FIRST half 2018

INTERIM REPORT OF AB LIETUVOS GELEŽINKELIAI

ABBREVIATIONS:

LG, Lietuvos Geležinkeliai or the Company – AB Lietuvos Geležinkeliai

Group – AB Lietuvos Geležinkeliai and its subsidiaries

Consolidated Interim Report, Separate and Consolidated Financial Statements, prepared for the period from January 1st 2018 to June 30th, 2018, in accordance with the 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.

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MANTAS BARTUŠKA
CEO
AB LIETUVOS GELEŽINKELIAI

Dear Customers, Employees, Partners,

I am glad to present the performance of AB Lietuvos Geležinkeliai and its Group of Companies in the first half of 2018 which improved in almost all positions.

Over the reporting period the Group generated more revenue and more profits. Financial results were mostly positively influenced by a considerable growth of freight flow. Last year Lietuvos Geležinkeliai took the leading freight carrier position in the Baltic States and continued holding it during the first year-half.

The passenger flow also demonstrated a significant growth over the same period.

Improving performance indicators of Lietuvos Geležinkeliai prove that our strategic focus towards increasing the operational efficiency, introducing innovations, creating value for customers and developing new services is already producing tangible results.

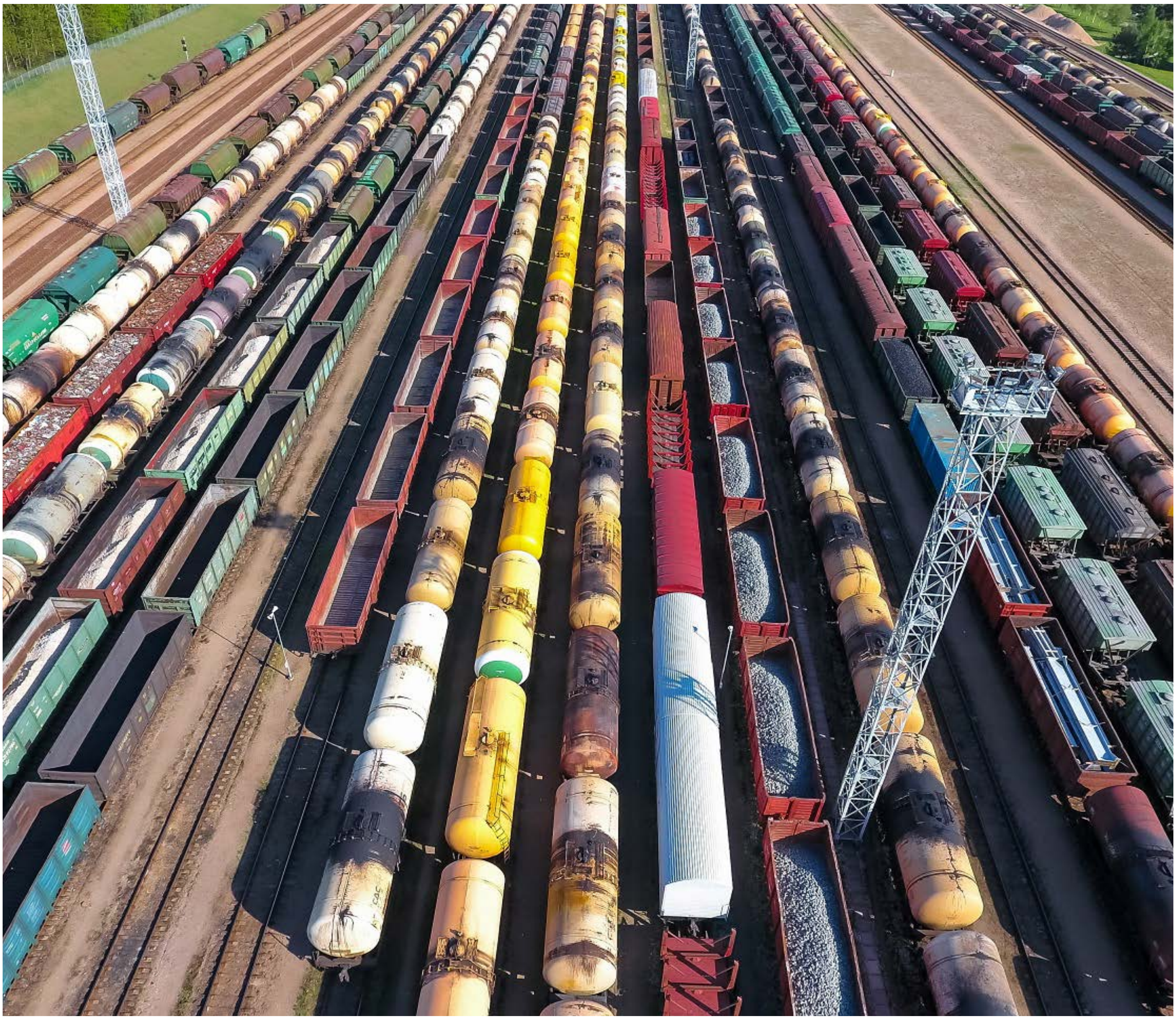
The ongoing changes introduced in 2017 in the Group of Lietuvos Geležinkeliai testify to the fact that we are on the right track – timely decisions and efficient implementation of measures have resulted in our Company becoming a modern organisation operating in line with the international transparency standards. So far, we have made a relatively small, yet strong step towards major changes. We have ambitious goals ahead of us that were set out in the long-term corporate strategy adopted this spring. By 2030 we expect to demonstrate sustainable growth of economic activities along with the commitment to generate benefits to our country and the people: to double the number of passengers, double the value of the Group, increase the annual revenue by more than one and a half times and generate 30 percent higher freight volumes.

To achieve these goals by 2030, we have planned a record-breaking 7 billion EUR investment which is to improve the railway safety, increase its capacities, and introduce more opportunities for domestic and trans-European transportation.

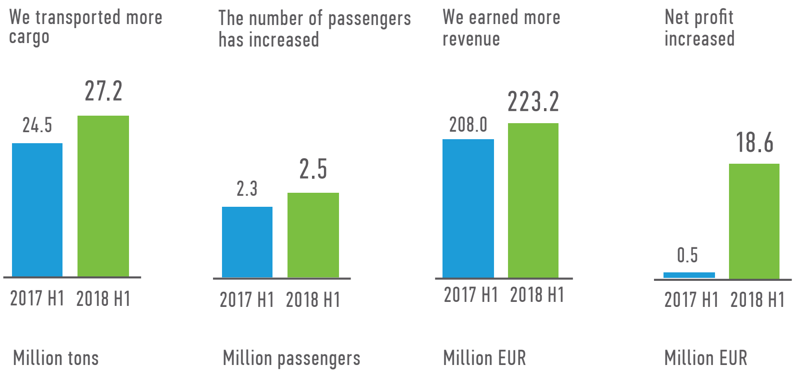
Yes, we are bold in our ambitions, but they are rationalized, therefore actually realistic. We put every effort to keep our promises with honour, responsibility and enthusiasm.

I believe that our consistent work will lead Lietuvos Geležinkeliai to taking strong positions among the five largest carriers in the European Union within the next decade.

About the Group and the Company



Group's results continued to grow in the first half of 2018



ACTIVITIES OF LIETUVOS GELEŽINKELIAI

ACTIVITIES OF LG:

Employees
Efficiency
LG for business
LG for passengers
Infrastructure

FREIGHT TRANSPORTATION AND OTHER SERVICES RELATED TO FREIGHT TRANSPORTATION ACTIVITIES

Results. In the first half of 2018, 27.2 million tons of cargo were transported, which is 11.1 percent more than in the same period of 2017. The Company mainly transported chemical and mineral fertilizers, oil and its products, constructions products, food products.

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

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

PASSENGER TRANSPORTATION AND OTHER SERVICES RELATED TO PASSENGER TRANSPORTATION ACTIVITIES

Results. In the first half of 2018, 2.5 million passengers took trains, which is 5.5 percent more than in the same period of 2017.

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

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

MANAGEMENT, MAINTENANCE AND DEVELOPMENT OF PUBLIC RAILWAY INFRASTRUCTURE

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

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

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

Strategy

MISSION

WE CONNECT PEOPLE AND BUSINESSES FOR A BETTER FUTURE

VISION

MOBILITY AND LOGISTICS LEADER IN CENTRAL AND EASTERN EUROPE

VALUES

WE ARE AMBITIOUS

WE WORK FOR OUR CLIENTS

WE RESPECT EACH OTHER

WE PROMOTE INTEGRITY

WE ARE RESPONSIBLE

LG GROUP GROWTH STRATEGY 2030

In response to the geographical and economic transport market fluctuations and in pursuance of ensuring consistent and effective strategic planning based on the principles of prudence, proactivity and transparency Lietuvos Geležinkeliai is in the process of implementing a new model for strategic planning and management. From now on Lietuvos Geležinkeliai will plan its activities not only in the short-term but also in the long-term perspective. Considering all the above, in April 2018 the Company adopted a long-term corporate strategy 2018-2030.

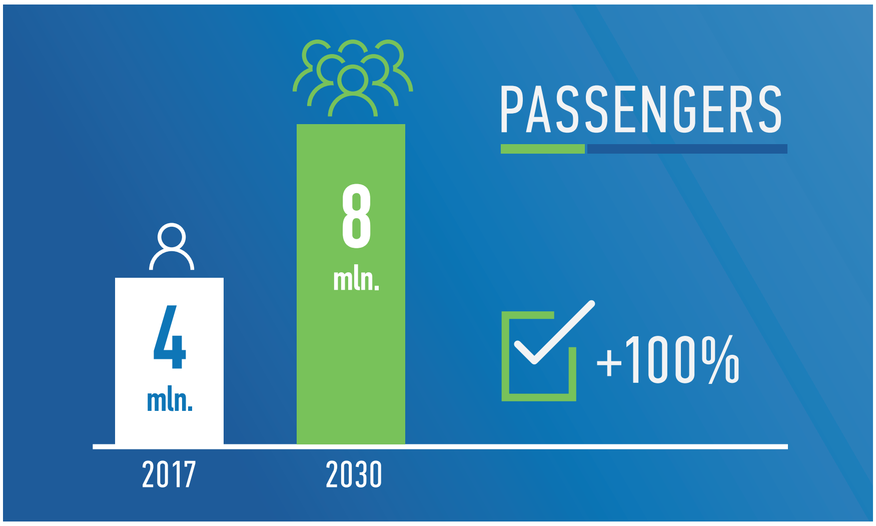
The long-term strategy of the Company covers all activities of the Lietuvos Geležinkeliai Group, i.e. freight and passenger transportation along with the related logistic services in the domestic and international markets, infrastructure management, delivery of top-priority investment projects and other 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 directions and goals of the long-term strategy of Lietuvos Geležinkeliai addressed the specific activities of the Group of Companies of Lietuvos Geležinkeliai, the business units are currently working on more detailed long-term strategies within specific business areas. Moreover, there are plans to draft shorter period planning documents on the basis of the long-term strategy of Lietuvos Geležinkeliai, adopt decisions on strategic changes within the Company, implementation of strategic investment projects or programs.

