carrying amount in accordance with BAS	Determined total recoverable amount	Total amount of adjustments
Intangible assets	18 406	13 651	(4 755)

Company	Carrying amount in accordance with BAS	Determined total recoverable amount	Total amount of adjustments
Intangible assets	17 650	13 350	(4 300)

The total impact from the IFRS transition for intangible assets, property plant and equipment and investment property on the transition date of 1 January 2015 was as follows:

Group	Carrying amount in accordance with BAS	Determined total recoverable amount / fair value	Total amount of adjustments
Intangible assets	18 406	13 651	(4 755)
Property plant and equipment	1 856 164	1 850 953	(5 211)
Investment property	1 194	2 527	1 333
Total	1 875 764	1 867 131	(8 633)

Company	Carrying amount in accordance with BAS	Determined total recoverable amount / fair value	Total amount of adjustments
Intangible assets	17 650	13 350	(4 300)
Property plant and equipment	1 827 080	1 806 672	(20 408)
Investment property	1 194	2 527	1 333
Total	1 845 924	1 822 549	(23 375)

When determining the fair value of the Company's assets, the Company's investment forecast did not include development investments related to the development of assets of the Rail Baltica (RB) Project Directorate (income and expenses associated to this project were also excluded from the forecasted cash flows), because this project is in the early development stage and has not been completed as at the date of valuation. An uncertainty regarding the project's future recoverability assumptions, which will be specified towards the end of the project, was present as at the date of valuation.

Long-term growth rate equal to 3% and which was the closest to the valuation date was used to estimate perpetual value for valuation purposes of the Group's and the Company's assets. The long-term growth rate used by the asset valuators is based on the forecasted index of consumer prices of Lithuania, which is 3% in the long-term perspective, i.e. less than the forecasted growth of gross domestic product (GDP) of Lithuania in 2019 - 2023, which will be 3.9%.

Weighted capital costs ratio was estimated referring to the WACC model and comprised 7.97%. The sensitivity of long-term growth rate and WACC to the fair value of the Company's non-current assets is presented in the table.

Long-term growth rate	Fair value of assets	Impairment	Fair value of assets	Impairment	Fair value of assets	Impairment
	2.5%		3%		3.5%	
WACC 7,00 %	2 053 128	N/A	2 307 730	N/A	2 635 076	N/A
WACC 7,97 %	1 657 576	(188 348)	1 822 549	(23 375)	2 024 427	N/A
WACC 9,00 %	1 368 033	(477 891)	1 480 437	(365 487)	1 613 279	(232 645)

The long-term growth rate and WACC used to determine the fair value of non-current assets of separate subsidiaries is provided in the table below:

	Long-term growth rate	WACC	Fair value of assets	Change in value
UAB Gelsauga	3.0 %	12.2 %	2 013	(1 297)
UAB Geležinkelio Tiesimo Centras	3.0 %	10.5 %	28 282	744
UAB Vilniaus Lokomotyvų Remonto Depas	3.0 %	12.4 %	11 937	(836)

5. Transition from BAS to IFRS (continued)

The Group and the Company reviewed the depreciation rates of property, plant and equipment. Useful lives were determined for each item of assets separately by assessing the future economic benefits, considering the estimated useful life of the asset, intensity of the use of non-current assets, environment of the use of asset, changes in useful features of the asset during its useful life, technological and economic progress, morally ageing assets, legal and other factors limiting the useful lives of non-current tangible assets.

The Group and the Company segmented PPE into components and identified depreciation rates for separate components. The following criteria were considered by the Group and the Company when taking decisions on the details of components: 1) items with depreciation periods significantly different from the item of underlying assets and where a component holds a material share in the value of assets, are segmented; 2) 25 per cent of the materiality percentage was applied to PPE; 3) technical features of the items of assets and historical experience frequently replacing certain parts of assets and value of a separate component unit of the assets in segmentation were considered when determining the depreciation period; 4) if the value of each component amounts to less than 25 per cent of the value of asset in segmentation after segmenting the unit of asset into components, such asset was not segmented into components.

In accordance with IFRS, it is obligatory to eliminate the carrying amount of the replaced part of asset from the value of non-current assets, when parts of non-current assets are replaced and the costs of repairs are capitalised. If the value of the replaced part of asset cannot be reliably measured, it shall be deducted considering usage period of the part of the asset and acquisition cost of the new part of the asset.

Even though IFRS require to write-off to costs the values, included into the value of PPE, of certain parts of assets which were replaced during the repairs of PPE, the Group and the Company decided to apply this provision not during the transition but to the assets that are newly created subsequent to the transition to IFRS, because the assets were measured at fair value upon transition to IFRS.

The Group and the Company had assets which were depreciated to the residual value but still in active use. The above-mentioned assets were measured by the valuators at fair value, which was equal to “deemed” cost, by determining the useful lives of assets by allocating the depreciation value to future economic benefit. Having measured at fair value the assets depreciated to residual value, the residual value and depreciation rate were determined for separate groups of assets, if such assets will be used to receive economic benefit. The residual value of PPE was valuated at amount which the Group and the Company could receive from the disposal of assets less the estimated costs of disposal, if the assets were at the end of their useful lives and of planned condition.

2) Since the fair value of the property plant and equipment was recorded for the assets which were acquired using grant funds as at the date of transition to IFRS, the values of grants were reduced by the per cent equal to the impaired assets ‘value. Grants are amortised further in line with assets depreciation and amortisation of grants reduce the depreciation expenses.

3) Value of investments made by the Company and subsidiaries into subsidiaries, jointly controlled entities and associates was verified as at the date to IFRS and impairment was accounted for;

4) IFRS forbids to recognise profit arising from capitalisation of inventories due to derecognition of PPE. The value of recognised scrap metal or other materials cannot exceed the carrying amount of dismantled PPE, including costs of dismantling, if any; therefore, the Group and the Company identified the amounts of inventories recognised in excess of the carrying amount of PPE and made adjustments. If the net realisable value of inventories is lower than the value of possible recognition value after assets’ liquidation, the inventories are accounted for at the value which is lower, and dismantling expenses exceeding the net realisable value of inventories shall be immediately written off to expenses;

5) Recalculation of the Group’s and the Company’s deferred income tax assets and liabilities was performed as at the date of transition to IFRS considering the temporal differences arisen;

6) Part of the Group’s and the Company’s repair expenses were capitalised or written off to expenses after the revision of technical repair works in accordance with IFRS;

7) Although IFRS require to capitalise borrowing costs which are directly attributable to acquisition cost of PPE, but the Group and the Company applied this provision to the newly created assets, as previously created assets are measured at fair value as deemed cost;

8) Due to PPE segmentation into components, newly determined residual value of assets and reviewed useful lives of PPE, the disposal result of PPE has changed in the Group and the Company;

There was no impact to the operating, investing and financing cash flows presented in the cash flow statements when preparing the consolidated and separate financial statements in accordance with IFRS as adopted by EU.

Correction of errors

Further to the application of IFRS, the Company and the Group identified errors, which were corrected in these financial statements. Explanations on the effect of the correction of errors are explained in the notes below:

(all amounts are in EUR thousand unless otherwise stated)

5. Transition from BAS to IFRS (continued)

Correction of errors (continued)

9) The Group and the Company has accrued employee benefits, which are payable to employees at age of 50 and 60 in accordance with collective agreement and which constitute of one average monthly salary;

10) Group has accrued provisions for warrantee repairs;

11) The variable remuneration part was payable to employees next month, the accrual was estimated and booked to correct period;

12) Due to changes in income and expenses the corporate income tax was recalculated;

13) The Group companies adjusted income due to long term contracts accounting.

6. Financial instruments and risk management

Financial instruments – fair value

The main financial instruments of the Group and the Company not stated at fair value are trade and other receivables, trade and other payables, cash and long-term and short-term borrowing funds. In the opinion of the management of the Company, the carrying amounts of these financial instruments approximate their fair values as the borrowing costs are related to interbank borrowing interest rate EURIBOR and other financial assets and liabilities are short-term thus the fluctuation in their fair value is insignificant.

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 in the principal, or in its absence, the most advantageous market to which the Group and the Company have access at that date, irrespective of whether this price is directly observable or measured using valuation methods.

The Group's and the Company's financial instruments according to their types:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Financial assets						
Trade and other receivables	54 829	55 492	98 618	48 515	50 033	87 679
Cash and cash equivalents	20 666	14 682	42 496	11 936	8 480	37 117
Total	75 495	70 174	141 114	60 451	58 513	124 796
Financial liabilities						
Loans and borrowings	301 469	320 708	311 222	289 033	312 886	304 630
Trade and other payables	55 751	40 140	98 646	56 454	37 712	89 079
Total	357 220	360 848	409 868	345 487	350 598	393 709

The fair value is allocated according to the hierarchy which reflects the materiality of inputs used. The fair value hierarchy consists of the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

Financial instruments – fair value (continued)

Comparison of the values of all the Group's financial instruments is presented below:

	Carrying amount as at 2016		Fair value 2016		Carrying amount as at 2015		Fair value 2015	
Financial assets	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Trade and other receivables	54 829	-	-	-	55 492	-	-	-
Cash and cash equivalents	20 666	-	-	-	14 682	-	-	-
Total	75 495	-	-	-	70 174	-	-	-
Financial liabilities								
Loans and borrowings	301 469	-	301 469	-	320 708	-	320 708	-
Trade and other payables	55 751	-	-	-	40 140	-	-	-
Total	357 220	-	301 469	-	360 848	-	320 708	-

Comparison of the values of all the Company's financial instruments is presented below:

	Carrying amount as at 2016		Fair value 2016		Carrying amount as at 2015		Fair value 2015	
Financial assets	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Trade and other receivables	48 515	-	-	-	50 033	-	-	-
Cash and cash equivalents	11 936	-	-	-	8 480	-	-	
Total	60 451	-	-	-	58 513	-	-	-
Financial liabilities								
Loans and borrowings	289 033	-	289 033	-	312 886	-	312 886	-
Trade and other payables	56 454	-	-	-	37 712	-	-	-
Total	345 487	-	289 033	-	350 598	-	312 886	-

Cash and cash equivalents. Cash includes cash which value approximates to the fair value.

