2018

AB LIETUVOS GELEŽINKELIAI ANNUAL REPORT

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Abbreviations:

LG, Lietuvos Geležinkeliai or the Company – AB Lietuvos Geležinkeliai
Group, Group of companies – AB Lietuvos Geležinkeliai and its subsidiaries
GOV – Government of the Republic of Lithuania
EU – the European Union

Consolidated Annual Report, Separate and Consolidated Financial Statements for the year 2018, prepared for the period January 1, 2018 - December 31, 2018, in accordance with International Financial Reporting Standards as adopted by the European Union.
The annual and interim reports and financial statements are publicly available on the website http://www.litrail.lt.

CEO Foreword

MANTAS BARTUŠKA
CEO
AB Lietuvos geležinkeliai

DEAR PARTNERS, EMPLOYEES, CUSTOMERS,

In 2018, Lietuvos Geležinkeliai, the largest railway group in the Baltics, surpassed the growth path and demonstrated record-breaking performance indicators. This is the result of hard work that has started back in 2017, the year of changes, carried out by the LG team which has also been renewed.

One of the major works in 2018 was shaping and putting in place a long-term strategy that Lietuvos Geležinkeliai will live by until 2030. The strategy aims at doubling the number of passengers, increasing freight by one third, ensuring reliable and secure infrastructure. The value of the state-owned enterprise is expected to increase twice by 2030.

The goals are ambitious, especially given the competitive nature of our business environment. Yet, I am more than certain that an amazing team of Lietuvos Geležinkeliai is capable of delivering them. In 2018, the Company sent a strong message about the intentions of taking leadership across the region.

The Freight Transportation Directorate demonstrated two record months running with 5.2 million transported freight in October and the same volume in November. Throughout the year, the Company carried 56.8 million tons of freight, increasing the total volumes by 4 million tons compared to 2017.

To trade vehicles for other modes of transport is quite a challenge in Lithuania. We set an ambitious goal of encouraging vehicle owners to consider a more environment-friendly travelling alternative and opt for a public transport. Last year was promising – as much as 11% more travellers took Lietuvos Geležinkeliai trains. Improving efficiency is as important an indicator of the passenger transportation. It allowed the Company saving EUR 7 million costs.

The issue of efficiency has become the cornerstone of the Company – we have successfully reformed procurement procedures and managed the Company's costs. Last year costs increased EUR 10 million whereas revenues EUR 47 million leading to an outstanding Group result, i.e. EUR 55 million profit.

2017 was the year of changes, 2018 is regarded the year of growth. In addition to the performance results, we focused on improving the competencies and working conditions of people working at Lietuvos Geležinkeliai. For the first time in history, we have signed a branch collective agreement with the trade unions that has strengthened our position in terms of communicating openly with our employees, taking care of their working conditions, and contributing to personal growth.

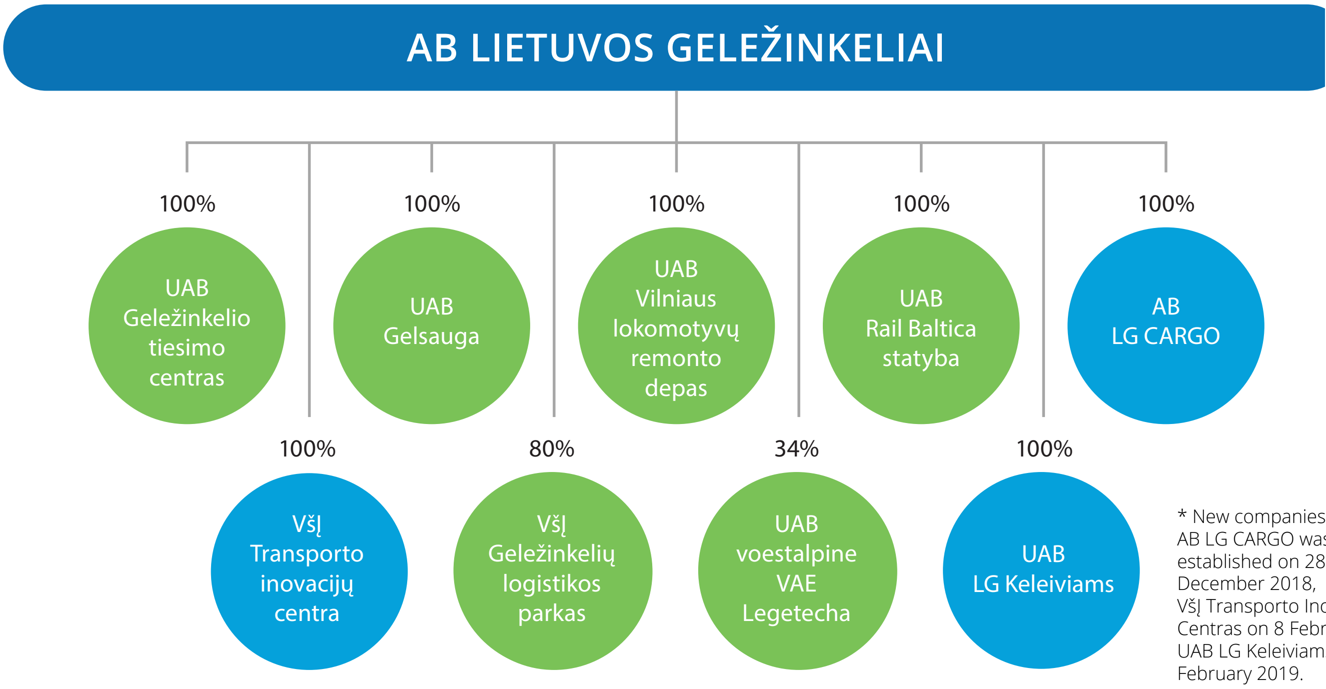
I know that LG people are ready for the challenges awaiting in 2019. A very important stage of the Company's development lies ahead – a period of business purification and increasing efficiency. We have pioneered with the split-off of the freight transportation and will continue with the transfer of passenger transportation and infrastructure management functions. We will build a flexible and competitive LG Group and the Republic of Lithuania will remain its sole shareholder.

We are strongly committed to creating value for the shareholders – the State and the people of Lithuania. However, our business ambitions go beyond geographic boundaries of Lithuania. We see a lot of potential in international markets and have made a solid entry, i.e. we signed a partnership agreement with Polish company PKP Cargo. This will open the gateway to Western Europe. We have also succeeded in the East. In 2018, we carried 130 freight trains from China, signed a long-term cooperation agreement with one of our largest customers Belaruskalij.

By working efficiently, listening to customers and caring for our employees, we will achieve the goal of our strategy – becoming leaders in mobility and logistics in Central and Eastern Europe.

About the Group and the Company

GROUP STRUCTURE



* New companies:
AB LG CARGO was established on 28 December 2018,
VšĮ Transporto Inovacijų Centras on 8 February 2019,
UAB LG Keleiviams on 28 February 2019.

INFORMATION ABOUT SHARES AS OF 31 DECEMBER 2018

The Company	A share held by the Company, %	Number of shares	Nominal value per share, EUR
Parent Company			
AB Lietuvos geležinkeliai		3,655,247	289.62
Subsidiaries			
UAB Vilniaus lokomotyvų remonto depas	100	65,663	289.62
UAB Geležinkelio tiesimo centras	100	109,748	289.62
UAB Gelsauga	100	16,037	289.62
UAB Rail Baltica statyba	100	121,247	28.96
AB LG CARGO	100	103,585	289.62
Associated Company			
UAB voestalpine VAE Legetecha	34	25,734	28.96

As of 31 12 2018, the sole shareholder of AB Lietuvos Geležinkeliai was the State of Lithuania represented by the Ministry of Transport and Communications of the Republic of Lithuania.

The Company and its subsidiaries did not acquire their own shares during the reporting period.

The subsidiaries and associated company did not acquire any shares of the Company during the reporting period.

MAIN ACTIVITIES

Freight transportation by rail

Functions. 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 locomotives crews in Lithuania and abroad, and also leases them.

Goals. By 2030 the goal is to increase the volumes of cargo transported by 30%: 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.

Results. In 2018, the Company transported 56.8 million tons of cargo, which is 7.9% more than last year.

Passenger transportation by rail

Functions. The Group provides passenger services on local and international routes, postal and luggage transportation in the territory of Lithuania, and other additional services.

Goals. The objective for the passenger transportation activities is to double ridership by 2030: from 4.7 million (2017) to 8 million (2030) passengers. It is also aimed at expanding the volume of domestic and international routes, upgrading the rolling stock fleet, providing new services to passengers, improving travel experience, and turning the railway stations into centers of attraction for passengers and local residents.

Results. In 2018, 5.2 million passengers took trains, which is 11.0% more than in 2017.

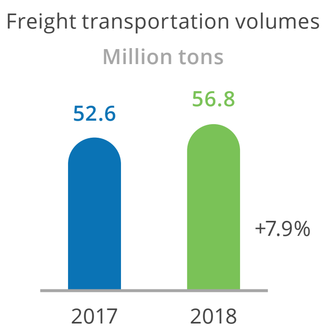
About the Group and the Company

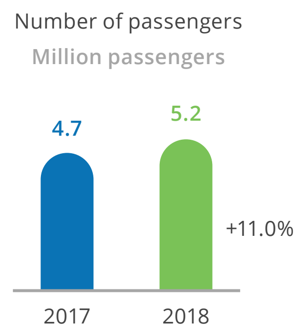
Public railway infrastructure management

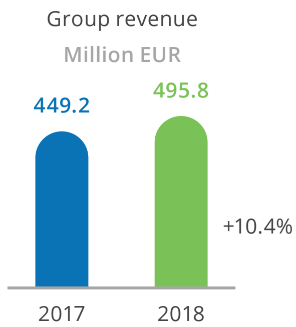
Functions. The Group carries out maintenance and repair of railway infrastructure, organises safe train traffic, provides intermodal terminal services.

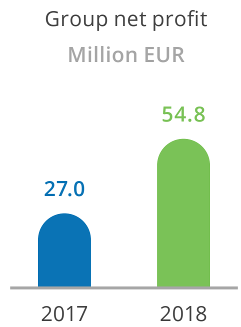
Goals. To ensure safe and sufficient capacity, successful and timely implementation of the Rail Baltica project, that will give new opportunities for passengers (travel 250 km/h) and freight carriers, efficient implementation of the investment program of up to EUR 6 billion, improve environmental protection 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.

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









Corporate Governance

The State of Lithuania is the sole shareholder of AB Lietuvos Geležinkeliai. The rights and duties of the shareholder are performed by the Ministry of Transport and Communications of the Republic of Lithuania which takes the main decisions with regard to the business activities and ownership of LG.

In view of the EU regulatory framework for railway transport, in 2018, LG has launched a transformation of its operations and governance, one of the goals of which is to increase operational efficiency and improve corporate governance. Transformation period is aimed at introducing a single progressive corporate governance model and improve corporate governance.

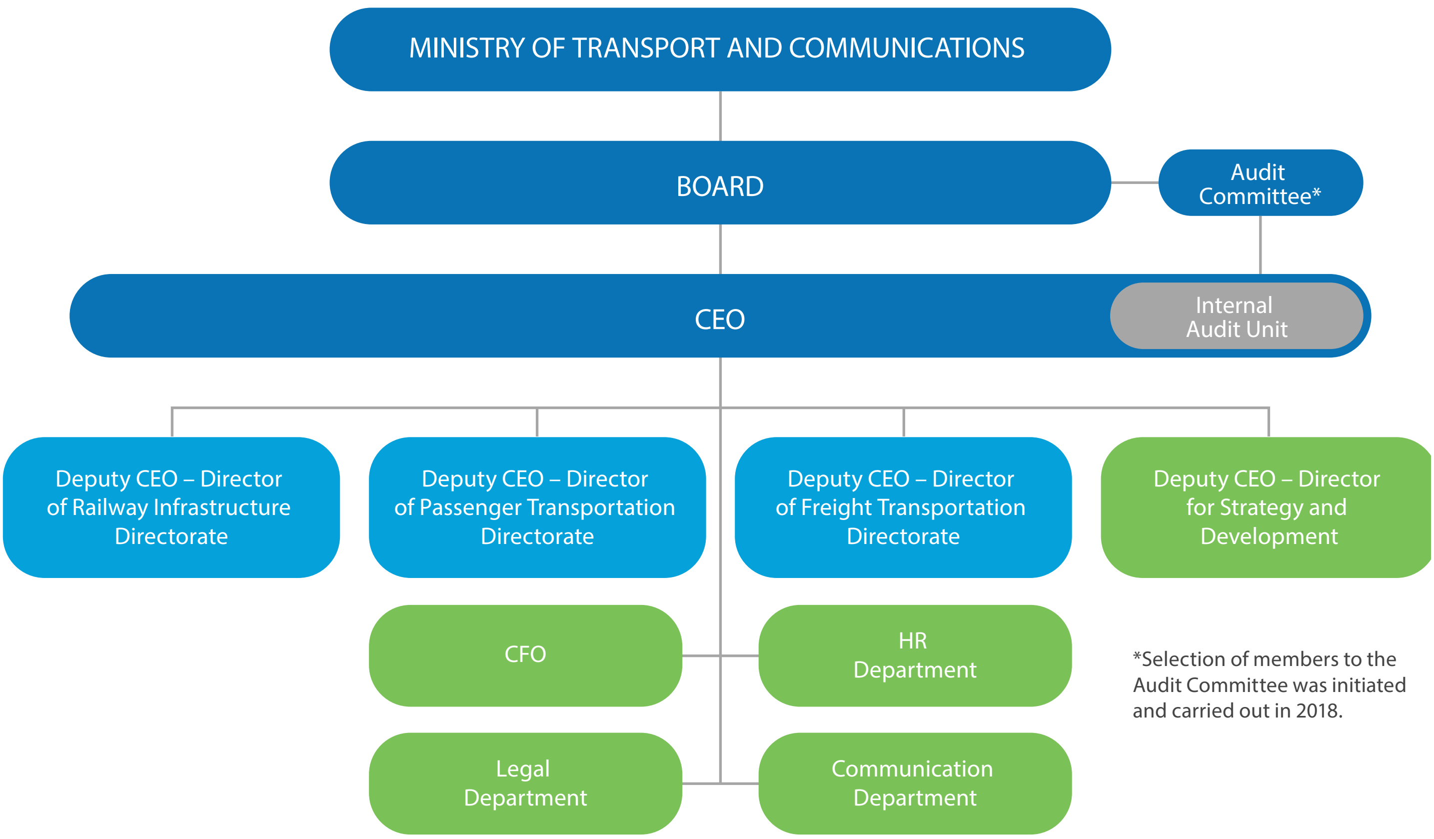
Corporate Governance of the Group is organised in accordance with the legislation of the Republic of Lithuania regulating the management of companies, including the state-owned enterprises, EU legal framework, and is based on the good governance practices outlined in the OECD Guidelines on Corporate Governance of State-Owned Enterprises and the OECD Principles of Corporate Governance, documents of the Baltic Institute of Corporate Governance defining the good practices and principles of corporate governance as well as the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius.

The Principles of Corporate Governance within LG Group of companies:

- openness and transparency of activities,
- adherence to the regulatory framework and the most advanced international practice of corporate governance,
- meeting the expectations and representing the interests of the shareholders,
- proper implementation of shareholder rights and control,
- clarity and sustainability of goals,
- operating efficiency,
- sustainable development,
- effective and ethical style of governance.

CORPORATE GOVERNANCE AND ORGANISATIONAL STRUCTURE

The corporate governance and organisational structure ensures adequate representation of the shareholder, compatibility of interests of stakeholders, segregation and identification of cross-functions of other structural units as well as implementation of governance and control functions. Efficient and well-balanced governance and organisational structure sets out stable, clear and comprehensible corporate relations.



*Selection of members to the Audit Committee was initiated and carried out in 2018.

CORPORATE GOVERNANCE BODIES

The General Meeting of Shareholders is the supreme governing body of the Company. The rights and duties of the shareholder are performed by the Ministry of Transport and Communications of the Republic of Lithuania which takes the main decisions with regard to defining the strategic strands, implementation of ownership rights and duties, other issues concerning governance and business activities.

The Board is a collegial governance body consisting of 7 members, 5 of which are independent members as provided for in the Procedure for Selection of Candidates to the Board of the State-Owned or Municipal Enterprise and Candidates to the Collegial Supervising or Governance Body Appointed by the General Meeting of the State-Owned or Municipal Enterprise approved by GOV Resolution No. 631 of 17 June 2015. Members of the Board shall be elected by the general shareholder meeting for a term of 4 years. The Chairman of the Board shall be elected from the Board members. Members may be elected for an unlimited number of terms. The competence areas of the Board are defined in the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company (available at http://www.litrail.lt, web page section Corporate Governance).

Board of the Company:

- approves the strategy of the LG Group of companies, sets long-term goals and performance indicators,
- adopts strategic decisions,
- is responsible for organisational and systemic development of the LG Group of companies,
- monitors and controls top-priority projects,
- reviews consolidated, annual and interim financial statements of the Company.

On 14 December 2016, the General Meeting elected new members of the Board for a term of four years. The term of office of the Board will expire on 14 December 2020. In 2018, the Board held 20 Board Meetings.

Not a single Board member is connected to AB Lietuvos Geležinkeliai or LG Group of companies through participation.

AB Lietuvos Geležinkeliai is managed by the **CEO**, who is the sole executive body of the Company. The CEO is also a member of the LG Board. LG Board is responsible for appointing the CEO. The CEO of LG was appointed on 16 December 2016. Pursuant to Article 37^{1} of the Law on Companies, the CEO's first term of office commenced on 1 January 2018. The competence areas of the CEO are defined in the Articles of Association of the Company (available at http://www.litrail.lt, web page section Corporate Governance).

Chief Executive Officer is responsible for:

- organisation of business activities, achievement of activity results and implementation of set goals,
- drafting of consolidated, annual and interim financial statements of the Company.

LG Board members and CEO have submitted the declarations of private interests which are available at the website of the Chief Official Ethics Commission http://www.vtek.lt. During the reporting period, there were no conflicts of interest between LG Board members, the CEO, senior management and LG.

The monthly base salary of the Company's CEO amounted to EUR 6,401 in 2018.

In addition to the base salary, the Company's CEO may be paid a variable component of the annual salary (a yearly incentive pay) determined by the achievement of annual goals of the LG Group of companies. Each year, the Company's Board approves the annual goals, their threshold values and benchmarks and once the year is over, the Board approves the achievement of these goals and the possibility of paying out annual incentive. The maximum amount of the incentive cannot exceed 30% fixed annual base salary. The maximum amount of the monthly incentive (1/12 of the annual incentive pay) is EUR 1,920.

COMPOSITION AND REMUNERATION OF THE BOARD

Name, Surname	Position	Independence Criterion	Term of Office	Fixed remuneration net*, EUR
Romas Švedas	Chairman of the Board	Independent	14 12 2016 - 14 12 2020	18,000
Monika Rimkūnaitė-Bložė	Board Member	Independent	12 14 2016 - 14 12 2020	12,000
Christian Kuhn	Board Member	Independent	02 26 2018 - 14 12 2020	12,000
Alditas Saulius	Board Member	Independent	02 26 2018 - 14 12 2020	12,000
Rolandas Zukas	Board Member	Independent	12 14 2016 - 14 12 2020	12,000
Mantas Bartuška	Board Member	Representative of the Shareholder	12 14 2016 - 14 12 2020	0
Vladislav Kondratovič	Board Member	Representative of the Shareholder	10 10 2017 - 14 12 2020	0

* Remuneration of the independent Board members is determined in accordance with the Procedure for Determining the remuneration for the board members, committee members of the public limited liability companies with their share owner being the Ministry of Transport and Communications and state-owned enterprises under the regulation of the Ministry of Transport and Communications approved by Order No.3-420 of 20 August 2018 of the Minister for Transport and Communications RoL. The remuneration does not include taxes and contributions of the Board Member as the Beneficiary which are payable by the Company. The Board member's annual remuneration including all taxes paid for the actual activities as the Board member shall not exceed 1/4 of the total annual remuneration (the annual amount consisting of the fixed and variable components, annual bonus and salary related taxes) of the Company's CEO, in case of the Chairperson of the Board – 1/3 of the total annual remuneration (the annual amount consisting of the fixed and variable components, annual bonus and salary related taxes) of the Company's CEO.

ROMAS ŠVEDAS

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

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, A. Tumėno g. 4, LT-01109 Vilnius.

CHRISTIAN KUHN

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),
- Member of the Supervisory Board of the Ukrainian railway undertaking Ukrzaliznytsia,
- Independent consultant for rail and logistics companies.

ALDITAS SAULIUS

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),
- Consultant in the field of corporate and finance/risk management.

ROLANDAS ZUKAS

EDUCATION

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

EMPLOYER, POSITION

- UAB EPSO-G, CEO, A. Juozapavičiaus g. 13, LT-09311 Vilnius.

MANTAS BARTUŠKA

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

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, Gedimino pr. 17, LT-01505 Vilnius.

EXECUTIVES OF THE COMPANY

MANTAS BARTUŠKA	CEO	Appointed on 16 December 2016
EGIDIJUS LAZAUSKAS	Deputy CEO, Director of Freight Transportation Directorate	Appointed on 17 January 2017
LINAS BAUŽYS	Deputy CEO, Director of Passenger Transportation Directorate	Appointed on 6 March 2017
KAROLIS SANKOVSKI	Deputy CEO, Director of Railway Infrastructure Directorate	Appointed on 22 August 2017
ADAMAS ILKEVIČIUS	Deputy CEO, Director for Strategy and Development	Appointed on 29 January 2018
ANDREJ KOSIAKOV	Chief Financial Officer	Appointed on 2 October 2017
ODETA TRUČINSKAITĖ-ŠIUŠIENĖ	Head of the Legal Department	Appointed on 28 August 2017
IRENA JANKUTĖ-BALKŪNĖ	Chief Human Resources Officer	Appointed on 10 July 2017
MANTAS DUBAUSKAS	Chief Communications Officer	Appointed on 8 February 2017

Strategy

In response to geo-economic changes in the transport services market, which in turn change the directions of the exchange of goods and the passenger movement flows, AB Lietuvos Geležinkeliai, in the long-term perspective, has set itself the vision of becoming a leader in mobility and logistics of Central and Eastern Europe. EU railway transport sector reform and development, obligations prescribed for the Company by the legal acts of the Republic of Lithuania, the transport policy of the CIS countries, new technologies and logistics solutions pose new challenges and at the same time provide with new opportunities which are being considered in implementation of the ambitious vision. LG is building its business activities on rational strategic planning and governance.

MISSION

We connect people and businesses for a better future

VISION

Mobility and logistics leader in Central and Eastern Europe

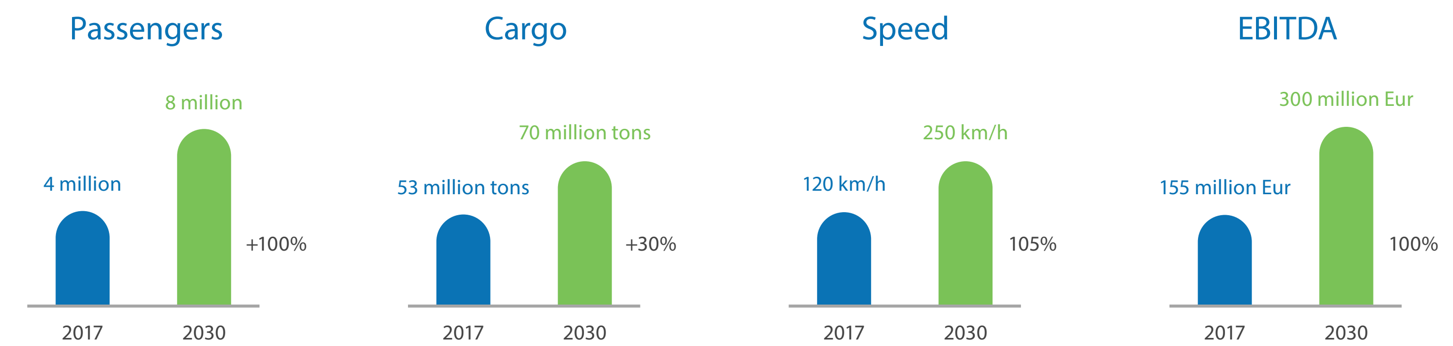
LONG-TERM STRATEGIC PLANNING

Starting from 2018, LG is planning its activities not only in the short-term but also in the long-term perspective. **In April 2018, the Company adopted a long-term corporate strategy 2018-2030.** The long-term strategy covers all activities of the Lietuvos Geležinkeliai Group, i.e. freight and passenger transportation along with the related logistic services in the domestic and international markets, infrastructure management, delivery of top-priority investment projects and other most promising economic activities. The strategy defines the principles for setting long-term strategic goals along with the measures for implementation thereof. It also includes the performance indicators and financial forecast, indications of major risks and the directions for risk management.

In order the strategic strands and goals of the long-term strategy addressed the specific activities of the LG Group of companies, **long-term strategies of individual LG business units were drafted in the second half of 2018:**

- Long-term strategy of the Freight Transportation Directorate 2018-2030,
- Long-term strategy of the Passenger Transportation Directorate 2018-2030,
- Long-term strategy of the Railway Infrastructure Directorate 2018-2030,
- Long-term strategy of UAB Vilniaus Lokomotyvų Remonto Depas 2018-2030,
- Long-term strategy of UAB Geležinkelio Tiesimo Centras 2018- 2030.

GOALS AND PRIORITIES SET OUT IN GROUP STRATEGY 2030



LG for passengers
First choice for passengers and double number of passengers

LG for business
A logistics service provider that meets the customers' needs in the region best

Infrastructure
Reliable and safe, speed up to 250 km/h

Efficiency
Double value of the Group

SHORT-TERM STRATEGIC PLANNING

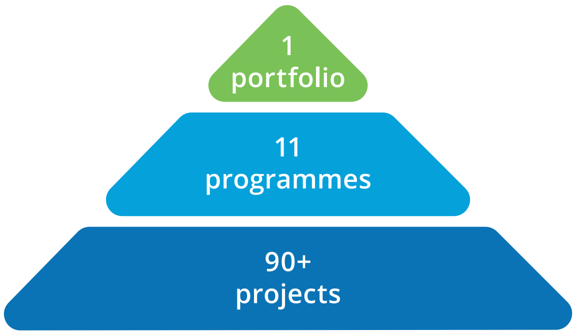
The above long-term strategies **served as a basis for setting-out a short-term strategy of LG Group of companies, i.e. LG Strategic Action Plan 2019–2022.** The purpose of LG Strategic Action Plan is to prevent the Group from deviating from its long-term goals and to ensure the long-term strategy is implemented with a top-quality approach by continuously responding to strategically important information.

In the coming 4 years, LG Group of companies will develop its business based on the following **7 strategic strands.**

1. Creating value to the shareholder and the people
2. Leading freight carrier
3. Preferred choice for travellers
4. Safe and adequate infrastructure
5. Increasing business value of subsidiaries
6. Operational excellence and corporate governance
7. Respectful and environment-conscious organisation, caring about the society and each other

The relevance, proper time frames and quality of all strategic planning papers across LG Group of companies are ensured with **the help of the strategic planning and governance model shaped in 2018** which encompasses the Strategic Planning and Governance Policy – a fundamental document defining the general principles and goals of strategic planning and management across the LG group of companies, as well as the processes and procedures for the strategic planning and governance.

In 2018, the Company developed the KPIs structure and performance management model aimed at ensuring the long-term and short-term strategic goals are delivered. These tools will facilitate regular measurement of the group of companies performance and pro-active responding to KPI deviations from target values and ensuring performance efficiency.



IMPLEMENTATION OF THE STRATEGIC PLAN

The long-term goals of LG Group and short-term strategic goals and tasks set-out in respect of the Company determined the **development of a strategic transformation portfolio in Q3 2018** that includes programmes aimed at operating efficiency, passenger / freight transportation, business development, digitalisation, financial stability and corporate governance aspects.

Main Goals of the Programmes within the Transformation Portfolio

1. **New business development.** The goal is to increase the value of LG Group of companies through the development of auxiliary and new businesses and entrance of the core business to the new markets in order to enhance the competitive edge across the region.
2. **Asset excellence.** The goal of the programme is to maximise the efficient use of productive and non-productive assets.
3. **Freight business optimisation.** The goal is to grow freight volumes and revenue by improving the existing product package, customer service and partnerships.
4. **Corporate governance excellence.** The goal of the programme is to ensure compliance with the requirements of EU and RoL legislations and to introduce a corporate governance model that is consistent with good business practices.
5. **Digital excellence.** The goal of the programme is to improve operating efficiency through adapting IT architecture to the future needs of LG Group, to create value added though transition to employing state-of-the-art technologies and altering the company's culture and perception of the employees.
6. **Employee excellence.** The goal of the programme is to increase employee satisfaction by creating an appropriate organisational climate, career prospects, reward-dependent performance, and deploying digitalised resource management processes.
7. **Financial excellence.** The goal of the programme is to streamline the management of financial resources by developing and implementing modern planning, treasury and accounting management models and processes.
8. **Passenger business development.** The goal of the programme is to grow the number of passengers through introduction of integrated passenger transportation solutions and new services.

