PLLC LITHUANIAN RAILWAYS / AB LIETUVOS GELEŽINKELIAI

ACTIVITIES REPORT OF THE RAILWAY TRANSPORT FOR 2017

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

ABBREVIATIONS AND EXPLANATIONS:

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

EU – European Union;

DK - freight transportation directorate;

DL - passenger transportation directorate;

DI - railway infrastructure directorate;

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

Revenue from external sales – revenue from services provided by the Directorate of the Company / division to other economic entities and revenue from products intended for reselling.

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

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

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

2017-12-31 Financial Statement Report

	Comments	DL	DK	DI	Other divisions	In total
In total						
Intangible assets		**8,586**	**748,569**	**17,304,401**	**6,177,278**	**24,238,834**
Development work		4,040	-	-	1,756	5,796
Software		-	723,568	17,000,315	5,229,488	22,953,371
Licenses and Similar Rights		723	15,387	59,040	896,396	971,546
Other intangible assets		3,823	9,614	245,046	49,638	308,121
Immovable property, plant and equipment		**163,085,955**	**243,980,362**	**1,403,141,966**	**21,271,160**	**1,831,479,443**
Land		-	16,600	146,581,037	-	146,597,637
Buildings and structures		7,530,602	23,343,830	892,808,590	7,694,215	931,377,237
Machinery and equipment		1,734,420	7,667,331	151,349,114	3,221,431	163,972,296
Vehicles		152,705,418	206,878,832	18,432,166	896,333	378,912,749
Other plants, devices and tools		1,057,165	3,949,025	60,341,434	8,828,628	74,176,252
Uncompleted construction and advance payments		58,350	2,124,744	133,629,625	630,553	136,443,272
Out of them assets acquired by public funds transferred to other divisions	2.1.	-	-	-	-	-
Investment assets		**926,024**	**6,485,265**	**701,424**	**64,012**	**8,176,725**
Financial assets		-	-	-	**40,161,113**	**40,161,113**
Investment into subsidiaries and associated companies	2.2.	-	-	-	40,161,113	40,161,113
Fixed assets in total		**164,020,565**	**251,214,196**	**1,421,147,791**	**67,673,563**	**1,904,056,115**
Current assets						
Reserves		1,284,806	2,811,335	14,858,083	6,746,532	25,700,756
Fixed assets for sale		360,000	35,742	337,406	1	733,149
Advance payments		289,430	770,150	188,369	135,505	1,383,454
Trade receivables		35,590	18,201,682	144,052	2,136,962	20,518,286
Amounts receivable from associated parties		836,529	3,929,174	74,439	12,962	4,853,104
Other receivables		167,540	470,923	8,768,530	762,414	10,169,407
Cash and cash equivalents Funds of the Company		202,571	5,984	271	76,984,592	77,193,418
Cash and cash equivalents Public funds	2.4.	-	-	-	59,371	59,371
Current assets in total		**3,176,466**	**26,224,990**	**24,371,150**	**86,838,339**	**140,610,945**
ASSETS IN TOTAL		**167,197,031**	**277,439,186**	**1,445,518,941**	**154,511,902**	**2,044,667,060**

2017-12-31 Financial Statement Report (continuation)

