2017

ANNUAL REPORT OF AB LIETUVOS GELEŽINKELIAI

ABBREVIATIONS:

LG, Lietuvos Geležinkeliai or the Company – AB Lietuvos Geležinkeliai
Group – AB Lietuvos Geležinkeliai and its subsidiaries
GAC – UAB Geležinkelių Aplinkosaugos Centras
Gelsauga – UAB Gelsauga
GTC – UAB Geležinkelio Tiesimo Centras
IFRS – International Financial Reporting Standards
VLRD – UAB Vilniaus Lokomotyvų Remonto Depas
EU – European Union

Consolidated Annual Report, Separate and Consolidated Financial Statements for the year 2017, prepared for the period January 1, 2017 - December 31, 2017, 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.

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"By working consistently, without fear of challenges, we will make Lietuvos Geležinkeliai a leader in mobility and logistics in the Central and Eastern Europe"

MANTAS BARTUŠKA
CEO
AB LIETUVOS GELEŽINKELIAI

Dear Customers, Employees, Partners,

Lietuvos Geležinkeliai, being of strategic significance for the State, has taken the very first, but we believe, a highly sustainable step towards a new stage – the creation of a transparent and profitable company group ensuring benefit for its employees, customers, shareholder and society.

We have transformed former business models. The changes that were started last year have required complicated, sometimes unpopular decisions. Although difficult, this transformation phase has been successful.

The program of changes "LG Efektas" which was launched in 2017, to manage the Company's costs, allowed Lietuvos Geležinkeliai to become more efficient, revenue, passenger and cargo flows to grow. Lietuvos Geležinkeliai for the first time became the leader in the Baltic States according to the volumes of cargo transported.

Last year, the Company earned EUR 445 million of revenue whereas the Group EUR 448 million, which is 11 percent more than in 2016. The Company carried 52.6 million tons of cargo – 10 percent more than in 2016, 4.7 million passengers enjoyed ride on our trains. New contracts with strategic partners have been signed and passenger services are being improved. Listening to customer needs provides a stable basis for the Group to continue steady growth and increase value.

Although the competitive environment remains fierce and complicated, we will continue our determined transformation of Lietuvos Geležinkeliai Group. The approved long-term strategy sets ambitious goals: to double the value of business by 2030, to increase income by 60 percent, cargo volumes – by 30 percent, to double the number of passengers.

This year we will continue seeking these goals. Our first and foremost priority is our employees, as business performance relies on people. Only with the the best team in the region we will achieve sustainable results and foster the winning culture. The cornerstone of this is not just the base salary but also the concept of the incentives for individual performance achievements.

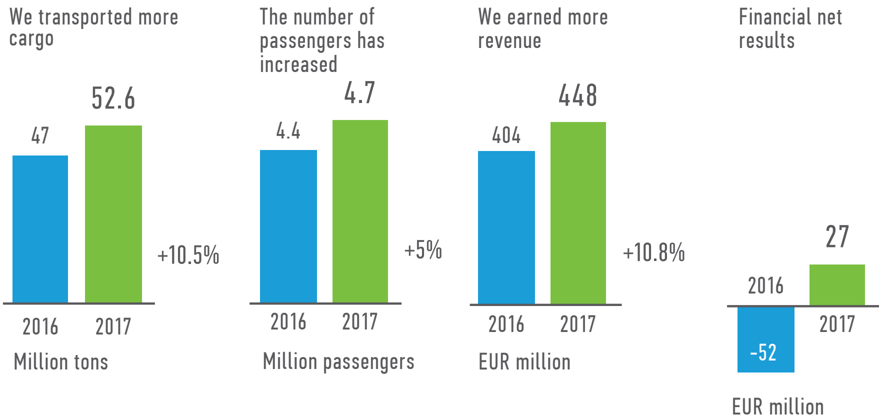
Another priority is efficiency. We are implementing world-class standards of corporate governance, using the latest technologies.

We will use the accumulated competences to grow locally and internationally. Two more priorities relate to our customers: freight customers ("LG for business") and passengers. We strive to become a logistics service provider that meets the customers' needs best. We will offer passengers more speed and comfort, new routes, door-to-door services. We will build attraction centres for people and businesses at our stations.

Last but not least priority is infrastructure. An independent manager will ensure reliable and secure infrastructure and capacities that meet the needs.

I believe that by working consistently, without fear of challenges and setting ambitious goals, we will make Lietuvos Geležinkeliai a leader in mobility and logistics in the Central and Eastern Europe.

Breaking point 2017
We became a profitable company



About the Group and the Company

Lietuvos Geležinkeliai Group is the largest Lithuanian and one of the largest European railway transport group of companies.

In pursuit of the main goal of becoming a leader in mobility and logistics in the Central and Eastern Europe, Lietuvos Geležinkeliai is constantly striving to increase competitiveness, transparency and efficiency of operations, invest in the rolling stock park, focus on its customers, develop innovations and technologies, improve service quality. Particular attention is paid to the implementation of Rail Baltica and East-West Corridor infrastructure development projects.

ACTIVITIES OF LIETUVOS GELEŽINKELIAI

FREIGHT TRANSPORTATION AND OTHER SERVICES RELATED TO FREIGHT TRANSPORTATION ACTIVITIES

Results. In 2017, 52.6 million tons of cargo were transported, which is 10 percent more than last year. The Company mainly transported oil and its products, mineral products, chemical and mineral fertilizers, vegetable products. Since 2017, Lietuvos Geležinkeliai is the leader in the Baltic region and holds the 7th place in Europe according to the volumes of cargo transported.

Goals. By 2030 the goal is to increase the volumes of cargo transported by 30 percent: from 52.6 million tons (2017) to 70 million tons (2030); also, to become a logistics service provider in the region that satisfies customers' needs best, to fully use 1,435 mm gauge area in the Western direction, and to implement innovative and environmentally friendly solutions for cargo transportation.

Main activities. In carrying out freight transportation activities, the Group provides the following services: freight transportation, logistics and forwarding, cargo loading and unloading, wagon rental in Lithuania and abroad, coordinates the work of locomotives and brigades in Lithuania and abroad, and also leases them.

PASSENGER TRANSPORTATION AND OTHER SERVICES RELATED TO PASSENGER TRANSPORTATION ACTIVITIES

Results. In 2017, 4.7 million passengers took trains, which is 5 percent more than in 2016.

Goals. The goal for the passenger transportation activities is to increase the number of passengers by 100 percent by 2030: from 4.7 million (2017) to 8 million (2030). It is also aimed at expanding the volume of routes in and outside Lithuania, modernizing the rolling stock park, providing new services for passengers, improving travel experience, and turning the railway stations into passenger and city people attraction centers.

Main activities. While transporting passengers, the Group provides passenger services on local and international routes, postal and luggage transportation in the territory of Lithuania, and other additional services.

MANAGEMENT, MAINTENANCE AND DEVELOPMENT OF PUBLIC RAILWAY INFRASTRUCTURE

Results. Efficiency of public railway infrastructure and its development, as well as non-discriminatory access to the public railway infrastructure for all railway carriers legally operating in Lithuania.

Goals. To ensure safe and sufficient capacity, successful and timely implementation of the Rail Baltica project, that will give new opportunities for passengers (travel 250 km/h) and freight carriers, efficient implementation of the investment program of up to EUR 6 billion, improve environmental protection by increasing number of electrified tracks. The goals are also to increase capacity, and speed for passengers in the main IX B corridor, creating infrastructure that ensures competitive environment, to install modern diagnostic solutions, and to apply autonomous train technologies.

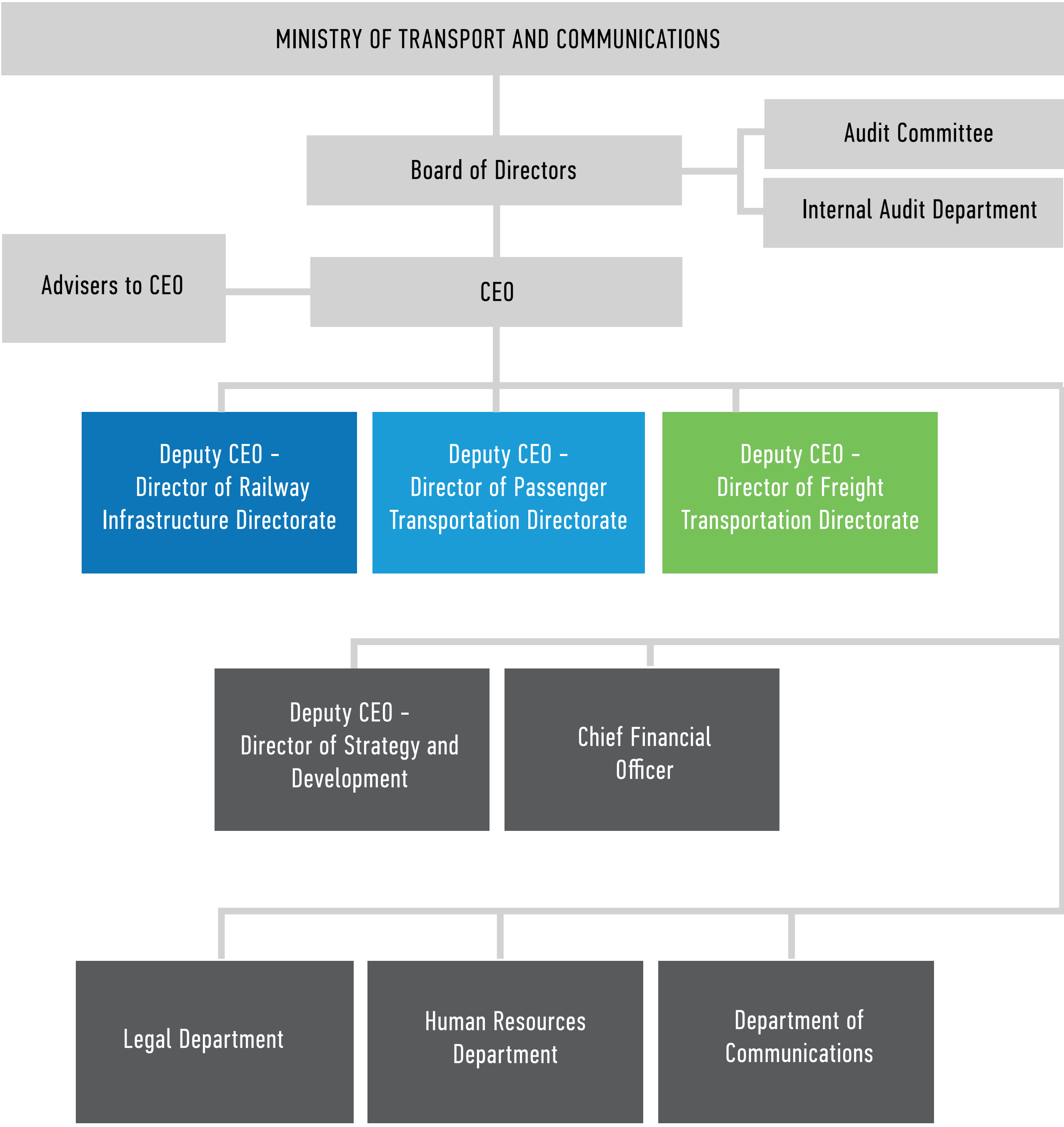
Main activities. In managing the public railway infrastructure, the Group carries out maintenance and repair of railway infrastructure, organizes safe train traffic, provides intermodal terminals services, leases railway machinery and equipment.

Corporate Governance and Organizational Structure

On 31 December 2017 the Group comprised of Lietuvos Geležinkeliai and the following main companies:

- UAB Vilniaus Lokomotyvų Remonto Depas,
- UAB Geležinkelio Tiesimo Centras,
- UAB Gelsauga,
- UAB Rail Baltica Statyba,
- associated company UAB Voestalpine VAE Legetecha.

Bodies of AB Lietuvos Geležinkeliai: General Meeting of Shareholders, Board of Directors, Chief Executive Officer. 100 percent of the Company's shares belong to the State, which is represented 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 Officer.
Since the end of the year 2016, the Company has modernized the organizational structure in order maximize its efficiency and transparency.


MINISTRY OF TRANSPORT AND COMMUNICATIONS
Board of Directors
Audit Committee
Internal Audit Department
Advisers to CEO
CEO
Deputy CEO – Director of Railway Infrastructure Directorate
Deputy CEO – Director of Passenger Transportation Directorate
Deputy CEO – Director of Freight Transportation Directorate
Deputy CEO – Director of Strategy and Development
Chief Financial Officer
Legal Department
Human Resources Department
Department of Communications

BOARD OF THE COMPANY

The Board of Directors is a collegial management body of the Company consisting of 7 members (5 independent), elected for a term of 4 years by the General Meeting of Shareholders. The competence of the members of the Board and their areas of activity, duties and competence of the Chairman of the Board are defined in the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company.

ROMAS ŠVEDAS

CHAIRMAN OF THE BOARD,
INDEPENDENT BOARD MEMBER

EDUCATION

- Vilnius University, Faculty of Law,
- "Political Democracy", University of Umea (Sweden),
- "Foreign Trade Policy", World Trade Organization (Geneva, Switzerland),
- "Negotiations on International Trade Contracts", International Law Institute (Washington D.C., USA),
- "Board Member Studies", Baltic Institute of Corporate Governance (Vilnius, Riga, Tallinn),
- "Studies for the Chairman of the Board", Baltic Institute of Corporate Governance (Stockholm).

EMPLOYER, POSITION

- Member of the Heat Council under the Ministry of Energy of the Republic of Lithuania,
- Member, Chairman of the Espoo Convention Implementation Committee of the UN Economic Commission for Europe,
- Alternate member of the Administrative Board of the EU Agency for the Cooperation of the Energy Regulators,
- Lecturer at the Vilnius University Institute of International Relations and Political Science,
- Independent expert.

Monika Rimkūnaitė - Bložė

INDEPENDENT BOARD MEMBER

EDUCATION

- Master of International Business, Vilnius University, International Business School,
- European Business Management School, University of Wales, Swansea,
- Bachelor of Finance, Faculty of Economics, Vilnius University.

EMPLOYER, POSITION

- UAB Mobilieji Mokėjimai, CEO.

Christian Kuhn

INDEPENDENT BOARD MEMBER

EDUCATION

- Veolia Cursus Dirigeants,
- Hanover University, Ph.D.,
- Darmstadt Technical University, Master's Degree in Engineering.

EMPLOYER, POSITION

- Member of the Board and Chairman of the Strategy and Innovation Committee of the Kazakhstan railway company Kazakhstan Temir Zholy (KTZ),
- An independent consultant for rail and logistics companies.

Alditas Saulius
INDEPENDENT BOARD MEMBER

EDUCATION

- Joint Vienna Institute, Comprehensive Course in Applied Market Economics,
- Vilnius University, International Business School, together with New York St. John's University,
- Vilnius University, Faculty of Physics.

EMPLOYER, POSITION

- Member of the Board of UAB Investicijų Ir Verslo Garantijos,
- Member of the Board of VĮ Valstybinių Miškų Urėdija (state forest enterprise),
- Member of the Supervisory Board of the credit union Memelio Taupomoji Kasa,
- Consultant in the field of corporate and finance/risk management.

Rolandas Zukas
INDEPENDENT BOARD MEMBER

EDUCATION

- BICG “Board Member Studies”,
- ISM, Executive MBA,
- VGTU, Transport Engineering Economics and Management.

EMPLOYER, POSITION

- UAB EPSO-G, CEO.

Mantas Bartuška
MEMBER OF THE BOARD

EDUCATION

- Cambridge Judge and Business School, Cambridge, UK: Executive Advanced Leadership Program (Leadership studies),
- Baltic Institute of Corporate Governance (BICG): “Board Member Studies”,
- Southern Denmark University, Denmark: Bachelor of Management and Business Administration,
- Vilnius University: Bachelor in Management and Business Administration.

EMPLOYER, POSITION

- AB Lietuvos Geležinkeliai, CEO,
- Member of the Board of AB Klaipėdos Nafta.

Vladislav Kondratovič
MEMBER OF THE BOARD

EDUCATION

- Vilnius Gediminas Technical University, Faculty of Business Management.

EMPLOYER, POSITION

- Director of the Road Transport and Civil Aviation Policy Department of the Ministry of Transport and Communications of the Republic of Lithuania.

Composition of the Board of Lietuvos Geležinkeliai operating during the reporting period, from 14 December 2016: Romas Švedas, Chairman of the Board, independent member of the Board, Monika Rimkūnaitė-Bložė, independent member of the Board, Rolandas Zukas, independent member of the Board, Paulius Martinkus, Vice-minister of Transport and Communications of the Republic of Lithuania. The shareholder's decision regarding the removal of P. Martinkus from the Board was made on 21 December 2017. Following the approval of new independent members of the Board Ch. Kuhn and A. Saulius, he was replaced by V. Kondratovič.