9. **Performance excellence.** The programme aims at increasing operational efficiency through organisational and technological solutions.

10. **Supply chain excellence.** The goal of the programme is to develop and implement the supply chain model which would allow for the more efficient management of supply processes.

11. **Infrastructure excellence.** The goal is to ensure the level of security required by legislation and to increase infrastructure capacity through organisational and technological solutions.

The transformation portfolio is managed by taking into account the global project and change management practices.

Goals achieved in 2018

- Group performance, i.e. freight and passenger transportation volumes, income, profit exceeded the targets for 2018.
- The newly shaped transformation portfolio took the change programme LG Efektas to another level and replaced it.
- Introduction of the Corporate Social Responsibility Policy along with the Plan for its implementation.
- Long-term and short-term strategic plans put in place.
- Preparations made for the implementation of the 4th railway package. In 2019, new legal entities will be established for performance of freight transportation, passenger transportation and railway infrastructure management functions.
- Transition to the International Financial Reporting Standards (IFRS).
- Implementation of a certain part of Rail Baltica project and railway infrastructure upgrade projects.

Most Significant Events in 2018

JANUARY

- AB Lietuvos Geležinkeliai launched a new itinerary. On weekends passengers from Vilnius are able to travel to the second largest Latvia's city Daugavpils in just 2.5 hours.
- All electric trains started using renewable energy exclusively. The top destinations Vilnius–Kaunas are pollution-free from now on. By 2020, LG expects to electrify the transportation artery connecting Vilnius and Klaipėda. The share of passengers on electric trains will then increase to around two-thirds.
- On 18 January, UAB Vilniaus Lokomotyvų Remonto Depas (Vilnius Locomotive Repair Depo), a company within Lietuvos Geležinkeliai Group, concluded an agreement with an international Polish logistic company CTL LOGISTICS. Lithuanian company was entrusted with the repair services of Polish locomotives.
- The Group of companies of Lietuvos Geležinkeliai introduced an ambitious talent development programme to be implemented in cooperation with the three education institutions. A cooperation agreement was signed with Vilnius Gediminas Technical University, a letter of intent was signed by Vilnius Technology and Design College and Vilnius Railway Transport and Business Service High School.

Most Significant Events in 2018

FEBRUARY

- LG announced two international tenders whereupon the market players are invited to compete on provision of maintenance and repair of railway tracks. The total value of both agreement is likely to account for EUR 97 million. Previously, such type of services were purchased by way of internal transactions.
- LG has concluded a 3 year agreement with one of the largest companies of Belarus, a producer of nitrogen fertilisers Grodno-Azot which on a yearly basis forwards approx. 0.5 million tons of nitrogen fertilisers to the Port of Klaipėda. Long-term fixed transportation conditions shall allow the partners from Belarus expand the volumes of nitrogen fertilisers exported via the Port of Klaipėda by 15-20% yearly.
- The Board busy developing an ambitious long-term strategy was enhanced by two new and independent Board Members. Following the international competition, Christian Kuhn and Alditas Saulius became the newly appointed Members of the Board.
- Security Exercise Hybrid Wind IoT 2018 successfully organised for the first time in history was coordinated by LG. Participants: AB Lietuvos Geležinkeliai, the Klaipėda State Seaport Authority, State Enterprise Air Navigation, State Enterprise Lithuanian Airports, the Lithuanian Radio and Television Centre, the Lithuanian Transport Safety Administration.

MARCH

- On 28 February, LG opened a representative office in Warsaw. It is the first representative office of LG in the European Union.
- On 12 March, in Riga chief executives of the Lithuanian, Latvian and Estonian Railways discussed organisation of freight transportation via container train Amber Train. Intermodal train running through Šeštokai–Riga–Tallinn will connect the three Baltic States and will provide the freight carriers with the new business opportunities.

APRIL

- A long-term agreement was signed with Belaruskalij, the world's largest manufacturer and supplier of potash fertilisers. Until recently short-term agreements dominated and they failed to include any of the obligations with regard to stability of tariffs, fixed volumes of transported freight.
- Intermodal Amber Train to connect the three Baltic States was launched. The client of the first freight carried by Amber Train was Forwardis, a French railway and intermodal transport forwarding company owned by the French group SNCF Logistics which one of the leading freight forwarders in Europe.
- Mantas Bartuška, the Director General of LG, was honoured with the Lithuanian and Polish Business Conciliation Award.

Most Significant Events in 2018

MAY

- LG entered into the agreement with one of the largest railway freight carriers in Poland PKP Cargo in such a way making it possible for LG to provide with services in neighbouring country. The Company's locomotives shall carry PKP Cargo freight trains in the border section from LT/PL border to Trakiškiai railway station in PL.
- The Government approved the new vision of AB Lietuvos Geležinkeliai which is to ensure higher degree of transparency and efficiency within the Group. Three Directorates, namely Passenger Transportation, Freight Transportation and Railway Infrastructure shall be replaced by the new companies with their sole shareholder being AB Lietuvos Geležinkeliai. The shares of the latter shall be further held by the State.
- An agreement was made with AB Amilina, a biorefinery located in Panevėžys, regarding delivery of required raw materials and transportation of produced output by LG. The Company's shunters shall operate within the territory of the factory. The anticipated volume of AB Amilina freight transported by LG amounts to 300 thousand tons yearly.
- Lithuanian, Latvian and Estonian railway companies signed an agreement to launch regular freight transportation via intermodal train. Amber Train route shall ensure fast, cost-effective and environmentally friendly freight transportation from West Europe to the Baltics.

JUNE

- LG signed an agreement with the joint activity partners UAB Hidrostatyba, Leonhard Weiss RTE AS and UAB Autokausta, winners of the tender on connection of Kaunas Railway Station and Kaunas Intermodal Terminal (KIT) in Palemonas with the European gauge.
- Executives of LG and Vilnius City signed a Letter of Intent in order to establish the development of the territory of Vilnius Railway Station into a multi-functional business and mobility centre. These changes are to be carried out across 20 h territory stretching in between Geležinkelio and Pelesos streets. The multifunctional business and mobility centre Vilnius Connect shall include a park for modern offices, commercial activities, services and entertainment welcoming businesses and various organisations. It also includes expanding the pedestrian and green zones, ensuring fast and convenient mobility for all types of transport modes.
- AB Lietuvos Geležinkeliai joined the European Train System Interrail. Passengers holding Interrail passports can travel European countries on trains at considerably lower prices. Lithuania is the first of the Baltic countries to join this international network.

Most Significant Events in 2018

JULY

- The European Union allocated EUR 110.5 million contribution from the budget of the Connecting Europe Facility (CEF) for the implementation of the Rail Baltica project in all three Baltic countries. EUR 95 million will be used to finance Lithuanian national activities. The Grant Agreement was signed by INEA agency of the European Commission and joint venture RB Rail AS, the Ministry of Economic Affairs and Communications of the Republic of Estonia, the Ministry of Transport of the Republic of Latvia and the Ministry of Transport and Communications of the Republic of Lithuania. In Lithuania, these funds will be used for construction of the longest railway bridge over the Neris river near Jonava. The bridge is designed at 1,700 m length and – 40 m height. It will also include financing of getting technical documents ready for the construction of the European railway infrastructure maintenance base construction works covering the area north of Kaunas in the direction of Panevėžys, etc. Rail Baltica is the most important railway infrastructure project across the Baltic region which is to integrate the Baltic States into the European railway network. It is expected to launch a EU gauge railway line to Tallinn by 2025 and start its operation in 2026.
- Lietuvos Geležinkeliai introduced its long-term strategy 2030 to the society. The main goals are to double the value, increase the number of transported freight by one third and double the number of passengers compared with the results of 2017. The main aim of the Company is to become the logistic and mobility leader in Central and Eastern Europe by 2030.
- For the first time in history, the LG Group results of Y2017 and Y2016 were calculated in accordance with the International Financial Reporting Standards (IFRS). Based on the decision of the Shareholder of 24 July 2018 and having approved the financial statements for 2016-2017, the Group disbursed EUR 34 million dividends for the reporting period. It's the largest amount of dividends disbursed by the Company since 2012.

AUGUST

- LG and the Customs Department under the Ministry of Finance signed a cooperation agreement whereupon both parties agreed on more efficient data exchange using IT solutions. Until now, the complicated, bureaucratic procedures mostly executed in writing have aggravated the exchange of information required for effective investigation or prevention of criminal offences.
- LG announced the plans on expansion of the railway infrastructure in Northern Lithuania and major upgrade of the wagon fleet. A new LG line of development is related with the launch of construction of a particle board factory by Vakarų Medienos Grupė (VMG) in Akmenės district.
- LG business units, i.e. the Freight Transportation, Passenger Transportation and Infrastructure Directorates, approved the long-term strategies to set ambitious goals, strategic initiatives and performance indicators.
- On 14 September, Daniel Obajtek, the Director General of PKN ORLEN and Mantas Bartuška, CEO of LG signed an additional agreement on further development of cooperation. The executives also attended a symbolic ceremony for the launch of the Rengė section reconstruction works.
- LG started developing an analysis of constructing a new HQ in Vilnius in order to improve working conditions for the employees and increase business performance.

Most Significant Events in 2018

- LG received a claim from VAS Latvijas dzelzcelš and SIA LDZ CARGO regarding disassembled Rengė (Mažeikiai – LV border) railway stretch and compensation of losses incurred during the period when the stretch was impossible to use. LG considers the claim unsound. The total amount of claims is at EUR 82 million. LG appealed to the General Court of the European Union against the decision of the European Commission regarding the Rengė stretch and the penalty. The case is still in progress.

SEPTEMBER

- LG and one of the largest Polish railway freight carriers PKP Cargo agreed on cooperation in the field of multimodal freight transportation. The agreement stipulates that next year the companies will start providing door-to-door freight transportation services by rail through joint terminals of PKP Cargo and intermodal terminals of LG.
- In order to expand the geography of passenger trains, LG and the Ukrainian Railways are carrying out a joint project to connect the capitals of four countries by train. On 28 September, first trains carried the passengers from Vilnius or Šiauliai to Riga, Minsk or Kiev.
- LG became the main carrier during the historic visit of Pope Francis in Lithuania. On 22-23 September, 15 thousand passengers travelled by trains to the meetings with the Pope in Vilnius and Kaunas.
- Amber Train connecting railways of the three Baltic states and carrying intermodal freight has become regular. The train successfully transported the second commercial freight from Estonia to Lithuania.

OCTOBER

- In pursuit of a consistent development of a unified benefit package for the employees of LG Group, on 1 October 2018 all employees were granted the insurance against accidents.
- LG train route connected Klaipėda and Šilutė. The route introduced modern trains and three additional intermediate stations in Priekulė, Vilkyčiai and Kukorai.
- The construction of the European Rail Baltica gauge section in Kaunas, where freight trains will run in the future, has been completed. A 4.9 km new 1,435 mm gauge track was installed and 3.6 km 1,520 mm gauge reconstructed on the Jiesia - Rokai section. The entire section was equipped with new engineering facilities, upgraded power networks and new signalling devices. Jiesia-Rokai-Palemonas-Kaunas section is the most important in the project since it will bring the European standard gauge railway from Polish-Lithuanian border to the Palemonas intermodal terminal and will enable the Rail Baltica project to continue along the Lithuanian-Latvian border.
- LG signed a cooperation agreement with the Port of Hamburg and logistic company Metrans holding 14 multi-service terminals across Europe. LG and the partners are determined in finding possibilities of carrying intermodal cargo in the direction of the largest seaport in Germany. To this end, it is intended to take use of the on-going infrastructure development projects (Rail Baltica and the East-West transport corridor).

Most Significant Events in 2018

NOVEMBER

- UAB Vilniaus Lokomotyvų Remonto Depas (VLRD), a company within the LG Group, aims at becoming the leading rolling stock centre in the region and therefore began scouting for development opportunities in Ukraine. The Company introduced its services to the International Black Sea Transport Forum "Trans Expo Odessa 2018" and international conference "Ukrainian Transport System Development: Challenges and Prospects". Currently, VLRD and the partners are in the process of LNG locomotive production project. The locomotive is expected to run at 40% lower fuel costs and 25% lower carbon dioxide emissions.

- The base salaries of the Group's production staff members were revised and indexed on 1 November 2018. This change has made it possible to bridge the gap between the employees earning the lowest and the highest income for the same job position.

- On 24 October, LG signed a cooperation agreement with the Ukrainian railways. The Companies have agreed to increase the freight and passenger flows and cooperate in upgrading the rolling stock fleets. Positive dynamics have been recorded recently in terms of transported freight to/from Lithuania and Ukraine. LG carries oil and its products, chemical and mineral fertilisers, wood and its products in the direction of Ukraine. Ukraine mostly imports plant and mineral products, ferrous metals.

- LG continues to focus on implementation of railway infrastructure upgrade and development programmes and projects. The aim is to ensure improvement of throughput and higher speed limits on sections within the IX B corridor (from Kena to Klaipėda). The Board of the Company approved the investment projects on construction of the second tracks on sidetracks of Plungė-Šateikiai and Livintai-Gaižiūnai at the value of EUR 135 million. The second track projects are also aimed at higher traffic safety, lower environment and noise pollution, better business conditions for local residents and bigger labour mobility. The projects are to be partly funded by EU funds. Both projects are due in the end of 2022.

- LG Benefits package for employees was supplemented with one more benefit, i.e. additional voluntary health insurance. Starting from 1 January 2019, all LG Group employees are covered by the additional voluntary health insurance.

- In pursuit of higher efficiency, Lietuvos Geležinkeliai procured a certain part of services in the market. Building maintenance, cleaning and protection services will be provided by the companies that have offered the best conditions in the tenders. Estimates provide for the Company to save up to EUR 3 million yearly through procurement of these services. Until now, UAB Gelsauga provided these services to LG. This company will continue to provide with the security services as it has won the tender by delivering the best value proposition.

- Completion of RUK-001-Rukla Rail Head project whereby Lietuvos Geležinkeliai customised the infrastructure for transportation of military freight. The project was initiated by a mutual agreement of the Ministry of National Defence and LG with the participation of representatives of the Lithuanian Armed Forces and through the use of international funds. The scope of the project covered reconstruction of the loading ramp in Gaižiūnai railway station, renewal of other railway infrastructure and making it fit for transportation of military freight.

Most Significant Events in 2018

- Founding of the Association of Lithuanian Railway Undertakings for the representation of the rights and interests of the Association members-employers in the context of social partnership. Association members include AB Lietuvos Geležinkeliai, UAB Vilniaus Lokomotyvų Remonto Depas, UAB Geležinkelio Tiesimo Centras, UAB Rail Baltica Statyba.

DECEMBER

- Updated train timetables came into effect on 9 December. New timetables were formed after having analysed the train occupancy and potential passenger flow. Decisions were made to remove unpopular routes, passengers were offered more possibilities of taking trains during peak hours. The daily increase of various routes accounts for 12%. The most popular destination Vilnius-Kaunas was supplemented with two express trains and a night train, a new route Vilnius–Airport–Jašiūnai was introduced.

- For the first time in history LG signed a 4-year branch collective agreement. The agreement comes into effect on 1 January 2019 and shall be applicable to all employees of LG Group. The agreement provides for the development and strengthening of social partnership, the promotion of mutual communication, the elimination of preconditions and the causes of corruption, the adherence to the values of the Group of companies and the pursuit of operational objectives.
- UAB Vilniaus Lokomotyvų Remonto Depas, a company of LG Group of companies, was awarded a golden medal in the competition of the Lithuanian Confederation of Industrialists “the Best Product of the Year 2018”. The commission appreciated TGM4-2970 locomotive that has been upgraded by the company. The winner locomotive was developed for the clients from Ukraine. The product was issued a EUR1 certificate meaning that the locomotive is compliant with the Standards of machinery used in EU countries. The locomotive was installed with 611 kW Caterpillar engine allowing to save up to 30% fuel if compared with the most popular locomotives used in the market.
- LG announced an international tender on the Procurement of engineering design and contracting works for construction of the second track in the section Plungė – Šateikiai which will be carried out by way of negotiated procedure. The project aims at reducing the time of freight transportation within corridor IX on the Vilnius - Klaipėda section and increasing throughput. Delivery of the project will increase the speed limits to 160 km/h for passenger trains and 120 km/h for freight trains. The axle load shall increase from 22.5 to 25 tons. The project is expected to be delivered by the end of 2022.
- The Seimas approved the LG Group of companies restructuring model. The Company initiates a new stage of the restructuring programme LG Changes. Following the German railway restructuring model, LG’s programme will cover purification of the core businesses through establishment of new companies that will concentrate on freight transportation, passenger transportation and railway infrastructure operations. These changes are bound by the EU’s fourth railway package. The first stage will include transfer of freight transportation operations to a new company AB LG CARGO which was registered in the Register of Legal Entities on 28 December 2018. Next year the programme will continue with establishment of other companies for the performance of passenger transportation and railway infrastructure function. It is expected the change programme to conclude by the end of 2019.

Subsequent events

- In January 2019, the joint activity agreement was signed with AB LG CARGO on cooperation in freight transportation business activities.
- On 10 January 2019, UAB Geležinkelių Aplinkosaugos Centras was liquidated and removed from the register.
- In February 2019, VšĮ Transporto Inovacijų Centras was founded. The new public undertaking shall focus on developing a unified platform aimed at promoting bigger interest in investments and their implementation across the Lithuanian transport sector.
- On 28 February 2019, UAB LG Keleiviams was founded. The Company will be gradually transferred with the Passenger Transportation Directorate's business activities.

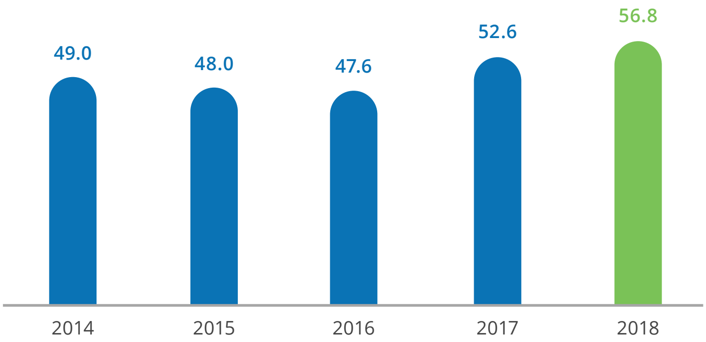
Overview of the Company's KPI

Transportation volumes		2016	2017	2018	2018/2017 Δ, %
Freight turnover	**in billion tons km**	**13.8**	**15.4**	**16.9**	**9.6%**
Average distance travelled per ton	**km**	**289.4**	**292.8**	**297.4**	**1.5%**
Total freight carried	**in million tons**	**47.6**	**52.6**	**56.8**	**7.9%**
Freight transportation segments					
Local transportation	in million tons	15.0	15.5	15.1	(2.8%)
International transportation	in million tons	32.6	37.1	41.7	12.3%
Transit	in million tons	9.1	11.7	13.5	15.5%
Export from Lithuania	in million tons	3.8	4.7	4.5	(2.8%)
Import to Lithuania	in million tons	19.7	20.8	23.7	14.0%
Freight types					
Chemical and mineral fertilisers	in million tons	14.3	15.6	16.3	4.3%
Oil and its products	in million tons	14.4	14.6	14.3	(2.0%)
Food and plant products	in million tons	5.6	5.9	6.1	3.2%
Construction materials	in million tons	4.6	5.7	6.8	18.3%
Coal	in million tons	2.7	4.4	5.8	32.1%
Ferrous metals	in million tons	3.0	3.1	3.5	14.3%
Other cargo	in million tons	3.0	3.3	4.0	20.4%
Passenger turnover	**in million passenger km**	**395.9**	**424.2**	**468.1**	**10.3%**
Average distance travelled by passenger	**km**	**89.4**	**91.1**	**90.6**	**(0.4%)**
Total passengers carried	**in millions of pass.**	**4.4**	**4.7**	**5.2**	**11.0%**
Domestic	in millions of pass.	3.6	3.9	4.3	11.6%
International	in millions of pass.	0.8	0.8	0.9	8.2%

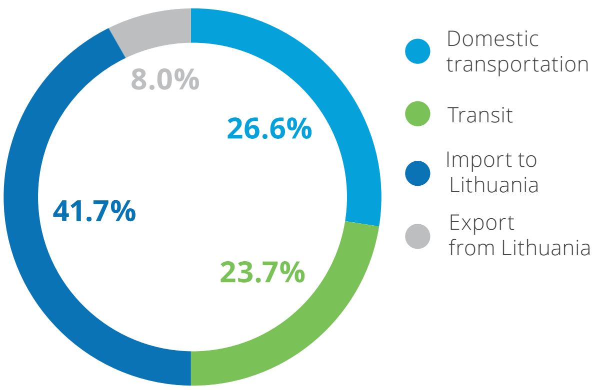
Overview of the Company's KPI

FREIGHT TRANSPORTATION

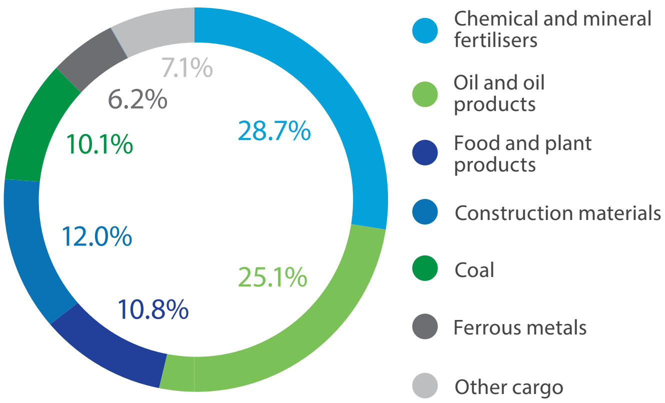
Freight transportation volumes (in million tons)



Freight transportation segments 2018, %



Freight transportation structure 2018, %



Lietuvos Geležinkeliai performed well against its competitors in the Baltic states in 2018, winning 56.8 million tons freight volume. Transportation volumes climbed 7.9% compared to 2017. The Company recorded higher transportation volumes than those fixed in the activity plan 2018. In 2018, railway transportation was dominated by the transportation of chemical and mineral fertilisers, oil and its products. These types of freight account for more than a half of total freight volume (53.8%).

International transportation demonstrated the highest growth records with 73.4% total freight transported. The Company carried 41.7 million tons of international freight which is 12.3% more compared with 2017. The biggest share of international freight volume is formed by Belarusian and Russian freight accounting for 44% and 45% total international freight in 2018, respectively. During the reporting period, the major growth of transit was recorded in the direction of the Kaliningrad region of the Russian Federation (15.6%) and transit via Klaipėda port (14.5%).

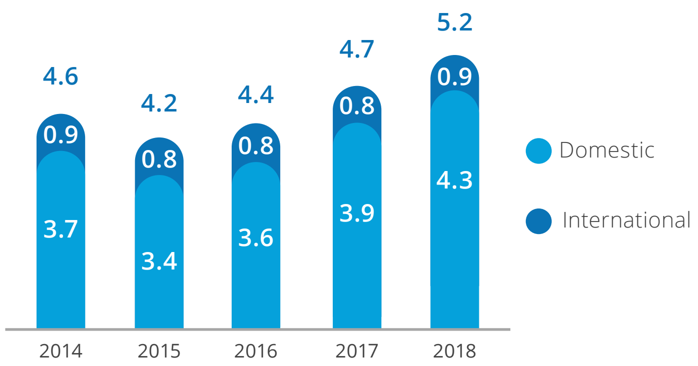
The increase of the Russian freight volume was determined by increased transportation of coal and food products in the direction of the Kaliningrad region, as well as increased transportation of ferrous metals and building materials via Klaipėda port. The growth of the Belarusian freight volume was influenced by the increased transportation of fertilisers via Klaipėda port. In the end of 2017, the Company concluded a long-term agreement with the Belarusian Oil Company BNK and in the beginning of 2018 with Belaruskalij, the world's largest manufacturer and supplier of potash fertilisers and a producer of nitrogen fertilisers Grodno Azot. The agreements will enhance the competitive advantage in the transportation market, open new opportunities for other transport undertakings – stevedoring companies and Klaipėda State Seaport.

Volume of domestic freight transportation in 2018 decreased by 2.8% and amounted to 15.1 million tons. Domestic transportation of freight accounted for 26.6% total volume of LG's freight. Production volumes and transportation of the largest Lithuanian industry players (oil refinery AB ORLEN Lietuva, producers of fertilisers and break-stone AB Lifosa, AB Achema, AB Akmenės Cementas, AB Dolomitas, etc.) have a significant impact on rail transportations in domestic, export and import markets. The decrease of demand for the nitrogen fertilisers and the drop of their price resulted in smaller transportation of AB Achema products. In 2018, a worse-than-expected harvest of cereals conditioned a fall in domestic transportation of plant products, yet the domestic transportation of building materials increased.

Overview of the Company's KPI

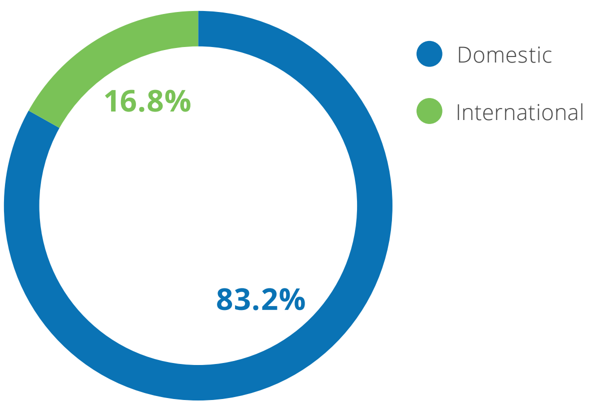
CARRIAGE OF PASSENGERS

Passenger carriage volume (in million passengers)

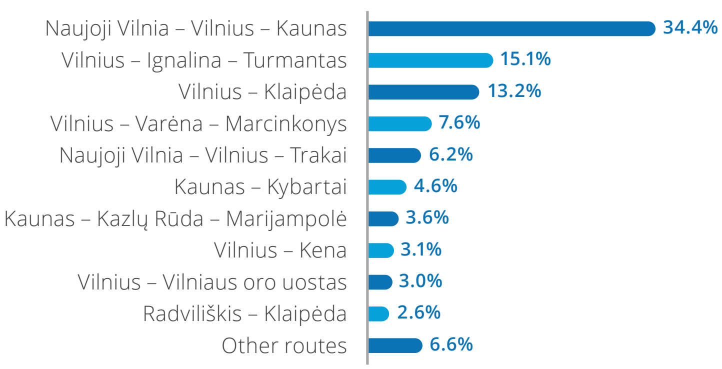


In 2018, the number of railway passengers increased by 11% compared with 2017 and exceeded the planned indicator. Domestic carriage accounted for 83.2%, whereas international transport – for 16.8% of railway passengers.

Passenger market segments 2018, %



Domestic transport structure 2018, %



DOMESTIC ROUTES

Domestic routes climbed 11.6% to 4.3 million passengers in 2018. The increase in the number of passengers is a result of the measures applied by the Company to attract passenger flows, namely formation of timetables based on the customer needs and various on-going events (e.g. the Song Celebration in 2018, the historic visit of Pope Francis in Lithuania, basketball matches), introduction of a new customer service culture, new routes, development of sales channels and introduction of services attractive to various business segments.

E-sales demonstrated a climb in 2018. Starting from 2016, the number of tickets sold on the website http://www.traukiniobilietas.lt has increased three times. The share of tickets sold on-line increased in total ticket sale structure. In 2018, it doubled and accounted for 18%. The Company pro-actively worked to offer business clients better conditions to travel to/from work.

The leaders of the most popular routes remain the same with Naujoji Vilnia–Vilnius–Kaunas (34.4% total domestic carriage) that carried 1.5 million passengers in 2018, i.e. 13.3% more compared with 2017. Following an update of the train timetable in the end of 2018, this route has offered additional trains. In 2018, the passengers were introduced with new domestic routes: Klaipėda–Šilutė, Vilnius–Airport–Jašiūnai. During the summer season, the passengers could travel to the seaside using the Seaside express service.