Long-term and short-term strategic planning of Lietuvos Geležinkeliai will be conducted with the help of newly implemented performance management system and the structure of the KPIs approved on the basis of this system.

LG GROUP GROWTH STRATEGY 2030 GOALS AND PRIORITIES

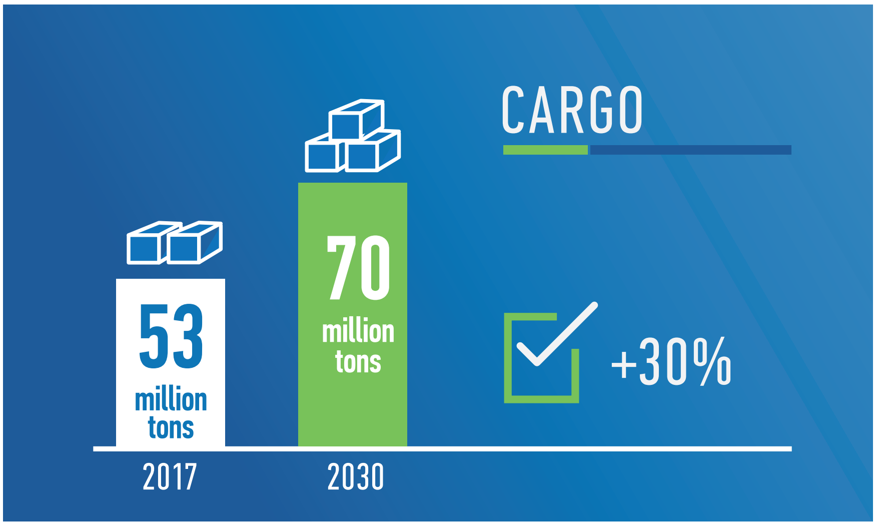
LG FOR PASSENGERS

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

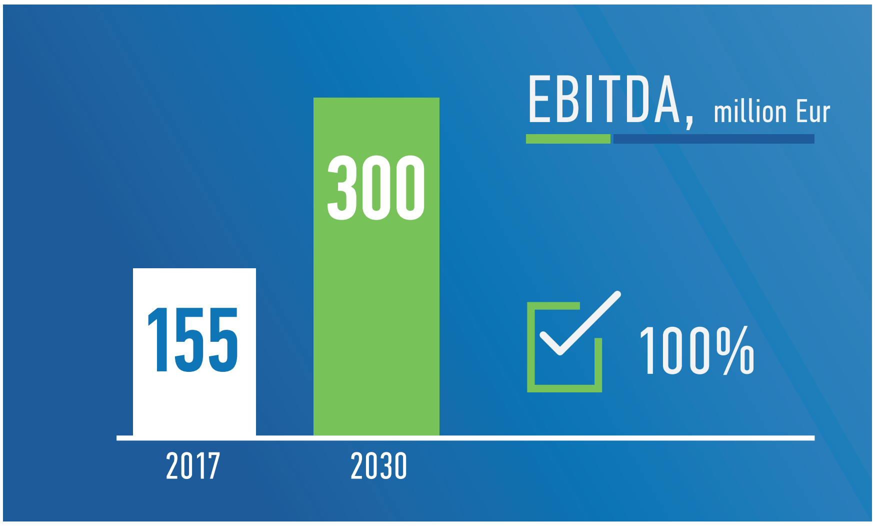
Reliable and safe, speed up to 250 km/h

EMPLOYEES

The best team

EFFICIENCY

Double value of the Group



Most Significant Events in first half 2018

JANUARY

- Lietuvos Geležinkeliai launched a new itinerary. On weekends passengers from Vilnius can travel to the second largest Latvia's city Daugpils in 2.5 hours.
- All electric trains started using renewable energy exclusively. The top destinations Vilnius-Kaunas are from now on pollution-free. 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 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.

FEBRUARY

- LG announced two international high value tenders where upon the market players are invited to compete on provision of maintenance and repair of railway tracks. 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 fertilizers Grodno Azot which on a yearly basis forwards approx. 0.5 million tons of nitrogen fertilizers to the Port of Klaipėda. Long term fixed transportation conditions shall allow the partners from Belarus expand the volumes of nitrogen fertilizers exported via the Port of Klaipėda by 15-20 percent 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 organized for the first time in history was coordinated by LG. Participants: 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.
- Lietuvos Geležinkeliai began reconstruction of Rengė railway section. Mantas Bartuška, CEO of Lietuvos Geležinkeliai and Daniel Obajtek, the President and CEO of PKN ORLEN laid the symbolic railway track on the Mažeikiai to Rengė in Latvia section under reconstruction. After a decade of traffic suspension, the refinery will again use the shortest route for transportation of its products to Latvia and Estonia. It is of major importance, as 20 percent output produced in the refinery located in Mažeikiai is sold to the markets north of Lithuania.

APRIL

- A long-term agreement was signed with Belaruskalij, the world's largest manufacturer and supplier of potash fertilizers. Until recently only short-term agreements were concluded between companies.
- 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 is one of the leading freight forwarders in Europe.
- Mantas Bartuška, CEO of LG, was honoured with the Lithuanian and Polish Business Conciliation Award.

MAY

- LG entered into the agreement with one of the largest railway freight carriers in Poland PKP Cargo and will provide 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 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 Lietuvos Geležinkeliai. The shares of the latter shall be further held by the State.
- An agreement was made with AB Amilina, a Panevėžys located biorefinery, regarding delivery of required materials and transportation of produced output by LG. The Company's switchers shall operate within the territory of the factory.
- 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

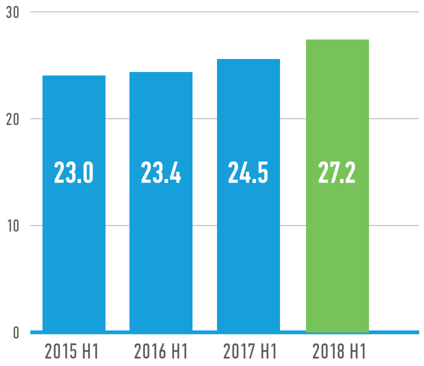
- LG signed an agreement with the joint activity partners UAB Hidrostatyba, Leonhard Weiss RTE AS and UAB Autokausta, winners of the tender on connection of Kaunas Railway Station and Kaunas Intermodal Terminal (KIT) in Palemonas with the European gauge.
- Executives of LG and Vilnius City drew-up a 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. 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.
- 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 joint this international network.

Overview of the Company's Activities

TRANSPORTATION VOLUMES		2017 H1	2018 H1	Change, %
Cargo turnover	**in billions tone km**	**7.2**	**8.1**	**12.2%**
Average distance travelled per tonne	**km**	**294.7**	**297.4**	**0.9%**
Freight carried	**in millions tons**	**24.5**	**27.2**	**11.1%**
Freight transportation segments				
Local transportation	in millions tons	6.9	7.0	2.5%
International transportation	in millions tons	17.6	20.2	14.5%
Transit	in millions tons	5.2	6.9	30.7%
Export from Lithuania	in millions tons	2.2	1.9	(11.8%)
Import to Lithuania	in millions tons	10.2	11.4	11.9%
Cargo types				
Chemical and mineral fertilizers	in millions tons	7.8	8.0	2.1%
Oil and its products	in millions tons	6.7	7.3	8.6%
Food products	in millions tons	2.5	2.7	7.9%
Construction materials	in millions tons	2.7	2.9	9.5%
Coal	in millions tons	1.8	2.7	49.3%
Ferrous metals	in millions tons	1.3	1.6	24.1%
Other cargo	in millions tons	1.7	2.0	19.9%
Passenger turnover	**in millions passenger km**	**208.7**	**228.3**	**9.4%**
Average distance travelled by passenger	**km**	**89.9**	**93.2**	**3.7%**
Passengers carried	**in millions**	**2.3**	**2.5**	**5.5%**
Domestic	in millions	1.9	2.0	4.5%
International	in millions	0.4	0.5	10.4%

FREIGHT TRANSPORTATION

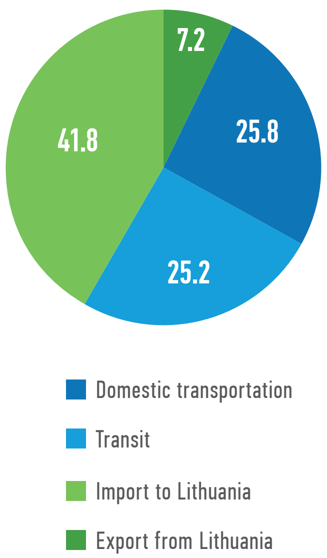
Cargo transportation volumes (in million tons)



With 27.2 million tons of carried freight Lietuvos Geležinkeliai hit the leading position across the Baltic railway companies. In H1 2018 the transportations increased by 11.1 % compared with the same period of 2017. The most significant growth was recorded by the international freight amounting to 74.2 % of the total freight structure. The Company carried 20.2 million tons of international freight, i.e. 14.5 % more compared to H1 2017. The vast majority of international freight volume consists of Belarusian and Russian cargo, with the respective turnover of 45 % and 48 % total amount of the international freight transported. The records of the reporting period show the most significant growth of transit to the Kaliningrad Region (31.0 %) and transit via Klaipėda Seaport (11.5 %).

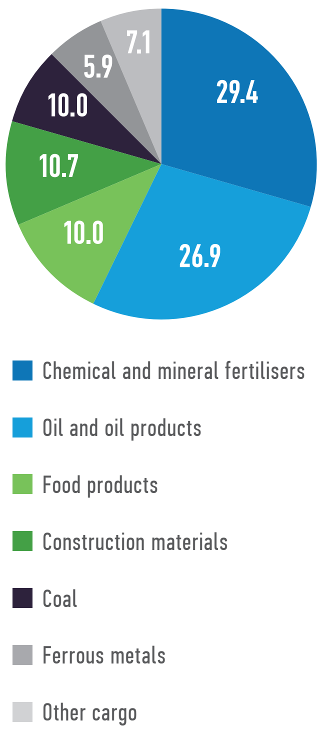
The growth of Russian freight carrying was driven by increased transportation of coal, oil and food products to the Kaliningrad Region and increased transportation of oil products and ferrous metals via Klaipėda Seaport. Whereas the growth of Belarusian freight volumes was conditioned by the increased transportations of oil and fertilizers via Klaipėda Seaport. At the end of 2017, the Company concluded a long-term contract with the Belarusian oil company BNK, and in April 2018 – with Belaruskalij, the largest producer and supplier of Belarusian potash fertilizers in the world. The contracts will strengthen the competitive advantage in the transport market; will open new opportunities for other participants within the transport sector – stevedoring companies and Klaipėda State Seaport.

