2019

AB LIETUVOS GELEŽINKELIAI ANNUAL REPORT

Contents

Abbreviations:

LG, Lietuvos Geležinkeliai or the Company – AB Lietuvos Geležinkeliai
Group, Group of companies – AB Lietuvos Geležinkeliai and its subsidiaries
LG CARGO – AB LG CARGO
LG Keleiviams – UAB LG Keleiviams
LGI, Lietuvos Geležinkelių Infrastruktūra – AB Lietuvos Geležinkelių Infrastruktūra
VLRD – UAB Vilniaus Lokomotyvų Remonto Depas
GTC – UAB Geležinkelio Tiesimo Centras
Gelsauga – UAB Gelsauga
Saugos Paslaugos – UAB Saugos Paslaugos
RBS – UAB Rail Baltica Statyba
govt. – Government of the Republic of Lithuania
LTSA – Lithuanian Transport Safety Administration
EU – the European Union
SOE – State-owned enterprise

The annual and interim reports and financial statements are publicly available on the website http://www.litrail.lt.

CEO Foreword

DEAR PARTNERS, EMPLOYEES, CUSTOMERS,

In 2019, Lietuvos Geležinkeliai, the largest railway group in the Baltics, had no time to relax and had to move at a quick pace. We had implemented a business streamlining project at the Company that required high team focusing; however, even during the period of great changes together we succeeded in demonstrating excellent business performance. You are most welcome to carefully read our annual report which includes key performance indicators 2019 of AB Lietuvos Geležinkeliai Group of companies.

MANTAS BARTUŠKA

CEO

AB Lietuvos Geležinkeliai

But before moving on to 2019, it is impossible to ignore the key topic of 2020: the global coronavirus pandemic. This challenge that has required the highest possible focus of employees of Lietuvos Geležinkeliai Group not only changes the future but also provides a different approach to works done. I am glad that after three consecutive years of successful operations of Lietuvos Geležinkeliai, we met this situation financially strong, ready for possible challenges, and our entire team of more than 9 thousand employees very quickly adapted to unexpected changes and took care of each other's health and business continuity.

I am happy that the decisions made in 2019 on increasing business efficiency proved right and in a pandemic situation they allowed the team to continue working remotely with high quality. I am certain we are headed in the right direction. Empowered teams make us a well-balanced, united Group that is ready for challenges.

Now, let us look back at the year 2019. The biggest challenge of the year in terms of corporate governance was streamlining of business activities. We prepared for that in advance and transferred the main activities one by one to our newly established subsidiaries: passenger transportation activities were transferred to UAB LG Keleiviams, freight transportation was transferred to AB LG Cargo, whereas maintenance and modernization of the country's railway network were entrusted to the team of AB Lietuvos Geležinkelių Infrastruktūra. The role of the holding company remained with AB Lietuvos Geležinkeliai. Thus we formed the modern Lietuvos Geležinkeliai Group, which corresponds to indicators of liberal market set by the European Commission and is ready to compete in the open market both in Lithuania and other countries.

By changing ourselves, we did not abandon our customers and effectively pursued the main goal - to create value for Lithuania. The situation in the freight market has been and remains complex and extremely changeable, but the team of

CEO Foreword

LG CARGO was able to adapt and compensate reduced transit freight flows by growing revenue from freight transportation in the local market. This company operates in a highly competitive environment, as it has to compete for customers with railway undertakings in other countries, as well as with other modes of transport abroad and in Lithuania.

LG Keleiviams continues to successfully promote comfortable train travel. The whole picture of mobility is changing, and our team is keeping pace with the trends and is establishing train travel as a more convenient, economic and cleaner alternative to travel. The most popular Vilnius-Kaunas route leaves exactly zero greenhouse gas emissions, as we speak. We have no doubt that along with an efficient public transport system in Lithuanian cities, this is the best alternative for Lithuanian residents and guests.

These trips must be accessible to all people, regardless of their different needs. It is impossible to replace all trains, reconstruct all platforms in one day; however, we are working towards that goal step by step by communicating with associations, which unite people with special needs. Today, when planning train upgrades or carrying out construction work at stations, we aim to ensure safe and comfortable journeys for all our customers.

Probably the most important project of AB Lietuvos Geležinkelių Infrastruktūra - electrification of the main railway corridor of the country - will give a big impetus to both freight and passengers. In the not so distant future trains will run all the way from Vilnius to Klaipėda Draugystė Station driven by cleaner, more cost-effective energy – electricity. This will have a dual effect: we will transport cargo and passengers will travel leaving a smaller footprint on the planet. We will also be much more competitive, as electric traction is cheaper than the diesel traction currently in use.

The country's railway network is becoming safer every year. We set ourselves the highest goals, implement various measures and educate all rail users that railway is a dangerous place. According to statistics, this is an extremely safe mode of transport for both passengers and freight, but our ambition is greater: we want to achieve zero rail fatalities and we will pursue this goal by all means.

Rail Baltica, the most ambitious infrastructure project in the Baltic States is gaining momentum. In 2019, we handled one of the more complex connections - the Kaunas tunnel. In 2020, we will connect Kaunas Intermodal Terminal to Europe with a 1435 mm gauge and ensure a convenient and fast freight connection. We have also been actively working on the infrastructure stretching towards the Latvian border.

I would like to emphasize the main reason of our success in 2019: employees of Lietuvos Geležinkeliai. I applaud every individual's contribution to the common goal, I witness the unity of our employees, their team spirit and looking out for each other. In the more than three years since the beginning of the great changes at the end of 2016, I feel that a well-balanced, dynamic, modern and change-ready team of people has come together, which is pushing all the businesses of Lietuvos Geležinkeliai forward with tremendous force.

I am full of optimism and, regardless of pandemic issues, I am certain that Lietuvos Geležinkeliai Group of companies may expect one more excellent year.

Basic Information about the Group and the Company

PARENT COMPANY AB LIETUVOS GELEŽINKELIAI

Company name	Company address	Date and place of registration*	Company code	Telephone, e-mail	Website	Core business
Public limited liability company **Lietuvos Geležinkeliai**	Mindaugo g. 12, Vilnius	24 12 1991	110053842	(+370 5) 269 2038 info@litrail.lt	http://www.litrail.lt	Increasing the Group's business value and efficiency of railway transport operations by ensuring the effective management, maintenance, renovation and development of the public rail infrastructure and effective provision of rail transport and related public services

LG SUBSIDIARIES

Company name	Company address	Date and place of registration*	Company code	Telephone, e-mail	Website	A share held by LG, %	Core business
Public limited liability company **LG CARGO**	Mindaugo g. 12, Vilnius	28 12 2018	304977594	(+370 5) 269 2745 cargo@litrail.lt	http://cargo.litrail.lt/	100%	Freight transportation and provision of freight-related services
Joint stock company **LG Keleiviams**	Mindaugo g. 12, Vilnius	25 02 2019	305052228	(+370 5) 269 3265 lgkeleiviams@litrail.lt	http://www.litrail.lt/keleiviams www.traukiniobilietas.lt	100%	Passenger and luggage transportation by rail and provision of related services
Public limited liability company **Lietuvos Geležinkelių Infrastruktūra**	Mindaugo g. 12, Vilnius	01 07 2019	305202934	(+370 5) 269 3353 LGinfrastruktura@litrail.lt	http://lginfrastruktura.lt/	100%	Activities of the public infrastructure manager and provision of related services
Joint stock company **Vilniaus Lokomotyvų Remonto Depas**	Švitrigailos g. 39, Vilnius	21 08 2003	126280418	(+370 5) 269 2035 info@vlrd.lt	https://vlrd.lt/lt/	100%	Manufacture of new switching diesel locomotives and track machinery, performing overhaul and routine repairs and maintenance of all types of rolling stock, wagon manufacture and repair
Joint stock company **Geležinkelio Tiesimo Centras**	Trikampio g. 10, Lentvaris, Trakai district,	21 12 2001	181628163	(+370 5) 269 3202 info@gtc.lt	https://gtc.lt/w/	100%	Construction and repair of railway track infrastructure
Joint stock company **Gelsauga**	Prūsų g. 1, Vilnius	11 12 2001	125825125	(+370 5) 269 2448 gelsauga@litrail.lt	http://www.gelsauga.lt/	100%	Maintenance of waste water treatment plants and vocational training services
Joint stock company **Saugos Paslaugos**	Prūsų g. 1, Vilnius	10 06 2019	305186992	(+370 5) 269 2448	http://www.gelsauga.lt/	100%	Installation, maintenance and repair services of physical and electronic security and technical security equipment
Joint stock company **Rail Baltica Statyba**	Mindaugo g. 12, Vilnius	23 01 2014	303227458	(+370 5) 202 1165	http://www.rail-baltica.lt/	100%	Implementation of the functions of shareholder of the Joint Venture of the Baltic States, RB RAIL AS coordinating the Rail Baltica project

