2019

AB LG CARGO ANNUAL MANAGEMENT REPORT

Table of contents

ABBREVIATIONS:

LG CARGO, the Company – AB LG CARGO
LG, Lietuvos Geležinkeliai – AB Lietuvos Geležinkeliai
The Group, the Group of Companies – AB Lietuvos Geležinkeliai and its subsidiaries
LTSA – Lithuanian Transport Safety Administration under the Ministry of Transport and Communication of the Republic of Lithuania
govt. – The Government of the Republic of Lithuania
EU – The European Union

Annual and interim reports as well as financial statements are available publicly at the website: https://cargo.litrail.lt/.

CEO FOREWORD

DEAR PARTNERS, CUSTOMERS AND COLLEAGUES

Last year, having successfully implemented the programme "LG is changing" aimed at streamlining of the operations of the Lietuvos Geležinkeliai Group, we transferred the freight transportation activity to a new legal entity – a public limited liability company LG CARGO.

Together with this new beginning, we have set ourselves ambitious targets – to become the leaders of logistics services in Central and Eastern Europe. While achieving the strategic goals, we intend to increase the freight volumes transported by the trunk railways, strengthen competencies of transportation organization, and continue rendering our clients with services that meet their needs.

In addition, our focus shall remain on the digitalization – we intend to introduce modern IT equipment, which will enhance our performance, make our services more convenient for customers and more environment-friendly.

Last year, changes in oil and fertilizer prices in the international markets put increased pressure on the freight transportation market – contracting prices of raw materials would decrease freight volumes and increase the competition between the carriers. In addition, geopolitical events contributed to the general pressure. The totality of these extraordinary circumstances affected both LG CARGO and the carriers of other countries. In Poland, the freight transportation flows decreased by 5.5%, in Latvia – by 15.8%, in Estonia – by 23.3%.

In 2018, after having recorded increasing flows in freight transportation, last year we transported 55.2 million tons, i.e., 2.8% less freight compared with the previous year. This was mostly affected by 13.9% lesser transit freight flows to the Kaliningrad region during the comparative period (coals, oil, and foodstuff). Besides, the import of oil, fertilizers, and ferrous metals had also somewhat lessened via Klaipėda Port.

However, the declining flow of transit freight was partially compensated by active actions in growing domestic transportation – the domestic transportation of food products, and construction materials increased by 3.8%. In foreign markets, we also managed to grow certain freight flows – the import of construction materials and biofuels from Belarus increased by 38%, while the export of oil products to Ukraine and Poland was 26% higher. Last year, we carried a record amount of grain within the last decade and started regular transportation of containers from Klaipeda to Kyiv, and for the first time, postal parcels were started to deliver from China to Lithuania.

It is merely a myth that we do not face fierce competition in our business. In fact, we constantly compete with other railways, sea, air, and road transportation companies for freight. And only those companies, which are capable of responding the fastest to the new circumstances, and making the most competitive offer to a customer, win this fight. We are forced to act in a rapidly changing environment, which depends on a number of factors – the situation on the global markets, geopolitics, technological progress, environmental protection, competition. All these reasons, we are confident, require from us a certain speed and flexibility when competing with freight transportation companies on the global markets. This is one of the essential pre-conditions for the Company's successful and sustainable operations.

I am very pleased that our efforts to improve our services have also been noticed by our customers – the Company's customer satisfaction rate NPS (Net Promoter Score) has reached 45%. This was shown by a study during which we interviewed nearly one and a half hundred customers.

We constantly invest in the maintenance of our rolling stock fleet, and in September, we launched a large-scale programme of modernization of the rolling stock, during which the focus will be mostly paid to freight-carrying rolling stock. During this project, as much as 44 Siemens locomotives will undergo major repairs.

We ended the last year with significant agreements – in November we signed a new agreement with one of the largest our customers – the company ORLEN Lietuva owned by the Polish oil concern PKN Orlen, while in December we signed a new three-year agreement with the concern Achema Group.

Despite the challenges, we are to actively continue our activities in 2020 – we will expand the circle of our customers, increase the flows of freight and expand the geographical area of activity, and provide business with competitive and value-creating freight transportation services.

We carefully analyse the potential impact of the international COVID-19 pandemic that began at the turn of 2019–2020 on freight transportation activities. According to the available data, the virus will have a negative impact on our performance in 2020. The exact impact will depend on how the countries succeed to manage the spread of the virus, however, we do not think there are any assumptions that this would jeopardize the continuity of the Company's business.

Best regards,

EGIDIJUS LAZAUSKAS
CEO
AB LG CARGO

Main information about the company

Name	AB LG CARGO
Legal form	Public limited liability company
Date and place of registration	28 December 2018, the Register of Legal Entities of the Republic of Lithuania
Company code	304977594
Address	Mindaugo g. 12, LT-03603, Vilnius
Telephone	(+370 5) 269 2745
Email	cargo@litrail.lt
Website	http://cargo.litrail.lt/
Principal activities	Freight transportation and provision of related services
Company's Chief Executive Officer	Egidijus Lazauskas
Shareholders	100% of shares are owned by AB Lietuvos Geležinkeliai

COMPANY'S BUSINESS MODEL

On 28 December 2018, AB LG CARGO was registered in the Register of Legal Entities, to which the freight transportation operations of AB Lietuvos Geležinkeliai were transferred as of 1 May 2019.

Until 1 May 2019, LG CARGO carried out preparatory works, aimed at transferring the activities of the Freight Transportation Directorate of AB Lietuvos Geležinkeliai to LG CARGO. The transfer of the activities was conducted in two stages:

- On 25 January 2019, the first stage of the transfer of the activities of the LG Freight Transportation Directorate to LG CARGO was completed, during which the transfer of the rolling stock fleet was implemented. This action was approved by the shareholder of LG, i.e., the Ministry of Transport and Communications, as well as the main creditors of Lietuvos Geležinkeliai – the Nordic and European Investment Banks. During the first stage, the employees of the Rolling Stock Technology Department were transferred to LG CARGO, who continued ensuring the maintenance and the management of the rolling stock fleet.

- On 1 March 2019, the Lithuanian Transport Safety Administration (LTSA) completed the licencing procedures and issued a freight transportation licence to the Company. The licence entitles LG CARGO to engage in commercial business of rail transport in the territory of Lithuania. From 1 May 2019, the freight transportation activity has been fully transferred to LG CARGO.

MAIN BUSINESS ACTIVITY AND SERVICES

LG CARGO provides with the following services:

- Transportation of freight on domestic and international routes: Lithuania has 1520mm and 1435mm gauge tracks, thus there are no limitations on the lists of routes – the Company is able to carry freight to the required country according to the needs of the customer. LG CARGO transports freight of all types, including containers. The latter type of carriages has been increasing in growth lately due to the safety of freight, lower transportation and security costs, and the optimum delivery deadlines.

- Rental services of commercial wagons and containers in Lithuania and abroad.

- Loading and warehousing: freight may be stored in open or covered areas in the largest Lithuanian cities. We provide such services as warehousing, temporary safeguarding, loading/unloading, sorting, and weighting.

- Services related to the forwarding of freight as well as the services related to the carriage of freight, including by road and air transport.

- Customs brokerage services.

- Domestic and cross-border work and coordination of locomotives and locomotive crews.

Main information about the company

THE MARKET

LG CARGO is a licensed railway company that operates on a competitive market and is engaged in the transportation of local and foreign freight within the territory of the Republic of Lithuania according to the needs of its clients.

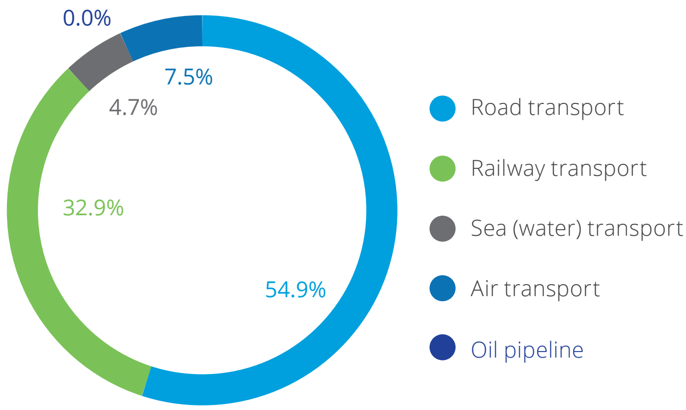
In the Lithuanian market, the carriage of freight historically has had an especially strong competitor, i.e., transportation by road. The competition is especially fierce in the field of transportation of small-size and „light" freight as well as in short-distance transportation. The main type of freight carried by railways is the "heavy" freight – oil products, chemical and mineral fertilizers, construction materials. For the carriage of such freight, railway transport is able to offer more unique (safer, more reliable, cheaper, and sometimes more efficient) conditions for the transportation of freight, including loading and/or transhipment.

The data for nine months of 2019, collected by the Department of Statistics of the Republic of Lithuania, shows that, if evaluating the total amount of the freight of all types carried on local routes, the freight carried to Lithuania and outside its territory, as well as the transit freight transported through the territory of Lithuania (when measured in tonnes), the share of freight transported by railways was 32.9%.

The majority share of the freight carried by railways is comprised of international carriages. The freight transported in the direction of the Klaipėda Port prevail, while, the records show the deincreasing significance of the Kaliningrad region's direction over the recent years. We have also put effort in developing a Northern-Southern direction that is of high potential in terms of freight transportation (implementation of the Rail Baltica Project).

LG CARGO, while participating in the common logistic chain along with the railways of the neighbouring countries, their freight terminals, and seaports, is competing not only locally, but also with the railway companies of other counties which carry freight on

Freight transported (tonnes) by all modes of transport in the territory of Lithuania in 2019 9 months, %*



** Department of Statistics of the Republic of Lithuania*

Management of the company

INFORMATION ABOUT THE SHARES

Amount of the authorized capital, Eur	Number of shares, pcs.	Par value per share, Eur
60,410,098.08	208,584	289.62

On 28 December 2018, AB Lietuvos Geležinkeliai established the company AB LG CARGO. The authorized capital of the Company was formed by issuing 208,584 ordinary shares and is equal to EUR 60,410,098.08; the par value of each share is EUR 289.62. All shares of LG CARGO are of a single class – ordinary registered shares. The shares are non-certified, and they are recorded in personal securities accounts following the procedure established by the legislation. The sole shareholder of LG CARGO was AB Lietuvos Geležinkeliai as of 31 December 2019. During the reporting period, the Company did not acquire its own shares or shares of other companies of the Group. In addition, during the analysed period, the Company did not establish branches or representative offices.

Management of the company

MANAGEMENT AND ORGANIZATIONAL STRUCTURE OF THE COMPANY

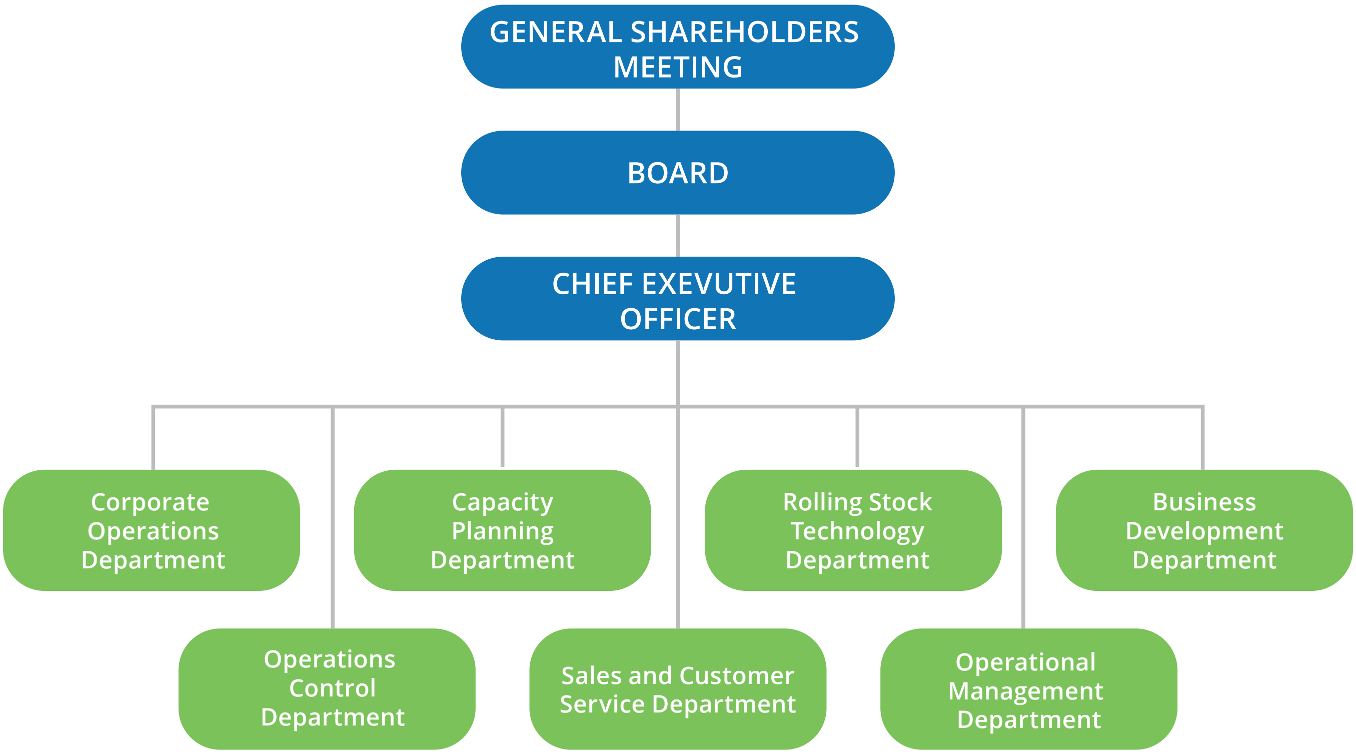
LG CARGO is a company of the AB Lietuvos Geležinkeliai" Group with its parent company AB Lietuvos Geležinkeliai acting as the sole shareholder.

The shareholder of AB Lietuvos Geležinkeliai is the State of Lithuania, owning 100% percent of the shares. The rights and duties of the shareholder are implemented by the Ministry of Transport and Communications of the Republic of Lithuania.

Aiming at the long-term growth of the value of the AB Lietuvos Geležinkeliai Group, as well as the rational and effective use of the assets, funds and other resources, meeting the expectations and representing the interests of the Shareholder, the Group's business model is focused on refining and concentrating core activities in subsidiaries.

- LG CARGO, as part of the AB Lietuvos Geležinkeliai Group, is liable for the implementation of the principal activities and the achievement of the set objectives. In order to achieve the set goals and ensure proper management, the Company operates independently in its activities, makes the necessary decisions and ensures accountability and responsibility for the performance.

In its operations, the Company follows the Law on Companies, the Articles of Association, the resolutions of the bodies of the Company, as well as other legislation of the Republic of Lithuania regulating the activities of companies.



COMPANY'S MANAGEMENT BODIES

According to the Articles of Association of LG CARGO, the management bodies of the Company are as follows: the General Meeting of Shareholders, the Board, and the Head of the Company, i.e., the Chief Executive Officer.

The General Meeting of Shareholders is the supreme management body of LG CARGO. The competence of the General Meeting of Shareholders, the procedure of its convening as well as resolution-passing is established by the Law on Companies, other legislation, as well as the Articles of Association of LG CARGO.

The Board of the Company is a collegial management body, which consists of 5 members. The members of the Board are elected by the General Meeting of Shareholders for a 4-year term office. The Board reports to the General Meeting of Shareholders of LG CARGO. The Board elects a chairperson from among its members. The same person may be elected as a member of the Board no more than for two consecutive offices. The competence of the Board must meet the competencies of boards laid down in the Law of Companies of the Republic of Lithuania as well as other legislation and the additional competences of the Board set forth in the Articles of Association of LG CARGO.

The term of office of the Board is from 21/12/2018 to 21/12/2022.

During the reporting period, 12 meetings of the Board took place.

Management of the company

COMPOSITION OF THE COMPANY'S BOARD

MANTAS BARTUŠKA

Chairman of the Board
29/11/2019

EDUCATION

- University of Southern Denmark, Bachelor in Management and Business Administration;
- Vilnius University, Bachelor in Management and Business Administration;
- University of Cambridge, Business School, Leadership Studies;
- Baltic Institute of Corporate Governance, Board Member Studies.

MAIN EMPLOYER, POSITION

CEO of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.

OTHER POSITIONS HELD

Chairman of the Board of UAB LG Keleiviams, Mindaugo g. 12, Vilnius, company code 305052228.

Member of the Board of AB Klaipėdos Nafta Burių g. 19, Klaipėda, company code 110648893.

EGIDIJUS LAZAUSKAS

Member of the Board
Appointed on 21/12/2018

EDUCATION

- Vilnius Gediminas Technical University, Bachelor in Environmental Engineering;
- Vilnius Gediminas Technical University, Diploma of Environmental Engineer.

MAIN EMPLOYER, POSITION

CEO of AB LG CARGO, Mindaugo g. 12, Vilnius, company code 304977594.

OTHER POSITIONS HELD

Chairman of the Board of UAB Vilniaus Lokomotyvų Remonto Depas, Švitrigailos g. 39, Vilnius, company code 126280418.

LUKAS DANIELEVIČIUS

Member of the Board
Appointed on 21/12/2018

EDUCATION

- Vilnius University, Bachelor in Economics.

MAIN EMPLOYER, POSITION

Director of the Corporate Operations Department of AB LG CARGO, Mindaugo g. 12, Vilnius, company code 304977594.

OTHER POSITIONS HELD

Member of the Board of UAB Vilniaus Lokomotyvų Remonto Depas, Švitrigailos g. 39, Vilnius, company code 126280418.

Management of the company

BRIGITA VALENČIENĖ

Member of the Board
Appointed on 29/11/2019

EDUCATION

- Kaunas University of Technology, Bachelor in Business Management.

MAIN EMPLOYER, POSITION

Head of HR Business Partner Group of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.

OTHER POSITIONS HELD

Member of the Board of UAB Geležinkelio Tiesimo Centras, Trikampio g. 10, Lentvaris, Trakai District, company code 181628163.

ROKAS JANUTĖNAS

Member of the Board
Appointed on 29/11/2019

EDUCATION

- University of Glasgow, Economics.

MAIN EMPLOYER, POSITION

Director of the Strategy and Performance Department of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.

OTHER POSITIONS HELD

Member of the Board of UAB Geležinkelio Tiesimo Centras, Trikampio St. 10, Lentvaris, Trakai District Municipality, company code 181628163.

Member of the Board of UAB Vilniaus Lokomotyvų Remonto Depas, Švitrigailos g. 39, Vilnius, company code 126280418

Chairman of the Board of UAB Gelsauga, Prūsų g. 1, Vilnius, company code 125825125.

Changes in the composition of the Board during the reporting period: after the establishment of LG CARGO, the Board consisted of 3 members; one of them – Mr Mindaugas Liutkus (Director of LG CARGO's Operations Control Department) was the Board Member from 21/12/2018 until 29/11/2019. On 27/11/2019, having amended the Articles of Association of the Company, the number of members of the Board was increased to 5 members.

The members of the Board are not remunerated for their activities on the Board of the Company.

The **Chief Executive Officer** (CEO) of the Company is a sole-person management body of the Company that organizes the day-to-day operations of the Company according to his/her powers. The duties and competences of the CEO are defined in the Law on Companies, and the Articles of Association of the Company. The CEO is elected by the LG CARGO's Board for a 5-year term office and is accountable to the Board. The same person may be appointed as the CEO for a maximum of 2 consecutive terms.