Cargo transportation segments 2018 H1, %



Domestic freight volumes increased 2.5 % and amounted to 7 million tons in H1 2018. Domestic transportations accounted for 25.8 % total freight carried by LG. The production volumes and transportations of the Lithuanian top industrial companies (oil refinery AB ORLEN Lietuva, fertilizers and break-stone producers AB Lifosa, AB Achema, AB Akmenės Cementas, AB Dolomitas, etc.) have a significant impact on the freight transportation via rail in local, export and import markets. Upon decrease of the price of nitrogen fertilizers AB Achema transported less output over the reporting period. Meanwhile the domestic market recorded growth of freight volumes of the construction materials, food produces and oil products.

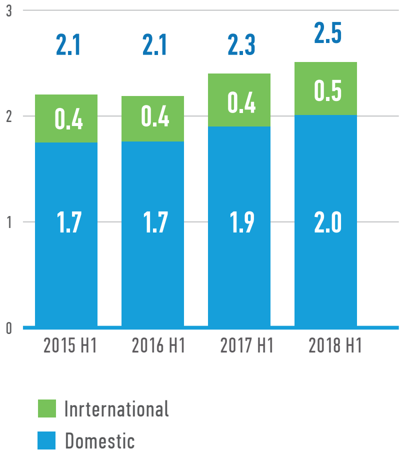
Cargo transportation structure 2018 H1, %



In H1 2018 the transport of chemical and mineral fertilisers dominated in the rail freight sector, its volume amounted to 8.0 million tons, or 29.4 % of the total rail freight. The transport of oil and oil products amounted to 7.3 million tons (26.9 %), construction materials – to 2.9 million tons (10.7 %), food products – to 2.7 million tons (10.0 %), coal – to 2.7 million tons (10.0 %).

CARRIAGE OF PASSENGERS

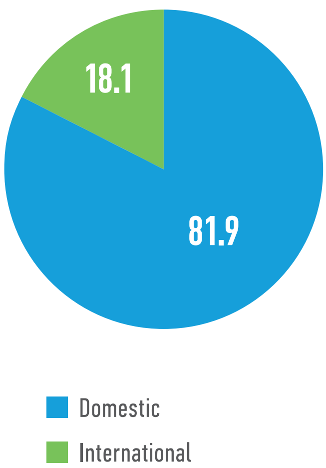
Passenger carriage volume (in million passengers)



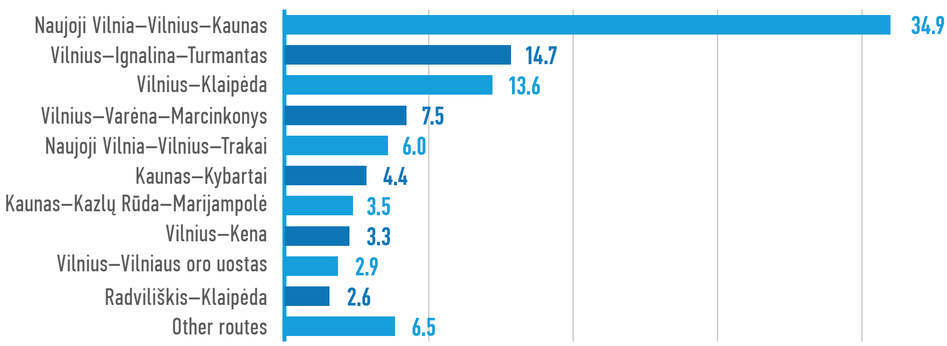
The Company carried 2.5 million passengers in H1 2018. Compared with the same period of 2017 the carriage of passengers increased by 5.5 %. Domestic carriage accounted for 81.9 %, whereas international transport – for 18.1 % of railway passengers.

In H1 2018 local trains transported 2.0 million passengers, i.e. 4.5 % more than in H1 2017. It was influenced by the measures taken by the Company to attract passenger flows (appealing marketing, improving schedule, new rolling stock, new itineraries launched, intermodal passenger transportations). The most popular itineraries remain the same: Naujoji Vilnia – Vilnius – Kaunas (34.9 % total domestic transportations) which welcomed 702 thousand passengers in H1 2018, i.e. 5.9 % more compared to H1 2017. Railway infrastructure repairs continue to have adverse impact on the transportations. Some trains travelling to Naujoji Vilnia – Vilnius – Trakai and Vilnius – Varėna – Marcinkonys got cancelled due to the on-going repair works.

Passenger market segments 2018 H1, %



Domestic transport strukture2018 H1, %



0.5 million passengers were travelling internationally accounting for 10.4 % higher numbers than in H1 2017. In H1 2018 LG transported 288 thousand transit passengers, i.e. 13.4 % more compared with the respective period in 2017. Currently transit trains travel to/from the Kaliningrad Region to Russia. It is the largest segment of international passengers accounting for 65.1 % total international transportations. Starting from the end of September the Ukrainian Railways have renewed passenger transportation on the route Kiev-Minsk-Vilnius-Riga.

The Company's train passengers travelled to/from Vilnius – Minsk and Vilnius-Daugavpils starting from January 2018. The trains to Daugavpils are departing on week-ends and stop at the same stations as in case of Vilnius-Turmantas. After the railway line Vilnius-Minsk was electrified and upon launch of new electric trains the passenger flow on this itinerary increased 8.7 % compared with H1 2017 and accounted for 148 thousand.

SERVICES OF THE PUBLIC RAILWAY INFRASTRUCTURE MANAGER

Total length of the railway
3,450 km

Of which electrified tracks
317.5 km

105
stations

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

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

Given the increasing volume of transportation, traffic safety, efficiency and capacity building are key priorities for infrastructure operations. 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 with over 1,451 billion EUR value.

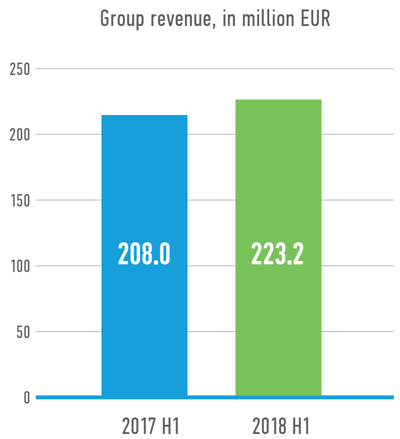
In 2018 the maximum train speed limits are 120 km/h passenger trains, 90 km/h freight trains. The maximum speed limit is determined by the overall standing of the railway infrastructure tracks, track facilities, communications, automation, signalling and power supply systems.

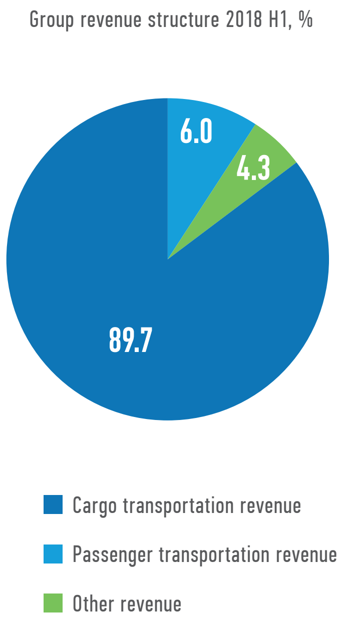
The rules of the railway network, the procedure for the use of the public railway infrastructure and taxation, and other documents necessary for access to the public railway infrastructure and its facilities are published on the website: http://www.litrail.lt.

Analysis of Financial and Operational Performance

ANALYSIS OF GROUP ACTIVITIES

GROUP REVENUE

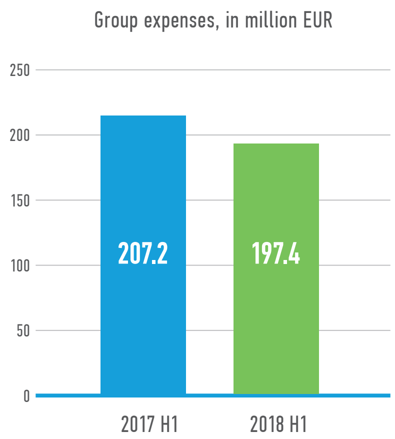




In H1 2018 the Group earned 223.2 million EUR of revenue, i.e. 15.2 million EUR or 7.3 % more than in H1 2017. Freight business accounted for the greatest part of the revenue, i.e. 89.7 %.

- **The revenue from freight business** was the most important factor behind the growth of revenue in H1 2018. The revenue amounted to 200.3 million EUR, i.e. 18.2 million EUR or 10.0 % more than in H1 2017. The substantial change was a result of the major growth of the volume of cargo transport business and related services.
- **Passenger transportation revenues** increased 0.8 million EUR or 6.6 % in H1 2018 and amounted to 13.4 million EUR. Passenger transportation revenues accounted for 6.0 % total revenues generated in the Group. Positive changes were conditioned by the increase of passenger transportation volumes both on domestic and international routes.
- The Group also offers **other additional services** – rolling stock maintenance and repair, leasing of property, sale of scrap metal and other services. Decrease in scrap sales resulted in lower revenues of this type generated over the reporting period.

GROUP EXPENSES

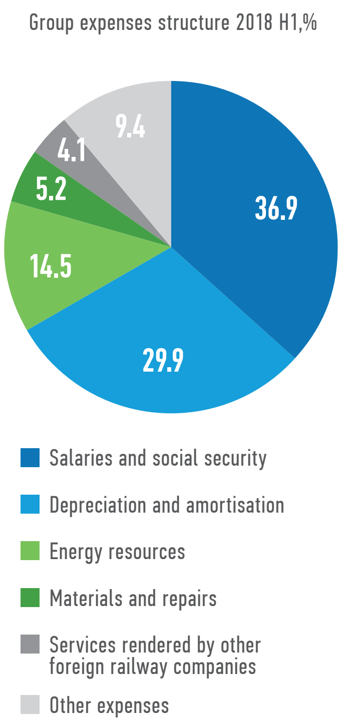


In H1 2018 the expenses of the Group related to the core and other businesses and amounted to 197.4 million EUR. The expenses decreased by 9.8 million EUR or 4.7 % as compared with H1 2017.