Loans and borrowings. The fair value of non-current loans is measured on the basis of the market price or interest rate of the same or similar loan effective at the time to the loans of the same maturity. The fair value of loans is attributed to Level 2 within the fair value hierarchy model. The fair value of loans received corresponds to their carrying amount.

Amounts receivable and payable. The carrying amount of current trade receivables, current trade creditors approximates their fair value.

Risk management

The Group and the Company are exposed to uncertainty due to external and internal factors, identify risks (strategic, financial, operating and compliance) related to activity, evaluate their effects and probabilities in advance and aim to mitigate them at least partly. The management of activity risks of the Group and the Company is regulated by the Description of Management Process of Activity Risks approved by the legal acts of the Company. Pursuant to the description, risk managers are appointed and regularly trained, regular risk evaluation is carried out using the implemented Risk Management Information System. The results of the evaluation are presented to the management of the Company. Management plans are approved for unacceptable risks and their implementation is monitored. The risk management policies and frameworks are reviewed on a regular basis to make sure they comply with the market terms and changes in the Group's and the Company's activities. The Group and the Company seek to establish a disciplined and constructive risk management environment where all employees know their roles and obligations.

According to the strategic goals of the Group and the Company, summarised risk groups, which are considered as the most important and are likely to have a large impact on the achievement of the operating objectives of the Group and the Company, are determined. Possible impacts of the activity risks, including financial and legal impact as well as impact on reputation, are assessed at the Company.

The Group and the Company face the following financial risks: credit, liquidity, currency exchange, interest rate and capital risks. This note contains the information on the impact of these risks on the Group and the Company, the aims, policy and processes related to the assessment and management of these risks.

Credit risk. Credit risk arises due to cash at banks, loans granted and trade receivables.

Credit risk is a risk that the Group and the Company will incur financial losses, if a buyer or other party fails to fulfil its contractual liabilities. This risk is mainly associated with the Group's and the Company's trade debtors.

The Group and the Company manage credit risk through procedures. The basis of management of credit risk arising from trade receivables is evaluation of client reliability. The Group and the Company constantly evaluate creditworthiness of current and prospective service buyers / providers. If a service buyer is evaluated as risky or if the client is new and does not have history of collaboration with the Group and the

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

Credit risk (continued)

Company, prepayment conditions are applied. When payments are deferred in settlements with clients, legal credit risk mitigation instruments are used - credit insurance or pledge. Various means of credit management and mitigation are provided in bilateral agreements between the Group and the Company and service buyers / providers: limitations, guarantee for discharge of contract obligations and other instruments that protect the interests of the Group and the Company. Credit risk is constantly monitored.

Credit risk is measured as the maximum credit exposure for each group of financial instruments and is equal to their carrying amount. The major credit risk relates to the carrying amount of each group of assets.

Maximum credit exposure is presented below:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Trade and other receivables	54 829	55 492	98 618	48 515	50 033	87 679
Cash and cash equivalents	20 666	14 682	42 496	11 936	8 480	37 117
Total	75 495	70 174	141 114	60 451	58 513	124 796

The Group's and the Company's trade amounts receivable from main customers comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Client A	22 799	17 748	13 308	22 799	17 748	13 308
Client B	2 286	1 612	1 692	2 286	1 612	1 692
Client C	1 486	1 067	1 439	1 486	1 067	1 439
Client D	3 395	1 304	971	700	726	864
Client E	700	726	864	731	815	841
Client F	731	815	841	474	749	216
Other	8 865	14 278	21 975	7 299	11 476	13 244
Total	40 262	37 550	41 090	35 775	34 193	31 604

Impairment accounted for by the Group and the Company reflects the estimated losses from doubtful trade receivables. The principal component of impairment are individually assessed losses from significant doubtful trade receivables. Impairment assessment methods are constantly reviewed to ensure that the difference between the estimated and actual losses is as low as possible.

The Group's and the Company's movement of impairment allowance of doubtful trade receivables:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Balance as at the beginning of period	13 776	6 755	2 493	13 766	6 743	2 481
Change (increase) in impairment allowance of amounts receivable	(236)	7 021	4 262	(235)	7 023	4 262
Balance as at the end of period	13 540	13 776	6 755	13 531	13 766	6 743

As at 31 December 2016, doubtful receivables in the Group decreased by EUR 236 thousand compared to 2015 (as at 31 December 2015 increased by EUR 7 021 thousand compared to 2014); therefore, impairment of doubtful trade receivables was reversed in the statements of profit or loss and other comprehensive income. The impairment of trade debtors was mainly related to the trade debtor, which was delayed payments due to legal disputes, described in the Note 28. The agreement with this customer was reached in 2017 year. Ageing of debtors is presented in the Note 14.

Cash and cash equivalents comprise cash and cash at bank; therefore, the related credit risk is minimal. Diversification principle is applied for the monetary resources held by the Group, the funds are at banks that have international credit ratings of BBB-/Baa3 and higher.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

Credit risk (continued)

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
A+, A1	16 189	12 513	37 512	11 105	7 737	33 164
A1-, A+	1 913	309	756	367	105	56
AA-, Aa3	2 285	1 670	4 063	186	449	3 737
Lower than BBB-.Baa3	235	139	121	235	139	116
Cash in hand	44	51	44	43	50	44
Total	20 666	14 682	42 496	11 936	8 480	37 117

Although the economic circumstances may have an impact on the recoverability of borrowings, as to the Company's management, the Group and the Company are not exposed to material risk to incur loss which would exceed the impairment that has already been recognised.

If the rating requirement is not met, net amount of cash trusted to the entity cannot exceed the maximal limit of deposit hedged by the State, i.e. EUR 100 thousand.

Liquidity risk. Liquidity risk is a risk that the Group and the Company will be unable to fulfil their financial liabilities at maturity. Risk management ensures that the Group and the Company always have sufficient liquid assets and are able to meet liabilities in a timely manner. Management of liquidity and solvency risk is related to cash flow planning and control and forecast of unforeseeable events that may have a negative effect on cash flows and pose a threat to solvency and liquidity. Liquidity and solvency risk is assessed by monitoring and analysing relative liquidity and solvency ratios which are used to assess the State of current and non-current liabilities and the efficiency of cash flow management. The Group's and the Company's shortage of operating capital is balanced using credit facilities if necessary. In addition, according the Group and the Company standartd policy payment period for suppliers is 45 days.

The current liabilities exceeded current assets of the Group and the Company as at 31 December 2016 by 25 849 thousand and EUR 43 746 thousand EUR, respectively. The liquidity of the Group and the Company is secured by the positive net operating cash flows and available undrawn credit facilities.

The following financial items are monitored in the Group in accordance with the financial terms of credit contracts:

	2016	2015	Value set by the bank
Net debt/EBITDA*	comply	comply	Not higher than 3,0
Debt/EBITDA*	comply	comply	Not higher than 3,0
Equity ratio	comply	comply	Not lower than 40 per cent
Loan servicing ratio	comply	comply	Not lower than 2
Debt/Equity	comply	comply	Not higher than 40.0 per cent
Financial loan of subsidiaries	comply	comply	Not higher than 10.0 per cent
Financial loan of the group	comply	comply	Not higher than EUR 400 million

*EBITDA - Profit (loss) before taxation + Interest expenses – Interest income + Depreciation and amortisation expenses + Expenses of write-down and impairment of non-current assets + Impairment allowance of amounts receivable + Expenses of provisions not related to typical activities (provisions related with legal proceedings)

The finance structure of 2015–2016 remained relatively unchanged with regard to the levels of ratios assessment.

The table below shows the information about maturity dates for non-derivative financial liabilities as per agreements. The information has been prepared on the basis of non-discounted flows of financial liabilities taking into consideration the earliest maturity dates for the Group and the Company to cover these liabilities. The balances of liabilities, the maturity term of which is up to 12 months, approximately correspond to their carrying amounts.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

Liquidity risk (continued)

The Group's and the Company's the undiscounted loans payable not taking into account interest according to maturities were:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Within one year	32 893	23 857	24 752	32 893	23 852	20 373
One to five years	127 645	131 860	116 660	115 525	124 591	114 633
After five years	140 615	164 443	169 624	140 615	164 443	169 624
Total	301 153	320 160	311 036	289 033	312 886	304 630

The Group's and the Company's undiscounted interest payable according to maturities were:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Within one year	5 359	5 987	6 374	5 300	5 902	6 238
One to five years	14 892	17 372	19 965	14 792	17 213	19 720
After five years	13 599	16 478	19 873	13 599	16 478	19 873
Total	33 850	39 837	46 212	33 691	39 593	45 831

The Company has two undrawn credit facilities amounting to EUR 118 000 thousand (Note 20).

Currency risk. Currency exchange risk is the risk that changes in market prices due to fluctuations in foreign currency exchange rates will impact the Group's and the Company's results or the value of financial instruments held.

The main sources of foreign currency exchange risk for the Group and the Company are various transactions denominated in foreign currencies (CHF, USD, RUB, BYN), the carrying out of which poses a risk of incurring losses due to fluctuations of foreign currency exchange rates against the euro: sale / purchase of goods and services, repayment of loans obtained in foreign currency, payment of interest etc. This risk is minimal as the major part (95%) of the Group's and the Company's settlements are denominated in euro. Foreign currency exchange risk was managed by using internal means, i.e. by balancing funds received and spent in foreign currencies, and no losses were incurred when concluding foreign exchange SPOT transactions.

In 2015 and 2016 the Group and the Company did not conclude derivative financial transactions with banks in order to manage currency exchange risk.

Interest rate risk. The Group's and the Company's loans granted and received and other borrowings are subject to variable interest rates related to EURIBOR.

Long-term loans have the greatest impact on the increase of interest rate risk. The value of the Group's long-term loan portfolio as at 31 December 2016 was EUR 301 153 thousand, as at 31 December 2015 was EUR 320 160 thousand.