Strategy

MISSION

We connect people and businesses for a better future

VISION

Mobility and logistics leader in Central and Eastern Europe

VALUES

We are ambitious

We work for our clients

We respect each other

We promote integrity

We are responsible

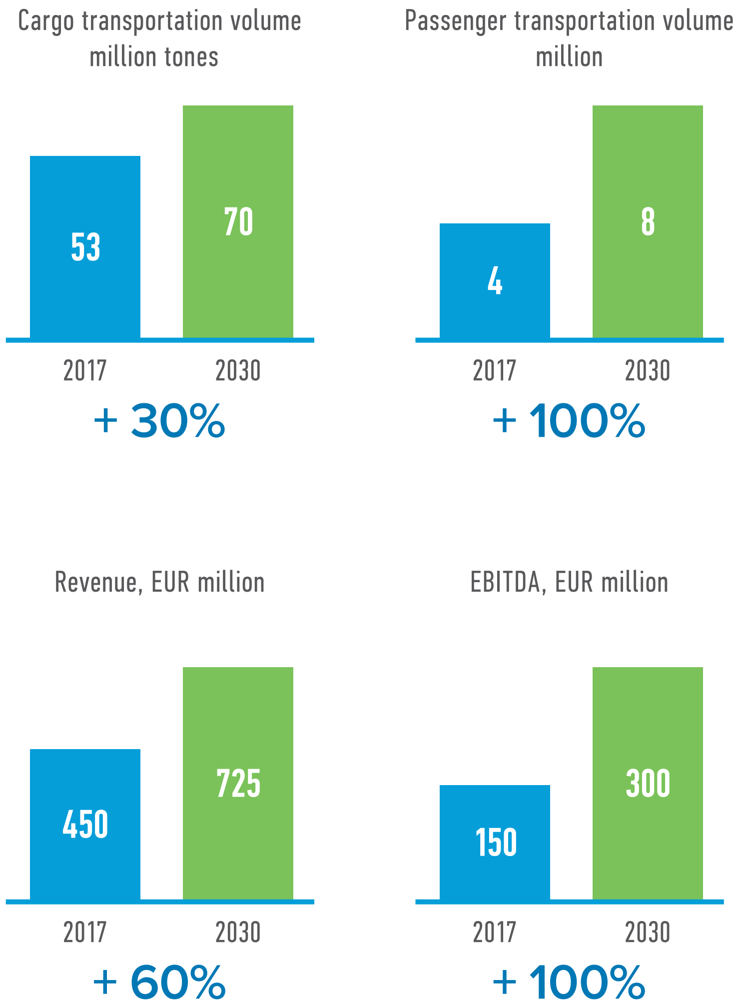
LG GROUP GROWTH STRATEGY 2030

Since 2017, Lietuvos Geležinkeliai has changed its governance principles substantially. A decision has been taken to replace short-term business plans that used to be prepared by the Company until this year with a comprehensive long-term strategy that is consistent with the best international practices and is constantly updated. At the beginning of 2017, the Board of Lietuvos Geležinkeliai approved the preparation of this strategy as a priority task. Its preparation started in accordance with the recommendations issued by the Governance Coordination Center to state-owned enterprises for strategic planning of business.

On 21 November 2017, an international consultancy firm McKinsey & Company, which won an international tender, was awarded a contract for preparation of a long-term business strategy of LG.

The long-term strategy of the Company covers all activities of the Group of Lietuvos Geležinkeliai – freight and passenger transportation and related logistics services on the local and international markets. The strategy defines the principles of long-term strategic goals of the Company and the means of their implementation, provides projected business indicators and financial forecasts and identifies key strategic risks and their management policies.

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



LG Group growth strategy 2030

LG Group Priorities

EMPLOYEES

- Values based organizational culture,
- The best team. Ensuring future capabilities,
- Fostering leadership,
- High performance culture,
- Care for the health and safety of employees.

EFFICIENCY

- Exemplary application of corporate standards in the region,
- Accumulated competences are used to grow in domestic and international markets,
- Activities are carried out using the latest technologies,
- Environmentally-friendly activities,
- Implementation of the Fourth Railway Package,
- Double value of the Group.

LG FOR BUSINESS

- A logistics service provider that meets the customers' needs in the region best,
- Flexible and customer-oriented activities and pricing,
- Development in Lithuania and abroad,
- Active business in the 1,435 mm gauge area,
- 30 percent bigger cargo volumes.

LG FOR PASSENGERS

- Stations – attraction centres for people and businesses,
- Door-to-door services,
- Retail trade in stations and trains,
- Rail Baltica cruising speed of up to 250 km/h,
- Significantly shorter trips on other routes,
- Double number of passengers.

INFRASTRUCTURE

- Reliable and safe,
- Ambitious – zero deaths on the railroad,
- Independent manager of the infrastructure,
- Efficiently managed portfolio of investments,
- Electrified main tracks,
- Needs matching capacity,
- Rail Baltica project.

OPERATING PLANS FOR 2018

On 23 January 2018, the Board of the Company approved the budget of Lietuvos Geležinkeliai for 2018, which will be adjusted during the year, upon approval of the Company's long-term strategy and assessment of the impact of the transition to financial reporting under the IFRS on the projected indicators. In the course of implementation of the necessary changes and seeking to maximize efficiency of business, in 2017 the organizational management structure of the Company changed, some services not related to the core business of the Company were abandoned, transferring them to other companies of the Group or having decided to outsource them. The above changes also had a significant impact on the indicators set out in the plan.

The key indicators planned by LG

INDICATORS	2017	2018 PLAN	Δ, +/-
Cargo transported, millions of tons	52.638	53.500	+0.862
Passengers carried, millions	4.658	4.702	+0.044
Turnover of sales, millions of EUR	445.3	439.5	-5.8
EBITDA, millions of EUR	154.3	152.6	-1.7
Net Profit/Loss, millions of EUR	25.6	14.7	-10.9
EBITDA profitability, %	34.7%	34.7%	
Net Profitability, %	5.7%	3.3%	
Investments, millions of EUR	84.9	185.6	+100.7

Most Significant Events in 2017

JANUARY

- It was decided to prepare the financial statements for 2016 in accordance with IFRS. This decision was made in the light of the recommendations of the Organization for Economic Cooperation and Development (OECD) and the resolution of the Government of the Republic of Lithuania on ensuring transparency of activities in enterprises controlled by the state.
- Egidijus Lazauskas became the head of the Freight Transportation Directorate and Deputy CEO.
- Information on the sponsorship provided by Lietuvos Geležinkeliai for the period 2014-2016 was published following the publicity and transparency criteria.

FEBRUARY

- The Board of Lietuvos Geležinkeliai established the procedure for providing sponsorship.
- In order to reinforce the principles of publicity and transparency in the activities of the Group, information about intra-group transactions of Lietuvos Geležinkeliai with its subsidiaries was made public.

MARCH

- Linas Baužys became the head of the Passenger Transportation Directorate and Deputy CEO.
- Four tenders for construction works for the Rail Baltica project were suspended after it was established that the price proposed by suppliers exceeded the maximum prices specified in the procurement documents by up to 2.5 times.
- Lietuvos Geležinkeliai, together with other members of the LNG cluster, signed an agreement on the creation of an LNG-driven locomotive.

APRIL

- The list of companies creating the biggest added value in the Lithuanian business sector was published for the first time. According to the data of the Department of Statistics, Lietuvos Geležinkeliai is the leader in Lithuania according to this criterion.
- New combined summer season routes to Palanga and Nida "Pajūrio ekspresas" ("Seaside Express") were introduced.
- Lietuvos Geležinkeliai signed an agreement with the company OLTK, which organizes freight transportation between China and Western Europe.

MAY

- Lietuvos Geležinkeliai published a draft technical specification for the reconstruction and modernization of the railway line Kaunas-Palemonas, which will connect the Palemonas Intermodal Terminal with Rail Baltica railway line.
- For the first time, the highest and the longest bridge in Lithuania, i.e. the Lyduvėnai bridge, was opened to the public.
- A decision was made to stop running LG joint trains on the Kaliningrad-Vilnius-Moscow route. This will save more than EUR 2 million per year.

JUNE

- Mantas Bartuška, CEO of the Company, and Ireneusz Fąfara, the head of AB ORLEN Lietuva, a company controlled by the Polish oil concern ORLEN, signed a partnership agreement on mutually satisfactory terms of cooperation and competitive tariffs, which will be in effect until 2024. Both companies also agreed to terminate disputes in courts.
- Lietuvos Geležinkeliai announced a tender for procurement of construction works for the Rail Baltica project for constructing the European gauge rail from Kaunas to Palemonas.
- The program "LG efektas" for strategic transformation of the activities of the Group was launched, which will have a significant impact on the organizational structure, efficiency, transparency and business development of the Group.

JULY

- Lietuvos Geležinkeliai implemented the campaign "A part of the State", during which all the trains and locomotives were decorated with the State symbol Vytis.
- A representative office of Lietuvos Geležinkeliai was officially opened in Klaipėda, which deals with cooperation with the Klaipėda port and stevedoring companies, coordination of cargo flows, direct communication with customers, search for business development opportunities.
- It was announced that Lietuvos Geležinkeliai became the leader in the Baltic region according to the volumes of cargo transported.

AUGUST

- Lietuvos Geležinkeliai offered mobile cargo handling services to customers: cargo handling / loading, packaging, planning and getting reading of bulky cargo for transportation, cargo fastening.
- Karolis Sankovski took the office of the head of the Infrastructure Directorate and Deputy CEO.
- Lietuvos Geležinkeliai implemented the openness campaign, during which it opened railway objects, that used to be private, for the public.

SEPTEMBER

- Lietuvos Geležinkeliai signed a long-term service contract with AB Klovainių Skalda, a major Lithuanian producer of crashed dolomite and granite.
- The transformation of subsidiaries of Lietuvos Geležinkeliai was started, reducing the number of subsidiaries from six to four. It was decided to abandon the services not related to the Company's core business and to purchase them at a more affordable price in the market or to transfer them to other companies. Changes will allow more efficient use of resources in the Group and focus on the development in the international market. The design activities that used to be carried out by UAB Geležinkelių Projektavimas were transferred to UAB Geležinkelio Tiesimo Centras and the company itself was deregistered. UAB Geležinkelių Aplinkosaugos Centras that used to provide environmental protection, waste management, treatment plants, plantations, buffer forest maintenance and other services is in liquidation and most of the necessary services will be outsourced. UAB Vilniaus Lokomotyvų Remonto Depas and UAB Gelsauga are optimizing their activities, abandoning functions overlapping in the Group and increasing their competitiveness.
- On the initiative of Lietuvos Geležinkeliai, hybrid security training exercises were organized for the first time, involving over 10 state institutions and 1,000 employees of Lietuvos Geležinkeliai. During the training, different security measures and inter-institutional cooperation were tested.

OCTOBER

- Seimas ratified the agreement signed by the Prime Ministers of the Baltic States in January on the implementation of the Rail Baltica project, which consolidates the ambition to implement the project in 2025 and launch the new gauge in 2026.
- Andrej Kosiakov took the office of the Chief Financial Officer of Lietuvos Geležinkeliai.
- The selection of two additional independent Board members was announced in order to strengthen the management competencies in Lietuvos Geležinkeliai.

NOVEMBER

- Lietuvos Geležinkeliai concluded a long-term contract with the Belarusian Oil Company (BNK) for the transportation of oil and its products. The contract will ensure long-term partnership with the largest exporter of oil products in Belarus and will strengthen the Company's competitive advantage in the market.
- The Strategic Council for Research & Development and Innovations endorsed two of innovative projects of Lietuvos Geležinkeliai – the development of a new locomotive safety system and prototypes of the LNG-driven locomotive. Approval of the Council is necessary in order to obtain EU funding for innovative projects.
- A decision was taken to reduce the tariff for train formation, which will allow business clients to save about EUR 2 million each year.

DECEMBER

- New electric trains of Lietuvos Geležinkeliai started to run on the route Vilnius-Minsk, providing the opportunity for passengers to reach the capital of Belarus in more spacious vehicles suitable for business trips.
- The Company concluded a long-term contract with AB Lifosa, one of the largest exporters of mineral fertilizers in Europe. Lietuvos Geležinkeliai carries more than 2.5 million tons of products of this company each year. Also, in December, a tripartite letter of intent was signed with Milsa and Ko, the association of broken stone producers, and the Belarusian company Granit, in order to improve the transportation of crashed dolomite and granite, and to increase their volumes carried by rail.
- A new version of the Collective Agreement was signed between Lietuvos Geležinkeliai and trade unions uniting over 5,000 employees of the Company.

Overview of the Company's Activities

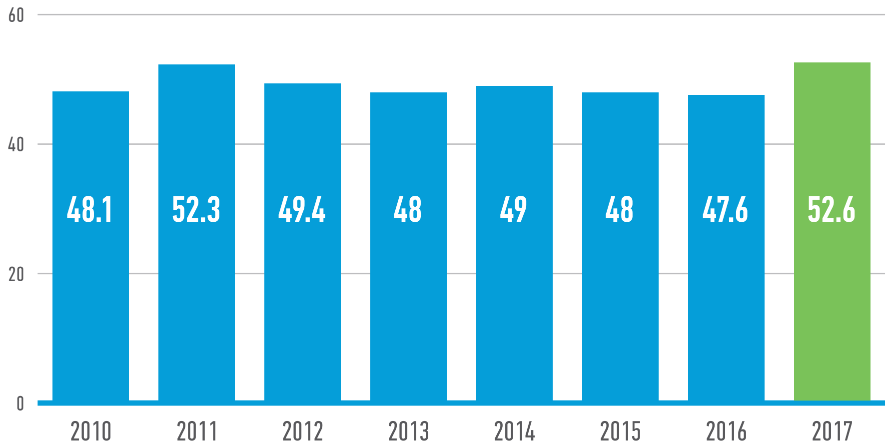
FREIGHT VOLUMES		2017	2016	Δ, +/-	Δ, %
Freight transportation total	**millions t**	**52.64**	**47.65**	**+4.99**	**10.5%**
FREIGHT TRANSPORTATION SEGMENTS					
Local transportation	millions t	15.54	15.05	+0.49	3.3%
International transportation	millions t	37.10	32.60	+4.50	13.8%
Transit	millions t	11.65	9.05	+2.60	28.8%
Export from Lithuania	millions t	4.67	3.84	+0.83	21.5%
Import to Lithuania	millions t	20.78	19.71	+1.07	5.4%
Cargo circulation	**billions t km**	**15.414**	**13.790**	**+1.624**	**11.8%**
Average distance travelled per tonne	**km**	**293**	**289**	**+4**	**1.4%**
Cargo types					
Chemical and mineral fertilizers	millions t	15.63	14.33	+1.30	9.1%
Oil and its products	millions t	14.56	14.46	+0.10	0.7%
Foodstuffs (incl. cereals)	millions t	5.93	5.57	+0.36	6.5%
Construction materials	millions t	5.73	4.60	+1.13	24.5%
Coal	millions t	4.35	2.69	+1.66	61.7%
Ferrous metals	millions t	3.10	3.03	+0.07	2.3%
Other cargo	millions t	3.34	2.97	+0.37	12.5%
Passengers transportation total	**millions of pass.**	**4.658**	**4.428**	**+0.230**	**5.2%**
Domestic	millions of pass.	3.855	3.580	+0.275	7.7%
International	millions of pass.	0.803	0.848	-0.045	-5.3%
Passenger turnover	**millions pass. km**	**424.2**	**395.9**	**+28.3**	**7.1%**
Average distance travelled by passenger	**km**	**91**	**89**	**+2**	**2.2%**

FREIGHT TRANSPORTATION

When transporting cargo, LG is in competition with:

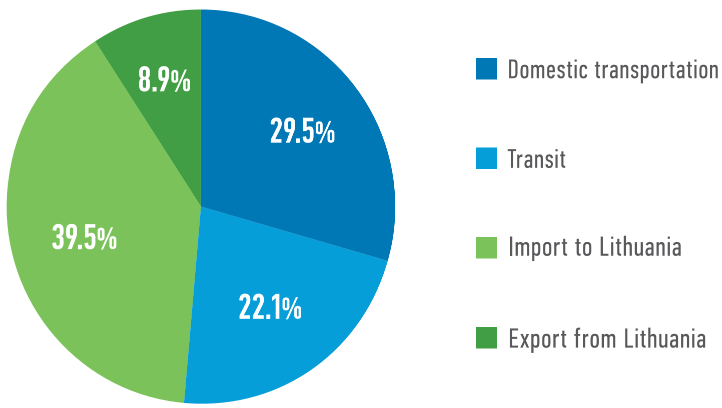
- **Carriers of other modes of transport (road, air transport);**
- **Rail networks of neighbouring countries (with ports and freight terminals);**
- **New railway carriers on the Lithuanian railway network.**

2010 – 2017 cargo transportation volumes (in million tones)



In 2017 the volume of rail freight of the Company increased by 10.5 percent in comparison with 2016 and amounted to 52.6 million tons of cargo. In 2017 the volume of rail freight of the railway companies of the neighbouring countries operating in the area of international rail freight has decreased by: 8.4 percent at Latvian Railways and by 0.8 percent at Estonian Railways.

2017 cargo transportation segments, in percent

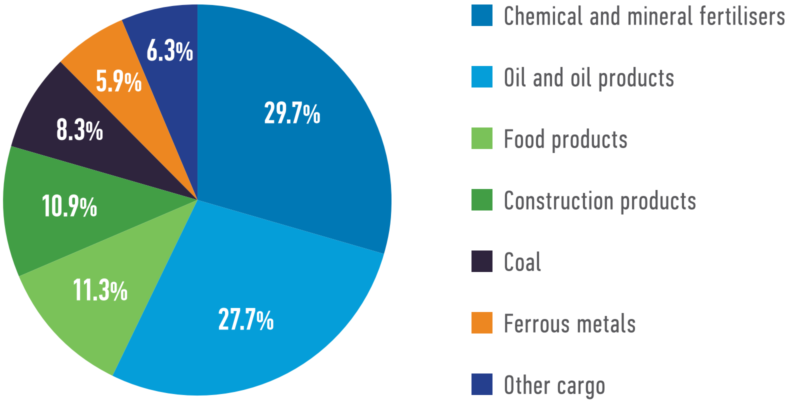


The volume of international freight accounts for 70.5 per cent and of domestic freight – for 29.5 percent of the total. Presently Belarus and Russia have major impact on for the biggest flows of cargo. Changes in the flows of cargo are often determined by geopolitical and macroeconomic reasons (such as freight policies of the neighbouring countries, economic developments in the region, global market trends, etc.) rather than local ones.