Last year has recorded the most significant change in passenger transportation over the last several decades. In December 2018, the Company introduced updated timetables that were designed to meet the demands of commuters. People working regular hours and on shifts are offered more opportunities to travel on train, be it the city or smaller town residents. The number of various new routes increased 12%. Upon introduction of updated timetables, the passenger flows rose as much as 26.2% in January-February 2019.

INTERNATIONAL ROUTES

International routes climbed 8.2% to 0.9 million passengers in 2018. In 2018, transit trains carried 0.5 million passengers across the Republic of Lithuania. It is the largest international transportation segment with 62.2% total international transportation and an increase of 5.6% over the reporting period. Transit trains carry passengers to/from the Kaliningrad region and Russia. Starting from September 2018, the trains also carry passengers to/from Ukraine and Riga via Minsk and Vilnius.

In January 2018, the passengers were introduced with routes formed from the trains of the Company and other countries: Vilnius–Minsk, Vilnius–Daugavpils, Kaunas–Bialystok. After the electrification of the line from Vilnius to Minsk and the introduction of new electric trains, the passenger flow on this route increased by as much as 13.4% compared to 2017 and carried 0.3 million passengers.

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 in accordance with Government Resolution No. 610 of 19 May 2004 and the Rules approved by the amendments to the Resolution. An updated version approved by Resolution No. 1226 of 7 December 2016.

Given the increasing volume of transportation, traffic safety, efficiency and capacity building are the key priorities for the operations of the railway infrastructure manager. Capacity growth is ensured by the systematic implementation of strategic projects (upgrade, electrification, Rail Baltica, increasing speed limits).

The Railway Infrastructure Directorate holds and manages assets of over EUR 1.4 billion value.

In 2018, the maximum train speed limits were 120 km/h for passenger trains, 90 km/h freight trains. The maximum speed limit is determined by the overall standing of the railway infrastructure tracks, track facilities, communications, automation, signalling and power supply systems.

Total length of the railway

3,452.5 km

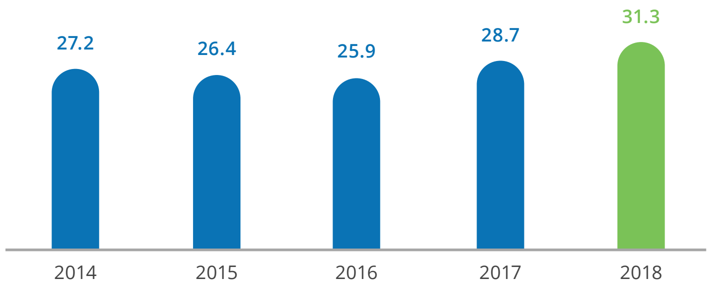
Of which electrified tracks

317.5 km

Stations

105

Train operational volume, Bn tkm bruto



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 Operating Performance

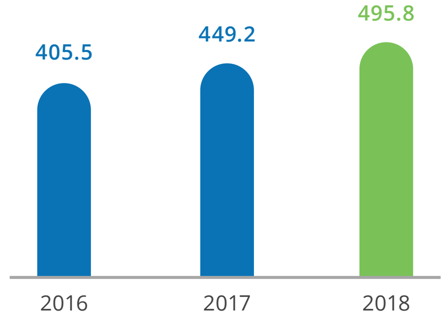
ANALYSIS OF GROUP ACTIVITIES

GROUP REVENUE

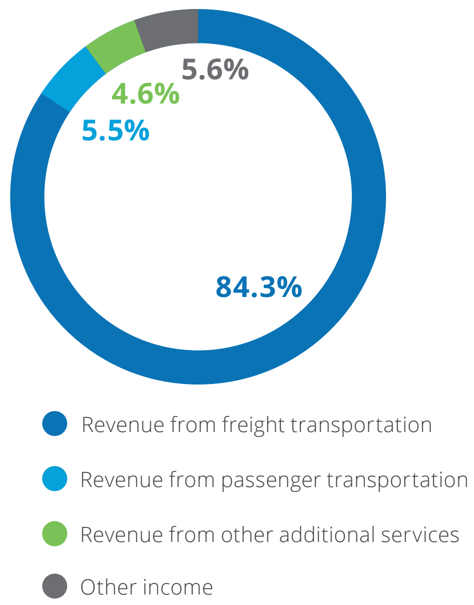
In 2018, the Group earned EUR 495.8 million of revenue, i.e. EUR 46.6 million or 10.4% more than in 2017. Freight business accounted for the major share of revenue, i.e. 84.3%.

- **The revenue from freight business** was the most important factor behind the growth of revenue in 2018. The revenue amounted to EUR 418.1, i.e. EUR 24.2 million or 6.1% more than in 2017. 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** increased by EUR 2 million or 8.1% amounting to EUR 27.2 million in 2018. The revenue from passenger carriage business amounted to 5.5% of the total revenue structure of the Group. Increased ridership in domestic and international routes triggered positive dynamics.
- The Group also provides with the ancillary services, namely technical maintenance and repair of rolling stock, property lease, sale of scrap metal, other services. The revenues in this group accounted for EUR 22.6 million, i.e. 22.0% or EUR 6.4 million less compared with 2017. Decrease in scrap sales resulted in lower revenues of this type generated over the reporting period.
- **Other income** accounted for EUR 27.9 million (EUR 1.1 million in 2017). Significant growth in other income was driven by the EUR 27.0 million subsidies to compensate for losses incurred by passengers when travelling on domestic routes. In 2017, the public passenger transportation was allocated with EUR 0.2 million, in 2016 with EUR 0.3 million.

Group revenue, in million EUR



Group revenue structure 2018, %



GROUP COSTS

In 2018, the costs of the Group related to the core and other businesses amounted to EUR 421.7 million. The costs increased by EUR 9.8 million or 2.4% as compared with the year 2017.

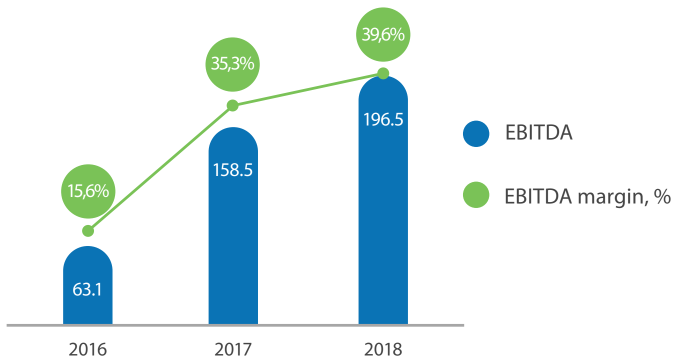
The larger proportion of the Group costs is constituted by the labour costs (40.7%), depreciation and amortisation (28.9%) and energy resources (15.0%).

The increase in costs was driven by increased freight and passenger transportation volumes and the price of diesel fuel. Hence, the fuel costs of the reporting period increased 17.0%. Electrification of the Vilnius-Minsk line and introduction of trains therein resulted in higher electricity consumption with electricity costs increasing by 9.5%.

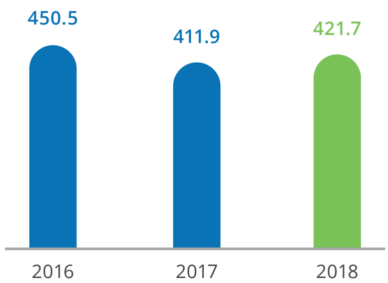
As a result of strategic restructuring in the Group and implementation of measures to increase operating efficiency and decrease in the number of employees, in 2018 labour costs decreased by 4.9%.

GROUP RESULTS

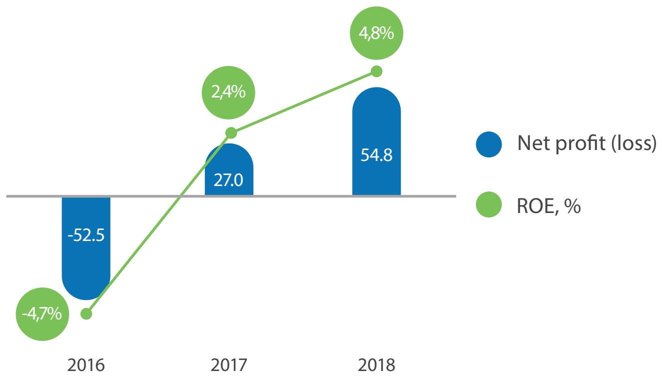
Group EBITDA, in million EUR



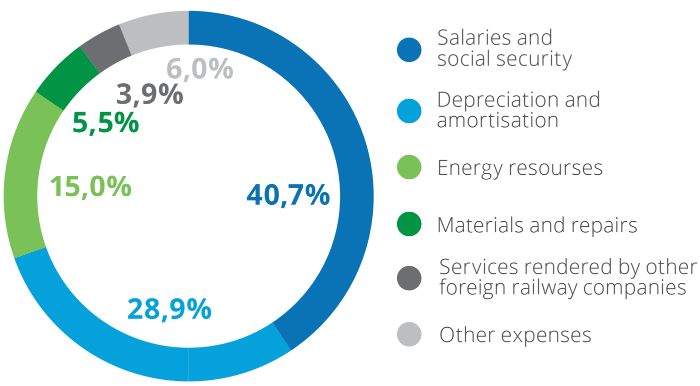
Group costs, in million EUR



Group net profit (loss), in million EUR



Group costs structure 2018, %



MAIN GROUP FINANCIAL INDICATORS*

		GROUP			COMPANY		
		2016	2017	2018	2016	2017	2018
Revenue	million EUR	405.5	449.2	495.8	401.8	446.2	493.0
Costs	million EUR	450.5	411.9	421.7	443.7	411.2	421.7
EBITDA	mln. Eur	63.1	158.5	196.5	66.2	154.3	191.1
Adjusted EBITDA	million EUR	115.9	147.2	202.3	118.8	143.5	197.1
EBITDA margin	%	15.6%	35.3%	39.6%	16.5%	34.6%	38.8%
Adjusted EBITDA margin	%	28.6%	32.8%	40.8%	29.6%	32.2%	40.0%
EBIT	million EUR	-44.9	36.5	74.6	-41.7	34.9	71.8
EBIT margin	%	-11.1%	8.1%	15.1%	-10.4%	7.8%	14.6%
Net profit (loss)	million EUR	-52.5	27.0	54.8	-49.5	25.6	53.5
Net profit (loss) margin	%	-12.9%	6.0%	11.1%	-12.3%	5.7%	10.9%
Fixed assets	million EUR	1,958.9	1,909.8	1,846.9	1,953.3	1,904.1	1,881.2
Current assets	million EUR	118.8	157.7	178.8	97.8	140.6	136.4
Total assets	million EUR	2,077.7	2,067.6	2,025.7	2,051.1	2,044.7	2,017.6
Equity	million EUR	1,111.7	1,138.7	1,151.4	1,101.5	1,127.1	1,138.5
Financial debt	million EUR	301.5	268.5	210.9	289.0	255.8	210.8
Part of financial debt of subsidiaries	%	4.1%	4.7%	0.1%			
Net debt	million EUR	280.8	185.0	118.1	277.1	178.6	156.0
Debt	million EUR	318.1	280.3	220.7	304.8	266.0	219.3
Return on equity (ROE)	%	-4.7%	2.4%	4.8%	-4.5%	2.3%	4.7%
Return on assets (ROA)	%	-2.5%	1.3%	2.7%	-2.4%	1.2%	2.7%
Return on investment (ROI)	%	-2.7%	1.4%	2.9%	-2.6%	1.3%	2.8%
Financial debt / EBITDA	times	4.8	1.7	1.1	4.4	1.7	1.1
Net debt / Adjusted EBITDA	times	2.4	1.3	0.6	2.3	1.2	0.8
Debt / Adjusted EBITDA	times	2.7	1.9	1.1	2.6	1.9	1.1
Equity ratio	%	53.5%	55.1%	56.8%	53.7%	55.1%	56.4%
Debt servicing ratio	times	2.1	2.8	3.0			
Debt / Equity	%	28.6%	24.6%	19.2%	27.7%	23.6%	19.3%
Asset turnover ratio	times	0.2	0.2	0.2	0.2	0.2	0.2
Total liquidity rate		0.8	1.1	1.5	0.7	1.0	1.1

* For definitions of the indicators see page 44 of the Report.

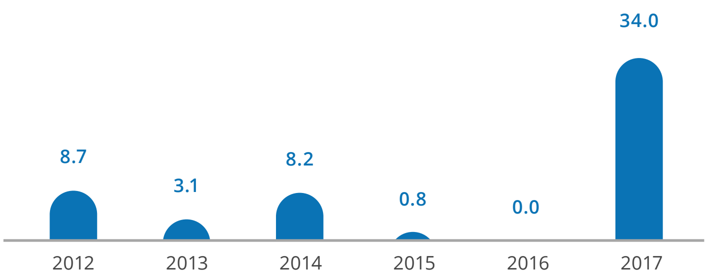
Analysis of Financial and Operating Performance

DIVIDEND POLICIES

The payment of dividends and the size of profit contributions are regulated by Resolution No. 786 of the Government RoL of 11 August 2016. The Resolution establishes the cases where the Government RoL may determine a smaller share of profit for the pay-out of dividends. One of them is applicable in case a company is in the process of implementing or is participating in an economic project which by the Resolution of the Government has been acknowledged as critical to the State (in our case these are projects of Rail Baltica and the East-West Corridor (a complex of the Klaipėda State Seaport, tracks and railway infrastructure)).

Based on the decision of the Shareholder of 24 July 2018 and having approved the financial statements for 2016-2017, the Company disbursed EUR 34 million dividends for the reporting period.

LG dividends, in million EUR



GROUP FUNDING

As of 31 December 2018, the net debt of the Group amounted to EUR 118.1 million. Compared to 31 December 2017, the ratio decreased by 36.2% or EUR 66.9 million. The decrease of the net debt of the Group was the result of the repayment of EUR 57.6 million of debt and the funds accumulated in the course of 2018.

As of 31 December 2018, the cash balance of the companies of the Group amounted to EUR 92.8 million, i.e. EUR 9.3 million more than as of 31 12 2017. The increase in the cash balance was mostly influenced by the increase in the positive cash flow from freight transportation.

As of 31 December 2018, the weighted average interest rate of the debt portfolio of LG amounted to 2.0% (compared to 2.2% as of 31 12 2017).

The longest debt repayment period reached 14 years, and the last deadline for the repayment is 2032.

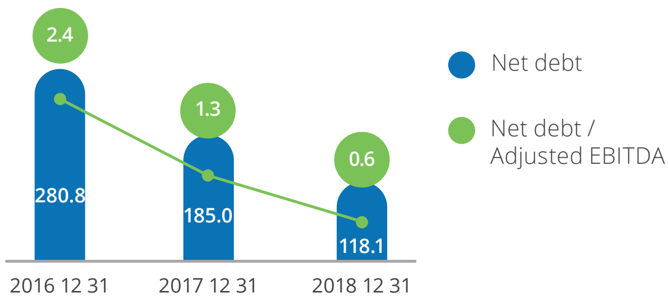
The ratio of the net debt of the Group and adjusted EBITDA decreased from 1.3 as of 31 December 2017 to 0.6 as of 31 December 2018.

The ratio of Group debt and equity decreased from 24.6% as of 31 December 2017 to 19.2% as of 31 December 2018. The debt level of the Group remains sufficiently low both in relation to profits and capital structure.

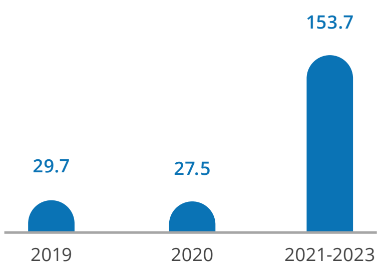
Compared to 31 December 2017, liquidity ratio of the Group increased from 1.1 to 1.5.

For the sake of higher efficiency in cash management and liquidity assurance within the companies of the Group, LG signed a cash-pool agreement with a credit institution. This will allow optimising the use of the Group's working capital and short-term borrowing costs.

Group financial debt, in million EUR



Group debt repayment, in million EUR



OPERATING PERFORMANCE AND GOVERNING BODIES OF THE MAIN COMPANIES OF THE GROUP

UAB VILNIAUS LOKOMOTYVŲ REMONTO DEPAS

THE BOARD	POSITION	TERM OF OFFICE	EMPLOYER
Andrej Kosiakov	Chairman of the Board	12 13 2017 - 13 12 2021	AB Lietuvos Geležinkeliai, CFO
Rokas Janutėnas	Board Member	12 13 2017 - 13 12 2021	Director of the Strategy and Operational Efficiency Department of AB Lietuvos Geležinkeliai
Sigitas Kubilis	Board Member	12 13 2017 - 13 12 2021	Director of the Investment Planning and Control Department of AB Lietuvos Geležinkeliai
Irena Jankutė-Balkūnė	Board Member	12 13 2017 - 13 12 2021	Chief Human Resources Officer of AB Lietuvos Geležinkeliai
Paulius Voleika	Board Member	12 13 2017 - 13 12 2021	Senior Lawyer of the Commercial Law Unit, Legal Department, AB Lietuvos Geležinkeliai

Main activities – manufacture of new locomotives, track machinery and their upgrade, major and current repair work of rolling stock of all types, repair of nodes and units.

CEO – Albertas Bajorinas, appointed on 5 April 2017.

At the end of 2017, as the result of the restructuring of subsidiaries, the company took over part of the services related to the technical maintenance of locomotives, wagons and track machinery, repair and manufacture of rolling stock and spare parts of their units from AB Lietuvos Geležinkeliai. The aim was to eliminate the duplication of functions and increase competitiveness.

In 2018, the company generated EUR 50.8 million revenues, i.e. 71.3% more compared to 2017. Profitability indicators demonstrated significant increase: with net profit recording growth by over 6 times amounting to EUR 3.2 million and EBITDA more two times, up to EUR 4.7 million.

The company was recognised a Successful Company 2018 in the category of large enterprises and was awarded a gold medal in the competition of the Lithuanian Confederation of Industrialists "the Best Product of the Year 2018" for the manufacture of upgraded version of TGM4-2970 locomotive.

Indicators, million EUR	2016	2017	2018
Revenues	20.3	29.6	50.8
Costs	20.1	28.9	47.0
EBITDA	1.1	1.8	4.7
Net profit (loss)	**0.1**	**0.5**	**3.2**
Assets	24.1	33.2	34.1
Equity	21.2	21.7	24.9
Financial debts	0.0	0.0	0.0
Net debt	**-4.7**	**-3.8**	**-1.2**
EBITDA margin, %	5.7%	6.0%	9.3%
Net debt / EBITDA	-4.1	-2.1	-0.2
Return on equity ,%	0.6%	2.4%	12.9%
Equity/Assets, %	**87.9%**	**65.5%**	**73.1%**

UAB GELEŽINKELIO TIESIMO CENTRAS

THE BOARD	POSITION	TERM OF OFFICE	EMPLOYER
Linas Baužys	Chairman of the Board	12 13 2017 - 13 12 2021	Deputy CEO of AB Lietuvos Geležinkeliai, Director of Passenger Transportation Directorate
Andrej Kosiakov	Board Member	12 13 2017 - 13 12 2021	AB Lietuvos Geležinkeliai, CFO
Rokas Janutėnas	Board Member	12 13 2017 - 13 12 2021	Director of the Strategy and Operational Efficiency Department of AB Lietuvos Geležinkeliai
Sigitas Kubilis	Board Member	12 13 2017 - 13 12 2021	Director of the Investment Planning and Control Department of AB Lietuvos Geležinkeliai
Irena Jankutė-Balkūnė	Board Member	12 13 2017 - 13 12 2021	Chief Human Resources Officer of AB Lietuvos Geležinkeliai

Main activities – construction and repairs of railway track, other transport infrastructure and facilities, rent of tamping machines.

CEO – Martynas Pargaliauskas, appointed on 7 April 2017.

2018 was of major significance and importance to the company. The ongoing optimisation processes have led to one of the best results throughout the company's lifetime – earning EUR 3.6 million net profit.

The main operational focus was on segments of construction and repair of railway infrastructure and maintenance of railway tracks and facilities. In 2018, the company generated EUR 29.8 million revenues, i.e. 54.0% more compared to 2017. Effective cost management and adequate use of resources, continuous improvement of operations and service quality led to outstanding performance. In 2018, the company's EBITDA increased more than 5 times compared to 2017 and accounted for EUR 7.3 million.

Indicators, million EUR	2016	2017	2018
Revenue	20.0	19.4	29.8
Costs	23.4	21.1	25.4
EBITDA	-0.1	1.3	7.3
Net profit (loss)	**-2.9**	**-1.5**	**3.6**
Assets	40.5	34.8	43.0
Equity	21.3	19.2	30.5
Financial debts	12.1	12.7	0.0
Net debt	**10.8**	**12.7**	**-3.1**
EBITDA margin, %	-0.4%	6.5%	24.6%
Net debt / EBITDA	-123.6	10.1	-0.4
Return on equity ,%	-13.8%	-7.9%	11.7%
Equity/Assets, %	**52.5%**	**55.2%**	**70.9%**

UAB GELSAUGA

THE BOARD	POSITION	TERM OF OFFICE	EMPLOYER
Rokas Janutėnas	Chairman of the Board	12 13 2017 - 13 12 2021	Director of the Strategy and Operational Efficiency Department of AB Lietuvos Geležinkeliai
Andrej Kosiakov	Board Member	12 13 2017 - 13 12 2021	AB Lietuvos Geležinkeliai, CFO
Sigitas Kubilis	Board Member	12 13 2017 - 13 12 2021	Director of the Investment Planning and Control Department of AB Lietuvos Geležinkeliai
Irena Jankutė-Balkūnė	Board Member	12 13 2017 - 13 12 2021	Chief Human Resources Officer of AB Lietuvos Geležinkeliai
Paulius Voleika	Board Member	12 13 2017 - 13 12 2021	Senior Lawyer of the Commercial Law Unit, Legal Department, AB Lietuvos Geležinkeliai

Main activities – providing facility protection, video surveillance system services, cleaning of premises and areas, and building maintenance services.

CEO – Vilius Mitkevičius, appointed on 17 May 2018.

In the end of 2018, the Board of the company decided to cancel provision of certain services and, on 31 December 2018, terminated the provision of building maintenance, cleaning of premises and areas, rental of labour clothing. This company will continue to provide security services as it has won the tender by delivering the best value proposition.

In 2018, the company generated EUR 17.7 million revenues, i.e. 29.6% more compared to 2017. The company was profitable with net profit of EUR 1.3 million, EBITDA increased to EUR 2.4 million.

Indicators, million EUR	2016	2017	2018
Revenue	17.7	13.7	17.7
Costs	17.0	12.7	16.1
EBITDA	1.4	1.8	2.4
Net profit (loss)	**0.6**	**0.8**	**1.3**
Assets	7.4	8.1	10.5
Equity	4.7	5.6	6.9
Financial debts	0.02	0.0	0.2
Net debt	**-0.5**	**-1.8**	**-3.6**
EBITDA margin, %	7.9%	12.9%	13.5%
Net debt / EBITDA	-0.4	-1.0	-1.5
Return on equity ,%	13.6%	15.1%	18.9%
Equity/Assets, %	**64.2%**	**68.4%**	**65.4%**

UAB RAIL BALTICA STATYBA

THE BOARD	POSITION	TERM OF OFFICE	EMPLOYER
Karolis Sankovski	Chairman of the Board	12 13 2017 - 13 12 2021	Deputy CEO of AB Lietuvos Geležinkeliai, Director of Railway Infrastructure Directorate
Odeta Tručinskaitė-Šiušienė	Board Member	12 13 2017 - 13 12 2021	Head of the Legal Department of AB Lietuvos Geležinkeliai
Arenijus Jackus	Board Member	12 13 2017 - 13 12 2021	Director of Rail Baltica Coordination Department, Railway Infrastructure Directorate, AB Lietuvos Geležinkeliai

Main activities – implementation of the functions of shareholder of the Joint Venture of the Baltic States, RB RAIL AS supervising the project "Rail Baltica 2".

CEO – Karolis Sankovski, appointed on 1 June 2017.

In June 2018, the project Rail Baltica and specifically its implementation in the territory of Lithuania was allocated EUR 95 million EU funds under the Grant Agreement No. INEA/CEF/TRAN/M2016/1360716 of the Connecting Europe facility (CEF).

On 31 July 2018, the company changed its representative on the Supervisory Board of RB Rail AS, by replacing Arenijus Jackus, Director of Rail Baltica Coordination Department, Railway Infrastructure Directorate at AB Lietuvos Geležinkeliai with an independent representative Romas Švedas.

On 28 September 2018, the company's shareholder adopted a decision to increase the company's authorised capital by EUR 650,180.96 additional contribution through issue of 22,451 registered shares at EUR 28.96 value per share.

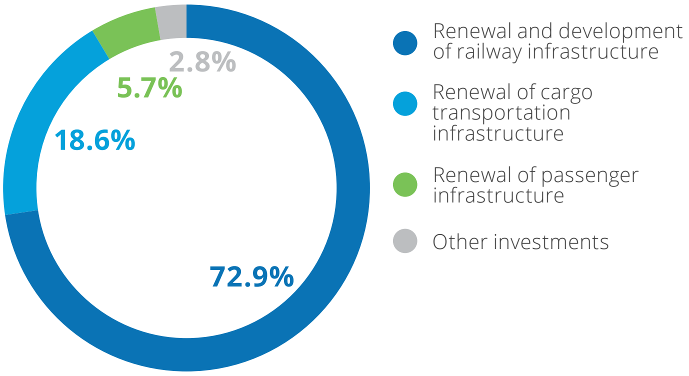
In January 2019, Karolis Sankovski was elected the Chairman of the Supervisory Board with the appointed deputies Riia Sillave and Edvins Berzinš.

Indicators, million EUR	2016	2017	2018
Revenue	0.0	0.0	0.1
Costs	0.2	0.1	0.1
EBITDA	-0.2	-0.1	-1.2
Net profit (loss)	**-0.2**	**-0.1**	**-1.2**
Assets	2.2	2.7	2.1
Equity	2.2	2.7	2.1
Financial debts	0.0	0.0	0.0
Net debt	**-0.2**	**-0.1**	**-0.1**
EBITDA margin, %	-	-	-
Net debt / EBITDA	1.5	1.1	0.1
Return on equity ,%	-7.4%	-4.2%	-58.0%
Equity/Assets, %	**99.3%**	**99.5%**	**99.6%**

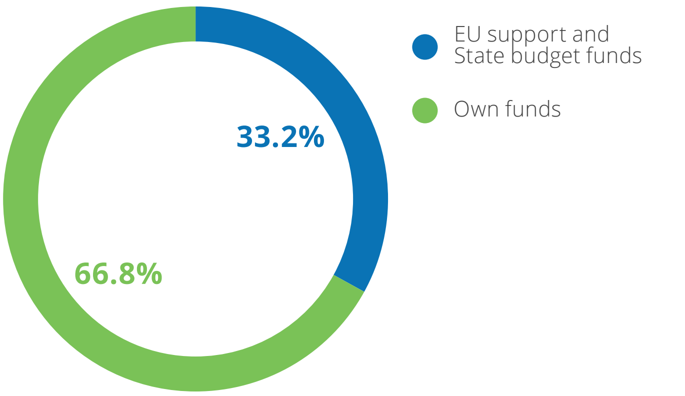
INVESTMENTS

In 2018, the investments of the Group amounted to EUR 89.4 million, including the investment of EUR 87.6 million by LG. 66.8% of LG Group investments of 2018 were financed using own funds. EUR 29.6 million EU support and State budget funds were utilised over the reporting period. The majority of investments went to the upgrade and expansion of the railway infrastructure (72.9%).