	Comments	DL	DK	DI	Other divisions	In total
STOCKHOLDER EQUITY IN TOTAL	2.6.				**1,127,109,863**	**1,127,109,863**
Authorised capital		-	-	-	1,057,982,439	1,057,982,439
Compulsory reserve		-	-	-	27,065,993	27,065,993
Other reserves		-	-	-	13,306,772	13,306,772
Retained profit (loss)		-	-	-	28,754,659	28,754,659
Long-term liabilities						
Subsidies	2.7.	-	18,082	519,868,919	980,577	520,867,578
Loans		7,596,708	43,448,746	172,354,249	-	223,399,703
Received advance payments		-	-	422,165	-	422,165
Sales debts		-	-	3,935,017	-	3,935,017
Provisions		-	-	14,400,000	-	14,400,000
Payments to employees		758,112	3,258,535	4,379,826	1,777,849	10,174,322
Deferred profit tax liabilities	2.3.	-	-	-	2,594,818	2,594,818
Long-term liabilities in total		**8,354,820**	**46,725,363**	**715,360,176**	**5,353,244**	**775,793,603**
Short-term liabilities						
Loans		1,386,008	12,917,022	18,102,127	-	32,405,157
Received advance payments		81,902	5,030,189	56,378	879	5,169,348
Sales debts		5,132,509	641,678	9,426,740	5,260,351	20,461,278
Amount payable to associated parties		623,327	7,704,922	5,370,478	110,101	13,808,828
Profit tax liabilities		-	-	-	6,154,074	6,154,074
Liabilities related to employment relations		2,449,498	9,526,386	10,195,927	5,440,152	27,611,963
Other payable amounts		694,000	3,402,143	29,205,156	2,851,647	36,152,946
Short-term liabilities in total		**10,367,244**	**39,222,340**	**72,356,806**	**19,817,204**	**141,763,594**
LIABILITIES ON TOTAL		**18,722,064**	**85,947,703**	**787,716,982**	**25,170,448**	**917,557,197**
STOCKHOLDER EQUITY AND LIABILITIES IN TOTAL (without internal transactions)		**18,722,064**	**85,947,703**	**787,716,982**	**1,152,280,311**	**2,044,667,060**
Net value of payable of internal transactions (receivables) *	2.5.					
Freight transportation directorate		62,705,881	-	(254,197,364)	-	
Passenger transportation directorate		-	(62,705,881)	(85,769,086)	-	
Railway infrastructure directorate		85,769,086	254,197,364	-	(997,768,409)	
Other divisions		-	-	997,768,409	-	
Total net value of payable of internal transactions (receivables)		**148,474,967**	**191,491,483**	**657,801,959**	**(997,768,409)**	
STOCKHOLDER EQUITY AND LIABILITIES IN TOTAL		**167,197,031**	**277,439,186**	**1,445,518,941**	**154,511,902**	

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

2017 Profit (loss) and other comprehensive income statements

	Comments	DL	DK	DI	Other divisions	In total
Sales revenue		**28,263,961**	**439,753,794**	**215,034,221**	**35,312,996**	**718,364,972**
External sales revenue		27,612,601	412,314,558	4,727,013	598,049	445,252,221
of them used public funds to compensate for unearned income	3.1.	2,415,186	-	-	-	2,415,186
Revenue from sales to other divisions	3.2.	651,360	27,439,236	210,307,208	34,714,947	273,112,751
Freight transportation directorate		464,424	-	193,919,527	16,838,977	211,222,928
Passenger transportation directorate		-	2,654,179	15,267,674	2,796,484	20,718,337
Railway infrastructure directorate		108,852	24,643,543	-	12,251,316	37,003,711
Other divisions		78,084	141,514	1,120,007	2,828,170	4,167,775
Cost of sales		**(55,894,851)**	**(381,413,103)**	**(180,438,762)**	**(16,663,631)**	**(634,410,347)**
Costs of the directorate, except procurement from other divisions		(35,176,514)	(170,190,175)	(143,435,051)	(12,495,856)	(361,297,596)
of them used public funds to compensate for costs	3.3.	231,000	-	1,476,068	-	1,707,068
Costs of sales to other divisions	3.4.	(20,718,337)	(211,222,928)	(37,003,711)	(4,167,775)	(273,112,751)
Freight transportation directorate		(2,654,179)	-	(24,643,543)	(141,514)	(27,439,236)
Passenger transportation directorate		-	(464,424)	(108,852)	(78,084)	(651,360)
Railway infrastructure directorate		(15,267,674)	(193,919,527)	-	(1,120,007)	(210,307,208)
Other divisions		(2,796,484)	(16,838,977)	(12,251,316)	(2,828,170)	(34,714,947)
Gross profit (loss)		**(27,630,890)**	**58,340,691**	**34,595,459**	**18,649,365**	**83,954,625**
General and administrative expenses		(1,789,670)	(13,921,614)	(11,417,660)	(21,571,865)	(48,700,809)
Profit (loss) from general activity		**(29,420,560)**	**44,419,077**	**23,177,799**	**(2,922,500)**	**35,253,816**
Income from other activities		239,562	161,985	272,097	5,602	679,246
Expenses on other activities		(382,328)	(25,370)	(399,277)	(205,734)	(1,012,709)
Profit (loss)		**(29,563,326)**	**44,555,692**	**23,050,619**	**(3,122,632)**	**34,920,353**
Financial and investment activities		**234,658**	**(1,940,503)**	**(3,653,222)**	**225,829**	**(5,133,238)**
Income		488,099	29,235	23,097	683,299	1,223,730
Financial and investment revenue from external activity		7,156	16,243	18,910	683,299	725,608
Financial and investment revenue from sales to other divisions	3.2.	480,943	12,992	4,187	-	498,122
Freight transportation directorate		-	-	3,099	-	3,099
Passenger transportation directorate		-	-	1,088	-	1,088
Railway infrastructure directorate		480,943	12,992	-	-	493,935
Other divisions		-	-	-	-	-
Expenses		(253,441)	(1,969,738)	(3,676,319)	(457,470)	(6,356,968)
Financial and investment expenses from external activity		(252,353)	(1,966,639)	(3,182,384)	(457,470)	(5,858,846)
of them used public funds to compensate for costs		-	-	-	-	-
Financial and investment expenses from procurements from other divisions	3.4.	(1,088)	(3,099)	(493,935)	-	(498,122)
Freight transportation directorate		-	-	(12,992)	-	(12,992)
Passenger transportation directorate		-	-	(480,943)	-	(480,943)
Railway infrastructure directorate		(1,088)	(3,099)	-	-	(4,187)
Other divisions		-	-	-	-	-
Part of the results of associated companies		-	-	-	-	-
Profit (loss) before tax		**(29,328,668)**	**42,615,189**	**19,397,397**	**(2,896,803)**	**29,787,115**
Profit tax	3.5.				(4,232,638)	(4,232,638)
Net Profit (loss)		**(29,328,668)**	**42,615,189**	**19,397,397**	**(7,129,441)**	**25,554,477**