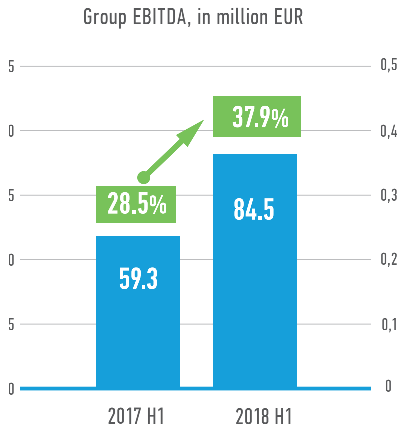
The larger proportion of the Group expenses is constituted by the labour costs (36.9 %), depreciation and amortisation (29.9 %) and energy resources (14.5 %).

As a result of the strategic transformation of the Group of companies and the implementation of measures to increase the operational efficiency, as well as reducing the number of employees, in H1 2018, the Group recorder 14.5 % lower costs related to the maintenance of personnel.

Whereas, upon increase of freight volumes and the price of diesel the fuel costs of the Company grew by 10.9 % during the reporting period.



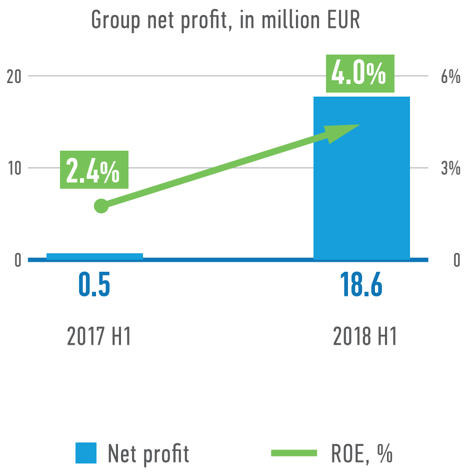
GROUP RESULTS



In H1 2018 net profit of the Group amounted to 18.6 million EUR, while in H1 2017 Group earned 0.5 million EUR of net profit.

Group EBITDA has increased from 59.3 million EUR in H1 2017 to 84.5 million EUR in H1 2018.

The greatest impact on the improvement of performance was made increase in freight transportation revenue by 10.0 % and reduction of costs by 4.7 %.

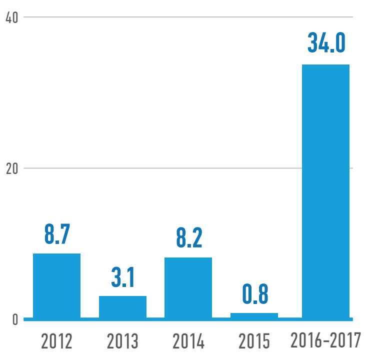


MAIN FINANCIAL INDICATORS
(AMOUNTS IN MILLION EUR, UNLESS OTHERWISE SPECIFIED)

		Group			Company		
		2017 H1	2018 H1	Change, %	2017 H1	2018 H2	Change, %
Revenue	million EUR	208.0	223.2	7.3%	204.8	221.7	8.3%
Cost of sales	million EUR	176.0	168.2	(4.5%)	172.6	173.8	0.7%
Operating expenses	million EUR	31.0	28.9	(6.6%)	29.8	25.1	(15.8%)
EBITDA	million EUR	59.3	84.5	42.4%	61.5	82.9	34.9%
Adjusted EBITDA	million EUR	47.4	84.3	77.9%	49.5	82.7	66.9%
EBITDA margin	%	28.5%	37.9%		30.0%	37.4%	
Adjusted EBITDA margin	%	22.8%	37.8%		24.2%	37.3%	
EBIT	million EUR	0.7	25.5	3,514.5%	3.1	23.1	651.3%
EBIT margin	%	0.3%	11.4%		1.5%	10.4%	
Net profit	million EUR	0.5	18.6	3,393.0%	3.0	16.7	455.0%
Net profit margin	%	0.3%	8.4%		1.5%	7.5%	
		31/12/2017	30/06/2018	Change, %	31/12/2017	30/06/2018	Change, %
Fixed assets	million EUR	1,909.8	1,870.9	(2,0%)	1,904.1	1,870.2	(1.8%)
Current assets	million EUR	157.8	161.4	2,3%	140.6	141.3	0.5%
Total assets	million EUR	2,067.6	2,032.3	(1,7%)	2,044.7	2,011.5	(1.6%)
Own capital	million EUR	1,138.7	1,155.3	1,5%	1,127.1	1,143.8	1.5%
Financial debt of the Group	million EUR	268.5	239.8	(10,7%)			
Part of financial debt of subsidiaries	%	4.7%	5.3%				
Net debt	million EUR	185.0	166.5	(10,0%)	178.6	159.4	(10.7%)
Return on equity (ROE)	%	2.4%	4.0%		2.3%	3.5%	
Net debt / Adjusted EBITDA	times	1.3	0.9		1.2	0.9	
Debt / Adjusted EBITDA	times	1.9	1.4		1.9	1.4	
Equity ratio	%	55.1%	56.9%		55.1%	56.9%	
Group debt servicing ratio	times	2.8	2.4		3.6	2.2	
Debt / Equity	%	24.6%	21.9%		23.6%	20.9%	
Asset turnover indicator	times	0.2	0.2		0.2	0.2	
Total liquidity rate		1.1	1.3		1.0	1.2	

DIVIDEND POLICIES

Dividends, in million EUR

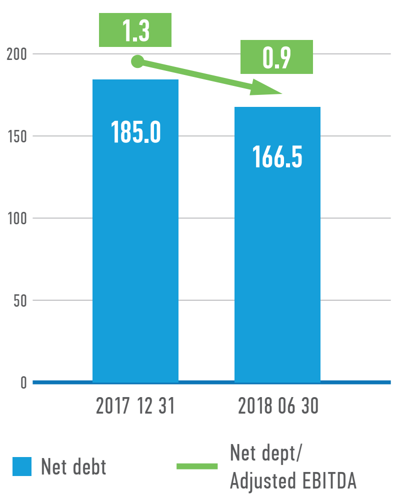


The payment of dividends by state-owned enterprises is regulated by the Order No. 786 adopted by the Government of the Republic of Lithuania on 11 August 2016 which determines the proportion of profit to be paid as dividends, depending on the achieved rate of return on capital. In case the return on the capital of a company for the accounting year does not exceed 3 %, the proportion of profit allocated for dividends shall be no less than 80 % of the company's distribution. The cases are provided in the Order where the Government of the Republic of Lithuania can set a lower proportion of profit to be paid as dividends; one of them being a case where the company is implementing an economic project of national importance recognised by the Government of the Republic of Lithuania or is participating in implementing such projects. In the case of the Company it is the projects of Rail Baltica and the Lithuanian part of the East-West transport corridor (Klaipėda national harbour, roads and railway infrastructure complex).

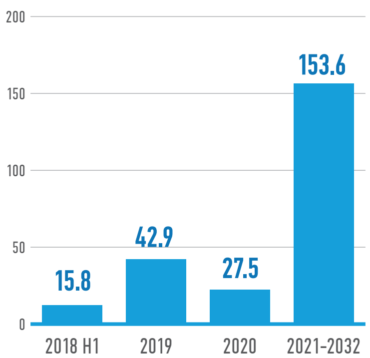
By the decision of the shareholder as of 24 July 2018 and upon approval of the financial statements and profit (loss) distribution for 2016-2017 the Company allocated 34 million EUR dividends for the period.

GROUP FUNDING

Group financial debt, in million EUR



Group debt repayment, in million EUR



As of 30 June 2018, the net debt of the Group amounted to 166.5 million EUR. Compared to 2017, the ratio decreased by 10 % or 18.5 million EUR. The decrease of the net debt was the result of the repayment of 28.7 million EUR of financial debt.

As of 30 June 2018, the cash balance of the companies of the Group amounted to 73.3 million EUR, i.e. 10.2 million EUR less than as of 31 December 2017.

As of 30 June 2018, the weighted average interest rate of the debt portfolio of LG amounted to 2.2 %.

The ratio of the net debt of the Group and adjusted EBITDA for the last twelve months decreased from 1.3 in 2017 to 0.9 in 2018.

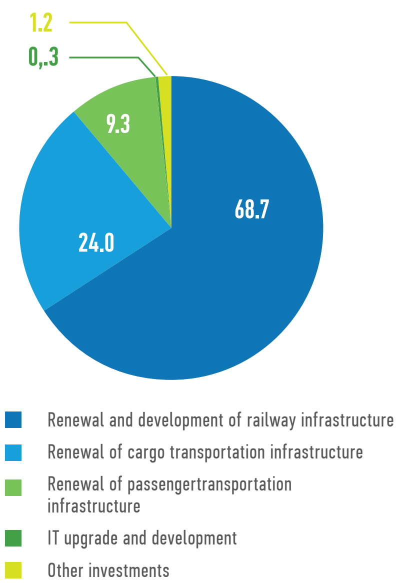
The longest debt repayment period reached 14 years, and the last deadline for the repayment is 2032.

The ratio of the Group debt and equity decreased from 24.6 % in 2017 to 21.9 % in 2018. The debt level of the Group remains sufficiently low both in relation to profits and capital structure.

Compared to 2017, liquidity ratio of the Group increased from 1.1 to 1.3.

INVESTMENTS

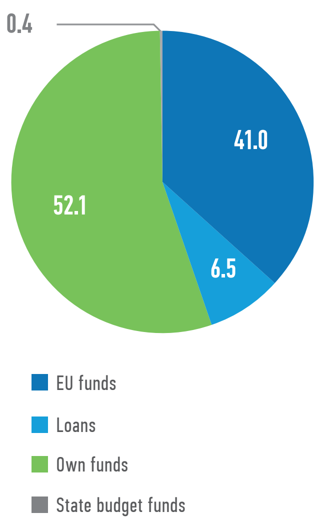
Group investments structure 2018 H1, %



In H1 2018 investments of the Group amounted to EUR 36.5 million, including the investment of EUR 36.1 million by LG. More than a half of investments, i.e. 52.1 % have been financed with own funds. In H1 2018 EUR 15.0 million of EU funds have been used. The majority of investments went to the upgrade and expansion of the railway infrastructure (68.7 %), the investments to the upgrade of freight transportation assets significantly increased as well (24.0 %).