International transport has increased by 13.8 percent in 2017. The transit in the direction of Kaliningrad District has demonstrated particular growth. Thanks to the increase in coal and oil transport, the Kaliningrad transit grew by 29 percent. During the period covered in the present analysis, the transport via Klaipėda Seaport has also increased by 8 percent, particularly the transport of fertilisers from Belarus.

In 2017 the growth of domestic cargo transport was more moderate and amounted to 3 percent. The production volume and the transport of the main industrial companies of Lithuania (oil processing company Orlen Lietuva, AB, fertiliser, rubble manufacturers – Lifosa, AB, Achema, AB, Akmenės cenemtas, AB, Dolomitas, AB, etc.) have a significant effect on rail freight in domestic, export and import markets.

2017 cargo transportation structure, in percent



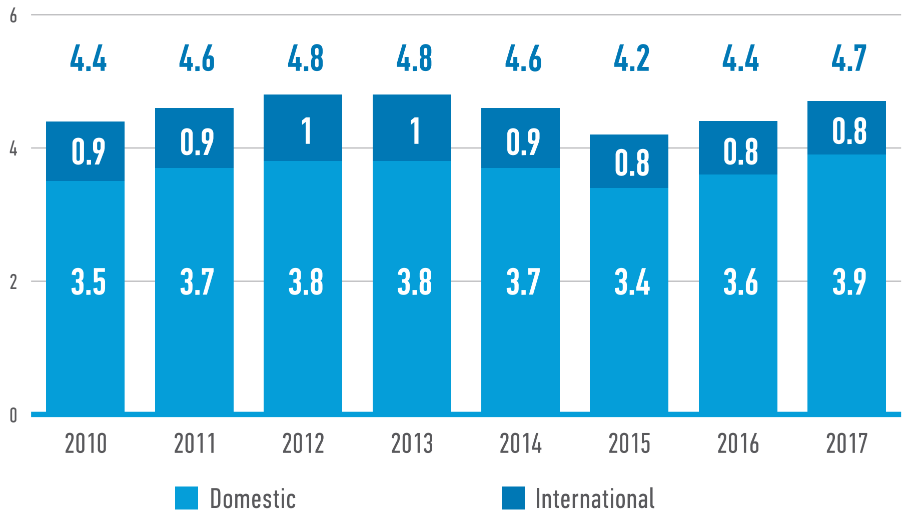
In 2017 the transport of chemical and mineral fertilisers dominated in the rail freight sector, its volume amounted to 15.6 million tons, or 29.7 percent of the total rail freight. The transport of oil and oil products amounted to 14.6 million tons (27.7 percent), products of plant origin and food products – to 5.9 million tons (11.3 percent), construction materials – to 5.7 million tons (10.9 percent).

CARRIAGE OF PASSENGERS

When carrying passengers, LG is in competition with:

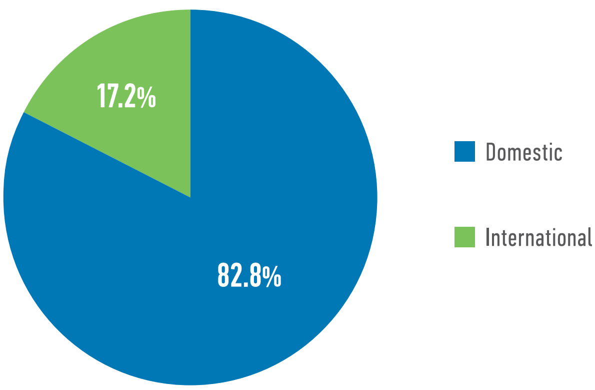
- **road transport companies**
- **airline companies**

Passenger carriage volume, 2010-2017 (million passengers)



The Company carried 4.7 million passengers in 2017. Compared to 2016, the carriage of passengers increased by 5 %. Domestic carriage accounted for 82.8 %, whereas international transport – for 17.2 % of railway passengers.

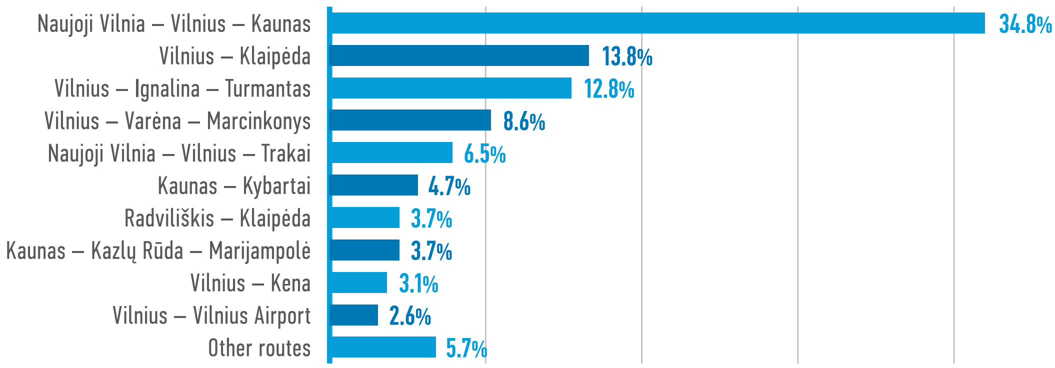
2017 passenger market segments, in percent



In 2017 the number of passengers carried on domestic routes amounted to 3.855 million, i.e. 7.7 % more than in 2016. The increase in the number of passengers is a result of an upgraded rolling stock fleet, increased frequency and speed of trains on separate routes, new service offering to passengers (the introduction of joint routes Vilnius – Palanga, Vilnius – Nida in 2017), passenger traffic schedule improvements (coordination of train connections between train routes in major railway stations, coordination of train and bus connections in co-operation with regional and city municipalities) and the introduction of other marketing measures. Naujoji Vilnia – Vilnius – Kaunas and Vilnius – Klaipėda routes remain among the most popular ones.

The number of passengers carried on international routes amounted to 0.803 million, i.e. 5.3 % less than in 2016. More than 80 % of passengers travelling on international routes traveled through the territory of Lithuania in transit trains to/from Kaliningrad District. 10 transit trains, 4 trains per day on average, cross the country.

2017 domestic transport structure, in percent



In 2017 the trains composed by the Company carried passengers on the international route Vilnius – Minsk. After the cross-border project of the electrification of the route from Vilnius to Minsk was completed in 2017, new electric trains were introduced to serve the route. Travel time and state-of-the-art rolling stock are likely to increase the attractiveness of this viable route. On the other hand, passenger service on the poorly performing route Vilnius – Moscow has been discontinued. Another international passenger route Vilnius – Daugavpils has been introduced at the beginning of 2018.

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 related to gaining 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 Lithuanian Transport Safety Administration 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

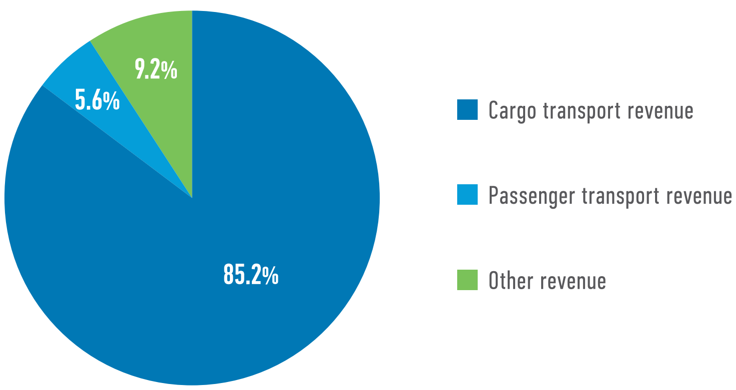
GROUP REVENUES

ANALYSIS OF GROUP ACTIVITIES

In 2017 the Group earned EUR 448.1 million of revenue, i.e. EUR 44.0 million or 10.9 % more than in 2016. Freight business accounted for the greatest part of the revenue, i.e. 85.2 %.

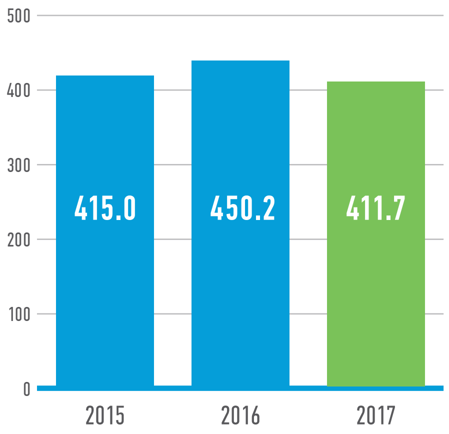
- **The revenue from freight business** was the most important factor behind the growth of revenue in 2017. The revenue amounted to EUR 381.5 million, i.e. EUR 37.4 million or 10.9 % more than in 2016. The substantial change was a result of the major growth of the volume of cargo transport business and related services.
- **The revenue from passenger carriage** did not change significantly in 2017 and amounted to EUR 25.2 million. The revenue from passenger carriage business amounted to 5.6 % of the total revenue structure of the Group.
- The Group also offers **other additional services** – rolling stock maintenance and repair, leasing of property, sale of scrap metal, cargo handling and storage as well as other services. Positive developments in 2017 were a result of the increase in the sales volume and sales price of scrap metal as well as the growth of the volume of additional services due to the significant increase of cargo transport volume.

2017 sales revenue structure of the Group, in percent



GROUP EXPENSES

Expenses of the Group, million Eur



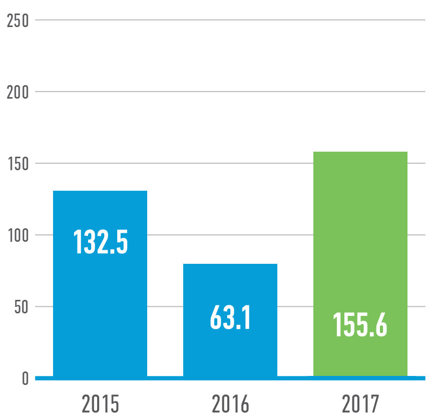
In 2017 the expenses of the Group related to the core and other businesses and amounted to EUR 411.7 million. The expenses decreased by EUR 38.5 million or 8.6 % as compared with the year 2016.

The larger proportion of the Group expenses is constituted by the labour costs (40.9 %), depreciation and amortisation (28.9 %) and fuels (11.6 %).

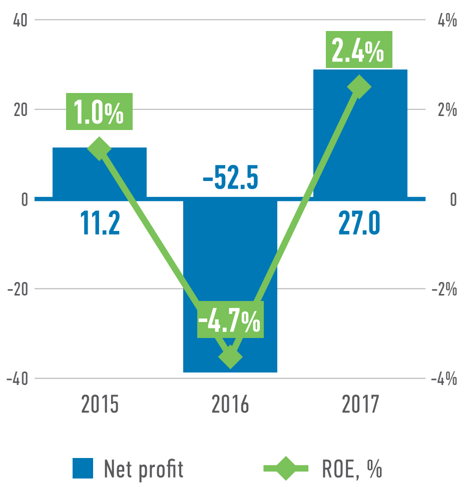
In 2016 the expenses increased mainly as a result of provision for the fine due to the European Commission decision regarding the dismantling of railway track between Mazeikiai and Renge.

ANALYSIS OF GROUP ACTIVITIES

EBITDA of the Group, million EUR



Net profit of the Group, million Eur



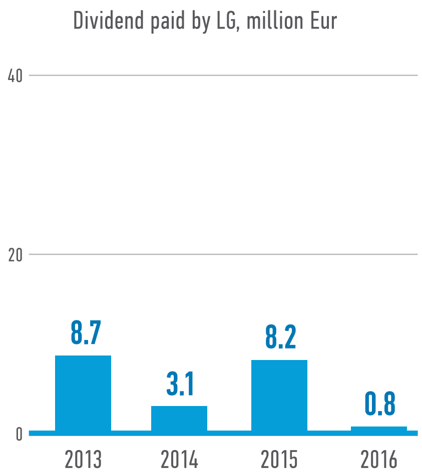
MAIN GROUP FINANCIAL INDICATORS

(AMOUNTS IN MILLION EUR, UNLESS OTHERWISE SPECIFIED)

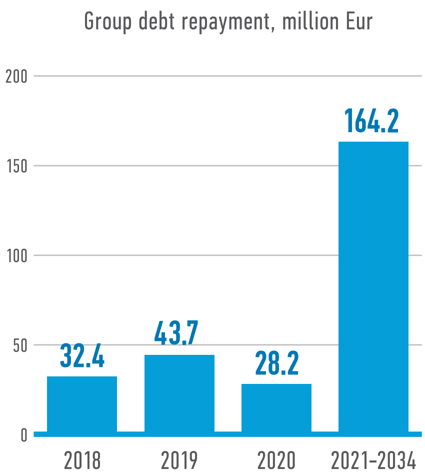
		2017	2016	Δ, +/-
Sales revenue	million EUR	448.1	404.1	+44.0
Cost of sales	million EUR	355.1	334.8	+20.3
Operating expenses	million EUR	55.9	117.3	-61.4
EBITDA	million EUR	155.6	63.1	+92.5
Adjusted EBITDA[1]	million EUR	144.4	115.9	+28.5
EBITDA margin	%	34.7%	15.6%	
Adjusted EBITDA margin	%	32.2%	28.7%	
EBIT	million EUR	36.5	-44.9	+81.4
EBIT margin	%	8.1%	-11.1%	
Net profit	million EUR	27.0	-52.5	+79.5
Net profit margin	%	6.0%	-13.0%	
		31/12/2017	31/12/2016	Δ, +/-
Fixed assets	million EUR	1,909.8	1,958.9	-49.1
Current assets	million EUR	157.7	118.8	+38.9
Total assets	million EUR	2,067.6	2,077.7	-10.1
Own capital	million EUR	1,138.7	1,111.7	+27.0
Financial loan of the Group	million EUR	268.5	301.5	-33.0
Financial loan of subsidiaries	million EUR	4.74	4.12	+0.62
Net debt	million EUR	185.0	280.8	-95.8
Return on equity capital (ROE)	%	2.4%	-4.7%	
Net debt / Adjusted EBITDA	times	1.28	2.42	
Debt / Adjusted EBITDA	times	1,94	2.74	
Equity ratio	%	55.1%	53.5%	
Loan servicing ratio	times	2.75	2.07	
Debt / Equity	%	24.61	28.62	
Net debt / Own capital	times	0.16	0.25	
Asset turnover indicator	times	0.22	0.19	
Total liquidity rate		1.14	0.82	

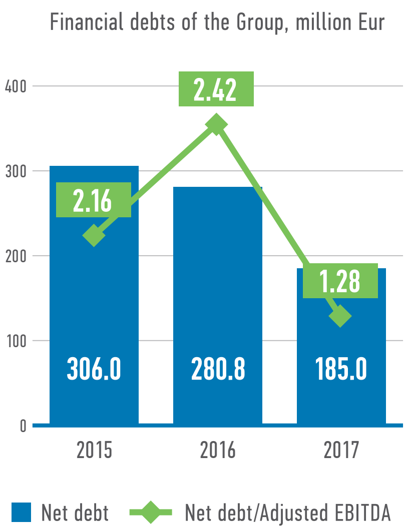
[1] Adjusted EBITDA – Profit (loss) before taxes + Interest expenses – Interest income + Depreciations and amortisation expenses + impairment expenses of non-current assets + write-off expenses of non-current assets + write-off inventories and amounts receivable + expenses on provisions related with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

DIVIDEND POLICIES



GROUP FUNDING





The payment of dividends by state-owned enterprises is regulated by the Order No. 786 adopted by the Government of the Republic of Lithuania on 11 August 2016 which determines the proportion of profit to be paid as dividends, depending on the achieved rate of return on capital. In case the return on the capital of a company for the accounting year does not exceed 3 %, the proportion of profit allocated for dividends shall be no less than 80 % of the company's distribution. The cases are provided 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 being a case where the company is implementing an economic project of national importance recognised by the Government of the Republic of Lithuania or is participating in implementing such projects. 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).

As of 31 December 2017, the net debt of the Group amounted to EUR 185.0 million. Compared to 2016, the ratio decreased by 34.1 %, or EUR 95.8 million. The decrease of the net debt of the Group was the result of the repayment of EUR 32.9 million of debt and the funds accumulated in the course of 2017. As of 31 December 2017 the cash balance of the companies of the Group amounted to EUR 83.5 million, i.e. EUR 62.9 million more than as of 31 December 2016.

As of 31 December 2017 the weighted average interest rate of the debt portfolio of LG amounted to 2.2 %.

The ratio of the net debt of the Group and adjusted EBITDA for the last twelve months decreased from 2.42 in 2016 to 1.28 in 2017.

The longest debt repayment period reached 16 years, and the last deadline for the repayment is 2034.

The ratio of the net debt of the Group and equity decreased from 0.25 in 2016 to 0.16 in 2017. The net debt level of the Group remains sufficiently low both in relation to profits and capital structure.

Compared to 2016, the equity to liabilities ratio of the Group increased from 0.82 to 1.14.