Explanatory Note to the Activities Report of the Railway Transport

1. General information

The activity reports of the Railway transport for 2017 of PLLC Lithuanian Railways have been prepared in the implementation of the requirements of Article 41 and chapter 2 of Article 23 of the Code of Railway Transport of the Republic of Lithuania No IX-2152, as well as the requirements of the Order No 3-225 of 15 April 2013 of the Minister of Transport and Communications of the Republic of Lithuania On amendments of the Order No 3-3 of 3 January 2012 of the Minister of Transport and Communications of the Republic of Lithuania "On announcement of profit (loss) statements and balance sheets of separate activities of public railway infrastructure operator and railway companies (carriers)" and the Order No 3-40 (E) of 4 February 2014 of the Minister of Transport and Communications of the Republic of Lithuania On amendments of the Order No 3-3 of 3 January 2012 of the Minister of Transport and Communications of the Republic of Lithuania "On requirements for railway transport activity accounting and preparation of activities reports and announcement of the reports".

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

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

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

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

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

2. Explanation of the items of Financial Statement Report

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

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

In 2017, the Directorates / divisions of the Company did not transfer such assets to each other.

2.2. Investment into subsidiaries and associated companies

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

2.3. Deferred corporate income tax assets

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

2.4. Public funds

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

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

The amount of EUR 59 371 indicated on the balance sheet for 2017 is the funds received from the EU funds not distributed by the end of the year.

2.5. Net value of payables / receivables of internal transactions

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

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

Over 100 thousand transactions between the Directorates / divisions are registered in the Company in the course of one year.

Transaction between the Directorates / divisions are registered by making records in accounts of receivables / payables. For example, after the Directorates / divisions render each other services and document the fact with a work completion certificate, the Directorate / division which rendered services registers in the accounting internal revenues and amount receivable (accounts receivable), whereas the Directorate / division which received services registers costs and amount payable (accounts payable).