Group investments structure 2018, %



Group investments funding structure 2018, %



Group investments, EUR million	2016	2017	2018	2018/2017 Δ, %
Renewal and development of railway infrastructure	71.3	60.9	65.2	7.1%
Renewal of freight transportation infrastructure	13.0	4.6	16.6	260.9%
Renewal of passenger transportation infrastructure	49.2	18.4	5.1	(72.3%)
Other investments (IT, etc.)	6.2	1.5	2.4	61.6%
Total	**139.7**	**85.4**	**89.3**	**4.6%**

Major investment projects and works completed in 2018

- The Company pursued the implementation of Rail Baltica Project
- – completion of reconstruction of Jiesia–Rokai railway section by installing new 1,435 mm gauge track;
- – contract signed on contracting works for the reconstruction of Kaunas–Palemonas railway section;
- – after reviewing the technical project for the reconstruction of the Rokai–Palemonas section, a tender for the procurement of this project was announced. This section of the Rail Baltica line will connect Rokai with Kaunas intermodal terminal;
- – procedures required for taking over the land in the interest of the public for installation of a new 1,435 mm gauge in the stretch of Kaunas to LT/LV state border have been carried out. Asset valuation reports have been drafted along with 98% projects for taking over the land in the interest of the public.
- The Company continued implementing projects on the construction of the second railway tracks. Upon completion of these projects, the throughput in the IX B corridor will increase by debottlenecking certain sections. During the reporting period, the Company completed the projects on the construction of the second tracks in Telšiai–Lieplaukė and Vilnius Bypass sections, announced public tenders for the construction of the second tracks in Plungė–Šateikiai and Livintai–Gaižiūnai sections.
- The Company carried out procurement procedures for the reconstruction of Mažeikiai–Rengė section. Completion of this project will allow restoring traffic on 19 km section to Renge in Latvia, reconstruction or repair of five crossings, six bridges, execution of other works.
- The Company will proceed with procurement procedures for design and contracting works within the scope of the largest LG project - Electrification of IX Corridor. Electrification of Vilnius node and the railway line stretching from Kaišiadorys to Klaipėda (Draugystės station) is included into the project scope. The project is expected to receive funding of the EU Cohesion Fund for the period 2014-2020.
- In 2018, the Company introduced the major railway track upgrade programme and carried out works at the amount of EUR 20.4 million. The Company used its own funds for repair of railway tracks and its facilities: 33.7 km heavy maintenance, and over 66 km regular repairs (of which replacement of 27.1 km tracks with new ones, replacement of fasteners on 13 km and lattices on 3.8 km), replacement of 21 units of switches and more than 5.7 thousand sleepers, repair of 8 bridges and viaducts.
- The Company carried out a programme of rolling stock fleet repairs – 1,847 freight wagons were repaired, 50 freight locomotives, 14 diesel and 3 electric trains.

ORGANISATIONAL CULTURE AND EMPLOYEES OF THE GROUP

The basis of the LG Group of companies' success is its employees who are capable to perform the daily activities effectively, to create a competitive advantage and uniqueness, to adapt to the changing needs of business, to plan and implement strategic objectives successfully. Attention to the management of human resources is guided by the best practices of personnel management and provides the Group with a chance to step forward into new areas of activity, to seek for higher productivity, efficiency and versatility levels, to increase the value of companies, and to create a better future.

To achieve a competitive advantage, a unified model for personnel management is applied in the LG Group of companies.

Mission of personnel function – the best team is the one that braves the challenges, thrusts for the change, and is open for the future.

Vision of personnel function – the partner of sustainable organisation development creating innovative and effective decisions in personnel management.

Our initiatives of 2018:

- Prepared the description of managers' competences;
- Assessed the competences of managers via 360 feedback survey;
- Began to prepare the profiling of jobs using the methodology of profile evaluation;
- Implemented the unified principles of remuneration revision for working-class employees;
- Began the measuring of efficiency of employee activities by gradually including the employees into setting the individual yearly goals;
- Augmented the Benefits package: the employees of the Group are covered by insurance against accidents; we are ready to provide supplementary health insurance to all employees of the Group;
- Continue to digitalise the programme of personnel processes.

The average number of employees of the Group has decreased from 10,787 to 9,837 in 2018.

Most of the employees of the Group work at Lietuvos Geležinkeliai. In 2018, the average number of enlisted employees of LG was 7,278, i.e. 1,526 employees or 17.3% less than in 2017. Compared to 2017, the average monthly salary increased from EUR 1,116 to EUR 1,224, representing the increase of 9.7%. Implementation of remuneration revision for working-class employees as of 1 November 2018 had a solid impact on this change.

VALUES

WE ARE AMBITIOUS

WE WORK FOR OUR CLIENTS

WE RESPECT EACH OTHER

WE PROMOTE INTEGRITY

WE ARE RESPONSIBLE

Company name	Average number of employees	Average salary, in EUR
AB Lietuvos Geležinkeliai	7,278	1,224
UAB Vilniaus Lokomotyvų Remonto Depas	1,047	1,067
UAB Geležinkelio Tiesimo Centras	520	1,132
UAB Gelsauga	988	717
UAB Rail Baltica Statyba	4	1,597
Total	**9,837**	

LG EMPLOYEES

In 2018, the payroll of AB Lietuvos Geležinkeliai amounted to EUR 102.3 million (in 2017: EUR 112.9 million), excluding the results of annual incentive in 2017. To encourage achieving and exceeding the objectives of LG Group, an incentive framework for results, related to the management process of employee activities, is applied to employees and managers starting from 2017.

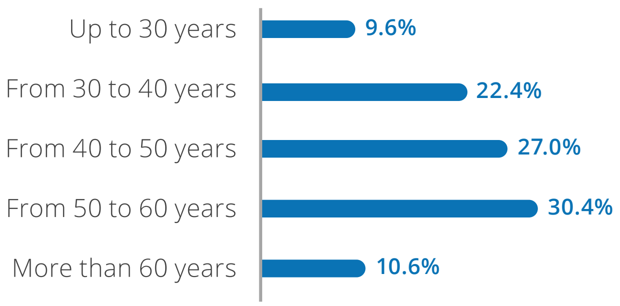
	2016		2017		2018	
Employee groups by position	Average number of employees	Average salary, in EUR	Average number of employees	Average salary, in EUR	Average number of employees	Average salary, in EUR
CEO*	1	6,401	1	6,401	1	6,401
Top-level management*	5	5,680	8	5,318	8	5,318
Mid-level management, chief specialists	1,354	1,674	1,240	1,745	1,196	1,794
Specialists, workers	8,481	948	7,555	1,008	6,073	1,105
Total	**9,841**	**1,053**	**8,804**	**1,116**	**7,278**	**1,224**

* The average remuneration is provided.

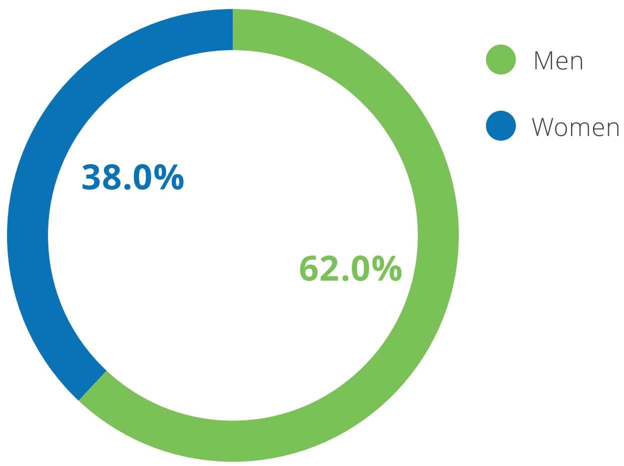
Variable share of annual remuneration (annual incentive) of the Company's CEO is associated to the achievement of annual objectives of Lietuvos Geležinkeliai Group of companies. The annual incentive of other top-level management is associated to the achievement of objectives both of the Group and dependent function. The Board of the Company approves the policy of annual incentives for top-level management. Each year, the Board of the Company approves the structure of annual goals of the Group, threshold values for their achievement and benchmarks, and after the end of year the Board of the Company approves the results of achievement of these objectives and the possibility of paying annual incentive.

In 2018, actual average of remuneration of CEO of the Company, including the assessed annual incentive for 2017 paid in 2018, amounted to EUR 8,398, of the top-level manager – EUR 6,174.

Employee distribution by age group, %



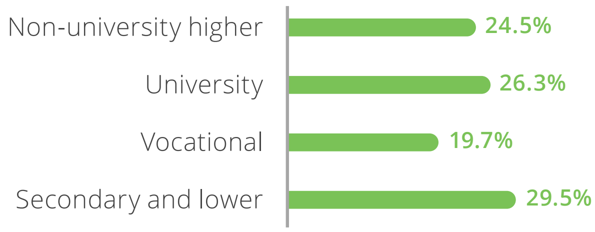
Employee distribution by gender, %



Employee distribution by length of service

Age group	Average length of service, in years
Up to 30 years	3
From 30 to 40 years	7
From 40 to 50 years	16
From 50 to 60 years	22
More than 60 years	26
Total	**16**

Employee distribution by education, %



SOCIAL PARTNERSHIP

In 2018, a constructive and positive dialogue with the social partners of the Company is continued to implement social partnership properly.

There have been intensive communication and collaboration with trade unions and their organisations active in the Company, periodic meetings with representatives of the trade unions and managers of the Company where daily matters of organising of employees' work were discussed, in addition to other important questions for employees which influence their social and economic situation.

The trade unions were provided with relevant information under cases covered by legal acts, they were also consulted in decision-making regarding the changes in the Company, rules of procedure, implementation of system of payment for work and other matters.

Negotiations regarding a collective agreement of a branch were initiated in autumn 2018. The negotiations were intense and demanding. They were finished by a common agreement: the collective agreement of a branch entered into force on 1 January 2019.

MANAGEMENT OF REMUNERATION AND OF EFFICIENCY OF ACTIVITIES

In order to achieve the Group's strategic objectives successfully, the goal of remuneration policy is to ensure the competitiveness of the organisation and compliance with the modern trends of remuneration market. To achieve the objective, remuneration payment system was changed in several stages in 2018 and application of the new remuneration system began. The system was developed using the best global practices and evaluation methodology of positions applied internationally.

These steps are aimed to increase transparency in decisions related to determination of remuneration and its changes, together establishing a remuneration system that is grounded on unanimous principles, is comprehensible to any employee, and is related to the efficiency of each employee's activities.

TRAININGS AND COMPETENCE DEVELOPMENT

To encourage the employees to use their potential and career opportunities, LG motivates continuous professional and personal improvement of its staff. The Company prioritises self-education, learning at workplace, internal trainings.

The Company organises internal trainings and periodic certification, so the employees would have an opportunity to obtain or update their professional knowledge, develop or test own skills related to certain technological processes and equipment of the Company and support proficiency of the employees.

In 2018, internal instructors conducted 20 training programmes prepared in accordance with the Company's business needs. 3 training programmes were formal vocational training programmes providing qualification certificates. 2,509 employees heard the courses and obtained qualification certificates.

Employees of the companies that operate in the area of the Company are trained to work safely in railway or its equipment risk zones. In total 398 non-Company employees completed internal training programmes of the Company in 2018.

Employees doing dangerous work and working with and maintaining potentially dangerous equipment receive training about safe work methods. 1,081 employees were trained and obtained qualification certificates in 2018. 4,565 employees participated in specialised training of railway transport, 1,612 thereof were trained in accordance with provisions of Law on Railway Transport Traffic Safety of the Republic of Lithuania (periodic certifying and periodic further qualification).

Social Responsibility Report

SAFETY AND HEALTH OF EMPLOYEES

Employee safety and health is of the highest priority in LG Group of companies. For a purpose to create a safe labour culture, the first work day of each month since April 2018 is announced a safety day and special attention is paid at employee safety and health.

LG Group of companies continuously measures occupational risks in workplaces of employees, carries out check-ups of departments, prevents employee alcohol consumption at work, controls whether employees arrive to workplace safely using railroads, how the assessment of occupational risks is implemented and how discrepancies detected during check-up of departments are removed.

The Group prevents work-related accidents, health issues and occupational diseases, investigates any incidents and accidents at work and in commute. A record number of confirmed occupational diseases was recorded in 2018: 9 occupational diseases were confirmed for employees working for a certain period in AB Lietuvos Geležinkeliai.

After a fatal accident on 5 March 2018, when two employees of the Company died, the legal acts regulating safe work in active railroads were revised and updated. Employee safety and environment department sought for modern systems warning employees about approaching rolling stock and plans to initiate the purchase of such systems in the Group.

Contractors and clients providing services to LG Group of companies are obliged to introduce their employees with risk factors in an active railway and to comply with the updated internal legal acts of the Company when organising work of their employees. Contractors and clients are inspected periodically, while, in the annual meeting with contractors in November, there was a discussion where relevant questions about safety were considered.

All employees are provided with individual and collective safety means. Considering that overall satisfaction with the main individual safety means of employees was 81% in 2018, a decision was made to improve the quality of individual safety means and a lease contract of work clothing was concluded with international company Lindstrom which provides quality services. Employees get several sets of periodically washed and repaired clothing during the lease term. Having evaluated the feedback of employees and caring about their welfare, purchase of thermal underwear for cold season was initiated.

Great attention is paid at prophylaxis of staff health – the Company funds periodic compulsory and thorough diagnostic health check-ups, employees receive health insurance contracts and all staff is insured against accidents. All employees have access to receive free influenza vaccines, whereas employees under biologic risk factors receive a tick-borne encephalitis vaccine.

In 2018, 2,388 employees of the Company were trained in the field of employee safety and health, 221 managers of departments thereof, while 216 rail road specialists and 230 train drivers were trained under implementation of preventative measures plan after fatal accidents.

SAFE TRAFFIC

Railway transport traffic safety is oriented towards technical and organisational measures in aggregate that are intended to ensure that passengers, other railway transport users and other persons, as well as railway infrastructure, railway rolling stock and cargo and luggage in shipment would be protected from catastrophes of the railway transport, traffic accidents, incidents and their consequences.

The Company's vision in the traffic safety field is simple and comprehensive: 0 (zero) incidents, i.e. safe society and the Company, with no railway transport catastrophes, traffic accidents and incidents.

In order to implement the vision in the traffic safety field, the Company, taking into consideration the legal framework and the best practices of other countries, every year sets relevant safety targets oriented towards the highest risks, prepares complex plans of measures to achieve them, manages risks related to the railway transport traffic safety by implementing measures intended to remove or minimise the risks.

Moreover, Lietuvos Geležinkeliai carry out targeted inspections and perform periodic audits of elements comprising traffic safety management system, continuously monitor status of the traffic safety based on safety indicators allowing a pro-active prevention of incidents and their consequences.

Experts of the Company investigate the catastrophes of railway transport, traffic accidents and incidents, and if direct or indirect causes of accidents are determined, realise systemic measures oriented towards opportunities given by the fourth industry revolution ensuring the recurrence prevention of these accidents.

Employees of the entire companies group foster safety culture of the society and the Company's employees, encourages safe behaviour. The employees of the Company organise safety actions in the railway crossroads and places where the rail crossing is impermissible, using various media educate schoolchildren, teachers, drivers, passengers and all other road users about safe behaviour in the railway zones.

PREVENTION OF CORRUPTION AND BRIBERY

Employees of the Company commenced declaring private interests. As of the beginning of January until the end of December 2018, 113 employees and 5 managing employees (CEO and his deputies) taking part in purchases had to declare their private interests. Private interest declaration is recommended for 85 positions which included more than 900 employees of the Company in 2018.

Enforcing the provisions of the Law on the Protection of Objects of Importance to Ensuring National Security, the specialists of the Company verify and inform the Coordination commission for the Protection of Objects of Importance to Ensuring National Security regarding the planned transactions and essential changes in transactions about their compliance with the interests of national security in accordance with the approved process of the Company.

150 employees of LG Group of companies (In Vilnius, Kaunas, Klaipėda and Radviliškis) participated in trainings for prevention of corruption organised together with Lithuania branch of Transparency International and Special Investigation Service.

DATA PROTECTION

Provisions of the EU General Data Protection Regulation are already in the process of implementation in the Company. The following planned legal, technical and organisational measures were implemented in 2018:

- Preparation of records of data processing activities of AB Lietuvos Geležinkeliai, where more than 20 purposes for personal data processing were identified;
- Revision and adaptation of current and preparation of 20 new internal legal acts of the Company, which are related to the field of personal data protection;
- Analysis of 12 requests to implement the rights of data subjects but none was accepted;
- Registration of 3 breaches of personal data protection in the Company but State Data Protection Inspectorate was not informed about these breaches because of their minor nature and low risk;
- Identification of data processors and co-controllers with contracts for typical data processing and data transmission;
- Organisation and provision of general data protection training by a lawyer from law firm (approximately 200 employees of the Company participated);
- Continuous organisation and provision of specialised data protection trainings given by data protection expert of the Company (approximately 80 employees of the Company participated).

ENVIRONMENTAL PROTECTION

One of the core objectives of the Group is efficient use of energy and natural resources and implementation of environmental protection requirements. 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 organises in a centralised manner the management of hazardous and non-hazardous waste, maintenance of waste water treatment plants and waste water 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 organises the management of taxed packaging waste.

In 2018, 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. In 2018, 6 incidents occurred during freight transportation using railways, no damage to environment was detected. Furthermore, state regulatory institutions checked 8 objects of the Company, where in one of them determined an infringement of waste storage requirements.

To reduce the Company's negative effect on the climate's change and greenhouse gas emissions, 100% of electricity energy for traction rolling stock was used from renewable energy sources.

Laboratory monitoring was applied on 51 combustion plants polluting air, emissions were not exceeded.

In 2018, maintenance work for waste water treatment plants, technical maintenance work and monitoring of pollution of discharged waste water were carried out in 28 household waste water and 72 surface (production) waste water treatment plants. During laboratory monitoring in 2018, the allowed concentrations of pollutants were exceeded 5 times. Measures to prevent the pollution were taken immediately (additional works in waste water treatment plants and area treatment works were performed).

To evaluate safety and quality of LG watering place and condition of water supply installations and to ensure the implementation of requirements set out by the legal acts of the Republic of Lithuania in accordance with the determined supervision plans agreed upon with State Food and Veterinary Service, the quality of water obtained from LG objects is under constant surveillance. The surveillance was performed in the watering places of railway stations of Vilnius, Kena, Naujoji Vilnia, Mockava and Children Camp of Ignalina in 2018. Microbial, toxic, indicative and other pollution rates were screened in these watering places.

Monitoring of groundwater was performed in 11 objects of LG in accordance with groundwater monitoring programmes prepared and agreed upon with Lithuanian Geological Survey under the Ministry of Environment and Environmental Protection Agency.

More than 800 tons of waste of wooden sleepers were disposed of to waste managers during 2018. In Radviliškis fuel base, 31 tons of inappropriate for further use waste oils were recycled.

COLLABORATION WITH EDUCATIONAL INSTITUTIONS

Lietuvos Geležinkeliai actively collaborates with educational institutions of Lithuania. Collaboration agreements with Vilnius Gediminas Technical University, Kaunas University of Technology and Vilnius College of Technology and Design were renewed in 2018.

Representatives of the Company participated in the major events of Career Days all around Lithuania. In collaboration with the educational institutions, study programmes were updated, their content was revised. Students were provided with topics for final degree projects, the Company participated in the events of educational institutions, spoke about activities of railways.

LG Group of companies presented an ambitious programme for talent development and will begin its implementation with the three educational institutions. The plans to commence the complex programme for talent development were reaffirmed by signing a collaboration agreement with Vilnius Gediminas Technical University. Letters of intent were also signed with Vilnius College of Technology and Design and Vilnius Vocational School of Railway and Business Services.

The Company had 134 interns.

EDUCATION

The companies Group of Lietuvos Geležinkeliai, building a stable and motivated team, moved one more step forward: paid apprenticeship project Augantys Lyderiai started in November 2018. The intention of this project is to show future professionals that they can work, make a living and realise themselves in Lithuania, too.

The long-term strategy of the Group until 2030 has one of the targets – to organise the best team. Therefore, third- and fourth-year bachelor and master students from Lithuania and abroad are invited to take part in the project. Even 8 fields to try oneself are offered for apprentices in Lietuvos Geležinkeliai: law, human resources, finance, communication, marketing, strategy and development, IT, transport technology and engineering.

OPENNESS TO THE SOCIETY

Lietuvos Geležinkeliai gave a special gift to Lithuania for the 100th anniversary of the Re-Establishment of the State of Lithuania – the National Hymn was tolled by trains for the first time in history. The leader of unique train orchestra was famous conductor Donatas Katkus, and the artists – the drivers of Lietuvos Geležinkeliai who turned powerful locomotives into musical instruments. The video received more than one million views in various social networks.

Lietuvos Geležinkeliai brought thousands of participants to the Centenary Song Celebration. Train schedules were adjusted, and new trips were added for the participants of this significant celebration, longer train sets were running.

Lietuvos Geležinkeliai opened the doors of various objects to the needs of society and culture. During the commemoration of the Mourning and Hope Day, interdisciplinary project about love stories of soviet-time exiles “Atminties Uždanga” by the artist Monika Žaltauskaitė-Grašienė was presented in Kaunas railway station. In September in Lentvaris locomotive depot and in Railway station, exposition “Depas/Depot” took place, where 6 artists presented installations created or adapted specifically to this event.

In December, event “Festive Station” organised with Vilnius City Municipality took place in the area of Vilnius railway station. During the event, various concerts of music artists from Lithuania and abroad were held in the area of the station. Also, there were culture events, festive fair, guests could have a snack in various little restaurants.

Vilnius railway station had a free Christmas train for children during Christmas time. During the trip by this train from Vilnius railway station to the airport and back, children got reflectors of Lietuvos Geležinkeliai and chatted with the Santa Claus in the railway station. Free Christmas post was available in twelve railway stations across Lithuania – visitors of each of those stations could send holiday greetings to their friends or families, and Lietuvos Geležinkeliai took care of free-of-charge delivery of these letters across the country.

INNOVATIONS

Freight transportation directorate of the Company installed video surveillance equipment in shunters in 2018. It consists the surveillance cameras of front road view, a surveillance camera of locomotive crossing platforms view, a camcorder of locomotive control cab, a data registration device and a tablet. LRS recorded information helps preventing cases of doubtful train halting, is useful to collect material about traffic accidents, incidents etc. The recorded video may be given to controlling authorities and special agencies as display material about committed criminal offences, accidents in crossings, suicide cases.

The Company installed important innovations in the field of communication with staff. Internal communication tool Mano Litrail was upgraded fundamentally. The portal provides employees with relevant information, and external communications of the Company are displayed here, too. Extra benefits allow to concentrate all tools necessary for work in one place: from external e-mail access to document management system.

However, the greatest benefit for employees is a new Employee self-service site where all information related to the employee’ position is provided: information on employment relationship and specific requirements, notes. Employees can change their personal information, introduce themselves with payrolls, receive necessary notes related to employment relationship.

Risks And Their Management

RISK MANAGEMENT POLICY

In 2018, the Company drew-up and approved the Risk Management Policy of AB Lietuvos Geležinkeliai which defines the general principles and objectives for the risk management group wide. The main goal of risk management is to develop an efficient and transparent risk management system covering and tailoring the best risk management practices (ISO 31000, COSO ERM, etc.) and meeting the requirements of the EU legal framework to the extent of the railway traffic safety and risk management. Risk management ensures that the operating risks are identified, assessed, managed and minimised, enabling the goals set in the LG Group strategy and activity plans to be met.

Each of the risks arising from the activities of the LG Group is assessed by determining its probability and impact (in terms of financial, legal and reputational impact) and assigned to the appropriate risk category.

Strategic risks are risks related to substantial changes in business environment and the ability of the Group to take advantage of these changes or plan ahead in order to achieve the strategic goals.

Financial risks are the risks associated with changes in credit, liquidity, exchange rates, interest rates and capital. For more information see Separate and Consolidated Financial Statements.

Operating risks are potential events or circumstances that may have an adverse effect on the achievement of goals, may harm people, assets, business continuity or business environment.

Compliance risks are understood as potential events or circumstances that could result in the Group's failing to comply with the legal requirements or best practices that could lead to the dam ges suffered by the Group.

MAJOR RISKS IDENTIFIED IN 2018 AND THEIR MANAGEMENT

Risk of market reduction.

The Company faces the risk of possible loss of freight orders due to decisions of the customers to shift to other carriers, i.e. start using road transport or services of other railway operators. Freight transportation has always been the largest revenue source for LG. In terms of freight volumes, the Company competes with Lithuanian and foreign carriers, cargo terminals/ports.

In order to mitigate the risk, the Company aims to ensure long-term cooperation with the most important and largest Lithuanian and foreign partners, and search for new clients.

Risk of geopolitical changes.

Business activities of the Company are directly determined by the political decisions in the neighbour states: Russia and EU. Geopolitical factors result in unpredictable fluctuations of freight flows. Imports, exports and transit account for the majority of transported freight and consequently they generate the largest revenues. In order to mitigate the emerging risks, the Company constantly searches for new markets.

Risk of project funding.

The risk exists in respect of external underinvestment for the construction of new railway infrastructure. For the purposes of ensuring adequate project funding, the Company categorises the future projects by priorities and carries out monitoring of on-going projects. The Company continuously communicates with the Ministry of Transport and Communications of the Republic of Lithuania and other competent authorities to ensure funding of top-priority and critical projects, including the Rail Baltica project. In July, the European Union allocated EUR 110.5 million contribution from the budget of the Connecting Europe Facility (CEF) for the implementation of the Rail Baltica project in all three Baltic countries. EUR 95 million will be used to finance Lithuanian national activities.

Risk of violations of the competition law.

Violations of the competition law are likely to result in negative financial effects, that is precisely why the Company cooperates with the European Commission on the issues of the competition law, regularly represents the Companys interests in legal proceedings. Taking into account the EU regulatory framework within the scope of the 4th railway package, in 2018, the Company continued the strategic reform of its business activities. In 2019, following the amendments to the Railway Transport Code of the Republic of Lithuania adopted by the Seimas and in line with the best international practices, the activities of the Directorates of the Company will be concentrated in separate companies.

Risk of procurement regulation.

Due to public procurement regulations and unpredictable external factors, such as received claims, the Company faces the risk of prolonged procurement and delays in the implementation of projects. In order to manage this risk, the Company aims to ensure pro- active procurement planning, efficient and transparent procurement processes by implementing measures such as mandatory risk and procurement controls, market consultation, private interest declarations and other measures.

Work and traffic safety risks.

There is a possible risk that business activities or inadequate work safety may cause a railway traffic accident (catastrophe) resulting in injury or death of employees, passengers. In order to manage these risks, LG Group is implementing long-term traffic safety and safety at work measures. For more information see the Social Responsibility Report.

Information On Compliance With The Transparency Guidelines

In its operations, the Group follows the requirements of the Guidelines for Ensuring Transparency of State-Owned Enterprises approved under GOV Resolution No. 1052 of 14 July 2010:

- the Group and Company, within the time frames established in the Resolution, prepare annual and interim 6-month reports as well as the Company's and the Group's financial statements including the findings of independent auditors are publicly announced on the website at the address http://www.litrail.lt;
- the content of the annual and interim report of the Group and the Company complies with the requirements of the Resolution, i.e. disclosure of the Company's goals, financial and other performance results, number of employees, annual salary fund, monthly remuneration of the executives, investments, other information as required under Chapter V of the Resolution;
- financial statements of the Group and the Company for 2018 are prepared in accordance with the International Accounting Standards;
- the Group's and the Company's annual financial statements are audited in accordance with the International Auditing Standards. UAB KPMG Baltics won the public procurement competition to audit the consolidated statements, the separate statements of the Company and individual subsidiaries prepared in accordance with International Financial Reporting Standards in the period of 2016-2019;
- the Group and the Company also provide information on the specific commitments that they are undertaking to perform in order to ensure the implementation of specific social, strategic and political goals of the State. In case of the Group, it has to execute a specific commitment of passenger transportation via domestic routes. It is a loss-making business and, therefore, it is covered by the Budget funds. Information on the performance of business segments (freight transportation, passenger transportation, public railway infrastructure management, etc.) is provided in the Report of the Railway Transport Activities which is publicly available at http://www.litrail.lt.