Group investments, EUR million	2017 H1	2018 H1	Change, %
Renewal and development of railway infrastructure	27.9	25.1	(10.1%)
Renewal of cargo transportation infrastructure	2.0	8.8	328.5%
Renewal of passenger transportation infrastructure	9.6	2.1	(77.8%)
IT upgrade and development	0.3	0.1	(53.4%)
Other investments	0.1	0.4	187.2%
Total	**39.9**	**36.5**	**(8.5%)**

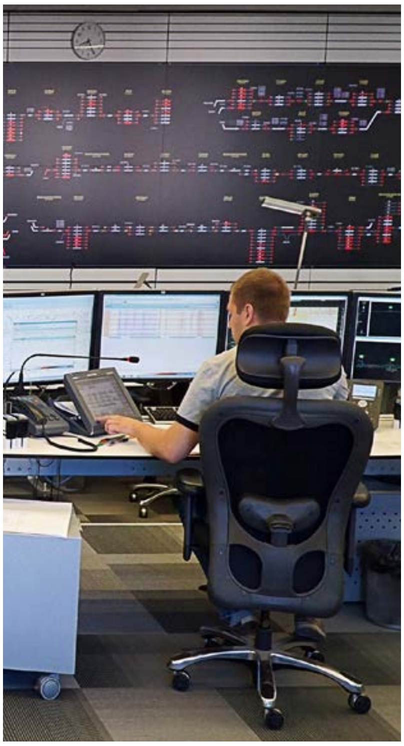
Group investments funding structure 2018 H1, %



Major investment projects and works completed in first half of 2018:

- the Company pursued the implementation of Rail Baltica Project – completion of reconstruction of Jiesia–Rokai railway section; contract signed on contracting works for the reconstruction of Kaunas–Palemonas railway section; the procurement of technical maintenance services is in progress; documents required for taking over the land in the interest of the public are being drafted, the procedures for asset valuation and other works required for installation of a new 1435 mm gauge in the stretch of Kauno to LT/LV state border; a contract for the publicity of services delivered on Jiesia–Rokai–Palemonas–Kaunas section within the scope of Rail Baltica project was signed;
- further implementation of other important public railway infrastructure investment projects such as Construction of the Second Track on Telšiai–Lieplaukė Section; Construction of the Second Track on Pušynas–Paneriai within IXB Corridor Vilnius Bypass;
- in an effort to increase the competitiveness of the Company, and with the view to implement the provisions of the 2014–2022 National Program for Transport Development approved by the Government of the Republic of Lithuania which provide for the electrification of corridor IX used for transit cargo transport, it has been decided to electrify the Vilnius hub and the railway stretch from Kaišiadorys until Klaipėda (Draugystės station) by the end of the 2014–2020 financing period, using the resources of Cohesion Fund. The main track reconstruction works at Vilnius hub have been completed in 2017. A public procurement procedure on procurement of project works for electrification of Vilnius–Klaipėda is currently in progress;
- a project on mitigating noise caused by the railways is in progress – contracts signed on design works at Lentvaris and Kaišiadorys stations;
- the core railway track upgrade program has been launched;
- other Company funded railway infrastructure facility construction and repair works carried out (station facilities, bridges, viaducts, passageways, heating facilities at the stations, etc.);
- a program for repairing freight and passenger rolling stock;
- the Company’s finance and management accounting IT systems were upgraded.

HUMAN RESOURCES



Employees are the key factor for the Group to optimize the use resources, develop competencies and strengthen organizational culture which helps to create added value. To deliver the ambitious people agenda a Human Resources Department was established in July 2017.

The first year-half of 2018 was dedicated to one of the strategic focuses of LG, i.e. changing the organizational culture. In order to make this change, LG Group of companies has redefined common values and essential leadership competences. The Company continues implementation of the employee performance management process and new remuneration management models. Employees are continuously offered training to increase their professional improvement and ensure safe working methods are used.

The team of HR business partners, specialised HR management competence units and centralised HR administration service centre – they all, along with the close, mutual trust-based cooperation with the social partners, help to achieve the best possible business results.

The average number of employees of the Group has decreased from 11,128 in H1 2017 to 9,868 in H1 2018. The vast majority of the employees of the Group work at Lietuvos Geležinkeliai.

Company	Average number of employees 2018 H1	Average salary, in EUR 2018 H1
AB Lietuvos geležinkeliai	7,276	1,196
UAB Vilniaus lokomotyvų remonto depas	1,048	1,048
UAB Geležinkelio tiesimo centras	517	1,136
UAB Gelsauga	1,023	722
UAB Rail Baltica statyba	4	1,324
Group total	**9,868**	

In H1 2018 the average number of employees of LG amounted to 7,276, i.e. 2,096 employees by 22.4 % less compared to H1 2017. The reduction of employees is a result of the strategic transformation of the Group of companies and the implementation of measures to increase the operational efficiency. The average monthly salary increased from 1,076 EUR to 1,196 EUR, representing the increase by 11.2 %.

Particular attention is paid to demographic trends and their impact on the organization. The Company has approved and implemented the diversity policy. Extensive programs of young talents and apprentices are being continued.

Employee groups by position	Average number of employees of the Company 2017 H1	2018 H2
Top level management	9	9
Middle managers, senior specialists	1,328	1,161
Specialists, workers	8,035	6,106
Total	**9,372**	**7,276**

Employee groups by position	Average salary paid by Company, in EUR 2017 H1	2018 H2
Top level management	5,399	5,326
Middle managers, senior specialists	1,695	1,804
Specialists, workers	970	1,074
Total	**1,076**	**1,196**

For more information on HR management in the Group please refer to Annual Report of Lietuvos Geležinkeliai 2017, available at http://www.litrail.lt.

DEFINITIONS

Financial debt of the Group	Group indebtedness for borrowed money, including financial leasing
Part of financial debt of subsidiaries	Financial debt of subsidiaries / Financial debt of the Group
Net debt	Group indebtedness for borrowed money, including financial leasing – cash and cash equivalents investments
Debt	Group indebtedness for borrowed money, including financial leasing + pension liabilities
Return on equity (ROE)	Net profit (loss) of a period of 12 months ending on reporting date / Average amount of equity on reporting date
EBIT	Profit (loss) before taxes + interest expenses – interest income
EBITDA	Profit (loss) before taxes + interest expenses – interest income + depreciation and amortisation
Adjusted EBITDA	Adjusted EBITDA – Profit (loss) before taxes + Interest expenses – Interest income + Depreciations and amortisation expenses + impairment expenses of non-current assets + write-off expenses of non-current assets + write-off inventories and amounts receivable + expenses on provisions related with one-off items
EBIT margin	EBIT / Revenue
EBITDA margin	EBITDA / Revenue
Adjusted EBITDA margin	Adjusted EBITDA / Revenue
Net profit margin	Net profit (loss) / Revenue
Equity ratio	Equity at the end of the period / total assets at the end of the period
Group debt servicing ratio	Net profit (loss) + depreciation and amortisation + interest income for period of 12 months ending on reporting date (adjusted for non-cash item) / Amortisation of interest payments on debt due reporting date
Asset turnover indicator	Revenue of a period of 12 months ending on reporting date / Total assets at the end of the period
Total liquidity rate	Current assets at the end of the period / Current liabilities at the end of the period
Average number employees	The average number of listed employees is the amount of the number of full-time employees working the entire month and the number of part-time employees converted into the full-time
Average salary	The average salary is bruto salary per employee

Basic Information about the Group and the Company

Name	AB Lietuvos Geležinkeliai
Legal form	Public limited liability company
Registration date	24 December 1991
Legal entity code	110053842
Address	Mindaugo St. 12, LT-03603 Vilnius
Phone	(+370 5) 269 2038
E-mail	info@litrail.lt
Website	http://www.litrail.lt; http://www.traukiniobilietas.lt
MAIN ACTIVITY	Freight and passenger carriage by railways, railway network administration, public railway infrastructure management, maintenance and development

GOVERNANCE BODIES

Bodies of Lietuvos Geležinkeliai

Romas Švedas – an independent member of the Board, chairman of the Board, lecturer at the Vilnius University Institute of International Relations and Political Science

Vladislav Kondratovič – Director of the Road Transport and Civil Aviation Policy Department of the Ministry of Transport and Communications of the Republic of Lithuania

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

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

Mantas Bartuška – CEO of AB Lietuvos Geležinkeliai

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

Alditas Saulius– an independent member of the Board, member of the Board of UAB Investicijų Ir Verslo Garantijos

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

SUBSIDIARIES AND ASSOCIATED COMPANIES OF LIETUVOS GELEŽINKELIAI

UAB Vilniaus lokomotyvų remonto depas	Rolling stock repair and production Švitrigailos St. 39/16, LT-03209 Vilnius, http://vlrd.lt
UAB Geležinkelio tiesimo centras	Railway infrastructure repair and construction Trikampio St. 10, LT-25112 Lentvaris, Trakai region, http://www.gtc.lt
UAB Gelsauga	Provision of security and cleaning services Prūsų St. 1, LT-02151 Vilnius, http://www.gelsauga.lt
UAB Rail Baltica statyba	Implementation of the functions of shareholder of the Joint Venture of the Baltic States, RB RAIL AS supervising the project "Rail Baltica 2" at Mindaugas St. 12, LT-03603 Vilnius, http://rbs1435.lt
UAB voestalpine VAE Legetecha	Production of railway switches Draugystės St. 8, LT-13220 Valčiūnai, Vilnius region, http://www.voestalpine.com/vae
VšĮ Geležinkelių logistikos parkas	Public Institution owned by the Vilnius City Municipality and AB Lietuvos Geležinkeliai (the Company's contribution accounts for 79,61%), responsible for the development and management of the logistics park of the Vilnius Public Logistics Centre Švitrigailos St. 39, LT-03209 Vilnius, http://www.logisticspark.lt

REPRESENTATIVE OFFICES ABROAD

Representative office in the Russian Federation	Novoriazanskaya St. 12, office No. 414, 107228, Moscow
Representative office in the Republic of Belarus	Internacionalnaya St. 36-1, office No. 423, 220030, Minsk
Representative office in the People's Republic of China	XiaGuangLi 15, XiaoYun Center B, Office 2307, Chaoyang District, Beijing, 100125
Representative office in the Republic of Kazakhstan	Kunajevo St. 6, office 310/10, Astana
Representative office in Poland	al. Jerozolimskie 65/79, 00-687, Warsaw

COMPANY MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS

Community of European Railway and Infrastructure Companies (CER), International Union of Railways (UIC), International Rail Transport Committee (CIT), European Union Agency for Railways (ERA), Organization for Co-operation between Railways (OSJD,) Rail Transport Council for the CIS countries, Estonia, Latvia, Lithuania and Bulgaria (GTT), the Platform of Rail Infrastructure Managers in Europe (PRIME), Rail Freight Corridor North Sea-Baltic (RFC8), RailNetEurope (RNE).