Basic Information about the Group and the Company

LG SUBSIDIARIES

Company name	Company address	Date and place of registration*	Company code	Telephone, e-mail	Website	A share held by LG, %	Core business
Public enterprise **Geležinkelių Logistikos Parkas**	Švitrigailos g. 39, Vilnius	07 10 2011	302674602	+370 612 02006 logisticspark@logisticspark.lt	https://www.logisticspark.lt	80%	An enterprise owned by Vilnius City Municipality and AB Lietuvos Geležinkeliai responsible for the development and management of Vilnius Public Logistic Hub

LG ASSOCIATES AND SUBSEQUENT COMPANIES

Company name	Company address	Date and place of registration*	Company code	Telephone, e-mail	Website	Share controlled by LG / its subsidiary, %	Core business
Joint stock company **voestalpine VAE Legetecha**	Draugystės g. 8, Valčiūnai, Vilnius district	28 07 1995	110709524	(+370 5) 249 3261 info@voestalpine.com	https://www.voestalpine.com	LG holds 34%	Manufacture of railway switches
Public enterprise **Transporto Inovacijų Centras**	Mindaugo g. 12, Vilnius	08 02 2019	305017405	+370 613 02886 info@mobilitytech.lt	https://mobilitytech.lt/lt/pradinis/	LG holds 33%	Developing and presenting new technology oriented investment projects to the stakeholders
Public limited liability company **RB Rail AS**	K.Valdemāra iela 8, Riga, Latvia	2014 12 23 Latvia	40103845025	+371 669 67171 info@railbaltica.org	http://www.railbaltica.org	LG's subsidiary UAB Rail Baltica Statyba holds 33%	Coordination of the implementation of the Rail Baltica project
Association of Lithuanian Railway Undertakings	Mindaugo g. 12, Vilnius	13 11 2018	304949011	+370 616 18841 irena.jankute-balkune@litrail.lt	–	–	Representing the rights and interests of the Association members-employers in the context of social partnership Association members: AB Lietuvos Geležinkeliai, AB LG CARGO, UAB Vilniaus Lokomotyvų Remonto Depas, UAB Geležinkelio Tiesimo Centras, UAB Rail Baltica Statyba, UAB LG Keleiviams, AB Lietuvos Geležinkelių Infrastruktūra
Joint stock company **Lokomotyvai ir Transporto Komponentai**	Švitrigailos g. 39, LT-03209 Vilnius	09 09 2014	303388493	+370 611 44725	–	LG's subsidiary UAB Vilniaus Lokomotyvų Remonto Depas holds 25%	No activity

* Data on all the above-mentioned legal entities are collected and stored in the Register of Legal Entities RoL, except for the associated company RB Rail AS, which is registered in Latvia.

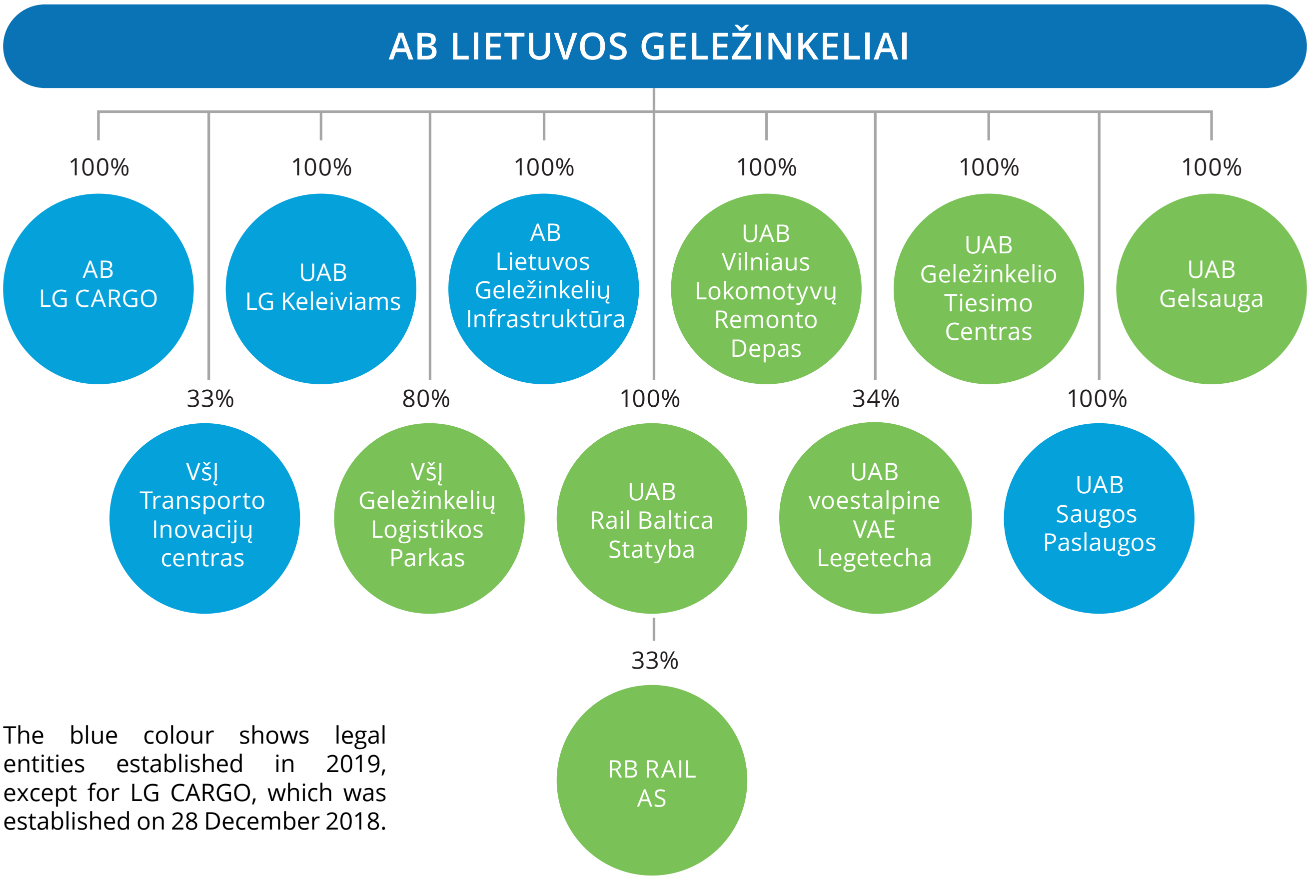
REPRESENTATIVE OFFICES:

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

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS

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

Group Structure



The blue colour shows legal entities established in 2019, except for LG CARGO, which was established on 28 December 2018.