Turnover of payables / receivables of internal transactions

	DK	DL	DI	Other divisions	In total
			Receivables from DK (payables to DK)		
Balance on the beginning of the reporting period 31/12/2016	-	**(62,246,521)**	**263,006,607**	-	**200,760,086**
Receivables accumulated during 2017	-	(459,360)	(8,809,243)	-	(9,268,603)
Balance on the end of the reporting period 31/12/2017	-	**(62,705,881)**	**254,197,364**	-	**191,491,483**
			Receivables from DL (payables to DL)		
Balance on the beginning of the reporting period 31/12/2016	**62,246,521**	-	**71,876,139**	-	**134,122,660**

Receivables accumulated during 2017	459,360	-	13,892,947	-	14,352,307
Balance on the end of the reporting period 31/12/2017	**62,705,881**	**-**	**85,769,086**	**-**	**148,474,967**
Receivables from DI (payables to DI)					
Balance on the beginning of the reporting period 31/12/2016	**(263,006,607)**	**(71,876,139)**	**-**	**(1,022,982,373)**	**688,099,627**
Receivables accumulated during 2017	8,809,243	(13,892,947)	-	25,213,964	(30,297,668)
Balance on the end of the reporting period 31/12/2017	**(254,197,364)**	**(85,769,086)**	**-**	**(997,768,409)**	**657,801,959**
Receivables from the other divisions (payables to the other divisions)					
Balance on the beginning of the reporting period 31/12/2016	**-**	**-**	**(1,022,982,373)**	**-**	**(1,022,982,373)**
Receivables accumulated during 2017	-	-	25,213,964	-	25,213,964
Balance on the end of the reporting period 31/12/2017	**-**	**-**	**(997,768,409)**	**-**	**(997,768,409)**
Amounts of payables / receivables of internal transaction in total on 31/12/2017	**(191,491,483)**	**(148,474,967)**	**(657,801,959)**	**997,768,409**	**-**

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

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

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

2.6. Shareholders' equity

2.6.1. Equity and reserves

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

2.6.2. Retained profit (loss)

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

2.7. Grants

	DK	DL	DI	Other divisions	In total
Balance on 31/12/2016	**1,134,509**	**-**	**508,841,832**	**5,150,194**	**515,126,535**
Funds received during 2017	-	2,740,000	18,760,675	5,470,464	26,971,139
Repaid / transferred / withdrawn during 2017	(42,752)	-	(1,106,913)	-	(1,149,665)
Public funds used for the compensation of non-received income during 2017	-	(2,301,835)	-	-	(2,301,835)
VAT paid on non-received income compensation during 2017	-	(207,165)	-	-	(207,165)
Used (+) and unused (-) funds allocated to the Directorates / divisions within 2017	(975,553)	-	9,929,888	(8,954,335)	-
Used for the compensation of expenses during 2017	-	(231,000)	-	-	(231,000)
Used for reducing expenses of non-current assets depreciation during 2017	(98,122)	-	(15,080,495)	(35,549)	(15,214,166)
Used for reducing other expenses during 2017	-	-	(1,476,068)	-	(1,476,068)
Increase in share capital during 2017	-	-	-	(650,197)	(650,197)
Balance on 31/12/2017	**18,082**	**-**	**519,868,919**	**980,577**	**520,867,578**

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

Public funds received in 2017

Hereinunder we provide main public funds received in 2017 for the following purposes:

a) The funds of the State budget allocated to the Company as per agreement No SK-76 signed between the Ministry of Transport and Communications of the Republic of Lithuania and the Company on 2 June 2017 and its amendments (hereinafter the Agreement) regarding the use of the State budget funds allocated for implementation of the programme of PLLC Lithuanian Railways *Provision of Railway Communication*. As per the agreement, the Company undertook to implement objectives of the programme *Provision of Railway Communication* of the strategic activity plan for 2017-2019 of the Ministry of Transport and Communications of the Republic of Lithuania approved by the Order No 3-429 of 9 December 2016 of the Minister of Transport and Communications of the Republic of Lithuania and its amendments.

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

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

d) The funds of the programmes for informative society development (European Union funds and State budget funds) are allocated for the project Creation of the integrated information platform for freight transportation by sea and railway (e-freight) (application code VP2-3.1-IVPK-03-V-01-015) under the Lithuanian Strategy for the Use of EU Structural Assistance for 2007-2013 and as per the list of the State projects of the measure No VP2-3.1-IVPK-03-V Intellectual Management Systems of Priority 3 Informative Society for All of the Economic growth operational program approved by the Order No T-194 of the Director of the Informative Society Development Committee under the Government of the Republic of Lithuania dated 20 October 2008;