Management of the company

COMPANY'S MANAGEMENT

EGIDIJUS LAZAUSKAS	Chief Executive Officer	Holds the position since 1 May 2019
LUKAS DANIELEVIČIUS	Chief Executive Officer Director of the Company's Corporate Operations Department	Held the position of the CEO of the Company during the transitional period from 21 December 2018 to 30 April 2019 Holds the position of the Director of the Company's Corporate Operations Department since 1 May 2019
EGLĖ ŠIMĖ	Director of the Company's Operational Management Department	Holds the position since 19 August 2019
OLEGAS LUNYS	Director of the Company's Capacity Planning Department	Holds the position since 1 May 2019
MINDAUGAS GUDAITIS	Director of the Company's Sales and Customer Service Department	Holds the position since 1 May 2019
VIRGINIJUS JUŠKA	Director of the Company's Rolling Stock Technology Department	Holds the position since 12 June 2019. Held the position of the Director of the Company's Operational Management Department from 1 May 2019 to 11 June 2019
MINDAUGAS LIUTKUS	Director of the Company's Operations Control Department	Holds the position since 1 May 2019
SAULIUS STASIŪNAS	Director of the Company's Business Development Department	Holds the position since 1 May 2019

Changes of the CEOs of the Company during the reporting period: In 21/12/2018–30/04/2019, Mr Lukas Danielevičius (the Director of the Corporate Operations Department of LG CARGO) held the position of the CEO of the Company.

Members of the Board and the CEO have submitted declarations on private interest, which can be found on the website of the Chief Official Ethics Commission at http://www.vtek.lt. There were no conflicts of interest between the members of the Board, the CEO and the top-level managers during the reporting period.

The monthly basic salary of the CEO of the Company, established in the employment contract at the end of 2019, was EUR 8,380.

In addition to the basic salary, the CEO of the Company may be paid a variable component of the annual salary (annual incentive), which is related to the achievement of the annual targets. Each year, the Board of the Company approves the structure of the annual targets of the Company, their achievement threshold values and the benchmarks, and at the end of the year verifies the achievement of those targets and the possibility to pay out annual incentives.

The maximum possibility of such payment may not exceed 30% of the fixed annual basic salary. The maximum monthly, i. e. 1/12 part of the annual incentives, may not exceed EUR 2,514.

Strategy

The LG Group, in response to the geographical and economic changes in the transport services market, which influence the changes in trade patterns and passenger flows, is planning its operations not only in the short term, but also in the long term. In order the strategic directions and targets provided for in LG's long-term corporate strategy for 2018-2030 would be as focused to the activities implemented by the LG Group as possible, long-term strategies of separate companies of the LG Group have been prepared. One of them is **LG CARGO's long-term strategy for 2018-2030**, which is reviewed and improved every year.

COMPANY'S MISSION

We connect businesses for a better future.

COMPANY'S VISSION

Logistics leader in Central and Eastern Europe.

STRATEGICAL DIRECTIONS OF THE COMPANY:

1. The largest railway carrier in the Baltic States: in 2030, LG CARGO will transport 70 million tonnes of freight.
2. LG CARGO will successfully operate in the CEE region – LG CARGO will expand its activities in foreign countries.
3. LG CARGO will be the most convenient service provider for its customers – digitized activities and smooth communication with customers will help solve the logistics challenges faced by the clients.
4. LG CARGO will provide environmentally friendly logistics solutions – owing a fleet of new electric locomotives, locotractors and modern diesel locomotives, the Company will reduce by half the emissions per each tonne transported.

The key indicators planned by the Company, related to the strategic directions of its operations:

Indicator	Unit	2020	2030
Freight transportation volumes	million tonnes	56.1	70
Level of operating expenses	EUR / tkm (2018 = 100)	100	100
CO_2 emissions	g /tkm	11.2	6.35

KEY PROJECTS IN 2019:

- Purification, separation, and transfer of freight transportation activities from AB Lietuvos Geležinkeliai to LG CARGO. The implementation of the project was completed on 1 May 2019.
- Launch of a heavy maintenance program of Siemens ER20CF locomotives.
- Initiation of a freight wagon fleet renewal program.
- Ongoing project aimed at increasing the efficiency of wagon inspection by introducing the latest technologies and adjusting the organization of the work.
- Launch of the optimisation of the train document management through automation of processes and transition from paper to electronic documents.
- Implementation of a locomotive positioning program.
- Ongoing optimisation and automation of accounting and statistical processes.

Most important events in 2019

- On **25/01/2019**, the first stage of the transfer of the activities of the LG Freight Transportation Directorate to LG CARGO was completed, during which the transfer of the rolling stock fleet was implemented. This was approved by the LG's shareholder – the Ministry of Transport and Communications of the Republic of Lithuania, the main creditors of AB Lietuvos Geležinkeliai: the Nordic and European investment banks. Along with the first stage, the employees of the Rolling Stock Technology Department were transferred to LG CARGO, who continued to ensure the management and maintenance of the rolling stock.

- On **01/03/2019**, LG CARGO was issued a freight transportation license. The Lithuanian Transport Safety Administration (LTSA) had completed the licensing procedure and granted the Company a freight transportation license. This license entitles LG CARGO to engage in railway commercial-economic activities within the territory of Lithuania.

- On **30/04/2019**, the freight transportations operations of LG were transferred to LG CARGO.

- On **09/07/2019**, LG CARGO, together with its partners, launched a new regular container transportation route from Klaipėda to Kyiv. In the future, it is being considered to expand this route to Odessa and thus to connect Klaipėda Seaport with the Ukrainian Odessa Seaport.

- On **18/07/2019**, LG CARGO signed a long-term cooperation agreement with the Lithuanian crushed stone company Milsa. The planned volume of transportation for 3 years – up to 2 million tonnes of crushed stone. Under this agreement, crushed stone extracted in Lithuania will be delivered to strategic road infrastructure and construction objects.

- On **07/08/2019**, the share capital of LG CARGO was increased by EUR 30,410 thousand, issuing 104,999 pcs. of ordinary registered shares. The par value of one share is EUR 289.62.

- On **11/09/2019**, LG CARGO launched a programme of technical maintenance of the freight rolling stock. The major repairs of the Siemens locomotives are being performed by UAB Vilniaus Lokomotyvų Remonto Depas (Vilnius Locomotive Repair Depot). So far, only maintenance and small-scale repair works have been performed.

- On **30/09/2019**, LG CARGO published its interim financial statements for the first half of 2019, and a report on its website.

- On **20/11/2019**, LG CARGO and ORLEN Lietuva, a company of the Polish oil concern PKN Orlen extended the cooperation agreement. It is expected that the new agreement will allow us to maintain significant flows of freight transported by rail and to expand freight transportation to Poland. LG CARGO carries approx. 9 million tons of AB ORLEN Lietuva freight on an annual basis.

- On **27/11/2019**, the number of members of the Board was increased to 5, and some amendments were made to the Articles of Association of the Company.

- On **29/11/2019**, the Board of LG CARGO was changed, and Mr. Mantas Bartuška, the CEO of Lietuvos Geležinkeliai, was elected its Chairman.

- On **11/12/2019**, LG CARGO signed a three-year freight transportation service agreement with the companies of the Achema Group, whereupon the Company will provide freight transportation, wagon rental and shunting services to the companies managed by the Group (Achema, Transachema, Agrochema, Agrochema Plius, and the companies operating in Klaipėda Seaport (Krovinių Terminalas, Centrinis Klaipėdos Terminalas and Klaipėdos Jūrų Krovinių Kompanija" (KLASCO)). It is planned to transport around 30 million tonnes of freight in three years. Until now, freight had been transported under separate contracts with companies. The new agreement came into force on 1 January 2020.

Events after the reporting period

- On **30/01/2020**, LG CARGO continued its cooperation with Vakarų Medienos Group which is planning to start production in the chipboard factory under the final stages of construction from April. Currently, the volume of freight transported is not significant, however, with the acceleration of production, the volume of freight transported by railways is expected to reach up to 1 million tonnes per year.
- On **15/02/2020**, the first test freight train passed the newly rebuilt railway section from Mažeikiai in Lithuania to Rengė in Latvia. LG CARGO transported a freight of oil products of AB ORLEN Lietuva to Latvia.
- On **17/03/2020**, by the decision of the sole shareholder of LG CARGO, AB Lietuvos Geležinkeliai, it was decided to reduce the authorized capital of LG CARGO by EUR 16,475,902.56 through the cancellation of 56,888 ordinary registered shares of the Company, the par value of each of which is EUR 289.62. The Company's creditors were informed about this decision.

The coronavirus (COVID-19) pandemic has created a difficult to predict and unprecedented situation not only in Lithuania, but also around the world, effect of which has been felt by all business sectors. On 11 March 2020 the World Health Organization declared an outbreak of coronavirus as a pandemic, and since 16 March 2020 the Government of the Republic of Lithuania has announced a quarantine and related public life restrictions. The restrictions are related to movement of foreign citizens, movement through the state border, activities of companies and organizations of the public and private sectors, organization of work of educational and health institutions, and other areas of economic and social life.

Taking into account the fact that a state-level emergency situation has been declared in Lithuania due to the threat of the spread of the new coronavirus (COVID-19), the Company is reviewing and planning new measures to ensure the business continuity and prevention:

- Additional occupational safety and prevention measures have been introduced for the employees working at stations, trains, locomotive depots;
- Restrictions related to the movement of the employees, the work in the offices of the Company's companies and other premises have been introduced;
- Computerized workplaces and technical measures have been introduced allowing to work remotely to maximize protection against potential virus threats;
- Employees responsible for monitoring the situation and providing information to the Company's management and employees have been appointed: the employees are constantly informed about the latest decisions of the Government of the Republic of Lithuania, and are reminded of the latest WHO recommendations related to the virus risks and information on existing virus threats and measures to reduce them is updated;
- The units and the employees performing critical functions and administering the main systems have been identified;
- Technical and replacement measures in case of spread of the virus have neen planned;
- The Company is also reviewing emergency management plans and preparing for additional continuity of the critical activities.

LG CARGO has also assessed potential liquidity and credit risks as well as the measures to manage them:

- A possibility to borrow within the Group through cashpool in order to ensure a sufficient need in current assets;
- The adequacy of the limit for short-term borrowing within the Group from this account to ensure a sufficient need in current assets;
- Has taken additional measures to strengthen payment controls;
- Has revised planned investments and assessed the possibility of postponing part of the investment projects to the future.

Assessing the results of the first quarter of 2020, a decrease in sales is visible compared to the corresponding period of the previous year, but it does not exceed the realistic forecast scenario. Railway transport remains the most reliable means of transport during a pandemic. The major customers are large companies, which are included in a list of risk-free companies by the Company. The Company operates in one of the most strategic and secure sectors of the state and can expect state support or guarantees if necessary.

Management estimates that the cash flows from operating activities are likely to be sufficient to service existing loan agreements and liabilities to partners. At the moment of preparation of the statements payments had been made as usual; and the Company identifies no additional liquidity or credit risk problems.

In the opinion of the Company's Management, the circumstances mentioned above and sensitivity analysis performed substantiate all assumptions for sufficient resources and empower the Company to continue the Company's activities/operations. According to the Company's Management, the negative circumstances related to the virus do not raise doubts about the Company's business continuity and do not change the Company's long-term business plans and goals.

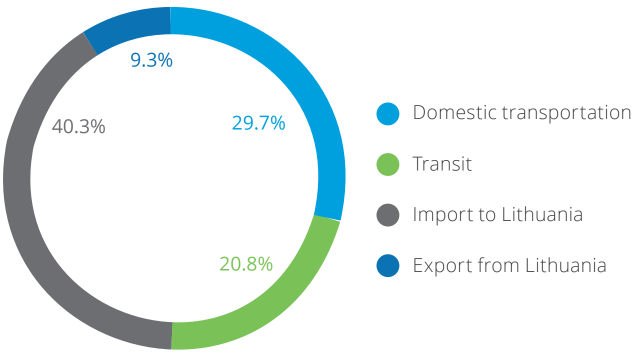
Overview of the key performance indicators

LG CARGO, seeking to ensure the continuity of freight transportation activities, implemented the takeover of the operations gradually – during the transition period **in January-April 2019**, the Company rendered the services used for the operation and maintenance of the rolling stock used for freight transport activities as well as the related services, and took over the entire freight transportation activities **from 1 May 2019**. Therefore, the indicators of transportation volumes are provided only for **May-December 2019**, while other indicators – for the entire year of 2019 (unless otherwise stated).

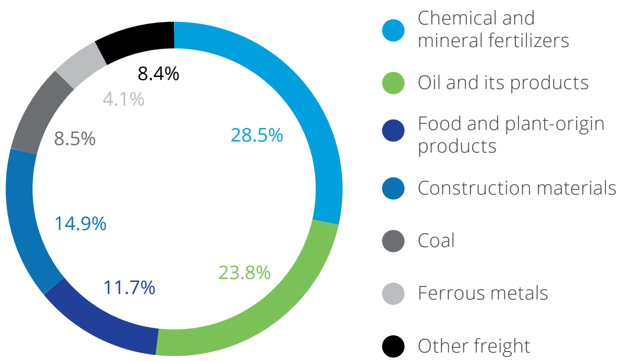
Transportation volumes		May-December 2019
Freight turnover	**billion tonne- kilometres**	**10.8**
Average distance travelled per tonne	**km**	**291**
Freight carried	**million tonnes**	**37.2**
Freight transportation segments		
Domestic transportation	million tonnes	11.0
International transportation	million tonnes	26.2
Transit	million tonnes	7.7
Export from Lithuania	million tonnes	3.5
Import to Lithuania	million tonnes	15.0
Freight types		
Chemical and mineral fertilizers	million tonnes	10.6
Oil and its products	million tonnes	8.8
Construction materials	million tonnes	5.6
Food and plant-origin products	million tonnes	4.4
Coal	million tonnes	3.2
Ferrous metals	million tonnes	1.5
Other freight	million tonnes	3.1

Freight flows in May-December of 2019 amounted to 37.2 million tonnes. The railway transportation was dominated by chemical and mineral fertilizers as well as oil and its products. These types of freight account for more than a half of total freight volume at 52.3%.

Freight transportation directions in May-December 2019, %



Freight transportation structure in May-December 2019, %



During the analysed period, **international transportation** in the total structure of the transported freight accounted for 70.3% and amounted to 26.2 million tonnes, of which transit to the Kaliningrad region amounted to 7.7 million tonnes, while import and export to/from Lithuania via Klaipėda port amounted to 11.5 million tonnes. The largest flows in the last carriages were made up of Belarusian fertilizers, the stable volumes of which are ensured by long-term contracts concluded with the Belarusian potassium fertilizer producer Belaruskalij.

The volumes of **domestic transportation** in May-December 2019 amounted to 11.0 million tonnes. Transportation on local routes accounted for 29.7% of the transported freight volumes. They were dominated by the transport of oil and its products, chemical and mineral fertilizers as well as construction materials.

Analysis of financial performance

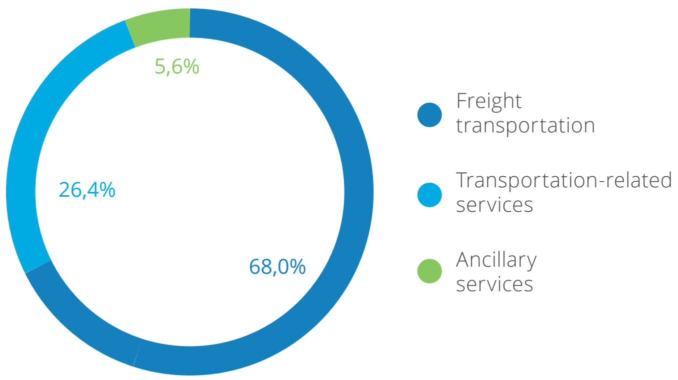
PERFORMANCE RESULTS

COMPANY'S REVENUE

Sales revenue. The Company's sales revenue in 2019 amounted to EUR 297,782 thousand.

- **Revenue from the provision of freight transportation and transportation-related services** by LG CARGO in May-December 2019 amounted to EUR 281,216 thousand.
- **Revenue from ancillary services** from the activities of LG CARGO in January-December 2019 amounted to EUR 16,566 thousand, including EUR 11,146 thousand for the services of the operation and maintenance of the rolling stock used for the freight transportation operations as well as the related services.

Structure of the Company's revenue in 2019, %

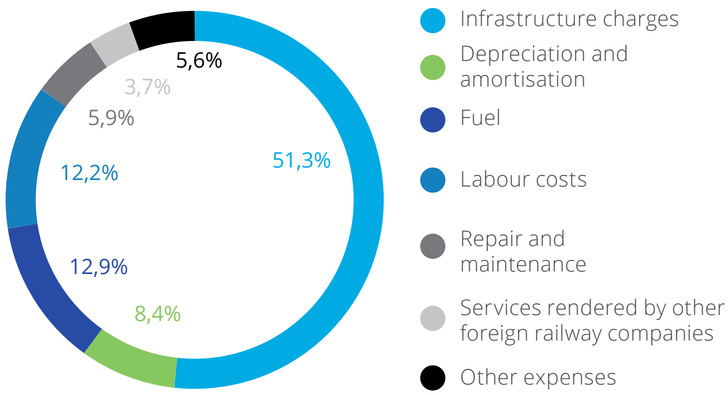


COMPANY'S EXPENSES

In 2019, the expenses of the Company related to the core and other businesses amounted to EUR 275,251 thousand.

The larger proportion of the Company's expenses is constituted by the infrastructure charges (51.3% – EUR 141,245 thousand), fuel (EUR 35,528 thousand), labour costs (EUR 33,384 thousand), depreciation (EUR 23,258 thousand).

Structure of the Company's expenses in 2019, %



Analysis of financial performance

KEY FINANCIAL INDICATORS*

		2018	2019
Revenue	Thous. Eur		297,782
Expenses	Thous. Eur	94	275,251
EBITDA	Thous. Eur	(94)	45,838
EBITDA margin	%		15.4%
EBIT	Thous. Eur	(94)	22,580
EBIT margin	%		7.6%
Net profit	Thous. Eur	(80)	18,669
Net profit margin	%		6.3%
		31/12/2018	31/12/2019
Non-current assets	Thous. Eur	14	191,276
Current assets	Thous. Eur	30,000	94,252
Total assets	Thous. Eur	30,014	285,528
Equity	Thous. Eur	29,920	58,191
Financial debt	Thous. Eur		158,717
Net debt	Thous. Eur		133,574
Debt	Thous. Eur		162,345
Return on equity capital (ROE)	%		42.4%
Return on Assets (ROA)	%		11.8%
Return on Investment (ROI)	%		15.7%
Financial debt / EBITDA	times		3.5
Net debt / EBITDA	times		2.9
Debt / EBITDA	times		3.5
Debt / Equity (D/E)	times		2.8
Equity ratio	%		20.4%
Asset turnover indicator	times		1.0
Quick liquidity ratio	times		1.2
Total liquidity ratio	times		1.2

* For definitions of the indicators see page 24 of the Report.

DIVIDEND POLICY

The payment of dividends by State-owned enterprises and the amount of profit distributions is governed by the Resolution No. 20 of 14 January 1997 of the Government of the Republic of Lithuania "Regarding dividends on the shares of State-owned enterprises and the contributions of State-enterprise profit", and the amendments thereto.

The allocation and payment of LG CARGO's dividends is governed by the Group's Dividend Policy, which has been drafted in accordance with the provisions of the Resolution of the Government of the Republic of Lithuanian and the recommendations of the Governance Coordination Centre (GCC).