INFORMATION ABOUT SHARES AS OF 31 DECEMBER 2019

Company	The amount of the authorised capital, EUR	Number of shares, unit	Par value per share, EUR
Parent Company			
AB Lietuvos Geležinkeliai	1 059 282 833	3 657 492	289,62
Subsidiaries			
AB LG CARGO	60 410 098	208 584	289,62
AB Lietuvos Geležinkelių Infrastruktūra	150 000	150	1 000
UAB LG Keleiviams	156 237 000	156 237	1 000
UAB Vilniaus Lokomotyvų Remonto Depas	19 017 318	65 663	289,62
UAB Geležinkelio Tiesimo Centras	31 785 216	109 748	289,62
UAB Gelsauga	4 191 091	14 471	289,62
UAB Saugos Paslaugos	453 545	1 566	289,62
UAB Rail Baltica Statyba	4 161 494	143 698	28,96
Associates and subsequent companies			
UAB Voestalpine VAE Legetecha	-	25 734	28,96
RB Rail AS	-	650 005	1
UAB Lokomotyvai ir Transporto Komponentai	-	250	289,62

Group Structure

- As of 31 December 2019 the sole shareholder of AB Lietuvos Geležinkeliai was the Republic of Lithuania, whose property and non-property rights are exercised by the Ministry of Transport and Communications of the Republic of Lithuania (holding 100% of the shares).
- All shares of the companies of the Group 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 Company and its subsidiaries did not acquire their own shares during the reporting period.
- The subsidiaries and associated company did not acquire any shares of the Company during the reporting period.

Corporate Governance

The State of Lithuania is the sole shareholder of AB Lietuvos Geležinkeliai, holding 100% shares. The rights and duties of the shareholder are performed by the Ministry of Transport and Communications of the Republic of Lithuania which takes the main decisions with regard to the business activities and ownership of LG.

In view of the EU regulatory framework for railway transport and in order to increase business efficiency, the restructuring and transformation of LG's activities and management was completed during the reporting period - LG's activities were streamlined by establishing 3 new legal entities - AB LG CARGO, UAB LG Keleiviams and AB Lietuvos Geležinkelių Infrastruktūra, which respectively took over from LG the activities of freight transportation, passenger and luggage transportation and public railway infrastructure management leading to stronger corporate governance of the LG Group. The governance structure and model of the LG Group has focused on best international and national good governance practices.

Aiming at the long-term growth of the value of the LG 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 as well as separating business support functions (e.g. accounting, procurement, asset management, IT, etc.) and provision of centralised services Group-wide.

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

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.

The corporate governance of the LG Group is organized according to the following principles:

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

On 26 November 2019, the Management Coordination Centre responsible for the implementation of the good governance practices within the sector of state-owned enterprises awarded the LG Board as the most professional.

THE ARTICLES OF ASSOCIATION OF THE COMPANY

he Articles of Association of the Company is the principal document that the Company follows in its activities. Pursuant to the Law on Companies, the Articles of Association of the Company are amended by the decision of the sole shareholder - the Ministry of Transport and Communications of the Republic of Lithuania. During the reporting period, the Articles of Association of the Company were amended once - on 25 July 2019.

Corporate Governance

The Articles of Association of the Company are publicly announced on the Company's website http://www.litrail.lt/istatai.

BODIES OF THE COMPANY

The Articles of Association provide for the following bodies of the Company:

- The General Shareholder Meeting;
- The Board;
- Head of the Company (CEO).

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

The Board is a collegial governance body consisting of 7 members, 6 of which as of the reporting period are independent members as provided for in the Procedure for Selection of Candidates to the Board of the State-Owned or Municipal Enterprise and Candidates to the Collegial Supervising or Governance Body Appointed by the General Meeting of the State-Owned or Municipal Enterprise approved by GOV Resolution No. 631 of 17 June 2015. Members of the Board shall are elected by the general shareholder meeting for a term of 4 years. The Chairman of the Board is elected from the Board members. Members may be elected for an unlimited number of terms. The competence areas of the Board are defined in the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company (available at http://www.litrail.lt, web page section Corporate Governance).

The main functions of the Board:

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

The CEO is the sole executive body. The CEO is elected by the LG Board and is accountable to the Board. During the reporting period, the CEO of LG has been in office since 16 December 2016. Pursuant to Article 37^{1} of the Law on Companies, the CEO's first term of office began on 01 January 2018. The competence areas of the CEO are defined in the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company (available at http://www.litrail.lt, web page section Corporate Governance).

Chief Executive Officer is responsible for:

- organization of LG's activities, achievement of performance results and implementation of the set goals;
- drafting of consolidated documents, annual and interim financial statements of the Company.

COMPOSITION OF THE BOARD AND ITS CHANGES DURING THE REPORTING PERIOD

ROMAS ŠVEDAS

Chairperson of the Board, Independent Board Member
Appointed on 14 December 2016

EDUCATION

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

MAIN EMPLOYER, POSITION

- Member of the Heat Council under the Ministry of Energy, Gedimino pr. 38, Vilnius,
- Member, Chairman of the Espoo Convention Implementation Committee of the UN Economic Commission for Europe,
- Alternate member of the Administrative Board of the EU Agency for the Cooperation of the Energy Regulators,
- Lecturer at the Vilnius University Institute of International Relations and Political Science, Universiteto g. 3, Vilnius, company code 211950810,
- Member of the Supervisory Board of RB Rail AS, K. Valdemāra iela 8, Riga, the Republic of Latvia, company code 40103845025,
- Independent expert.

Corporate Governance

MONIKA RIMKŪNAITĖ – BLOŽĖ

Independent Board Member
Appointed on 14 December 2016

EDUCATION

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

MAIN EMPLOYER, POSITION

- CEO of UAB Mobilieji Mokėjimai, Žalgirio g. 92-701, Vilnius, company code 304431143.

CHRISTIAN KUHN

Independent Board Member
26 February 2018 – 01 March 2020

EDUCATION

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

MAIN EMPLOYER, POSITION

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

Corporate Governance

ALDITAS SAULIUS

Independent Board Member
Appointed on 26 February 2018

EDUCATION

- Joint Vienna Institute, Comprehensive Course in Applied Market Economics,
- Vilnius University, International Business School, Master in International Business Law,
- Vilnius University, Faculty of Physics.

MAIN EMPLOYER, POSITION

- Chairman of the Board of UAB Investicijų Ir Verslo Garantijos (INVEGA), Konstitucijos pr. 7, Vilnius, company code 110084026,
- Independent Board Member and Chairman of the Audit Committee of VĮ Valstybinių Miškų Urėdija (state forest enterprise), Savanorių pr. 176, Vilnius, company code 132340880.

ROLANDAS ZUKAS

Independent Board Member
Appointed on 14 December 2016

EDUCATION

- BICG "Board Member Studies",
- ISM, Executive MBA,
- Vilnius Gediminas Technical University, Bachelor in Transport Engineering Economics and Management.

MAIN EMPLOYER, POSITION

- CEO of UAB EPSO G, Gedimino pr. 20, Vilnius, company code 302826889.

Corporate Governance

MATS HANSON

Independent Board Member
Appointed on 09 August 2019

EDUCATION

- Umea University/Östersund (Sweden), Degree in Public Administration,
- Integrated Management and Accounting and Finance Studies – IFL at Stockholm School of Economics,
- Integrated Management Studies.

MAIN EMPLOYER, POSITION

- Current position - Independent consultant and owner of consulting company MBK Advisory;
- Earlier position - Senior Vice president Marketing and Sales Green Cargo.

POVILAS DRIŽAS

Board Member
Appointed on 06 February 2020

EDUCATION

- Mykolas Romeris University, Master in International Law,
- University of Latvia, Erasmus program, Law studies.

MAIN EMPLOYER, POSITION

- Adviser of the Legal and Personnel Unit of the Ministry of Transport and Communications RoL, Gedimino pr. 17, Vilnius, company code 188620589.

OTHER POSITIONS HELD

- Member of the Board of AB Lietuvos Paštas, J. Jasinskio g. 16, Vilnius, company code 121215587.

Corporate Governance

MANTAS BARTUŠKA

Board Member
14 December 2016 – 08 August 2019

EDUCATION

- Southern Denmark University, Denmark: Bachelor of 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 AB LG CARGO, Mindaugo g. 12, Vilnius, company code 304977594,
- 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.

VLADISLAV KONDRATOVIČ

Board Member
10 October 2017 – 09 September 2019

EDUCATION

- Vilnius Gediminas Technical University, Faculty of Business Management.

MAIN EMPLOYER, POSITION

- Vice-Minister of the Ministry of Transport and Communications, RoL, Gedimino pr. 17, Vilnius, company code 188620589.