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

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

g) The funds of the State budget and of the European Union are allocated to the Company as per the European Commission Decision No K(2008) 7561 dated 4 December 2008, as partially amended by the Decision No K(2010) 1089 dated 25 February 2010, the Decision No K(2011) 910 dated 9 February 2011, the Decision No K(2011) 5019 dated 6 July 2011 and the Decision No K(2013) 6603 dated 3 October 2013, related to provision of the Community's financial aid for the projects of common interest “analysis of Rail Baltica Project in the territory of Lithuania”: 1) European gauge railway section Poland border — Marijampole, 2) improvement of the existing line, 3) cooperation in the implementation of the general analysis of “Rail Baltica Project European gauge” 2007-LT-27040-S - in the field of Trans-European Transport Network (TEN-T), as well as per the agreement between the Company and the Transport Investment Directorate No 1.15-2/SK-130 on the Distribution of rights and obligations of the implementing institution and project executor in the course of implementation of the development projects in the field of Trans-European Transport Network (TEN-T) provided with the financial support of TEN-T Community and State budget funds for funding of the project approved by the Order No 3-89 of 2 March 2017 of the Minister of Transport and Communications of the Republic of Lithuania Regarding approval of the list of 2017 equity investment distribution for transport, communication and information society development according to investment projects' implementation programmes, project contractors and investment projects specified in the programme of the state investment for 2017-2019 and amendment of this Order);

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

i) On 26 June 2013 a joint operations agreement No SP-265 was signed with Kaunas City Municipality Administration and Lithuanian Road Administration under the Ministry of Transport and Communications (on 3 November 2014 an additional agreement No SP-371 signed) for the implementation of a project Design and Construction of the Intermodal Terminal in Kaunas Public Logistics Centre. According to the agreement all partners committed themselves to jointly develop and finance the project. Under this joint operations agreement the Company is the managing partner and accounts for all partners' accumulated construction in progress and funding received (received allocations) for the project. After implementation of the

Public funds received in 2017 (continued)

project a part of its assets created during the execution and financing of the project received from the EU funds will have to be transferred to the partners in accordance with the legislation;

j) On 29 January 2015 a joint operations agreement No SP-17 was signed with Telsiai Region Municipality Administration for the implementation of a project Construction of the second line in the section Telsiai — Lieplauke, on 29 January 2015 a joint operations agreement No SP-18 was signed according to which all partners committed themselves to cooperate for the implementation of this project. Under this joint operations agreement the Company is the managing partner and accounts for all partners' accumulated construction in progress and funding received (received allocations) for the project. After implementation of the project a part of its assets created during the execution and financing of the project received from the EU funds will have to be transferred to the partners in accordance with the legislation;

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

l) The funds are allocated to the Company in order to ensure activities of a joint Lithuanian, Latvian and Estonian company during implementation of Rail Baltica 2 project of Transport and communications policy of the strategic activity plan for 2017-2019 of the Ministry of Transport and Communications of the Republic of Lithuania approved by the Order No 3-429 of 9 December 2016 of the Minister of Transport and Communications of the Republic of Lithuania and its amendments.

m) Financial assistance from the European Union is allocated to the projects approved by the Order No 3-827 of 9 December 2016 of the Minister of Transport and Communications of the Republic of Lithuania regarding the approval of the list of investment projects and its amendments, as well as Order No 3-89 of 2 March 2017 of the Minister of Transport and Communications of the Republic of Lithuania regarding the approval of the list of 2017 equity investment distribution for transport, communication and information society development according to investment projects' implementation programmes, project contractors and investment projects specified in the programme of the state investment for 2017-2019 and amendment of this Order.