LG CARGO plans the payment of dividends taking into consideration the level of return on equity as well as the earned net profit. The dividend policy stipulates that the allocation of a share of the profit to dividends for a financial year or for a period shorter than a financial year must take into account the return on equity, the financial abilities of the companies to pay dividends, the development of economic projects important to the State, and other circumstances. 60 to 85 percent of the net profit should be allocated to dividends, depending on the return on equity at the end of the reporting period.

The Company may allocate lower dividends or not to allocate them at all if it has incurred some net losses, or when the financial indicators monitored by the Institutional creditors at the end of the reporting period after the payment of dividends would not correspond to the contractual values. Dividends are not paid also when the Company's equity after the payment of dividends would become less than the amount of its authorized capital, required reserve, revaluation reserve and reserve for the acquisition of the Company's own shares, as well as when the Company is insolvent or would become such after dividends are paid.

The Board of LG CARGO may propose to allocate a higher share of the profit for the payment of dividends taking into account the implementation of the Company's financial plans, its net profit, EBITDA, the ratio of the financial debt to EBITDA, the D/E ratio and other significant indicators at the end of the reporting period for which dividends are offered, and such higher payment would not have a significant negative impact on the implementation of the Company's long-term strategy.

INVESTMENTS

The amount of LG CARGO's investment in terms of the works performed (including the manufacture in progress and the prepayments) is EUR 19.6 million. All investments were financed with the Company's own funds.

Major investment projects and works completed in 2019:

- A rolling stock repair program was carried out – 2,063 freight wagons were repaired, 7 "Siemens" locomotives underwent major repairs, and 32 locomotives underwent major repairs of various complexity;
- In 2019, contracts were concluded, and advances paid for the purchase of locomotives.

EMPLOYEES

In order to succeed in implementation of its strategy the Company follows the best practices of personnel management. Focus on the employees makes a strategic direction, and is primarily implemented through the development of the corporate culture. The entire LG Group strives for a high-performance culture based on the existing values of LG:

We are ambitious | **We work for our clients** | **We respect each other** | **We promote integrity** | **We are responsible**

The basis of a successful sustainable organization lies in its employees, who are capable of carrying out daily activities in an efficient manner, creating competitive advantage and exclusivity, adapting to the changing business needs, setting and successfully implementing long-term strategic goals. When introducing and developing personnel management processes, the Company aims to ensure that each its employee understands his or her role and is responsible for the development of the corporate culture.

Initiatives in 2019:

- All employees were involved in the setting of annual goals and the measuring of their achievement;
- A benefits package was supplemented – from the beginning of 2019, all employees are covered by supplementary voluntary health insurance;
- Uniform remuneration review principles were established;
- While strengthening the leadership competencies, a LG Leadership Standard was developed (a 2-day Standard

Analysis of financial performance

training, mandatory for all managers of the Company);

- An annual 360-feedback survey for managers was conducted.

The number of employees of the Company amounted to 2,355 as of 31 December 2019.

The average monthly salary during the eight months of 2019 in the Company was EUR 1,705. The monthly salary of the CEO of LG CARGO was EUR 8,380 as of 31 December 2019. The annual performance incentive to the current LG CARGO employees who worked at the time was paid in March, when LG CARGO was still in the process of incorporation, and its employees were considered to be the employees of AB Lietuvos Geležinkeliai at the time. However, the general principles of the LG CARGO Remuneration Policy are now the same as those of the rest of the LG Group; thus, the CEO's variable annual salary (annual incentive) is linked to the achievement of the annual targets. The maximum amount of the variable annual salary of the CEO of the Company is 30% of the fixed annual remuneration.

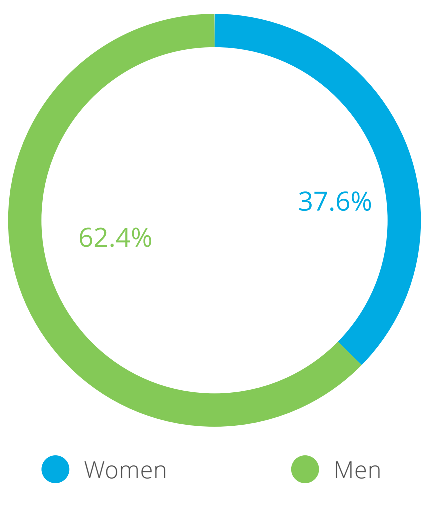
The salary set for the top executives was EUR 6,370 on the last day of 2019. In May-December 2019, the average salary of the middle-level managers and chief specialists amounted to EUR 2,308, while the average salary of specialists and workers amounted to EUR 1,649.

The total payroll fund of AB LG CARGO in May-December of 2019 amounted to EUR 31.2 million.

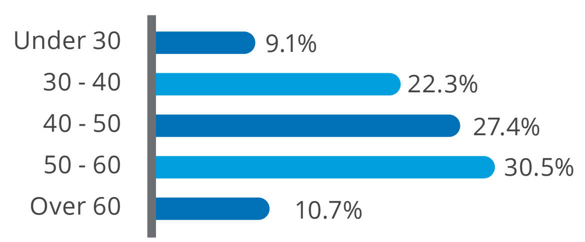
Employee groups by position	31/12/2019	
	The actual number of employees at the end of the period	Average salaries, Eur
CEO*	1	8,380
Top-level managers*	47	6,370
Middle-level managers, chief specialists**	138	2,308
Specialists, workers**	2,209	1,649
In total	**2,355**	**1,705**

* a fixed remuneration as of the end of the period is provided;
** data of LG CARGO covers May-December 2019.

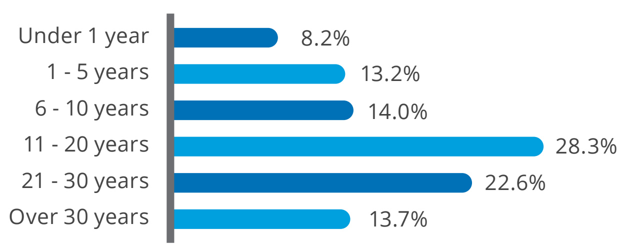
Employee distribution by gender, %



Employee distribution by age group, %

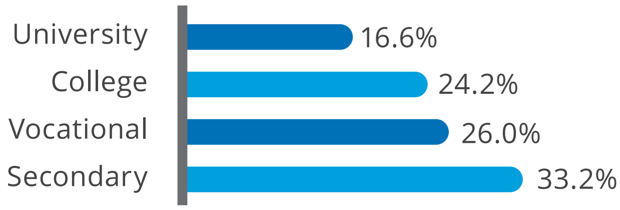


Employee distribution by length of service, %



Analysis of financial performance

Employee distribution by education, %



Age group	Average length of service, in years
Under 30 years	2.8
30-40 years	8.4
40-50 years	15.9
50-60 years	21.3
Over 60 years	26.9
Average length of service	**15.9**

SOCIAL PARTNERSHIP

As of 1 January 2019, a collective bargaining agreement has entered into force in the Company, as well as the entire LG Group. This agreement has been achieved as the result of constructive cooperation with the trade unions and their organizations acting within the LG Group. By entrenching an active social partnership, the communication and cooperation with the representatives of the trade unions operating in the Company are constantly developed, periodic meetings are organized in order to discuss day-to-day issues of work organization, and the issues important to the employees' social and economic situation are solved. In accordance with the procedure established by the legislation, information relevant to the trade unions is provided, and consultations are made when decisions related to the changes occurring in the Company are carried out.

REMUNERATION AND PERFORMANCE MANAGEMENT

A unified remuneration policy is being applied in the Company, as well as within the entire LG Group, which is aimed at ensuring the organization's competitiveness and its compliance to the current remuneration market trends the centralized application of standardized processes and principles. In order to achieve this goal, in 2019, a map of positions operating within the LG Group was completely finalized, and unified principles of remuneration review were established, including the following key elements:

- Position evaluation according to the internationally applied position evaluation methodologies;
- Comparison of internal remuneration data with market information;
- The evaluation of the annual performance of the employees, which in 2019 included all the employees.

These steps are designed to ensure transparency in decisions related to the determination of salaries and its changes while establishing a payroll system that is comprehensible to all employees of the Company and is related to the efficiency of each employee's performance.

TRAINING AND DEVELOPMENT OF COMPETENCES

To encourage the employees to use their potential and career opportunities, the Company motivates continuous professional and personal improvement of its staff. Within the Company, the priority is given to self-education, on-the-site learning and internal training.

Following the good human resources management practices, the Company strengthens the competencies of its managers and invests in the quality of the employee-manager relationships. In 2019, the LG Group created the LG Leadership Standard, which allows for unification of the key management knowledge of the top executives and defines the key principles for team leadership. All managers of the Company underwent a 2-day Leadership Standard. Each new manager is introduced to the LG Leadership Standard and must undergo the Leadership Standard training program.

For a second consecutive year in a row, a leadership competence 360 feedback survey was carried out, which is widely used in modern organizations and is a proven practice in the development of managerial competencies. The aim of the study is to provide the managers with comprehensive and high-quality feedback on their leadership competencies from their immediate working environment – immediate supervisors, colleagues, and subordinates. In addition, the survey is designed to accurately identify strengths and behaviours to improve and to help develop personalized education plans basing on the results of the survey.

The Company continuously organizes internal training and periodic certifications so its employees would acquire or update professional knowledge, develop or test their existing skills related to certain technological processes and equipment within the Company, and maintain a high level of professionalism.

In 2019, in-house trainers conducted training in 14 training programs prepared to take into consideration the business needs of the entire LG Group. Meanwhile, 611 employees of the Company underwent in-house training, were certified, and received certificates.

The employees engaged in hazardous works and handling and maintaining potentially hazardous equipment are trained to apply safe working methods. In 2019, 441 employees were trained in occupational safety and health at work. 1,719 employees participated in specialized training of railway transport, of which 1,551 were trained in accordance with the provisions of the Law on Railway Transport Traffic Safety of the Republic of Lithuania (periodic certification, training, and periodic qualification development) and the European regulations.

Risks and their management

When managing the risks, LG CARGO follows a unified **risk management system** based on the best risk management practices (ISO 31000, COSO), which is being implemented and continuously developed within the LG Group. Such risk management ensures that the risks arising from the Company's activities are identified, evaluated, and managed, and thus they are minimized in a timely manner. The level of emerging risks is assessed by determining their likelihood and potential impact (evaluating their financial and legal effect as well as the influence on the Company's reputation). Risks assessed in this way are assigned to one of the following categories: operational, compliance, financial, or strategical risk categories.

Taking into account the specifics of LG CARGO's activities as well as the existing context, below are the key strategic risks that may have a significant impact on the implementation of LG CARGO's strategic objectives.

Name of risk	Level of risk	Description of the risk and its effects	Basic risk management measures
Risk of loss of market share	Highest	In the field of freight flows, LG CARGO competes with the carriers of Lithuania and other countries, cargo terminals, and ports. As a result, the Company faces a constant risk of declining market share. Decisions by the existing customers to use the services of other carriers, i.e., road transport or the rail transport of other carriers, may lead to the loss of the existing freight flows.	• Long-term cooperation with the most important and major Lithuanian and foreign partners; • Search for new clients.
Status of a contracting authority	Highest	LG CARGO constantly competes for freight flows with rail, sea, air and road transport companies operating both in Lithuania and abroad. Due to the complexity and duration of public procurement procedures, LG CARGO founds itself at a disadvantage compared to competitors who are not obliged to carry out public procurements. The competitiveness of LG CARGO has declined and there is a risk of losing market share.	• Proactive representation and communication of LG CARGO's position to the parties concerned; • Effective procurement management, development and implementation of a unified supply chain model.
Risk of geopolitical changes	Very high	The operations of LG CARGO depend on political decisions passed in Lithuania, the neighbouring countries, Russia, and the EU. Import, export, and transit make up the largest part of the freight flows transported as well as the income generated by the Company. Meanwhile, geopolitical factors create unpredictable changes in freight flows.	• Active search for new markets.

Information on the compliance with the guidelines on transparency

In its activities, LG CARGO follows the requirements of the "Description of the Guidelines for Ensuring Transparency of State-Owned Enterprises" approved by the Resolution No. 1052 of 14 July 2010 of the Government of the Republic of Lithuania by disclosing the required information in annual and interim reports and by ensuring the disclosure of information on its website.

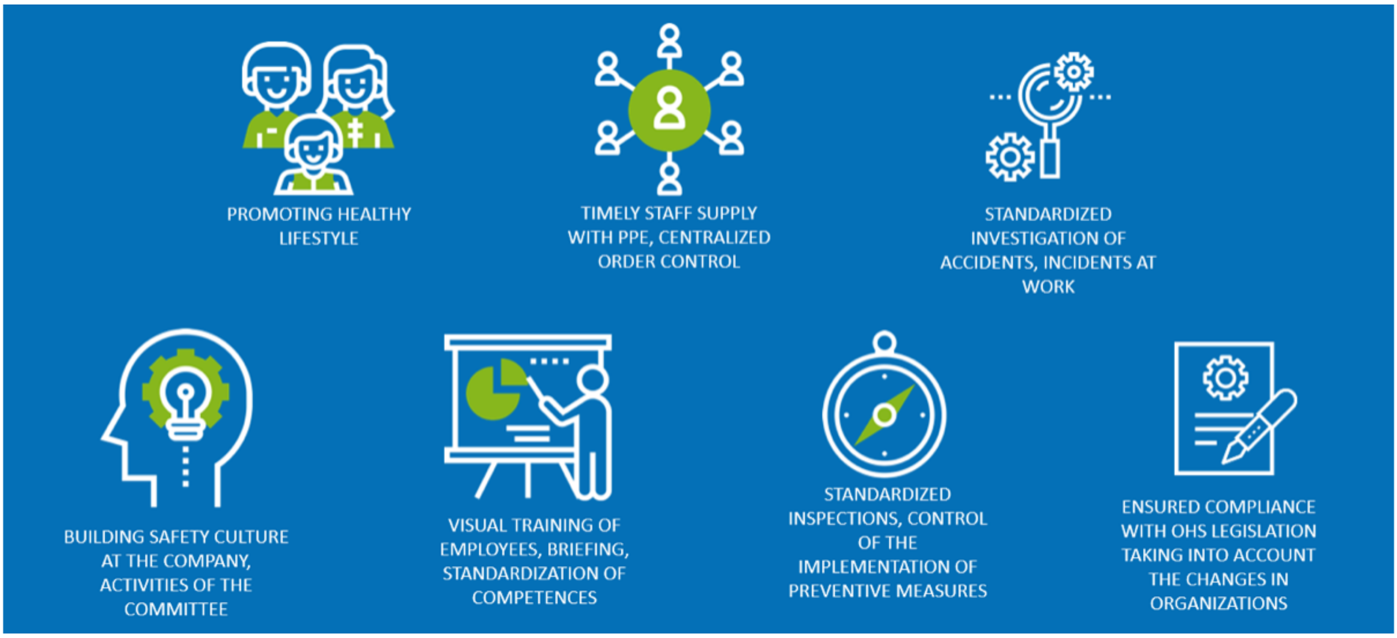
The Company's financial statements are audited in accordance with International Standards on Auditing. In 2019, a public procurement for the services of auditioning of the Company's financial statements prepared in accordance with International Financial Reporting Standards was awarded to UAB KPMG Baltics. The remuneration to the audit company for the auditing of the financial statements of 2019 was EUR 45,000 (excluding VAT).

Corporate social responsibility report

OCCUPATIONAL SAFETY AND HEALTH

- In 2019, during the separation of LG CARGO, the integrity of the safety management elements was ensured as well as the effective and efficient implementation of safety methodologies and processes in day-to-day operations and the compliance of the Company with occupational safety and health legislation.
- Seeking to develop an independent corporate safety culture, LG CARGO's activities are organized, taking into account the PDCA elements (plan-do-check-adjust), additionally implementing the leadership of each employee and ensuring the allocation of the duties, rights, and responsibilities in the safety area.
- The highest priority is given to the safety and health of our employees, which has led to the standardization of safety management within the LG Group, and this process is being continuously improved.
- While developing a safe work culture, on the first business day of every month, safety days are organised, where the focus is paid on occupational safety and health. LG CARGO continually assesses occupational risk at the workplaces, performs departmental inspections, implements the prevention intoxication, controls whether the employees follow safe access to the workplace procedures when crossing rail tracks, and how the inconsistencies identified during the occupational risk assessment and departmental inspections are removed.
- In addition, LG CARGO implements the prevention of work-related incidents, accidents at work and commuting to work, health and occupational diseases, and investigates all occurred accidents. All LG CARGO's employees are additionally insured against accidents at the employer's expense, and every employee who wished could receive a flu vaccination (355 employees were vaccinated in 2019), taking into account the risk factors existing at the workplace (233 received flu vaccinations in 2019).
- Considerable focus is paid on the development of the employees' competence: in 2019, 328 employees were trained in the field of occupational safety and health (the unit managers, representatives of the employees in the area of safety and health, the employees before starting dangerous works). LG CARGO has developed an employee competency matrix as well as a draft matrix for acquiring practical skills at the workplace.
- All employees are provided with quality collective and personal protective equipment by ensuring working clothes rental services with periodic laundry and repair.
- Updated (visualized) occupational safety and health instructions.

STANDARDIZATION OF OCCUPATIONAL SAFETY AND HEALTH IN THE COMPANY



TRAFFIC SAFETY

Railway transport safety focuses on the entirety of technical and organizational measures aimed to ensure that passengers, other railway transport traffic participants and other persons, as well as railway infrastructure, rolling stock and carried cargo and luggage, are protected against any railway transport incidents, accidents, catastrophes, and their consequences.

The Company's vision in the field of traffic safety is simple and still all-inclusive: 0 (zero) incidents, i.e., safe society and the Company, when no railway transport incidents, accidents, catastrophes take place.

Seeking to implement its vision in the field of traffic safety, the Company, taking into account the best practices and regulations of other countries, has developed and approved a new safety management system and related documents; in addition, it has defined relevant safety objectives oriented to the highest operational risks; the Company has outlined and implemented a plan of complex measures aimed at reaching them, and fosters an integrated corporate safety culture model that raises the employees' safety awareness.

The Company, seeking to ensure a high level of railway transport traffic safety, also manages the risks related to railway transport traffic safety by implementing measures aimed at eliminating or mitigating the risks to the lowest acceptable level, carries out targeted traffic safety inspections and performs periodic audits of the elements comprising the safety management system, ensures continuous monitoring of the state of the traffic safety based on safety indicators, enabling proactive prevention of railway accidents, incidents, catastrophes, and their consequences. In the event of a railway accident, incident or catastrophe, investigations are conducted to determine the direct and indirect causes of such accidents and to implement systematic measures, focused on the opportunities offered by the Fourth Industrial Revolution, in order to ensure that no incidents recur in the future.

ENVIRONMENTAL PROTECTION

LG CARGO, when planning the expansion of its freight flows, strives for sustainable growth and is committed to the common environmental commitments of AB Lietuvos Geležinkeliai Group – the Company efficiently uses energy and natural resources, seeks for solutions allowing to reduce the negative impact of its activities on the environment and the climate change.

The implementation of the environmental protection functions of LG CARGO is centralized. In order to ensure compliance of the activity with the requirements of the legislation regulating environmental protection, internal environmental inspections are carried out, periodic control of pollutants emitted and discharged into the environment is performed, and reports on the impact of the Company's operations on the environment are submitted to the competent authorities.