The Group and the Company seek that the ratio of fixed and variable interest rates for the loans obtained is optimal. As at 31 December 2016 in the Company's loan portfolio loans with fixed interest rate comprised 24,8 %, with interest rate that is reviewed – 6,9%, and with variable interest rate - 68.3%. As at 31 December 2015 with fixed interest rate comprised 26.2%, with interest rate that is reviewed - 7.2%, and with variable interest rate - 66.6%. Given the current state in financial markets, variable interest rate is more favourable.

As at 31 December 2016 the weighted interest rate of the loan portfolio was 1.9%, and as at 31 December 2015 was 2.2%. If the interest rate grew by 0.5 percentage points during the reporting period, the annual interest expenses would increase by EUR 1 000 thousand.

In 2015 and 2016 the Group and the Company did not use derivative financial instruments to manage interest rate risk. The Group and the Company have a provision that 30% and more of the total amount of the Group's and the Company's financial resources shall be invested in highly liquid financial instruments: funds in current accounts in commercial banks, call deposits and term deposits the maturity of which is less than 12 months.

The Group and the Company have cash and term deposits in large banks of Lithuania that have credit ratings of BBB-/Baa3 and higher as assigned by international rating agencies.

The Group and the Company are not exposed to significant interest rate risk, currency exchange or price index fluctuation risks related to banking products.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

Capital management. Capital includes equity attributable to shareholders. The main objective of the capital management is to guarantee that the Group and the Company meet the external requirements of the capital. The objectives of the Group's and the Company's capital management is to ensure the Group's and the Company's ability to continue as a going concern while seeking to earn profit for the shareholders and maintain an optimal capital structure by decreasing capital cost. In order to maintain or change the capital structure, the Company may pay the capital to the shareholders or issue new shares.

Pursuant to the Company Law of the Republic of Lithuania, authorised capital of a public limited company has to be EUR 40 thousand or higher (EUR 2.5 thousand or higher of a private limited company) and equity - not less than 50% of the authorised capital of the Company.

The management of the Company controls adherence to the provisions of the Law on Companies of the Republic of Lithuania which state that if a company's equity capital becomes less than 1/2 of the size of the authorised capital set out in the company's articles of association, the board, no later than in 3 months since the day they learned or had to be made aware of the situation, shall convene the general meeting of shareholders which shall consider questions on decisions as set out in Article 59, Section 10, Clause 2 and Section 11 of the aforementioned law. The situation in the company has to be resolved in no more than 6 months since the day the board learned or had to be made aware of the situation.

As at 31 December 2016 and 31 December 2015 the Group and the Company were in compliance with the above-mentioned requirements of the provisions of the Company Law of the Republic of Lithuania.

In addition, the Group companies, by managing capital risk in the long-term, aim to maintain an optimum capital structure which would ensure a harmonised implementation of objectives for capital costs and risk minimisation. The Group companies form the capital structure by evaluating internal factors of regular operations, investments and expansions planned of the Companies, and by taking into account operational strategies of the Group companies, external current and anticipated factors of markets regulation and country environment which are significant for the operations.

7. Intangible assets

Intangible assets of the Group comprised the following:

	Software	Licences and similar rights	Other intangible assets	Total
Acquisition cost				
1 January 2015	17 072	1 249	695	19 016
- additions	1 939	413	381	2 733
- sales, disposals, write-offs	(4 755)	-	-	(4 755)
- reclassifications	1	(1)	-	-
31 December 2015	14 257	1 661	1 076	16 994
- additions	13 769	227	415	14 411
- sales, disposals, write-offs	(8)	-	-	(8)
- reclassifications	90	-	(90)	-
31 December 2016	28 108	1 888	1 401	31 397
Accumulated amortisation and impairment losses				
1 January 2015	(4 798)	-	(567)	(5 365)
- depreciation	(1 549)	(294)	(47)	(1 890)
- sales, disposals, write-offs	4 755	-	-	4 755
- reclassifications	-	-	-	-
31 December 2015	(1 592)	(294)	(614)	(2 500)
- depreciation	(2 348)	(343)	(118)	(2 809)
- sales, disposals, write-offs	8	-	-	8
- reclassifications	-	-	-	-
31 December 2016	(3 932)	(637)	(732)	(5 301)
Carrying amount				
1 January 2015	12 274	1 249	128	13 651
31 December 2015	12 665	1 367	462	14 494
31 December 2016	24 176	1 251	669	26 096

(all amounts are in EUR thousand unless otherwise stated)

7. Intangible assets (continued)

Intangible assets of the Company comprised the following:

	Software	Licences and similar rights	Other intangible assets	Total
Acquisition cost				
1 January 2015	16 306	1 249	95	17 650
- additions	1 908	413	-	2 321
- sales, disposals, write-offs	(4 300)	-	-	(4 300)
- reclassifications	1	(1)	-	-
31 December 2015	13 915	1 661	95	15 671
- additions	13 681	223	391	14 295
- sales, disposals, write-offs	(1)	-	-	(1)
- reclassifications	90	-	(90)	-
31 December 2016	27 685	1 884	396	29 965
Accumulated amortisation and impairment losses				
1 January 2015	(4 300)	-	-	(4 300)
- amortisation	(1 440)	(294)	(24)	(1 758)
- sales, disposals, write-offs	4 300	-	-	4 300
- reclassifications	-	-	-	-
31 December 2015	(1 440)	(294)	(24)	(1 758)
- amortisation	(2 241)	(342)	(23)	(2 606)
- sales, disposals, write-offs	1			1
- reclassifications	-	-	-	-
31 December 2016	(3 680)	(636)	(47)	(4 363)
Carrying amount				
1 January 2015	12 006	1 249	95	13 350
31 December 2015	12 475	1 367	71	13 913
31 December 2016	24 005	1 248	349	25 602

The Group and the Company do not have internally generated intangible assets. Amortisation costs of intangible assets of the Group and the Company which in 2016 formed EUR 2 809 thousand (EUR 1 890 thousand in 2015) and EUR 2 606 thousand (EUR 1 758 thousand in 2015) accordingly, are accounted for in the statements of profit or loss and other comprehensive income, under depreciation and amortisation.

Fully amortised intangible assets used in the Group's ant the Company's activities:

Group fully amortised intangible assets but still used amounted EUR 363 thousand (EUR 52 thousand in 2015). Company fully amortised intangible assets but still used amounted EUR 259 thousand (EUR 12 thousand in 2015). Most of fully amortised assets was software.

(all amounts are in EUR thousand unless otherwise stated)

8. Property, plant and equipment

Property, plant and equipment of the Group comprised:

	Land	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
1 January 2015	144 241	683 605	171 251	343 318	61 584	448 491	1 852 490
- additions during the year	938	494	6 389	37 916	4 819	162 795	213 351
- assets sold, written off, disposed	(10)	(739)	(258)	(3 488)	(355)	(260)	(5 110)
- reclassifications	-	81 259	15 808	5 724	7 053	(109 650)	194
31 December 2015	145 169	764 619	193 190	383 470	73 101	501 376	2 060 925
- additions during the year	1 148	1 118	654	71 160	2 764	52 882	129 726
- assets sold, written off, disposed	(13)	(1 463)	(819)	(7 390)	(649)	(47)	(10 381)
- reclassifications	-	354 651	42 870	745	20 763	(419 028)	1
31 December 2016	146 304	1 118 925	235 895	447 985	95 979	135 183	2 180 271
Accumulated depreciation and impairment losses							
1 January 2015	-	(235)	(170)	(537)	(595)	-	(1 537)
- depreciation	-	(60 568)	(24 060)	(30 643)	(7 139)	-	(122 410)
- assets sold, written off, disposed	-	43	111	242	108	-	504
- reclassifications	-	(13)	197	(209)	8	-	(17)
31 December 2015	-	(60 773)	(23 922)	(31 147)	(7 618)	-	(123 460)
- depreciation	-	(60 295)	(17 523)	(34 728)	(8 340)	-	(120 886)
- impairment loss						(13 570)	(13 570)
- assets sold, written off, disposed	-	635	331	1 565	346	-	2 877
- reclassifications	-	(25)	(13)	1	11	-	(26)
31 December 2016	-	(120 458)	(41 127)	(64 309)	(15 601)	(13 570)	(255 065)
Carrying amount							
1 January 2015	144 241	683 370	171 081	342 781	60 989	448 491	1 850 953
31 December 2015	145 169	703 846	169 268	352 323	65 483	501 376	1 937 465
31 December 2016	146 304	998 467	194 768	383 676	80 378	121 613	1 925 206

(all amounts are in EUR thousand unless otherwise stated)

8. Property, plant and equipment (continued)

Property, plant and equipment of the Company comprised:

	Land	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
1 January 2015	144 234	671 048	149 058	336 900	59 197	446 236	1 806 673
- additions during the year	938	916	3 169	37 012	3 853	160 164	206 052
- assets sold, written off, disposed	(9)	(737)	(173)	(2 932)	(253)	(212)	(4 316)
- reclassifications	-	78 066	16 545	1 900	6 986	(103 303)	194
31 December 2015	145 163	749 293	168 599	372 880	69 783	502 885	2 008 603
- additions during the year	1 148	1 835	1 326	71 171	2 273	49 585	127 338
- assets sold, written off, disposed	(14)	(1 226)	(682)	(7 144)	(490)	(47)	(9 603)
- reclassifications	-	354 170	42 608	745	20 904	(418 426)	1
31 December 2016	146 297	1 104 072	211 851	437 652	92 470	133 997	2 126 339
Accumulated depreciation and impairment losses							
1 January 2015	-	-	-	-	-	-	-
- depreciation	-	(59 418)	(21 559)	(29 648)	(6 559)	-	(117 184)
- assets sold, written off, disposed	-	41	41	105	18	-	205
- reclassifications	-	(13)	(14)	3	8	-	(16)
31 December 2015	-	(59 390)	(21 532)	(29 540)	(6 533)	-	(116 995)
- depreciation	-	(59 594)	(14 975)	(33 481)	(7 519)	-	(115 569)
- impairment loss						(13 570)	(13 570)
- assets sold, written off, disposed	-	511	174	1 329	223	-	2 237
- reclassifications	-	(26)	(1)	2	(2)	-	(27)
31 December 2016	-	(118 499)	(36 334)	(61 690)	(13 831)	(13 570)	(243 924)
Carrying amount							
1 January 2015	144 234	671 048	149 058	336 900	59 197	446 236	1 806 673
31 December 2015	145 163	689 903	147 067	343 340	63 250	502 885	1 891 608
31 December 2016	146 297	985 573	175 517	375 962	78 639	120 427	1 882 415

(all amounts are in EUR thousand unless otherwise stated)

8. Property, plant and equipment (continued)

The depreciation charge included to the statements of profit or loss and other comprehensive income of the Group amounted to EUR 105 047 thousand (EUR 113 767 thousand in 2015). This amount included EUR 120 886 thousand (EUR 122 410 thousand in 2015) depreciation expenses which was reduced by depreciation of grants EUR 10 336 thousand (EUR 4 449 thousand in 2015) as disclosed in Note 19. Capitalized depreciation amounted to EUR 5 503 thousand (EUR 4 194 thousand in 2015).