Corporate Governance

During the reporting period, the Board of LG was elected for a four-year term at the General Meeting of Shareholders on 14 December 2016. The terms of office of the Board will expire on 14 December 2020.

During the reporting period, 19 Board Meetings took place, including 1 strategic Board session.

In order to strengthen LG's governance, on 16 08 2019 a new independent member, Mats Hanson, joined the Company's Board. He replaced the Company's CEO Mantas Bartuška on the Board. After the appointment of Vladislav Kondratovič, a member of the Board, as the Vice-Minister of the Ministry of Transport and Communications of the Republic of Lithuania, he was revoked from the position of a member of the Board as of 9 September 2019.

On 6 February 2020, the sole shareholder of LG, the Ministry of Transport and Communications of the Republic of Lithuania, appointed Povilas Diržas, Adviser of the Legal and Personnel Unit of the Ministry, as a member of the LG Board.

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

SELF-ASSESSMENT OF THE BOARD AND ITS RESULTS

In line with the Board's rules of procedure, and in line with good governance practices, in early 2020 the Board carried out a self-assessment of its performance in 2019.

The results of the self-assessment were discussed at the Board Meeting: areas for improvement were identified and an action plan for 2020 was drawn up. The Board identified the following areas for improvement: improving competencies and making the organization of meetings more effective.

AUDIT COMMITTEE

The Audit Committee was set up on 28 February 2019 by the decision of LG Board. The Audit Committee is an advisory body to the Board. The main functions of the Audit Committee are:

- supervising the LG Group financial reporting and auditing processes,
- ensuring compliance with the principles of independence and objectivity of auditors and audit companies of the LG Group of Companies, providing summary information to the Board,
- monitoring the effectiveness of the LG Group's internal control, internal audit systems, as well as business processes,
- informing LG's Board of Directors on problematic issues related to the audit of the Group's companies, especially when significant deficiencies in internal control related to financial statements are identified, making recommendations on how to eliminate these deficiencies and improve their prevention systems;
- informing the LG Board about the audits performed in the LG Group by the State Audit Office of the Republic of Lithuania, the Ministry of Transport and Communications of the Republic of Lithuania or other institutions and providing information on the control over the implementation of recommendations made by the said institutions.

The Audit Committee consists of no less than 3 members, at least one of whom must be an independent member. The independent member (s) of the Audit Committee is selected by open competition. According to the Articles of Association of AB Lietuvos Geležinkeliai, an independent member of the LG Board with competence in the field of finance is appointed as the Chairman of the Audit Committee.

On 28 February 2019, the regulations of the Audit Committee were approved and three members of the Audit Committee elected. One member was delegated by the Ministry of Transport and Communications RoL (shareholder), but after he was appointed the Vice-Minister of the Ministry of Transport and Communications, he resigned from the positions of the LG Board member and the member of the Audit Committee as of 9 September 2019.

COMPOSITION OF THE AUDIT COMMITTEE

ALDITAS SAULIUS

Chairman of the Audit Committee, independent Committee Member
Appointed on 28 February 2019

EDUCATION

- Joint Vienna Institute, Comprehensive Course in Applied Market Economics,
- Vilnius University, International Business School, Master in International Business Law,
- Vilnius University, Faculty of Physics.

MAIN EMPLOYER, POSITION

- Chairman of the Board of UAB Investicijų Ir Verslo Garantijos (INVEGA), Konstitucijos pr. 7, Vilnius, company code 110084026,
- Independent Board Member and Chairman of the Audit Committee of VĮ Valstybinių Miškų Urėdija (state forest enterprise), Savanorių pr. 176, Vilnius, company code 132340880.

IRENA PETRUŠKEVIČIENĖ

Independent Committee Member
Appointed on 28 February 2019

EDUCATION

- Vilnius University, Faculty of Economics,
- Centre for International Accounting Development, University of Texas,
- DePaul School of Accountancy and MIS, DePaul University (Chicago, USA).

MAIN EMPLOYER, POSITION

- Chairperson of the Audit Committee of UAB Maxima Grupė,
- European Stability Mechanism (ESM), Member of the Board of Auditors,
- Chairperson of the Audit Committee under the Supervisory Board of UAB Ignitis.

Corporate Governance

VLADISLAV KONDRATOVIČ

Committee Member
28 February 2019 – 09 September 2019

EDUCATION

- Vilnius Gediminas Technical University, Faculty of Business Management.

MAIN EMPLOYER, POSITION

- Vice-Minister of the Ministry of Transport and Communications, RoL, Gedimino pr. 17, Vilnius, company code 188620589.

In 2019, 8 meetings of the Audit Committee were held to discuss the documentation governing the activities of the Internal Audit Unit, the results of the audit of LG's financial statements in 2018, the audit process of the financial statements was monitored, the activity reports and observations of the Internal Audit Unit were considered, as well as other issues within the competence of the Audit Committee.

Members of the Audit Committee as a whole have relevant experience in the field of corporate audit and in the fields of finance and accounting. The members of the current LG Audit Committee are elected for a term not exceeding the term of office of the LG Board (until 14 December 2020).

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

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

INTERNAL AUDIT

In order to ensure transparent and efficient operation of the LG Group of companies and a proper internal control system, a centralized Internal Audit Unit has been established in the Company. The internal audit functions as a third line of defence group-wide. The Unit reports directly to the Board, thus ensuring the independence and objectivity of internal audit, thereby facilitating the identification of operational weaknesses and areas for operational efficiency.

The mission of internal audit is to provide independent, objective assurance and consulting, and the function is organized in accordance with the basic principles set out in the International Standards for the Professional Practice of Internal Audit. The unit's staff carries out internal audits and regularly monitors the implementation of the recommendations made and the correction of other internal control weaknesses identified by the external auditors and supervisory authorities.

In 2019, the activities of the Internal Audit Unit covered areas that were selected on the basis of a risk assessment and the identification of priority activities and processes to be audited. The findings of the conducted audits were presented to the heads of the responsible units and the top management of the Company, as well as to the Audit Committee and the Board of LG.

INFORMATION ON BOARD AND AUDIT COMMITTEE MEETINGS AND ATTENDANCE

Name, Surname of the Member	Board Meetings	Audit Committee Meetings
Number of meetings in 2019 (including external Meetings, written vote in advance)	19	8
Romas Švedas	19	-
Monika Rimkūnaitė-Bložė	19	-
Christian Kuhn	19	-
Alditas Saulius	19	8
Rolandas Zukas	19	-
Mats Hanson*	7	-
Mantas Bartuška**	12	-
Vladislav Kondratovič***	11	4
Irena Petruškevičienė	-	8

* Mats Hanson was appointed Member of the Board on 9 August 2019;

** Mantas Bartuška resigned from the position of the Board Member on 8 August 2019;

*** Vladislav Kondratovič resigned from the position of a Member of the Board, as well as a member of the Audit Committee as of 9 September 2019.

INFORMATION ON THE REMUNERATION OF THE MEMBERS OF THE BOARD, MEMBERS OF THE AUDIT COMMITTEE, THE CEO OF THE COMPANY

The remuneration of the members of the Board and the members of the Audit Committee is related to the time allocated for the respective activities of the Board and the Audit Committee, which is provided for in the civil contracts concluded with the members.

In accordance with the description of the procedure for determining the remuneration of the members of the boards and members of the committees of the public limited liability companies with their share owner being the Ministry of Transport and Communications and state-owned enterprises under the regulation of the Ministry of Transport and Communications approved by Order No.3-420 of 20 August 2018 of the Minister for Transport and Communications RoL (with subsequent amendments) the **Board Member's** annual remuneration including all taxes paid for the actual activities as the Board Member cannot exceed 1/4 of the total annual remuneration (the annual amount consisting of the fixed and variable components, annual bonus and salary related taxes) of the General Manager of a respective Company, in case of the **Chairperson of the Board** - 1/3 of the total annual remuneration (the annual amount consisting of the fixed and variable components, annual bonus and salary related taxes) of the General Manager of the respective Company. The **Audit Committee Member's** annual remuneration including all taxes paid for the actual activities as the Committee Member cannot exceed 1/15 of the total annual remuneration (the annual amount consisting of the fixed and variable components, annual bonus and salary related taxes) of the General Manager of the respective Company, in case of the **Chairperson of the Audit Committee** – 4/45 of the total annual remuneration (the annual amount consisting of the fixed and variable components, annual bonus and salary related taxes) of the General Manager of the respective Company.