Part II

Consolidated and Separate Interim Financial Statements Prepared in Accordance with International Financial Reporting Standarts,

for the end of 30 June 2018

Contents

(all amounts are in thousand EUR unless otherwise stated)

Consolidated and separate interim statements of financial position 30 June 2018

	Notes	Group		Company	
		30/06/2018	31/12/2017	30/06/2018	31/12/2017
NON-CURRENT ASSETS					
Intangible assets		22,842	24,445	22,716	24,239
Property, plant and equipments	4	1,840,987	1,878,028	1,799,382	1,831,479
Investment property		1,180	1,464	7,893	8,177
Investments		3,952	4,194	40,161	40,161
Trade and other receivables		120	66	54	-
Deffered tax assets	12	1,830	1,628	-	-
Total non-current assets		**1,870,911**	**1,909,825**	**1,870,206**	**1,904,056**
CURRENT ASSETS					
Inventories	5	44,313	35,736	33,029	25,679
Non-current assets held-for-sale		733	755	733	755
Prepayments		2,125	1,816	1,766	1,383
Trade and other receivables	6	40,848	35,904	37,996	35,541
Cash and cash equivalent		73,328	83,536	67,778	77,253
Total current assets		**161,347**	**157,747**	**141,302**	**140,611**
TOTAL ASSETS		**2,032,258**	**2,067,572**	**2,011,508**	**2,044,667**

The accompanying explanatory notes form an integral part of these finacial statements

(all amounts are in thousand EUR unless otherwise stated)

Consolidated and separate interim statements of financial position 30 June 2018

	Notes	Group		Company	
		30/06/2018	31/12/2017	30/06/2018	31/12/2017
EQUITY					
Share capital		1,057,982	1,057,982	1,057,982	1,057,982
Legal reserve		27,066	27,066	27,066	27,066
Other reserves		13,307	13,307	13,307	13,307
Retained earnings (losses)		56,974	40,339	45,463	28,755
Total equity		**1,155,329**	**1,138,694**	**1,143,818**	**1,127,110**
NON-CURRENT LIABILITIES					
Grants		519,065	520,962	518,984	520,868
Loans and borrowings	8	195,543	236,128	195,543	223,400
Provisions		14,424	14,400	14,400	14,400
Employee benefits	9	13,246	11,725	11,536	10,174
Trade and other payables	10	3,274	3,937	3,274	3,935
Received prepayments		433	422	433	422
Deferred tax liabilities	12	2,266	2,605	2,256	2,595
Total non-current liabilities		748,251	790,179	746,426	775,794
CURRENT LIABILITIES					
Loans and borrowings	8	44,251	32,405	31,653	32,405
Provisions		214	214	-	-
Received prepayments		3,441	5,341	3,664	5,169
Trade and other payables	10	42,054	61,012	53,339	70,423
Employee benefits	9	27,853	33,329	22,456	27,612
Corporate income tax liabilities		10,865	6,398	10,152	6,154
Total current liabilities		128,678	138,699	121,264	141,763
Total liabilities		**876,929**	**928,878**	**867,690**	**917,557**
TOTAL EQUITY AND LIABILITIES		**2,032,258**	**2,067,572**	**2,011,508**	**2,044,667**

The accompanying explanatory notes form an integral part of these finacial statements

Financial statements and explanatory notes on pages from 35 till 55 were approved and signed:

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

(all amounts are in thousand EUR unless otherwise stated)

Consolidated and separate interim statements of profit or loss and other comprehensive income for the six months period ended 30 June 2018

	Notes	Group		Company	
		30/06/2018	30/06/2017	30/06/2018	30/06/2017
Revenue	11	223,209	207,955	221,745	204,788
Other income		337	579	326	519
Total income		223,546	208,534	222,071	205,307
Salaries and social security		(72,928)	(85,249)	(70,210)	(82,268)
Depriciation and amortization		(59,052)	(58,640)	(59,873)	(58,410)
Fuel		(25,240)	(22,764)	(25,587)	(22,779)
Materials		(3,206)	(10,768)	(2,947)	(8,394)
Services rendered by other foreign railway companies		(8,098)	(9,318)	(8,098)	(9,318)
(Increase) in impairment and write down		165	11,949	238	11,949
Electricity		(3,323)	(3,102)	(3,406)	(3,092)
Decrease (increase) in provisions and accruals		(1,535)	(1,342)	(1,861)	(1,560)
Repairs		(7,068)	(1,452)	(7,836)	(1,712)
Other expenses		(17,114)	(26,561)	(19,665)	(27,074)
Operating profit (loss)		26,147	1,287	22,826	2,649
Finance income		96	39	238	675
Finance costs		(2,177)	(2,897)	(2,144)	(2,891)
Share of profit of equity accounted investees		(773)	(370)	-	-
Profit (loss) before taxation		23,293	(1,941)	20,920	433
Corporate income tax	12	(4,651)	2,475	(4,212)	2,578
Net profit (loss)		**18,642**	**534**	**16,708**	**3,011**
Other comprehensive income (expenses)		-	-	-	-
Items that will never be reclassified to profit or loss		-	-	-	-
Items that are or may be reclassified to profit or loss		-	-	-	-
Total comprehensive income (expences)		**18,642**	**534**	**16,708**	**3,011**

The accompanying explanatory notes form an integral part of these finacial statements

(all amounts are in thousand EUR unless otherwise stated)

Consolidated and separate interim statements of changes in equity for the six months period ended 30 June 2018

Group	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings (losses)	Total
Balance as at 31 December 2016	1,057,958	-	27,066	13,307	13,352	1,111,683
Net profit (loss)	-	-	-	-	534	534
Total comprehensive income (expenses)	-	-	-	-	*534*	*534*
Reduction of authorised capital	(77)	-	-	77	-	-
Total transactions with owners of the Company	*(77)*	-	-	*77*	-	-
Balance as at 30 June 2017	**1,057,881**	**-**	**27,066**	**13,384**	**13,886**	**1,112,217**
Balance as at 31 December 2017	1,057,982	-	27,066	13,307	40,339	1,138,694
Previous year result	-	-	-	-	(2,007)	(2,007)
Recalculated balance as at 31 December 2017	1,057,982	-	27,066	13,307	38,332	1,136,687
Net profit (loss)	-	-	-	-	18,642	18,642
Total comprehensive income (expenses)	-	-	-	-	*18,642*	*18,642*
Total transactions with owners of the Company	-	-	-	-	*18,642*	*18,642*
Balance as at 30 June 2018	**1,057,982**	**-**	**27,066**	**13,307**	**56,974**	**1,155,329**

The accompanying explanatory notes form an integral part of these finacial statements

(all amounts are in thousand EUR unless otherwise stated)

Consolidated and separate interim statements of changes in equity for the six months period ended 30 June 2018

Company	**Share capital**	**Share premium**	**Legal reserve**	**Other reserves**	**Retained earnings (losses)**	**Total**
Balance as at 31 December 2016	1,057,958	-	27,066	13,307	3,200	1,101,531
Net profit (loss)	-	-	-	-	3,011	3,011
Total comprehensive income (expenses)	-	-	-	-	*3,011*	*3,011*
Reduction of authorised capital	(77)	-	-	77	-	-
Total transactions with owners of the Company	*(77)*	-	-	*77*	-	-
Balance as at 30 June 2017	**1,057,881**	**-**	**27,066**	**13,384**	**6,211**	**1,104,542**
Balance as at 31 December 2017	1,057,982	-	27,066	13,307	28,755	1,127,110
Net profit (loss)	-	-	-	-	16,708	16,708
Total comprehensive income (expenses)	-	-	-	-	*16,708*	*16,708*
Total transactions with owners of the Company	-	-	-	-	*16,708*	*16,708*
Balance as at 30 June 2018	**1,057,982**	**-**	**27,066**	**13,307**	**45,463**	**1,143,818**

The accompanying explanatory notes form an integral part of these finacial statements

(all amounts are in thousand EUR unless otherwise stated)

Consolidated and separate interim statements of cash flows for the six months period ended 30 June 2018

	Group		Company	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Cash flows from operating activities				
Net profit (loss)	**18,642**	**534**	**16,708**	**3,011**
Adjustment to non-cash items:				
Depreciation and amortization expences	69,360	69,289	67,422	66,612
(Depreciation) of grants	(7,563)	(7,627)	(7,550)	(7,612)
(Gain) loss from disposal/write-off of non-current assets	(222)	110	(280)	59
Impairment (reversal)	(165)	(11,949)	(238)	(11,948)
Change in accrued income/expences	(542)	(361)	(918)	(504)
Interest (income) expences	2,155	2,645	2,129	2,635
Increase (decrease) in provisions	1,543	236	1,362	292
Effect of currency Exchange fluctuations	35	(73)	35	(75)
Corporate income tax expenses (income)	4,651	(2,475)	4,212	(2,578)
(Profit) loss of an associated company	773	370	-	-
Cash flows from operating activities after adjustment to non-cash items	88,667	50,699	82,882	49,892
Changes in working capital				
Decrease (increase) in inventories	(8,520)	2,922	(7,272)	3,212
Decrease (increase) in trade and other receivables and prepayments	(12,225)	1 618	(6,518)	(484)
Increase (decrease) in current and non-current trade payables and received prepayments	7,458	1,675	14,001	915
Increase (decrease) in employment related liabilities	(5,476)	(263)	(5,156)	169
Increase (decrease) in other non-current and current payables	(22,200)	3,130	(26,954)	2,339
(Paid) corporate income tax	(1,147)	(535)	(968)	(486)
Net cash flows from operating activities	46,557	59,246	50,015	55,557
Cash flows from investing activities				
(Asquisition) disposal of non-current assets	(31,014)	(46,016)	(34,045)	(42,595)
Received dividends	-	-	149	680
Received interest	9	29	4	-
Loans granted	(50)	-	(50)	-
Net cash flows from investing activities	(31,055)	(45,987)	(33,942)	(41,915)
Cash flows from financing activities				
Loans received	12,598	12,561	-	-
Loans (repaid)	(41,336)	(30,954)	(28,608)	(18,786)
Grants received (repaid)	5,677	10,140	5,678	10,140
Interest (paid)	(2,649)	(3,356)	(2,618)	(3,317)
Net cash flows from financing activities	(25,710)	(11,609)	(25,548)	(11,963)
Net increase (decrease) in cash flows	(10,208)	1,650	(9,475)	1,679
Cash and cash equivalents at the beginning of the period	83,536	20,666	77,253	11,936
Cash and cash equivalents at the end of the period	**73,328**	**22,316**	**67,778**	**13,615**

(all amounts are in thousand EUR unless otherwise stated)

1. General information

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

The Company is a legal entity independently organising economic, financial, organisational and legal activities. The Company is an authorised capital Company and the Republic of Lithuania acts as a shareholder of the Company. The Company's registration code 110053842, VAT payer's code LT100538411, legal (registration) address: Mindaugo St. 12, LT-03603 Vilnius.

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

As at 30 June 2017 and 2018 the Republic of Lithuania represented by the Ministry of Transport and Communications was the sole shareholder of the Company.