The depreciation charge of the Company amounted to EUR 105 157 thousand (EUR 112 313 thousand in 2015). This amount included EUR 115 569 thousand (EUR 117 184 thousand in 2015) depreciation expenses which was reduced by depreciation of grants EUR 10 259 thousand (EUR 4 367 thousand in 2015) as disclosed in Note 19. Capitalized depreciation amounted EUR 153 thousand (EUR 504 thousand in 2015) as disclosed in Note 19.

The Group and the Company booked the impairment allowance for unfinished projects amounting to EUR 13 570 thousand in 2016 year, which have significant uncertainty about future implementation.

As at 31 December 2016, the carrying amount of assets managed under the right of trust comprised EUR 1 060 793 thousand (31 December 2015 and 1 January 2015 EUR 778 367 thousand and EUR 781 539 thousand respectively).

The acquisition cost of fully depreciated property, plant and equipment of the Group was EUR 42 096 thousand (EUR 44 927 thousand in 2015) and the Company EUR 40 437 thousands (43 924 thousands in 2015). Most of fully depreciated property, plant and equipment was vehicles.

9. Investment property

As at 31 December, the investment property comprised the following:

	Group	Company
Acquisition cost		
1 January 2015	2 527	2 527
- additions during the year	-	-
- assets sold, written off, disposed	(288)	(288)
- reclassifications	(194)	(194)
31 December 2015	2 045	2 045
- additions during the year	-	-
- assets sold, written off, disposed	(43)	(43)
- reclassifications	(1)	(1)
31 December 2016	2 001	2 001
Accumulated depreciation and impairment losses		
1 January 2015	-	-
- depreciation	(263)	(263)
- assets sold, written off, disposed	26	26
- reclassifications	17	17
31 December 2015	(220)	(220)
- depreciation	(133)	(133)
- assets sold, written off, disposed	42	42
- reclassifications	27	27
31 December 2016	(284)	(284)
Carrying amount		
1 January 2015	2 527	2 527
31 December 2015	1 825	1 825
31 December 2016	1 717	1 717

Investment property comprises a number of buildings that are leased to the third parties. Average non-cancellable term of the lease contains 3 years with possibility to prolong.

Part of the Group's and the Company's investment property with the acquisition cost as at 31 December 2016 of EUR 16 thousand (at 31 December 2015 EUR 91 thousand) was fully depreciated but still used in operations.

(all amounts are in EUR thousand unless otherwise stated)

9. Investment property (continued)

The fair value of investment property was determined based on the independent valuation of the property carried out on 1 January 2015. Based on the report, the value of the investment property as at 1 January 2015 amounted to EUR 2 527 thousand. Management assessed that the changes in the real estate market during 2015 and 2016 did not have significant impact of the fair value of the investment property.

The fair value measurement for investment property has been categorised as a Level 3 fair value.

10. Investments

The movement of investments in related parties and other companies as at 31 December:

Company name		Owned share (%)	Investment value		
			31/12/2016	31/12/2015	01/01/2015
Shares of subsidiaries					
UAB Vilniaus Lokomotyvų Remonto Depas		100	15 252	15 252	15 252
UAB Geležinkelio Tiesimo Centras	a)	100	16 354	16 354	16 036
UAB Gelsauga		100	3 456	3 456	3 456
UAB Geležinkelių Aplinkosaugos Centras	b)	100	5 250	5 250	4 618
UAB Rail Baltica Statyba	c)	100	2 854	1 914	1 264
UAB Geležinkelių Projektavimas	d)	100	652	626	626
BAB Lietuvos Jūrų Laivininkystė	e)	56.66	470	470	-
VšĮ Vilniaus Logistikos Parkas	f)	79.61	265	265	65
Less: impairment (-)			(1 837)	(1 790)	(1 367)
			42 716	41 797	39 950
Shares of associates					
UAB Voestalpine VAE Legetecha		34	745	745	745
Less: impairment (-)			-	-	-
			745	745	745
Non-current investments					
Brussels Centralised Payment Centre		1.34	2	2	2
Less: impairment (-)			-	-	-
			2	2	2
Total			43 463	42 544	40 697

Subsidiaries UAB Geležinkelio Tiesimo Centras and UAB Gelsauga were established in 2001, UAB Vilniaus Lokomotyvų Remonto Depas was established in 2003, shares of UAB Geležinkelių Projektavimas were acquired in 2011, the Company along with the Vilnius City Municipality signed the articles of incorporation of VšĮ Vilniaus Logistikos Parkas on 8 July 2011; shares of AB Geležinkelių Apsaugos Želdiniai were acquired by the Company in 2013, UAB Rail Baltica Statyba was established in 2014; and shares of AB Lietuvos Jūrų Laivininkystė were acquired in September 2015, giving 56.66 per cent of votes.

a) On 13 March 2015, the Company made a decision to increase the authorised capital of UAB Geležinkelio Tiesimo Centras by EUR 2 857 thousand, i.e., EUR 251 thousand asset contribution and by EUR 2 606 thousand from the Company's own funds. Increase of the authorised capital was registered on 25 May 2015. On 21 September 2015, the Company made a decision to increase the authorised capital of UAB Geležinkelio Tiesimo Centras by non-monetary contribution of EUR 67 thousand. Increase of the authorised capital was registered on 5 November 2015. The Company did not invest any additional funds in UAB Geležinkelio Tiesimo Centras during 2016;

b) On 6 May 2015, the Company decided to increase the authorised capital of UAB Geležinkelių Aplinkosaugos Centras by non-monetary contribution (assets) of EUR 252 thousand. Increase of the authorised capital was registered on 22 May 2015. On 11 September 2015, the Company decided to increase the authorised capital of UAB Geležinkelių Aplinkosaugos Centras by EUR 380 thousand monetary contributions. Increase of the authorised capital was registered on 30 October 2015. The Company did not invest any additional funds in UAB Geležinkelių Aplinkosaugos Centras during 2016;

c) On 25 September 2015, the Company made a decision to increase the authorised capital of UAB Rail Baltica Statyba by EUR 650 thousand additional contributions. Increase of the authorised capital was registered on 29 September 2015. On 26 September 2016, the Company made a decision to increase the authorised capital of UAB Rail Baltica Statyba by EUR 650 thousand additional contributions. Increase of the authorised capital was registered on 29 September 2016. On 25 November 2016, the Company decided to reduce the authorised capital of UAB Rail Baltica Statyba by EUR 290 thousand in order to eliminate EUR 290 thousand losses accounted in the balance sheet of the Company and increase the authorised capital of UAB Rail Baltica Statyba by EUR 290 thousand monetary contributions. New articles of association related to the decrease in the authorised capital were registered on 2 December 2016, and regarding the increase on 8 December 2016;

(all amounts are in EUR thousand unless otherwise stated)

10. Investments (continued)

d) On 13 April 2016, the Company made a decision to increase the authorised capital of UAB Geležinkelių Projektavimas by EUR 26 thousand non-monetary contributions - assets. Increase of the authorised capital was registered on 23 May 2016;

e) On 14 September 2015, the Government of the Republic of Lithuania adopted Resolution No. 974 "On the Investment of State-Owned Assets and Increase of the Authorised Capital of AB Lietuvos Geležinkeliai and expressed its consent to the Ministry of Transport and Communications, being the main shareholder of the Company, to decide to increase the authorised capital of the Company by additional contribution of EUR 470 thousand, i.e., by transferring financial assets to the subsidiary AB Lietuvos Jūrų Laivininkystė and issuing 46 953 531 ordinary registered shares with the nominal value per share equal to EUR 0.29 providing 56.66 per cent of votes at the General meeting of shareholders of AB Lietuvos Jūrų Laivininkystė. Value of the disposed shares is equal to the weighted average market price within 6 months before the day of payment for newly issued shares of the Company by the required shares - EUR 469 535.31, the value of each share - EUR 0.01. The resolution was implemented on 28 September 2015. On 14 December 2015, Klaipėda Regional Court made a decision to initiate bankruptcy proceedings against AB Lietuvos Jūrų Laivininkystė. Market price per one share of AB Lietuvos Jūrų Laivininkystė announced on 23 December 2015 was EUR 0.00; therefore, based on the aforesaid facts, the impairment of financial assets equal to EUR 423 thousand was accounted for, and in 2016 - EUR 47 thousand were accounted in the statements of profit or loss as general and administrative expenses;

f) On 10 December 2015, the General meeting of shareholders of VŠĮ Vilniaus Logistikos Parkas made a decision to increase the authorised capital of VŠĮ Vilniaus Logistikos Parkas", and on 22 December 2015 the Company paid EUR 200 thousand to be used for formation of share capital.