The remuneration of the Board Member and the Committee Member is subject to reduction if the Members are absent from the Meetings, withdraw from the issues due to the conflicts of interests, fail to state their opinion with regard to the issues on the agenda, do not vote on them, fail to carry out activities of the Member, dedicate less amount of time than that indicated in the Agreements concluded with them or carry out activities improperly.

The amount of the annual neto remuneration may be lower due to the pension accumulation contributions paid independently by the member of the Board and the member of the Audit Committee or the taxes paid independently by the member of the Board, who is a foreign national.

The members of the LG Board as well as the members of the Audit Committee delegated by the shareholder - the Ministry of Transport and Communications are not remunerated for their activities in the Board and / or the Committee.

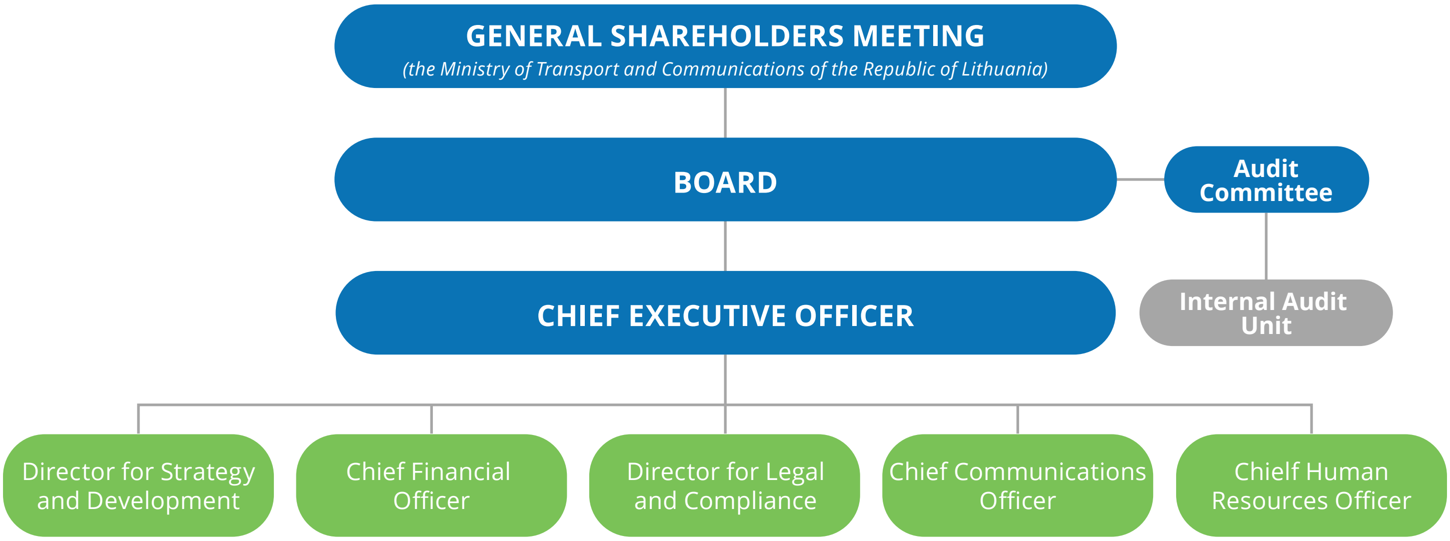
Corporate Governance

Name, Surname of the Member	Annual remuneration for the activities of the Board Member in 2019, EUR*	Annual remuneration for the activities of the Audit Committee Member in 2019, EUR
Romas Švedas	27 994	-
Monika Rimkūnaitė-Bložė	18 663	-
Christian Kuhn	24 000	-
Alditas Saulius	18 663	7 465
Rolandas Zukas	18 663	-
Mats Hanson	9 100	-
Povilas Držas	-	-
Mantas Bartuška	-	-
Vladislav Kondratovič	-	-
Irena Petruškevičienė	-	4 977

* Remuneration paid to the foreign citizens Mats Hanson and Christian Kuhn includes all fees paid independently by the Member of the Board arising from the applicable legislation of the Kingdom of Sweden / Germany in respect to Agreement and does not include taxes payable by the Member of the Board as a recipient of remuneration arising from the applicable legislation of the Republic of Lithuania. All fees and contributions payable by the Company and the Member of the Board as a recipient of remuneration in connection with the receipt of remuneration under Agreement under the laws of the Kingdom of Sweden / Germany shall be calculated and paid independently by the Board Member by transferring the relevant fees and contributions to the relevant Swedish authorities.

The monthly base salary of the **Company's CEO** amounted to EUR 9 305 as of the end of 2019. In addition to the base salary the Company's CEO may be paid a variable component of the annual salary (a yearly incentive pay) determined by the achievement of overall annual goals of the LG group of companies. Each year the Company's Board approves the annual goals, their threshold values and benchmarks and once the year is over, the Board approves the achievement of these goals and the possibility of paying out annual incentive. The maximum amount of the incentive cannot exceed 30% fixed annual base salary. The maximum amount of the monthly incentive (1/12 of the annual incentive pay) is EUR 2 792.

CORPORATE GOVERNANCE AND ORGANISATIONAL STRUCTURE



EXECUTIVES OF THE COMPANY

MANTAS BARTUŠKA	CEO	Appointed on 16 December 2016
ADAMAS ILKEVIČIUS	Director for Strategy and Development	Appointed on 29 January 2018
ANDREJ KOSIAKOV	Chief Financial Officer	Appointed on 02 October 2017
ODETA TRUČINSKAITĖ-ŠIUŠIENĖ	Director for Legal and Compliance	Appointed on 28 August 2017
IRENA JANKUTĖ-BALKŪNĖ	Chief Human Resources Officer	Appointed on 10 July 2017
MANTAS DUBAUSKAS	Chief Communications Officer	Appointed on 08 February 2017

Strategy

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

MISSION

We connect people and businesses for a better future

VISION

Mobility and logistics leader in Central and Eastern Europe

Strategy

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

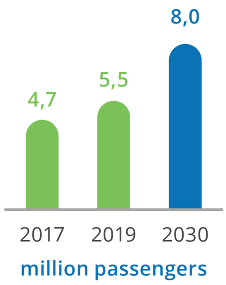
In order the strategic strands and goals of the long-term strategy addressed the specific activities of the LG Group of Companies, **long-term strategies of individual LG business units were drafted in 2018**:

- Long-term strategy of AB LG CARGO 2018-2030,
- Long-term strategy of UAB LG Keleiviams 2018-2030,
- Long-term strategy of AB Lietuvos Geležinkelių Infrastruktūra 2018-2030,
- Long-term strategy of UAB Vilniaus Lokomotyvų Remonto Depas 2018-2030,
- Long-term strategy of UAB Geležinkelio Tiesimo Centras 2018-2030.

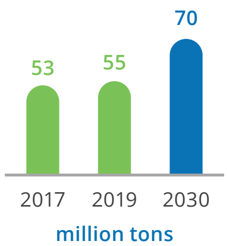
The relevance, proper time frames and quality of all strategic planning papers across LG Group of companies are ensured with the help of **the strategic planning and governance model** which encompasses the Strategic Planning and Governance Policy - a fundamental document defining the general principles and goals of strategic planning and management across the LG Group of companies, as well as the processes and procedures for the strategic planning and governance. With this in mind, **the long-term strategies of LG's business units were reviewed in 2019, changes in the LG Group and the external environment, progress in achieving strategic goals, as well as the coherence of strategies were assessed**.