OPERATIONAL PERFORMANCE OF MAIN GROUP COMPANIES

In 2017 the main Group companies were:

- **AB Lietuvos Geležinkeliai;**
- **UAB Vilniaus Lokomotyvų Remonto Depas;**
- **UAB Geležinkelio Tiesimo Centras;**
- **UAB Gelsauga.**

OPERATIONAL PERFORMANCE

AB LIETUVOS GELEŽINKELIAI

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

Indicators, million EUR	2017	2016	Δ, +/-
Revenue	445.3	400.5	+44.8
Costs	410.2	445.3	-35.1
Adjusted EBITDA	143.5	118.8	+24.7
Net profit/losses	25.6	-49.5	+75.1
Property	2,044.7	2,051.1	-6.4
Own capital	1,127.1	1,101.5	+25.6
Financial debts	255.8	289.0	-33.2
Net debt	178.6	277.1	-98.5
Adjusted EBITDA margin%	32.2%	29.7%	
Net debt / Adjusted EBITDA	1.2	2.3	
Returns on own capital, %	2.3%	-4.5%	
Own capital/property, %	55.1%	53.7%	

UAB VILNIAUS LOKOMOTYVŲ REMONTO DEPAS

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	2017	2016	Δ, +/-
Revenues	29.6	20.3	+9.3
Costs	28.9	20.1	+8.8
EBITDA	1.8	1.1	+0.7
Net profit/losses	0.5	0.1	+0.4
Property	33.2	24.1	+9.1
Own capital	21.7	21.2	+0.5
Financial debts	0.0	0.0	0.0
Net debt	-3.8	-4.7	+0.9
EBITDA margin, %	6.0%	5.7%	
Net debt/EBITDA	-2.1	-4.1	
Returns on own capital, %	2.4%	0.6%	
Own capital/property, %	65.5%	87.9%	

UAB GELEŽINKELIO TIESIMO CENTRAS

Main activities: construction and repairs of railway track, other transport infrastructure and construction of buildings, rent of cars of railway track repairs.

Indicators, million EUR	2017	2016	Δ, +/-
Revenues	19.3	20.0	-0.7
Costs	21.0	23.4	-2.4
EBITDA	1.3	-0.1	+1.4
Net profit/losses	-1.5	-2.9	+1.4
Property	34.8	40.5	-5.7
Own capital	19.2	21.3	-2.1
Financial debts	12.7	12.1	+0.6
Net debt	12.7	10.8	+1.9
EBITDA margin, %	6.5%	-0.4%	
Net debt/EBITDA	10.1	-123.6	
Returns on own capital, %	-7.9%	-13.8%	
Own capital/property, %	55.2%	52.5%	

UAB GELSAUGA

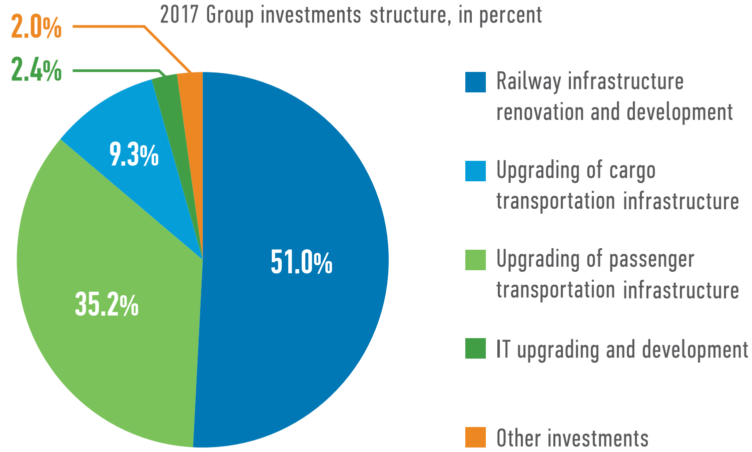
Main activities: provision of object protection, video surveillance, repairs and maintenance, public utility (cleaning of premises and territories as well as space inside the train) services.

Indicators, million EUR	2017	2016	Δ, +/-
Revenues	13.6	17.7	-4.1
Costs	12.7	17.0	-4.3
EBITDA	1.8	1.4	+0.4
Net profit/losses	0.8	0.6	+0.2
Property	8.1	7.4	+0.7
Own capital	5.6	4.7	+0.9
Financial debts	0.0	0.02	-0.02
Net debt	-1.8	-0.5	-1.3
EBITDA margin, %	13.0%	7.9%	
Net debt/EBITDA	-1.0	-0.4	
Returns on own capital, %	15.1%	13.6%	
Own capital/property, %	68.4%	64.2%	

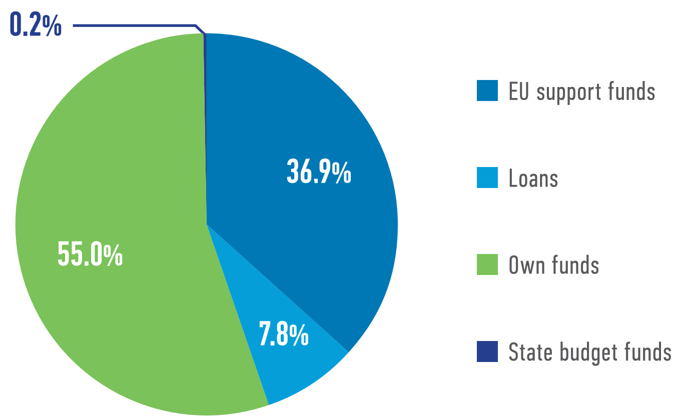
INVESTMENTS

In 2017 the investments of the Group amounted to EUR 85.4 million, including the investment of EUR 84.9 million by LG. In 2017 more than a half of the investments, i.e. 55 %, have been financed with own funds. EUR 31.5 million of EU support funds have been used.

2017 Group investments structure, in percent



2017 investments financing structure, in percent



Investments, EUR million	2017	2016	Δ, +/-	Δ, %
Renewal and development of railway infrastructure	60.9	71.3	-10.4	-14.6%
Renewal of cargo transportation infrastructure	4.6	13.0	-8.4	-64.6%
Renewal of passenger transportation infrastructure	18.4	49.2	-30.8	-62.6%
IT upgrade and development	0.9	3.4	-2.5	-73.5%
Other investment	0.6	2.8	-2.2	-78.6%
In total	**85.4**	**139.7**	**-54.3**	**-38.9%**

Major investment projects and works completed in 2017:

- The Company pursued the implementation of Rail Baltica Project (the special plan and the environmental impact assessment of 1,435 mm gauge tracks in the stretch Kaunas – Panevėžys – Lithuania-Latvia state border have been developed and approved; the procurement procedures for the reconstruction works and maintenance services for the stretch Kaunas – Palemonas are in progress; the adjustment of the technical design for the reconstruction of the stretch Rokai – Palemonas and the development of contracting works procurement documentation are in progress; the works of taking of land for public needs have been started for the land needed for the construction of the new 1435 mm gauge tracks from Kaunas to the Lithuania-Latvia state border, the procurement of publicity services is in progress, etc.);
- The electrification of the stretch Kena – Naujoji Vilnia has been completed; electric trains started serving the route Vilnius – Minsk;
- In an effort to increase the competitiveness of the Company, and with the view to implement the provisions of the 2014-2022 National Program for Transport Development approved by the Government of the Republic of Lithuania which provide for the electrification of corridor IX used for transit cargo transport, it has been decided to electrify the Vilnius hub and the railway stretch from Kaišiadorys until Klaipėda (Draugystės station) by the end of the 2014-2020 financing period, using the resources of Cohesion Fund. The main track reconstruction works at Vilnius hub have been completed in 2017;
- The Company carried out track and track structure renovation works using its own resources: repair works of 78.3 km of ordinary tracks have been carried out, involving the replacement of 10.6 km of tracks with used long rail, the replacement of 44.9 km of tracks with new long rail and 22.8 km of other track repair works. Besides, 34 sets of switches were replaced with new ones and 25 sets – with used ones; 4 crossings and 5 track structures, etc. have been renovated;
- The renovation and repair program of the Company's rolling stock – 204 freight wagons, 3 diesel trains have been renovated, 2 shunting wagon pushers have been purchased;
- The Company's finance and management accounting IT systems were upgraded.

HUMAN RESOURCES

Employees are the essential factor in the efforts of the Company and the Group to ensure optimal use of labour resources, train competent employees and shape a corporate culture that helps create added value. To deliver the ambitious people agenda a Human Resources Department was established in July 2017.

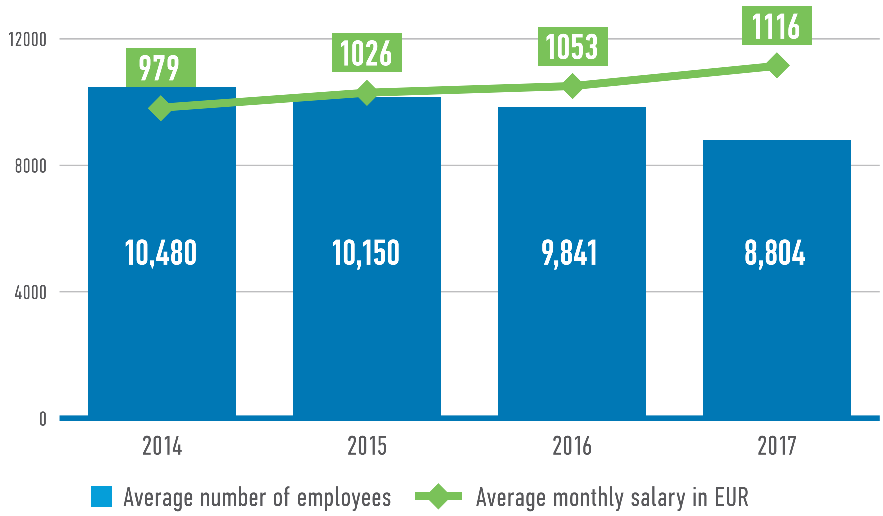
HR Business Partners team, the professional HR functions and centralized HR services are designed to positively impact business results. The average number of employees of the Group has decreased from 11,941 in 2016 to 10,787 in 2017. The vast majority of the employees of the Group work at Lietuvos Geležinkeliai.

Company	Employees	Average salary, EUR
AB Lietuvos Geležinkeliai	8,804	1,116
UAB Vilniaus Lokomotyvų Remonto Depas	538	981
UAB Geležinkelio Tiesimo Centras	451	924
UAB Gelsauga	990	533
UAB Rail Baltica Statyba	4	1 771
Total	**10,787**	

In 2017 the average number of employees of LG amounted to 8,804, i.e. 1,037 employees by 10.5 % less than in 2016. Compared to 2016, the average monthly salary increased from EUR 1053 to EUR 1116, representing the increase by 6 %.

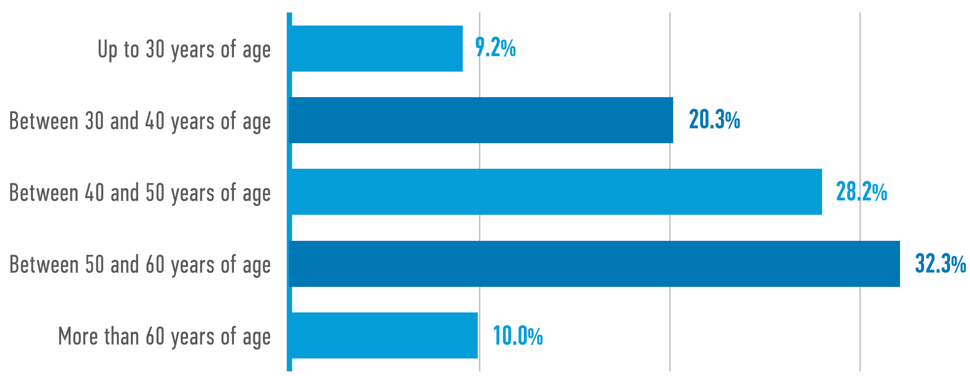
HR agenda and activities in 2017 were characterized by the restructuring measures that are part of LG strategy. The effectiveness of organization was achieved not just by centralising back office functions but also by reviewing spans and layers across all units. In devising and negotiating these measures, the Group has continued its close cooperation with social partners based on mutual trust.

Average number of employees and average monthly salary in EUR



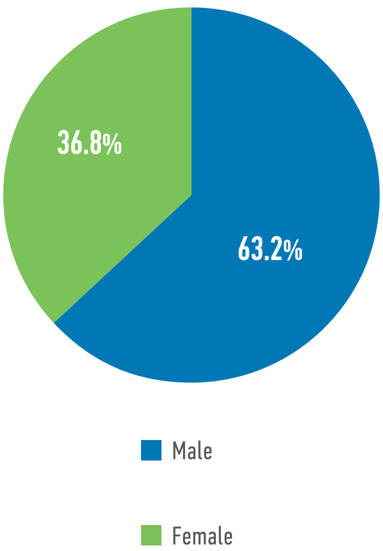
Employee groups by position	Number of employees 2015	2016	2017
Top level management	6	6	9
Middle managers, senior specialists	1,332	1,354	1,240
Specialists, workers	8,812	8,481	7,555
Average number of the enlisted employees of the Company	**10,150**	**9,841**	**8,804**

LG, AB employees by age group, in percent



Employee groups by position	Average salary, EUR		
	2015	2016	2017
Top level management	5860	5800	5439
Middle managers, senior specialists	1652	1674	1745
Specialists, workers	925	948	1008
Average monthly salary paid by the Company	**1026**	**1053**	**1116**

Employee distribution, in percent



There has also been a particular focus on demographic trends and how they affect the organization. A policy on workplace diversity was approved and is beeing implemented.

A comprehensive junior talent programme was continued (approx. 300 trainees were hosted and had their practical training in 2017). Apprenticeship concept is developed and first apprentices hired.

COLLECTIVE AGREEMENT

In the Group, there are a number of trade unions which unite 53% of employees of the Group.

On December 20, 2017, in order to enable the Group to work in a sustainable manner, improve the economic, labour and social conditions of its employees, and strengthen the social partnership, the new wording of the Collective Agreement was approved.

The Collective Agreement regulates the relations between the employees and the Group companies as employers 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 Group.

COMPENSATION AND PERFORMANCE MANAGEMENT

Compensation plays an integral role in the successful delivery of LG strategic objectives. As the organization seeks to align compensation to evolving external and internal expectations, the decision was taken in 2017 to prepare and in 2018 to change the outdated reward structures and to apply the new compensation system corresponding the best global practices.

This allows for greater transparency in compensation decisions as well as to assess full-year performance.

The launch of the integrated Performance Management System has started in 2017 across Group and gradually will be implemented to all employees till the beginning of 2019.

TRAINING AND COMPETENCE DEVELOPMENT

To enable employees to maximize their potential and get the most out of their career, LG promotes the continuous professional and personal development of its staff.

In-house training and periodic certification are organized in order to help acquire or update professional knowledge, gain or test skills about specific technological processes and equipment of the Company, and maintain a high professional level of employees.

In 2017, internal lecturers trained staff in 31 internal training programs adapted according to the Company's activities, of which 3 were formal training programs providing qualifications. 2,441 employees are trained and/or certified in the Company's internal training.

Employees of the entities that under contract carry out work on the territory of the Company are trained on how to safely perform work in the risk zones of railways and their facilities. In 2017, 321 person was trained.

Employees doing hazardous jobs, and working with potentially hazardous equipment and maintaining these facilities, are taught safe working methods. In 2017, 993 employees were trained and/or certified. 5,098 employees took part in specialized trainings on railway transport, and 2,541 of them were trained in compliance with the Law on the Rail Traffic Safety of the Republic of Lithuania (periodical certification and periodical qualification raising).

Social Responsibility

The core of the socially responsible activity of the Lietuvos Geležinkeliai Group is of economic progress, social partnership and environmental protection which are united by the idea of providing benefits to the State. Lietuvos Geležinkeliai Group as one of the largest employers and the company that creates the biggest economic benefits to the state, in its relations with its employees first of all promotes the values of socially responsible business implementing ethical and transparent business principles. These principles also give basis to relations with other stakeholders. The main orientations of the Group activities are the best management practice, respect for employees, customers and the public, teamwork, efficiency, openness and continuous improvement-oriented practices.

SAFETY OF EMPLOYEES

The Group 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 Group 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 Group 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.

HEALTH OF EMPLOYEES

Special attention is paid to the preventive work in the of worker's health area – the funds are allocated for periodic compulsory and advanced diagnostic medical examinations, company employees receive free vaccination against tick-borne encephalitis (1,624 employees were vaccinated in 2017), and influenza (2,262 employees were vaccinated in 2017).

COOPERATION WITH EDUCATIO-NAL 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 2017, 307 students had their practice at the Company.

On September 1, 2017, a decision was taken to transfer the relevant publications to Lithuanian universities. In cooperation with the Vilnius Gediminas Technical University, the Klaipėda University and the Kaunas Technological University, more than 2 thousand books were transferred to the educational institutions.

OPENNESS TO THE SOCIETY

On June, 2017, on the occasion of the International Day for the Defence of Children, the Lietuvos Geležinkeliai officially joined the campaign "For a Safe Lithuania" under the care of President Dalia Grybauskaitė and together with the partners initiated the campaign for children of the social risk families that they could stay at the sea during the summer. A special drawing competition was organized for the children's day care centres, and the winners received a as a gift a railway travel on the 1st of June to the Lithuanian seaside with a dolphin show at the Lithuanian Maritime Museum's dolphinarium, and a visit to the sea. Klaipėda Municipality and Smiltynės Perklėla, AB joined the campaign.

On June 9, 2017, the tallest and longest bridge in Lithuania was opened for tourists. This was the first time in history that all participants who registered for tours were allowed to walk along take the Lyduvėnai railway bridge, which is a unique engineering structure without analogues in the Baltic States. The Lyduvėnai Bridge located in Raseiniai District is 42 meters high, and it surpasses such tourist attractions as the Treetop Walking Path in Anykščiai or the highest in Lithuania observation tower in Labanoras Regional Park. The bridge was a protected strategic object so people had not been allowed to enter the bridge until then. The excursions are required to be arranged in accordance with the special safety requirements because trains have been running by the Lyduvėnai Bridge until now, and it is not adapted for pedestrians.