Movement of the Company's investments in related parties and other companies:

	Investment value
Cost as at 01/01/2015	40 697
Increase (+)	2 270
Decrease (-)	(423)
Cost as at 31/12/2015	42 544
Increase (+)	966
Decrease (-)	(47)
Cost as at 31/12/2016	43 463

Financial position of the Companies of related parties:

31/12/2016	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity
UAB Geležinkelio Tiesimo Centras	28 750	11 780	12 340	6 931	21 259
UAB Vilniaus Lokomotyvų Remonto Depas	12 506	11 623	546	2 383	21 200
UAB Gelsauga	4 003	3 364	289	2 351	4 727
UAB Geležinkelių Projektavimas	194	3 418	10	2 200	1 402
UAB Geležinkelių Aplinkosaugos Centras	3 767	1 841	245	559	4 804
UAB Rail Baltica Statyba	1 950	245	-	14	2 181
UAB Voestalpine VAE Legetecha	4 549	8 073	53	2 047	10 522

31/12/2015	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity
UAB Geležinkelio Tiesimo Centras	31 314	8 887	7 516	8 483	24 202
UAB Vilniaus Lokomotyvų Remonto Depas	12 294	11 456	538	2 150	21 062
UAB Gelsauga	3 531	3 229	276	2 399	4 085
UAB Geležinkelių Projektavimas	84	3 748	4	2 574	1 254
UAB Geležinkelių Aplinkosaugos Centras	4 272	1 112	326	514	4 544
UAB Rail Baltica Statyba	1 301	130	-	29	1 402
UAB Voestalpine VAE Legetecha	4 558	7 021	112	1 448	10 019

(all amounts are in EUR thousand unless otherwise stated)

10. Investments (continued)

01/01/2015	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity
UAB Geležinkelio Tiesimo Centras	28 905	18 945	2 352	21 936	23 562
UAB Vilniaus Lokomotyvų Remonto Depas	12 174	15 673	659	6 287	20 901
UAB Gelsauga	2 493	4 130	250	2 416	3 957
UAB Geležinkelių Projektavimas	111	1 652	4	1 143	616
UAB Geležinkelių Aplinkosaugos Centras	3 566	1 339	41	840	4 024
UAB Rail Baltica Statyba	650	262	-	3	909
UAB Voestalpine VAE Legetecha	4 628	7 421	105	2 000	9 944

Statements of profit or loss and other comprehensive income of related companies:

	2016			2015		
	Income	(Expenses)	Profit (loss)	Income	(Expenses)	Profit (loss)
UAB Geležinkelio Tiesimo Centras	20 065	(23 008)	(2 943)	33 692	(33 370)	322
UAB Vilniaus Lokomotyvų Remonto Depas	20 316	(20 178)	138	34 280	(34 119)	161
UAB Gelsauga	17 756	(17 114)	642	12 405	(12 277)	128
UAB Geležinkelių Projektavimas	10 537	(10 415)	122	7 230	(6 593)	637
UAB Geležinkelių Aplinkosaugos Centras	5 083	(4 823)	260	5 243	(5 360)	(117)
UAB Rail Baltica Statyba	-	(161)	(161)	-	(157)	(157)
UAB Voestalpine VAE Legetecha	8 910	(8 407)	503	8 690	(8 615)	75

11. Inventories

As at 31 December, inventories comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Spare parts	15 599	16 407	19 856	13 367	13 771	13 870
Materials of the upper railway part	11 398	14 806	15 827	9 672	12 320	12 283
Materials	7 716	8 375	8 875	7 039	7 561	7 736
Fuel	4 225	4 295	5 672	4 175	4 262	5 584
Other inventories	1 333	2 024	1 593	1 081	1 813	1 340
Write down (-)	(3 970)	(643)	(606)	(3 387)	(189)	(211)
Total raw materials, materials and component parts	36 301	45 264	51 217	31 947	39 538	40 602
Goods for resale	63	388	489	12	15	29
Write down (-)	(18)	(9)	(21)	-	-	-
Total goods for resale	45	379	468	12	15	29
Total	36 346	45 643	51 685	31 959	39 553	40 631

Carying amount of inventories before the adjustment to the net realisable value of the Group and the Company as at 31 December 2016 amounted to EUR 40 334 thousand and EUR 35 346 thousand respectively (at 31 December 2015 EUR 46 295 thousand and EUR 39 742 thousand).

Change in write down of net realisable value of inventories of the Group and the Company is shown in write down to the fair value less cost to sell expenses in the statements of profit or loss and other comprehensive income.

(all amounts are in EUR thousand unless otherwise stated)

12. Non-current assets held-for-sale

The Group's and the Company's assets held-for-sale comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Non-current assets held-for-sale	5 110	1 429	1 165	4 998	1 429	1 165
Write down (-)	(351)	(547)	(548)	(351)	(547)	(548)
Total	4 759	882	617	4 647	882	617

Net book value of non-current assets held-for-sale of the Group and the Company as at 31 December 2016 amounted to EUR 5 110 thousand and EUR 4 998 thousand respectively (as at 31 December 2015: EUR 1 429 thousand and EUR 1 429 thousand).

The write down to the fair value less cost to sell of non-current assets held-for-sale of the Group and the Company is shown in article of impairment and write down expenses in the statements of profit or loss and other comprehensive income.

The major part of non-current assets held-for-sale comprises locomotives and wagons.

13. Prepayments

Prepayments of the Group and the Company comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Prepayments	377	416	1 259	70	104	1 123
Paid warrantees to suppliers	15	20	22	15	18	18
Deferred expenses	1 838	2 424	1 888	673	753	697
Total	2 230	2 860	3 169	758	875	1 838

Deferred expenses of the Group include prepayments made to the subcontractors, which will provide service in the following year.

14. Trade and other receivables

Trade and other receivables of the Group and the Company comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Gross external trade debtors	53 802	51 326	47 836	49 063	47 722	37 355
Impairment (-)	(13 540)	(13 776)	(6 755)	(13 531)	(13 766)	(6 743)
Total	40 262	37 550	41 081	35 532	33 956	30 612
Receivable from related parties	-	3 233	9	243	3 468	992
Receivable VAT	1 679	1 431	6 561	464	497	6 254
Amount receivable from the State	3 186	3 501	2 305	2 922	3 083	2 143
Amount receivable from the shareholder	8 765	8 184	46 659	8 765	8 184	46 659
Accrued income	858	1 098	1 658	574	645	741
Other amounts receivable	4 723	4 776	4 889	4 703	4 726	4 822
Impairment (-)	(4 694)	(4 533)	(4 552)	(4 694)	(4 533)	(4 552)
Total	14 517	17 690	57 529	12 977	16 070	57 059
Total current assets	54 779	55 240	98 610	48 509	50 026	87 671

Impairment of trade receivables of the Group and the Company decreased by EUR 235 thousand as at 31 December 2016 compared to 2015 (as at 31 December 2015 increased by EUR 7 023 thousand compared to 2014), therefore, the reversal was recorded in the statements of profit or loss and other comprehensive income. The impairment of trade debtors was mainly related to the trade debtor, which was delayed payments due to legal disputes, described in the Note 28. The agreement with this customer was reached in 2017 year.

(all amounts are in EUR thousand unless otherwise stated)

14. Trade receivables (continued)

As at 31 December 2015, the Group's and the Company's other amounts receivable decreased mainly due to the changes in amounts receivable from shareholder. These amounts are mainly related to the receivable grants, which were received in the following year.

Distribution of receivables from the operating activities of the Group is provided below:

Receivables from operating activities (excluding receivables from related parties and allowances):	31/12/2016	31/12/2015	01/01/2015
	53 802	51 326	47 836
Trade debtors for transportation of freights through the territory of Lithuania and other services	46 207	41 707	36 342
Trade debtors for international freight transportation	5 270	6 966	8 685
Debts of foreign railway companies	2 325	2 653	2 809

Distribution of receivables from the operating activities of the Company is provided below:

Receivables from operating activities (excluding receivables from related parties and allowances):	31/12/2016	31/12/2015	01/01/2015
	49 063	47 722	37 355
Trade debtors for transportation of freights through the territory of Lithuania and other services	41 468	38 103	25 861
Trade debtors for international freight transportation	5 270	6 966	8 685
Debts of foreign railway companies	2 325	2 653	2 809

Trade receivables (without trade receivables from related parties) of the Group and the Company comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Not overdue	13 669	24 738	34 485	9 403	21 690	24 068
Overdue 0-60 days	2 506	2 745	1 071	2 492	2 523	1 066
Overdue 60-120 days	2 304	2 037	3 800	2 295	1 714	3 754
Overdue 120-180 days	2 284	2 049	2 726	2 220	2 047	2 726
Overdue 180-360 days	7 041	9 550	3 152	6 746	9 550	3 152
Overdue for over 360 days	25 998	10 207	2 602	25 907	10 198	2 589
Impairment (-)	(13 540)	(13 776)	(6 755)	(13 531)	(13 766)	(6 743)
Total	40 262	37 550	41 081	35 532	33 956	30 612

15. Cash and cash equivalents

Cash and cash equivalents of the Group and the Company comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Cash at bank	20 622	14 631	42 452	11 893	8 430	37 073
Cash in hand	1	1	-	-	-	-
Cash in ticket register	43	50	44	43	50	44
Total	20 666	14 682	42 496	11 936	8 480	37 117

As at 31 December 2016, the Group and the Company had no term deposits. Cash is not pledged.

(all amounts are in EUR thousand unless otherwise stated)

16. Capital

The nominal value per share is EUR 289.62. Change in the share capital is presented in the table below:

	Share capital	Number of shares, pcs.
Subscribed capital		
Number of shares as at 01/01/2015	940 556	3 247 552
Increase	117 083	404 265
Decrease	(253)	(873)
Number of shares as at 31/12/2015	1 057 386	3 650 944
Increase	650	2 245
Decrease	(78)	(271)
Number of shares as at 31/12/2016	1 057 958	3 652 918
Capital structure at the end of reporting period		
By type of shares		
Ordinary shares	1 057 958	3 652 918
Privileged shares	-	-
Total	1 057 958	3 652 918

Increase of authorised capital

On 18 September 2015, the Minister of Transport and Communications of the Republic of Lithuania issued Order No. 3-400 and increased the authorised capital of the Company by EUR 117 083 thousand (EUR 23 786 thousand used from other reserve) thousand, by issuing 404 265 ordinary registered shares. The authorised capital was increased performing these decisions of the Government of the Republic of Lithuania: No. 402 as of 8 May 2013 (EUR 92 178 thousand, including EUR 91 801 thousand from grants); No. 929 as of 2 September 2015 (EUR 650 thousand) and No. 974 as of 14 September 2015 (EUR 469 thousand). The increased authorised capital was registered as at 28 September 2015.