DEFINITIONS

Revenue	Revenue + Income from other activities after assessment of grants intended for compensation of losses due to passenger transportation activities
Financial debt	Financial debt with interest including financial lease
Net debt	Financial debt with interest including financial lease, less net cash and cash equivalent investments
Part of financial debt of subsidiaries	Financial debt of subsidiaries / Financial loan of the Group
Debt	Financial debt with interest including financial lease, plus provisions for pensions and similar liabilities
Return on equity (ROE)	Net profit (loss) / Equity at the end of period
Return on assets (ROA)	Net profit (loss) / All assets at the end of period
Return on investment (ROI)	Net profit (loss) / All assets at the end of period - Current liabilities at the end of period
EBIT	Profit (loss) before taxation + Interest expenses - Interest income
EBITDA	Profit (loss) before taxation + Interest expenses - Interest income + Depreciation and amortisation
Adjusted EBITDA	Profit (loss) before taxation + Interest expenses - Interest income + Depreciation and amortisation + Increase (decrease) in the value of non-current assets, inventories and investments + Increase (decrease) in the value of amounts receivable and contract assets + Expenses of provisions not related to typical activities
EBIT margin	EBIT / Revenue
EBITDA margin	EBITDA / Revenue
Adjusted EBITDA margin	Adjusted EBITDA / Revenue
Net profit (loss) margin	Net profit/(loss) / Revenue
Equity ratio	Equity at the end of period / All assets at the end of period
Debt servicing ratio	Net profit (loss) + Depreciation, amortisation and grants expenses + Interest of 12 months of previous period (adjusted for non-monetary balance sheet articles) / Amortisation of debt for interest and interest payable for past 12 months
Asset turnover ratio	Revenue of the past 12 months / All assets at the end of period
Total liquidity rate	Current assets at the end of period / Current liabilities at the end of period
Average number of employees	It is a sum of number of employees working full-time and part-time (recalculated into working full-time) per complete month
Average salary	Calculated salary to one employee before tax payable by employee

Basic informations about the Group and the Company

Name	AB Lietuvos Geležinkeliai
Legal form	Public limited liability company
Date of registration	24 12 1991
Company code	110053842
Address	Mindaugo g. 12, LT-03603 Vilnius
Phone No	(+370 5) 269 2038
E-mail	info@litrail.lt
Website	http://www.litrail.lt; http://www.traukiniobilietas.lt
Core business	Transportation of freight and passengers by rail, railway network administration, management, maintenance and development of public railway infrastructure
CEO	Mantas Bartuška
Shareholders	100% held by the State

SUBSIDIARIES AND ASSOCIATED COMPANIES WITHIN THE GROUP

AB LG CARGO	Operation and maintenance of rolling stock used in freight transportation Mindaugo g. 12, LT-03603 Vilnius (registered in the Register of Legal Entities RoL on 28 12 2018)
UAB Vilniaus Lokomotyvų Remonto Depas	Repair and manufacture of railway rolling stock Švitrigailos g. 39/16, LT-03209 Vilnius, http://vlrd.lt
UAB Geležinkelio Tiesimo Centras	Repair and construction of railway infrastructure tracks Trikampio g. 10, LT-25112 Lentvaris, Trakai region, http://www.gtc.lt
UAB Gelsauga	Security Services Prūsų g. 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 Mindaugo g. 12, LT-03603 Vilnius, http://rbs1435.lt
RB Rail AS	Implementation of the Rail Baltica project and performing central project coordination K. Valdemara g. 8, LV-1010 Riga, Latvia, www.railbaltica.org
UAB voestalpine VAE Legetecha	Manufacture of railway switches Draugystės g. 8, LT-13220 Valčiūnai, Vilnius district, http://www.voestalpine.com/vae
UAB Lokomotyvai ir Transporto Komponentai	No activity Švitrigailos g. 39, LT-03209 Vilnius
VšĮ Geležinkelių Logistikos Parkas	An enterprise owned by Vilnius City Municipality and AB Lietuvos Geležinkeliai responsible for the development and management of Vilnius Public Logistic Hub Švitrigailos g. 39, LT-03209 Vilnius, http://www.logisticspark.lt
VšĮ Transporto Inovacijų Centras	Drafting and presenting new technology oriented investment project to the stakeholders Mindaugo g. 12, LT-03603 Vilnius (registered in the Register of Legal Entities RoL on 08 02 2019)
Association of Lithuanian Railway Undertakings	Representing the rights and interests of the Association members-employers in the context of social partnership Mindaugo g. 12, LT-03603 Vilnius (registered in the Register of Legal Entities RoL on 13 11 2018)
BAB Lietuvos Jūrų Laivininkystė	Bankrupt Malūnininkų g. 3, LT-92264 Klaipėda
LUAB Geležinkelių Apsaugos Centras	Liquidated (removed from the Register of Legal Entities RoL on 10 01 2019) Konstitucijos pr. 8A, LT-09308 Vilnius

REPRESENTATIVE OFFICES

Representative office in the Russian Federation	Novo-Ryazanskaya Str. 12, office No. 414, 107228, Moscow
Representative office in the Republic of Belarus	Internatsionalnaya Str. 36-1, office No. 423, 220030 Minsk
Representative office in the People's Republic of China	XiaGuangLi 15, XiaoYun Centre B, office No. 2307, Chaoyang district, Beijing, 100125
Representative office in the Republic of Kazakhstan	Kunaev Str. 6, office No 310/10,10, Astana
Representative office in Poland	al. Jerozolimskie 65/79, 00-687, Warsaw

MEMBERSHIP IN INTERNATIONAL ORGANISATIONS

Community of European Railway and Infrastructure Companies (CER), Platform of Rail Infrastructure Managers in Europe (PRIME), International Union of Railways (UIC), International Rail Transport Committee (CIT), European Union Agency for Railways (ERA), Organisation for Co-operation of Railways (OSJD), Railway Transport Council of CIS and Baltic State (GTT), Association of the European Rail Infrastructure Managers RailNetEurope (RNE), Intergovernmental Organisation for International Carriage by Rail (OTIF), Coordinating Council on Trans-Siberian Transportation (CCTT), Association of Railway Security Managers and Railway/Transport Police Forces (COLPOFER), European Intermodal Association (EIA), Union of European Railway Engineering Associations (UEEIV), International Settlement Centre (BCC), North Sea - Baltic Rail Freight Corridors No.8 (RFC8), Strategic Partnership 1520.

Financial Statements prepared in accordance with
International Financial Reporting Standards,
as adopted by the European Union,
and Independent Auditor's Report

For the financial year ended 31 December 2018

2018

AB LIETUVOS GELEŽINKELIAI ANNUAL REPORT
PART II

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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 statements of financial position as at 31 December 2018,
- the separate and the consolidated statements of profit or loss and other comprehensive income for the year then ended,
- the separate and the consolidated statements of changes in equity for the year then ended,
- the separate and the consolidated statements 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 2018, 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. We were unable to satisfy ourselves by alternative means concerning inventory quantities held as at that date. Since opening inventories affect 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 prior year reported in the separate and consolidated statements of profit or loss and other comprehensive income, and the unconsolidated and consolidated net cash flows from operating activities for the prior year reported in the separate and consolidated statements of cash flows. Additionally, we were unable to determine whether adjustments might have been necessary in respect of opening retained earnings of the Company and the Group as at 1 January 2017. Our audit opinion on the separate and consolidated financial statements for the year ended 31 December 2017 dated 30 June 2018 was modified accordingly. Our opinion on the current year's separate and consolidated financial statements is also modified because of the possible effect of this matter on the figures presented in the statements of profit or loss and other comprehensive income and cash flows for the year ended 31 December 2017 and on the comparability of these figures to the current year's corresponding figures.

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 8, Note 5 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 2018 amounts to EUR 1 819 510 thousand. The carrying amount of property, plant and equipment in the separate financial statements as at 31 December 2018 amounts to EUR 1 776 175 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;

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.	○ 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 and by reference to the relevant accounting standard; • assessing the 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 5.

Uncertainty related to claims from Latvijas Dzelzcels and LDZ Cargo	
Refer to: Contingent assets and liabilities. Potential disputes. Note 33 to the consolidated and separate financial statements	
The key audit matter	**How the matter was addressed in our audit**
As disclosed in Note 33 to the consolidated and separate financial statements, on 30 August 2018 the Company received claims from Latvijas Dzelzcels and LDZ Cargo for compensation of damages related to the removal of rail track between Mažeikiai in Lithuania and the Latvian Border. The claims amount to EUR 82 340 thousand increased by the annual interest of 6% from the time when harm occurred until the time when compensation is paid. The Company disagrees with these claims and considers them unjustified. Furthermore, based on the claims submitted by Latvijas Dzelzcels and LDZ CARGO, it is impossible neither to reliably determine whether these companies have actually incurred any damages, nor measure the size of the alleged damage. As a result, no provisions related to these claims have been recognised in the financial statements as at 31 December 2018. This matter required significant judgement from management to assess the possible outcome of this case and therefore we considered this to be our key audit matter.	Our audit procedures performed included, among others: • inquiring the management about the facts and circumstances concerning the claims from Latvijas Dzelzcels and LDZ Cargo; • reading the correspondence related to the claims between the Company and Latvijas Dzelzcels and LDZ Cargo; • evaluating the competence and experience of external lawyers and inspecting their engagement letters in order to understand whether the terms of their engagement might have affected their objectivity or limited their scope of work; • discussing with external lawyers their assessment of the possibilities and probabilities of the expected outcome of the dispute; • with the support of our own legal specialist evaluating independently the management's assessment of the expected outcome of the dispute; • evaluating the appropriateness of the accounting for the claims as at 31 December 2018 by reference to the relevant accounting standard. Furthermore, we have considered the adequacy of the related disclosures in the consolidated and separate financial statements with respect to this matter.

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.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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 3 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

Vilmantas Karalius
Certified Auditor

Vilnius, the Republic of Lithuania
22 March 2019

(all amounts are in EUR thousand unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Group		Company	
		2018	2017	2018	2017
Non-current assets					
Intangible assets	**7**	**21,025**	**24,445**	**20,989**	**24,239**
Software		20,134	22,932	20,186	22,953
Licences and similar rights		586	972	586	972
Other intangible assets		305	541	217	314
Property, plant and equipment	**8**	**1,819,510**	**1,878,028**	**1,776,175**	**1,831,479**
Land		146,792	146,604	146,786	146,598
Buildings and constructions		900,796	949,811	882,770	931,377
Machinery and plant		171,294	180,532	152,758	163,972
Vehicles		360,030	384,272	353,609	378,913
Other equipment, fittings and tools		88,939	75,497	88,466	74,176
Construction in progress and prepayments		151,659	141,312	151,786	136,443
Investment property	**9**	**626**	**1,464**	**7,590**	**8,177**
Financial assets		**4,326**	**4,260**	**76,442**	**40,161**
Investments	10	4,223	4,194	76,338	40,161
Trade and other receivables		103	66	104	-
Deferred income tax asset	**30**	**1,383**	**1,628**	**-**	**-**
Total non-current assets		**1,846,870**	**1,909,825**	**1,881,196**	**1,904,056**
Current assets					
Inventories	11	44,090	35,736	33,439	25,679
Non-current assets held-for-sale	12	598	755	598	755
Contract assets	13	464	433	451	433
Prepayments	14	2,339	1,816	1,252	1,383
Trade and other receivables	15	38,464	35,471	45,843	35,108
Cash and cash equivalents	16	92,832	83,536	54,774	77,253
Total current assets		**178,787**	**157,747**	**136,357**	**140,611**
Total assets		**2,025,657**	**2,067,572**	**2,017,553**	**2,044,667**

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

(all amounts are in EUR thousand unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Group		Company	
		2018	2017	2018	2017
Equity					
Authorised share capital	17	1,058,632	1,057,982	1,058,632	1,057,982
Legal reserve	19	28,344	27,066	28,344	27,066
Other reserves	19	6,784	13,307	6,784	13,307
Retained earnings		57,626	40,339	44,755	28,755
Total equity		**1,151,386**	**1,138,694**	**1,138,515**	**1,127,110**
Non-current liabilities					
Grants	20	538,882	520,962	538,815	520,868
Loans and borrowings	21	181,220	236,128	181,106	223,400
Provisions	23	15,900	14,400	15,900	14,400
Employee benefits	22	9,728	11,725	8,517	10,174
Trade and other payables	25	1,880	3,937	1,880	3,935
Contract liabilities	26	541	422	541	422
Deferred income tax liability	30	5,351	2,605	5,347	2,595
Total non-current liabilities		**753,502**	**790,179**	**752,106**	**775,794**
Current liabilities					
Loans and borrowings	21	29,706	32,405	29,664	32,405
Provisions	23	1,138	214	567	-
Contract liabilities	26	4,514	5,341	4,751	5,169
Prepayments received	24	11,741	-	11,741	-
Trade and other payables	25	29,929	61,012	43,685	70,423
Employee benefits	22	26,868	33,329	20,864	27,612
Corporate income tax liabilities		16,873	6,398	15,660	6,154
Total current liabilities		**120,769**	**138,699**	**126,932**	**141,763**
Total liabilities		**874,271**	**928,878**	**879,038**	**917,557**
Total equity and liabilities		**2,025,657**	**2,067,572**	**2,017,553**	**2,044,667**

The accompanying explanatory notes are an integral part of these financial statements.
Financial statements and explanatory notes on pages 56 to 117 were approved and signed on 22 March 2019:

Chief Executive Officer	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 2018

	Notes	Group		Company	
		2018	2017*	2018	2017*
Revenue	27	467,952	448,100	462,487	445,252
Other income	28	27,896	1,115	30,484	910
Total income		**495,848**	**449,215**	**492,971**	**446,162**
Salaries and social security		(171,433)	(180,312)	(145,276)	(163,934)
Depreciation and amortisation		(121,908)	(122,027)	(119,316)	(119 ,427)
Fuel		(56,971)	(48,682)	(55,985)	(48,102)
Materials		(19,860)	(28,518)	(7,840)	(19,950)
Services rendered by other foreign railway companies		(16,469)	(18,400)	(16,469)	(18,400)
Electricity		(6,400)	(5,845)	(6,629)	(5,847)
Repairs and maintenance		(3,394)	(1,851)	(36,900)	(13,499)
Impairment (increase) of non-current assets, inventories and investments		(5,427)	(679)	(5,908)	(1,085)
Allowance (increase) decrease for amounts receivable and contract assets		(333)	12,166	(39)	12,169
Change in provisions and accruals		(1,465)	316	240	2,949
Other expenses		(18,085)	(18,093)	(27,556)	(36,117)
Profit (loss) from operations		**74,103**	**37,290**	**71,293**	**34,919**
Finance income	29	165	45	348	725
Finance expenses	29	(3,883)	(5,986)	(3,847)	(5,858)
Share of profit of equity accounted investees		197	(35)	-	-
Profit (loss) before taxation		**70,582**	**31,314**	**67,794**	**29,786**
Income tax	30	(15,776)	(4,327)	(14,275)	(4,232)
Net profit (loss)		**54,806**	**26,987**	**53,519**	**25,554**
Other comprehensive income (expenses)		-	-	-	-
Total comprehensive income (expenses)		**54,806**	**26,987**	**53,519**	**25,554**

*Adjusted, disclosure in Note 32.
The accompanying explanatory notes are 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 2018

Group	Notes	Authorised share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as at 31 December 2016		**1,057,958**	**-**	**27,066**	**13,307**	**13,352**	**1,111,683**
Impact of initial application of IFRS 9		-	-	-	-	-	-
Net profit (loss)		-	-	-	-	26,987	26,987
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		**-**	**-**	**-**	**-**	**26,987**	**26,987**
Increase in share capital	17	650	-	-	-	-	650
Reduction of share capital	17	(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**
Impact of initial application of IFRS 9		-	-	-	-	(50)	(50)
Impact of initial application of IFRS 15		-	-	-	-	-	-
Net profit (loss)		-	-	-	-	54,856	54,856
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		**-**	**-**	**-**	**-**	**54,806**	**54,806**
Unrecognised profit (loss) for the reporting year	15	-	-	-	-	(8,764)	(8,764)
Increase in share capital	17	650	-	-	-	-	650
Transfers between reserves	19	-	-	1,278	(6,523)	5,245	-
Dividends paid	18	-	-	-	-	(34,000)	(34,000)
Total transactions with owners of the Company		**650**	**-**	**1,278**	**(6,523)**	**(37,519)**	**(42,114)**
Balance as at 31 December 2018		**1,058,632**	**-**	**28,344**	**6,784**	**57,626**	**1,151,386**

The accompanying explanatory notes are 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 2018

Company	Notes	Authorised share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as at 31 December 2016		**1,057,958**	**-**	**27,066**	**13,307**	**3,201**	**1,101,532**
Impact of initial application of IFRS 9		-	-	-	-	-	-
Net profit (loss)		-	-	-	-	25,554	25,554
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		**-**	**-**	**-**	**-**	**25,554**	**25,554**
Increase in share capital	17	650	-	-	-	-	650
Reduction of share capital	17	(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**
Impact of initial application of IFRS 9		-	-	-	-	-	-
Impact of initial application of IFRS 15		-	-	-	-	-	-
Net profit (loss)		-	-	-	-	53,519	53,519
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		**-**	**-**	**-**	**-**	**53,519**	**53,519**
Unrecognised profit (loss) for the reporting year	15	-	-	-	-	(8,764)	(8,764)
Increase in share capital	17	650	-	-	-	-	650
Transfers between reserves	19	-	-	1,278	(6,523)	5,245	-
Dividends paid	18	-	-	-	-	(34,000)	(34,000)
Total transactions with owners of the Company		**650**	**-**	**1,278**	**(6,523)**	**(37,519)**	**(42,114)**
Balance as at 31 December 2018		**1,058,632**	**-**	**28,344**	**6,784**	**44,755**	**1,138,515**

The accompanying explanatory notes are 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 2018

	Notes	Group		Company	
		2018	2017	2018	2017
Cash flows from operating activities					
Net profit (loss)		**54,806**	**26,987**	**53,519**	**25,554**
Adjustment to non-cash items					
Depreciation and amortisation expenses	7,8,9	138,646	140,484	134,683	135,448
(Depreciation) of grants	20	(15,327)	(15,244)	(15,301)	(15,214)
(Gain) loss from disposal/write-off of non-current assets		83	179	(1,899)	170
Impairment (reversal)		5,760	(11,281)	5,947	(10,851)
Change in accrued income/expenses		(252)	752	(1,524)	899
Interest (income) expenses		4,053	5,156	4,011	5,109
Increase (decrease) in provisions		844	(5,004)	410	(5,558)
Effect of currency exchange fluctuations		90	(240)	91	(242)
Corporate income tax expenses (income)	30	15,776	4,327	14,275	4,232
(Profit) loss of an associated company		(197)	35	-	-
Cash flows from/(used in) operating activities after adjustment to non-cash items		**204,282**	**146,151**	**194,212**	**139,547**
Changes in working capital					
Decrease (increase) in inventories		(9,728)	10,862	(10,767)	13,245
Decrease (increase) in trade and other receivables and prepayments		(23,952)	30,875	(29,707)	22,595
Increase (decrease) in current and non-current trade payables and received prepayments		5,324	(15,451)	10,829	(5,012)
Increase (decrease) in employment related liabilities		(6,461)	4,997	(6,748)	2,650
Increase (decrease) in other non-current and current payables		(15,544)	3,604	(14,688)	2,023
(Paid) income tax		(1,872)	(718)	(1,472)	(486)
Net cash from operating activities		**152,048**	**180,320**	**141,659**	**174,562**
Cash flows from/(used in) investing activities					
(Acquisition) disposal of non-current assets		(80,661)	(100,362)	(85,527)	(95,243)
(Acquisition) disposal of investments		-	-	(29,135)	3,331
Dividends received		149	680	149	680
Interest received		9	29	5	-
Loans granted		(100)	-	(100)	-
Recovery of loans		97	-	97	-
Net cash (used in) investing activities		**(80,506)**	**(99,653)**	**(114,511)**	**(91,232)**

(all amounts are in EUR thousand unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Group		Company	
		2018	2017	2018	2017
Cash flows from/(used in) financing activities					
Loans received		175	12,728	-	-
Loans (repaid)		(57,782)	(45,665)	(45,035)	(33,229)
Grants received (repaid, used)		34,106	20,655	34,106	20,655
Interest (paid)		(4,745)	(5,515)	(4,698)	(5,439)
Dividends (paid)	18	(34,000)	-	(34,000)	-
Net cash (used in) financing activities		**(62,246)**	**(17,797)**	**(49,627)**	**(18,013)**
Increase (decrease) in net cash flows		**9,296**	**62,870**	**(22,479)**	**65,317**
Cash and cash equivalents at the beginning of the period	**16**	**83,536**	**20,666**	**77,253**	**11,936**
Cash and cash equivalents at the end of the period	**16**	**92,832**	**83,536**	**54,774**	**77,253**

The accompanying explanatory notes are an integral part of these financial statements

(all amounts are in EUR thousand unless otherwise stated)

EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2018

1. General information

AB Lietuvos Geležinkeliai (hereinafter - 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, administration of railway network, management, supervision and development of public railway infrastructure.

Based on the amendments to Railway Transport Code adopted by the Parliament of the Republic of Lithuania, which are described in Note 5, the Company starts a new restructuring programme, which will include purification of main activities. Newly established Group entities will continue the activities of three directorates: Freight, Passenger and Railway Infrastructure. In stage 1, transfer of freight transportation activities into a joint-stock company LG CARGO registered with the Register of Legal Entities on 28 December 2018 will be implemented. Next year, new companies will be established which will take over the activities of the Freight Transportation and Railway Infrastructure Directorates. These changes in the Group are expected to last until the end of 2019.

As at 31 December 2018 and 2017, the Republic of Lithuania represented by the Ministry of Transport and Communications was the sole shareholder of the Company.

As at 31 December 2018, the Group comprised the Company and its subsidiaries, as presented below:

Company name	Company's address	Owned share, %		Main activities
		2018	2017	
UAB Geležinkelio tiesimo centras	Trikampio St. 10, Lentvaris	100	100	Railway infrastructure road repairs and construction
UAB Vilniaus lokomotyvų remonto depas	Švitrigailos St. 39/16, Vilnius	100	100	Repairs and manufacturing of railway rolling stock
UAB Gelsauga	Prūsų St. 1, Vilnius	100	100	Security services
LUAB Geležinkelių aplinkosaugos centras	Konstitucijos Ave. 8 A, Vilnius	100	100	Under liquidation
UAB Rail Baltica statyba	Mindaugo St. 12, Vilnius	100	100	Implementation of shareholder's functions of the joint Baltic States company RB Rail AS, which monitors implementation of the Rail Baltica 2 project
AB LG CARGO	Mindaugo St. 12, Vilnius	100	-	Exploitation and maintenance of rolling stock used in freight transportation
BAB Lietuvos jūrų laivininkystė	Malūnininkų St. 3, Klaipėda	56.66	56.66	Bankrupt, in liquidation
VšĮ Geležinkelių logistikos parkas	Konstitucijos Ave. 3, Vilnius	79.61	79.61	Responsible for the development and management of Vilnius Public Logistics Centre Fleet. The Company is not significant thus not material for consolidation

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

(all amounts are in EUR thousand unless otherwise stated)

1. General information (continued)

Investments into associated companies are specified below:

Company name	Company's address	Owned share, %		Main activities
		2018	2017	
UAB voestalpine VAE Legetecha	Draugystės St. 8, Vilniaus rajonas, Valčiūnai	34	34	Manufacture of railway switches
RB Rail AS	Gogolio St. 3, Ryga	33.33	33.33	Implementation of Rail Baltica project and of functions of central project coordinator. Controlled through UAB Rail Baltica Statyba
UAB Lokomotyvai ir transporto komponentai	Švitrigailos St. 39, Vilnius	25	25	No activities. Controlled through UAB Vilniaus Lokomotyvų Remonto Depas

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

As at 31 December 2018, the average number of the Group's and the Company's employees was 9,837 and 7,278 respectively (at 31 December 2017: 10,787 and 8,804 respectively).

The Company's management authorised these financial statements on 22 March 2019. 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 2018

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 (IFRS). 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 2018.

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 reflect acquisitions of property, plant and equipment in the statement of cash flows by adjusting them with liabilities for property, plant and equipment at the beginning and the end of the period.

Changes in accounting policies. The Group and the Company have consistently applied the accounting policies set out in Note 2 to all periods presented in these consolidated and separate financial statements.

While preparing the financial statements, the Group and the Company for the first time have applied the requirements of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, including amendments to other Standards. The impact of transition to the above-mentioned IFRS on the Group's and the Company's financial position, financial results and cash flows is explained in Note 3.

The principal 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. 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 Note 5 Significant accounting estimates and judgements.

Going concern. These financial statements for the year ended 31 December 2018 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 statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by 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 per cent of the voting rights a significant influence can be made. Investment in associates is accounted for using equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence ceases. Dividends received from associates reduce the carrying amount of the investments in associates.

Functional and presentation currency. The amounts presented in these financial statements are presented in euro, unless otherwise stated. The functional currency of the Company and its subsidiaries is euro. In these financial statements, all amounts are expressed in euros and rounded down to the nearest thousand (EUR '000). Because of rounding, figures between tables may not coincide. Such inconsistencies are considered insignificant in the financial statements.

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 non-current 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.

2. Significant accounting policies (continued)

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.

Groups of property, plant and equipment	Useful life
Buildings and constructions	8–140
Machinery and plant	5–40
Road transport	4–10
Rolling stock (including wagons)	8–35
Computers and hardware	4–15
Other equipment, fittings and tools	4–70

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. Construction in progress is stated at 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.

2. Significant accounting policies (continued)

Investments in subsidiaries. Investments in subsidiaries in the Company's separate financial statements are carried at acquisition cost, less impairment. Investments in subsidiaries in the Group's financial statements are carried using equity method. Under equity method, investment is recognised at acquisition cost initially. Subsequently, investments in subsidiaries are adjusted to reflect shareholder's share in net profit or loss.

Intangible assets. The Group's and the Company's intangible assets have fixed useful lives set. Intangible assets comprise capitalised software, patents, trademarks and licenses. 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.

Assets held-for-sale. The Group and the Company classify non-current assets as held-for-sale if their carrying amount will be recoverable from disposal rather than their continued utilisation. Such non-current assets 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 and income tax expenses.

Impairment of property, plant and equipment and intangible assets. At each statements of financial position date, the Group and the Company review the carrying amounts of their 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). When it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimate the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, the Group's and the Company'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. Impairment losses are immediately recognised in the statements of profit or loss and other comprehensive income.

Financial instruments (accounting policies effective until 1 January 2018)

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

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

During 2017, 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.

2. Significant accounting policies (continued)

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 rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and 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 financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss (hereinafter – 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.

Financial liabilities. The Group's and the Company's financial liabilities comprise loans and other borrowings, trade and other payables.

At the time of initial recognition, financial liabilities are recognised when Group and the Company become party to the contractual terms of the instrument.

Financial liabilities are divided into two groups according to their measurement:

a) financial liabilities which are measured at amortised cost in subsequent periods;

b) financial liabilities that are subsequently measured at fair value through profit or loss.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

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 receive cash flows from the asset have expired;
- 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) have transferred substantially all the risks and rewards of the asset, or

b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

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.

2. Significant accounting policies (continued)

Derecognition of financial liabilities. A financial liability is derecognised by the Group and the Company when the obligation under the liability is discharged, or cancelled or expires. The Group and the Company also cease recognition of a financial liability when its terms are changed and the cash flows of the amended liability are materially different. In this case, the new financial liability is recognised at fair value in accordance with the amended contractual terms.

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.

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.

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 and other comprehensive income 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.

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 taking measures for 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. The selected characteristics are material in assessing the expected cash flows from such asset groups. The mentioned characteristics show the ability of debtors to pay all amounts under contractual conditions.

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.

2. Significant accounting policies (continued)

The carrying amount of the financial asset is reduced by the impair ment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use

of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

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

Financial instruments (accounting policies effective as of 1 January 2018)

Financial assets. The financial assets of the Group and the Company include cash, trade and other receivables.

Trade receivables are recognised initially when they occur. At the time of initial recognition, all other financial assets are recognised when the Group and the Company become party to the contractual terms of the instrument. Financial assets (other than trade receivables without significant funding component), if not measured at fair value through profit or loss, are initially measured at fair value plus transaction costs directly attributable to acquisition or disposal. Trade receivables without significant funding component are initially recognised at transaction price.

Financial assets are divided into three groups according to their measurement:

a) financial assets that are measured at amortised cost in subsequent periods;

b) financial assets that are subsequently measured at fair value through other comprehensive income;

c) financial assets that are subsequently measured at fair value through profit or loss.

The classification of financial assets depends on the financial asset management business model (assessing how the entity manages the financial assets to generate cash flows) and the characteristics of the contractual cash flows of the financial asset (whether the contractual cash flows only include principal and interest payments).

The Group and the Company have no financial assets, which, in subsequent periods, are measured at fair value though other comprehensive income, and no financial assets which, in subsequent periods, are measured at fair value though profit or loss.

A financial asset is stated at amortised cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets measured at amortised cost in subsequent periods are measured using the effective interest rate method. Amortised cost is reduced due to impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised through profit or loss. Any gains or losses on derecognition are carried in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or 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.

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 receive cash flows from the asset have expired;
- 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) have transferred substantially all the risks and rewards of the asset, or

b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

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. The Group's and the Company's assets that take the form of a guarantee over the transferred asset are 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.

2. Significant accounting policies (continued)

The Group and the Company reduce the gross carrying amount of the financial asset if they cannot reasonably expect to recover all or part of the financial asset. Writing down is an event of derecognition.

Financial liabilities. The Group's and the Company's financial liabilities comprise loans and other borrowings, liabilities from contracts with customers, trade and other payables.