As part of the LG Group, LG CARGO has assumed the updated railway climate responsibility pledge of the worldwide Railway Organisation (UIC) at the end of 2019, which is aimed at the strengthening of the targets in the combat against climate change: by 2030, to reduce the amount of CO_2e[1] emitted from freight transportation by 30%, and to reduce specific CO_2e emissions by 40% by 2020, and by 50% until 2030 compared to 2005. The Company already in 2019 is approaching the implementation objectives in its efforts while renewing and modernizing its traction rolling stock and applying energy-saving measures. In 2019, 185 thousand tonnes of CO_2e were emitted from the freight transportation operations – almost a third less than in 2005, and specific freight transportation emissions CO_2e were reduced by 39% to 11,467 gCO_2e/tkm.

At present, only diesel traction rolling stock is used for freight transportation; thus, the use of renewable energy sources is related to the use of biodiesel only. In 2019, the share of bio-additives in diesel fuel, on average, was 3.74% (during the warm period, diesel with at least 7% bio-additives used, and no bio-additive diesel is used during the cold period).

The use of fossil fuels for rolling stock traction also affects ambient air since nitrogen oxides and particulates are emitted. To reduce these pollutants, LG CARGO also adopted the targets set by the UIC, i. e. to reduce them by 40% until 2030 when compared to the year of 2005. Already in 2019, the particulate emissions target was achieved, and nitrogen oxide emissions were reduced by 38%.

LG CARGO aims to protect natural and energy resources through the rational use of materials and raw materials, proper maintenance of rolling stock, thus extending their service life. The generated waste is sorted to ensure high recycling potential. As much as 81% of the waste generated by LG CARGO last year was suitable for recycling. The Company is also involved in the LG group-wide No Paper Project, which focuses on more efficient document management and elimination of paper documents.

Given the growing public concern about climate change and environmental pollution, LG CARGO remains committed to reducing the environmental impact of its operations, to sustainably using natural and energy resources, to meeting the set climate change goals, and to asserting its position as the most environmentally and climate-friendly mode of freight transportation.

PREVENTION OF CORRUPTION AND BRIBERYING

Together, we strive to create a reliable and mature Company and its environment; therefore, it is highly important for each of us to act transparently, responsibly, and reliably. The responsible attitude of each employee of the Company allows us not only to trust each other, but also to form a Company that operates in a transparent and smooth manner and has an impeccable reputation.

Therefore, we implement a number of measures aimed at the prevention of corruption. One of them is the implementation of the international standard ISO 37001:2016 "Anti-bribery management systems — Requirements with guidance for use". This will help us to act more transparently and responsibly in the future.

Besides, we are committed to ensuring the declaration of public and private interests and the management of the conflicts of interests. For this reason, employees are obliged to declare their private interests in accordance with the provisions of the Law on the Adjustment of Public and Private Interests in the Republic of Lithuania, and those who work at computerized workplaces and are not obliged by law to declare their positions, are required to declare their private interests in the employees' self-service module "Manolitrail".

Seeking objectivity and transparency in decision-making, we address the issues of the suspension of the employees and their removal from the process of drafting, consideration, or adopting decisions that may result in a conflict of interest.

We are demanding of ourselves. In accordance with the procedure established by the legislation, the reliability of persons seeking or performing duties was verified. At the same time, we are also demanding of our business partners as well – we constantly carry out the checks of the reputation and solvency of business partners with whom we intend to cooperate, so to identify the risks that may arise from our business partners in a timely manner.

In order to promote the responsibility and activity of its employees, the Company enables its staff to report anonymously any offenses related to corruption through whistle-blower channels (phone (8 5) 269 3600, email:

[1] CO_2e – Greenhouse gas, expressed in carbon dioxide equivalent.

prevencija@bekorupcijos.lt, and the form for whistleblowing is available on the website www.litrail.lt/korupcijos-prevencija).

The assistance of our employees is also important when investigating cases of fraud, corruption, or other types of offenses.

Following the provisions of the Law on the Protection of Objects of Importance to Ensuring National Security, inquiries are submitted to the Commission for Coordination of Protection of Objects of Importance to Ensuring National Security regarding the intended transactions as well as the substantial changes to the already concluded transactions regarding their compliance with national security interests.

Every year, we conduct a targeted survey of our employees' resistance to corruption, since the opinion and suggestions on how we can improve the transparency in the Company of each employee are important to us.

In addition, we cooperate with the Special Investigation Services of the Republic of Lithuania, other institutions or competent corruption prevention specialists (experts) in the field of investigation and education; we strive to introduce our employees with the latest trends in corruption prevention, and we regularly organize training for our staff on the relevant topics related to corruption prevention.

In order to ensure the publicity and transparency of the Company's activities, information on the Company's corruption prevention activities was published in various media, including the Company's website.

DATA PROTECTION

LG CARGO takes care of the protection of personal data and protects the information entrusted by its employees and customers. While doing this, the Company strictly follows the requirements of the EU General Data Protection Regulation and other data protection legal acts on the protection of data subjects. In 2019, when implementing the requirements of the EU General Data Protection Regulation, the following actions were carried out in the field of data protection:

- Centralized implementation of the data protection function: an employee entrusted to perform a data protection officer's functions within the Company;
- Review and adaptation of the existing and preparation of new internal legal acts of the Company related to personal data protection;
- During the reporting period, no requests from data subjects were received to exercise their rights under the EU's General Data Protection Regulation;
- No personal data breaches were recorded within the Company;
- The State Data Protection Inspectorate did not impose any fines, issued instructions or made recommendations on the data processing implemented within the Company;
- Data protection memos were periodically delivered to the Company's employees, which contained essential information that any employee of the Company should know about data protection.

COOPERATION WITH EDUCATIONAL INSTITUTIONS

Within the Company, as within the entire LG Group as well, the cooperation with educational institutions, common projects with higher education, college and vocational schools which prepare specialists for the railway sector make an important strategic activity for the ensuring of future competencies. The year 2019 was a year of intense work aimed at securing the training of strategically important employees, i.e., train pilots. Train pilot training programs were revised and updated, and contracts were concluded with schools regarding the preparation of the necessary specialists.

Seeking to promote the railway-related professions, the Company joined the national project "I Will Be", during which educational tours are being organized. During these educational trips, students from different schools visited the Company's departments and learned about their activities. The professions of the railway sector are also being popularized among students of universities and non-university schools by inviting students of various faculties to visit different departments of the Company during these educational trips.

An initiated internship program, "Growing Leaders", invited young people studying at Lithuanian and foreign universities to join the LG Group's team during the summer. At the end of the internship, some of the trainees who participated in the program have been employed at the Company.

DEFINITIONS

Sales revenue	Sales revenue, excluding income from other and financial activities
Operating expenses	Costs, excluding the corporate tax and financial activities expenses
EBIT	Profit (loss) before the corporate tax – the result of financial investment activities
EBITDA	Profit (loss) before the corporate tax – the result of financial investment activity + depreciation and amortization
Financial debt	Interest-bearing financial debt, including finance leases, plus provisions for pensions and similar obligations
Net debt	Interest-bearing financial debt, including finance leases, less cash, and cash equivalent investments
Debt	Interest-bearing financial debt, including finance leases, plus provisions for pensions and similar obligations
Return on equity capital (ROE)	Net profit/loss for the period of the last 12 months / average equity for the reporting period
Return on Assets (ROA)	Net profit/loss for the period of the last 12 months / average assets for the reporting period
Return on Investment (ROI)	Net profit/loss for the period of the last 12 months / average assets for the reporting period – average current liabilities for the reporting period
EBIT margin	EBIT / sales revenue
EBITDA margin	EBITDA / sales revenue
Net profit margin	Net profit (loss) / sales revenue
Equity ratio	Equity at the end of the period / total assets at the end of the period
Asset turnover indicator	Sales revenue for the period of the last 12 months / total assets at the end of the period
Quick liquidity ratio	Current assets at the end of the period – inventories / current liabilities at the end of the period
Total liquidity ratio	Current assets at the end of the period / current liabilities at the end of the period
Freight turnover (tonne-kilometre)	A freight transportation indicator representing the transport of one tonne of freight by rail over a distance of one kilometre.
Number of employees	The number of listed active employees as of the end of the period (excluding the employees on parental leave, military service, long-term incapacity)
Average salary	The average gross salary per employee.

AB LG CARGO
FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION AND THE INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Contents

KPMG

KPMG Baltics, UAB
Konstitucijos Ave 29
LT-08105, Vilnius
Lithuania

Phone: +370 5 2102600
Fax: +370 5 2102659
E-mail: vilnius@kpmg.lt
Website: kpmg.com/lt

Independent Auditor's Report

To the Shareholders of AB LG Cargo

Opinion

We have audited the financial statements of AB LG Cargo ("the Company"). The Company's financial statements comprise:

- the statement of financial position as at 31 December 2019,
- the statement of profit or loss and other comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

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

Other Matter

The Company's financial statements for the year ended 31 December 2019, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, were audited by another auditor who expressed an unmodified opinion on those financial statements on 11 April 2019.

Other Information

The other information comprises the information included in the Company's annual management report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

Company code: 111494971
VAT code: LT114949716

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

On behalf of KPMG Baltics, UAB

R. Kupinienė

Rūta Kupinienė
Certified Auditor

Vilnius, the Republic of Lithuania
30 April 2020

(all amounts are in EUR thousand unless otherwise stated)

Statement of financial position

	Notes	2019	2018
NON-CURRENT ASSETS			-
Property, plant and equipment	7	189,198	-
Buildings and constructions		540	-
Machinery and plant		1,651	-
Vehicles		186,186	-
Other equipment, fittings and tools		354	-
Construction in progress and prepayments		467	
Right-of-use assets	8	1,666	-
Intangible assets	9	412	-
Software		405	-
Other intangible assets		7	-
Investment property		-	-
Financial assets		-	-
Deferred tax assets	24	-	14
Total non-current assets		**191,276**	**14**
CURRENT ASSETS			
Inventories	10	2,053	-
Trade and other receivables	11	58,916	-
Prepayments	12	8,140	-
Cash and cash equivalents	13	25,143	30,000
Total current assets		**94,252**	**30,000**
TOTAL ASSETS		**285,528**	**30,014**

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

(all amounts are in EUR thousand unless otherwise stated)

Statement of financial position (continued)

	Notes	2019	2018
EQUITY			
Share capital	14	60,410	30,000
Legal reserve		-	-
Other reserves		-	-
Retained losses	15	(2,219)	(80)
Total equity		**58,191**	**29,920**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	16	143,379	-
Lease liabilities	17	906	-
Employee benefits	18, 22	3,629	-
Deferred income tax liabilities	24	1,434	-
Total non-current liabilities		**149,348**	**-**
Current liabilities			
Loans and current portion of long-term loans	16	13,655	-
Lease liabilities	17	777	-
Income tax liability		1,307	-
Employee benefits	18, 22	8,578	-
Trade and other payables	19	53,438	94
Provisions	20	234	
Total current liabilities		**77,989**	**94**
TOTAL EQUITY AND LIABILITIES		**285,528**	**30,014**

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

On 1 January 2019 the Company applied IFRS 16 standard for the first time by using the modified retrospective method. According to that method, comparative information has not been recalculated. Impact of the IFRS 16 standard applied for the first time has been recognized in accumulated profit and loss during initial application.

The financial statements and the explanatory notes on pages 30-71 were approved and signed on 30 April 2020:

Chief Executive Officer	Egidijus Lazauskas
Head of the II Statement Preparation Group , Accounting Services Centre, AB Lietuvos Geležinkeliai Acting under Power of Attorney No JG(CARGO)-47 of 18/03/2020	Svetlana Pupeikienė

(all amounts are in EUR thousand unless otherwise stated)

Statement of profit or loss and other comprehensive income

	Notes	2019	2018
Revenue	21	297,782	-
Other income		49	-
Total income		297,831	-
Infrastructure services		(141,245)	-
Depreciation and amortisation	7,8,9	(23,258)	-
Employee benefit	22	(33,384)	-
Fuel		(35,528)	-
Repairs and maintenance		(16,122)	-
Services rendered by other foreign railway companies		(10,212)	-
Management services		(6,481)	-
Materials		(566)	-
Electricity		(329)	-
Impairment (increase) of inventories		(85)	-
Impairment (increase) of receivables		(886)	-
Change in provisions	20	(234)	-
Other		(6,921)	(94)
Operating profit (loss)		22,580	(94)
Finance income	23	138	-
Finance costs	23	(1,294)	-
Profit (loss) before taxation		21,424	(94)
Income tax	24	(2,755)	14
Net profit (loss)		**18,669**	**(80)**
Other comprehensive income (expenses)		-	-
Total comprehensive income (expenses)		**18,669**	**(80)**

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

On 1 January 2019 the Company applied IFRS 16 standard for the first time by using the modified retrospective method. According to that method, comparative information has not been recalculated. Impact of the IFRS 16 standard applied for the first time has been recognized in accumulated profit and loss during initial application.

(all amounts are in EUR thousand unless otherwise stated)

Statement of changes in equity

	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as at 31 December 2017		-	-	-	-	-	-
Impact of IFRS 9 applied for the first time		-	-	-	-	-	-
Impact of IFRS 15 applied for the first time		-	-	-	-	-	-
Net profit (loss) for the period		-	-	-	-	(80)	(80)
Other comprehensive income (expenses), after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	(80)	(80)
Unrecognized profit (loss) for the reporting year		-	-	-	-	-	-
Increase in share capital	14	30,000	-	-	-	-	30,000
Transfers between reserves		-	-	-	-	-	-
Dividends		-	-	-	-	-	-
Total transactions with owners of the Company		*30,000*	-	-	-	-	*30,000*
Balance as at 31 December 2018		**30,000**	**-**	**-**	**-**	**(80)**	**29,920**
Impact of IFRS 16 applied for the first time		-	-	-	-	-	-
Net profit (loss) for the period		-	-	-	-	18,669	18,669
Other comprehensive income (expenses), after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	*18,669*	*18,669*
Increase in share capital by an asset contribution	14,15	30,410	-	-	-	(20,808)	9,602
Transfers between reserves		-	-	-	-	-	-
Dividends		-	-	-		-	-
Total transactions with owners of the Company		*30,410*	-	-	-	*(20,808)*	*9,602*
Balance as at 31 December 2019		**60,410**	**-**	**-**	**-**	**(2,219)**	**58,191**

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

On 1 January 2019 the Company applied IFRS 16 standard for the first time by using the modified retrospective method. According to that method, comparative information has not been recalculated. Impact of the IFRS 16 standard applied for the first time has been recognized in accumulated profit and loss during initial application.

(all amounts are in EUR thousand unless otherwise stated)

Statement of cash flows

	Pastabos	2019	2018
Cash flows from operating activities			
Net profit (loss)		**18,669**	**(80)**
Adjustment to non-cash items			
Depreciation and amortization	7,8,9	23,258	-
(Gain) loss from disposal/write-off of non-current assets		198	-
(Reversal) of impairment losses		971	-
Change in accumulated income/costs		1,170	94
Interest income (costs)		1,049	-
Lease liability interest		51	-
Increase (reduction) in provisions		234	-
Effect of currency exchange fluctuations		(21)	-
Income tax expenses (income)		2,755	(14)
Cash flows from operating activities after adjustment to non-cash items		48,334	-
Changes in working capital			
Decrease (increase) in inventories		345	-
Decrease (increase) in trade and other receivables and prepayments		(44,883)	-
Increase (decrease) in current and non-current trade payables and received prepayments		45,257	-
Increase (decrease) in employment related liabilities		2,945	-
Increase (decrease) in other non-current and current payables		1,883	-
Net cash from operating activities		53,881	-
Cash flows from investing activities			
(Acquisition) disposal of non-current assets		(57,203)	-
Change in prepayments for non-current assets		(466)	-
Net cash from operating activities		(57,669)	-
Cash flows from financing activities			
Interest (paid)		(437)	-
Payment of lease liability interest		(51)	-
Payment of lease liabilities		(581)	-
Cash flows related to owners		-	30,000
Net cash flows from financing activities		(1,069)	30,000
Net increase (decrease) in cash and cash equivalents		**(4,857)**	**30,000**
Cash and cash equivalents at the beginning of the period		30,000	-
Cash and cash equivalents at the end of the period		**25,143**	**30,000**

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

On 1 January 2019 the Company applied IFRS 16 standard for the first time by using the modified retrospective method. According to that method, comparative information has not been recalculated. Impact of the IFRS 16 standard applied for the first time has been recognized in accumulated profit and loss during initial application.

Explanatory notes

1. General information

AB LG Cargo (hereinafter referred to as the Company) was registered in the Register of Legal Entities of the Republic of Lithuania on 28 December 2018. In its activities the Company follows the Constitution of the Republic of Lithuania, the Law on Companies of the Republic of Lithuania, the Railway Transport Code of the Republic of Lithuania, and other valid regulations of the Republic of Lithuania.

The Company is a private legal entity of limited civil liability, independently organizing economic, financial, organizational, and legal activities. AB LG Cargo is the company of the AB Lietuvos Geležinkeliai Group. AB Lietuvos Geležinkeliai is its sole shareholder. The Company's code: 304977594, VAT code: LT100012103918, legal (registration) address: 12 Mindaugo g., LT-03603 Vilnius.

The Company follows the established strategy and strategic strands of the Group of companies, as well as the approved policies that the companies of the Group must take into account in their activities, as well as the Constitution of the Republic of Lithuania, the Civil Code of the Republic of Lithuania, the Railway Transport Code of the Republic of Lithuania, the Law on Companies of the Republic of Lithuania, other laws and legal acts regulating the activities of the Company, decisions of the bodies of the Company, articles of association and internal documents of the Company.

Main activities of the Company: freight transportation and logistics, loading and unloading, wagon rent, locomotive and coordination of locomotives and locomotive crews.

As of 31 December 2018 and 2019, the parent company AB Lietuvos Geležinkeliai was the sole shareholder of the Company. The Ministry of Transport and Communications of the Republic of Lithuania holds 100 percent of shares of AB Lietuvos Geležinkeliai.

The Company has no branches and representative offices.

As of 31 December 2019 the listed number of active employees at the end of the period (excluding the employees on parental leave, employees doing military service, long-term incapacity) was 2,355 (as of 31 December 2018 there were no employees employed under employment contracts).

2. Significant accounting policies

Basis of preparation. The Company's financial statements have been prepared in accordance with the International Accounting Standards (hereinafter referred to as the IAS) and the International Financial Reporting Standards (hereinafter referred to as the IFRS) as adopted within the European Union.

The financial statements are prepared on the historical cost basis.

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

When preparing these statements the Company has applied requirements of IFRS 16 Leases, whose impact on financial position, results of financial operations and cash flows has been explained in Note 17.

The Company applies IFRS 16 by using the modified retrospective method, and it means that comparative figures have not been recalculated.

Use of estimates and judgements. The preparation of the financial statements in conformity with the IFRS requires the use of certain significant accounting estimates and assumptions, which affect application of accounting principles, and amounts related to assets, liabilities, income and expenses. Estimates and assumptions related to them have been based on historical experience and other factors, which conform to existing conditions, and based on their results a conclusion is made about residual values of assets and liabilities, decisions on which cannot be made based on other sources. The estimates and related assumptions are continually revised and rely upon historical experience and other factors, including expectations on future events based on existing circumstances.

Going concern. These financial statements of the year ended 31 December 2019 have been prepared in accordance with an assumption made by the Company's management that the Company would continue its activities.

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

Foreign currency. Transactions in foreign currency are measured in functional currency applying the currency exchange rate applicable during transactions. Monetary assets and monetary liabilities in foreign currency are revaluated in functional currency on the date of preparation of the financial statements applying reference exchange rates set and published by the European Central Bank. A positive or a negative effect of change in the exchange rate is accounted for as profit or losses in the Statement of profit or loss and other comprehensive income. Non-monetary assets and liabilities, denominated in foreign currency and measured at fair value, are revaluated in functional currency at exchange rates valid on the date of determination of the fair value. Non-monetary assets

2. Significant accounting policies (continued)

and liabilities denominated in foreign currency and measured at cost are revaluated in functional currency at exchange rates valid on the date of recognition of assets and liabilities in the statement of financial position. Currency exchange gains or losses are stated as profit or loss in the statements of profit or loss and other comprehensive income.