In the course of implementation of the Resolution No. 912, the Minister of Transport and Communications of the Republic of Lithuania issued Order No. 3-310 dated 20 September 2016 and increased the capital with additional contributions of EUR 650 thousand by issuing 2 245 ordinary registered shares. Increase of the authorised capital was registered on 26 September 2016.

Reduction of authorised capital

On 14 May 2015, the Minister of Transport and Communications of the Republic of Lithuania issued Order No. 3-194 and decreased the authorised capital of the Company by EUR 253 thousand, by annulling 873 ordinary registered shares of the Company owned by the State. The authorised capital was decreased performing these decisions of the Government of the Republic of Lithuania: No. 609 as of 29 May 2012; No. 288 as of 26 March 2014; No. 459 as of 22 May 2014; No. 772 and No. 774 as of 20 August 2014. Decrease of the authorised capital was registered on 13 August 2015.

On 29 January 2016, the Minister of Transport and Communications of the Republic of Lithuania issued Order No. 3-26 and decreased the authorised capital of the Company by EUR 78 thousand, by annulling 271 ordinary registered share of the Company owned by the State. The authorised capital was decreased performing these decisions of the Government of the Republic of Lithuania: No. 611 as of 17 June 2015; No. 665 as of 26 June 2015 and No. 1059 as of 7 October 2015. Decrease of the authorised capital was registered on 29 April 2016.

17. Dividends

Payment of dividends by the State controlled companies is regulated by the Government of the Republic of Lithuania Resolution No. 786 which states what share of profit shall be attributed to pay the dividends depending on the return on equity (RoE). Amount of dividends to be paid varies from 85% to 60% of the total amount of retained earnings depending on the achieved levels of RoE (from 1% to more than 15%). Also, the Resolution regulates cases when the Government of the Republic of Lithuania may set a lower share of profits for distribution, if a company implements or participated in the implementation of an important economic project to the State. In case of the Company, important projects are Rail Baltica and Lithuanian part of the East West Transport Corridor (the infrastructure complex of Klaipėda State Sea Port, roads and railways).

In accordance with the Resolution No. 628 adopted by the Government of the Republic of Lithuania and dated on 22 June 2016, on the basis of other documentation managed by the Ministry of Transport and Communications of the Republic of Lithuania a decision was made to allocate EUR 845.7 thousand for dividends from the 2015 retained earnings of the Company.

In accordance with the Resolution No. 740 adopted by the Government of the Republic of Lithuania and dated on 29 July 2015, on the basis of other documentation managed by the Ministry of Transport and Communications of the Republic of Lithuania a decision was made to allocate EUR 8 233 thousand for dividends from the 2014 retained earnings of the Company.

(all amounts are in EUR thousand unless otherwise stated)

18. Reserves

Legal reserve. The legal reserve means a reserve which is required by the provisions of legal acts of the Republic of Lithuania. This reserve must be annually renewed by at least 5 per cent of the net profit up to the extent equal to 10 per cent of the authorised capital.

Order No. 3T-76 of the Minister of Transport and Communications of the Republic of Lithuania dated 26 July 2016 approved the distribution of the Company's profit gained in 2015. Pursuant to the order, the Company has transferred the required amount of funds to the legal reserve, namely EUR 139 thousand. As at 31 December 2016, the legal reserve amounted to EUR 27 066 thousand (as at 31 December 2015 it was equal to EUR 26 927 thousand).

Other reserves. As at 31 December 2016 the Company accounted for reserves for social needs and support of EUR 1 250 thousand, for investment to the extent of EUR 11 964 thousand, and bonuses to the extent of EUR 93 thousand as the other reserves.

Order No. 3T-76 of the Minister of Transport and Communications of the Republic of Lithuania dated 26 July 2016 approved the distribution of the Company's profit, on the base of which a reserve of EUR 2 479 thousand was dissolved and other reserves of EUR 3 244 thousand were formed.

On 18 September 2015 the Minister of Transport and Communications of the Republic of Lithuania issued Order No. 3-400 and decided to annul the reserve of 2014 dedicated in 2013 for investment of EUR 23 786 thousand and increase the Company's authorised capital by EUR 23 786 thousand (namely, investment reserve formed in 2013) by issuing 82 129 ordinary registered shares with the nominal value of EUR 289.62 each, and total nominal value of EUR 23 786 thousand. All shares were transferred to the State. Increase of the authorised capital was registered on 28 September 2015.

19. Grants

Movement of grants of the Group and the Company:

	Group		Company	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Balance at the beginning of the period	496 184	534 194	495 983	533 910
Received during the year	36 562	60 380	36 562	60 381
Used for decrease of depreciation costs of non-current assets	(10 336)	(4 449)	(10 259)	(4 367)
Used for decrease of other expenses	(2 174)	(2 111)	(2 174)	(2 111)
Increased authorised capital	(650)	(91 801)	(650)	(91 801)
Repaid	(4 335)	(29)	(4 335)	(29)
Balance at the end of the period	515 251	496 184	515 127	495 983
Including assets managed under the right of trust	229 653	44 010	229 653	44 010

The grants are related to the financing of the investment programs, assets received according to the Trust agreement and also subsidies for cost compensation.

20. Loans and borrowings

Borrowings of the Group and the Company comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Finance lease liabilities	315	548	186	-	-	-
Long term Loans	268 261	296 303	286 289	256 140	289 034	284 257
Short term loans	32 893	23 857	24 747	32 893	23 852	20 373
Borrowings	301 469	320 708	311 222	289 033	312 886	**304** 630

20. Loans and borrowings (continued)

Loans received by the Company comprised:

	Loan currency	31/12/2016	31/12/2015	01/01/2015
Bank EBRD-2, [1, 5]	USD; EUR	-	3 853	7 663
Bank EIB - 1, [5]	SEK; EUR	3 000	5 631	8 230
Bank EIB - 2, [7]	EUR	21 864	27 682	33 500
Bank EIB - 3, [7]	EUR	10 455	12 273	14 091
Bank EIB - 4, [6]	EUR	47 333	50 000	50 000
Ministry of Finance of Lithuania (No. 607)[2]	EUR	3 878	4 093	3 798
Ministry of Finance of Lithuania (No. 615)[2]	EUR	5 524	5 831	5 831
Ministry of Finance of Lithuania (No. 617)[2]	EUR	333	351	352
Ministry of Finance of Lithuania (No. 618)[2]	EUR	4 153	4 384	4 384
Nordea bank AB Lithuanian branch[5]	EUR	468	1 406	2 343
Nordic Investment Bank-1[5]	EUR	3 947	5 526	7 105
Nordic Investment Bank -2, [5]	EUR	20 778	24 556	28 333
Nordic Investment Bank -3, [3]	EUR	114 000	114 000	114 000
Nordic Investment Bank -4, [4]	EUR	53 300	53 300	25 000
Total		289 033	312 886	304 630

[1] On 20 July 2016 the whole loan with a state guarantee was repaid to the European Bank for Reconstruction and Development (ERPB-2).

[2] Loans of the Ministry of Finance of the Republic of Lithuania for the renovation and development of the Lithuanian railway infrastructure as at 31 December 2016 amount to EUR 13 888 thousand (31 December 2015 EUR 14 660 thousand). The Company has repaid EUR 772 thousand of these loans and paid EUR 568 thousand of interest during 2016. During 2015 of these loans has repaid EUR 559 thousand of interest.

[3] On 25 June 2013 the Company and the Nordic Investment Bank signed two loan agreements (NIB-3) for the development and renovation of railway infrastructure with the total value equal to EUR 114 000 thousand. Each portion of the loan is subject to the independent interest rate. During 2016 the Company has already paid EUR 1 673 thousand of interest. During 2015 the Company has repaid EUR 1 809 thousand of interest and EUR 2 thousand of liability fee.

[4] On 15 July 2014 the Company and the Nordic Investment Bank signed a loan agreement (NIB-4) with the total value equal to EUR 53 300 thousand. The loan was granted in order to ensure the national part of the general funding under the Project of public railway infrastructure Rail Baltica, financed by the EU support funds for 2007 - 2013. During 2016 the Company has already paid EUR 593 thousand of interest and EUR 22 thousand of liability fee. During 2015 the Company has repaid EUR 215 thousand of interest and EUR 29 thousand of liability fee.

[5] During 2016 the repaid amounts of the remaining part of other loans intended for railway infrastructure renovation and development that have not been clearly indicated herein (ERPB-2, EIB-1, Nordea, NIB-1, NIB-2) are as follows: loans of EUR 12 760 thousand, and interest of EUR 636 thousand. During 2015 the Company has repaid EUR 12 755 thousand of these loans and EUR 965 thousand of interest.

[6] On 3 June 2013 the Company and the European Investment Bank signed a loan agreement for EUR 50 000 thousand (EIB-4) to be used for the procurement of new railway rolling stocks. Interest for each share of loan is set individually. During 2016 the Company has already paid EUR 2 667 thousand of the loan and EUR 1 251 thousand of interest. During 2015 the Company has repaid EUR 1 251 thousand of interest.

[7] The repaid part of other loans that have not been clearly indicated herein and were granted for the procurement of new railway rolling stocks (EIB-2, EIB-3) during 2016 is equal to EUR 7 636 thousand and the interest paid is equal to EUR 1 180 thousand. During 2015 the Company has repaid EUR 7 636 thousand of these loans and EUR 1 438 thousand of interest.