At the time of initial recognition, financial liabilities are recognised when Group and the Company become party to the contractual terms of the instrument.

Financial liabilities are divided into two groups according to their measurement:

a) financial liabilities which are measured at amortised cost in subsequent periods;

b) financial liabilities that are subsequently measured at fair value through profit or loss.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition of financial liabilities. A financial liability is derecognised by the Group and the Company when the obligation under the liability is discharged, or cancelled or expires. The Group and the Company also cease recognition of a financial liability when its terms are changed and the cash flows of the amended liability are materially different. In this case, the new financial liability is recognised at fair value in accordance with the amended contractual terms.

In the event of a derecognition of a financial liability, the difference between the carrying amount written off and the consideration paid (including any transferred non-cash assets or liabilities assumed) is recognised in profit or loss in the statement of profit or loss and other comprehensive income.

Offsetting of financial assets and liabilities. Financial assets and financial liabilities are offset when, and only when, the Group and the Company have a legally enforceable right to record the amounts and intend to make an offsetting, or dispose the asset to offset the liability.

Impairment of financial assets. Impairment losses on financial assets measured at amortised cost are measured based on the expected credit loss (ECL) model. Credit losses are measured as the present value of all cash losses (the difference between the cash flows that the Group and the Company hold under the contract and the cash flows the Group and the Company expect to receive). ECLs are discounted applying an effective interest rate.

At the end of each reporting period, the Group and the Company recalculate and record the provision for expected credit losses in accordance with past events, current market conditions and future prospects. The Group and the Company apply a simplified method to calculate the expected maturity credit losses over the period of validity and use a provisioning matrix for all trade and other receivables. For calculation of the expected credit losses using the provisioning matrix, trade and other receivables are categorised into separate groups according to credit risk characteristics. The amounts for each group are analysed by the number of days past due. At the end of each financial period, the Group and the Company assess whether there has been a material change in the credit risk of the financial instrument since initial recognition.

The Group and the Company assume that the major risk of default occurs when the outstanding amounts are delayed for more than 120 days of the due date of settlement.

At the end of each reporting period, the Group and the Company assess whether the value of financial assets carried at amortised cost is impaired. Financial assets are impaired when one or more events have occurred that have a negative impact on the expected future cash flows of the financial asset. 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;
- a breach of contract such as default or payment delay:
- the counterparty considers bankruptcy or taking measures for 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.

Losses on financial assets measured at amortised cost are deducted from the gross value of such assets.

The gross carrying amount of a financial asset is written down when the Group and the Company have no reasonable expectation of recovering all or part of the asset. 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.

EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (continued)

Derivative financial instruments. During 2018 and 2017, the Group and the Company had no derivative financial instruments.

Trade and other receivables. Trade and other receivables are initially recognised at transaction price, and subsequently at amortised cost.

Trade and other payables. At initial recognition, trade and other payables are recognised when the Group and the Company become a party to the contractual terms. Trade and other payables are initially measured at fair value plus directly related transaction costs.

Cash and cash equivalents. Cash comprise cash at bank accounts and on hand. Cash equivalents represent short-term highly liquid investments easily convertible to a known amount of cash. The term of such investments does not exceed three months and the risk of changes in value is insignificant.

Cash and cash equivalents reported in the cash flow statement comprise cash at bank and on hand, deposits with current accounts and other short-term highly liquid investments.

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.

Finance lease. Finance lease is a right to control the usage of certain determined assets over the useful life. Determined assets are physically separated assets which are directly or indirectly determined by a contract without significant rights to replace them. The right of replacement of determined assets is assessed based on facts and circumstances at the time of contract conclusion. The right to control the usage of assets over the useful life is a right to receive substantially all economic benefits from the use of assets and a right to decide on how to use the asset over its useful life. The lessee shall reassess the agreements only in the event of changes to contractual conditions and the change right is significant.

In 2018 and 2017, the Group and the Company recognised leases under the provisions of IAS 17, i.e. finance leases are recognised if substantially all the risks and rewards of ownership are transferred. Leases were recognised as operating leases if substantially all the risks and rewards of ownership of the asset were retained.

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

- the ownership right is transferred to the lessee by the end of lease term;
- the lessee has a right of choice to purchase assets at a price which is probably lower than the fair value of the asset when the right becomes valid, and at the commencement of the lease it is known that this opportunity will be used;
- the period of lease covers the larger part of the useful live of the asset, even if the ownership right is not transferred;
- 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 expenses incurred are accounted for respectively, applying the Group's and the Company's incremental borrowing rate.

Operating leases. Where the Group and the Company are lessees in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group and the Company, the total lease payments are charged to profit or loss in statements of profit or loss and other comprehensive income on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Leases embedded in other agreements are separated if:

a) Fulfilment of the arrangement is dependent on the use of a specific asset or assets;

b) The arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term. IFRIC 4 explicitly interprets the criteria based on which it is determined whether the contract is attributable to a lease contract.

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

2. Significant accounting policies (continued)

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or subs tantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred income 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 2018 and 2017 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 income tax assets and deferred tax liabilities may be offset separately at each company.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, 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 and the Company expect, at the end of the reporting period, to recover or settle the carrying amount of 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. When it is probable that a portion of deferred tax will not be utilised, this portion of deferred tax is not recognised in the financial statements.

Taxable losses can be carried forward for an unlimited time, except for the losses that have originated due to disposal of securities and (or) derivative financial instruments. Operating losses carry forward is disrupted if the Group and the Company change their activities that resulted in the losses, unless the Group and the Company change activities due to reasons beyond their control. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

From 2014 tax losses carried forward can cover no more than 70 percent of 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 realisable 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 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 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 includes:

- share capital - The share capital is equity paid in by shareholders and is stated at nominal value in accordance with the 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;

2. Significant accounting policies (continued)

- 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.

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 an interest.

Employee benefits. The Group and the Company do not have any adopted defined contribution and benefit plans and have 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. In addition, under the effective collective agreement, payment of up to 1-month average remuneration is paid to an employee who has served for 25 years or more. 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 as incurred. The above-mentioned employment benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Obligation is recognised in the statements of financial position and reflects the present value of these benefits on the preparation date of the statements of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognised in other comprehensive income as incurred. Therefore, provisions are formed for the possible benefits. Actuarial estimates are carried out in order to assess the liability of such retirement payments.

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. Under the collective agreement effective at the Group and the Company, a payment of EUR 300 is paid to members of trade unions when they reach the ages of 50 and 60 years.

Revenue recognition. As of 1 January 2018, revenues of the Group and the Company are recognised in accordance with IFRS 15, i.e. the Group and the Company recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Group and the Company expect to be entitled in exchange for those goods or services. In applying this Standard, the Group and the Company take into account the terms of the contract and all relevant facts and circumstances. For such purpose, the Group's and the Company's revenue is recognised using the 5-step model:

Step 1 - Identify the contract(s) with a customer.

Agreement between two and/or more parties (depending on the conditions of purchase or sale), which creates implemented rights and liabilities, is recognised as contract. A contract with a customer will be within the scope of IFRS 15 if all the following conditions are met:

- the parties have approved the contract (in writing, orally or in accordance with other usual business practices) and are bound by the obligations under the contract;
- each party's rights in relation to the goods or services to be transferred can be identified;
- the payment terms for the goods or services to be transferred can be identified;
- the contract has commercial substance; and
- it is probable that the consideration to which the Group and the Company are entitled to in exchange for the goods or services will be collected.

Contracts with the customer may be aggregated or disaggregated into separate contracts, while retaining the criteria of the former contracts. Such aggregation or disaggregation is considered a change of contract.

Step 2 - Identify the performance obligations in the contract.

The contract establishes a promise to deliver goods and/or services to the customer. When goods and/or services can be distinguished, the promises are recognised separately. A promise in a contract with a customer to transfer to the customer either:

- a good or service (or a bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

2. Significant accounting policies (continued)

Step 3 - Determine the transaction price.

Under the new IFRS 15, the transaction price may be fixed, variable or both.

The transaction price is the amount to which the Group and the Company expect to be entitled in exchange for the transfer of goods and services. Transactions concluded by the Group and the Company are subject to fixed prices for both ongoing services and services performed at a given moment. Transaction price might comprise a fixed amount of consideration paid by the customer; however, sometimes it may also comprise variable consideration. The transaction price is also adjusted considering the time value of money, if the contract includes a significant financing arrangement, and considering any consideration payable to the customer. The Group and the Company apply the following sales price calculation methods: adjusted market assessment approach, expected cost plus margin approach and residual approach. Similar transactions are measured equally.

Step 4 - Allocate the transaction price to each performance obligation.

Normally, the Group and the Company attribute the transaction price to each performance obligation, based on relative separate sales prices of each promised good or service. If data on separate sales prices is not observed in the market, an entity performs its assessment.

Step 5 - Recognise revenue when (or as) the Group and the Company satisfy a performance obligation.

The Group and the Company recognise revenue when they satisfy a performance obligation by transferring promised goods or services to the customer (i.e. when the customer obtains control of the mentioned goods or services). The recognised amount of revenue is equal to the amount of satisfied performance obligation. Performance obligation may be satisfied at a point of time or over time.

Revenue is recognised when the amount of revenue can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group and the Company, and when specific criteria have been met for each type of income, as described below. The Group and the Company rely on historical results, taking into account the customer type, the transaction type and the characteristics of each agreement.

Since the new revenue recognition Standard is applied to all existing contracts onwards from 1 January 2018, the contracts that were not completed by 1 January 2018 had to be revised and analysis was made whether adjustments to the revenue recognition policy for those outstanding contracts in accordance with IFRS 15 are necessary and to provide the comparative information for 2017.

According to management, the timing and measurement of the Group's and the Company's revenues are not expected to change under IFRS 15 because of the nature of the Group's and the Company's operations and the types of revenues they earn. The Group and the Company have no long-term contracts with bundled services, significant "take or pay" arrangements, they do not provide significant sales payment measures and expected discounts for transportation volumes are assessed at the end of each period forming accruals and reducing revenue.

Revenue is recognised immediately after the service delivery and over a period of time. A period of time is recognised as a calendar month. More details on classification of activities and revenue recognition are provided in Note 3, under the impact of IFRS 15.

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. Revenue from sales is recognised net of VAT and discounts, including accrued expected discounts for the year.

The Group's and the Company's generated operating activities include the following:

- Freight transportation income. Freight transportation income reflect income from freight transportation on local and international routes and from services related to freight transportation;
- Passenger transportation income. Passenger transportation income reflects income received from transportation of passengers, luggage and post;
- Lease income;
- Income from repairs and maintenance;
- Other income.

Income from freight transportation and services related to freight transportation

Income from freight transportation and services related to freight transportation is recognised after the service has been rendered, after the freight has been delivered to the destination agreed in freight document. Freight transportation includes import, export and transit.

The service of freight transportation on international routes is a service of freight transportation by rail, when a train and all its wagons cross the border of at least one European Union Member State.

The service of freight transportation on local routes is a service of freight transportation by rail, when a train does not cross the border of a European Union Member State.

Income from services related to freight transportation is recognised after the service has been rendered and after a client or its representative has received benefits from the services rendered.

2. Significant accounting policies (continued)

Passenger transportation income

Income from transportation of passengers, luggage and post is recognised after the service has been rendered, after delivery has taken place to a destination specified in transportation document of after the validity period of transportation document has expired.

Lease income

Lease income arising from investment property and other assets is accounted for on a straight-line basis over the lease term.

Income from repairs and maintenance

Income from repairs and maintenance is recognised over a period of time based on stage of completion method.

Other income

Other income comprise income recognised after the transaction has taken place.

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

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

Grants related to income and expenses. 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. Grants intended for compensation of not received income is recognised in the statements of profit or loss and other comprehensive income, under other income. Grants intended for compensation of specific expenses are carried in the statement of profit or loss and other comprehensive income, by reducing the amount of related expenses by the amount of grant.

Recognition of expenses. Expenses are recognised on the basis of accrual and matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

Financial income and cost. Finance income comprises interest income. Interest income is recognised on an accrual basis, using the effective interest rate method. Finance expenses 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 are 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. Effective new Standards and interpretations

A number of new Standards, amendments to Standards and Interpretations have become effective for annual periods beginning on or after 1 January 2018 and have been applied in preparing these consolidated and separate financial statements. Of these pronouncements, the following have an impact on the Company's and the Group's financial statements.

While preparing the financial statements, the Group and the Company for the first time have applied the requirements of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Other new Standards effective as of 1 January 2018 have no significant impact on the financial statements of the Group and the Company.

(all amounts are in EUR thousand unless otherwise stated)

3. Effective new Standards and interpretations (continued)

Effect of transition to IFRS 15

IFRS 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contracts with Customers (issued in 2016). Effective for annual periods beginning on or after 1 January 2018. This Standard replaces IAS 18 Revenue and IAS 11 Construction Contracts.

The Group and the Company have adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this Standard recognised at the date of initial recognition (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated - i.e. it is presented under IAS 18, IAS 11 and related interpretations and amendments. The disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. The Group and the Company adopted a 5-step model, which is described in Note 2. The new model specifies that revenue should be recognised when (or as) the Group and the Company transfer control of goods or services to a customer at the amount to which the Group and the Company expect to be entitled. Depending on whether certain criteria are met, revenue is recognised:

1) over time, in a manner that depicts the Group's and the Company's performance; or

2) at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that the Group and the Company 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:

1) identify a performance obligation – the promise to transfer a good or a service to a customer – in a contract;

2) 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

3) determine whether the revenue from granting a license should be recognised at a point in time or over time.

Impact of IFRS 15 on the Group's and the Company's statements of financial position as at 31 December 2018.

Group	Carrying amount 2018	Impact	Figures not considering the impact of IFRS 15
Total assets	**2,025,657**	**-**	**2,025,657**
Equity	1,151,386	-	1,151,386
Total liabilities	874,271	-	874,271
Total equity and liabilities	**2,025,657**	**-**	**2,025,657**

Company	Carrying amount 2018	Impact	Figures not considering the impact of IFRS 15
Total assets	**2,017,553**	**-**	**2,017,553**
Equity	1,138,515	-	1,138,515
Total liabilities	879,038	-	879,038
Total equity and liabilities	**2,017,553**	**-**	**2,017,553**

The Group's and the Company's accrued income in the statement of financial position was reclassified from other amounts receivable to a separate item of assets arising from contracts with customers. Guarantees issued to customers for implementation of contracts in the statement of financial position were reclassified from prepayments to a separate item of assets arising from contracts with customers. Deferred income in the statement of financial position was reclassified from other amounts payable to an item of liabilities arising from contracts with customers. Received prepayments under contracts with customers were reclassified from received prepayments.

(all amounts are in EUR thousand unless otherwise stated)

3. Effective new Standards and interpretations (continued)

to a separate item of liabilities arising from contracts with customers. In addition to these reclassifications, there was no other impact from transition to IFRS 15.

Impact of IFRS 15 to the Group's and the Company's statements of profit or loss and other comprehensive income for 2018.

Group	Carrying amount 2018	Impact	Figures not considering the impact of IFRS 15
Total income	496,210	-	496,210
Total expenses	(425,628)	-	(425,628)
Profit (loss) before taxation	70,582	-	70,582
Income tax	(15,776)	-	(15,776)
Other comprehensive income	-	-	-
Total comprehensive income (expenses)	**54,806**	**-**	**54,806**

Company	Carrying amount 2018	Impact	Figures not considering the impact of IFRS 15
Total income	493,319	-	493,319
Total expenses	(425,525)	-	(425,525)
Profit (loss) before taxation	67,794	-	67,794
Income tax	(14,275)	-	(14,275)
Other comprehensive income	-	-	-
Total comprehensive income (expenses)	**53,519**	**-**	**53,519**

IFRS 15 had no impact on the Group's and the Company's statements of profit or loss and other comprehensive income.

The table presents the Group's and the Company's comparative information of the nature, timing of operating liabilities, payment conditions and revenue recognition policies:

Type of services	Nature, timing and payment conditions of operating liabilities	Revenue recognition under IFRS 15 (applicable as of 1 January 2018)	Revenue recognition under IAS 18 (applicable until 1 January 2018)
Income from freight transportation, services related to freight transportation and passenger transportation	Invoices for freight transportation and related additional services are issued periodically, as agreed with customer (daily, every ten days, monthly). Invoices are prepared after the service has been rendered based on primary documents of freight transportation and additional services: in case of transit freight transportation - based on dispatch date from Lithuania, in case of import - date of transfer of fright to a customer; in case of exports and transportation in Lithuania - date of freight dispatch, in case of additional services - actual date of rendering the service. Having assessed the reliability of a service customer, payment conditions are set in the agreements: - Prepayment; - After provision of services applying collaterals (cash deposit, bank guarantee, commercial credit); - After provision of services without collaterals (up to 30 days, mostly 7 to 10 days); - A common term for payment of invoices is 30 days.	Income from services related to freight transportation is recognised at a point of time, when services have been rendered, i.e. after the freight has been delivered to a destination agreed in freight document. Freight transportation usually takes up to 24 hours; therefore, income is recognised immediately. The amount of recognised income is assessed at the price indicated in freight documents and additional services documents. Advances received are included into contractual liabilities. If services under one agreement are rendered in different reporting periods, then the consideration is allocated based on their relative stand-alone sales prices. The stand-alone sales price is determined based on service prices indicated in the agreement. Income from transportation of passengers, luggage and post is recognised at a point of time, after the services have been rendered, after delivery has taken place to a destination specified in transportation document of after the validity period of transportation document has expired. Sales of advanced tickets comprise a small part in the sales revenue from all tickets and the ticket purchase date usually coincides with the date of service provision.	In respect of services related to freight transportation, revenue was recognised at a point of time, 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 could be measured reliably. In the event that the stage of completion of freight transportation cannot be measured as at the reporting date, the recognition of revenue is deferred to the date when the transportation is completed, i.e., freight 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. Income from transportation of passengers, luggage and post was recognised after the service has been rendered, after delivery has taken place to a destination specified in transportation document of after the validity period of transportation document has expired.

EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2018

3. Effective new Standards and interpretations (continued)

Lease income	Invoices are issued after the service has been rendered and the deed of acceptance and delivery of works has been signed. A common term for payment of invoices is 30 days. Payments for removal of private wagons are subject to a 10-day term, a cash deposit may also be applied.	Revenue is recognised over the period of time when services are being rendered. The amount of recognised revenue is measured based on signed deeds of services rendered. The amount of revenue from wagon lease is calculated based on formal account cards, which assess the number of leased wagons and the period of lease. If services under one agreement are rendered in different reporting periods, then the consideration is allocated based on their relative stand-alone sales prices. The stand-alone sales price is determined based on service prices indicated in the agreement.	Revenue was recognised at the end of the month having assessed the services rendered. Rendered services were assessed based on the signed deed of services rendered. If services under one agreement were rendered in different reporting periods, then the consideration was allocated relatively based on fair values of stand-alone services.
Income from repairs and maintenance	Invoices are issued after the service has been rendered and the deed of acceptance and delivery of works has been signed. A common term for payment of invoices is 30 days. Payments for removal of private wagons are subject to a 10-day term, a cash deposit may also be applied.	Revenue is recognised over a period of time based on stage of completion method. The related costs are recognised in the statement of profit or loss and other comprehensive income when incurred. Expected contract related loss was recognised immediately in the statement of profit or loss and other comprehensive income. Advances received are included into contractual liabilities. If services under one agreement are rendered in different reporting periods, then the consideration is allocated based on their relative stand-alone sales prices. The stand-alone sales price is determined based on service prices indicated in the agreement.	Revenue from repair services was recognised by the reference to the stage of completion method. If the result of manufacturing agreement could be measured reliably, then contract revenue was recognised in proportion to the stage of completion at each calendar month. Stage of completion was assessed considering the costs incurred. Otherwise, contract revenue was recognised to the extent of contractual expenses incurred, which could be compensated. Contract expenses were recognised as costs when incurred. Expected contract related loss was recognised immediately in the statement of profit or loss and other comprehensive income. Advances received were included into the amount of received prepayments. If services under one agreement were rendered in different reporting periods, then the consideration was allocated relatively based on fair values of stand- alone services.

Effect of transition to IFRS 9

IFRS 9 sets out requirements for financial assets, financial liabilities and other non-financial items. This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of amendments to IFRS 9 and IAS 1 Presentation of Financial Statements, the impairment of the Group's and the Company's financial assets is presented in separate items of the statements of profit or loss and other comprehensive income. Previously, the Group and the Company recognised impairment of receivables under general items of impairment.

IFRS 9 contains three principal classification categories for financial assets:

a. financial assets that are measured at amortised cost in subsequent periods;

b. financial assets that are subsequently measured at fair value through other comprehensive income;

c. financial assets that are subsequently measured at fair value through profit or loss.

The classification of financial assets depends on the financial asset management business model (assessing how the entity manages the financial assets to generate cash flows) and the characteristics of the contractual cash flows of the financial asset (whether the contractual cash flows only include principal and interest payments). IFRS 9 eliminates the previous IAS 39 categories of held to maturity, assets at fair value through profit or loss, loans and receivables and available for sale financial assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The main change is that the entity will have to report the effect of changes in the credit risk arising from changes in the fair value of financial liabilities classified as at fair value through profit or loss in the statement of comprehensive income.

(all amounts are in EUR thousand unless otherwise stated)

EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2018

3. Effective new Standards and interpretations (continued)

The Group's and the Company's classification and measurement of financial instruments in accordance with the requirements of IFRS 9 as at 1 January 2018 is disclosed in the table below.

Group	Measurement method under IAS 39	Measurement method under IFRS 9	Under IAS 39	Under IFRS 9
Financial assets				
Trade and other receivables	Loans and receivables	At amortised cost	35,970	35,920
Cash and cash equivalents	Loans and receivables	At amortised cost	83,536	83,536
Total			**119,506**	**118,456**
Financial liabilities				
Loans and borrowings	Financial liabilities	Financial liabilities	268,533	268,533
Trade and other payables	Other financial liabilities	Other financial liabilities	70,712	70,712
Total			**339,245**	**339,245**

Company	Measurement method under IAS 39	Measurement method under IFRS 9	Under IAS 39	Under IFRS 9
Financial assets				
Trade and other receivables	Loans and receivables	At amortised cost	35,541	35,541
Cash and cash equivalents	Loans and receivables	At amortised cost	77,253	77,253
Total			**112,794**	**112,794**
Financial liabilities				
Loans and borrowings	Financial liabilities	Financial liabilities	255,805	255,805
Trade and other payables	Other financial liabilities	Other financial liabilities	79,949	79,949
Total			**335,754**	**335,754**

Trade and other receivables, cash and cash equivalents that were classified as loans and amounts receivable under IAS 39, are measured at amortised costs as required by IFRS 9.

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. Impairment requirements under IFRS 9 are applied to both, actual receivables and accrued receivables. The new impairment model applies to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

Under IFRS 9, impairment is determined on either of the following bases:

1) 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
2) Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Impact of impairment of the Group's and the Company's financial assets carried at amortised cost under IFRS 9 is presented below:

	Group	Company
31/12/2017 according to IAS 39	**(1,550)**	**(1,541)**
Change in impairment	(50)	-
01/01/2018 according to IFRS 9	**(1,600)**	**(1,541)**

3. Effective new Standards and interpretations (continued)

The Group and the Company applied a relief allowing not to adjust the comparative information of the previous periods. Differences in the carrying amounts of financial assets and financial liabilities resulting from adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held;
- The designation of certain financial assets and financial liabilities as measured at Fair Value through Other Comprehensive Income (hereinafter - FVOCI).

4. New Standards and interpretations not yet adopted

New Standards, amendments to Standards and interpretations, which are effective for annual periods beginning on or after 1 January 2019 and which have not been applied in preparing these financial statements are set out below:

IFRS 16 Leases

The Group and the Company will adopt IFRS 16 Leases from 1 January 2019. The Group and the Company have assessed the expected initial impact of IFRS 16 on the financial statements, which is described below. The actual impact related to application of the Standard as of 1 January 2019 might be different because:

- The Group and the Company have not finalised the testing and assessment of controls over their new IT systems; and
- The new accounting policies are subject to change until the Group and the Company present their first financial statements that include the date of initial application.

IFRS 16 introduces a single accounting model for leases in the statement of financial position. A lessee recognises the leased asset that reflects his right to use the underlying asset, and the lease liability that reflects his obligation to pay the lease payments. Exceptions to the recognition apply to short-term lease and lease of low-value positions. Lessor accounting is substantially unchanged, i.e. the lessors will continue to allocate the lease to finance and operating leases.

IFRS 16 replaces the existing lease guidelines, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

a) Leases in which the Group and the Company are lessees;

The Group and the Company will recognise new assets and liabilities arising from operating leases. The nature of expenses related to those leases will now change because the Group and the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group and the Company recognised operating lease expense on a straight-line basis over the lease term, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group and the Company will include the payments due under the lease in their lease liability.

No significant impact is expected for the Group's and the Company's finance leases.

Based on the information currently available, the Group and the Company estimate that they will recognise additional lease liabilities of EUR 1,057 thousand as at 1 January 2019 and lease liabilities under lease contracts of EUR 907 thousand. From these amounts, EUR 1,057 thousand and EUR 907 thousand right-of-use assets, which will be amortised over the estimated remaining lease period.

On initial adoption of the provisions of IFRS 16, the Group and the Company plan using such practical expedients allowed by the Standard:

- Use the same discount rate to a group of similar lease agreements;
- Not assess initial direct expenses when determining the assets managed under right-of-use upon initial recognition.

b) Leases in which the Group and the Company are lessors.

The Group and the Company will reassess the classification of sub-leases in which the Group company is a lessor. No significant impact is expected for leases in which the Group and the Company are lessors.

The Group and the Company will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach without adjusting comparative information. The cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Amendments are effective as at 1 January 2019 with earlier application permitted. The amendments allow measuring financial assets with prepayment features at amortised cost or at fair value through other comprehensive income when a party to an agreement is allowed to require or is required to pay for or get a reasonable compensation for an agreement terminated before its term (thus, from the perspective of the asset's holder, negative compensation is possible). These amendments have not yet been endorsed by the EU. Based on the management's preliminary assessment, adoption of this Standard will have a limited or no impact on the financial statements.

4. New Standards and interpretations not yet adopted (continued)

Amendments to IAS 28 Investments in Associates and Joint Ventures

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments define whether or not, when assessing long-term investments in associates and joint ventures, specifically the requirements related to impairment, which substantially form net investment part in associates and joint ventures, should follow IFRS 9, IAS 28 or both. The amendments clarify that an entity, before applying IAS 28, applies IFRS 9 for long-term interests, to which equity method is not applied. When applying IFRS 9, an entity does not consider changes in carrying amounts of long-term interests arising on application of IAS 28.

These amendments have not yet been endorsed by the EU. Based on the management's preliminary assessment, adoption of this Standard will have a limited or no impact on the financial statements.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to measure the cost of current services and net interest related to plan amendment, curtailment or settlement during the remaining reporting period. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. These amendments have not yet been endorsed by the EU. Based on the management's preliminary assessment, adoption of this Standard will have a limited or no impact on the financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The interpretation is to be applied to the accounting of corporate income tax when there is uncertainty over income tax treatments under IAS 12. It clarifies how to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together, inspections carried out by tax authorities; it presents a model for presenting uncertainties and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Based on the management's preliminary assessment, adoption of this Standard will have a limited or no impact on the financial statements.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs.

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These improvements have not yet been endorsed by the EU. Based on the management's preliminary assessment, adoption of this Standard will have a limited or no impact on the financial statements.

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 or the Company.

5. 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.

Moment of revenue recognition. The management assesses the moment of revenue recognition, i.e. whether revenue is recognised over time or at a point of time.

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 (hereinafter referred to as 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.

5. Significant accounting estimates and judgements (continued)

Despite of the trust agreement, the primary basis for the Company's right to manage public railway infrastructure by right of trust is the law (the Railway Transport Code). It is specifically stated in Article 23(1) of the Railway Transport Code that public railway infrastructure is managed, used and disposed of under the right of trust by its manager AB Lietuvos Geležinkeliai. Currently, solely the Company provides services related with the management and maintenance of public railway infrastructure.

On 20 December 2018, amendments to the Railway Transport Code of the Republic of Lithuania ("the Code") were adopted, amending the provisions that determine public railway infrastructure manager. Under the currently effective provisions of the Code (Article 23(1)), the public railway infrastructure, by the right of trust, is managed, used and disposed of, the services related to the management and maintenance of the public railway infrastructure management are provided by the public railway infrastructure manager, i.e. the joint stock company Lietuvos Geležinkeliai. As of 8 December 2019, when the above-mentioned changes come into effect, the public railway infrastructure, by the right of trust, will be managed, used and disposed of by the public railway infrastructure manager, i.e. a subsidiary established by the joint stock company Lietuvos Geležinkeliai to perform the functions of public railway infrastructure manager.