As of 30 June of 2018, the authorized capital of the Company was formed by 3,653,002 ordinary shares with the nominal value per one share equal to 289.62 EUR. The authorized capital was 1,057,982 thousand EUR. The Company has not acquired its own shares.

As at 30 June 2018, the Group comprised the Company and its subsidiaries.

Company	Company's address	Owned share, %		Main activities
		30/06/2018	31/12/2017	
UAB Geležinkelio tiesimo centras	Trikampio St. 10, Lentvaris	100	100	Railway construction
UAB Vilniaus lokomotyvų remonto depas	Švitrigailos St. 39/16, Vilnius	100	100	Major overhauls to locomotives and diesel trains
UAB Gelsauga	Prūsų St. 1, Vilnius	100	100	Railway security services, cleaning, installation and maintenance of video surveillance systems
LUAB Geležinkelių aplinkosaugos centras	Konstitucijos Ave. 8 A, Vilnius	100	100	Greenery protection and up keeping. Under liquidation
UAB Rail Baltica statyba	Mindaugo St. 12, Vilnius	100	100	Development and implementation of international railway infrastructure project in the Baltic states
BAB Lietuvos jūrų laivininkystė	Malūnininkų St. 3, Klaipėda	56.66	56.66	In bankruptcy, non-consolidated
VšĮ Geležinkelių logistikos parkas	Konstitucijos Ave. 3, Vilnius	79.61	79.61	Logistic park searching for investment opportunities. The Company is not significant thus not material for consolidation

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

Consolidated and separate interim explanatory note for the six months period ended 30 June 2018

1. General information (continued)

Investments to the associated companies are specified below.

Company	Company's address	Owned share, %		Main activities
		30/06/2018	31/12/2017	
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 international railway infrastructure project in the Baltics. Controlled through UAB Rail Baltica Statyba
UAB Lokomotyvai ir transporto komponentai	Švitrigailos St. 39, Vilnius	25	25	Provision of railway transport services. Controlled through UAB Vilniaus Lokomotyvų Remonto Depas

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

As at 30 June 2018, the number of the Group's and the Company's employees was 9,868 and 7,276 respectively (as at 2017 June 30 – 11,128 and 9,372 employees respectively).

2. Significant accounting policies

Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (here and after-EU).

These concised interim financial statements are to be read on the website at the address: http:// www.litrail.lt in conjunction with the annual financial statements for the year ended on 31 December 2017 which were prepared in accordance with the IFRS adopted by the European Union.

In these financial statements all amounts are presented in euro and rounded to the thousand (EUR 000) unless otherwise stated. Taking into consideration that the amounts presented in the financial statements are calculated in thousands euros the figures in tables may not coincide due to rounding. Such mismatches are considered to be irrelevant in these financial statements.

The financial statements are prepared on the historical cost basis.

3. Significant accounting estimates and judgements

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

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

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

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

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

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

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

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

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

3. Significant accounting estimates and judgements (continued)

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 IFRS date of 1 January 2015. The useful lives are reviewed on an annual basis and, if necessary, are adjusted to reflect the current estimate of remaining useful life, taking into account technological changes, future economic use of assets and their physical condition. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate in accordance with IAS 8.

Impairment losses of property, plant and equipment. The fair value of all the property, plant and equipment was assessed during the independent valuation performed on the transition to IFRS date of 1 January 2015.

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.

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

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

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 with the support of internal specialists, such as legal counsel. Revisions to the estimates may significantly affect future operating result of the Company and the Group.

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

(all amounts are in thousand EUR unless otherwise stated)

4. Property, plant and equipment

Property, plant and equipment of the Group comprised:

	Land	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
31 December 2016	146,304	1,118,925	235,895	447 985	95,979	135,183	2,180,271
- additions during the year	307	1,776	2,550	44,231	1,702	49,571	100,137
- assets sold, written off, disposed	(7)	(3,997)	(1,397)	(6,025)	(1,777)	(624)	(13,827)
- reclassifications	-	21,267	2,718	1,998	3,289	(29,230)	42
31 December 2017	146,604	1,137,971	239,766	488,189	99,193	154,900	2,266,623
- additions during the year	691	(292)	212	9,739	398	21,759	32,507
- assets sold, written off, disposed	(702)	(396)	(632)	(2,135)	(134)	(26)	(4,025)
- reclassifications	-	947	102	(1)	1	(1,049)	-
30 June 2018	146,593	1,138,230	239,448	495,792	99,458	175,584	2,295,105
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)
- assets sold, written off, disposed	-	674	596	2,066	1,236	-	4,572
- reclassifications	-	(12)	23	(42)	29	-	(2)
31 December 2017	-	(188,160)	(59,234)	(103,917)	(23,696)	(13,588)	(388,595)
- depreciation	-	(33,009)	(9,112)	(20,592)	(4,703)	-	(67,416)
- impairment for the year	-	-	-	72	-	(6)	66
- assets sold, written off, disposed	-	35	571	1,090	131	-	1,827
30 June 2018	-	(221,134)	(67,775)	(123,347)	(28,268)	(13,594)	(454,118)
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
30 June 2018	**146,593**	**917,096**	**171,673**	**372,445**	**71,190**	**161,990**	**1,840,987**

(all amounts are in thousand EUR unless otherwise stated)

4. Property, plant and equipment (continued)

Property, plant and equipment of the Company comprised:

	Land	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
31 December 2016	146,297	1,104,072	211,851	437,652	92,470	133,997	2,126,339
- additions during the year	308	1,002	2,160	44,818	898	45,382	94,568
- assets sold, written off, disposed	(7)	(1,911)	(371)	(4,438)	(354)	(449)	(7,530)
- reclassifications	-	12,849	2,740	1,998	3,361	(28,899)	(7,951)
31 December 2017	146,598	1,116,012	216,380	480,030	96,375	150,031	2,205,426
- additions during the year	691	5	82	10,810	34	23,519	35,141
- assets sold, written off, disposed	(702)	-	-	(2,127)	-	(18)	(2,847)
- reclassifications		947	102	(1)	1	(1,049)	-
30 June 2018	146,587	1,116,964	216,564	488,712	96,410	172,483	2,237,720
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)
- assets sold, written off, disposed	-	273	171	1,264	234	-	1,942
- reclassifications	-	1,276	57	(42)	(12)	-	1,279
31 December 2017	-	(184,635)	(52,408)	(101,117)	(22,199)	(13,588)	(373,947)
- depreciation	-	(32,732)	(8,026)	(20,450)	(4,334)	-	(65,542)
- impairment for the year	-	-	-	72	-	(6)	66
- assets sold, written off, disposed	-	-	-	1,085	-	-	1,085
30 June 2018	-	(217,367)	(60,434)	(120,410)	(26,533)	(13,594)	(438,338)
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
30 June 2018	**146,587**	**899,597**	**156,130**	**368,302**	**69,877**	**158,889**	**1,799,382**

(all amounts are in thousand EUR unless otherwise stated)

4. Property, plant and equipment (continued)

The depreciation charge included to the statements of profit or loss and other comprehensive income of the Group amounted to

57,108 thousand EUR (57,091 thousand EUR - 30 June 2017). This amount includes 67,416 thousand EUR depreciation expense

(67,740 thousand EUR as at 30 June 2017) which was reduced by 7,563 thousand EUR as depreciation expense (7,627 thousand EUR as at 30 June 2017). Capitalized depreciation amounted to 2,745 thousand EUR (3,022 thousand EUR as at 30 June 2017).

The depreciation charge of the Company amounted to 57,991 thousand EUR (56,961 thousand EUR 30 June 2017). This amount includes 65,542 thousand EUR (65,163 thousand EUR as at 30 June 2017) of depreciation costs which were reduced by 7,550 thousand EUR as grants depreciation expense (7,612 thousand EUR as at 30 June 2017). Capitalized depreciation amounted to 1 thousand EUR (590 thousand EUR as of 30 June 2017).

The Group and the Company have estimated impairment for unfinished projects with a value of 13,594 thousand EUR (13,588 thousand EUR as of 31 December 2017). These projects are not approved yet and their implementation is questionable (as at 31 December 2017 –1,032,682 thousand EUR).

The acquisition cost of fully depreciated property, plant and equipment of the Group still in use comprised 39,144 thousand EUR. (34,382 thousand EUR as at 31 December 2017) and Company's total assets amounted to 36,153 thousand EUR (32,376 thousand EUR as at 31 December 2017). Most of the fully depreciated property, plant and equipment consisted of vehicles.

5. Inventories

Company's and Group's Inventories comprised:

	Group		Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Spare parts	13,779	13,299	5,905	6,116
Materials of the upper railway part	16,597	11,946	14,976	10,187
Materials	8,846	7,650	7,108	6,523
Fuel	4,776	3,721	4,684	3,629
Other inventories	2,581	1,358	1,992	853
Write down (-)	(3,929)	(3,985)	(3,295)	(3,372)
Total raw materials, materials and component parts	42,650	33,989	31,370	23,936
Goods for resale	1,682	1,766	1,659	1,743
Write down (-)	(19)	(19)	-	-
Total goods for resale	1,663	1,747	1,659	1,743
Total	**44,313**	**35,736**	**33,029**	**25,679**

Carrying amount of inventories before the adjustment to the net realisable value of the Group and the Company as at 30 June 2018 amounted to 48,261 thousand EUR and 36,324 thousand EUR respectively (at 31 December 2017 39,740 thousand EUR and 29,051 thousand EUR).

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

(all amounts are in thousand EUR unless otherwise stated)

6. Trade and other receivables

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

	Group		Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Gross external trade debtors	29,018	25,793	25,135	22,059
Impairment (-)	(1,577)	(1,550)	(1,517)	(1,541)
Total external trade debtors	**27,441**	**24,243**	**23,618**	**20,518**
Receivable from related parties	1,581	1,584	5,089	7,776
Impairment (-)	(1,577)	(1,550)	(2,923)	(2,923)
Total receivable from related parties	**4**	**34**	**2,166**	**4,853**
Receivable VAT	1,238	897	863	301
Other amounts receivable from the budget	2,375	1,038	2,177	582
Amount receivable from the shareholder	8,765	8,765	8,765	8,765
Accrued income	371	822	371	434
Other amounts receivable	5,078	4,622	4,460	4,605
Impairment (-)	(4,424)	(4,517)	(4,424)	(4,517)
Total other amounts receivable	13,403	11,627	12,212	10,170
Total	**40,848**	**35,904**	**37,996**	**35,541**

Receivables from the shareholder amounting to 8,765 thousand EUR (8,765 thousand EUR in 2017) are grants receivable by which the share capital was increased according to the Government resolutions until 2013. The management expects that the shareholder will compensate the amount to the Company.