Seq. No.	Purpose of public funds	Total on 31 December 2017	
		Received*	Used**
1. Passenger transportation directorate			
1.1. Compensation of expenses and loss of profit			
1.1.1.	State budget funds	2,740,000	2,532,835
	IN TOTAL (1)	**2,740,000**	**2,532,835**
2. Railway infrastructure directorate			
2.1. Compensation of expenses			
2.1.1.	State budget funds	1,454,864	1,454,864
2.1.2.	Funds from the Internal Safety Fund	20,000	21,150
2.1.3.	Other sources of funding	54	54
	In total	**1,474,918**	**1,476,068**
2.2. Grants related to assets used for minimisation of depreciation expenses			
2.2.1.	State budget funds	1,677,191	231,519
2.2.2.	Funds from the EU Structural Funds	11,435,219	12,822,763
2.2.3.	Funds from Trans-European Transport Network (TEN-T) Fund	1,461,993	765,720
2.2.4.	Funds from European Infrastructure Network (EIN) Fund	8,748,909	8,481
2.2.5.	Road maintenance and development funding program	-	20,528
2.2.6.	Assets received free of charge	32,754	1,231,484
	In total	**23,356,066**	**15,080,495**
2.3.	***Land plots provided by municipalities under the right of trust at their indexed value***	**300,374**	-
	In total	**300,374**	-
2.4. Funding received for partners' part of assets			
2.4.1.	Funds from the EU Structural Funds	1,646,132	
	In total	**1,646,132**	-
	IN TOTAL (2):	**26,777,490**	**16,556,563**
3. Freight transportation directorate			
3.1. Compensation of expenses			
3.1.1.	Funds from the Nordic Investment Bank (NIB)	(29,552)	-
	In total	**(29,552)**	-
3.2. Grants related to assets used for minimisation of depreciation expenses			

3.2.1.	State budget funds	(146,332)	14,633
3.2.2.	Funds from European Regional Development Fund (ERDF)	(829,221)	82,761
3.2.3.	Other sources of funding	-	728
	In total	**(975,553)**	**98,122**
3.3. Funding received for partners' part of assets			
3.3.1.	Funds from the EU Structural Funds	(13,200)	-
	In total	**(13,200)**	-
	IN TOTAL (3):	**(1,018,305)**	**98,122**
4. Administration and other divisions			
4.1. Compensation of expenses			
	In total	-	-
4.2. Grants related to assets used for minimisation of depreciation expenses			
4.2.1.	State budget funds	(665,464)	655,065
4.2.2.	Funds from the EU Structural Funds	4,219	370
4.2.3.	Funds from European Regional Development Fund (ERDF)	829,221	27,587
4.2.4.	Funds from Trans-European Transport Network (TEN-T) Fund	(1,461,993)	-
4.2.5.	Funds from European Infrastructure Network (EIN) Fund	(2,193,000)	-
4.2.6.	Other sources of funding	3,146	2,725
	In total	**(3,483,871)**	**685,747**
	IN TOTAL (4)	**(3,483,871)**	**685,747**
In total (1+2+3+4)		**25,015,314**	**19,873,267**

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

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

3.1. Used public funds to compensate for unearned income

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

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

3.2. Revenue from sales to other Directorates / divisions

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

	DL	DK	DI	Other divisions	In total
Income of the Passenger Transportation Directorate for internal services:	-	**464,424**	**108,852**	**78,084**	**651,360**
Carriage of office correspondence	-	60,150	13,895	8,441	82,486
Technical maintenance and repair	-	341,303	78,764	-	420,067
Other services	-	62,971	16,193	69,643	148,807
Income of the Freight Transportation Directorate for internal services:	**2,654,179**	-	**24,643,543**	**141,514**	**27,439,236**
Train traffic organisation	-	-	23,466,180	-	23,466,180
Technical maintenance and repair	595,337	-	432,932	-	1,028,269
Freight carriages	4,089	-	252,829	19,573	276,491
Services of rolling stock and crews thereof	1,939,012	-	294,255	-	2,233,267
Other services	115,741	-	197,347	121,941	435,029
Income of the Railway Infrastructure Directorate for internal services:	**15,267,674**	**193,919,527**	-	**1,120,007**	**210,307,208**
Infrastructure charges	12,683,336	189,944,215	-	-	202,627,551
Charge for the contact electrical network	905,346	-	-	-	905,346
Fee for use of intermodal terminal	267,700	1,192,340	-	-	1,460,040
Technical maintenance and repair	64,997	117,947	-	2,477	185,421
Electricity, gas, steam, and water supply	1,143,037	1,734,569	-	342,824	3,220,430
Other services	203,258	930,456	-	774,706	1,908,420