Property, plant and equipment. Property, plant and equipment are non-current tangible assets which: a) are kept for purposes of production of goods or provision of services, or for administrative purposes; and b) are intended to be used for a period longer than one reporting period. The cost of property, plant and equipment shall only be recognised as assets when and only when: a) it is probable that the future economic benefits embodied in the asset will eventuate; and b) the asset possesses a cost or other value that can be measured reliably.

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

Where separate parts of items of property, plant and equipment have different useful lives, they are accounted for as separate items (components) of property, plant and equipment. Costs of replacement of the part of an item of property, plant and equipment are capitalised only if it is probable that economic benefits will be derived from that part, and the cost of a new constituent part can be measured reliably. The residual value of the old constituent part is written off. The costs of the day-to-day servicing of property, plant and equipment are accounted for as profit or loss as incurred.

At the end of each reporting period, if any impairment indicators exist, property, plant and equipment are tested for impairment. If any indicators of impairment are noticed, the recoverable amount as an asset's fair value less costs to sell or its value in use (whichever is higher), is determined. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the Statement of profit or loss and other comprehensive income. Impairment loss recognised for an asset in the previous year is reversed where appropriate if any changes occur in the estimates used to determine the asset's value in use or the fair value less costs to sell. The impairment of assets is reversed to the extent of the increase in the recoverable amount but not exceeding the carrying amount before accounting of impairment, assessing the estimated depreciation

Subsequent to their recognition property, plant and equipment shall be accounted for at cost less any accumulated depreciation and any impairment loss.

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

A gain or a loss on the sale of property, plant and equipment is determined by the comparison of the proceeds from asset sale with its carrying amount and is recognized in the Statement of profit or loss and other comprehensive income.

Depreciation. Depreciation on other groups of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Groups of property, plant and equipment	Useful life
Buildings and structures	8–25
Machinery and plant	5–40
Road transport/vehicles	4–10
Rolling stock (including railway wagons)	8–35
Computers and hardware	4–15
Other equipment, fittings and tools	4–70

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

Construction in progress. Construction in progress is accounted for at the cost of acquisition. This includes the cost of construction, structures and equipment, and other directly attributable expenses. Construction in progress is not depreciated until construction is completed and assets are ready for service.

2. Significant accounting policies (continued)

Investment property. Investment property, including part of buildings and structures, is held for earning rentals and/or for capital appreciation rather than for use in the production, provision of services, or for administration purposes or sale. Investment property is stated at historical cost less accumulated depreciation and impairment loss, if any. Depreciation is calculated by applying the straight-line method during estimated useful life. Transfers to and from investment property are made only when there is an obvious change in intended use of assets. When transferring the assets from investment property to property, plant and equipment used for own needs, apparent cost of those assets is deemed the carrying amount of investment property on the date of transfer. If property, plant and equipment are transferred to investment property, the Company accounts for those assets according to accounting principles applicable to property, plant and equipment up to the date of transfer. The apparent cost of transferred investment property is considered the carrying amount of that property on the date of transfer.

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

Expenditures, which are directly related to development of unique software controlled by the Company, are recorded as intangible assets, where it is expected that future economic benefit will exceed expenditures incurred. Capital expenditures include costs of a software development team and related overhead costs. Any other software-related costs, e.g. software maintenance works, are recognized costs when incurred.

Intangible assets are amortised applying the straight-line method during estimated useful life that can make up from 2 to 20 years. Amortization period shall be reviewed at the end of each financial year.

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

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

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

Impairment of property plant and equipment, and intangible assets. On every date of the Statements of financial position the Company reviews the residual value of its property, plant and equipment, and intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset is assessed in order to determine the extent of impairment (if any). Where it is not possible to assess the recoverable amount of the asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, the Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

The recoverable amount is the higher of fair value less costs to sell and value in use. When assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate, assessed under current market conditions, an existing time value of money and risks specific to the asset, which have not been considered in the estimates of future cash flows.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the Statement of profit or loss and other comprehensive income.

2. Significant accounting policies (continued)

Financial instruments

Financial assets. The Company's financial assets include cash, trade receivables and other receivables.

Trade receivables are recognized initially upon occurrence. During initial recognition all other financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets (other than trade receivables without significant funding component), if not measured at fair value through profit or loss, are initially measured at fair value plus transaction costs directly attributable to acquisition or disposal. The trade receivables without a significant financing component are initially recognized at transaction price.

The financial assets are divided into three groups depending on the method of their measurement:

- financial assets that are measured at amortised cost in subsequent periods;
- financial assets that are subsequently measured at fair value through other comprehensive income;
- financial assets that are subsequently measured at fair value through profit or loss.

Classification of the financial assets depends on the business model for managing the financial assets (it is assessed how the Company manages the financial assets in order to generate cash flows) and their contractual cash flow characteristics of the financial assets (whether contractual cash flows include the principal amounts of the loan and interest payments only).

The Company has no financial assets, which are subsequently measured at fair value through other comprehensive income, and financial assets, which are subsequently measured at fair value through profit or loss.

A financial asset is measured at amortized cost if both of the following criteria are met:

- the financial asset is held according to s business model, an objective of which is to hold the financial asset to collect its contractual cash flows; and
- due to contractual conditions of the financial asset cash flows may occur on set dates, which represent solely payments of principal and interest.

The financial asset, which is subsequently measured at amortized cost, is measured by using the effective interest method. The amortized cost is reduced due to impairment loss. Interest income, foreign exchange profit and loss are accounted for through profit (loss). Any derecognition profit or loss are accounted for in the Statement of profit or loss and other comprehensive income.

The effective interest method is the method used to calculate the amortized cost of a financial asset or liability and distribute interest income or expense during the respective period. The effective interest rate is the rate that allows discounting future cash payments accurately during the specified period of validity of financial liability or during shorter period, where appropriate.

At initial recognition the financial assets, which are measured at fair value through profit or loss in the Statement of profit or loss and other comprehensive income, are accounted for at fair value. Later fair value change profit and losses, including all interest and dividends, are recognized as profit and losses in the Statement of profit or loss and other comprehensive income.

Derecognition of financial assets. Financial assets (or, where appropriate, part of financial assets or part of the group of similar financial assets) are derecognised when:

- the rights to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement;
- the Company transfers its right to receive the cash flows and/or:

  a) transfers substantially all risks and rewards of the asset,

  b) neither transfers nor retains substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company transfers the rights to receive cash flows from an asset and neither transfers nor retains risks and benefit related to ownership to the financial asset, but transfers control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. The Company's assets that take the form of a guarantee over the transferred asset are measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

The Company directly reduces the gross carrying amount of the financial asset if it cannot reasonably expect to recover all or part of the financial asset.

Writing down is an event of derecognition.

2. Significant accounting policies (continued)

Financial liabilities. The Company's financial liabilities comprise loans and other financial debts, trade and other payables.

At the time of initial recognition financial liabilities are recognized if the Company becomes a party to the contractual terms of the instrument.

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

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

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

A financial liability is classified as measured at fair value through profit or loss if it is classified as held-for-trading, it is a derivative financial instrument or it is designated as such on initial recognition.

A financial liability, measured at fair value through profit or loss, is measured at fair value, and any net profit and loss, including any interest costs, is recognized in the statement of profit or loss and other comprehensive income.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest costs and foreign exchange profit or loss are recognised in the Statement of profit or loss and other comprehensive income. Any costs of derecognition of the financial liability are recognised in the Statement of profit or loss and other comprehensive income.

Derecognition of financial liabilities. A financial liability is derecognised by the Company when contractual obligations have been fulfilled or cancelled or the liability expires. The Company also ceases recognition of a financial liability when its terms are changed and the cash flows of the amended liability are materially different. In this case the new financial liability is recognised at fair value in accordance with the amended contractual terms.

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

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

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

At the end of each reporting period, the Company recalculates and records the provision for expected credit losses in accordance with past events, current market conditions and future prospects. The Company applies a simplified method to calculate the lifetime expected credit losses over the period of validity and uses a provisioning matrix for all trade and other receivables. For calculation of the expected credit losses using the provisioning matrix, trade and other receivables are categorized into separate groups according to credit risk characteristics. The amounts for each group are analysed by the number of days past due. At the end of each financial period the Company assesses whether there has been a significant change in the credit risk of the financial instrument since initial recognition.

The Company assumes that the major risk of default occurs when the outstanding amounts are delayed for more than 120 days of the due date of payment.

At the end of each reporting period, the Company assesses whether the value of financial assets carried at amortised cost is impaired. Financial assets are impaired when one or more events have occurred that have a negative impact on the expected future cash flows of the financial assets. Other principal criteria given below are also used to determine whether there is objective evidence that impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by financial information it provides;
- a breach of contract such as default or payment delay;
- the counterparty considers bankruptcy or intends to take measures for financial reorganization;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions which affect the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

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

The gross carrying amount of a financial asset is written down when the Company has no reasonable expectations of recovering all or part of the asset. Uncollectible assets are

2. Significant accounting policies (continued)

written off based on admitted impairment loss after all the necessary procedures for recovery of the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss item in the Statement of profit or loss and other comprehensive income.

Derivative financial instruments. During 2019 the Company had no derivative financial instruments.

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

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

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

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

Financial guarantees. Financial guarantee contract is the contract that binds the Company to make specific payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or updated terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by due amounts received.

Lease (accounting policy applicable until 31 December 2018)

Lease is the right to control the use of an identified asset during the period of use. The identified asset is a physically distinct asset that has been directly or indirectly established in an agreement with no substantive rights to substitute it. The substitution right of the identified asset is evaluated based on facts and circumstances present at inception of the contract. The right to control the use of an asset means having the right to direct, and obtain all of the economic benefits from, the use of that asset. The lessee shall only evaluate contracts anew if contract terms and conditions are modified and the substitution right is substantive.

In 2018 lease was recognized at the Company based on the provisions of IAS 17, i.e. a finance lease is recognized if substantially all the risks and benefits related to asset ownership is transferred. Lease has been recognized an operating lease if substantially all the risks and benefits related to asset ownership are not transferred.

At the beginning of execution of a contract or after its repeated evaluation the Company divides payment amounts and other amounts established in the contract into lease payments and other payments based on their relative fair value. If the Company decides that in respect of a finance lease payments cannot be reliably divided, assets and liabilities are accounted for at the amount equal to the fair value of related property. Later the amount of liabilities is reduced by making payments, and financial costs incurred are accounted for respectively by applying Company's incremental borrowing interest rate.

Operating lease. If the Company is a lessee, and an operating lease is such lease that does not transfer all risks and remunerations, related to legal ownership, to the Company, operating lease payments are distributed on a straight-line basis and recognized as profit or loss in the Statement of profit or loss and other comprehensive income. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Other leases inserted in contracts are distinguished if:

a) execution of an agreement depends on the use of respective property;

b) an agreement grants the right of use.

If property is leased out on an operating lease basis, lease payments on a straight-line basis are distributed over the lease term and recognized as lease income. Interpretation 4 of the IFRIC explains in detail criteria, based on which it is established whether a contract falls within the scope of a lease contract.

Finance lease. If the Company is a lessor, and an operating lease is such lease that does not transfer all risks and remunerations, related to legal ownership, to the Company, leased property is capitalized as property, plant and equipment at the commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Each lease payment is distributed between liabilities and financing costs so as to make up a fixed interest rate for the balance of financial liabilities. Respective lease obligations less future financing costs are reflected in borrowed expenses. Interest costs are covered from profit or loss during the lease term by applying the effective interest method. Depreciation of property purchased on a finance lease basis is calculated during the period of use of property or the lease term, whichever is shorter, if the Company reasonably

2. Significant accounting policies (continued)

believes that it would be transferred the title before the end of the lease term.

Lease (accounting policy applicable after 1 January 2019)

Lease means a contract or part of a contract that gives the right to use the asset (leased property) for a certain period of time for consideration. A contract is a lease contract or includes a lease if, for consideration, it confers the right to control the use of an asset for a certain period of time.

Lessee

The Company shall assess each contract for possible lease items. If the contract is a lease contract or includes a lease, the Company shall account for each lease component of the contract as a lease separately from the non-lease (service) components of the contract.

The Company shall not apply the lease recognition provisions to short-term leases (leases of up to one year) and leases with low value property (computers, telephones, printers, furniture, etc.). In deciding whether the value of an asset is low, the Company shall assess each asset separately. In deciding whether the value of an asset is low, lease fees over the entire lease period are not assessed. Assets with a value of up to EUR 4 thousand are considered low value assets. The Company shall not apply the lease recognition provisions to all intangible assets. The Company shall apply the provisions of IAS 38 Intangible Assets to such assets.

The Company shall recognize the right-of-use asset and the lease liability in the statement of financial position at the commencement of the lease.

On the commencement date the Company shall measure the asset under management at cost. Subsequent to initial recognition, assets under management are measured at cost less accumulated depreciation and accumulated impairment losses, and an adjustment to any revaluation of the liability.

On the commencement date the Company shall measure a lease liability at the present value of the lease payments outstanding at that date. Lease fees shall be discounted using the interest rate provided for in the lease contract, if that rate can be readily determined. If that rate cannot be readily determined, the Company shall use the borrowing rate charged by the lessee. The borrowing rate to be charged by the lessee shall be recorded by the Company at the beginning of each year and used for all new contracts signed in that year and for contracts the terms of which (not all but only for which the lease liability must be reassessed) have changed during that year. A reassessment of a lease liability occurs when the cash flows change from the original conditions of the lease, for example, when changes in the lease term or lease payments change based on an index or interest rate. Changes that were not part of the original lease contract are considered to be lease changes.

Initial assessment of right-of-use assets. On the lease commencement date, the Company shall measure the right-of-use assets at cost. The cost of right-of-use assets comprises of: the amount of the initial measurement of the lease liability, any lease payments at or before the inception date, less any lease incentives received; any initial direct costs incurred by the Company; and an estimate of the costs that the Company will incur in dismantling and disposing of the leased asset, maintaining its location or restoring the leased asset to the condition required by the lease conditions, unless those costs are incurred in producing the stocks. The Company shall assume a liability relating to these costs on the start commencement date or after using the leased assets for a specific period. The Company shall recognise these costs as part of the cost of the right-of-use assets when a liability is incurred for these costs.

Subsequent assessment of right-of-use assets. After the commencement date, the Company shall assess the right-of-use assets applying the cost method. By applying the cost method the Company shall measure the assets managed under the right-of-use at cost: less any accumulated depreciation and any accumulated impairment losses; and adjusted for reassessment of the lease liability.

In calculating the depreciation of rights-of-use assets, the Company shall apply the depreciation requirements of IAS 16 Property, Plant and Equipment.

Initial assessment of the lease liability. On the commencement date, the Company shall assess the lease liability at the current value of the lease outstanding on that date. Lease fees shall be discounted using the interest rate provided for in the lease contract, if that rate can be readily determined. If this rate cannot be readily determined, the Company shall use the borrowing rate published by the Bank of Lithuania.

Reassessment of the lease liability. After initial recognition, the lease liability shall be reassessed to take into account changes in the lease fees. The Company shall recognise the amount of the reassessment of the lease liability as an adjustment to the right-of-use assets. However, if the carrying amount of the right-of-use asset is reduced to zero and the assessment of the lease liability is further reduced, the Company shall recognise any remaining amount of the reassessment as profit or loss. The Company shall report the lease liabilities separately from other liabilities in the statement of financial position. The interest expenditure on the lease liability is presented separately from the depreciation of the right-of-use assets. The interest expenditure on the lease liability is a component of the financial cost presented in the statement of comprehensive income.

2. Significant accounting policies (continued)

Lessor

Finance lease. On the commencement date the Company shall recognize assets leased under finance leases in the statement of financial position and presents them as a receivable equal to the amount of the net investment in the lease. In order to assess the net investment in the lease, the Company shall use the interest provided for in the lease contract. In the case of sublease, if the interest rate provided for in the sublease contract cannot be easily determined, the Company shall use the discount rate used for the underlying contract (adjusted for any initial direct costs associated with the sublease) to assess the net investment in sublease as an intermediate lessor. The initial direct costs are included in the initial assessment of the net investment in the lease and reduce the amount of income recognised during the lease period. The interest rate provided for in the lease contract shall be determined in such a way that the initial direct costs are automatically included in the amount of net investment in the lease; they shall not be added separately.

The Company shall recognise financial income during the lease period on the basis of a method which shows a constant periodic rate of return on the Company's net investment in the lease. The Company shall deduct lease fees related to the period from the gross investment in the lease in order to gradually reduce both basic and unearned financial income.

Operating lease. The Company shall recognise the lease fees related to operating lease, income on a linear basis. Costs (including depreciation) incurred in earning lease related income are recognised by the Company as costs. The initial direct costs incurred in obtaining the operating lease shall be included by the Company in the carrying amount of the leased assets and shall be recognised as expenditure during the lease period on the same basis as the lease income. The Company shall account for the change in the operating lease as a new lease from the date of the change's entry into force and shall treat the lease fees paid or accrued in advance in relation to the original lease as part of the new lease.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted on the closing date of the reporting period. The income tax charge comprises current tax and deferred income tax and is recognised in the Statement of profit or loss and other comprehensive income, unless those taxes are recognised in other comprehensive income or directly in equity as they are related to transactions that are also recognised in other comprehensive income or directly in equity in the same or a different period.

The income tax rate applicable for the companies of the Republic of Lithuania in 2019 was 15%.

Taxes for the reporting period are the amount expected to be paid to or recovered from the taxation authorities, considering a taxable profit or losses for the reporting and prior periods. The taxable profit or losses are based on estimates if financial statements are approved prior to filing relevant tax returns. Taxes other than income tax are recorded in operating expenses.

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

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets and deferred tax liabilities may be offset separately at each company.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets have been recognised in the Statement of financial position to the extent the management believes they will be realised in the foreseeable future based on taxable profit forecasts. When it is probable that a portion of deferred tax will not be utilised, this portion of deferred tax is not recognised in the financial statements.

Taxable losses can be carried forward for an unlimited time, except for the losses that have originated due to disposal of securities and (or) derivative financial instruments. Operating losses carry forward is disrupted if the Company ceases its activities which caused the losses, unless the Company ceases

2. Significant accounting policies (continued)

activities due to reasons beyond its control. The losses from disposition of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

From 2014 tax losses carried forward can cover no more than 70 percent of taxable profit of a taxable period according to applicable Lithuanian laws.

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

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

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

The Company's equity is the assets value less value of all liabilities. The Company's equity includes:

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

Provisions. Provisions are accounted for only when the Company has a legal or irrevocable obligation resulting from the past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Company re-evaluate provisions at each balance sheet date and adjust them in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses which are expected to be incurred to settle the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest.

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

Provisions for retirement benefits. Following the legislative requirements of the Republic of Lithuania, each employee at the age of retirement is entitled to a one-off payment in the amount of 2-month salary. The historical cost is recognised as expenses in the Profit and Loss Statement and other comprehensive income immediately after the assessment of such liability. Any profit or losses which have appeared as a result of a change in benefit conditions are recognised immediately. The above-mentioned employment benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. The obligation is recorded in the statements of financial position and reflects the present value of these benefits on the preparation date of the statements of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial profit and losses are recognised in other comprehensive income. Therefore, provisions are formed for the possible benefits. Actuarial estimates are carried out in order to assess the liability of such retirement payments.