On 14 December 2015 the Company and the Nordic Investment Bank signed a new loan agreement (NIB-5) for EUR 50 000 thousand. The loan is intended for the implementation of the Investment projects for 2014-2020 and the Rail Baltica project. The loan was not used during 2016. Within 2016 the Company has paid EUR 115 thousand of liability fee (2015 there was no charge related to this loan).

On 18 December 2015 the Company and the European Investment Bank signed a new loan agreement (EIB-5) for EUR 68 000 thousand. The loan is granted for funding of 2014–2020 investment projects, namely, reconstruction and modernisation of public railway infrastructure and the procurement of passenger rolling stocks. The loan was not withdrawn during 2016 and 2015.

(all amounts are in EUR thousand unless otherwise stated)

20. Loans and borrowings (continued)

There are neither assets pledged for the bank loans nor guarantees provided by the Company.

On 23 December 2016 the subsidiary of the Company -UAB Geležinkelio Tiesimo Centras and SEB bank signed a credit agreement based on which the Bank has refinanced the credit line agreement signed by the subsidiary and Danske bank in previous years. Credit limit, the sum of which shall not exceed EUR 15 000 thousand has been granted in order to replenish the working capital. 23 December 2018 is set as the last day of credit limit (repayment day). Credit limit could not be used for credit repayment, acquisition of non-current assets and financial instruments and/or the relending of funds to other entities. The unpaid credit balance as at 31 December 2016 was equal to EUR 12 120 thousand (31 December 2015 was EUR 7 269 thousand).

The interest rates and maturity terms of the loans are disclosed in the liquidity Note 6. The financial covenants, which the Group and the Company should follow are also discloses in the liquidity Note 6. As at 31 December 2015 and 2016 the Company and the Group complied with all the financial debt covenants.

Finance lease liabilities of the Group, which will be payable in one year amount to EUR 94 thousand as at 31 December 2016 (at 31 December 2015 EUR 233 thousand) and which will be payable in two years amount to EUR 222 thousand as at 31 December 2016 (at 31 December 2015 EUR 315 thousand).

21. Employee benefits

According to the legislative requirements of the Republic of Lithuania, each employee of the Company at the age of retirement is entitled to a one-off payment in the amount of 2-month salary. Jubilee payments also comprise provisions for pensions and similar liabilities. Pursuant to the Collective agreement valid in the Company, when employee turns 50 and 60 years, a payment up to one average employee salary is paid.

Change in non-current provisions for pensions and similar liabilities is provided in the table below:

	Group	Company
Balance as at 01/01/2015	15 096	14 287
Formed additionally	1 503	1 481
Used	(433)	(411)
Balance as at 31/12/2015	16 166	15 357
Formed additionally	925	790
Used	(426)	(414)
Balance as at 31/12/2016	16 665	15 733

Main assumptions applied in assessment of the Company's non-current payments for employees are provided in below:

	31/12/2016	31/12/2015	01/01/2015
Discount rate	0.31	1.49	1.90
Staff turnover ratio	2.66	2.34	2.59
Annual increase in salary	1.50	3.00	3.00

Current employee benefits by type:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Vacation accruals	13 304	13 201	13 364	11 754	11 762	11 661
Payable remuneration	7 204	7 117	6 914	6 320	6 338	6 298
Payable social insurance contributions	6 412	6 274	6 499	5 601	5 519	5 855
Payable personal income tax contributions	1 382	1 364	1 336	1 259	1 252	1 247
Payable guarantee fund contributions	30	31	31	27	27	29
Total	28 332	27 987	28 144	24 961	24 898	25 090

(all amounts are in EUR thousand unless otherwise stated)

22. Provisions

Other provisions of the Group and the Company comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Non-current provisions	14 400	-	-	14 400	-	-
Current provisions	28 152	5 845	4 780	27 873	5 292	4 139
Total	42 552	5 845	4 780	42 273	5 292	4 139

The movement in provisions could be specified:

	Group	Company
Balance as at 01/01/2015	4 780	4 139
Formed additionally	1 706	1 153
Used/dissolved	(641)	-
Balance as at 31/12/2015	5 845	5 292
Formed additionally	36 981	36 981
Used/dissolved	(274)	-
Balance as at 31/12/2016	42 552	42 273

As at 31 December 2016 the Company, considering all relevant information on legal proceedings formed additional provisions. The major part of the total provision consist of a probable fine by the European Commission amounting to EUR 27 873 thousand (EUR 5 292 thousand in 2015). According to management's assessment it was increased as at 31 December 2016 by EUR 22 581 thousand, due to ongoing procedures by the European Commission on presumable infringement by the Company, i.e. dismantling of railway tracks from Bugeniai (the Republic of Lithuania) to the State border with the Republic of Latvia (EUR 1 153 thousand in 2015).

The Company recorded EUR 14 400 thousand for other legal proceedings. Other provisions formed for warranty repair of rolling stock.

In 2016, the Group reversed EUR 274 thousand provision for warranty repair of rolling stock (in 2015 - EUR 89 thousand).

23. Trade and other payables

Trade and other payables of the Group and the Company comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Trade payables	45 551	28 108	81 369	38 330	21 753	65 572
Amounts payable to related parties	584	1 467	699	10 684	8 475	11 626
Cash guarantees received	3 447	4 107	4 847	4 035	4 102	4 319
Accrued interest	1 674	1 744	1 658	1 674	1 744	1 658
Other taxes payable to the budget	976	807	1 737	530	521	586
Deferred income	2 238	2 763	2 968	-	-	-
Accumulated service costs of foreign railways	637	529	556	637	529	556
Other accrued costs	460	435	4 613	405	429	4 600
Labour union membership fee	74	79	83	68	74	79
Other amounts payable and liabilities	110	101	116	91	85	83
Total	55 751	40 140	98 646	56 454	37 712	89 079
Non-current	6 441	1 862	125	6 437	1 947	125
Current	49 310	38 278	98 521	50 017	35 765	88 954
Total	55 751	40 140	98 646	56 454	37 712	89 079

(all amounts are in EUR thousand unless otherwise stated)

24. Revenue

Sales revenue of the Group and the Company comprised:

	Group		Company	
	2016	2015	2016	2015
Income from freight transportation and use of the railway infrastructure	344 068	370 321	344 745	371 317
Income from passenger, baggage and post	25 027	23 845	25 033	23 846
Income from sales of other additional services	35 025	35 133	30 724	33 831
Total	404 120	429 299	400 502	428 994

25. Result from financing activities

During the year ended 31 December:

	Group		Company	
	2016	2015	2016	2015
Total finance income	354	(338)	297	(391)
Penalties and interest for delayed trade debtors	132	(868)	88	(921)
Currency exchange gain	94	287	94	286
Interest	4	238	4	236
Other	124	5	111	8
Total finance costs	(6 002)	(1 893)	(5 905)	(1 747)
Interest	(5 885)	(4 483)	(5 789)	(4 337)
Other	(117)	2 590	(116)	2 590
Result from financing activities	(5 648)	(2 231)	(5 608)	(2 138)

In 2016 expenses from financing and investing activities of the Group and the Company increased compared to 2015. This increase was largely caused by the reversal of EUR 2 623 thousand of accrued penalties and delayed interest payment charges from other expenses of financing and investing activities in 2015, which were accrued in 2014.

26. Corporate income and deferred tax

Corporate income tax was calculated at a 15% tax rate.

	Group		Company	
	2016	2015	2016	2015
Current year income tax	3 057	2 919	2 936	2 630
Deferred tax expenses (income)	(1 358)	(1 714)	(947)	(1 780)
Total corporate income tax expenses (income) recognised in profit or loss	1 699	1 205	1 989	850

Corporate income tax expenses (income) of the Group and the Company comprised:

	Group		Company	
	2016	2015	2016	2015
Profit (loss) before taxation	(50 754)	12 363	(47 525)	14 694
Corporate income tax at a statutory tax rate (15 %)	(7 613)	1 854	(7 129)	2 204
Deductible expenses (support)	(287)	(317)	(256)	(304)
Effect of tax exemption on investment projects	(158)	(72)	(158)	(72)
Non-deductible (deductible) expenses	7 653	(22)	7 349	(793)
Tax-exempt (non-exempt) income	370	(911)	449	(858)
Adjustment to income tax of the previous year	1 734	673	1 734	673
Total corporate income tax expenses (income) recognised in profit or loss	1 699	1 205	1 989	850
Effective rate, %	-	9,75 %	-	5,78 %

(all amounts are in EUR thousand unless otherwise stated)

26. Corporate income and deferred tax (continued)

Deferred tax assets

Calculation of the deferred tax of the Group and the Company as at 31 December 2016 is provided herein:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Deferred tax assets:						
Impairment of non-current assets	2 010	1 987	2 211	1 795	1 738	2 002
Impairment of amounts receivable and write-off of bad debts	3 178	2 787	1 701	3 177	2 786	1 700
Write down of inventories	597	904	815	505	835	754
Vacation accruals	1 818	1 817	1 811	1 763	1 764	1 749
Pension accruals	2 434	2 426	2 265	2 297	2 304	2 143
Accrued expenses	96	79	83	96	79	83
Other provisions	354	416	540	-	-	-
Impairment of financial assets	275	268	205	275	268	205
Tax losses carried forward	489	23	3			
Deferred tax assets	11 251	10 707	9 634	9 908	9 774	8 636
Deferred income tax liabilities:						
Difference in grants	(9 772)	(10 575)	(11 202)	(9 772)	(10 575)	(11 202)
Accrued income	(86)	(97)	(111)	(86)	(96)	(111)
Deferred tax liabilities	(9 858)	(10 672)	(11 313)	(9 858)	(10 671)	(11 313)
Net deferred tax assets (liabilities)	1 393	35	(1 679)	50	(897)	(2 677)

Deferred tax assets and deferred tax liabilities are offset to the extent that the deferred tax liability will be realised at the same time as deferred tax assets. In addition, they are related to the same tax authority.

27. Related party transactions

The parties are deemed as being related when one of them could control another or could have significant influence on the other party when making financial and operating decisions.