Income of the other divisions for internal services:	**2,796,484**	**16,838,977**	**12,251,316**	**-**	**31,886,777**
Administration services	1,739,964	8,183,356	8,137,157	-	18,060,477
ITC services	652,777	4,240,530	3,820,593	-	8,713,900
TVPC services	388,922	4,377,215	89,601	-	4,855,738
Other services	14,821	37,876	203,965	-	256,662
In total	**20,718,337**	**211,222,928**	**37,003,711**	**1,339,605**	**270,284,581**
Income from internal transactions between the other divisions				2,828,170	2,828,170
Total, including internal transactions between other divisions	**20,718,337**	**211,222,928**	**37,003,711**	**4,167,775**	**273,112,751**
Income from financial and investment activities					
Income of the Passenger Transportation Directorate for internal services:	**-**	**-**	**480,943**	**-**	**480,943**
Fines and compensation for delays and cancellations of passenger trains	-	-	480,943	-	480,943
Income of the Freight Transportation Directorate for internal services:	**-**	**-**	**12,992**	**-**	**12,992**
Fines and compensation for delays and cancellations of passenger freight trains	-	-	12,992	-	12,992
Income of the Railway Infrastructure Directorate for internal services:	1,088	3,099	-	-	**4,187**
Fines and compensation for delays and cancellations of trains	1,088	3,099	-	-	4,187
Total internal income from financial and investment activities	**1,088**	**3,099**	**493,935**	**-**	**498,122**

3.3. Public funds used for the compensation of expenses

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

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

3.4. Costs of purchases from other Directorates / divisions

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

	DL	DK	DI	Other divisions	In total
Costs of the Passenger transportation directorate:	**-**	**2,654,179**	**15,267,674**	**2,796,484**	**20,718,337**
Infrastructure charges	-	-	12,683,336	-	12,683,336
Charge for the contact electrical network	-	-	905,346	-	905,346
Fee for use of intermodal terminal	-	-	267,700	-	267,700
Technical maintenance and repair	-	595,337	64,997	-	660,334
Freight carriages	-	4,089	-	-	4,089
Services of rolling stock and crews thereof	-	1,939,012	-	-	1,939,012
Electricity, gas, steam, and water supply	-	1,436	1,143,037	-	1,144,473
Administration services	-	-	-	1,739,964	1,739,964
ITC services	-	-	-	652,777	652,777
TVPC services	-	-	-	388,922	388,922
Other services	-	114,305	203,258	14,821	332,384
Costs of the Freight Transportation Directorate:	**464,424**	**-**	**193,919,527**	**16,838,977**	**211,222,928**
Infrastructure charges	-	-	189,944,215	-	189,944,215
Fee for use of intermodal terminal	-	-	1,192,340	-	1,192,340
Technical maintenance and repair	341,303	-	117,947	-	459,250
Carriage of office correspondence	60,150	-	-	-	60,150
Electricity, gas, steam, and water supply	2,243	-	1,734,569	-	1,736,812
Administration services	-	-	-	8,183,356	8,183,356
ITC services	-	-	-	4,240,530	4,240,530
TVPC services	-	-	-	4,377,215	4,377,215
Other services	60,728	-	930,456	37,876	1,029,060
Costs of the Railway infrastructure directorate:	**108,852**	**24,643,543**	**-**	**12,251,316**	**37,003,711**
Train traffic organisation	-	23,466,180	-	-	23,466,180
Technical maintenance and repair	78,764	432,932	-	-	511,696
Freight carriages	-	252,829	-	-	252,829
Services of rolling stock and crews thereof	-	294,255	-	-	294,255
Carriage of office correspondence	13,895	-	-	-	13,895
Administration services	-	-	-	8,137,157	8,137,157
ITC services	-	-	-	3,820,593	3,820,593
TVPC services	-	-	-	89,601	89,601
Other services	16,193	197,347	-	203,965	417,505
Costs of other divisions:	**78,084**	**141,514**	**1,120,007**	**-**	**1,339,605**
Technical maintenance and repair	-	-	2,477	-	2,477
Freight carriages	-	19,573	-	-	19,573
Electricity, gas, steam, and water supply	10,012	19,147	342,824	-	371,983
Carriage of office correspondence	8,441	-	-	-	8,441
Other services	59,631	102,794	774,705	-	937,131
In total	**651,360**	**27,439,236**	**210,307,206**	**31,886,777**	**270,284,581**
Costs of internal transactions between the other divisions	-	-	-	2,828,170	2,828,170
Total, including internal transactions between other divisions	**651,360**	**27,439,236**	**210,307,208**	**34,714,947**	**273,112,751**
Internal costs from financial and investment activities					
Costs of the Passenger Transportation Directorate for internal services:	**-**	**-**	**1,088**	**-**	**1,088**
Fines and compensation for delays and cancellations of trains	-	-	1,088	-	1,088
Costs of the Freight Transportation Directorate for internal services:	**-**	**-**	**3,099**	**-**	**3,099**
Fines and compensation for delays and cancellations of passenger freight trains	-	-	3,099	-	3,099
Costs of the Railway Infrastructure Directorate for internal services:	**480,943**	**12,992**	**-**	**-**	**493,935**
Fines and compensation for delays and cancellations of freight trains	-	-	-	-	-
Fines and compensation for delays of freight trains	480,943	12,992	-	-	493,935
Total internal costs from financial and investment activities	**480,943**	**12,992**	**4,187**	**-**	**498,122**