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

Revenue recognition. The Company recognises revenue to depict transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company takes into account the terms of the

2. Significant accounting policies (continued)

contract and all relevant facts and circumstances. For that purpose the Company's revenue is recognised using the 5-step model:

Step 1 - Identify the contracts with a customer.

Agreement between two and/or more parties (depending on the conditions of purchase or sale), which creates enforceable rights and liabilities, is recognised as a contract. A contract is only recognized if the following criteria are satisfied:

- the parties have approved the contract (in writing, orally or in accordance with other usual business practices) and are bound by the obligations under the contract;
- each party's rights in relation to the goods and/or services to be transferred can be identified;
- the payment terms for the goods and/or services to be transferred can be identified;
- the contract is of commercial nature;
- it is probable to receive remuneration in exchange for the goods and/or services which will be transferred to a customer.

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

Step 2 - Identify the performance obligations in the contract.

The contract establishes a promise to deliver goods and/or services to the customer. When goods and/or services can be distinguished, the obligations are recognised separately. Each obligation is identified in one of two ways:

- goods and/or a service is distinct;
- a package of distinct goods and/or services which are substantially the same and are transferred to the customer based on the same model.

Step 3 - Determine the transaction price.

The transaction price may be fixed, variable or both.

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

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

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

Step 5 - Recognise revenue when (or as) the Company satisfies performance obligations.

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

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

Revenue is recognized by using the methods described below:

Service sales revenue

Revenue from sales of the services is recognized based on invoices issued to customers for services rendered. The invoices are issued based on work completion certificates. At the end of the period revenue, for which invoices have not been issued, but the services have been provided, is accrued based on the accrual principle.

Goods sales revenue

Revenue for the goods sold is recognized if all conditions below are met:

- The Company has transferred ownership control to a buyer;
- The Company retains neither further possession of the

2. Significant accounting policies (continued)

sold goods to the extent that is usually associated with ownership nor effective control;

- Amount of revenue may be reliably measured;
- It is probable that the Company will get economic benefit and transaction-related expenses incurred or to be incurred may be reliably measured.

Revenue is recognized at fair value of consideration obtained or to be obtained. Revenue is reduced by measured amounts of customer returns, discounts and other similar deferrals. Revenue is recognized when it is probable that the Company will get economic benefit and transaction-related expenses incurred or to be incurred may be reliably measured. Sales revenue is recognized after deducting the VAT and discounts, including accrued probable discounts for a reporting year.

Company's revenue is recognized in accordance with provisions of IFRS 15, i.e. the Company recognizes revenue to depict transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

After the customer gets control over goods and services revenue is recognized in accordance with IFRS 15. Establishment of the time of control transfer (at a point of time or over time) has to be decided.

Operating revenue generated by the Company includes the following:

- Freight transportation income. Freight transportation income reflects income earned from local and international freight transportation and services related to freight transportation;
- Other income.

Income earned from freight and services related to freight transportation

Income earned from freight transportation and services related to freight transportation is recognized upon provision of a service, delivery of freight to a place agreed in a shipping document. Freight transportation includes import, export and transit.

International freight transportation service: rail freight transportation service, where a train with all rail cars crosses a border of at least one EU member state.

Local freight transportation service: rail freight transportation service, where a train crosses no border of the EU member state.

Income earned from services related to freight transportation is recognized upon provision of a service, receipt of a benefit from rendered services by a customer or a customer's representative.

Explanatory notes

2. Significant accounting policies (continued)

Other income

Lease income. Rail wagon rent income.
Repair and maintenance income.

Type of services	Nature, timing and payment conditions of operating liabilities	Revenue recognition under IFRS 15
Income from freight transportation, services related to freight transportation	Invoices for freight transportation and related additional services are issued at intervals agreed with a buyer in a contract (daily, every ten days, monthly) by forming them on the basis of primary freight transportation and additional services documents upon provision of a service: for transit freight transportation – according to the date of export from Lithuania, for import – on the date of transfer of delivered freight to a consignee, for export and transportation in Lithuania - on the date of freight dispatch, for additional services – on the actual date of provision of a service. Upon evaluation of reliability of a service buyer payment conditions are established in contracts: • Prepayment; • After provision of services by applying collaterals (cash deposit, bank guarantee, commercial credit)); • After provision of services without collaterals (up to 30 days, mostly 7 to 10 days); • Standard invoice payment term is 30 days.	Income earned from services related to freight transportation is recognized at a certain moment after services have been rendered, i.e. upon delivery of freight to a place agreed in a shipping document. Most often freight carriage lasts up to 24 hours, so income is recognized immediately. An amount of recognized income is estimated in shipping documents and a price is specified in documents for additional services. Prepayments received are included into contractual obligations. If services under one agreement are provided at different reporting periods, remuneration is distributed according to their relative individual sales prices. A separate sales price is established based on service prices specified in a contract.
Lease income	Invoices are issued after the service has been provided and the deed of acceptance-transfer of the performed works has been signed. Standard invoice payment term is 30 days. A 10-day term is applied for uncoupling repairs of private rail cars; cash collateral may be additionally applied.	Revenue is recognized on a monthly basis during the period when services are rendered. The amount of income recognized is estimated on the basis of signed certificates of services rendered. The amount of rail car rental income is calculated on the basis of issued accounting cards, containing estimated number of rented rail cars and a rental period. If services under one agreement are provided at different reporting periods, remuneration is distributed according to their relative individual sales prices. A separate sales price is established based on service prices specified in a contract.
Income from repairs and maintenance	Invoices are issued after the service has been provided and the deed of acceptance-transfer of the performed works has been signed. Standard invoice payment term is 30 days. A 10-day term is applied for uncoupling repairs of private rail cars; cash collateral may be additionally applied.	Income is recognized in course of time based on the percentage of contract completion method. Related costs are recognized in the Statement of profit or loss and other comprehensive income when incurred. Probable loss arising from a contract is recognized immediately in the Statement of profit or loss and other comprehensive income. Prepayments received are included into contractual obligations. If services under one agreement are provided at different reporting periods, remuneration is distributed according to their relative individual sales prices. A separate sales price is established based on service prices specified in a contract.

2. Significant accounting policies (continued)

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

Financial income and cost. Finance income comprises interest income. Interest income is recognized on an accrual basis, using the effective interest rate method. Finance expenses comprise interest expense. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method. Currency exchange gain or loss in profit or loss is presented at a net value.

Contingent assets and liabilities. Contingent liabilities are not recognized in the financial statements, except for contingent liabilities related to business combinations. They are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when it is probable that future economic benefits or service potential will flow to the entity.

Grants related to income and expenses. Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognized as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. Grants intended for compensation of not received income is recognized in the statements of profit or loss and other comprehensive income, under other income. Grants intended for compensation of specific expenses are carried in the statement of profit or loss and other comprehensive income, by reducing the amount of related expenses by the amount of grant.

Business combinations. The Company applies the accounting policy methodology to business combinations, the purpose of which is to determine how business combinations should be accounted for and presented in the financial statements, as well as to improve the relevance, reliability and comparability of the company's information on business combinations and their impact. The methodology applies to a transaction or other event that meets the definition of a business combination, i.e. acquisition of business control. A jointly controlled entity or business combination is a business combination in which all the combining entities or business units are controlled by the same party or parties before and after the business combination and that control is not temporary.

If the acquired assets do not meet the definition of a business, the company shall account for the transaction or other event as an acquisition of the assets. A business combination is a transaction or other event in which the acquirer obtains control of one or more businesses. When the Company is the acquirer, it shall determine the acquisition date at which it acquires control of the acquiree. A business combination may be grouped in a variety of ways for legal, tax or other reasons. In a business combination that occurs primarily by transferring cash or another asset or incurring a liability, the acquirer is usually the entity that transfers the cash or another asset or incurs a liability. In a business combination that is primarily an exchange of shares the acquirer is usually the entity that issues its shares. In a business combination that involves an exchange of ownership, other relevant facts and circumstances also need to be considered in identifying the acquirer.

The Company accounts for each business combination using the acquisition method. The acquisition method requires:

a) to identify the acquiring entity;

b) to set the acquisition date;

c) to recognize and measure the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree;

d) to recognize and measure goodwill or a gain on a purchase below market price.

In accordance with IFRS, before acquiring a gain arising on a purchase below the fair value of the net assets of the acquiree, the acquirer shall reassess whether it has correctly identified all the assets acquired and all the liabilities assumed, and shall recognize any additional assets or liabilities identified during such a review. The acquirer shall then review the procedures used to measure the amounts that IFRS requires to be recognized at the acquisition date for the following items: identification of the assets acquired (including contingent assets or assets not recognized in the balance sheet of the acquiree) and liabilities (including contingent liabilities) and the non-controlling interest in the acquiree, if there is an interest in the acquiree's previously held ownership interest in the acquiree and the consideration transferred in a business combination achieved in stages. The objective of the review is to ensure that the estimates adequately reflect all the information available at the date of acquisition.

The accounting policy for business combinations does not apply to jointly controlled entities or business combinations in which the same group of entities has a common right, under contractual arrangements, to govern the financial and operating policies of each of the merging entities in order to benefit from the activities of those operators, and that joint management is not temporary.

2. Significant accounting policies (continued)

The business combination of the Company was carried out in accordance with the principles of a joint venture. IFRS 3 does not apply to jointly controlled entities in a business combination. The business transfer to the Company took place at residual values.

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

3. Significant accounting estimates and judgements

Significant judgements

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

Events after the reporting period. After the end of the reporting period the management had discussed significant non-adjusting events and their impact on disclosures of the financial statements and possible impact on continuity of the operations.

Date of putting the equipment into operation. The asset is put into operation and its impairment begins when the asset is ready for its intended use, i.e. when it is in that place and conditions which enable it to be used in the manner intended by management are guaranteed. The assets are put into operation after they have been properly tested and all permits for operation have been obtained.

Business combinations. The transfer of the business to the Company was treated as a transaction of joint ventures and took place at residual values. IFRS 3 Business Combinations has not been used for this business transfer, as the standard does not apply to jointly controlled entities or business combinations. AB Lietuvos Geležinkeliai controls the Company that has been invested to if it can or has the right to obtain variable return from its relations with the Company that is invested to and may affect that return by using its power to manage the Company that is invested to.

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 lives of assets are reviewed annually and adjusted if necessary to reflect the current assessment of the remaining useful lives, taking into account technological changes, future economic uses of the assets and their physical condition. If the expectations differed from previous estimates, the change would be accounted for as a change in an accounting estimate in accordance with IAS 8.

Impairment losses of property, plant and equipment. The Company reviews the carrying amounts of its property, plant and equipment at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For the purpose of impairment testing, assets that generate cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units) are grouped at the lowest levels for which there are currently no cash flows.

Recoverable amount is calculated as the higher of two values: the fair value less costs to sell of the asset and the value in use of the asset. The value in use of an asset is calculated by discounting the future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount of an asset that does not generate cash inflows is determined by reference to the recoverable amount of the cash-generating unit to which the asset belongs.

Duration of the lease period. In determining the lease term, management considers all the facts and circumstances that give rise to the economic incentive to exercise the option to extend the contract or not to exercise the option to terminate it. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated).

Discount rate. In assessing value in use, the estimated future cash flows are discounted to their present value using an additional borrowing rate that reflects current market assessments of the time value of money and the risks specific to the asset and have not been assessed for cash flows.

Impairment losses of amounts receivable. The Company assesses receivables for impairment at least quarterly. In order to determine whether it is necessary to recognize an impairment loss in profit or loss, the Company assesses whether there is any indication that future cash flows from receivables may be impaired until the impairment of a specific receivable is determined. Such indications include information that indicates a negative change in the financial condition of customers, economic conditions in the country or region that affect the Company's receivables. Management estimates the expected future cash flows from receivables based on historical loss experience with receivables with similar credit risk. The methods and assumptions used for estimating the expected future cash flows and their timing are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. Significant accounting estimates and judgements (continued)

Write down of inventories to net realizable value. The Company reviews its inventory list at least annually to determine the net realizable value of inventories. Inventories acquired earlier than a year ago are reviewed to determine whether they can be realized in the future. In the case of slow-moving spare parts and other materials, impairment is recognized at the full cost of the inventories if the inventories have been on the inventory for more than 2 years and have not been used since.

Provisions and contingent liabilities. The Company makes significant judgments in measuring and recognizing provisions and contingent liabilities related to ongoing disputes or other outstanding claims that will be settled through negotiation, mediation or arbitration, and other contingent liabilities. The decision must be made in the light of the likelihood that the action will be settled favourably, or a liability will arise, and to quantify possible options for a final settlement. Due to the inherent uncertainties of this valuation process, actual losses may differ from the provisions initially calculated. These estimates may change as new information becomes available, primarily with the support of in-house professionals such as lawyers. Changes in estimates may have a material effect on the Company's results of operations.

Deferred tax assets. Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the liability. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilized. The values of deferred tax assets shall be reviewed at the date of each statement of financial position and reduced if the associated tax benefit is not likely to be used.

4. New Standards and interpretations not yet adopted

The new standards, amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 2020 and have not been applied in the preparation of these financial statements are set out below:

Amendments to Conceptual Financial Reporting Framework (effective for annual periods beginning on or after 1 January 2020; not yet approved by the European Union).

A new chapter on evaluation has been added to the revised Conceptual Framework; financial performance guidelines are provided; definitions and guidelines are clarified, in particular the definition of a liability, and important areas such as the role of resource management, prudence and valuation uncertainty in the preparation of financial statements are clarified.

According to the preliminary assessment of the Company's management, the application of this standard will not have a significant impact on the company's financial statements.

Reform of the interest rate benchmark (amendments to IFRS 9, IAS 39 and IFRS 7).

The amendments enter into force in on 1 January 2020. Earlier application is permitted. The amendments address issues affecting financial reporting in the period prior to the reform of the interest rate benchmark; the amendments are binding and apply to all hedging transactions affected by uncertainties associated with the reform of the interest rate benchmark.

On the basis of the information currently available, the assessment of the company's management is that the new standard, when first applied, will not have a significant impact on the company's financial statements.

"Definition of Materiality" shall mean the amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020).

The amendments clarify the definition of materiality and specify how it should be applied, incorporating guidance that has so far been reflected in other IFRSs. In addition, the clarifications attached to the definition have been clarified. Finally, the amendments ensure that the definition of materiality is used consistently across IFRS. Information is considered material if it can reasonably be expected that omission, distortion or obscuration of irrelevant/insignificant information could reasonably be expected to influence the judgments of key users of general purpose financial statements based on those financial statements that present the financial information of a particular reporting entity.

According to the preliminary assessment of the Company's management, the application of this standard will not have a significant impact on the company's financial statements.

"Definition of Business" shall mean amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet approved by the European Union).

The amendments clarify the definition of business. A business must consist of resources and a substantial process, while having a significant impact on the ability to create output. The new guidelines provide a framework for assessing the existence of resources and the underlying process, including for companies that have not yet produced production at an early stage of their operations. In the absence of output, the condition of the existence of an organized workforce would have to be fulfilled in order for a combination of activities and assets to be classified as a business. The definition of „output" is narrowed to include goods and services supplied to customers that generate investment income and other income, excluding profits in the form of lower costs and other economic benefits. It is also no longer required to assess whether market participants will be

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

able to replace missing elements or integrate acquired activities and assets. An entity may perform a concentration test. If, in principle, the total fair value of the acquired gross assets were concentrated in a single asset unit (or group of similar assets), the acquired assets would not constitute a business. According to the preliminary assessment of the Company's management, the application of this standard will not have a significant impact on the company's financial statements.

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet endorsed by the European Union).

IFRS 17 replaces IFRS 4, which has allowed entities to continue using current practice for accounting for insurance contracts. This made it difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a general principles-based standard setting accounting requirements for all types of insurance contracts, including reinsurance contracts held by an insurer. The standard requires groups of insurance contracts to recognize and measure: (i) future cash flows (cash flows arising from the performance of the contract) at risk-adjusted present value, which includes all available information about the cash flows arising from the performance of the contract consistent with observable market data; by adding (if this value is a liability) or subtracting (if this value is an asset) (ii) an amount representing the unearned profit from the group of contracts (the contractual service margin). The profits generated by a group of insurance contracts will be recognised by insurers during the period when the insurance cover is granted and at the time of the risk exemption. If a group of contracts is or becomes unprofitable, the entity recognizes the loss immediately. These amendments to the standard will not affect the Company's financial statements as it does not carry out insurance activities.

According to the preliminary assessment of the Company's management, Standards listed below but not approved by the European Union have no impact on the Company's financial statements:

- *"Sale of assets or contributions between an investor and its associate or joint venture" – amendments to IFRS 10 and IAS 28 (effective date to be determined by the International Accounting Standards Board; amendments not yet approved by the European Union).*
- *IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016; the European Commission has decided not to commence the process of adopting this interim standard and is awaiting adoption of the final standard).*

There are no other new or amended standards or interpretations that have not yet entered into force that could have a material effect on the Company.

5. Significant changes in accounting policy

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019).

In preparing these financial statements, the Company has applied the requirements of IFRS 16 Leases for the first time.

Because of the selected transition period that has been selected by the Company when applying this standard comparative information in those financial statements has not been modified to reflect requirements of new standards.

The application of this standard affected the statement of financial position of the Company, the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows.

The new IFRS 16 standard provides for the principles of recognition, valuation, presentation and disclosure of leases. Under all types of leases, the lessee acquires the right to use the property at the beginning of the lease and, if lease payments are made within a certain period, also receives financing. As a result, IFRS 16 eliminates the division of leases into operating leases or financial leases as required by IAS 17 and instead provides a general accounting model for the lessee. Lessees shall recognize: (a) assets and liabilities of all leases of more than 12 months, unless the value of the assets transferred under the lease is insignificant; (b) depreciation of the leased asset separately from interest on the lease liability in the income statement. IFRS 16 translates, in substance, lessor accounting requirements as defined in IAS 17. For this reason, the lessor must further subdivide the lease into an operating lease or a finance lease and account for the two types of lease differently.

The implementation of IFRS 16 Leases took into account certain views on valuations and assumptions that affect the valuation of lease liabilities and right-of-use assets:

a) determination of the remaining lease term under lease contracts made until 1 January 2019;

b) an assessment of whether it is reasonably known that the Company will exercise the option to extend the lease;

c) determination of the additional lending rate to be applied for the purpose of discounting future cash flows;

d) the determination of the useful life and depreciation rates of right-of-use assets recognized on 1 January 2019.

At the date of the conclusion of the financial statements, the Company has concluded contracts for the lease of real estate (premises, areas) and vehicles. Lease contracts for premises are usually concluded for a fixed period without the possibility

5. Significant changes in accounting policy (continued)

of renewal. Vehicle lease contracts are concluded for a period of 1-4 years with the possibility to extend them for one year. In determining the lease term, management considers all the facts and circumstances that give rise to the economic incentive to exercise the option to extend the contract or not to exercise the option to terminate it. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated). Possible future cash payments were not included in the lease liabilities as there is no reason to be certain that the leases will be extended (or not terminated). Other low-value contracts are awarded for an indefinite period.

Contributions related to short-term leases with a maturity of 12 months or less and to the rental of low-value assets are directly recognised as expenses in profit or loss and other comprehensive income statements.

As of 1 January 2019 the Company had no lease obligations and right-of-use assets.

The new IFRS 16 Leases did not have a material impact on the opening balances of the Company's statement of financial position and profit or loss and other comprehensive income statements as the Company was established on 28 February 2019. No transfer of right-of-use assets or liabilities occurred at the time of the reorganisation. See Note 17 for more details.