As defined by IAS 24 *Related parties disclosures* the entity is related to a reporting entity if any of the following conditions applies:

- The Lithuanian Government in its capacity as the owner of all shares in AB Lietuvos Geležinkeliai;
- The Companies or enterprises subject to the control of the Lithuanian Government;
- Subsidiaries of the parent company AB Lietuvos Geležinkeliai;
- Affiliated, non-consolidated and associated companies as well as joint ventures of AB Lietuvos Geležinkeliai;
- The members of the management Board and their close relatives.

For entities operating in an environment in which government control is pervasive, many counterparties are also government-related and therefore are related parties. IAS 24 allows a reporting entity to reduce the level of disclosures about transactions and outstanding balances, including commitments, with:

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

Therefore the Company and the Group does not disclose the transactions with Lithuanian Government and other entities, controlled by the Lithuanian Government.

(all amounts are in EUR thousand unless otherwise stated)

27. Related party transactions (continued)

The Group's related parties and transactions before eliminations were as follows:

2016	Purchases	Sales	Amounts receivable	Amounts payable
UAB Gelsauga	15 784	89	21	2 382
UAB Geležinkelio Tiesimo Centras	18 729	1 277	103	2 868
UAB Vilniaus Lokomotyvų Remonto Depas	16 462	327	33	3 966
UAB Geležinkelių Projektavimas	10 041	85	85	1 185
UAB Geležinkelių Aplinkosaugos Centras	4 441	899	95	476
UAB Rail Baltica Statyba	-	5	-	-
UAB Voestalpine VAE Legetecha	4 436	6	-	611
Total	69 893	2 688	337	11 488

2015	Purchases	Sales	Amounts receivable		Amounts payable	
			31/12/2015	01/01/2015	31/12/2015	01/01/2015
UAB Gelsauga	11 816	74	16	6	1 571	1 890
UAB Geležinkelio Tiesimo Centras	32 227	2 215	77	1 514	2 232	3 745
UAB Vilniaus Lokomotyvų Remonto Depas	31 932	520	36	1 435	2 659	4 928
UAB Geležinkelių Projektavimas	6 937	43	346	2	1 493	213
UAB Geležinkelių Aplinkosaugos Centras	4 782	1 085	122	256	381	451
UAB Rail Baltica Statyba	-	5	-	-	-	-
UAB Voestalpine VAE Legetecha	5 711	40	-	9	769	549
Total	93 405	3 982	597	3 222	9 105	11 776

Amounts receivable from related parties of the Group and the Company comprised:

	Group			Company		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Amounts receivable from related parties	-	1	9	243	236	992
Including doubtful debts	2 923	3 473	-	2 923	3 473	-
Impairment allowance (-)	(2 923)	(241)	-	(2 923)	(241)	-
Total	-	3 233	9	243	3 468	992

As at 31 December 2016 debts from related companies of the Group and the Company decreased by EUR 3 232 thousand and EUR 3 225 thousand respectively. The change was largely caused by the additional impairment allowance of EUR 2 682 thousand (EUR 241 thousand in 2015) recorded for the debts of the subsidiary BAB Lietuvos Jūrų Laivininkystė. No impairment loss was recorded for the trade amounts receivable.

In 2016, income of associates by equity method comprised EUR 79 thousand (EUR 13 thousand in 2015), expenses – EUR 181 thousand (EUR 223 thousand in 2015). Result of associates, included in the statements of profit or loss and other comprehensive income, comprised loss of EUR 102 thousand in 2016 (EUR 210 thousand in 2015).

Management salary and other benefits. As at 31 December 2016, the number of managers of the Company was equal to 6, i.e., 1 Director General, 1 Chief Financial Officer, 1 Deputy Director General and 3 Deputy Director General – directors of the directorates.

Company	2016	2015
Management salary	438	442
Bonuses	13	17
Number of managers	6	6
Benefits to Board members	19	18
Number of Board members	2	2

In 2016, the management of the Company was not granted with loans, provided with guarantees or other paid or accrued benefits or disposed assets, except as disclosed above.

In 2015, the management of the Company was not granted with loans, provided with guarantees or other paid or accrued benefits or disposed assets.

28. Contingent assets and liabilities

Legal cases

38 lawsuits in the total amount of EUR 113 836 thousand were brought to courts against the Company in 2016. They mainly concerned claims related to the Company's obligations under freight agreements, invalidation of the decisions of the Company's public procurement commissions, adjudication of debts for completed works, compensation of damages, etc.
Whereas in 2016 the Company itself filed 63 claims in the total amount of EUR 65 145 thousand. They mainly related to adjudgement of debts and interest for provided freight transportation, utility and other services, lease of premises and wagons, improper execution of engineering works, reimbursement of material damage, etc.
Almost the entire amount of claims (EUR 100 000 thousand) brought against the Company in 2016 related to a number of lawsuits initiated by AB ORLEN Lithuania (hereunder referred to as OL) against the Company in courts and arbitration since 2014. OL claims against the Company mainly concerned demand for recalculation of tariffs, adjudication of debts and claims regarding presumable abuse of a dominant position by the Company.

The Company itself had also initiated several court cases against OL since 2014 regarding the adjudication of debts for provided freight transportation services in the total amount of EUR 37 000 thousand.

However, on 28 June 2017, an agreement between the Company and OL was signed. It established the amounts payable for the freight services rendered by the Company to the OL during the period 2014–2016, as well as set the pricing for the period 2017–2023 and provided an amicable settlement of the aforementioned court and arbitral disputes.

In 2016, one of the other material cases that was initiated by claimants AB Kauno Tiltai, Trakcja S.A., AB Panevėžio Keliai, UAB Mitnija, RAB Belam – Riga already in 2013, continued. The case concerns acknowledgement of works as additional ones and payment by the Company of EUR 2 998 thousand for them. The Company had raised a counterclaim regarding adjudication of EUR 14 990 thousand interest against the claimants. The Company has also brought a claim of EUR 5 899 thousand against DB International GmbH responsible for the technical design. Currently, this case is being adjourned until the main case is solved.

In 2016 the European Commission continued proceedings regarding alleged abuse of a dominant position, i.e. removal of a 19 kilometer rail track connecting Mažeikiai in north-Western Lithuania with the Latvian border (hereunder referred to as the Track) on 3 October 2008. The Company's attempts for peaceful settlement were rejected. Considering the newly arisen circumstances, additional provisions were formed during 2016 in order to pay the anticipated fine as disclosed in Note 23.

On 2 October 2017 the European Commission adopted a final Decision C (2017) 6544 which holds the Company liable for an infringement of Article 102 of the Treaty on the Functioning of the European Union and finds that LG abused its dominant position in the market for the management of railway infrastructure in Lithuania by removing the Track on 3 October 2008. The Company was imposed a fine amounting to EUR 27 873 thousand and obliged to bring to an end the infringement. Therefore, the Company, based on the resolution of the Government of the Republic of Lithuania as of 6 December 2017, has proposed the European Commission to reconstruct the Track until the end of 2019.
Also, on 14 December 2017, the Company filed an action to the EU General Court seeking a complete or partial annulment of the Decision C(2017) 6544 and/or a reduction of the fine. The parties to the case are now exchanging written documents. It is anticipated that the judgement of the EU General Court should be adopted in the second half of 2019.

Contractual commitments

For the implementation of Rail Baltica project stage "Reconstruction of the current railway track Kaunas-Palemonas by building the 1 435 mm track gauge", on 1 June 2018 the Company signed a work contract with the partners of a joint-activity agreement, i.e. UAB Hidrostatyba, LEONHARD WEISS RTE AS and UAB Autokausta. The value of works is EUR 54 762 190 (excluding VAT). The contract must be completed within 730 days after the start of works (the planned start date is 10 July 2018, planned end date – 20 July 2020). The Companies committed to build a European track gauge from Kaunas railway station until intermodal terminal located in Palemonas.

29. Subsequent events

On 28 June 2017, an agreement between the Company and the OL was signed on the amendments of the contract and resolution of disputes, which establishes the amounts payable for the freight services rendered by the Company to the OL during the period 2014–2016, pricing for the period 2017–2023 and conclusion of the aforementioned litigations/arbitration disputes.

On 25 August 2017, decision regarding liquidation of UAB Geležinkelių Aplinkosaugos Centras was made.

On 12 September 2017, decision regarding reorganisation of UAB Geležinkelių Projektavimas by merging it to UAB Geležinkelio Tiesimo Centras was made.

29. Subsequent events (continued)

On 2 October 2017, the Commission adopted decision in the case in accordance with Art. 102 of the Treaty on the Functioning of the European Union and imposed the Company a fine of EUR 27 873 thousand. The Commission identified that the Company abused its dominant position as the owner of railway infrastructure in Lithuania by deconstructing railway in Lithuania which spans to the border with Latvia and by doing so prevented the competitive Latvian railway company to enter Lithuanian market. The Commission not only imposed the fine to the Company but also indicated to bring to the end the infringement, i.e. restore the deconstructed railway. The fine was paid on January 2018.

On 21 December 2017, the Government of the Republic of Lithuania adopted a legislation on approval of the State budget and municipalities budget financial covenants for 2018, which established additionally entitled assignments, provided, however, that the Ministry of Transport and Communications will provided an amount to cover the Company‘s losses for passenger transportation. The amount shall not exceed the dividends paid to the State‘s budget by the Company.

On 16 May 2018, the Government of the Republic of Lithuania agreed on the new vision of the Company, which to be split into several operating entities under a holding structure. Package 4 of the EU railways provides that the member states of the EU shall ensure independence, objectivity and financial transparency of the activities of the owner of the railway infrastructure.

The grants amounted to EUR 403 150 thousand as per resolution No. 168 dated 19 February 2014 and resolution No. 1177 dated 23 November 2016 adopted by the Government of the Republic of Lithuania have been received for capital increase. However resolution No. 543 dated 6 June 2018 adopted by the Government of the Republic of Lithuania withdrew the aforementioned resolutions.