On June 15, 2017, the doors of the Company's museums were opened for passengers of the Lietuvos Geležinkeliai. Anyone who has a one-time travel ticket could visit any of the railway museums on the day trip. At present visitors are invited to museums of the Lietuvos Geležinkeliai in Vilnius and Šiauliai.

On July 5, 2017, the campaign "The Railroads of Lithuania are not "the State in the State" but for the State" was implemented. At the event organised by the Vilnius Railroad Station the first trains of the Lietuvos Geležinkeliai with the State Emblem, which is Lithuania's Knight (Vytis) were run on the rails. Professor Liudas Mažylis, the historian who found the most important documentary evidence on the restoration of the independent state of Lithuania, namely the original of the Act of 16 February, the Minister of Transport and Communications Rokas Masiulis, and Head of the Lietuvos Geležinkeliai M. Bartuška unveiled the first state symbols on the Company's trains. By September, all the trains and locomotives of the Lietuvos Geležinkeliai had been decorated with the state symbols.

On July 28-30, 2017, the Lietuvos Geležinkeliai participated in the annual "Sea Festival", and presented to the citizens and guests of the festival the heavy railroad vehicles, organized a race of draisines as hereditary rail vehicles, educated on the environmentally friendly travelling modes, and introduced the "Rail Baltica" project.

From 8th of August to 3rd of September, 2017, the Lietuvos Geležinkeliai organised the Railwayman's Week, and for the first time opened for the public some objects that had been not accessible. The purpose of this initiative was to show the public what was hidden, closed and not known for many years. The Kaunas Tunnel, the Traffic Management Centre, the historic railway colony that existed in Pavilnys, the locomotive depots of railways, manufacturing workshops, and some of the most beautiful railway stations of the country had never been opened to the public until then.

On September 8-9, 2017, the Lietuvos Geležinkeliai initiated two discussions for society which were attended by the Chairman of the Board of the Lietuvos Geležinkeliai Romas Švedas and the Managing Director of the "Lietuvos Geležinkeliai" Mantas Bartuška during the discussions that were held for the first time at the "Būtent" festival in Birštonas. They discussed with the public the topics "How can the "state in the state" become an open part of the society?" and "How can business return to Lithuania the Lithuanians who have left?" The activities of the Lietuvos Geležinkeliai were also presented to representatives of the media, business, public administration, public organizations, and other fields. There were discussions about the project "Rail Baltica", changes in the Lietuvos Geležinkeliai, and the perspectives.

On the week of December 24-31, 2017, a special Christmas train began to run in order to give the guests of the Lithuanian Railways a festive mood. The special festive route was developed for the section Vilnius Railway Station - Airport - Vilnius Railway Station.

SAFE TRAFFIC

On April 6, 2017, on the occasion of the Day of Traffic Safety, and on June 5-9, 2017, on the occasion of the Day of Traffic Safety at the Crossroads, two information campaigns were organised, and the public was informed about safe behaviour in the railway zone. The representatives of the Lietuvos Geležinkeliai together with the officers of the Lithuanian Road Police carried out preventive actions at the most dangerous crossroads in which pedestrians and drivers were reminded of requirements of the Road Traffic Rules regarding the rail crossing, and warned of threatening hazards, and also informational brochures, reflectors were distributed.

In December 2017, Lietuvos Geležinkeliai initiated a special safety project "Prevention Effect 2022" with the aim to be achieved by 2022 – to ensure that no person is seriously injured or deadly traumatized in the railway zone in Lithuania. To this end, the public information and educational campaigns aimed at reaching all groups of society were planned as well as raising the level of safety at the most dangerous crossroads, updating of marking, installation of special barriers and fences, implementation of other modern solutions on the railway.

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, the policy of transparency of the AB Lietuvos Geležinkeliai and its Group of Companies was approved on October 26, 2017.The policy 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 senior managers had been inspected. From 2017 the new candidates or the current incumbents of the top 160 senior and middle management positions are mandated to pass through the compliance screening check.

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

- toll-free company trust phone – (8 5) 269 3600;
- email: prevencija@bekorupcijos.lt;
- 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.

From 2017, close cooperation with the Public Institution Lithuanian Branch of Transparency International, which is a unit of the international organization "Transparency International", has been established. By the initiative of the Lietuvos Geležinkeliai, the organization arranges educational seminars of practical importance for employees of the Lietuvos Geležinkeliai on corruption prevention, consults specialists in preparing transparency policy activities at the Lietuvos Geležinkeliai.

GUIDELINES FOR ENSURING THE TRANSPARENCY OF 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:

- financial statements and explanatory notes of the Group for 2017 are prepared in accordance with the International Accounting Standards
- the Company prepares annual and interim 6-month reports which are publicly announced as well as the Company's and the Group's financial statements on the website at the address: http://www.litrail.lt
- the Company's annual financial statements are audited in accordance with the International Auditing Standards.

The "KPMG Baltics, UAB" won the public procurement competition for auditing of the consolidated statements, and the statements of the Company and individual subsidiaries prepared in accordance with international financial reporting standards in the period of 2016-2019.

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).

ENVIRONMENTAL PROTECTION

In 2017, the Environmental Protection Group whose tasks include the implementation of environmental requirements in the Company, monitoring and evaluation of the environmental impact of the Company's activities, efficient use of energy and natural resources, environmental monitoring of the objects, formation of the Company's eco culture, and management of the environmental documentation was established in the Prevention Department of the Company's administration.

The environmental group supervises and organizes in a centralized manner the management of hazardous and non-hazardous waste, maintenance of waste water treatment plants and wastewater discharges, monitoring of the impact on groundwater, measurements of emissions of the pollutants from the stationary pollution sources to ambient air, surveying of the chemical and microbiological indicators of drinking water, and also organizes the management of taxed packaging waste.

ENVIRONMENTAL PREVENTION

In 2017, during the monitoring of the environmental impact of the Company's economic activities and the prevention of environmental violations, 65 different environmental inspections of controlled objects were carried out in the Company's structural subdivisions, and ways were sought to improve the technological processes.

20 stationary sources of ambient air pollution, 27 household waste water treatment plants, 69 surface water treatment plants, 5 water reservoirs, and 45 manholes are monitored, and there are 11 underground water monitoring stations.

Control measurement of pollutant emissions at the frequency set by legislation is carried out, and pollution of discharged wastewater is monitored. During the periodic maintenance work for waste water treatment plants and technical maintenance work, exceedances of permitted pollutants were not detected.

In 2017, 6397 tons of waste of which 2039 tons were hazardous waste was delivered to waste management companies. 29 tons of unusable oil were recycled at Radviliškis biofuel base.

During special inspections carried out in May of 2017, four cases of improper storage of sleepers were identified in which the sleepers were buried in the ground. Three cases were detected at Paneriai Station, and one at Švenčionėliai Station. From 8 May, 2017, the work of digging out of the sleepers has been carried out, and the Ministry of Environment provided support for the handling of hazardous waste. The Lietuvos Geležinkeliai (Lithuanian Railways) annually performs the rail repair work, and replaces defective wooden sleepers with the new ones or made of the reinforced concrete. It is about 2000 t of sleepers that the company has to utilize or store according to requirements. In the first half of 2017, the Lietuvos Geležinkeliai stored about 9,000 t of wooden sleepers that were inappropriate for the further use, and waste. A large part of the waste of that kind accumulated due to the fact that by 2006 they were considered as ordinary waste, and their disposal was not performed. The Lietuvos Geležinkeliai started to prepare a plan for the purchase of utilization services through a simplified open tender procedure.

EDUCATION

In order to make progress in the field of environmental protection, the Lietuvos Geležinkeliai promotes cooperation of interested parties in the field of environmental protection.

On May 5, 2017, the Lietuvos Geležinkeliai participated in the special electric car racing "Recharge with the "Energijos Tiekimas" (Energy Supply). The cyclist Tomas Vaitkus who participated in this race travelled the most part of the route by train Vilnius-Klaipėda. At Kretinga railway station, he sat on the bicycle, and reached finish in Palanga with the 2nd result.

From July 20, 2017, the Lietuvos Geležinkeliai together with the Kaunas City Municipality initiated a bicycle promotion campaign. From this day, one of the most popular routes of the Lietuvos Geležinkeliai, which is Vilnius-Kaunas, provide the service of bicycle transportation free of charge if the ticket is purchased online. For this purpose, Kaunas City Municipality provided a free bicycle storage space next to Kaunas Railway Station.

On August 18, 2017, the Lietuvos Geležinkeliai introduced special routes for passengers to 5 regional parks travelling by which bicycles can be taken free of charge if tickets are bought online. In such a way, the Company, promoting the ecological way of traveling, has decided to invite passengers to spend their free time actively and get acquainted with unseen routes. Travellers are invited to visit the Parks of Gražutė, Kurtuvėnai, Nėris, Venta and Salantai. All these parks are accessible by bicycle from the railway station.

INNOVATIONS

On March 30, in Klaipėda, the Lietuvos Geležinkeliai signed an agreement on the creation of a liquefied natural gas (LNG) locomotive, an innovative project that will open up the possibilities for using cleaner fuel and reduce fuel consumption. The prototype of the LNG locomotive will be created by members and partners of the LNG cluster which includes the Lietuvos Geležinkeliai, the stevedoring company BEGA (Klaipėda), the Klaipėdos Nafta, the Vilnius Gediminas Technical University, and the Klaipeda University.

On October 10, 2017, an agreement was signed between members of the cluster on the start of the production of a LNG locomotive. The main design and manufacturing work will be carried out at the premises of "Vilniaus Lokomotyvų Depas, UAB". It is planned that the locomotive will be put into operation from the beginning of 2020. It is estimated that the fuel consumption of LNG driven locomotive will be up to 40% lower. Carbon dioxide emissions would be 25% lower. LNG does not contain sulphur, nitrogen oxides, and does not form solid particles when burned, which becomes the main cause of smog.

Risks and their Management

While implementing tasks set by shareholder, the Group faces uncertainty in relation to the external and internal factors, has to identify operational risks (strategic, financial, performance and compliance), predetermine their impact and probability, and seeks to reduce them.

Taking into account the strategic goals of the Group, 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 Group's business goals. The Group assesses the potential financial impact of operational risks, their legal impact and impact on reputation. In view of the company's strategic reorganization, in 2017, the risk management process was reviewed.

THE MAIN RISKS ASSOCIATED WITH ACHIEVING OF THE COMPANY'S BUSINESS OBJECTIVES

- **THE RISK OF COMPETITION IN THE RAILWAY TRANSPORT SECTOR**

There is a competitive risk associated with the potential loss of cargo transport possibilities in the Company's business. As the cargo transport revenue accounts for the largest part of all income earned by the Company, the Company is competing with carriers of Lithuania and other countries, freight terminals and/or ports for the cargo flows. In order to reduce the risks, the Company seeks to ensure long-term cooperation with the most important and largest Lithuanian and foreign partners. To achieve this goal, in June of 2017, the Company signed the partnership agreement with "ORLEN Lietuva, AB", in November of 2017 concluded a 3-year contract on the transport of oil and its products with the Belarusian oil company "BNK", and in December of 2017, concluded a 3-year contract with "Lifosa AB" which is one of the largest exporters of mineral fertilizers in Europe.

- **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. What accounts for the largest part of the volume of goods transported and the Company's earnings, is the import, export and transit. In order to reduce the increasing risk, the Company constantly searches for new markets. To achieve these goals, in May of 2017, cooperation agreements were signed with ČD Cargo, the Czech national carrier, OT Logistics, one of the largest Polish logistics groups, and Hupac Intermodal, one of the largest inter modal train operators in Europe. In June 2017, the Memorandum of Cooperation was signed with the Chinese Railway Corporation (CRC), and in September 2017, in cooperation with the Kaliningrad Railways, a new direction of transportation was opened in order that a container train by the new route from Lodz (Poland) - in transit through Kaliningrad, Lithuania, Belarus, Russia, Kazakhstan - reached Chengdu (China).

- **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.

In January 2017 taking into account the recommendations of the Organisation for Economic Cooperation and Development (OECD) and the resolution of the Government of the Republic of Lithuania on Ensuring the Transparency of the Activities of State-owned Enterprises, the management of the Company made a decision to switch to accounting standards in accordance with international financial reporting standards. In June 2017, in line with the EU legal regulation presented in the Fourth EU Railway Package, a strategic reorganisation of the company's activities was launched, which will be continued in 2018.

- **RISKS IN RELATION TO FINANCING AND IMPLEMENTATION OF THE INVESTMENT PROJECTS OF THE COMPANY**

There is a risk of uncertainty in the financing of the construction of new facilities of the railway infrastructure with external funds, and there is also a risk of unsuccessful implementation of the projects due to contractor's delayed performance of the contract work, ineffective project management, and complications in relation to the procurement procedures, etc. In 2017, the projects envisaged by the Company were reviewed and listed categorizing by priorities in descending order taking into account the impact of projects on the Company's operating results, reimbursement, and traffic safety. Continuous cooperation between Lithuanian and foreign partners and institutions is developed in order to ensure financing of the projects carried out by the company for the entire duration of these projects.

Financial risks are disclosed in the Explanatory Notes of Consolidated and Separate Financial Statements.

Basic 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
Phone	(+370 5) 269 2038
E-mail	info@litrail.lt
Website	http://www.litrail.lt; http://www.traukiniobilietas.lt
Main activity	Freight and passenger carriage by railways, railway network administration, public railway infrastructure management, maintenance and development

GOVERNANCE BODIES

Bodies of Lietuvos Geležinkeliai

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

Rolandas Zukas – an independent member of the Board, General Manager of UAB EPSO-G

Monika Rimkūnaitė-Bložė – an independent member of the Board, CEO of UAB Mobilieji Mokėjimai

Mantas Bartuška – CEO of AB Lietuvos Geležinkeliai

Christian Kuhn – an independent member of the Board, member of the Board of the Kazakhstan railway company Kazakhstan Temir Zholy, Chairman of its Strategy and Innovation Committee (member since February 2018)

Alditas Saulius– an independent member of the Board, member of the Board of UAB Investicijų Ir Verslo Garantijos (member since February 2018)

Chief Executive Officer	**Mantas Bartuška**
Shareholders	100 % of shares are owned by the State

SUBSIDIARIES AND ASSOCIATED COMPANIES OF LIETUVOS GELEŽINKELIAI

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 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 Rail Baltica statyba	Implementation of the functions of shareholder of the Joint Venture of the Baltic States, RB RAIL AS supervising the project "Rail Baltica 2" at Mindaugas St. 12, LT-03603 Vilnius, http://rbs1435.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	Public 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

BRANCHES OF THE COMPANY:

Vilniaus geležinkelių infrastruktūra	Pelesos St. 24, LT-02109 Vilnius
Kauno geležinkelių infrastruktūra	Čiurlionio St. 16, LT-44362 Kaunas
Klaipėdos geležinkelių infrastruktūra	Priestočio St. 11, LT-92228 Klaipėda
Šiaulių geležinkelių infrastruktūra	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.

Part II

AB LIETUVOS GELEŽINKELIAI

Consolidated and Separate Financial Statements prepared in accordance with International Financial Reporting Standards
and Independent Auditor's Report

For the financial year ended 31 December 2017

Contents

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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 2017,
- 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 2017, and of their respective non-consolidated and consolidated financial performance and 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 and the Group on 17 January 2018 and thus did not observe the counting of the physical inventories as at 31 December 2016 and 1 January 2016. We were unable to satisfy ourselves by alternative means concerning inventory quantities held as 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 for the current and for the prior year 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. Additionally, we were unable to determine whether adjustments might have been necessary in respect of retained earnings of the Company and the Group for 2016.

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Company code: 111494971
VAT code: LT114949716

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

Recognition of property, plant and equipment

Refer to: Significant Judgements and Estimates

Note 7, Note 4 and accounting policies to the consolidated and separate financial statements

The carrying amount of property, plant and equipment (thereafter "PPE") in the consolidated financial statements as at 31 December 2017 amounts to EUR 1 876 111 thousand. The carrying amount of property, plant and equipment in the separate financial statements as at 31 December 2017 amounts to EUR 1 836 073 thousand.

The key audit matter	How the matter was addressed in our audit
Property, plant and equipment constitute the major amount of the Group's and the Company's total assets. The Company is 100% owned by the State. Among others, the operating activities include: • management and development of public railway infrastructure and railway service equipment (the Company is the sole railway infrastructure manager in Lithuania) • transportation of cargo and passengers by rail (the Company is the sole passenger and a major cargo operator in Lithuania).	Our audit procedures performed included, among others: • assessing objectivity and professional qualifications of the external and internal lawyers; • involving our own lawyer who assisted us in: o evaluating legal opinions from both the external and internal lawyers with respect to the term of the Trust agreement and identification in the law effective in Lithuania of the Company as a sole manager of the public railway infrastructure;

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According to the Constitution of the Republic of Lithuania, all the roads of state importance, including public railway infrastructure, belong to the State. In 2007 the Company concluded a Trust agreement with the State, which regulated the legal ownership of public railway infrastructure assets. Furthermore, the Company's operations are regulated by the law - the Railway Transport Code (RTC). In accordance with the RTC, the Company, as a manager of the public railway infrastructure, is obligated to modernize and develop the public railway infrastructure. The Company's management made a significant judgement as to whether based on both the Trust agreement and RTC the Company and the Group have control over the public railway infrastructure assets and therefore can recognise those assets as property, plant and equipment in the separate and consolidated statements of financial position of the Company and the Group, respectively. In particular, the Company made significant judgement as to the term of the Trust agreement concluding that the Trust agreement is concluded for an indefinite period of time and specifically that its term is not limited by the provisions of the Civil Code. In addition, the Company made a significant judgement concluding that only the Company itself or its subsidiary can perform a function of a manger of the public railway infrastructure in Lithuania. The Company and the Group involved the internal and external lawyers to assist them in exercising these significant judgements. We focused on this area as the recognition of the property, plant and equipment requires the use of significant judgement and also due to its magnitude in the separate and consolidated financial statements. Accordingly, we have identified this area as a key audit matter.	o assessing appropriateness of recognition of public railway infrastructure as the Company's and the Group's property, plant and equipment against the relevant accounting standards; • assessing appropriateness of accounting policies related to property, plant and equipment considering the provisions of the Trust agreement and the Railway Transport Code; • assessing adequacy of the Company's and Group's disclosure in relation to the use of significant judgements regarding the recognition of property, plant and equipment as disclosed in Note 4.