GOALS AND PRIORITIES SET OUT IN GROUP STRATEGY 2030

Passengers

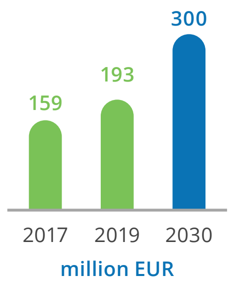


Freight



Speed

EBITDA



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

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

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

Efficiency
Double value of the Group

The above long-term strategies served as the basis for setting-out the **short-term strategy of LG Group of companies, i.e. LG Strategic Action Plan 2020–2023**. The purpose of LG Strategic Action Plan is to prevent the Group from deviating from its long-term goals and to ensure the long-term strategy is implemented with a top-quality approach by continuously responding to strategically important information.

Strategy

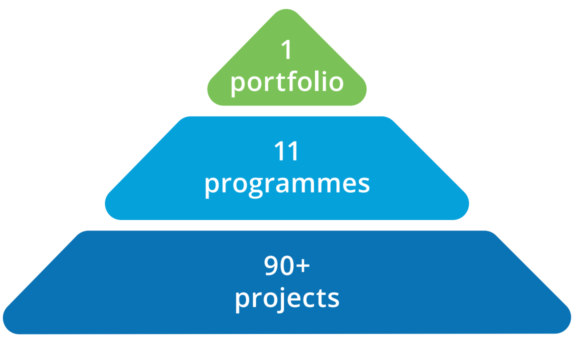
In the coming 4 years LG Group of companies will develop its business based on the following **7 strategic strands**.

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

To monitor the progress of the set long-term and short-term strategic goals, pro-actively respond to KPI deviations from target values and ensure performance efficiency, **the LG Group has developed a structure of key performance indicators and implemented a performance management model.**

STRATEGIC PLANNING MEASURES

The long-term goals (2030) of LG group and short-term strategic goals and tasks set-out in respect of the Company determined the **development of a strategic transformation portfolio in 2018** that includes programs aimed at operational efficiency, passenger / freight transportation, business development, digitalisation, financial stability and corporate governance aspects.

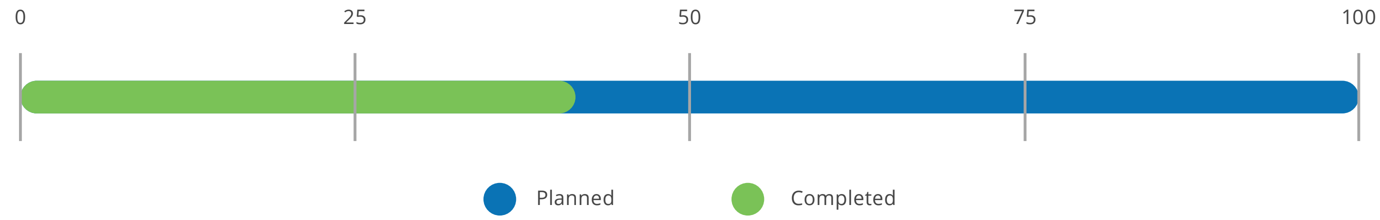


Main Goals of the Programs within the Transformation Portfolio

1. **Auxiliary business development** - the goal is to increase the value of LG group of companies through the development of auxiliary / new businesses and entrance of the core business to the new markets in order to enhance the competitive edge across the region.
2. **Asset excellence** – the goal of the program is to maximise the efficient use of productive and non-productive assets.
3. **Cargo business optimisation.** The goal is to grow cargo volumes and revenue by improving the existing product package, customer service and partnerships.
4. **Corporate governance excellence.** The goal of the program is to ensure compliance with the requirements of EU and RoL legislations and to introduce a corporate governance model that is consistent with good business practices.
5. **Digital excellence.** The goal of the program is to improve operating efficiency through adapting IT architecture to the future needs of LG group, to create value added though transition to employing state-of-the-art technologies and altering the company's culture and perception of the employees.
6. **Employee excellence.** The goal of the program is to increase employee satisfaction by creating an appropriate organizational climate, career prospects, reward-dependent performance, and deploying digitalized resource management processes.
7. **Financial excellence.** The goal of the program is to streamline the management of financial resources by developing and implementing modern planning, treasury and accounting management models and processes.
8. **Passenger business development.** The goal of the program is to grow the number of passengers through introduction of integrated passenger transportation solutions and new services.
9. **Performance excellence.** The program aims at increasing operational efficiency through organisational and technological solutions.
10. **Supply chain excellence.** The goal of the program is to develop and implement the supply chain model which would allow for the more efficient management of supply processes.
11. **Infrastructure excellence.** The goal is to ensure the level of security required by legislation and to increase infrastructure capacity through organizational and technological solutions.

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

At the end of 2019, LG's transformation project portfolio consisted of about 90 projects. The majority (73 projects) have already been initiated and are currently in the planning or implementation stages. Due to the constantly changing environment, new challenges and opportunities, the list of strategic projects is not exhaustive. Currently, **the transformation project management community consists of 63 project managers and about 400 team members working on the implementation of these project activities.** The project activities of LG's transformation portfolio are being actively implemented, so more and more projects can proudly demonstrate the measurable results already achieved. In 2019, 43% of the planned transformation portfolio project outcomes have been delivered.



GOALS ACHIEVED IN 2019

In the beginning of 2019 LG Board approved annual goals, indicators and their target values which are linked to the strategic strands. In line with the approved annual goals, **personal goals were set for all LG Group employees**. In this way LG Group employees are involved in the process of implementing the Group strategy by linking achievement of goals to employee career and training plans, performance incentive pays and review of base salary.

Strategic strand	Indicator	Units	Planned in 2019	Achieved in 2019	Change, %
Creating value to the shareholder	Group EBITDA	million EUR	189.0	193.1	2.2%
	Net profit of the Group	million EUR	54.3	58.1	7.0%
	Return on equity of the Group	%	4.6	5.0	0.4%
Leading freight carrier	Freight volumes	in million tons	57.5	55.2	(3.9%)
Preferred choice for travellers	Passenger volumes	million passengers	5.4	5.5	2.6%
Top - level infrastructure management	Infrastructure costs per 1 km of track	thousand EUR / km	58.3	57.3	(1.7%)
	Train operational volume	Bn tkm gross gross	35.7	32.5	(8.8%)
Respectful and environment-conscious organisation, caring about the society and each other	Reputation	points	12	16	33.3%

- Positive dynamics in implementation of the transformation projects portfolio.
- Business streamlining program of Lietuvos Geležinkeliai has been completed, the largest railway group in the Baltics has been established.
- An electrification agreement has been signed for the Vilnius-Klaipėda section.

Most Significant Events in 2019

JANUARY

- On **01 01 2019** LG Group concluded a branch collective agreement according to which all employees of the Group of companies are subject to the same conditions stipulated in the collective agreement. The branch agreement has provided employees with additional guarantees and benefits. The agreement was signed with the representative offices of the trade unions, the Federation of Trade Unions of Lithuanian Railway Employees and the Union of Trade Unions of Lithuanian Railway Employees. The agreement is valid for all companies of the Lietuvos Geležinkeliai Group which are the members of the Association of Lithuanian Railway Undertakings.
- On **02 01 2019** Tomas Radėnas was appointed the Head of the Internal Audit Unit.
- On **09 01 2019** LG signed an additional agreement with PKP Cargo, Poland's largest railway freight transport operator, on cooperation in transportation of freight in Poland and Lithuania. This additional agreement was a supplement to the agreement with this company signed in June 2018 on possibility of transporting freight to Bialystok and Elk, towns located in the north-eastern Poland. This agreement is the first of a kind, where LG agrees on cooperation in transportation of freight in foreign markets. It is planned that LG will carry container freight, timber, oil and its products, fertilizers.
- On **16 01 2019** Karolis Sankovski was elected the Chairman of the Supervisory Board of RB Rail AS with the appointed deputies Riia Sillave and Edvins Berzinš.
- On **21 01 2019** LG initiated deployment of an Anti-bribery Management System ISO 37001 which will allow ensuring transparent management of all business areas within the Company. The standard was developed by the International Chamber of Commerce, EBPO, Transparency International and other organisations. It is widely used by the governments world-wide and major business corporations like Microsoft or Walmart.