6. Financial instruments and risk management

Financial instruments. Fair value

The Company's main financial instruments not carried at fair value are trade and other receivables, trade and other payables, cash and long-term and short-term borrowings. According to the management of the Company, the carrying amounts of these financial instruments are close to their fair values because the borrowing costs are linked to the interbank borrowing rate EURIBOR, while other financial assets and liabilities are short-term and therefore their fair value fluctuation is not significant.

The fair value of financial instruments is the value at which, at the valuation date, an asset or liability would be sold under current market conditions under a transaction on the underlying (or most advantageous) market, regardless of whether this price is directly monitored or determined by the valuation methodology.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

The Company's financial instruments according to their types:

	2019	2018
Financial assets		
Trade and other receivables	32,230	-
Cash and cash equivalents	25,143	30,000
Total	**57,373**	**30,000**

	2019	2018
Financial liabilities		
Loans and other financial debts	157,034	-
Lease liabilities	1,683	-
Trade and other payables	46,154	94
Total	**204,871**	**94**

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 – original inputs for the asset or liability that are not based on observable market data (unobservable original inputs).

The following is a comparison of the values of financial instruments:

	Carrying amount 2019	Fair value 2019			Carrying amount 2018	Fair value 2018		
Financial assets	Total	1 level	2 level	3 level	Total	1 level	2 level	3 level
Trade and other receivables	32,230	-	-	32,230	-	-	-	-
Cash and cash equivalents	25,143	25,143	-	-	30,000	30,000	-	-
Total	**57,373**	**25,143**	**-**	**32,230**	**30,000**	**30,000**	**-**	**-**
Financial liabilities								
Loans and other financial debts	157,034	-	157,034	-	-	-	-	-
Lease liabilities	1,683	-	-	1,683	-	-	-	-
Trade and other payables	46,154	-	-	46,154	94	-	-	94
Total	**204,871**	**-**	**157,034**	**47,837**	**94**	**-**	**-**	**94**

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

Loans and borrowings. The fair value of long-term loans shall be determined on the basis of the market price or interest rate applicable to debt of the same or similar maturity at the time. The fair value of loans is assigned to the second level in the fair value model. The fair value of the loans received corresponds to the carrying amount.

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

Risk management

The Company faces uncertainty about external and internal factors, identifies operational risks (strategic, financial, operating and compliance), anticipates their impact and likelihood, and seeks to mitigate them at least in part.

The Company is exposed to the following financial risks: credit, liquidity, currency exchange, interest rate and capital risks. This note provides information on the impact of these risks on the Company, objectives, policies and processes related to the assessment and management of these risks.

Credit risk. Credit risk arises from the credit risk incurred by money banks and trade receivables.

Credit risk is the risk that the Company will incur a financial loss if a buyer or other party fails to meet its contractual obligations. This risk is mostly related to receivables from Company's customers.

The Company manages the credit risk through procedures. The basis of credit risk management of trade receivables is the assessment of customer reliability. The Company constantly assesses the creditworthiness of both potential and existing buyers/suppliers of services. If the buyer of the services is assessed as risky or the customer is new and does not have a history of cooperation with the Company, the terms of advance payment apply. When payments with customers are deferred, legal credit risk mitigation measures are used, such as credit insurance or pledging. Various credit risk management and mitigation measures are provided for in bilateral agreements between the Company and service buyers/suppliers: restrictions, guarantees for the fulfilment of contractual obligations and other measures protecting the Company's interests. Credit risk is monitored on an ongoing basis.

The Company assesses probability of default during the initial recognition of financial assets and on each date of preparation of a balance sheet, considering whether the credit risk has not increased significantly since initial recognition. In order to assess whether the credit risk has increased significantly, the Company compares the asset-related risk of default on the date of preparation of the statements with the risk of default during initial recognition.

The credit risk is measured as a maximum credit risk for each group of financial instruments and is equal to their carrying amount. The carrying amount of each group of assets forms the highest credit risk.

Company's receivables from related parties amounted to EUR 6,177 thousand and accrued income made up EUR 10,264 thousand; debts were not overdue and were not impaired. See Note 11 for more details.

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

	2019	2018
Customer A	2,060	-
Customer B	1,811	-
Customer C	1,576	-
Customer D	1,171	-
Customer E	594	-
Customer F	545	-
Others	6,924	-
Total	**14,681**	**-**

The Company distinguishes each level of the credit risk considering information based on which it is possible to reliably establish the impairment risk (including but not limited to external ratings, audited financial statements, managerial accounting, cash flow forecasts, and available press information about customers) and applying an opinion on creditworthiness. Credit risk levels are defined by means of qualitative and quantitative factors, which show the risk of default and conforms to external definitions of credit ratings. The probable credit loss rate that is calculated based on experience of actual devaluation has been established of each credit risk level.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

The Company's exposure to credit risk and ECLs for receivables as at 31 December 2019 by separate customers:

	Initial value	Expected credit losses, %	Impairment	Carrying amount
Low risk	13,360	0.04 %	(5)	13,355
Fair risk	889	3.50 %	(31)	858
Increased risk	322	52.02 %	(168)	154
High risk	1,530	79.49 %	(1,216)	314
Total	**16,101**		**(1,420)**	**14,681**

Low risk – the buyer does not have any past due invoices;

Fair risk – the buyer has at least one past due invoice up to 30 days;

Increased risk – the buyer has at least one past due invoice up to 120 days;

High risk – the buyer has at least one past due invoice over 120 days.

The Company uses a simplified method to calculate the lifetime expected credit losses of validity and use a provisioning matrix for all trade and other receivables. In order to calculate expected credit losses, trade and other receivables are divided into separate groups according to the general characteristics of credit risk using a provision matrix. The amounts for each group shall be analysed according to the number of days past due. As trade receivables and other receivables do not normally include collateral or other credit protection, the expected loss ratio is consistent with the probability of default.

The Company determines credit risk based on historical data, taking into account overdue payments.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2019:

	Expected credit losses, %	Initial value	Impairment	Carrying amount
Not past due	0.04%	14,209	(6)	14,203
1-30 days past due	14.63%	339	(50)	289
31-60 days past due	72.47%	99	(72)	27
61-120 days past due	85.67%	199	(170)	29
More than 120 days past due	89.41%	1,255	(1,122)	133
Total		**16,101**	**(1,420)**	**14,681**

Impairment accounted for by the Company reflects estimated losses caused by doubtful receivables from customers. The major component of that impairment is individually estimated losses caused by substantial doubtful receivables from customers. Impairment measurement methods are revised on an ongoing basis in order to minimize differences between estimated losses and actual losses.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

The Company's movement of impairment allowance for doubtful trade receivables:

	2019	2018
Balance at the beginning of the period	-	-
Impairment of receivables carried forward during the reorganization	(534)	-
Change in impairment of trade receivables	(886)	-
Balance at the end of the period	**(1,420)**	**-**

Impairment of receivables at the Company as of 31 December 2019 has been reflected in the Statements of profit or loss and other comprehensive income, in receivables and contract asset value (reduction) increase items.

Cash and cash equivalents consist of cash and cash on hand, so the credit risk associated with them is minimal. The Company's cash resources are subject to the principle of diversification, the funds are held in banks with an international credit rating of not less than Baa1.

	2019	2018
Aa2,AA credit rating	3,695	-
Aa3,AA credit rating	9,365	30,000
Baa1 credit rating	12,083	-
Total	**25,143**	**30,000**

Although economic circumstances may affect the recovery of debts, in the opinion of the Company's management, the Company is not exposed to a significant risk of incurring losses that would exceed the already recognized impairment.

Liquidity risk. Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. Risk management ensures that the Company will always have sufficient liquid assets and will be able to meet its obligations on time. Liquidity and solvency risk management involves the planning and control of cash flows and the forecasting of unforeseen events that may adversely affect cash flows and pose a threat to solvency and liquidity. Liquidity and solvency risk is assessed by monitoring and analysing the relative liquidity and solvency ratios, which assess the condition of both current and non-current liabilities and the effectiveness of cash flow management. According to the Company's standard policy, the payment period for suppliers is 45 days.

As of 31 December 2019 the Company had no financial conditions of credit agreements according to which finance indicators would be monitored.

The Company's loans and interest repayment terms using the undiscounted flow method:

	Loans		Interest	
	2019	2018	2019	2018
Within one year	13,655	-	1,250	-
From one to five years	54,621	-	3,879	-
After five years	88,758	-	2,522	-
Total	**157,034**	**-**	**7,651**	**-**

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

The Company's trade payables and lease liabilities are repaid using the undiscounted flow method:

	Trade and other payables		Lease liabilities	
	2019	2018	2019	2018
Within one year	46,154	-	777	-
From one to five years	-	-	906	-
After five years	-	-	-	-
Total	**46,154**	**-**	**1,683**	**-**

Pursuant to the provisions of the financing agreements signed between AB Lietuvos Geležinkeliai and the European Investment Bank (EIB) and the Nordic Investment Bank (NIB), the split-off of AB Lietuvos Geležinkeliai business activities was possible only with the consent of the banks. For this reason, AB LG CARGO has entered into guarantee agreements for securing liabilities – first call guarantees, thus ensuring the fulfilment of all obligations of AB Lietuvos Geležinkeliai under financing agreements. As of 31 December 2019, the outstanding balance amounted to EUR 181,106 thousand.

Currency risk. Exchange rate risk is the risk that changes in market prices due to changes in foreign exchange rates will affect the Company's results or the value of available financial instruments.

During 2019 the Company did not enter into derivative financial transactions to manage the risk of exchange rate fluctuations with servicing banks. Most transactions are made in euros; impact of exchange rate fluctuations is low.

Interest rate risk. Variable interest, related to EURIBOR, is charged on all loans granted to the Company and other financial debts.

Long-term loans mostly affect increase in the interest rate risk. As of 31 December 2019 the value of the Company's long-term loan portfolio was EUR 157,034 thousand.

If interest rate goes up by 0.5 percentage point during the year 2020, annual interest costs will increase by EUR 781 thousand.

Capital management. The purpose of capital management policy is to maintain a sufficient share of equity to justify the confidence of investors, creditors and the market and to expand the business in the future. The Company's management and the Board monitor the return on capital and, taking into account the Company's financial results and strategic plans, make proposals for the payment of dividends.

According to the Republic of Lithuania Law on Companies, the share capital of a joint-stock company must be at least EUR 40 thousand (private limited liability companies – at least EUR 2.5 thousand), and equity at least 50 percent of the Company's share capital.

The Company's management controls compliance with the provisions of the Republic of Lithuania Law on Companies stating that if the Company's equity becomes less than 1/2 of the share capital specified in the Articles of Association, the Board must convene a general meeting of shareholders not later than within 3 months from the day on which it became aware or should have become aware of the situation, which must consider the issues referred to in Article 59 (10) (2) and (11) of this Law. The situation in the Company must be rectified no later than within 6 months from the date on which the Board became aware or should have become aware of the situation.

During 2018 and 2019, the Company complied with the requirements of the abovementioned provisions of the Law on Companies of the Republic of Lithuania.

(all amounts are in EUR thousand unless otherwise stated)

7. Property, plant and equipment

The Company's property, plant and equipment consisted of:

	Land	Buildings and structures	Machinery and equipment	Vehicles	Other equipment fittings and tools	Construc-tion in progress and pre-payments	Total
Acquisition cost							
31 December 2018	-	-	-	-	-	-	-
- acquisitions per year	-	-	42	19,126	-	470	19,638
- acquisition of assets due to reorganization *	-	-	462	188,067	256	-	188,785
- receipt of assets due to reorganization **	-	592	1,562	1,447	215	471	4,287
- assets sold, written off, disposed	-	-	-	(445)	(2)	(471)	(918)
- reclassifications	-	-	(7)	11	(1)	(3)	-
31 December 2019	-	592	2,059	208,206	468	467	211,792
Accumulated depreciation and impairment losses							
31 December 2018	-	-	-	-	-	-	-
- depreciation	-	(52)	(408)	(22,022)	(116)	-	(22,598)
- impairment during the year	-	-	-	-	-	-	-
- assets sold, written off, disposed	-	-	-	2	2	-	4
- reclassifications	-	-	-	-	-	-	-
31 December 2019	-	(52)	(408)	(22,020)	(114)	-	(22,594)
Carrying amount							
31 December 2018	-	-	-	-	-	-	-
31 December 2019	**-**	**540**	**1,651**	**186,186**	**354**	**467**	**189,198**

*Under agreement No SUTK(ADM)-6 of 25 January 2019 the Company purchased the rolling stock (rolling stock fleet) from AB Lietuvos Geležinkeliai, at the market value of EUR 192,779 thousand. Based on selected reorganization policy purchased assets are treated as business transfer and have been accounted for at book values. Difference between market and book values has been accounted for as reorganization loss in the Company's retained earnings (losses).

**On 1 May 2019 freight transportation activities together with the non-current assets belonging to the Freight Transportation Directorate of AB Lietuvos Geležinkeliai were transferred to the Company. Based on selected reorganization policy the assets transferred are treated as business transfer and have been accounted for by AB Lietuvos Geležinkeliai at book values. See Note 15 for more details.

Depreciation and amortization expense included in the Statement of profit or loss and other comprehensive income amounted to EUR 23,258 thousand. This amount includes EUR 22,598 thousand of depreciation of property, plant and equipment, EUR 598 thousand of depreciation of right-of-use assets and EUR 62 thousand of amortization of intangible assets.

The cost of the Company's fully depreciated but still used property, plant and equipment amounted to EUR 10,374 thousand. Vehicles comprised for the majority of fully depreciated property, plant and equipment.

(all amounts are in EUR thousand unless otherwise stated)

8. Right-of-use assets

New IFRS 16 Leases became effective on 1 January 2019. IFRS 16 makes no substantial impact on the Company's Statement of financial position and the Statement of profit or loss and other comprehensive income. The discount rate applicable to lease contracts is 6-month EURIBOR and the market margin estimated by a market survey in accordance with applicable market conditions.

As of 31 December 2019 the Company's right-of-use assets consisted of:

	Assets			Lease liabilities
	Buildings and structures	Other assets	Total:	
Balance as of 1 January 2019	-	-	-	-
Acquisitions per year	1,777	487	2,264	2,264
Depreciation	(390)	(208)	(598)	-
Interest	-	-	-	51
Payments	-	-	-	(632)
Balance as of 31 December 2019	**1,387**	**279**	**1,666**	**1,683**

During reorganization there had been no right-of-use assets transferred to the Company.

9. Intangible assets

The Company's intangible assets consisted of:

	Software	Other intangible assets	Total
Acquisition cost			
31 December 2018	-	-	-
- acquisitions per year	-	-	-
- receipt of assets due to reorganization*	464	11	475
- assets sold, written off, disposed	-	(1)	(1)
- reclassifications	-	-	-
31 December 2019	464	10	474
Accumulated amortization and impairment losses			
31 December 2018	-	-	-
- amortization	(59)	(3)	(62)
- assets sold, written off, disposed	-	-	-
- reclassifications	-	-	-
31 December 2019	(59)	(3)	(62)
Carrying amount			
31 December 2018	-	-	-
31 December 2019	**405**	**7**	**412**

*On 1 May 2019 freight transportation activities together with the non-current assets belonging to the Freight Transportation Directorate of AB Lietuvos Geležinkeliai were transferred to the Company. See Note 15 for more details.

(all amounts are in EUR thousand unless otherwise stated)

9. Intangible assets (continued)

The Company does not have internally generated intangible assets. Amortization costs of the Company's intangible assets, which made up EUR 62 thousand in 2019, are accounted for in the statements of profit or loss and other comprehensive income, under depreciation and amortization.

The Company's fully amortized intangible assets still in use amounted to EUR 3 thousand. The main part of fully amortized assets consisted of software.

10. Inventories

The Company's inventories consisted of:

	2019	2018
Fuel	801	-
Spare parts	106	-
Materials	116	-
Other	209	-
Total raw materials, supplies and components	1,232	-
Purchased goods for resale	726	-
Total goods purchased for resale	726	-
Non-current assets held for sale	95	-
Non-current assets held for sale, total	95	-
Total	**2,053**	**-**

EUR 2,138 thousand carrying amount of the Company's inventories was reduced by EUR 85 thousand to the net realizable value as at 31 December 2019. The change in the write-down of the Company's inventories to net realizable value is reflected in the expense item in the statement of Profit (loss) and other comprehensive income.

During 2019 the inventories of EUR 566 thousand (without fuel) were written off at cost of sales.

(all amounts are in EUR thousand unless otherwise stated)

11. Trade and other receivables

The Company's trade and other receivables included:

	2019	2018
External trade receivables, gross value	16,101	-
Impairment (-)	(1,420)	-
Total external trade receivables	**14,681**	**-**
Receivables from related parties	6,177	-
Impairment (-)	-	-
Total receivables from related parties	**6,177**	**-**
VAT receivable	26,439	-
Other receivables from the budget	44	-
Accrued income from related parties	10,264	-
Accrued income	1,108	-
Other receivables	215	-
Impairment (-)	(12)	-
Total other receivables	**38,058**	-
Total	**58,916**	**-**

The change in impairment is disclosed in Note 6.

In the course of activities carried out by the Company in 2019 a refundable VAT amount of EUR 26,439 thousand was formed. The major part of it was recovered in 2020.

The Company has accumulated other receivables from related parties for management and infrastructure services which credit notes have not been issued for yet.

In order to show the Company's income earned as at 31 December 2019 as accurately as possible and in accordance with the accrual principle, income for international freight transportation that will be reconciled in 2020 but are related to services provided by the Company in 2019 are recognized as accrued income as at 31 December 2019.

12. Prepayments

The Company's prepayments consisted of:

	2019	2018
Prepayments to external suppliers	134	-
Prepayments to related parties	7,281	-
Guarantees paid to external suppliers	5	-
Guarantees paid to related parties	185	-
Deferred charges	535	-
Total	**8,140**	**-**

13. Cash and cash equivalents

The Company's cash and cash equivalents consisted of:

	2019	2018
Money in the bank	25,143	30,000
Total	**25,143**	**30,000**

As at 31 December 2019, the Company had no term deposits. Money was not pledged.

(all amounts are in EUR thousand unless otherwise stated)

14. Share capital

The nominal value per share of the Company is EUR 289.62. The change in the share capital is presented in the following table:

	Share capital	Number of shares, units
Subscribed share capital		
31 December 2018	30,000	103,585
Increase	30,410	104,999
Decrease	-	-
31 December 2019	60,410	208,584
Capital structure at the end of the reporting period		
By type of shares		
Ordinary shares	60,410	208,584
Privileged shares	-	-
Total	**60,410**	**208,584**

On 28 December 2018 AB Lietuvos Geležinkeliai established the company AB LG CARGO. The share capital of the Company is formed by issuing 103,585 ordinary shares and is equal to EUR 30,000 thousand, each of which has a nominal value of EUR 289.62.

104,999 ordinary registered shares were issued on 7 August 2019. The nominal value of one share is EUR 289.62. The share capital has been increased by EUR 30,410 thousand.

15. Retained earnings

During implementation of the LG Changes program on 1 May 2019 AB Lietuvos Geležinkeliai fully completed reorganization related to freight transportation business and transferred the business of the Freight Transportation Directorate to the Company. The transfer of operations from AB Lietuvos Geležinkeliai is assessed as a transaction of joint venture.

Reorganization related to freight transportation activities was conducted in two stages:

- during the first stage the Company purchased the rolling stock (rolling stock fleet) from AB Lietuvos Geležinkeliai at the market value of EUR 192,779 thousand, under agreement No SUTK(ADM)-6 of 25 January 2019. Under terms and conditions of the agreement accounts were settled by paying EUR 28,917 thousand in cash and signing the loan agreement for EUR 163,862 thousand with AB Lietuvos Geležinkeliai. Based on selected reorganization policy the asset purchase transaction is treated as business transfer and has been accounted for at book values. Difference of EUR 3,994 thousand between market and book values has been accounted for as reorganization loss in the Company's retained earnings (losses).