Therefore, it was concluded that the assets by the right of trust are transferred to the Group 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.

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.

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

The date when assets are brought into use. An asset is included in operations and its impairment 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 to IFRSs 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, considering 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 to IFRSs 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, then the asset's recoverable amount is estimated.

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

The recoverable amount is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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. 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.

Impairment losses of amounts receivable. The Group and the Company recognise loss allowance for receivables under the expected credit loss model over the useful life of the assets. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's and the Company's historical experience and informed credit assessment and including forward-looking information. The Group and the Company assume that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

5. Significant accounting estimates and judgements (continued)

The Group and the Company consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations in full;
- the financial asset is past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial asset.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group and the Company are exposed to credit risk. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group and the Company expect to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as default or delay;
- the restructuring of a loan or advance by the Group and the Company on terms that the Group and the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

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 have not been used since then.

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 related to 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 23.

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 realised.

6. Financial instruments and risk management

Financial instruments. Fair value

The main financial instruments of the Group and the Company not stated at fair value are trade and other receivables, trade and other

payables, cash and long-term and short-term borrowing funds. In the opinion of the management of the Company, the carrying amounts of these financial instruments approximate their fair values as the borrowing costs are related to interbank borrowing interest rate EURIBOR and other financial assets and liabilities are short-term thus the fluctuation in their fair value is insignificant.

6. Financial instruments and risk management (continued)

Fair value is the price that would be received to sell an asset or

(all amounts are in EUR thousand unless otherwise stated)

EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2018

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	
	2018	**2017**	**2018**	**2017**
Financial assets				
Contract assets	464	433	451	433
Trade receivables	23,448	24,243	22,011	20,518
Receivables from related parties	-	34	9,597	4,853
Other amounts receivable	15,119	11,260	14,339	9,737
Cash and cash equivalents	92,832	83,536	54,774	77,253
Total	**131,863**	**119,506**	**101,172**	**112,794**
Financial liabilities				
Loans and borrowings	210,926	268,533	210,770	255,805
Contract liabilities	5,055	5,763	5,292	5,591
Trade and other payables	31,809	64,949	45,565	74,358
Total	**247,790**	**339,245**	**261,627**	**335,754**

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 – original inputs other than quoted prices included within 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 – original inputs for the asset or liability that are not based on observable market data (unobservable original inputs).

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

	Carrying amount 2018	Fair value 2018			Carrying amount 2017	Fair value 2017		
Financial assets	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**
Contract assets	464	-	-	464	433	-	-	433
Trade and other receivables	38,567	-	-	38,567	35,537	-	-	35,537
Cash and cash equivalents	92,832	92,832	-	-	83,536	83,536	-	-
Total	**131,863**	**92,832**	**-**	**39,031**	**119,506**	**83,536**	**-**	**35,970**
Financial liabilities								
Loans and borrowings	210,926	-	210,926	-	268,533	-	268,533	-
Contract liabilities	5,055	-	-	5,055	5,763	-	-	5,763
Trade and other payables	31,809	-	-	31,809	64,949	-	-	64,949
Total	**247,790**	**-**	**210,926**	**36,864**	**339,245**	**-**	**268,533**	**70,712**

6. Financial instruments and risk management (continued)

(all amounts are in EUR thousand unless otherwise stated)

EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Carrying amount 2018	Fair value 2018			Carrying amount 2017	Fair value 2017		
Financial assets	**Total**	**Level 1**	**Level 2**	**level 3**	**Total**	**Level 1**	**Level 2**	**level 3**
Contract assets	451	-	-	451	433	-	-	433
Trade and other receivables	45,947	-	-	45,947	35,108	-	-	35,108
Cash and cash equivalents	54,774	54 774	-	-	77,253	77,253	-	-
Total	**101,172**	**54 774**	**-**	**46,398**	**112,794**	**77,253**	**-**	**35,541**
Financial liabilities								
Loans and borrowings	210,770	-	210,770	-	255,805	-	255,805	-
Contract liabilities	5,292	-	-	5,292	5,591	-	-	5,591
Trade and other payables	45,565	-	-	45,565	74,358	-	-	74,358
Total	**261,627**	**-**	**210,770**	**50,857**	**335,754**	**-**	**255,805**	**79,949**

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

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

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

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

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

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

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

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

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.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

Impairment accounted for by the Group and the Company until 1 January 2018 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 were constantly reviewed to ensure that the difference between the estimated and actual losses was as low as possible.

As of 1 January 2018, the Group and the Company assess the probability of default upon initial recognition of financial assets and at each reporting date considering whether the credit risk has significantly increased since initial recognition. To assess whether there has been a significant increase in credit risk, the Group and the Company compare the risk of default related to assets as at the reporting date to the risk of default on initial recognition.

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.

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
Client A	7,829	2,583	7,829	2,583
Client B	4,430	4,659	4,202	4,513
Client C	1,370	466	1,370	466
Client D	1,368	1,389	1,368	1,389
Client E	720	784	720	784
Client F	681	1,290	681	1,290
Other	7,050	13,072	5,841	9,493
Total	**23,448**	**24,243**	**22,011**	**20,518**

The Group and the Company allocate each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies. An ECL rate is calculated for each credit risk grade based on actual credit loss experience.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

The Group's and the Company's exposure to credit risk and ECLs for receivables as at 31 December 2018 by separate customers:

Group	Initial value	Expected credit losses, %	Impairment	Carrying amount
Low risk	20,408	0.03 %	(7)	20,401
Fair risk	2,446	0.45 %	(11)	2,435
Increased risk	126	33.47 %	(42)	84
High risk	2,533	79.14 %	(2,005)	528
Total	**25,513**		**(2,065)**	**23,448**

Company	Initial value	Expected credit losses, %	Impairment	Carrying amount
Low risk	19,483	0.03 %	(6)	19,477
Fair risk	2,134	0.30 %	(6)	2,128
Increased risk	52	13.73 %	(7)	45
High risk	2,113	82.89 %	(1,752)	361
Total	**23,782**		**(1,771)**	**22,011**

Low risk – none of the customer's invoices are past due;
Fair risk – at least one of the customer's invoices is past due up to 30 days;
Increased risk – at least one of the customer's invoices is past due up to 120 days;
High risk – at least one of the customer's invoices is past due over 120 days.

The Group and the Company apply a simplified method to calculate the expected maturity credit losses over the period of validity and use a provisioning matrix for all trade and other receivables. For calculation of the expected credit losses using the provisioning matrix, trade and other receivables are categorised into separate groups according to credit risk characteristics. The amounts for each group are analysed by the number of days past due.

As trade and other receivables usually do not include deposit or other collaterals, the ratio of expected losses coincides with the probability of default.

The Group and the Company determine credit risk based on historical data, considering past due payments.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

Group	Expected credit losses, %	Initial value	Impairment	Carrying amount
Not past due	0.03%	22,532	(8)	22,524
Past due for 1 to 30 days	2.36%	458	(11)	447
Past due for 31 to 60 days	61.17%	120	(73)	47
Past due for 61 to 120 days	73.01%	181	(132)	49
Past due for over 120 days	82.83%	2,222	(1,841)	381
Total		**25,513**	**(2,065)**	**23,448**

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

Company	Expected credit losses, %	Initial value	Impairment	Carrying amount
Not past due	0.03%	21,438	(6)	21,432
Past due for 1 to 30 days	2.02%	298	(6)	292
Past due for 31 to 60 days	64.11%	64	(41)	23
Past due for 61 to 120 days	75.05%	45	(34)	11
Past due for over 120 days	86.91%	1,937	(1,684)	253
Total		**23,782**	**(1,771)**	**22,011**

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 for doubtful trade receivables:

	Group		Company	
	2018	**2017**	**2018**	**2017**
Balance at the beginning of the period	**(1,550)**	**(13,540)**	**(1,541)**	**(13,531)**
Allowance (increase) decrease for trade receivables	(515)	11,990	(230)	11,990
Balance at the end of the period	**(2,065)**	**(1,550)**	**(1,771)**	**(1,541)**

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 receivables was mainly associated with the debtor, whose payments were past due related to legal disputes, which were concluded in 2017.

The Group's and the Company's movement of impairment allowance for receivables and contract assets:

	Group		Company	
	2018	**2017**	**2018**	**2017**
Balance at the beginning of the period	**(8,990)**	**(21,157)**	**(8,981)**	**(21,148)**
Allowance (increase) decrease for amounts receivable and contract assets	(325)	12,167	(40)	12,167
Balance at the end of the period	**(9,315)**	**(8,990)**	**(9,021)**	**(8,981)**

As at 31 December 2018, the Group's and the Company's impairment allowance for receivable debts is presented in the statements of profit or loss and other comprehensive income, under items of increase (decrease) in the value of amounts receivable and contract assets.

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 and the Company, the funds are at banks that have international credit ratings of BBB-/Baa3 and higher.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

	Group		Company	
	2018	2017	2018	2017
Aa2,AA	50,110	-	12,163	-
A+,A1	-	22,254	-	18,240
A1-,A+	-	3,218	-	2,287
AA-, Aa3	-	57,839	-	56,504
Baa1,BBB+	42,567	-	42,461	-
BBB-/Baa3	119	166	119	166
Cash in hand	36	59	31	56
Total	**92,832**	**83,536**	**54,774**	**77,253**

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:

	2018	2017	Value set by the bank
Net debt/adjusted EBITDA*	comply	comply	Not higher than 3.0
Debt/adjusted 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

"Adjusted EBITDA: profit (loss) before taxation + interest expenses - interest income + depreciation and amortisation + impairment increase (decrease) of non-current assets, inventories and investments + allowance increase (decrease) for amounts receivable and contract assets + expenses of provisions not related to operating activities

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

The finance structure of 2017–2018 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	
	2018	**2017**	**2018**	**2017**
Within one year	29,706	32,405	29,664	32,405
One to five years	88,808	117,233	88,694	104,505
After five years	92,412	118,895	92,412	118,895
Total	**210,926**	**268,533**	**210,770**	**255,805**

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
Within one year	3,378	4,683	3,370	4,583
One to five years	8,493	12,795	8,480	12,795
After five years	5,763	11,013	5,764	11,013
Total	**17,634**	**28,491**	**17,614**	**28,391**

The Company has two undrawn credit facilities amounting to EUR 118,000 thousand (Note 21).

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

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

In 2018 and 2017, 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 Company's long-term loan portfolio as at 31 December 2018 was EUR 210,770 thousand, as at 31 December 2017 was EUR 255,805 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 2018 in the Company's loan portfolio loans with fixed interest rate comprised 21.5%, with interest rate that is reviewed – 1.2%, and with variable interest rate – 77.3%. As at 31 December 2017 with fixed interest rate comprised 23.0%, with interest rate that is reviewed – 6.7%, and with variable interest rate – 70.3%. Given the current state in financial markets, variable interest rate is more favourable.

As at 31 December 2018 the weighted interest rate of the loan portfolio was 2.0%, and as at 31 December 2017 was 2.2%. If the interest rate grew by 0.5 percentage points during 2018, the annual interest expenses would increase by EUR 894 thousand.

6. Financial instruments and risk management (continued)

In 2018 and 2017, 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 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.

In 2018 and 2017, 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 and the Company, 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 and the Company form the capital structure by evaluating internal factors of regular operations, investments and expansions planned of the Companies, and by considering operational strategies of the Group and the Company, 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)

7. Intangible assets

Intangible assets of the Group comprised:

	Software	Licences and similar rights	Other intangible assets	Total
Acquisition cost				
31 December 2016	**28,108**	**1,888**	**1,401**	**31,397**
- acquisitions for the year	1,414	135	69	1,618
- sold, written off, disposed assets	(48)	(1)	-	(49)
- reclassifications	-	-	-	-
31 December 2017	**29,474**	**2,022**	**1,470**	**32,966**
- acquisitions for the year	793	62	10	865
- sold, written off, disposed assets	(90)	-	(601)	(691)
- reclassifications	-	-	-	-
31 December 2018	**30,177**	**2,084**	**879**	**33,140**
Accumulated amortisation and impairment losses				
31 December 2016	**(3,932)**	**(637)**	**(732)**	**(5,301)**
- amortisation	(2,587)	(413)	(197)	(3,197)
- impairment for the year	(52)	-	-	(52)
- sold, written off, disposed assets	29	-	-	29
- reclassifications	-	-	-	-
31 December 2017	**(6,542)**	**(1,050)**	**(929)**	**(8,521)**
- amortisation	(2,649)	(448)	(211)	(3,308)
- impairment for the year	(940)	-	566	(374)
- sold, written off, disposed assets	88	-	-	88
- reclassifications	-	-	-	-
31 December 2018	**(10,043)**	**(1,498)**	**(574)**	**(12,115)**
Carrying amount				
31 December 2016	**24,176**	**1,251**	**669**	**26,096**
31 December 2017	**22,932**	**972**	**541**	**24,445**
31 December 2018	**20,134**	**586**	**305**	**21,025**

(all amounts are in EUR thousand unless otherwise stated)

7. Intangible assets (continued)

Intangible assets of the Company comprised:

	Software	Licences and similar rights	Other intangible assets	Total
Acquisition cost				
31 December 2016	**27,685**	**1,884**	**396**	**29,965**
- acquisitions for the year	1,522	137	63	1,722
- sold, written off, disposed assets	(18)	-	-	(18)
- reclassifications	-	-	-	-
31 December 2017	**29,189**	**2,021**	**459**	**31,669**
- acquisitions for the year	798	62	15	875
- sold, written off, disposed assets	(4)	(1)	-	(5)
- reclassifications	-	-	-	-
31 December 2018	**29,983**	**2,082**	**474**	**32,539**
Accumulated amortisation and impairment losses				
31 December 2016	**(3,680)**	**(636)**	**(47)**	**(4,363)**
- amortisation	(2,507)	(413)	(98)	(3,018)
- impairment for the year	(52)	-	-	(52)
- sold, written off, disposed assets	3	-	-	3
- reclassifications	-	-	-	-
31 December 2017	**(6,236)**	**(1,049)**	**(145)**	**(7,430)**
- amortisation	(2,624)	(447)	(110)	(3,181)
- impairment for the year	(940)	-	(2)	(942)
- sold, written off, disposed assets	3	-	-	3
- reclassifications	-	-	-	-
31 December 2018	**(9,797)**	**(1,496)**	**(257)**	**(11,550)**
Carrying amount				
31 December 2016	**24,005**	**1,248**	**349**	**25,602**
31 December 2017	**22,953**	**972**	**314**	**24,239**
31 December 2018	**20,186**	**586**	**217**	**20,989**

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 2018 formed EUR 2,591 thousand (EUR 2,448 thousand in 2017) and EUR 2,464 thousand (EUR 2,269 thousand in 2017) accordingly, are accounted for in the statements of profit or loss and other comprehensive income, under depreciation and amortisation. Amounts of EUR 3,308 thousand (2017: EUR 3,197 thousand) and EUR 3,181 thousand (2017: EUR 3,018 thousand), included into amortisation expenses, which were reduced by grant amortisation by EUR 717 thousand (2017: EUR 749 thousand) and EUR 717 thousand (2017: EUR 749 thousand), as described in Note 20.

The Group's fully amortised intangible assets still in use amounted to EUR 870 thousand (EUR 635 thousand in 2017). The Company's fully amortised intangible assets still in use amounted to EUR 742 thousand (EUR 489 thousand in 2017). The main part of fully amortised assets consisted of software.

(all amounts are in EUR thousand unless otherwise stated)

8. Property, plant and equipment

Property, plant and equipment of the Group comprised:

	Land	Buildings and constructions	Machinery and plant	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
31 December 2016	**146,304**	**1,118,925**	**235,895**	**447,985**	**95,979**	**135,183**	**2,180,271**
- acquisitions for the year	307	1,776	2,550	44,231	1,702	49,571	100,137
- sold, written off, disposed assets	(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**
- acquisitions for the year	191	421	2,745	20,399	700	58,372	82,828
- sold, written off, disposed assets	(3)	(467)	(660)	(6,264)	(2,288)	(75)	(9,757)
- reclassifications	-	17,593	6,460	21	23,202	(46,190)	1,086
31 December 2018	**146,792**	**1,155,518**	**248,311**	**502,345**	**120,807**	**167,007**	**2,340,780**
Accumulated depreciation and impairment losses							
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)
- sold, written off, disposed assets	-	674	596	2,066	1,235	-	4,571
- reclassifications	-	(12)	23	(42)	30	-	(1)
31 December 2017	**-**	**(188,160)**	**(59,234)**	**(103,917)**	**(23,696)**	**(13,588)**	**(388,595)**
- depreciation	-	(66,290)	(18,240)	(41,147)	(9,604)	-	(135,281)
- impairment for the year	-	(9)	(129)	490	(26)	(1,760)	(1,434)
- sold, written off, disposed assets	-	43	590	2,259	1,454	-	4,346
- reclassifications	-	(306)	(4)	-	4	-	(306)
31 December 2018	**-**	**(254,722)**	**(77,017)**	**(142,315)**	**(31,868)**	**(15,348)**	**(521,270)**
Carrying amount							
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**
31 December 2018	**146,792**	**900,796**	**171,294**	**360,030**	**88,939**	**151,659**	**1,819,510**

(all amounts are in EUR thousand unless otherwise stated)

8. Property, plant and equipment (continued)

Property, plant and equipment of the Company comprised:

	Land	Buildings and constructions	Machinery and plant	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
31 December 2016	**146,297**	**1,104,072**	**211,851**	**437,652**	**92 ,470**	**133,997**	**2,126,339**
- acquisitions for the year	308	1,002	2,160	44,818	898	45,382	94,568
- sold, written off, disposed assets	(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**
- acquisitions for the year	191	230	1 647	19,992	168	63,236	85,464
- sold, written off, disposed assets	(3)	(71)	(7 784)	(8,257)	(342)	(24)	(16,481)
- reclassifications	-	16,496	6 460	13	23,186	(46,109)	46
31 December 2018	**146,786**	**1,132,667**	**216 703**	**491,778**	**119,387**	**167,134**	**2,274,455**
Accumulated depreciation and impairment losses							
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)
- sold, written off, disposed assets	-	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)**
- depreciation	-	(65,235)	(15,944)	(40,922)	(8,832)	-	(130,933)
- impairment for the year	-	(9)	(129)	490	(26)	(1,760)	(1,434)
- sold, written off, disposed assets	-	8	4,540	3,380	132	-	8,060
- reclassifications	-	(26)	(4)	-	4	-	(26)
31 December 2018	**-**	**(249,897)**	**(63,945)**	**(138,169)**	**(30,921)**	**(15,348)**	**(498,280)**
Carrying amount							
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**
31 December 2018	**146,786**	**882,770**	**152,758**	**353,609**	**88,466**	**151,786**	**1,776,175**

(all amounts are in EUR thousand unless otherwise stated)

8. Property, plant and equipment (continued)

The depreciation charge included in the statement of profit or loss and other comprehensive income of the Group amounted to EUR 119,259 thousand (EUR 119,369 thousand in 2017). This amount is included in EUR 135,281 thousand (EUR 137,076 thousand in 2017) depreciation expenses which were reduced by depreciation of grants of EUR 14,610 thousand (EUR 14,495 thousand in 2017) as disclosed in Note 20. Capitalised depreciation amounted to EUR 1,412 thousand (EUR 3,212 thousand in 2017).

The depreciation charge of the Company amounted to EUR 116,285 thousand (EUR 116,948 thousand in 2017). This amount is included in EUR 130,933 thousand (EUR 132,221 thousand in 2017) depreciation expenses which were reduced by depreciation of grants of EUR 14,584 thousand (EUR 14,465 thousand in 2017) as disclosed in Note 20. Capitalised depreciation amounted to EUR 64 thousand (EUR 808 thousand in 2017).

As at 31 December 2018, the carrying amount of assets managed under the right of trust comprised EUR 987,143 thousand (at 31 December 2017: EUR 1,032,682 thousand).

The acquisition cost of fully depreciated property, plant and equipment of the Group was EUR 43,352 thousand (EUR 34,382 thousand in 2017) and of the Company EUR 39,293 thousand (32,376 thousand in 2017). The main part of fully depreciated property, plant and equipment consisted of vehicles.

9. Investment property

The investment property of the Group and the Company comprised:

	Group	Company
Acquisition cost		
31 December 2016	**2,001**	**2,001**
- acquisitions for the year	-	-
- sold, written off, disposed assets	(20)	(20)
- reclassifications	(42)	7,951
31 December 2017	**1,939**	**9,932**
- acquisitions for the year	-	-
- sold, written off, disposed assets	-	-
- reclassifications	(1,086)	(46)
31 December 2018	**853**	**9,886**
Accumulated depreciation and impairment losses		
31 December 2016	**(284)**	**(284)**
- depreciation	(210)	(210)
- sold, written off, disposed assets	18	18
- reclassifications	1	(1,279)
31 December 2017	**(475)**	**(1,755)**
- depreciation	(58)	(567)
- sold, written off, disposed assets	-	-
- reclassifications	306	26
31 December 2018	**(227)**	**(2,296)**
Carrying amount		
31 December 2016	**1,717**	**1,717**
31 December 2017	**1,464**	**8,177**
31 December 2018	**626**	**7,590**

(all amounts are in EUR thousand unless otherwise stated)

9. Investment property (continued)

Investment property comprised 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 2018 and 2017 did not have significant impact of the fair value of the investment property. The fair value measurement for investment property has been categorised as a Level 3 fair value.

Part of the Company's investment property with the acquisition cost as at 31 December 2018 of EUR 61 thousand (at 31 December 2017:EUR 61 thousand) was fully depreciated but still used in operations. In 2018 and 2017, the Group had no fully depreciated investmentproperty still in use.

10. Investments

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

Company name		Owned share, %	2018 Investment value	2018 Accounted impairment	2018 Carrying amount	2017 Investment value	2017 Accounted impairment	2017 Carrying amount
Shares of subsidiaries								
UAB Vilniaus Lokomotyvų Remonto Depas		100	15,252	-	15,252	15,252	-	15,252
UAB Geležinkelio Tiesimo Centras	a)	100	24,752	-	24,752	17,072	-	17,072
UAB Gelsauga		100	3,456	-	3,456	3,456	-	3,456
LUAB Geležinkelių Aplinkosaugos Centras	b)	100	988	(988)	-	1,853	(980)	873
UAB Rail Baltica Statyba	c)	100	4,154	(2,023)	2,131	3,504	(788)	2,716
AB LG CARGO	d)	100	30,000	-	30,000	-	-	-
BAB Lietuvos Jūrų Laivininkystė	e)	56.66	469	(469)	-	469	(469)	-
VšĮ Geležinkelių Logistikos Parkas		79.61	265	(265)	-	265	(220)	45
			79,336	**(3,745)**	**75,591**	**41,871**	**(2,457)**	**39,414**
Shares of associates								
UAB Voestalpine VAE Legetecha		34	745	-	745	745	-	745
			745	**-**	**745**	**745**	**-**	**745**
Long-term investments								
Brussels Centralised Payment Centre		1.34	2	-	2	2	-	2
			2	**-**	**2**	**2**	**-**	**2**
Total			**80,083**	**(3,745)**	**76,338**	**42,618**	**(2,457)**	**40,161**

(all amounts are in EUR thousand unless otherwise stated)

10. Investments (continued)

Subsidiaries UAB Geležinkelio Tiesimo Centras and UAB Gelsauga were established in 2001; UAB Vilniaus Lokomotyvų Remonto Depas was established in 2003; the Company along with the Vilnius City Municipality signed the articles of incorporation of VšĮ Geležinkelių 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; AB LG CARGO was established on 28 December 2018.

a) On 7 March 2017, the Company decided 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 decided to merge UAB Geležinkelių Projektavimas with UAB Geležinkelio Tiesimo Centras, increasing the authorised capital of UAB Geležinkelio Tiesimo Centras by asset contribution of EUR 652 thousand of UAB Geležinkelio Projektavimas. The increased authorised capital was registered on 22 September 2017. On 27 July 2018, the Company adopted a decision to increase the authorised capital of UAB Geležinkelio Tiesimo Centras by asset contribution of EUR 15,999 thousand, the size of which was reduced by EUR 8,319 thousand as at 31 December 2018. The increase of authorised capital by EUR 15,999 thousand was registered on 21 November 2018, and adjustment was not registered as at 31 December 2018;

b) On 25 August 2017, the Company adopted a decision regarding the liquidation of UAB Geležinkelių Aplinkosaugos Centras. As at the end of 2018, 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 decided 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. On 17 August 2018, the Company decided to increase the authorised capital of UAB Rail Baltica Statyba by EUR 650 thousand additional contributions. Increase of the authorised capital was registered on 24 August 2018;

d) On 28 December 2018, AB LG CARGO was established by issuing 103 585 ordinary registered shares with the nominal value of EUR 289.62, the authorised capital of EUR 30,000 thousand was formed;

e) On 14 December 2015, Klaipėda Regional Court decided 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 31/12/2016	**43,463**
Increase (+)	716
Decrease (-)	(4,018)
Acquisition value as at 31/12/2017	**40,161**
Increase (+)	38,331
Decrease (-)	(2 154)
Acquisition value as at 31/12/2018	**76,338**

Statements of financial position of related parties:

2018	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity
UAB Geležinkelio Tiesimo Centras	30,791	12,198	81	12,420	30,488
UAB Vilniaus Lokomotyvų Remonto Depas	11,629	22,485	1,057	8,123	24,934
UAB Gelsauga	2,600	7,887	257	3,369	6,861
AB LG CARGO	14	30,000	-	94	29,920
LUAB Geležinkelių Aplinkosaugos Centras	-	-	-	-	-
UAB Rail Baltica Statyba	2,011	129	-	9	2,131
UAB Voestalpine VAE Legetecha	4,827	7,474	524	2,365	9,412

(all amounts are in EUR thousand unless otherwise stated)

10. Investments (continued)

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
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

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

	2018			2017		
	Revenue	(Expenses)	Profit (loss)	Revenue	(Expenses)	Profit (loss)
UAB Geležinkelio Tiesimo Centras	29,827	(26,245)	3,582	19,394	(20,919)	(1,525)
UAB Vilniaus Lokomotyvų Remonto Depas	50,831	(47,626)	3,205	29,654	(29,125)	529
UAB Gelsauga	17,698	(16,403)	1,295	13,706	(12,867)	839
AB LG CARGO	-	(80)	(80)	-	-	-
LUAB Geležinkelių Aplinkosaugos Centras	-	-	-	4,274	(4,816)	(542)
UAB Rail Baltica Statyba	71	(1,306)	(1,235)	28	(143)	(115)
UAB Voestalpine VAE Legetecha	9,532	(8,888)	644	10,211	(9,527)	684

(all amounts are in EUR thousand unless otherwise stated)

11. Inventories

As at 31 December, inventories comprised:

	Group		Company	
	2018	2017	2018	2017
Spare parts	13,703	13,299	5,753	6,116
Materials of the upper railway parts	17,355	11,946	16,250	10,187
Materials	8,545	7,650	6,846	6,523
Fuel	7,967	3,721	7,890	3,629
Other inventories	2,200	1,358	1,692	853
Less: net realizable value allowance (-)	(7,210)	(3,985)	(6,522)	(3,372)
Total raw materials, materials and component parts	**42,560**	**33,989**	**31,909**	**23,936**
Goods for resale	1,547	1,766	1,530	1,743
Less: net realizable value allowance (-)	(17)	(19)	-	-
Total goods for resale	**1,530**	**1,747**	**1,530**	**1,743**
Total	**44,090**	**35,736**	**33,439**	**25,679**

Carrying amount of inventories before the adjustment to the net realisable value of the Group and the Company as at 31 December 2018 amounted to EUR 51,317 thousand and EUR 39,961 thousand respectively (at 31 December 2017: EUR 39,740 thousand and EUR 29,051 thousand respectively).

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

12. Non-current assets held-for-sale

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

	Group		Company	
	2018	2017	2018	2017
Non-current assets held-for-sale	620	755	620	755
Less: net realizable value allowance (-)	(22)	-	(22)	-
Total	**598**	**755**	**598**	**755**

Net book value of non-current assets held-for-sale of the Group and the Company as at 31 December 2018 amounted to EUR 620 thousand (as at 31 December 2017: EUR 755 thousand).

The allowance 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 consists of locomotives and wagons.