FEBRUARY

- On **12 02 2019** LG Board approved purchase of a self-propelled diagnostic rolling stock aimed at collecting rail condition data 6 different methods. the Company will be able to plan and carry out rail maintenance and repairs more efficiently, and speed limits will be reduced. Early detection of defects, monitoring and timely repair would save EUR 650 thousand annually. In addition, a possibility of early detection would be an adequate pre-condition for preventive track maintenance without having to reduce speed limits of the rolling stock.
- On **19 02 2019** at the initiative of the Ministry of Transport and Communications the subordinate companies established VšĮ Transporto Inovacijų Centras, an institution aimed at promoting innovations in the transport sector. It is projected that experts of the transport sector companies will be engaged in activities of VšĮ Transporto Inovacijų Centras, they will also search for solutions to problematic issues, share innovative solutions, set up Sandbox platform aimed at testing and developing technologies, organise workshops and promote synergy within the sector, draft investment projects.
- On **21 02 2019** the Vilnius City Council approved the project (Vilnius Connect) for the modernization of the territory of Vilnius railway station, which was granted the status of a project of regional importance. During the implementation of this project it is planned to modernize the territory of Vilnius Railway Station and establish a multifunctional business, mobility and recreational centre which will add to shaping and promoting a new image of the modern and active Vilnius gate.
- On **25 02 2019** the first Board of UAB LG Keleiviams was appointed.
- On **28 02 2019** a new undertaking UAB LG Keleiviams was registered in the Register of Legal Entities. This company is gradually taking-over the Passenger Transportation Directorate's business activities.
- On **28 02 2019** an advisory body to the LG Board, the Audit Committee was set up. The Committee Members were appointed and Working Regulations of the Committee approved.

Most Significant Events in 2019

MARCH

- On **01 03 2019** AB LG CARGO was issued a freight transportation licence. The Lithuanian Transport Safety Administration (LTSA) completed the licensing procedures and issued a freight transportation licence to the company. The licence entitles AB LG CARGO to engage in commercial business of rail transport in the territory of Lithuania.

- On **06 03 2019** the Government of the Republic of Lithuania approved a proposal of the Ministry of Transport and Communications on installation of a new railway line to Akmenė Free Trade Zone. LG signed a contracting agreement whereupon a French capital company Eurovia Lietuva will install the railway track for EUR 3.4 million. Eurovia Lietuva undertook to complete the works in 6 months.

- On **06 03 2019**, in Tbilisi Lithuanian and Sakartvelo railways signed a cooperation agreement. The railway undertakings agreed on developing new freight transportation services which would connect Kaunas and Vilnius intermodal terminals with Sakartvelo railway terminals, increase the freight volumes carried on Viking route.

- On **21 03 2019** LG and the Lithuanian National Association of Forwarders and Logistics (LINEKA) signed a letter of intent on developing intermodal freight transportation projects in Lithuania and Central Europe and developing combined freight transportation. The aim is to form Rail Baltica gauge freight volumes carried in the direction of North-South and East-West.

- On **22 03 2019** LG signed an agreement with Vitras-S on rebuilding Rengė. Works value is EUR 9.38 million. The scope of works covers reconstruction of 19 km railway section from Mažeikiai to Rengė in Latvia, repair or reconstruction of 5 crossings, 6 bridges, 3 culverts, installation or restored operation of traffic management systems and related communication and electricity systems.

- On **27 03 2019** The Lithuanian Transport Safety Administration (LTSA) completed the licensing procedures and issued a freight transportation licence to UAB LG Keleiviams. A licence gives a right of transporting passengers in the territory of Lithuania. After restructuring of LG Group 100% shares of the new company LG Keleiviams are held by parent company LG. The shares of the latter are held by the Ministry of Transport and Communications.

- On **28 03 2019** GOV RoL approved the land take-over for public needs required for implementation of the project on Electrification of Vilnius railway node and Kaišiadorys-Radviliškis-Klaipėda (Draugystės station) section.

APRIL

- On **02 04 2019** LG announced a tender for drafting a Rail Baltica Kaunas-Vilnius communication engineering infrastructure development plan. A producer of the infrastructure development plan shall set an optimal Rail Baltica Kaunas - Vilnius railway line and determine the territories required for the sustainable infrastructure development.

- On **03 04 2019** the international Rail Baltica Global Forum 2019 was held by joint Baltic venture RB Rail AS. The forum was supported by the undertakings involved in the project development: Rail Baltic Estonia, Eiropas Dzelzceļa līnijas and Rail Baltica Statyba. The discussions of the event focused on the role of Rail Baltica in the North Sea - Baltic TEN-T core network corridor, project procurements, financing and other strategic and tactical project implementation issues from a regional and EU perspective.

- On **10 04 2019** the Company announced the audited financial results of LG Group for 2018.

- On **12 04 2019** LG signed a three-year agreement with AB Dolomitas on transportation of breakstone manufactured in Northern Lithuania and Belarus. The agreement specifies that freight transportation volumes of AB Dolomitas will amount to 3 million tons. AB Dolomitas will also lease open wagons from LG in order to ensure efficient allocation of LG freight transportation capacity.

- On **16 04 2019**, at TransRussia Exhibition in Moscow, LG signed an additional agreement with OTLK, the company that arranges freight transportation between China and Western Europe. Mail shipment from China to Lithuania was the object of the agreement.

Most Significant Events in 2019

MAY

- On **01 05 2019** freight transportation operations were transferred from LG to AB LG CARGO.
- On **16 05 2019** the Company launched the main Rail Baltica European track building works, i.e. the development of a logistic hub (EU gauge railway line, transhipment and warehousing terminals) on the Kaunas - Palemonas section of the Kaunas node. Due to large-scale works, the train traffic from Palemonas to Kaunas Railway Station was suspended from 22 May.
- On **20 05 2019** in order to reduce congestion in Klaipėda, the Company scheduled an additional stop on the train route Šilutė – Klaipėda (Rimkai), therefore satisfying the needs of commuters.
- On **29 05 2019** the railway undertakings from Lithuania, Belarus and Ukraine launched container transportation by AB LG CARGO from Klaipėda to Kyiv (starting from June). The container train is expected to run on a weekly basis and carry a variety of goods, plastic and metal products.

JUNE

- On **07 06 2019** the Company launched the Seaside Express - a connecting itinerary for passengers travelling to Palanga, Nida, Preila, Pervalka and Juodkrantė in summer.
- On **10 06 2019** UAB Saugos Paslaugos was established to provide physical and technical security services as well as installation, maintenance and repair of technical security surveillance equipment. UAB Gelsauga will continue operating through provision of professional training and cleaning facilities maintenance services.
- On **12 06 2019** in the course of development of the Rail Baltica project the Company announced three tenders on engineering infrastructure development plans and environmental impact assessment - development of maintenance depots, modernization of the railway line at Kaunas railway node, and the Polish-Lithuanian border-Jiesia railway line.
- On **14 06 2019** LG concluded a brand renewal agreement with DDB Vilnius. LG's new brands are expected to launch in 2020. Until then, new brand architecture, positioning strategies, logos will be developed, and the historical aspect of the name of Lietuvos Geležinkeliai will be analysed.
- On **14 06 2019** the Company signed an agreement on Rail Baltica detailed technical design (from Ramygala to Latvian border). It is projected that the Rail Baltica section Ramygala - LT/LV border will be 91 km long, with 3 railway bridges, 14 road viaducts, 20 railway viaducts, 4 green bridges and the International Panevėžys Passenger Train Station. The contract value amounts to EUR 8 million.
- On **27 06 2019** LG was ranked 11th according to election results of the most attractive employer. The elections were organised by CVMarket.lt.
- On **27 06 2019** GOV adopted amendment No XIII-2254 to the Railway Transport Code ensuring the possibility of allocating capacity for AB LG CARGO and UAB LG Keleiviams in 2019. Previously the capacity was allocated based on a Joint Activity Agreement with LG.