3.5. Corporate income tax

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

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

		Public passenger carriage services by rail	Commercial passenger carriage services by rail and other activities	In total
1.	**Sales revenue**	**12,479,521**	**15,784,440**	**28,263,961**
1.1.	Sales to customers	10,064,335	15,784,440	25,848,775
1.2.	Used public funds to compensate for unearned income	2,415,186*	-	2,415,186*
2.	**Cost of sales**	**(44,710,337)**	**(11,184,514)**	**(55 894 851)**
2.1.	Cost of sales, except public funds used for compensation of expenses	(44,941,337)	(11,184,514)	(56,125,851)
2.1.1.	Salaries and social security expenses	(8,786,496)	(1,777,553)	(10,564,049)
2.1.2.	Materials for repairs and maintenance	(121,566)	(1,109,245)	(1,230,811)
2.1.3.	Fuel	(2,417,155)	(932,248)	(3,349,403)
2.1.4.	Depreciation	(10,106,048)	(1,965,257)	(12,071,305)
2.1.5.	Repairs and maintenance works, carried by internal and external contractors. and other costs	(1,887,180)	(1,444,761)	(3,331,941)
2.1.6.	Infrastructure charges and charges for contact electrical network	(11,294,720)	(2,561,662)	(13,856,382)
2.1.7.	Electricity for traction	(793,984)	(222)	(794,206)
2.1.8.	Other internal costs (not included in items 2.1.6 - 2.1.7 of this table)	(9,534,188)	(1,393,566)	(10,927,754)
2.2.	Funds used for compensation of expenses	231,000*		231,000*
3.	**Operating expenses**	**(1,203,799)**	**(585,871)**	**(1,789,670)**
4.	**Profit (loss)**	**(33,434,615)**	**4,014,055**	**(29,420,560)**
5.	**Other activities**	**-**	**(142,766)**	**(142,766)**
5.1.	Income from other activities	-	239,562	239,562
5.2.	Expenses on other activities	-	(382,328)	(382,328)
6.	**Financial and investment activities**	**215,710**	**18,948**	**234,658**
6.1.	Revenue from financial and investment activities	448,686	39,413	488,099
6.2.	Costs of financial and investment activities	(232,976)	(20,465)	(253,441)
7.	**Profit (loss) before tax**	**(33,218,905)**	**3,890,237**	**(29,328,668)**

* The State budget funds allocated to the Company for compensation of non-received income for provision of socially necessary transport services to the society — carriage of passengers (pensioners, people with disabilities, students, etc.) entitled to purchase discounted tickets. The State budget funds were allocated to the Company under the Law of the Republic of Lithuania on Transport Privileges and the agreement No SK-76 signed between the Company and the Ministry of Transport and Communications of the Republic of Lithuania on 2 June 2017 on the use of state budget funds.

** The State budget funds for compensation of loss for provision of passenger carriage services by the routes which are commercially unprofitable for the Company. The State budget funds were allocated to the Company under the Law of the Republic of Lithuania on Transport Privileges and the agreement No SK-76 signed between the Company and the Ministry of Transport and Communications of the Republic of Lithuania on 2 June 2017 on the use of state budget funds.