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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, due to the date of our appointment as the Company's and Group's auditors, we did not observe the counting of the physical inventories as at 31 December 2016, and were also unable to satisfy ourselves by alternative means concerning inventory quantities held as at that date. 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.

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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.

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- 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.

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

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

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(all amounts are in EUR thousand unless otherwise stated)

Consolidated and separate statements of financial position 31 December 2017

	Notes	Group		Company	
		2017 31 December	2016 31 December	2017 31 December	2016 31 December
NON-CURRENT ASSETS					
Intangible assets	6	24 445	26 096	24 239	25 602
Software		22 932	24 176	22 953	24 005
Licences and similar rights		972	1 251	972	1 248
Other intangible assets		541	669	314	349
Property, plant and equipment	7	1 878 028	1 925 206	1 831 479	1 882 415
Land		146 604	146 304	146 598	146 297
Buildings and structures		949 811	998 467	931 377	985 573
Machinery and plant		180 532	194 768	163 972	175 517
Vehicles		384 272	383 676	378 913	375 962
Other equipment, fittings and tools		75 497	80 378	74 176	78 639
Construction in progress and prepayments		141 312	121 613	136 443	120 427
Investment property	8	1 464	1 717	8 177	1 717
Financial assets		4 260	4 497	40 161	43 469
Investments	9	4 194	4 447	40 161	43 463
Trade and other receivable		66	50	-	6
Deferred tax assets	25	1 628	1 421	-	50
Total non-current assets		**1 909 825**	**1 958 937**	**1 904 056**	**1 953 253**
CURRENT ASSETS					
Inventories	10	35 736	36 346	25 679	31 959
Non-current assets held-for-sale	11	755	4 759	755	4 647
Prepayments	12	1 816	2 230	1 383	758
Trade and other receivables	13	35 904	54 779	35 541	48 509
Cash and cash equivalents	14	83 536	20 666	77 253	11 936
Total current assets		**157 747**	**118 780**	**140 611**	**97 809**
TOTAL ASSETS		**2 067 572**	**2 077 717**	**2 044 667**	**2 051 062**

The accompanying explanatory notes form 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 2017

	Notes	Group		Company	
		2017 31 December	2016 31 December	2017 31 December	2016 31 December
EQUITY					
Share capital	15	1 057 982	1 057 958	1 057 982	1 057 958
Legal reserve	17	27 066	27 066	27 066	27 066
Other reserves	17	13 307	13 307	13 307	13 307
Retained earnings (losses)		40 339	13 352	28 755	3 201
Total equity		**1 138 694**	**1 111 683**	**1 127 110**	**1 101 532**
NON-CURRENT LIABILITIES					
Grants	18	520 962	515 251	520 868	515 127
Loans and borrowings	19	236 128	268 482	223 400	256 140
Provisions	21	14 400	14 400	14 400	14 400
Employee benefits	20	11 725	16 665	10 174	15 733
Trade and other payables	22	3 937	6 441	3 935	6 437
Received prepayments		422	138	422	138
Deferred tax liabilities	25	2 605	28	2 595	-
Total non-current liabilities		790 179	821 405	775 794	807 975
CURRENT LIABILITIES					
Loans and borrowings	19	32 405	32 987	32 405	32 893
Provisions	21	214	28 152	-	27 873
Received prepayments		5 341	2 943	5 169	2 937
Trade and other payables	22	61 012	49 310	70 423	50 017
Employee benefits	20	33 329	28 332	27 612	24 961
Corporate income tax liabilities		6 398	2 905	6 154	2 874
Total current liabilities		138 699	144 629	141 763	141 555
Total liabilities		**928 878**	**966 034**	**917 557**	**949 530**
TOTAL EQUITY AND LIABILITIES		**2 067 572**	**2 077 717**	**2 044 667**	**2 051 062**

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

Financial statements and explanatory notes on pages from 58 till 112 were approved and signed on 30 June 2018:

Director General	Mantas Bartuška
Chief Financial Officer	Andrej Kosiakov
Director of accounting services centre	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 2017

	Notes	Group		Company	
		2017	2016	2017	2016
Revenue	23	448 100	404 120	445 252	400 502
Other income		884	1 105	679	1 035
Total income		448 984	405 225	445 931	401 537
Salaries and social security		(168 378)	(163 231)	(163 934)	(159 104)
Depreciation and amortisation		(119 167)	(107 986)	(119 427)	(107 896)
Fuel		(47 852)	(41 104)	(48 102)	(41 152)
Materials		(21 936)	(23 759)	(19 950)	(21 850)
Services rendered by other foreign railway companies		(18 400)	(17 709)	(18 400)	(17 709)
(Increase) in impairment and write down		11 487	(12 929)	11 082	(12 791)
Electricity		(5 831)	(6 147)	(5 847)	(6 155)
Decrease (increase) in provisions and accruals		316	(37 309)	2 949	(37 349)
Repairs		(178)	(6 533)	(977)	(6 581)
Other expenses		(41 755)	(33 522)	(48 406)	(32 867)
Operating profit (loss)		37 290	(45 004)	34 919	(41 917)
Financial income	24	45	354	725	297
Financial costs	24	(5 986)	(6 002)	(5 858)	(5 905)
Share of profit of equity accounted investees		(35)	(102)	-	-
Profit (loss) before taxation		31 314	(50 754)	29 786	(47 525)
Corporate income tax	25	(4 327)	(1 699)	(4 232)	(1 989)
Net profit (loss)		**26 987**	**(52 453)**	**25 554**	**(49 514)**
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)		**26 987**	**(52 453)**	**25 554**	**(49 514)**

The accompanying explanatory notes form 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 2017

Group	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings (losses)	Total
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 after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	*(52 453)*	*(52 453)*
Increase of authorised capital	15	650	-	-	-	-	650
Reduction of authorised capital	15	(78)	(1)	-	-	-	(79)
Reserves allocated	17	-	-	139	3 244	(3 383)	-
Reserves used	17	-	-	-	(2 479)	2 479	-
Dividends paid	16	-	-	-	-	(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**
Net profit (loss)		-	-	-	-	26 987	26 987
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	*26 987*	*26 987*
Increase of authorised capital	15	650	-	-	-	-	650
Reduction of authorised capital	15	(626)	-	-	-	-	(626)
Total transactions with owners of the Company		*24*	-	-	-	-	*24*
Balance as at 31 December 2017		**1 057 982**	**-**	**27 066**	**13 307**	**40 339**	**1 138 694**

The accompanying explanatory notes form 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 2017

Company	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings (losses)	Total
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 after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		*-*	*-*	*-*	*-*	*(49 514)*	*(49 514)*
Increase of authorised capital	15	650	-	-	-	-	650
Reduction of authorised capital	15	(78)	(1)	-	-	-	(79)
Reserves allocated	17	-	-	139	3 244	(3 383)	-
Reserves used	17	-	-	-	(2 479)	2 479	-
Dividends paid	16	-	-	-	-	(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**
Net profit (loss)		-	-	-	-	25 554	25 554
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		*-*	*-*	*-*	*-*	*25 554*	*25 554*
Increase of authorised capital	15	650	-	-	-	-	650
Reduction of authorised capital	15	(626)	-	-	-	-	(626)
Total transactions with owners of the Company		*24*	*-*	*-*	*-*	*-*	*24*
Balance as at 31 December 2017		**1 057 982**	**-**	**27 066**	**13 307**	**28 755**	**1 127 110**

The accompanying explanatory notes form 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 2017

	Notes	Group		Company	
		2017	2016	2017	2016
Cash flows from operating activities					
Net profit (loss)		**26 987**	**(52 453)**	**25 554**	**(49 514)**
Adjustment to non-cash items					
Depreciation and amortisation expenses	6,7,8	140 484	123 827	135 448	118 309
(Depreciation) of grants	18	(15 244)	(10 336)	(15 214)	(10 259)
(Gain) loss from disposal/write-off of non-current assets		179	880	170	875
Impairment (reversal)		(11 281)	15 848	(10 851)	15 709
Change in accrued income/expenses		752	303	899	85
Interest (income) expenses		5 156	5 881	5 109	5 785
Increase (decrease) in provisions		(5 004)	37 206	(5 558)	37 357
Effect of currency exchange fluctuations		(240)	76	(242)	76
Corporate income tax expenses (income)		4 327	1 699	4 232	1 989
(Profit) loss of an associated company		35	102	-	-
Cash flows from operating activities after adjustment to non-cash items		146 151	123 033	139 547	120 412
Changes in working capital					
Decrease (increase) in inventories		10 862	7 018	13 245	5 452
Decrease (increase) in trade and other receivables and prepayments		30 875	(1 909)	22 595	(1 753)
Increase (decrease) in current and non-current trade payables and received prepayments		(15 451)	15 025	(5 012)	19 369
Increase (decrease) in employment related liabilities		4 997	344	2 650	63
Increase (decrease) in other non-current and current payables		4 284	2 178	2 023	3 083
(Paid) corporate income tax		(718)	(3 250)	(486)	(2 775)
Net cash flows from operating activities		181 000	142 439	174 562	143 851
Cash flows from investing activities					
(Acquisition) disposal of non-current assets		(100 362)	(142 590)	(95 243)	(141 697)
(Acquisition) disposal of financial assets		-	-	3 331	(315)
Received dividends		-	-	680	-
Received interest		29	3	-	3
Loans granted		-	(191)	-	(191)
Recovery of loans granted		-	742	-	742
Net cash flows from investing activities		(100 333)	(142 036)	(91 232)	(141 458)
Cash flows from financing activities					
Loans received		12 728	12 120	-	-
Loans (repaid)		(45 665)	(31 341)	(33 229)	(23 835)
Grants received (repaid)		20 655	31 783	20 655	31 783
Interest (paid)		(5 515)	(6 136)	(5 439)	(6 039)
Dividends (paid)		-	(845)	-	(846)
Net cash flows from financing activities		(17 797)	5 581	(18 013)	1 063
Net increase (decrease) in cash flows		62 870	5 984	65 317	3 456
Cash and cash equivalents at the beginning of the period	14	20 666	14 682	11 936	8 480
Cash and cash equivalents at the end of the period	**14**	**83 536**	**20 666**	**77 253**	**11 936**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

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 legal entity independently organising economic, financial, organisational and legal activities. The Company is an authorised capital Company and the Republic of Lithuania acts as a shareholder of the Company. 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 2017 and 2016 the Republic of Lithuania represented by the Ministry of Transport and Communications was the sole shareholder of the Company.

As at 31 December 2017, the Group comprised the Company and its subsidiaries.

Company	Company's address	Owned share, %		Main activities
		2017	2016	
UAB Geležinkelio Tiesimo Centras	Trikampio St. 10, Lentvaris	100	100	Railway construction
UAB Vilniaus Lokomotyvų Remonto Depas	Švitrigailos St. 39/16, Vilnius	100	100	Major overhauls to locomotives and diesel trains
UAB Gelsauga	Prūsų St. 1, Vilnius	100	100	Railway security services, cleaning, installation and maintenance of video surveillance systems
LUAB Geležinkelių Aplinkosaugos Centras	Konstitucijos Ave. 8 A, Vilnius	100	100	Greenery protection and up keeping. Under liquidation
UAB Rail Baltica Statyba	Mindaugo St. 12, Vilnius	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	Logistic park 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)

Explanatory notes for the year ended 31 December 2017

1. General information (continued)

Investments to the associated companies are specified below.

Company	Company's address	Owned share, %		Main activities
		2017	2016	
UAB Voestalpine VAE Legetecha	Draugystės St. 8, Vilnius district, Valčiūnai	34	34	Manufacture of railway switches
RB Rail AS	Gogolio St. 3, Riga	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	Provision of railway transport services. Controlled through UAB Vilniaus Lokomotyvų Remonto Depas

The Company is composed Derectorates of Passenger and Freight Transportation, Directorate of Railway Infrastructure, Administration and other units.

As at 31 December 2017, the number of the Group's and the Company's employees was 9 968 and 7 445 respectively (at 31 December 2016 11 532 and 9 514 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.

Explanatory notes for the year ended 31 December 2017

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 31 December 2017.

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 2017 have been prepared under the assumption that the Group and the Company will continue as a going concern.

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 statements 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.

Explanatory notes for the year ended 31 December 2017

2. Significant accounting policies (continued)

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 statements of profit or loss and other comprehensive income.

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.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

2. Significant accounting policies (continued)

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. 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.

Explanatory notes for the year ended 31 December 2017

2. Significant accounting policies (continued)

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;
- 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

Explanatory notes for the year ended 31 December 2017

2. Significant accounting policies (continued)

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 2017 and 2016, 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.

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;

Explanatory notes for the year ended 31 December 2017

2. Significant accounting policies (continued)

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:

- 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.

Explanatory notes for the year ended 31 December 2017

2. Significant accounting policies (continued)

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.

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

Explanatory notes for the year ended 31 December 2017

2. Significant accounting policies (continued)

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 2017 and 2016 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.

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.

Explanatory notes for the year ended 31 December 2017

2. Significant accounting policies (continued)

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.

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.

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

Explanatory notes for the year ended 31 December 2017

2. Significant accounting policies (continued)

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.

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, and 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

Explanatory notes for the year ended 31 December 2017

2. Significant accounting policies (continued)

grant. In profit or loss, a relevant expense account is reduced by the amount of grant amortisation.

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.

Finance 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

The following new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on 1 January 2018 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 permitted.

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 are 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 OCI. 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 OCI 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.

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

Explanatory notes for the year ended 31 December 2017

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

statements. However, the Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss impairment model.

(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 Company has no long-term contacts with bundled services, which are significant due to take-or-pay contracts, does not provide material payment instruments of sales, generally fees of contract conclusion are not charged, amendments to contracts are uncommon, etc.

(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.

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.

Explanatory notes for the year ended 31 December 2017

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

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 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.

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

Explanatory notes for the year ended 31 December 2017

4.Significant accounting estimates and judgements (continued)

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 for inclusion of assets in operations. An asset is included in operations and its depreciation is began to be calculated 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.

Significant estimates and assumptions

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.

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 7.

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 13.

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, an impairment 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 realizable 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 counsel. Revisions to the estimates may significantly affect future operating result of the Group. For the analysis of provisions refer to Note 21.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

4. Significant accounting estimates and judgements (continued)

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. 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	
	2017	**2016**	**2017**	**2016**
Financial assets				
Trade and other receivables	35 970	54 829	35 541	48 515
Cash and cash equivalents	83 536	20 666	77 253	11 936
Total	**119 506**	**75 495**	**112 794**	**60 451**
Financial liabilities				
Loans and borrowings	268 533	301 469	255 805	289 033
Trade ant other payable	64 949	55 751	74 358	56 454
Total	**333 482**	**357 220**	**330 163**	**345 487**

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)

Explanatory notes for the year ended 31 December 2017

5. Financial instruments and risk management (continued)

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

Group	Carrying amount 2017	Fair value 2017			Carrying amount 2016	Fair value 2016		
Financial assets	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Trade and other receivables	35 970	-	-	-	54 829	-		-
Cash and cash equivalents	83 536	-	-	-	20 666	-	-	-
Total	**119 506**	**-**	-	**-**	**75 495**	**-**	-	**-**
Financial liabilities								
Loans and borrowings	268 533	-	268 533	-	301 469	-	301 469	-
Trade and other payables	64 949	-	-	-	55 751	-	-	-
Total	**333 482**	**-**	**268 533**	**-**	**357 220**	**-**	**301 469**	**-**

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

Company	Carrying amount 2017	Fair value 2017			Carrying amount 2016	Fair value 2016		
Financial assets	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Trade and other receivables	35 541	-	-	-	48 515	-	-	-
Cash and cash equivalents	77 253	-	-	-	11 936	-	-	-
Total	**112 794**	**-**	-	**-**	**60 451**	**-**	-	**-**
Financial liabilities								
Loans and borrowings	255 805	-	255 805	-	289 033	-	289 033	-
Trade and other payables	74 358	-	-	-	56 454	-	-	-
Total	**330 163**	**-**	**255 805**	**-**	**345 487**	**-**	**289 033**	**-**

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.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

5. Financial instruments and risk management (continued)

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 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	
	2017	**2016**	**2017**	**2016**
Trade and other receivables	35 970	54 829	35 541	48 515
Cash and cash equivalents	83 536	20 666	77 253	11 936
Total	**119 506**	**75 495**	**112 794**	**60 451**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

5. Financial instruments and risk management (continued)

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

	Group		Company	
	2017	2016	2017	2016
Client A	4 636	22 803	4 513	22 799
Client B	2 583	2 286	2 583	2 286
Client C	1 389	1 486	1 389	1 486
Client D	2 469	3 395	16	12
Client E	747	700	747	700
Client F	1 290	731	1 290	731
Other	11 163	8 861	14 833	7 761
Total	**24 277**	**40 262**	**25 371**	**35 775**

Impairment accounted for by the Group and the Company reflects the estimated losses from doubtful trade receivables. The principal component of impairment is 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	
	2017	2016	2017	2016
Balance as at the beginning of period	13 540	13 776	13 531	13 766
Change (increase) in impairment allowance of trade receivables	(11 990)	(236)	(11 990)	(235)
Balance as at the end of period	**1 550**	**13 540**	**1 541**	**13 531**

As at 31 December 2017, doubtful receivables in the Group and the Company decreased by EUR 11 990 thousand compared to 2016; therefore, impairment of doubtful trade receivables was reversed in the statements of profit or loss and other comprehensive income, under expenses. The impairment of trade debtors was mainly related to the trade debtor, which was delayed payments due to legal disputes, described in the Note 27. The agreement with this customer was reached in 2017 year. Ageing of debtors is presented in the Note 13.