- during the second stage on 1 May 2019 the business that includes remaining assets related to freight transportation activities, liabilities, contracts/agreements, and employees was transferred to the Company. The fair market value of the business transferred has been determined by the independent assessor and it has made up EUR 30,410 thousand. Accordingly, on 7 August 2019 the Company's authorized capital was increased by EUR 30,410 thousand with a non-monetary property contribution. Business relocation based on the selected reorganization policy is treated as business transfer, during which freight transportation business assets and liabilities have been transferred by applying principles of combination of joint ventures, and has been accounted for at carrying values. Difference between the assets received and liabilities accepted by the Company and the business market value in the amount of EUR 16,814 thousand loss is considered the reorganization result that has been accounted for in the Company's retained earnings (losses).

(all amounts are in EUR thousand unless otherwise stated)

15. Retained earnings (continued)

Balance of transfer of freight transportation business (at carrying values of AB Lietuvos Geležinkeliai):

ASSET		EQUITY AND LIABILITIES	
Property, plant and equipment	4,287	Employee benefits	3,569
Intangible assets	475	**Total non-current liabilities**	**3,569**
Total non-current assets	**4,762**	Employee benefits	5,692
Inventories	2,213	Trade and other payables	6,707
Trade and other receivables	22,467	**Total current liabilities**	**12,399**
Prepayments	122	**Net assets**	**13,596**
Total current assets	**24,802**		
TOTAL ASSETS	**29,564**	**TOTAL EQUITY AND LIABILITIES**	**29,564**

Following the registration procedures for the increase of the authorized capital, the accounting data as at 31 December 2019 resulted in a total reorganization result of a loss of EUR 20,808 thousand that is recorded for in the Company's retained earnings.

16. Loans and other financial debts

The Company's financial debts consisted of:

	2019	2018
Long-term loans	143,379	-
Short-term loans	13,655	-
Total	**157,034**	**-**

The loan agreement of EUR 163,862 thousand value was made with AB Lietuvos Geležinkeliai on 12 March 2019. The loan was awarded in euros, repayment term until the year 2031. During 2019 the Company had repaid EUR 6,828 thousand of the loan and paid EUR 437 thousand of interest (interest accrued EUR 1,049 thousand) according to the agreed schedule. Interest has been established by applying a variable interest rate that consists of 6-month EURIBOR and the market margin established by a market survey. As of 31 December 2019 no breaches of the loan agreement were established.

The purpose of the loan – purchase of railway rolling stock – rail cars, containers and locomotives under asset sale and purchase agreement of 25 January 2019 made between AB Lietuvos Geležinkeliai and the Company.

In order to manage funds more effectively and ensure liquidity of the Group companies, the Group account (Cash-pool) agreement was signed with AB Swedbank on 21 December 2018. The Company has signed an agreement on 29 March 2019 under which it has linked to the Group account. Under that agreement the Group members may borrow and lend funds to the Group members using the mutual borrowing platform for a period not longer than one year under market conditions. As of 31 December 2019 the Company had no receivable debts or liabilities under that agreement.

The Company has guaranteed the loans granted by the Nordic Investment Bank (NIB) and the European Investment Bank (EIB) under the agreement with AB Lietuvos Geležinkeliai. See Note 6 for more details.

(all amounts are in EUR thousand unless otherwise stated)

17. Lease liabilities

The Company rents out buildings and other assets (vehicles and dredgers). Building lease agreements are usually concluded for a fixed 36-month period with a possibility to extend them. Vehicle lease agreements are concluded for 36 months without a possibility to extend them. When determining the lease period, the management evaluates all facts and circumstances, which give rise to economic incentives to avail themselves of the possibility to extend or terminate the contract. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated). Possible future cash payments were not included in the lease liabilities as there is no reason to be certain that the leases will be extended (or not terminated).

Short-term leases of 12 months or less and lease payments for low-value assets are recognized directly in the Statement of profit or loss and other comprehensive income.

Impact on the statement of financial position (increase / (decrease)) as of 31 December 2019:

	2019
Asset:	
Right-of-use assets	1,666
Non-current liabilities:	
Lease liabilities	(906)
Current liabilities:	
Lease liabilities	(777)
Impact on the statement of profit or loss and other comprehensive income	**(17)**

Impact on the Statement of profit or loss and other comprehensive income (increase / (decrease)) as at 31 December 2019:

	2019
Depreciation and amortisation	(598)
Lease costs	632
Operating profit (loss))	**34**
Financial operating costs:	
Interest	(51)
Profit (loss) for the reporting period	**(17)**

Impact on the statements of comprehensive income and cash flow (increase / (decrease)) as at 31 December 2019::

	2019
Net profit (loss)	**(17)**
Depreciation and amortisation	598
Interest on the lease liability	51
Cash flow from investment activities	
Lease liability payments	(581)
Interest on lease liability	(51)
Net cash flow increase (decrease)	**-**

If the discount rate applicable at the Company increases or decreases by 1 percent, the amount of lease liabilities as of 31 December 2019 will accordingly make up EUR 1,665 thousand or EUR 1,701 thousand accordingly.

(all amounts are in EUR thousand unless otherwise stated)

18. Employee benefits

According to the laws of the Republic of Lithuania, an employee of the Company who retires at retirement age is entitled to a benefit in the amount of 2 months' salary. In addition, under a valid collective agreement, an employee with 25 years of service is paid a benefit of up to 1 month's average salary. Provisions for pensions and similar liabilities also include anniversary benefits. According to the collective agreement in force in the Company, a benefit of EUR 300 is paid to the members of the trade union at the age of 50 and 60.

The key assumptions used in estimating the Company's long-term employee benefit obligation are set out below:

	2019	2018
Discount rate	0.56%	-
Employee turnover rate	5.17%	-
Salary accrual rate	3.00%	-

Change in employee benefits during 2019 by type:

	31 December 2018	Effect of reorganization	Calculated	Paid	Balance as at 31 December 2019
Non-current liabilities					
Provisions for pensions and similar liabilities	-	3,569	78	18	3,629
Total non-current liabilities:	**-**	**3,569**	**78**	**18**	**3,629**
Current liabilities					
Accumulated leave	-	3,249	3,252	3,472	3,029
Wages and salaries payable	-	1,887	15,397	15,172	2,112
Social security contributions payable	-	-	7,219	6,296	923
Personal income tax payable	-	-	6,205	5,480	725
Other employment-related liabilities	-	556	1,233	-	1,789
Total current liabilities:	**-**	**5,692**	**33,306**	**30,420**	**8,578**
Total	**-**	**9,261**	**33,384**	**30,438**	**12,207**

(all amounts are in EUR thousand unless otherwise stated)

19. Trade and other payables

The Company's trade and other payables consisted of:

	2019	2018
Trade accounts payable	424	-
Trade accounts payable to related parties	43,544	-
Prepayments received	3,915	-
Cash guarantees received	1,597	-
Other taxes payable to the budget	354	-
Accumulated costs of foreign railway services	1,220	-
Accumulated costs	2,186	94
Other accounts payable and liabilities	198	-
Total	**53,438**	**94**

The Company accounted for EUR 45 thousand liability for audit services in the payable amounts and liabilities item. Liabilities for an access package made the most part of trade payables to related parties in the amount of EUR 24,175 thousand. Accumulated costs were mostly made of: accumulated costs for infrastructure services to related parties, for which invoices have not been issued – EUR 1,202 thousand.

20. Provisions

Company's provisions consisted of:

Balance as of 31 December 2018	-
Additionally formed	234
Used	-
Balance as of 31 December 2019	**234**

The provisions for proceedings were formed on 31 December 2019. During reorganization the provisions have not been moved. See Note 26 for more details.

21. Revenue

The Company's revenue consisted of:

	2019	2018
Revenue from domestic freight transportation	60,624	-
Revenue from international freight transportation	141,999	-
Other revenue	95,159	-
Total	**297,782**	**-**

(all amounts are in EUR thousand unless otherwise stated)

21. Revenue (continued)

The Company's income is earned for a period shorter than a year, i.e. the Company has no long-term sales contracts.

In 2019 the Company accounted for EUR 1,307 thousand transportation discount accruals under contracts with customers, amount of which varies depending on quantity of freight transported during the reporting period.

The Company's income according to the moment of income recognition consisted of:

	2019	2018
Recognized immediately	297,176	-
Recognized over an ongoing period	606	-
Total	**297,782**	**-**

22. Employee benefits

Employee benefits by type:

	2019	2018
Wages and salaries	32,955	-
Social security contributions	589	-
Accrued vacation reserve	(220)	-
Pensions and similar liabilities	60	-
Total	**33,384**	**-**

23. Result of financial activities

The result of the Company's financial activity consisted of:

	2019	2018
Total finance income	138	-
Penalties and default interest for overdue trade receivables	138	-
Total finance costs	(1,294)	-
Interest	(1,049)	-
Negative impact of currency exchange fluctuations	(21)	-
Other costs	(224)	-
Total	**(1,156)**	**-**

(all amounts are in EUR thousand unless otherwise stated)

24. Income tax and deferred tax

Income tax was calculated at a rate of 15 percent.

	2019	2018
Income tax for the reported year	1,307	-
Deferred tax expenses (benefit)	1,448	(14)
Total income tax expense (benefit) recognized in profit or loss	**2,755**	**(14)**

The Company's income tax costs (benefit) consisted of:

	2019	2018
Profit (loss) before tax	21,424	(94)
Income tax	3,214	(14)
Costs reducing income tax	(574)	-
Costs increasing income tax	138	-
Income (reducing) tax deductible income	(23)	-
Total corporate income tax expenses (income)	**2,755**	**(14)**
Effective rate	12.9 %	15 %

The Company's deferred tax calculation is given below:

	2019	2018
Deferred tax assets:		
Impairment of receivables and write-off of bad debts	133	-
Write-off of inventories	13	-
Accrual of leave and bonuses	639	-
Long-term employee benefits liabilities	9	-
Accrued costs	7	14
Deferred tax assets	801	14
Deferred income tax liability		
Difference in the value of non-current assets with tax	(2,235)	-
Deferred income tax liability	(2,235)	-
Deferred tax asset (liability), net	**(1,434)**	**14**

Deferred income tax assets and deferred income tax liabilities are offset to the extent that the deferred income tax liability is realized at the same time as the deferred income tax assets. In addition, they are affiliated with the same tax administration authority.

Deferred income tax assets and liabilities were not moved during reorganization.

(all amounts are in EUR thousand unless otherwise stated)

25. Related party transactions

Parties are considered to be related when one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

As defined in IAS 24 Related party disclosures, an entity is related to a reporting entity if at least one of the following conditions is met:

- The Government of the Republic of Lithuania acts as the owner of all shares of AB LG CARGO;
- Companies or institutions are managed by the Government of the Republic of Lithuania;
- Parent company AB Lietuvos Geležinkeliai;
- Subsidiaries of the parent company AB Lietuvos Geležinkeliai;
- AB Lietuvos Geležinkeliai related, non-consolidated associated and joint ventures;
- Board members and their close relatives.

For entities operating in an environment where state control is extensive, most counterparties are also related to the state and are therefore considered to be related parties. IAS 24 permits a reporting entity to reduce disclosures about transactions and balances, including liabilities with:

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

Due to the abovementioned reasons, the Company does not disclose transactions with the Government of the Republic of Lithuania and other economic entities controlled by the Government of the Republic of Lithuania.

Related party transactions of the Company:

	2019		2018	
	Purchases	**Sales**	**Receivables**	**Payables**
AB Lietuvos Geležinkeliai	385,572	19,668	5,899	166,304
AB Lietuvos Geležinkelių Infrastruktūra	13,892	32	128	25,436
UAB Vilniaus Lokomotyvų Remonto Depas	34,954	693	7,459	10,063
UAB LG Keleiviams	98	13	22	36
UAB Geležinkelio Tiesimo Centras	-	2,399	140	-
UAB Gelsauga	15	-	-	-
UAB Voestalpine VAE Legetecha	-	1	-	-
Total	**434,531**	**22,806**	**13,648**	**201,839**

The amount of purchases from AB Lietuvos Geležinkeliai that makes up EUR 385,572 thousand also includes purchase of the rolling stock for the amount of EUR 192,779 thousand under agreement No SUTK(ADM)-6 of 25 January 2019.

The Company's accrued receivables and payables with related parties accounted for in the statement of financial position as at 31 December 2019:

	2019	
	Accrued receivables	**Accrued payables**
AB Lietuvos Geležinkeliai	9,417	1,338
AB Lietuvos Geležinkelių Infrastruktūra	648	848
UAB Vilniaus Lokomotyvų Remonto Depas	199	-
Total	**10,264**	**2,186**

(all amounts are in EUR thousand unless otherwise stated)

25. Related party transactions (continued)

During 2018 the Company had no related party transactions.

Following the procedure of LG Group of Companies, all transactions with related parties are made under market conditions and conform to the arm's length principle.

Management remuneration and other benefits

As of 31 December 2019, the number of executives was 8 people, i.e. Chief Executive Officer, Corporate Activities Director, Director of the Operative Management Department, Director of the Capacity Planning Department, Director of the Sale and Customer Service Department, Director of the Rolling Stock Technologies Department, Director of the Performance Monitoring Department, Director of the Business Development Department.

	2019	2018
Management remuneration	401	-
Incentives*	5	-
Number of executives	8	-
Allowances for members of the Board	-	-
Number of Board members	5	-

* Incentives are performance bonuses and lump sums.

As of 31 December 2019 no loans, guarantees, or other disbursements or accruals or disposals of assets were made to the Company's management other than as set forth above.

26. Contingent assets and liabilities

The Company guaranteed loans granted by the Nordic Investment Bank (NIB) and European Investment Bank (EIB) to AB Lietuvos Geležinkeliai. See Note 6 for more details.

Legal cases

A civil case is examined in LP Klaipeda Regional Court according to a suit of plaintiff Caldora Corporation LP on compensation of damage in the amount of EUR 207 thousand for cargo damaged during transportation (ceramic tiles) (case file No e2-718-459/2018). During a rail accident the plaintiff's cargo had been damaged when a rail car ran off the track. Klaipeda Regional Court had adopted a decree to address the case to Vilnius Regional Court according to jurisdiction. This decree had been appealed by the plaintiff to the Appeal Court of Lithuania. The Appeal Court had satisfied a separate appeal of the plaintiff and returned the civil case to Klaipeda Regional Court. By the judgment of Klaipeda Regional Court of 18/03/2019 the suit of the plaintiffs was dismissed in full. The plaintiffs had filed an appeal to the Appeal Court of Lithuania. The case has not been examined; the Appeal Court of Lithuania has not scheduled a court session yet. The provision of EUR 207 thousand related to this claim has been accounted for in the financial statements.

27. Events after the reporting period

On 19 December 2019 the Appeal Court of Lithuania adopted a decree in the civil case on cancellation of the report of the Public Procurement Service (hereinafter referred to as PPS), where it had recognized (evaluated) in the reasoning that the Company conforms to specified features for qualifying an economic entity as a contracting authority. On 28 January 2020, the Supreme Court of Lithuania issued a ruling refusing to accept the Company's cassation appeal against the ruling of the Lithuanian Court of Appeal of 19 December 2019. The potential impact of the court decision on financial assets or liabilities has not been identified.

In March 2020 the Company's shareholder decided to reduce the Company's share capital by EUR 16,476 thousand in order to eliminate the difference in the balance sheet as of 31 August 2019 due to reorganization and cancellation of 56,888 ordinary registered shares of the Company with a nominal value of EUR 289.62 each.

Information on impact of coronavirus (COVID-19) on the Company's activities

The coronavirus (COVID-19) pandemic has created a difficult to predict and unprecedented situation not only in Lithuania, but also around the world, effect of which has been felt by all business sectors. On 11 March 2020 the World Health Organization declared an outbreak of coronavirus as a pandemic, and since 16 March 2020 the Government of the Republic of Lithuania has announced a quarantine and related public life restrictions. The restrictions are related to movement of foreign citizens, movement through the state border, activities of companies and organizations of the public and private sectors, organization of work of educational and health institutions, and other areas of economic and social life.

Wider effects of those events include:

- malfunctioning of business and economic activities in Lithuania having an impact on both supplier and consumer chains;
- significant business malfunctioning in some sectors both in Lithuania and markets, which are more dependent on the foreign supply chain, also companies focused on export, which are more dependent on foreign markets; sectors affected are trade and transport, tours and tourism, entertainment, production, construction, retailing, insurance, education, and the financial sector;
- significant decrease in demand for optional goods and services;
- increased uncertainty of economic situation that is reflected by unstable prices and currency rates.

On 16 March 2020 the Government of Lithuania declared a plan for economy stimulus and business relief intended to fight with negative effects of COVID-19 outbreak on economy. Information about the program, including exact eligibility criteria, has not been announced yet.

The Company's Management has carried out a comprehensive assessment of the existing situation and identified principal near-term threats that might affect the Company's activities::

- malfunctioning of the Company's operations caused by existing restrictions in Lithuania and countries, where main partners are located;
- effect of movement restrictions on the partners in other countries and the Company's operations;
- possible malfunctioning of supply from foreign and local partners;
- possible decrease in demand;
- possible impact of temporary disruptions in other business lines on the Company's operations;
- the Company's operating results, which will change in 2020 and their impact on business continuity.

After a comprehensive assessment of the main threats that could affect operations, the Company identified three possible scenarios related to the potential spread of the disease outbreak and the expected impact on the Company and the economic environment in which the Company operates, including measures already taken by the Government of Lithuania and the governments of other countries, where the Company's main business partners and customers are located::

- COVID-19 realistic scenario – possible reduction in operating income of the Company up to 10 percent;
- COVID-19 conservative scenario - possible reduction in operating income of the Company up to 20 percent;
- COVID-19 pessimistic scenario - possible reduction in operating income of the Company up to 30 percent.

Based on the possible scenarios the Company does not plan to withdraw from investment projects; however, it does not eliminate the possibility to revise the investment portfolio, to postpone the implementation of some investment projects in the future.

The Company has also assessed possible liquidity and credit risks and measures to manage them:

- a possibility to borrow inside the Group through cashpool in order to ensure a sufficient need in current assets;
- has taken additional measures to strenghten payment

27. Events after the reporting period (continued)

control;

- has revised planned investments and assessed their necessity.

Assessing the results of the first quarter of 2020, a decrease in sales is visible compared to the corresponding period of the previous year, but it does not exceed the realistic forecast scenario.. Railway transport remains the most reliable means of transport during the pandemic period. The major customers are large companies, which are included in a list of risk-free companies by the Company. The Company operates in one of the most strategic and secure sectors of the state and can expect state support or guarantees if necessary.

Management estimates that the cash flows from operating activities are likely to be sufficient to service existing loan agreements and liabilities to partners.. At the moment of preparation of the statements payments had been made as usual; and the Company identifies no additional liquidity or credit risk problems.

In the opinion of the Company's Management, the circumstances mentioned above and sensitivity analysis performed substantiate all assumptions for sufficient resources and empower the Company to continue the Company's activities/ operations. According to the Company's Management, the negative circumstances related to the virus do not raise doubts about the Company's business continuity and do not change the Company's long-term business plans and goals However, management cannot rule out the possibility that long periods of "closure", increasing the severity of measures or the negative impact of such measures on the economic environment in which the Company operates will not adversely affect the Company, its financial condition and results of operations in the medium and long term. The management is continuously monitoring the situation carefully and will take measures to mitigate effects of such events and circumstances.