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

Receivables from operating activities (excluding receivables from related parties and allowances):	30/06/2018	31/12/2017
	29,018	**25,793**
Trade debtors for transportation of freights through the territory of Lithuania and other services	12,278	13,661
Trade debtors for international freight transportation	14,161	10,024
Debts of foreign railway companies	2,579	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):	30/06/2018	31/12/2017
	25,135	**22,059**
Trade debtors for transportation of freights through the territory of Lithuania and other services	8,395	9,927
Trade debtors for international freight transportation	14,161	10,024
Debts of foreign railway companies	2,579	2,108

(all amounts are in thousand EUR unless otherwise stated)

6. Trade and other receivables (continued)

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

	Group		Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Not overdue	26,162	23,355	22,884	20,108
Overdue 0–60 days	765	577	443	356
Overdue 60–120 days	74	27	57	25
Overdue 120–180 days	141	80	127	11
Overdue 180–360 days	114	78	89	52
Overdue for over 360 days	1,762	1,676	1,535	1,507
Impairment (-)	(1,577)	(1,550)	(1,517)	(1,541)
Total	**27,441**	**24,243**	**23,618**	**20,518**

7. 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).

8. Loans and borrowings

Borrowings of the Group and the Company comprised:

	Group		Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Long term Loans	195,543	236,128	195,543	223,400
Short term loans	44,251	32,405	31,653	32,405
Total	**239,794**	**268,533**	**227,196**	**255,805**

During six months of 2018 the Company paid 28,608 thousand EUR of the loan and 2,613 thousand EUR of interest and 5 thousand EUR of liability fee.

(all amounts are in thousand EUR unless otherwise stated)

9. Employee benefits

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

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

	Group	Company
Balance as at 31/12/2016	16,665	15,733
Formed additionally	724	-
Used\Dissolved	(5,664)	(5,559)
Balance as at 31/12/2017	11,725	10,174
Formed additionally	1,521	1,362
Used\Dissolved	-	-
Balance as at 30/06/2018	**13,246**	**11,536**

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

	30/06/2018	31/12/2017
Discount rate	1.47	0.31
Staff turnover ratio	5.09	2.92
Annual increase in salary	1.50	1.50

Current employee benefits by type:

	Group		Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Vacation accruals	12,448	11,538	9,863	9,364
Payable remuneration	6,485	8,135	5,102	7,116
Payable social insurance contributions	4,911	5,628	3,909	4,713
Payable personal income tax contributions	1,407	1,574	1,082	1,419
Other liabilities related to employment	2,602	6,454	2,500	5,000
Total	**27,853**	**33,329**	**22,456**	**27,612**

(all amounts are in thousand EUR unless otherwise stated)

10. Trade and other payables

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

	Group		Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Trade payables	35,927	26,307	33,328	24,396
Amounts payable to related parties	1,422	1,694	16,376	13,809
Cash guarantees received	3,323	3,240	3,726	3,988
Other taxes payable to the budget	1,163	1,343	514	604
Deferred income	719	719	-	-
Accumulated service costs of foreign railways	621	447	621	447
Accumulated loan interest	999	1,479	999	1,479
Other accrued costs	875	1,561	875	1,549
Labour union membership fee	43	95	34	86
Payable fine to European Commission	-	27,873	-	27,873
Other amounts payable and liabilities	236	191	140	127
Total	45,328	64,949	56,613	74,358
Non-current	3,274	3,937	3,274	3,935
Current	42,054	61,012	53,339	70,423
Total	**45,328**	**64,949**	**56,613**	**74,358**

11. Revenue

Sales revenue of the Group and the Company comprised:

	Group		Company	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Income from freight transportation and use of the railway infrastructure	200,267	182,054	200,569	182,278
Income from passenger, baggage and post	13,419	12,583	13,446	12,585
Income from sales of other additional services	9,523	13,318	7,730	9,925
Total	**223,209**	**207,955**	**221,745**	**204,788**

(all amounts are in thousand EUR unless otherwise stated)

12. Corporate income and deferred tax

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

	Group		Company	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Current year income tax	5,192	(2,496)	4,551	(2,578)
Deferred tax expenses	(541)	21	(339)	-
Total corporate income tax expenses (income) recognised in profit or loss	**4,651**	**(2,475)**	**4,212**	**(2,578)**

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

	Group		Company	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Profit (loss) before taxation	23,293	(1,941)	20,920	433
Corporate income tax	3,676	(316)	3,138	(65)
Non-deductible (deductible) expenses	1,306	(477)	1,343	463
Tax-exempt (non-exempt) income	70	(217)	70	217
Accumulated losses	22	1,092	-	(615)
Adjustment to income tax of the previous year	118	(2,578)	-	(2,578)
Total corporate income tax expenses (income) recognised in profit or loss	**5,192**	**(2,496)**	**4,551**	**(2,578)**
Effective rate, %	22.29 %	-	21.75 %	-

13. Related party transactions

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

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

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

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

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

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

(all amounts are in thousand EUR unless otherwise stated)

13. Related party transactions (continued)

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

30/06/2018	Purchases	Sales	Amounts receivable	Amounts payable
UAB Gelsauga	7,825	144	27	3,785
UAB Geležinkelio tiesimo centras	7,218	767	233	4,067
UAB Vilniaus lokomotyvų remonto depas	21,082	3,536	1,904	8,181
LUAB Geležinkelių aplinkosaugos centras	-	-	-	-
UAB Rail Baltica statyba	37	3	1	11
UAB voestalpine VAE Legetecha	2,279	10	1	1,422
Total	**38,441**	**4,460**	**2,166**	**17,466**

31/12/2017	Purchases	Sales	Amounts receivable	Amounts payable
UAB Gelsauga	12,846	157	17	2,257
UAB Geležinkelio tiesimo centras	15,698	1,538	138	2,642
UAB Vilniaus lokomotyvų remonto depas	24,541	6,211	4,703	8,133
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**

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

	Group		Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Amounts receivable from related parties	4	34	2,166	4,853
Loans granted to related parties	2,973	2,923	2,973	2,923
Loans granted impairment (-)	(2,923)	(2,923)	(2,923)	(2,923)
Total	**54**	**34**	**2,216**	**4,853**

As at 30 June 2018, the Group's and the Company's amounts receivable from related parties increased by 20 thousand EUR and decreased 2,637 thousand EUR respectively. No impairment allowance was calculated for trade debtors.

As at 30 June 2018 income of associates by equity method comprised 109 thousand EUR (30 June 2017 –76 thousand EUR), expenses - 882 thousand EUR (446 thousand EUR as at 30 June 2017). Result of associates is included in the statements of profit or loss and other comprehensive income report.

Management salary and other benefits. As at 30 June 2018, the number of managers of the Company was equal to 9 i.e., 1 Director General, 1 Financial Director, 4 Deputy Director General – Directors of the Directorates and Strategy and Development Director, 1 Director of Legal Department, 1 Director of Personnel Department, 1 Director of Communications Department.

(all amounts are in thousand EUR unless otherwise stated)

13. Related party transactions (continued)

Company	30/06/2018	30/06/2017
Management salary	412	510
Number of managers	9	9
Benefits to Board members	36	13
Number of independent board members	5	3

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.

14. 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 LG abused its dominant position in the market for the management of railway infrastructure in Lithuania by removing a 19 kilometer rail track connecting Mažeikiai in north-Western Lithuania with the Latvian border (hereunder referred to as the Track) on 3 October 2008. The Company was imposed a fine amounting to 27,873 thousand EUR 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.

In 2018 one of the other material cases that was initiated by claimants AB Kauno tiltai, Trakcja S.A., AB Panevėžio keliai, UAB Mitnija, RAB Belam – Riga already in 2013, continued. The case concerns acknowledgement of works as additional ones and payment by the Company of 2,816 thousand EUR for them. The Company had raised a counterclaim regarding adjudication of 14,990 thousand EUR interest against the claimants. Vilnius District Court on 18 September 2018 dismissed the applicants' claim and partially complied with the counterclaim of the Company. The court sentenced the plaintiffs to the benefit of the Company jointly 1,042 thousand EUR and 9 percent of annual interest from the awarded amount from the receipt of a counterclaim in court – on 16 March 2015, until the day the legal decision is fully executed, 18 thousand EUR as stamp-duty and 25 thousand EUR as expenses for the proceedings. The decision was appealed to the Court of Appeal of Lithuania on 18 of October 2018 .

The Company has also brought a claim of 5,899 thousand EUR against DB International GmbH responsible for the technical design. Currently, this case is being adjourned until the main case is solved.

Commitment for investments

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

15. Subsequent events and other information

According to official letter from Latvijas dzelzcels and SIA LDZ CARGO as of 30 August 2018 Company requested for compensation for the damage sustained by these companies. According to these companies statements they suffered damage when the Company unravelled the railway line Mažeikiai -the Latvian border and the damage amounting to 82,340 thousand EUR for the period of 2009-2017. Above mentioned companies request payment of 6 percent interest for the period from the occurrence of the damage till the date of repayment and to reconstruct the rail track.

Reorganization of the management of the railway transport sector initiated by the Ministry of Transport which will ensure better transparency and efficiency of the AB Lietuvos Geležinkeliai group of companies was approved in Seimas in September 2018. The model for the reorganization of Lietuvos geležinkeliai will be discussed in Seimas committees and the final decision in the Seimas will be made by the end of this year.

Three new companies will be set up instead of the three directorates of the AB Lietuvos Geležinkeliai company - Passenger Transport, Freight Transport and Railway Infrastructure, 100 percent of which will be managed by the Lithuanian Railways holding company. The latter will continue to be managed by the state.

Company allocated 34 million EUR for dividends to pay according to decision of the shareholder on 24 July 2018 which approved Company's financial statements and the distribution of profit (loss) for year 2016-2017.

Company and the Ministry of Transport and Communications of the Republic of Lithuania as of 16 May 2018 signed an agreement for the use of the state budget funds for the implementation of the program "Railway service ensuring" which according to the Law on the Approval of the Financial Indicators of the State Budget and Municipal Budgets and the Law on the Administration of the Minister of Transport of the Republic of Lithuania for strategic action plan for 2018-2020 approved by the Minister of Transport and Communications of the Republic of Lithuania by Order Nr 3-54 as of 7 February 2018 "On the Areas of Administration of the Minister of Transport and Communications of the Republic of Lithuania approval for the strategic plan for 2018-2020", for the "Railways service ensuring" program to provide the passenger transportation service to the socially disadvantaged groups applying 80 and 50 percent discounts and provision of local transportation services for passengers on routs which are necessary for the public but detrimental for carrier assigned 36.5 million EUR (respectively 2.6 million EUR - for the loss of revenue compensation, 33.9 million EUR – for the loss compensation incurred by passenger transportation by local routs).