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.

	Group		Company	
	2017	2016	2017	2016
A+, A1	22 254	16 189	18 240	11 105
A1-, A+	3 218	1 913	2 287	367
AA-, Aa3	57 839	2 285	56 504	186
Lower than BBB-/Baa3	166	235	166	235
Cash in hand	59	44	56	43
Total	**83 536**	**20 666**	**77 253**	**11 936**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

5. Financial instruments and risk management (continued)

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 standard policy payment period for suppliers is 45 days.

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

	2017	2016	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 2016-2017 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.

The Group's and the Company's loan maturities were:

	Group		Company	
	2017	2016	2017	2016
Within one year	32 405	32 893	32 405	32 893
One to five years	117 233	127 645	104 505	115 525
After five years	118 895	140 615	118 895	140 615
Total	**268 533**	**301 153**	**255 805**	**289 033**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

5. Financial instruments and risk management (continued)

The Group's and the Company's interest maturities by the method of undiscounted flows were:

	Group		Company	
	2017	**2016**	**2017**	**2016**
Within one year	4 683	5 359	4 583	5 300
One to five years	12 795	14 892	12 795	14 792
After five years	11 013	13 599	11 013	13 599
Total	**28 491**	**33 850**	**28 391**	**33 691**

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

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 2017 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 2017 was EUR 268 533 thousand, as at 31 December 2016 was EUR 301 153 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 2017 in the Company's loan portfolio loans with fixed interest rate comprised 23%, with interest rate that is reviewed - 6.7%, and with variable interest rate - 70.3%. As at 31 December 2016 with fixed interest rate comprised 24.8%, with interest rate that is reviewed - 6.9%, and with variable interest rate - 68.3%. Given the current state in financial markets, variable interest rate is more favourable.

As at 31 December 2017 the weighted interest rate of the loan portfolio was 2.2%, and as at 31 December 2016 was 1.9%. If the interest rate grew by 0.5 percentage points during 2017, the annual interest expenses would increase by EUR 1 000 thousand.

In 2017 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.

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

Explanatory notes for the year ended 31 December 2017

5. Financial instruments and risk management (continued)

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 2017 and 31 December 2016 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.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

6. Intangible assets

Intangible assets of the Group comprised the following:

	Software	Licences and similar rights	Other intangible assets	Total
Acquisition cost				
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
- additions	1 414	135	69	1 618
- sales, disposals, write-offs	(48)	(1)	-	(49)
- reclassifications	-	-	-	-
31 December 2017	29 474	2 022	1 470	32 966
Accumulated amortisation and impairment losses				
31 December 2015	(1 592)	(294)	(614)	(2 500)
- amortisation	(2 348)	(343)	(118)	(2 809)
- impairment for the year	-	-	-	-
- sales, disposals, write-offs	8	-	-	8
- reclassifications	-	-	-	-
31 December 2016	(3 932)	(637)	(732)	(5 301)
- amortisation	(2 587)	(413)	(197)	(3 197)
- impairment for the year	(52)	-	-	(52)
- sales, disposals, write-offs	29	-	-	29
- reclassifications	-	-	-	-
31 December 2017	(6 542)	(1 050)	(929)	(8 521)
Carrying amount				
31 December 2015	12 665	1 367	462	14 494
31 December 2016	24 176	1 251	669	26 096
31 December 2017	**22 932**	**972**	**541**	**24 445**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

6. Intangible assets (continued)

Intangible assets of the Company comprised the following:

	Software	Licences and similar rights	Other intangible assets	Total
Acquisition cost				
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
- additions	1 522	137	63	1 722
- sales, disposals, write-offs	(18)	-	-	(18)
- reclassifications	-	-	-	-
31 December 2017	29 189	2 021	459	31 669
Accumulated amortisation and impairment losses				
31 December 2015	(1 440)	(294)	(24)	(1 758)
- amortisation	(2 241)	(342)	(23)	(2 606)
- impairment for the year	-	-	-	-
- sales, disposals, write-offs	1	-	-	1
- reclassifications	-	-	-	-
31 December 2016	(3 680)	(636)	(47)	(4 363)
- amortisation	(2 507)	(413)	(98)	(3 018)
- impairment for the year	(52)	-	-	(52)
- sales, disposals, write-offs	3	-	-	3
- reclassifications	-	-	-	-
31 December 2017	(6 236)	(1 049)	(145)	(7 430)
Carrying amount				
31 December 2015	12 475	1 367	71	13 913
31 December 2016	24 005	1 248	349	25 602
31 December 2017	**22 953**	**972**	**314**	**24 239**

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 2017 formed EUR 3 197 thousand (EUR 2 809 thousand in 2016) and EUR 3 018 thousand (EUR 2 606 thousand in 2016) accordingly, are accounted for in the statements of profit or loss and other comprehensive income, under depreciation and amortisation.

Group fully amortized intangible assets but still used amounted EUR 635 thousand (EUR 363 thousand in 2016). Company fully amortized intangible assets but still used amounted EUR 489 thousand (EUR 259 thousand in 2016). Most of fully amortized assets was software.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

7. 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							
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
- additions during the year	307	1 776	2 550	44 231	1 702	49 571	100 137
- assets sold, written off, disposed	(7)	(3 997)	(1 397)	(6 025)	(1 777)	(624)	(13 827)
- reclassifications	-	21 267	2 718	1 998	3 289	(29 230)	42
31 December 2017	146 604	1 137 971	239 766	488 189	99 193	154 900	2 266 623
Accumulated depreciation and impairment losses							
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 for the year	-	-	-	-	-	(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)
- depreciation	-	(68 358)	(18 721)	(40 641)	(9 356)	-	(137 076)
- impairment for the year	-	(6)	(5)	(991)	(4)	(18)	(1 024)
- assets sold, written off, disposed	-	674	596	2 066	1 236	-	4 572
- reclassifications	-	(12)	23	(42)	29	-	(2)
31 December 2017	-	(188 160)	(59 234)	(103 917)	(23 696)	(13 588)	(388 595)
Carrying amount							
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
31 December 2017	**146 604**	**949 811**	**180 532**	**384 272**	**75 497**	**141 312**	**1 878 028**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

7. 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							
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
- additions during the year	308	1 002	2 160	44 818	898	45 382	94 568
- assets sold, written off, disposed	(7)	(1 911)	(371)	(4 438)	(354)	(449)	(7 530)
- reclassifications	-	12 849	2 740	1 998	3 361	(28 899)	(7 951)
31 December 2017	146 598	1 116 012	216 380	480 030	96 375	150 031	2 205 426
Accumulated depreciation and impairment losses							
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 for the year	-	-	-	-	-	(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)
- depreciation	-	(67 680)	(16 297)	(39 658)	(8 586)	-	(132 221)
- impairment for the year	-	(5)	(5)	(991)	(4)	(18)	(1 023)
- assets sold, written off, disposed	-	273	171	1 264	234	-	1 942
- reclassifications	-	1 276	57	(42)	(12)	-	1 279
31 December 2017	-	(184 635)	(52 408)	(101 117)	(22 199)	(13 588)	(373 947)
Carrying amount							
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
31 December 2017	**146 598**	**931 377**	**163 972**	**378 913**	**74 176**	**136 443**	**1 831 479**

Explanatory notes for the year ended 31 December 2017

7. 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 115 760 thousand (EUR 105 044 thousand in 2016). This amount included EUR 137 076 thousand (EUR 120 886 thousand in 2016) depreciation expenses which was reduced by depreciation of grants EUR 15 244 thousand (EUR 10 336 thousand in 2016) as disclosed in Note 18. Capitalized depreciation amounted to EUR 6 072 thousand (EUR 5 506 thousand in 2016).

The depreciation charge of the Company amounted to EUR 116 199 thousand (EUR 105 157 thousand in 2016). This amount included EUR 132 221 thousand (EUR 115 569 thousand in 2016) depreciation expenses which was reduced by depreciation of grants EUR 15 214 thousand (EUR 10 259 thousand in 2016) as disclosed in Note 18. Capitalized depreciation amounted EUR 808 thousand (EUR 153 thousand in 2016).

The Group and the Company booked the impairment provision for unfinished projects amounting to EUR 18 thousand (EUR 13 570 thousand in 2016), which are not currently approved for implementation and therefore are doubtful.

As at 31 December 2017, the carrying amount of assets managed under the right of trust comprised EUR 984 237 thousand (at 31 December 2016 EUR 1 060 793 thousand).

The acquisition cost of fully depreciated property, plant and equipment of the Group was EUR 57 852 thousand (EUR 42 096 thaousand in 2016) and the Company EUR 55 845 thousands (40 437 thousands in 2016). Most of fully depreciated property, plant and equipment was vehicles.

(all amounts are in EUR thousand unless otherwise stated)

8. Investment property

The investment property of the Group and the Company comprised the following:

	Group	Company
Acquisition cost		
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
- additions during the year	-	-
- assets sold, written off, disposed	(20)	(20)
- reclassifications	(42)	7 951
31 December 2017	1 939	9 932
Accumulated depreciation and impairment losses		
31 December 2015	(220)	(220)
- depreciation	(133)	(133)
- assets sold, written off, disposed	42	42
- reclassifications	27	27
31 December 2016	(284)	(284)
- depreciation	(210)	(210)
- assets sold, written off, disposed	18	18
- reclassifications	1	(1 279)
31 December 2017	(475)	(1 755)
Carrying amount		
31 December 2015	1 825	1 825
31 December 2016	1 717	1 717
31 December 2017	**1 464**	**8 177**

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.

The fair value of investment property was determined based on the independent valuation of the property carried out on 1 January 2015. Management assessed that the changes in the real estate market during 2017 and 2016 did not have significant impact of the fair value of the investment property.

Part of the Group's and the Company's investment property with the acquisition cost as at 31 December 2017 of EUR 61 thousand (at 31 December 2016 EUR 16 thousand) was fully depreciated but still used in operations.

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

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

9. Investments

The movement of investments to subsidiaries and other companies as at 31 December:

Company name		Owned share (%)	Investment value	
			2017	2016
Shares of subsidiaries				
UAB Vilniaus Lokomotyvų Remonto Depas		100	15 252	15 252
UAB Geležinkelio Tiesimo Centras	a)	100	17 072	16 354
UAB Gelsauga		100	3 456	3 456
LUAB Geležinkelių Aplinkosaugos Centras	b)	100	1 853	5 250
UAB Rail Baltica Statyba	c)	100	3 504	2 854
UAB Geležinkelių Projektavimas	a)	-	-	652
BAB Lietuvos Jūrų Laivininkystė	d)	56.66	470	470
VšĮ Vilniaus Logistikos Parkas		79.61	265	265
Impairment (-)			(2 458)	(1 837)
			39 414	42 716
Shares of associates				
UAB Voestalpine VAE Legetecha		34	745	745
Impairment (-)			-	-
			745	745
Non-current investments				
Brussels Centralised Payment Centre		1.34	2	2
Impairment (-)			-	-
			2	2
Total			**40 161**	**43 463**

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 7 March 2017, the Company made a decision to increase the authorised capital of UAB Geležinkelio Tiesimo Centras by EUR 66 thousand asset contributions. Increase of the authorised capital was registered on 20 July 2017. On 19 July 2017, the Company made a decision to merge UAB Geležinkelių Projektavimas to UAB Geležinkelio Tiesimo Centras, increasing the authorised capital of UAB Geležinkelio Tiesimo Centras by asset contribution of EUR 652 thousand of UAB Geležinkelio Projektavimas. Increase of the authorised capital was registered on 22 September 2017;

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

9. Investments (continued)

b) On 25 August 2017, the Company adopted a decision regarding the liquidation of UAB Geležinkelių Aplinkosaugos Centras. As at the end of 2017, LUAB Geležinkelių Aplinkosaugos Centras was not yet fully liquidated. The Company, as the sole shareholder, takes over the assets remaining after settling creditor requirements;

c) On 28 September 2017, 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 2017;

d) On 14 December 2015, Klaipėda Regional Court made a decision to initiate bankruptcy proceedings against AB Lietuvos Jūrų Laivininkystė.

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

	Investment value
Acquisition value as at 31/12/2015	42 544
Increase (+)	966
Decrease (-)	(47)
Acquisition value as at 31/12/2016	43 463
Increase (+)	716
Decrease (-)	(4 018)
Acquisition value as at 31/12/2017	**40 161**

Financial position of the companies of related parties:

2017	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity
UAB Geležinkelio Tiesimo Centras	26 338	8 476	12 856	2 733	19 225
UAB Vilniaus Lokomotyvų Remonto Depas	11 544	21 616	1 213	10 218	21 729
UAB Gelsauga	3 773	4 360	316	2 251	5 566
UAB Geležinkelių Projektavimas	-	-	-	-	-
LUAB Geležinkelių Aplinkosaugos Centras	-	886	-	21	865
UAB Rail Baltica Statyba	2 601	128	-	13	2 716
UAB Voestalpine VAE Legetecha	4 831	6 027	11	1 640	9 207

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
LUAB 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

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

9. Investments (continued)

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

	2017			2016		
	Income	(Expenses)	Profit (loss)	Income	(Expenses)	Profit (loss)
UAB Geležinkelio Tiesimo Centras	19 394	(20 919)	(1 525)	20 065	(23 008)	(2 943)
UAB Vilniaus Lokomotyvų Remonto Depas	29 654	(29 125)	529	20 316	(20 178)	138
UAB Gelsauga	13 706	(12 867)	839	17 756	(17 114)	642
UAB Geležinkelių Projektavimas	-	-	-	10 537	(10 415)	122
LUAB Geležinkelių Aplinkosaugos Centras	4 274	(4 816)	(542)	5 083	(4 823)	260
UAB Rail Baltica Statyba	28	(143)	(115)	-	(161)	(161)
UAB Voestalpine VAE Legetecha	10 211	(9 527)	684	8 910	(8 407)	503

10. Inventories

As at 31 December, inventories comprised:

	Group		Company	
	2017	2016	2017	2016
Spare parts	13 299	15 599	6 116	13 367
Materials of the upper railway part	11 946	11 398	10 187	9 672
Materials	7 650	7 716	6 523	7 039
Fuel	3 721	4 225	3 629	4 175
Other inventories	1 358	1 333	853	1 081
Write down (-)	(3 985)	(3 970)	(3 372)	(3 387)
Total raw materials, materials and component parts	33 989	36 301	23 936	31 947
Goods for resale	1 766	63	1 743	12
Write down (-)	(19)	(18)	-	-
Total goods for resale	1 747	45	1 743	12
Total	**35 736**	**36 346**	**25 679**	**31 959**

Carrying amount of inventories before the adjustment to the net realisable value of the Group and the Company as at 31 December 2017 amounted to EUR 39 740 thousand and EUR 29 051 thousand respectively (at 31 December 2016 EUR 40 334 thousand and EUR 35 346 thousand).

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

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

11. Non-current assets held-for-sale

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

	Group		Company	
	2017	2016	2017	2016
Non-current assets held-for-sale	755	5 110	755	4 998
Write down (-)	-	(351)	-	(351)
Total	**755**	**4 759**	**755**	**4 647**

Net book value of non-current assets held-for-sale of the Group and the Company as at 31 December 2017 amounted to EUR 755 thousand (as at 31 December 2016 EUR 5 110 thousand and EUR 4 998 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.

12. Prepayments

Prepayments of the Group and the Company comprised:

	Group		Company	
	2017	2016	2017	2016
Prepayments	334	377	76	70
Paid grants to suppliers	97	15	42	15
Deferred expenses	1 385	1 838	1 265	673
Total	**1 816**	**2 230**	**1 383**	**758**

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

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

13. Trade and other receivables

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

	Group		Company	
	2017	2016	2017	2016
Gross external trade debtors	25 793	53 802	22 059	49 063
Impairment (-)	(1 550)	(13 540)	(1 541)	(13 531)
Total	**24 243**	**40 262**	**20 518**	**35 532**
Receivable from related parties	34	-	4 853	243
Receivable VAT	897	1 679	301	464
Other amounts receivable from the budget	1 038	3 186	582	2 922
Amount receivable from the shareholder	8 765	8 765	8 765	8 765
Accrued income	822	858	434	574
Other amounts receivable	4 622	4 723	4 605	4 703
Impairment (-)	(4 517)	(4 694)	(4 517)	(4 694)
Total	**11 661**	**14 517**	**15 023**	**12 977**
Trade and other receivable	**35 904**	**54 779**	**35 541**	**48 509**

Impairment of trade receivables of EUR 11 990 thousand (at 31 December 2016 EUR 235 thousand reversed) of the Group and the Company was reversed from expenses of 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 27. The agreement with this customer was reached in 2017 year.