(all amounts are in EUR thousand unless otherwise stated)

13. Contract assets

Contract assets of the Group and the Company comprised:

	Group		Company	
	2018	2017	2018	2017
Accrued income	451	433	451	433
Paid guarantees to customers	13	-	-	-
Total	**464**	**433**	**451**	**433**

14. Prepayments

Prepayments of the Group and the Company comprised:

	Group		Company	
	2018	2017	2018	2017
Prepayments	1,148	334	98	76
Paid guarantees to suppliers	53	97	53	42
Deferred costs	1,138	1,385	1,101	1,265
Total	**2,339**	**1,816**	**1,252**	**1,383**

Deferred expenses of the Group and the Company include prepayments made to the subcontractors, which will provide services in the following periods.

15. Trade and other receivables

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

	Group		Company	
	2018	2017	2018	2017
Gross external trade debtors	25,513	25,793	23,782	22,059
Impairment allowance (-)	(2,065)	(1,550)	(1,771)	(1,541)
Total external trade debtors	**23,448**	**24,243**	**22,011**	**20,518**
Receivables from related parties	2,826	2,957	12,423	7,776
Impairment allowance (-)	(2,826)	(2,923)	(2,826)	(2,923)
Total receivables from related parties	**-**	**34**	**9,597**	**4,853**
Receivable VAT	2,258	897	1,908	301
Other amounts receivable from the budget	633	1,038	360	582
Amount receivable from the shareholder	-	8,764	-	8,764
Other amounts receivable	16,549	5,012	16,391	4,606
Impairment allowance (-)	(4,424)	(4,517)	(4,424)	(4,516)
Total other amounts receivable	**15,016**	**11,194**	**14,235**	**9,737**
Total	**38,464**	**35,471**	**45,843**	**35,108**

(all amounts are in EUR thousand unless otherwise stated)

15. Trade and other receivables (continued)

In 2018, other amounts receivable in the Group and the Company increased by EUR 11,538 thousand and EUR 11,786 thousand, respectively, compared to 2017. In August 2018, the Company signed an agreement regarding financial procedures of the Rail Baltica project, which was the basis for the transfer of project implementation funds.

In 2017, receivables from the shareholder amounting to EUR 8,764 thousand were amounts related to grants receivable by which the share capital was increased according to the Government resolutions till 2013. As the shareholder refused to compensate this amount to the Company, in 2018 it was accounted for through the unrecognised profit (loss) for the reporting year as transactions with owners of the Company, acting under shareholders authorisations.

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

Receivables from operating activities (excluding receivables from related parties and allowances):	2018	2017
	25,513	**25,793**
Trade debtors for transportation of freights through the territory of Lithuania and other services	10,208	13,661
Trade debtors for international freight transportation	13,462	10,024
Debts of foreign railway companies	1,843	2,108

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

Receivables from operating activities (excluding receivables from related parties and allowances):	2018	2017
	23,782	**22,059**
Trade debtors for transportation of freights through the territory of Lithuania and other services	8,477	9,927
Trade debtors for international freight transportation	13,462	10,024
Debts of foreign railway companies	1,843	2,108

16. Cash and cash equivalents

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

	Group		Company	
	2018	2017	2018	2017
Cash in banks	92,798	83,476	54,743	77,197
Cash in hand	34	60	31	56
Total	**92,832**	**83,536**	**54,774**	**77,253**

As at 31 December 2018 and 2017, the Group and the Company had no term deposits. Cash was not pledged. The Group and the Company implemented an inter-company borrowing and lending platform (Cash Pool service), which ensures the possibility of mutual borrowing of working capital thus exploiting the internal borrowing potential of all Group members. On 31 December 2018, the Group's account agreement was signed with Swedbank, AB.

(all amounts are in EUR thousand unless otherwise stated)

17. Share capital

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

	Authorised share capital	Number of shares, items
Subscribed capital		
As at 31/12/2016	**1,057,958**	**3,652,918**
Increase (+)	650	2,245
Decrease (-)	(626)	(2,161)
As at 31/12/2017	**1,057,982**	**3,653,002**
Increase (+)	650	2,245
Decrease (-)	-	-
As at 31/12/2018	**1,058,632**	**3,655,247**
Capital structure at the end of reporting period		
By type of shares		
Ordinary shares	1,058,632	3,655,247
Privileged shares	-	-
Total	**1,058,632**	**3,655,247**

Contributions for increase of share capital

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 a contribution 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.

On 27 December 2018 the authorised capital of the Company was increased by additional contributions of EUR 651 thousand, issuing 2,245 ordinary registered shares. The authorised capital was increased implementing Resolution No. 677 of the Government of the Republic of Lithuania as of 11 July 2018.

Reduction of authorised capital

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 performing these decisions 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.

18. 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).

Based on Order No 3-364 of the Minister of Transport and Communications dated 24 July 2018, a decision to allocate to dividends EUR 34,000 thousand from the Company's retained earnings of 2016 and 2017 was taken; payments were made on 31 August 2018 and on 31 October 2018.

19. Reserves

Legal reserve. The legal reserve means a reserve which is required by the provisions of legal acts of the Republic of Lithuania. This reserve must be annually renewed by at least 5 per cent of the net profit up to the extent equal to 10 per cent of the authorised capital. The legal reserve cannot be distributed as dividends, but can be used to cover future losses.

Other reserves. As at 31 December 2018, the Company's other reserves' balance consisted of reserves for investments of EUR 6,784 thousand.

(all amounts are in EUR thousand unless otherwise stated)

20. Grants

Movement of grants of the Group and the Company:

	Group		Company	
	2018	2017	2018	2017
Balance at the beginning of the period	**520,962**	**515,251**	**520,868**	**515,127**
Received during the year	36,250	25,256	36,251	25,256
Used for decrease of depreciation costs of non-current assets	(15,327)	(15,244)	(15,301)	(15,214)
Used for decrease of other expenses	(2,353)	(1,707)	(2,353)	(1,707)
Increased authorised capital	(650)	(650)	(650)	(650)
Repaid	-	(1,944)	-	(1,944)
Balance at the end of the period	**538,882**	**520,962**	**538,815**	**520,868**
Including assets managed under right of trust	**224,394**	**231,864**	**224,394**	**231,864**

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

21. Loans and borrowings

Loans and borrowings of the Group and the Company comprised:

	Group		Company	
	2018	2017	2018	2017
Non-current loans	181,220	236,128	181,106	223,400
Current loans	29,706	32,405	29,664	32,405
Total	**210,926**	**268,533**	**210,770**	**255,805**

Loans and borrowings received by the Company comprised:

	Loan currency	2018	2017
Bank EIB - 1, total [1]	EUR	-	1,800
Bank EIB - 2, total [6]	EUR	10,227	16,046
Bank EIB - 3, total [6]	EUR	6,818	8,636
Bank EIB - 4, total [5]	EUR	34,000	40,667
Ministry of Finance of Lithuania (No. 607)[1]	EUR	-	3,663
Ministry of Finance of Lithuania (No. 615)[1]	EUR	-	4,882
Ministry of Finance of Lithuania (No. 617)[1]	EUR	-	314
Ministry of Finance of Lithuania (No. 618)[1]	EUR	-	3,923
Nordic Investment Bank - 1 [4]	EUR	790	2,368
Nordic Investment Bank - 2, total [4]	EUR	13,222	17,000
Nordic Investment Bank - 3, total [2]	EUR	99,290	106,645
Nordic Investment Bank - 4, total [3]	EUR	46,423	49,861
Total		**210,770**	**255,805**

EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2018

21. Loans and borrowings (continued)

[1] In 2018, all loans to the Ministry of Finance of the Republic of Lithuania and EIB-1 VĮ Turto Bankas were repaid. The Company has repaid EUR 14,582 thousand of these loans and EUR 591 thousand of interest in total. During 2017, the Company repaid EUR 2,307 thousand of these loans and EUR 688 thousand of interest.

[2] 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 2018, the Company repaid EUR 7,355 thousand of the loan and EUR 1,542 thousand of interest. During 2017, the Company paid EUR 1,642 thousand of interest.

[3] 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 2018, the Company paid EUR 3,438 thousand of loan and EUR 609 thousand of interest. During 2017, the Company paid EUR 650 thousand of interest.

[4] During 2018, the repaid amounts of the remaining part of other loans intended for railway infrastructure renovation and development that have not been clearly indicated herein (NIB-1, NIB-2) are as follows: EUR 5,357 thousand of loans, and EUR 186 thousand of interest. During 2017, the Company repaid EUR 5,356 thousand of these loans and EUR 248 thousand of interest.

[5] On 3 June 2013 the Company and the European Investment Bank signed a loan agreement for EUR 50,000 thousand (EIB-4) to be used for the procurement of new railway rolling stocks. Interest for each share of loan is set individually. During 2018, the Company repaid EUR 6,667 thousand of the loan and EUR 977 thousand of interest, and paid EUR 2 thousand of liability fee. During 2017, the Company repaid EUR 6,667 thousand of the loan and EUR 1,143 thousand of interest.

[6] 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 2018 is equal to EUR 7,637 thousand, the interest paid is equal to EUR 685 thousand, liability fee – EUR 3 thousand. During 2017, the Company repaid EUR 7,637 thousand of these loans and EUR 929 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 2018. Within 2018 the Company paid EUR 104 thousand of liability fee and during 2017 EUR 139 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 2018 neither 2017.

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 on 22 December 2017. On 23 December 2018, the used credit limit was repaid.

On 16 March 2018, UAB Gelsauga entered into a trilateral agreement with UAB Vensva and AB Šiaulių Bankas. Under the conditions of finance lease agreement, the assets with the value of EUR 206 thousand was transferred to UAB Gelsauga. The balance of financial liability comprised EUR 156 thousand as at 31 December 2018.

Loan interest rates, maturity terms and financial covenants to be complied with by the Group and the Company are disclosed in Note 6. As at 31 December 2018 and 2017, the Group and the Company complied with all the financial debt covenants.

22. 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. In addition, under the effective collective agreement, payment of up to 1-month average remuneration is paid to an employee who has served for 25 years or more. Jubilee payments also comprise provisions for pensions and similar liabilities. Under the collective agreement effective at the Group and the Company, a payment of EUR 300 is paid to members of trade unions when they reach the ages of 50 and 60 years.

(all amounts are in EUR thousand unless otherwise stated)

22. Employee benefits (continued)

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

	Group	Company
Balance as at 31/12/2016	**16,665**	**15,733**
Formed additionally	724	-
Used (-)	(5,664)	(5,559)
Balance as at 31/12/2017	**11,725**	**10,174**
Formed additionally	-	-
Used (-)	(1,997)	(1,657)
Balance as at 31/12/2018	**9,728**	**8,517**

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

	2018	2017
Discount rate	1.28	0.31
Employee turnover rate	5.70	2.92
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	
	2018	2017	2018	2017
Vacation pay accrual	12,511	11,538	9,073	9,364
Payable remuneration	970	8,135	623	7,116
Payable social insurance contributions	5,358	5,628	4,066	4,713
Payable personal income tax contributions	154	1,574	122	1,419
Other employment related liabilities	7,875	6,454	6,980	5,000
Total	**26,868**	**33,329**	**20,864**	**27,612**

(all amounts are in EUR thousand unless otherwise stated)

23. Provisions

Other provisions of the Group and the Company comprised:

	Group		Company	
	2018	2017	2018	2017
Non-current provisions	15,900	14,400	15,900	14,400
Current provisions	1,138	214	567	-
Total	**17,038**	**14,614**	**16,467**	**14,400**

The movement in provisions could be specified:

	Group	Company
Balance as at 31/12/2016	**42,552**	**42,273**
Formed additionally	2	-
Used -	(27,940)	(27,873)
Balance as at 31/12/2017	**14,614**	**14,400**
Formed additionally	2,431	2,067
Used -	(7)	-
Balance as at 31/12/2018	**17,038**	**16,467**

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.

24. Received prepayments

In 2018, the prepayments received by the Group and the Company comprised EUR 11,741 thousand. Received prepayments comprise project implementation funds received in advance, which, after having signed a grant agreement, will be accounted for as grants.

(all amounts are in EUR thousand unless otherwise stated)

25. Trade and other payables

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

	Group		Company	
	2018	2017	2018	2017
Trade payables	21,134	26,307	17,308	24,396
Payables to related parties	1,159	1,694	20,285	13,809
Cash guarantees received	4,703	3,240	5,202	3,988
Other taxes payable to the budget	1,703	1,343	689	604
Accumulated service costs of foreign railways	496	447	496	447
Accrued interest	910	1,479	910	1,479
Other accrued costs	1,457	1,561	562	1,549
Labour union membership fee	45	95	35	86
Payable fine to European Commission	-	27,873	-	27,873
Other amounts payable and liabilities	202	910	78	127
Total trade and other receivables	**31,809**	**64,949**	**45,565**	**74,358**
Non-current	1,880	3,937	1,880	3,935
Current	29,929	61,012	43,685	70,423
Total	**31,809**	**64,949**	**45,565**	**74,358**

Under other accrued expenses, in 2018 the Group and the Company accounted for audit service expenses of EUR 179 thousand (in 2017: EUR 167 thousand) and EUR 120 thousand (in 2017: 115 thousand), respectively.

26. Contract liabilities

The Group's and the Company's contract liabilities comprised:

	Group		Company	
	2018	2017	2018	2017
Received prepayments, non-current portion	541	422	541	422
Received prepayments, current portion	4,514	5,341	4,751	5,169
Total	**5,055**	**5,763**	**5,292**	**5,591**

(all amounts are in EUR thousand unless otherwise stated)

27. Revenue

Sales revenue of the Group and the Company comprised:

	Group		Company	
	2018	2017	2018	2017
Freight transportation income:	**418,132**	**393,931**	**419,186**	**394 632**
Income from freight transportation on local routes	80,037	79,406	81,091	80,107
Income from freight transportation on international routes	217,238	202,529	217,238	202,529
Income from services related to freight transportation	120,857	111,996	120,857	111,996
Passenger transportation income:	**27,224**	**25,189**	**27,295**	**25,194**
Income from passenger transportation on local routes	13,872	12,475	13,943	12,480
Income from passenger transportation on international routes	13,068	12,414	13,068	12,414
Income from services related to passenger transportation	284	300	284	300
Other income:	**22,596**	**28,980**	**16,006**	**25,426**
Repairs and maintenance	6,596	6,009	1,024	3,278
Leased assets	1,173	1,443	4,219	2,428
Other income	14,827	21,528	10,763	19,720
Total	**467,952**	**448,100**	**462,487**	**445,252**

In 2018, the Company accounted for transportation discount accruals under contracts with customers at the amount of EUR 2,148 thousand (in 2017: EUR 1,456 thousand). The amounts vary depending on the number of freights transported during the reporting period.

The Group's and the Company's revenue is generated during the period shorter than one year, i.e. the Group and the Company have no long-term sales agreements.

The Group's and the Company's revenue according to the moment of revenue recognition comprised the following:

	Group		Company	
	2018	2017	2018	2017
Recognised immediately	460,183	440,648	457,244	439,546
Recognised over the period of time	7,769	7,452	5,243	5,706
Total	**467,952**	**448,100**	**462,487**	**445,252**

28. Other income

In 2018, the Group's and the Company's other operating income comprised EUR 27,896 thousand (in 2017: EUR 1,115 thousand) and EUR 30,484 thousand (in 2017: EUR 910 thousand), respectively. Loss compensation for passenger transportation on local routes comprised the major part of other operating income. Income received to compensate losses in 2018 amounted to EUR 27,000 thousand (in 2017: EUR 231 thousand). The Company's gain from sales of non-current assets in 2018 amounted to EUR 3,341 thousand (in 2017: EUR 441 thousand).

(all amounts are in EUR thousand unless otherwise stated)

29. Result from financing activities

For the year ended 31 December:

	Group		Company	
	2018	**2017**	**2018**	**2017**
Total finance income	**165**	**45**	**348**	**725**
Interest	9	29	4	35
Currency exchange gain	90	-	91	-
Dividends	-	-	149	680
Penalties and interest for delayed trade debtors	66	-	104	-
Other income	-	16	-	10
Total finance expenses	**(3,883)**	**(5,986)**	**(3,847)**	**(5,858)**
Interest	(4,062)	(5,185)	(4,008)	(5,110)
Currency exchange loss	-	(413)	-	(242)
Other expenses	179	(388)	161	(506)
Total	**(3,718)**	**(5,941)**	**(3,499)**	**(5,133)**

30. Corporate income and deferred tax

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
Income tax for the year	12,785	1,876	11,523	1,588
Deferred tax expenses	2,991	2,451	2,752	2,644
Total corporate income tax expenses (income) recognised in profit or loss	**15,776**	**4,327**	**14,275**	**4,232**

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
Profit (loss) before tax	70,582	31,314	67,794	29,786
Income tax	10,587	4,697	10,169	4,468
Deductible expenses (support)	-	-	-	-
Effect of tax exemption on investment projects	-	(4)	-	(4)
Non-deductible (deductible) expenses	2,199	(1,419)	1,792	(1,648)
Tax-exempt (non-exempt) income	(473)	(843)	(396)	(801)
Accumulated tax losses	514	-	-	-
Accumulated income tax	-	2,508	-	2,509
Adjustment to income tax of the previous year	(42)	(3,063)	(42)	(2,936)
Total corporate income tax expenses (income)	**12,785**	**1,876**	**11,523**	**1,588**
Effective rate, %	18.11%	5.99 %	17.00 %	5.33 %

(all amounts are in EUR thousand unless otherwise stated)

30. Corporate income and deferred tax (continued)

Deferred tax assets (liabilities)

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

	Group		Company	
	2018	2017	2018	2017
Deferred income tax asset:				
Difference between accounting and tax value of non-current assets	(2,140)	1,392	(2,242)	1,234
Impairment of amounts receivable and write-off of bad debts	314	1,353	270	1,351
Write down of inventories	1,077	110	981	13
Vacation and bonus accruals	2,492	2,287	2,408	2,155
Liabilities of long-term employee benefits	1,698	1,572	1,278	1,380
Accrued expenses	-	67	-	67
Other provisions	307	143	54	-
Impairment of financial assets	-	275	-	275
Tax losses carried forward	380	894	-	-
Deferred income tax asset	**4,128**	**8,093**	**2,749**	**6,475**
Deferred income tax liability:				
Difference in grants	(8,096)	(9,005)	(8,096)	(9,005)
Accrued income	-	(65)	-	(65)
Deferred income tax liability	**(8,096)**	**(9,070)**	**(8,096)**	**(9,070)**
Net deferred income tax asset (liability)	**(3,968)**	**(977)**	**(5,347)**	**(2,595)**

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

(all amounts are in EUR thousand unless otherwise stated)

31. 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 Party 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.

Due to the above-mentioned reasons, the Group and the Company do not disclose the transactions with Lithuanian Government and other entities controlled by the Lithuanian Government.

The Company's related party transactions before elimination:

2018	**Company's purchases**	**Company's sales**	**Company's receivables**	**Company's payables**
UAB Gelsauga	16,330	287	24	3,805
UAB Geležinkelio Tiesimo Centras	25,148	2,589	9,008	7,216
UAB Vilniaus Lokomotyvų Remonto Depas	41,978	6,899	577	9,265
LUAB Geležinkelių Aplinkosaugos Centras	-	-	-	-
UAB Rail Baltica Statyba	71	6	-	12
UAB Voestalpine VAE Legetecha	5,331	33	-	1,058
Total	**88,858**	**9,814**	**9,609**	**21,356**

2017	**Company's purchases**	**Company's sales**	**Company's receivables**	**Company's payables**
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
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**

(all amounts are in EUR thousand unless otherwise stated)

31. Related party transactions (continued)

On 7 November 2018, the management of UAB Vilniaus Lokomotyvų Remonto Depas decided to transfer to the Company a part of business related to routine and major repairs and maintenance of freight wagons and passenger trains, repairs and manufacturing of the mentioned rolling stocks, their aggregate parts and nods. The above-mentioned activities were ceased by UAB Vilniaus Lokomotyvų Remonto Depas on 1 January 2019.

In 2018, the management of UAB Gelsauga, considering the decision of the Government of the Republic of Lithuania to prohibit internal transactions within state owned companies, decided to cease part of its activities related to building maintenance and cleaning, keeping security services only.

The above-mentioned decisions will have no significant impact on the Group's and the Company's financial results.

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

	Group		Company	
	2018	2017	2018	2017
Receivables from related parties	-	34	9,597	4,853
Loans granted to related parties	2,826	2,923	2,826	2,923
Impairment allowance (-)	(2,826)	(2,923)	(2,826)	(2,923)
Total	**-**	**34**	**9,597**	**4,853**

As at 31 December 2018, the Group's and the Company's amounts receivable from related parties decreased by EUR 34 thousand and increased by EUR 4,744 thousand respectively. During 2018 no additional impairment was recognised for amounts receivable from related parties.

In 2018, profit of associates by equity method comprised EUR 198 thousand (EUR 216 thousand in 2017), loss – EUR 1 thousand (EUR 251 thousand in 2017). Result of associates, included in the statements of profit or loss and other comprehensive income, comprised profit of EUR 197 thousand in 2018 (loss of EUR 35 thousand in 2017).

Management salary and other benefits. As at 31 December 2018, the number of managers of the Company was equal to 9, i.e., 1 Chief Executive Officer, 1 Chief Financial Officer, 4 Deputy Chief Executive Officer– directors of the directorates and Director of Strategy and Development, 1 Director of Legal Department, 1 Director of Human Resources Department, 1 Director of Communications Department.

Company	2018	2017
Management salary	560	827
Performance payments*	137	13
Number of managers	9	9
Benefits to Board members	92	39
Number of Board members	5	3

*Performance payments are additional payments for activity results and one-off payments.

In 2018 and 2017, 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.

(all amounts are in EUR thousand unless otherwise stated)

32. Adjustment to comparative figures due to changes in classification of expenses

In 2018, the Group and the Company revised their expenses classification methodology and decided to provide more accurate distribution between items of the statement of profit or loss and other comprehensive income by adjusting the comparative information for 2017 accordingly.

Impact of adjustment on the Group's and the Company's statements of profit or loss and other comprehensive income for 2017 is presented below:

Group	**2017 (before adjustment)**	**Adjustment**	**2017 (after adjustment)**
Revenue	448,100	-	448,100
Other income	884	231	1,115
Total income	**448,984**	**231**	**449,215**
Salaries and social security	(168,378)	(11,934)	(180,312)
Depreciation and amortisation	(119,167)	(2,860)	(122,027)
Fuel	(47,852)	(830)	(48,682)
Materials	(21,936)	(6,582)	(28,518)
Services rendered by other foreign railway companies	(18,400)	-	(18,400)
Electricity	(5,831)	(14)	(5,845)
Repairs and maintenance	(178)	(1,673)	(1,851)
Impairment (increase) of non-current assets, inventories and investments padidėjimas	(679)	-	(679)
Allowance (increase) decrease for amounts receivable and contract assets	12,166	-	12,166
Change in provisions and accruals	316	-	316
Other expenses	(41,755)	23,662	(18,093)
Profit (loss) from operations	**37,290**	**-**	**37,290**
Finance income	45	-	45
Finance expenses	(5,986)	-	(5,986)
Share of profit of equity accounted investees	(35)	-	(35)
Profit (loss) before taxation	**31,314**	**-**	**31,314**
Income tax	(4,327)	-	(4,327)
Net profit (loss)	**26,987**	**-**	**26,987**
Other comprehensive income (expenses)	-	-	-
Total comprehensive income (expenses)	**26,987**	**-**	**26,987**

After the reclassification of expenses of 2017, the amount of the Group's other expenses decreased by EUR 23,662 thousand as they were reclassified to the relevant items of the statement of profit or loss and other comprehensive income.

(all amounts are in EUR thousand unless otherwise stated)

32. Adjustment to comparative figures due to changes in classification of expenses (continued)

Company	2017 (before adjustment)	Adjustment	2017 (after adjustment)
Revenue	445,252	-	445,252
Other income	679	231	910
Total income	**445,931**	**231**	**446,162**
Salaries and social security	(163,934)	-	(163,934)
Depreciation and amortisation	(119,427)	-	(119,427)
Fuel	(48,102)	-	(48,102)
Materials	(19,950)	-	(19,950)
Services rendered by other foreign railway companies	(18,400)	-	(18,400)
Electricity	(5,847)	-	(5,847)
Repairs and maintenance	(977)	(12,522)	(13,499)
Impairment (increase) of non-current assets, inventories and investments	(1,085)	-	(1,085)
Allowance (increase) decrease for amounts receivable and contract assets	12,169	-	12,169
Change in provisions and accruals	2,949	-	2,949
Other expenses	(48,408)	12,291	(36,117)
Profit (loss) from operations	**34,919**	**-**	**34,919**
Finance income	725	-	725
Finance expenses	(5,858)	-	(5,858)
Share of profit of equity accounted investees	-	-	-
Profit (loss) before taxation	**29,786**	**-**	**29,786**
Income tax	(4,232)	-	(4,232)
Net profit (loss)	**25,554**	**-**	**25,554**
Other comprehensive income (expenses)	-	-	-
Total comprehensive income (expenses)	**25,554**	**-**	**25,554**

The reclassification of maintenance expenses amounting to EUR 12,522 thousand from other expenses to repair expenses had the largest impact on the Company's reclassification of expenses of 2017.

Adjustment of comparative data between items had no effect on the Group's and the Company's net profit (loss) for 2017.

EXPLANATORY NOTES FOR THE YEAR ENDED 31 DECEMBER 2018

33. Contingent assets and liabilities

Legal cases

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 the Company abused its dominant position in the market for the management of railway infrastructure in Lithuania by removing a 19-kilometre rail track connecting Mažeikiai in north-Western Lithuania with the Latvian border on 3 October 2008. The Company was imposed a fine amounting to EUR 27,873 thousand and obliged to bring to an end the infringement. Therefore, the Company, based on the resolution of the Government of the Republic of Lithuania as of 6 December 2017, has proposed the European Commission to reconstruct the Track until the end of 2019. Also, on 14 December 2017, the Company filed an action to the EU General Court seeking a complete or partial annulment of the Decision C(2017) 6544 and/or a reduction of the fine. The Company is ready for the hearings, the court will decide on organization of oral court hearing in the near future. It is anticipated that the judgement of the EU General Court should be adopted in the second half of 2019.

In 2018, one of the other cases that was initiated by claimants AB Kauno tiltai, Trakcija 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 2,816 thousand for them (EUR 3,050 thousand of non-material damage). The Company raised a counterclaim regarding adjudication of EUR 14,990 thousand interest against the claimants. Vilnius Regional Administrative Court dismissed the claim by the decision dated 18 September 2018, and partly upheld the Company's counter-claim. The Court adjudged in solidarity EUR 1,042 thousand delayed payment charges and 9% annual interest from the adjudged amount for the benefit of the Company from the acceptance of the counter-claim at the court, i.e. 16 March 2015, until the court's decision is fully executed, EUR 18 thousand of stamp duty and EUR 25 thousand of litigation expenses. On 18 October 2018, the claimants lodged an appeal against the decision, the case was transferred to an appeal.

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 related case is solved.

Potential disputes

On 30 August 2018, VAS Latvijas dzelzcelš and SIA LDZ CARGO applied to the Company in writing demanding compensation for the damage incurred by these companies. According to these companies, they incurred the damage because the Company removed a rail track connecting Mažeikiai with the Latvian border, and the amount of damage is EUR 82,340 thousand. The above-mentioned companies also demand the payment of 6% interest for the period from the occurrence of damage until the date of indemnification. The Company disagrees with these claims and considers them unjustified, as, based on the claims submitted by VAS Latvijas dzelzcelš and SIA LDZ CARGO, it is currently impossible neither to reliably determine, whether these companies have actually incurred damages, nor measure the size of the alleged damage nor to tell, whether it is justified. In addition, the Company's claim regarding partial or full annulment of Decision C(2017) 6544 and/or reduction of the fine has not been heard at the General Court of the European Union and no final decision has been taken regarding the breach inflicted by the Company. Therefore, no provisions related to these claims have been accounted for in the financial statements.

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", in 2018 the Company signed a 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 56,207 thousand (excluding VAT). The expected maturity term of the contract is in 2021. The companies committed to build a European track gauge from Kaunas railway station to intermodal terminal located in Palemonas.

34. Subsequent events

In January 2019, a joint arrangement was concluded between the Company and AB LG CARGO on cooperation in freight transportation activities.

On 10 January 2019, LUAB Geležinkelių Aplinkosaugos Centras was liquidated and deregistered.

In February 2019, VšĮ Transporto Inovacijų Centras was established with the aim of developing a unified platform which would encourage interest in investments and their deployment in the Lithuanian communications sector.

On 28 February 2019, private limited liability company LG Keleiviams was registered with the Register of Legal Entities, which will gradually take over the activities of the Passenger Transportation Directorate.