Receivables from the shareholder amounting to EUR 8 765 thousand (EUR 8 765 thousand in 2016) are grants receivable by which the share capital was increased according to the Government resolutions until 2013. The management expects that the shareholder will compensate the amount to the Company.

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

Receivables from operating activities (excluding receivables from related parties and allowances):	**2017**	**2016**
	25 793	**53 802**
Trade debtors for transportation of freights through the territory of Lithuania and other services	13 661	46 207
Trade debtors for international freight transportation	10 024	5 270
Debts of foreign railway companies	2 108	2 325

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

13. Trade and other receivables (continued)

Distribution of receivables from the operating activities of the Company

Receivables from operating activities (excluding receivables from related parties and allowances):	2017	2016
	22 059	**49 063**
Trade debtors for transportation of freights through the territory of Lithuania and other services	9 927	41 468
Trade debtors for international freight transportation	10 024	5 270
Debts of foreign railway companies	2 108	2 325

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

	Group		Company	
	2017	2016	2017	2016
Not overdue	23 355	13 669	20 108	9 403
Overdue 0-60 days	577	2 506	356	2 492
Overdue 60-120 days	27	2 304	25	2 295
Overdue 120-180 days	80	2 284	11	2 220
Overdue 180-360 days	78	7 041	52	6 746
Overdue for over 360 days	1 676	25 998	1 507	25 907
Impairment (-)	(1 550)	(13 540)	(1 541)	(13 531)
Total	**24 243**	**40 262**	**20 518**	**35 532**

As at 31 December 2017 the Company's overdue trade receivables decreased by EUR 37 709 thousand compared to 2016 (as at 31 December 2016 increased by EUR 13 628 thousand compared to 2015). On 28 June 2017 an agreement was signed between the Company and AB Orlen Lietuva (OL) on the amendment to the agreement and dispute settlement, which set the amounts payable for the freight transportation services rendered by the Company to OL in 2014-2016. As at 31 December 2017, the Group's overdue trade receivables decreased by EUR 37 695 thousand compared to 2016 (as at 31 December 2016, overdue trade receivables increased by EUR 13 545 thousand if compared to 2015).

14. Cash and cash equivalents

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

	Group		Company	
	2017	2016	2017	2016
Cash at bank	83 476	20 622	77 197	11 893
Cash in hand	4	1	-	-
Cash in ticket register	56	43	56	43
Total	**83 536**	**20 666**	**77 253**	**11 936**

As at 31 December 2017, the Group and the Company had no term deposits. Cash is not pledged.

(all amounts are in EUR thousand unless otherwise stated)

15. Share 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 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
Increase	650	2 245
Decrease	(626)	(2 161)
Number of shares as at 31/12/2017	1 057 982	3 653 002
Capital structure at the end of reporting period		
By type of shares		
Ordinary shares	1 057 982	3 653 002
Privileged shares	-	-
Total	**1 057 982**	**3 653 002**

Increase of authorised capital

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.

On 19 September 2017, the Minister of Transport and Communications of the Republic of Lithuania issued Order No. 3-431 and increased the authorised capital of the Company by additional contributions of EUR 650 thousand, issuing 2 245 ordinary registered shares. The authorised capital was increased implementing Resolution No. 734 of the Government of the Republic of Lithuania No. 734 as of 13 September 2017. The increase of the authorised capital was registered on 29 September 2017.

Reduction of authorised capital

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 shares of the Company owned by the State. The authorised capital was decreased implementing these resolutions 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.

On 19 October 2016, the Minister of Transport and Communications of the Republic of Lithuania issued Order No. 3-345 and decreased the authorised capital of the Company by EUR 626 thousand, by annulling 2 161 ordinary registered shares of the Company owned by the State. The authorised capital was decreased implementing these resolutions of the Government of the Republic of Lithuania: No. 225 as of 9 March 2016 and No. 336 as of 30 March 2016. Decrease of the authorised capital was registered on 1 March 2017.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

16. 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.

17. Reserves

Legal reserve. 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.

Other reserves. As at 31 December 2017 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.

18. Grants

Movement of grants of the Group and the Company:

	Group		Company	
	2017	**2016**	**2017**	**2016**
Balance at the beginning of the period	515 251	496 184	515 127	495 983
Received during the year	25 256	36 562	25 256	36 562
Used for decrease of depreciation costs of non-current assets	(15 244)	(10 336)	(15 214)	(10 259)
Used for decrease of other expenses	(1 707)	(2 174)	(1 707)	(2 174)
Increased authorised capital	(650)	(650)	(650)	(650)
Repaid	(1 944)	(4 335)	(1 944)	(4 335)
Balance at the end of the period	**520 962**	**515 251**	**520 868**	**515 127**
Including assets managed under the right of trust	**231 864**	**229 653**	**231 864**	**229 653**

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

19. Loans and borrowings

Borrowings of the Group and the Company comprised:

	Group		Company	
	2017	2016	2017	2016
Finance lease liabilities	-	315	-	-
Long term Loans	236 128	268 261	223 400	256 140
Short term loans	32 405	32 893	32 405	32 893
Borrowings	**268 533**	**301 469**	**255 805**	**289 033**

Loans received by the Company comprised:

	Loan currency	2017	2016
Bank EIB - 1, total [5]	EUR	1 800	3 000
Bank EIB - 2, total [7]	EUR	16 046	21 864
Bank EIB - 3, total [7]	EUR	8 636	10 455
Bank EIB - 4, total [6]	EUR	40 667	47 333
Ministry of Finance of Lithuania (No. 607)[2]	EUR	3 663	3 878
Ministry of Finance of Lithuania (No. 615)[2]	EUR	4 882	5 524
Ministry of Finance of Lithuania (No. 617)[2]	EUR	314	333
Ministry of Finance of Lithuania (No. 618)[2]	EUR	3 923	4 153
Nordea bank AB Lithuanian branch [1]	EUR	-	468
Nordic Investment Bank-1[5]	EUR	2 368	3 947
Nordic Investment Bank-2, total[5]	EUR	17 000	20 778
Nordic Investment Bank-3, total[3]	EUR	106 645	114 000
Nordic Investment Bank-4, total[4]	EUR	49 861	53 300
Total		**255 805**	**289 033**

[1] On 30 June 2017 the whole loan was repaid to Nordea bank. During the 2016 The Company has repaid EUR 937 thousand of loan and 2 thousand of interest.

[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 2017 amount to EUR 12 782 thousand (31 December 2016 EUR 13 888 thousand). The Company has repaid EUR 1 897 thousand of these loans and EUR 3 135 thousand of interest during 2017. During the 2016 the Company has repaid EUR 772 thousand of these loans and 568 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 2017 the Company paid EUR 7 355 thousand of loan and EUR 1 642 thousand of interest. During 2016 the company has repaid EUR 1 673 thousand of interest.

Explanatory notes for the year ended 31 December 2017

19. Loans and borrowings (continued)

[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 2017 the Company paid EUR 3 439 thousand of loan and EUR 650 thousand of interest. During 2016 the Company has repaid EUR 593 thousand of interest and EUR 22 thousand of liability fee.

[5] During 2017 the repaid amounts of the remaining part of other loans intended for railway infrastructure renovation and development that have not been clearly indicated herein (EIB-1, NIB-1, NIB-2) are as follows: loans of EUR 6 557 thousand, and interest of EUR 382 thousand. During 2016 the Company has repaid EUR 7 972 thousand of these loans and interest of EUR 604 thousand.

[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 portion of loan is set individually. During 2017 the Company paid EUR 6 667 thousand of the loan and EUR 1 143 thousand of interest. During 2016 the Company has repaid EUR 2 667 thousand of the loan and 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 2017 is equal to EUR 7 636 thousand and the interest paid is equal to EUR 929 thousand. During 2016 the Company has repaid EUR 7 636 thousand of these loans and EUR 1 180 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 2017. Within 2017 the Company has paid EUR 139 thousand of liability fee and during 2016 EUR 115 thousand.

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 used during 2017 neither 2016.

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. On 22 December 2017, the amendment to the credit agreement was signed - 1 January 2019 is set as the last day of credit limit (repayment day). The Company issued a surety to SEB bank for the liabilities assumed by UAB Geležinkelio Tiesimo Centras by entering into a suretyship agreement of 22 December 2017. 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 2017 was equal to EUR 12 728 thousand (31 December 2016 was EUR 12 120 thousand).

The interest rates and maturity terms of the loans are disclosed in the liquidity Note 5. The financial covenants, which the Group and the Company should follow are also discloses in the liquidity note. As at 31 December 2017 and 2016 the Company and the Group complied with all the financial debt covenants.

(all amounts are in EUR thousand unless otherwise stated)

20. 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 31/12/2015	16 166	15 357
Formed additionally	925	790
Used/Dissolved	(426)	(414)
Balance as at 31/12/2016	16 665	15 733
Formed additionally	724	-
Used/Dissolved	(5 664)	(5 559)
Balance as at 31/12/2017	**11 725**	**10 174**

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

	2017	2016
Discount rate	0.31	0.31
Staff turnover ratio	2.92	2.66
Annual increase in salary	1.50	1.50

The non-current employee benefits liability decreased mainly due to decrease in the number of employees.

Current employee benefits by type:

	Group		Company	
	2017	2016	2017	2016
Vacation accruals	17 992	13 304	14 364	11 754
Payable remuneration	8 135	7 204	7 116	6 320
Payable social insurance contributions	5 628	6 412	4 713	5 601
Payable personal income tax contributions	1 574	1 382	1 419	1 259
Payable guarantee fund contributions	-	30	-	27
Total	**33 329**	**28 332**	**27 612**	**24 961**

(all amounts are in EUR thousand unless otherwise stated)

21. Provisions

Other provisions of the Group and the Company comprised:

	Group		Company	
	2017	2016	2017	2016
Non-current provisions	14 400	14 400	14 400	14 400
Current provisions	214	28 152	-	27 873
Total	**14 614**	**42 552**	**14 400**	**42 273**

The movement in provisions could be specified:

	Group	Company
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
Formed additionally	2	-
Used/Dissolved	(27 940)	(27 873)
Balance as at 31/12/2017	**14 614**	**14 400**

On 2 October 2017 the European Commission imposed the fine amounting to EUR 27 873 thousand which was transferred to current liabilities. The fine was paid in January 2018. The Company recorded EUR 14 400 thousand for other legal proceedings. Other provisions formed for warranty repair of rolling stock.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

22. Trade and Other Payables

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

	Group		Company	
	2017	2016	2017	2016
Trade payables	26 307	45 551	24 396	38 330
Amounts payable to related parties	1 694	584	13 809	10 684
Cash guarantees received	3 240	3 447	3 988	4 035
Other taxes payable to the budget	1 343	976	604	530
Deferred income	719	2 238	-	-
Accumulated service costs of foreign railways	447	637	447	637
Accumulated loan interest	1 479	1 674	1 479	1 674
Other accrued costs	1 561	460	1 549	405
Labour union membership fee	95	74	86	68
Payable fine to European Commission	27 873	-	27 873	-
Other amounts payable and liabilities	191	110	127	91
Total	64 949	55 751	74 358	56 454
Non-current	3 937	6 441	3 935	6 437
Current	61 012	49 310	70 423	50 017
Total	**64 949**	**55 751**	**74 358**	**56 454**

23. Revenue

Sales revenue of the Group and the Company comprised:

	Group		Company	
	2017	2016	2017	2016
Income from freight transportation and use of the railway infrastructure	381 545	344 068	382 246	344 745
Income from passenger, baggage and post	25 189	25 027	25 194	25 033
Income from sales of other additional services	41 366	35 025	37 812	30 724
Total	**448 100**	**404 120**	**445 252**	**400 502**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

24. Result from financing activities

During the year ended 31 December:

	Group		Company	
	2017	**2016**	**2017**	**2016**
Total finance income	45	354	725	297
Penalties and interest for delayed trade debtors	-	132	35	88
Currency exchange gain	-	94	-	94
Interest	29	4	-	4
Dividends	-	-	680	-
Other	16	124	10	111
Total finance costs	(5 986)	(6 002)	(5 858)	(5 905)
Interest	(5 185)	(5 885)	(5 110)	(5 789)
Currency exchange loss	(413)	-	(242)	-
Other	(388)	(117)	(506)	(116)
Result from financing activities	**(5 941)**	**(5 648)**	**(5 133)**	**(5 608)**

25. Corporate income and deferred tax

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

	Group		Company	
	2017	**2016**	**2017**	**2016**
Current year income tax	1 876	3 057	1 587	2 936
Deferred tax expenses	2 451	(1 358)	2 645	(947)
Total corporate income tax expenses (income) recognised in profit or loss	**4 327**	**1 699**	**4 232**	**1 989**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

25. Corporate income and deferred tax (continued)

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

	Group		Company	
	2017	2016	2017	2016
Profit (loss) before taxation	31 314	(50 754)	29 786	(47 525)
Corporate income tax at a statutory tax rate (15%)	4 697	(7 613)	4 468	(7 129)
Deductible expenses (support)	-	(287)	-	(256)
Effect of tax exemption on investment projects	(4)	(158)	(4)	(158)
Non-deductible (deductible) expenses	2 496	7 653	2 143	7 349
Tax-exempt (non-exempt) income	(1 780)	370	(1 671)	449
Adjustment to income tax of the previous year	(1 082)	1 734	(704)	1 734
Total corporate income tax expenses (income) recognised in profit or loss	**4 327**	**1 699**	**4 232**	**1 989**
Effective rate, %	13,82 %	-	14,21 %	-

Deferred tax assets

Calculation of the deferred tax of the Group and the Company is provided herein:

	Group		Company	
	2017	2016	2017	2016
Deferred tax assets:				
Impairment of non-current assets	1 392	2 010	1 234	1 795
Impairment of amounts receivable and write-off of bad debts	1 353	3 178	1 351	3 177
Write down of inventories	110	597	13	505
Vacation accruals	2 287	1 818	2 155	1 763
Pension accruals	1 572	2 434	1 380	2 297
Accrued expenses	67	96	67	96
Other provisions	143	354	-	-
Impairment of financial assets	275	275	275	275
Losses carried forward	894	489	-	-
Deferred tax assets	8 093	11 251	6 475	9 908
Deferred income tax liabilities:				
Difference in grants	(9 005)	(9 772)	(9 005)	(9 772)
Accrued income	(65)	(86)	(65)	(86)
Deferred tax liabilities	(9 070)	(9 858)	(9 070)	(9 858)
Net deferred tax assets (liabilities)	**(977)**	**1 393**	**(2 595)**	**50**

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.

(all amounts are in EUR thousand unless otherwise stated)

26. 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.

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

2017	Purchases	Sales	Amounts receivable	Amounts payable
UAB Gelsauga	12 846	157	17	2 257
UAB Geležinkelio Tiesimo Centras	15 698	1 538	138	2 642
UAB Vilniaus Lokomotyvų Remonto Depas	24 541	6 211	4 703	8 133
UAB Geležinkelių Projektavimas	-	-	-	-
LUAB Geležinkelių Aplinkosaugos Centras	3 655	871	-	351
UAB Rail Baltica Statyba	28	6	-	-
UAB Voestalpine VAE Legetecha	5 263	9	-	1 712
Total	**62 031**	**8 792**	**4 858**	**15 095**

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
LUAB 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**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes for the year ended 31 December 2017

26. Related party transactions (continued)

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

	Group		Company	
	2017	2016	2017	2016
Amounts receivable from related parties	34	-	4 853	243
Loans granted to related parties	2 923	2 923	2 923	2 923
Impairment allowance (-)	(2 923)	(2 923)	(2 923)	(2 923)
Total	**34**	**-**	**4 853**	**243**

As at 31 December 2017, the Group's and the Company's amounts receivable from related parties increased by EUR 34 thousand and EUR 4 610 thousand respectively. No impairment allowance was calculated for trade debtors.

In 2017, income of associates by equity method comprised EUR 216 thousand (EUR 79 thousand in 2016), expenses - EUR 251 thousand (EUR 181 thousand in 2016). Result of associates, included in the statements of profit or loss and other comprehensive income, comprised loss of EUR 35 thousand in 2017 (EUR 102 thousand in 2016).

Management salary and other benefits. As at 31 December 2017, the number of managers of the Company was equal to 9 i.e., 1 Director General, 1 Chief Financial Officer, 3 Deputy Director General – directors of the directorates, 1 Director of Legal Department, 1 Director of Human Resources Department, 1 Director of Communications Department, 1 Director of Strategy and Development.

Company	2017	2016
Management salary	827	438
Bonuses	13	13
Number of managers	9	6
Benefits to Board members	39	19
Number of Board members	3	2

In 2017 and 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.

27. Contingent assets and liabilities

Legal cases

In 2017, the Company (including its branches) was involved in 74 legal (civil, administrative, labor) disputes. 18 lawsuits in the total amount of EUR 113 500 thousand were brought to courts against the Company, whereas in the rest of lawsuits the Company was involved either as a claimant or a third party. The legal disputes 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.

Almost the entire amount of claims (EUR 100 000 thousand) brought against the Company in 2017 and 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.

Explanatory notes for the year ended 31 December 2017

27. Contingent assets and liabilities (continued)

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.

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 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 was imposed a fine amounting to EUR 27,873 thousand and obliged to bring to an end the infringement. The fine was paid on January 2018. 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.

In 2017, 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.

Commitment for investments

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.

28. Subsequent events

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, therefore the funds received were recognised as grants related to assets and amortised.