JULY

- On **01 07 2019** AB Lietuvos Geležinkelių Infrastruktūra was founded. On 08 December 2019 it took-over business activities of LG Railway Infrastructure Directorate. The new company is headed by Karolis Sankovski, the former Director of the Railway Infrastructure Directorate.
- On **02 07 2019** LG's Board a project to upgrade 14 priority level crossing signalling equipment as part of the Crossing Safety Enhancement Program. 14 crossings will be modernized, which fall into the IXB (Vilnius - Klaipėda) and IXD (Kaišiadorys - Kybartai) railway transport corridors and other important main and regional corridors.

Most Significant Events in 2019

- On **08 07 2019** the Shareholders' Meeting of UAB Lokomotyvai ir Transporto Komponentai (VLRD holds 25% shares of this company) took place regarding the liquidation of the company. The decision was not made after the major shareholder voted against. It is planned to initiate a legal dispute.
- On **08 07 2019** LG applied to the Vilnius Regional Administrative Court, which requests to declare the inspection report of the Public Procurement Office (PPO) of 7 June illegal and to annul it. PPO's report stated that companies of the LG Group, namely AB LG CARGO, UAB Vilniaus Lokomotyvų Remonto Depas and UAB Geležinkelio Tiesimo Centras must be recognized as contracting authorities.
- On **09 07 2019** LG CARGO, together with the partners, launched a new regular container transportation route Klaipėda - Kyiev. 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 chippings 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 **25 07 2019** the latest version of the Articles of Association of Association of AB Lietuvos Geležinkeliai was registered where the substantial amendment stipulated the increase of the authorized capital from EUR 650 thousand to EUR 1 059 282 thousand divided into 3 657 492 ordinary registered shares at EUR 289,62 nominal value per share.

AUGUST

- On **01 08 2019** security activities and employees were transferred from UAB Gelsauga to UAB Saugos Paslaugos.
- On **05 08 2019** BAB Lietuvos Jūrų Laivininkystė was removed from the Register of Legal Entities. The Company was the holder of 55.66% shares of that undertaking.
- On **06 08 2019** the Company's Board supported the decision to transfer the passenger transportation business to the newly established company UAB LG Keleiviams as from September 1.
- On **07 08 2019** the authorised capital of G CARGO was increased by EUR 30 410 thousand, issuing 104,999 units of ordinary registered shares. The par value of one share is EUR 289.62
- On **08 08 2019** the Latvian Railway Technical Inspectorate issued Part B of the safety certificate to UAB LG Keleiviams, granting the right to carry out passenger transportation in the territory of the Republic of Latvia.
- On **09 08 2019** a new independent member, Mats Hanson, a Swedish citizen, joined the Company's Board. The new board member has extensive international business management and development experience in transport and logistics, and has worked for the Swedish state-controlled railway company Green Cargo AB for the past 16 years. He replaced the Company's CEO Mantas Bartuška on the Board.
- On **08 08 2019** and **28 08 2019** AB Kelių Priežiūra and AB Lietuvos Paštas joined the business of VšĮ Transporto Inovacijų Centras as stakeholders. The share held by LG reduced to 33.33 percent.

SEPTEMBER

- On **01 09 2019** the passenger transportation operations were transferred to UAB LG Keleiviams.
- On **06 09 2019** after the transfer of passenger transportation operations, UAB LG Keleiviams signed an agreement with the Ministry of Transport and Communications of the Republic of Lithuania on state budget funds intended for financing public passenger transportation services.
- On **09 09 2019** after the appointment of Vladislav Kondratovič the Vice-Minister of the Ministry of Transport and Communications RoL, he was revoked from the positions of the Member of the Board and the Member of the Audit Committee.

Most Significant Events in 2019

- On **11 09 2019** LG CARGO launched a programme of technical maintenance of the freight rolling stock. The overhaul of the Siemens locomotives will be being carried out by UAB Vilniaus Lokomotyvų Remonto Depas. So far, only technical maintenance and small-scale repair works have been performed.
- On **30 09 2019** companies of the LG Group published their interim financial statements for the first year half 2019 and interim reports on their websites.

OCTOBER

- Starting from **01 10 2019** all employees of the Group will continue to be covered by accident insurance.
- On **02 10 2019** Julius Norkūnas, former head of the technology team of Investuok Lietuva, was appointed CEO of VšĮ Transporto Inovacijų Centras (Mobility Innovation Centre). The rights of the shareholder of the public entity Mobility Innovation Centre are implemented in equal parts (33.33 percent each) by AB Lietuvos Geležinkeliai, AB Kelių Priežiūra and AB Lietuvos Paštas.
- On **02 10 2019** the Vilnius Regional Administrative Court dismissed a complaint of UAB Gargždų Geležinkelis over the decision of the Communications Regulatory Authority of the Republic of Lithuania (CRA) recognizing that the decision of the Lithuanian Transport Safety Administration regarding allocation of capacity during the effective period of working time-table 2018-2019 is lawful and justified. The Court found that CRA's decision was lawful and justified and LTSA and AB Lietuvos Geležinkeliai have complied with the legal acts and have not violated any rights of UAB Gargždų Geležinkelis when allocating capacities.
- On **11 10 2019** the authorised capital of LG Keleiviams was increased from EUR 150 thousand to EUR 156 087 thousand, issuing 156.087 units of ordinary registered shares. The par value of one share is EUR 1 000.
- On **14 10 2019** LG Keleiviams signed an additional agreement to the guarantee agreements concluded by LG CARGO, on the basis of which UAB LG Keleiviams, as an additional guarantor, guarantees the liabilities of AB Lietuvos Geležinkeliai, arising from the financing agreements concluded with the European Investment Bank and the Nordic Investment Bank.
- On **24 10 2019** joint activity partners Eurovia CS, a.s. (the Czech Republic), AB Eurovia Lietuva and UAB Geležinkelio Tiesimo Centras won an international tender on procurement of contracting works for the construction of the second track on the Livintai – Gaižiūnai section by proposing the most cost-effective quote at EUR 51.1 million (excl. VAT). The project covers construction of 10.7 km new track, reconstruction of 10.7 km existing track, reconstruction of existing bridges and culverts, switches, a crossing, installation of a noise reduction panel, reconstruction of power supply, signalling and communication systems, installation of fences, rain and drainage systems and closing-down the Livintai railway station.

NOVEMBER

- On **20 11 2019** LG CARGO and ORLEN Lietuva, a company within the Polish oil group, extended the cooperation agreement. A new additional agreement is expected to maintain significant volumes of rail freight and expand freight transportation to Poland. LG CARGO carries about 9 million tons AB ORLEN Lietuva freight on a yearly basis.
- On **28 11 2019** after the submission, the Seimas RoL approved the proposal on postponing the deadline of train accessibility for disabled persons until 2024. The plan is to allocate over MEUR 218 over 5 years. Currently, there are over 100 train stations and stops in Lithuania. Their infrastructure (platforms) must be adapted to the requirements of the EU Regulation.
- On **26 11 2019** the Ministry of Transport and Communications, LG and the Lithuanian Forum of the Disability Organizations signed a memorandum of understanding. The main purpose of the memorandum is to cooperate in improving the quality and accessibility of passenger transportation by rail services for disabled persons and persons with reduced mobility due to disability, age or any other reason.
- On **26 11 2019** the Management Coordination Centre responsible for the implementation of the good governance practices within the sector of state-owned enterprises awarded the LG Board as the most professional.

Most Significant Events in 2019

On **20 11 2019** and **27 11 2019** the composition of the Board of AB Lietuvos Geležinkeliai Infrastruktūra was renewed, Ilona Daugėlaitė was appointed a member of the Board and Andrej Kosiakov, the Chairman of the Board, respectively.

On **29 11 2019** the composition of the Board of UAB LG Keleiviams was renewed, and Mantas Bartuška was appointed the Chairman of the Board.

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

DECEMBER

On **02 12 2019** the traffic on the direct train line Vilnius - Kaunas was restored. This section underwent reconstruction of the unique Kaunas railway tunnel constructed in 19th century and installation of parallel European and wide gauge railway track. 3 underground tunnels for motor vehicles and pedestrians were also constructed.

On **03 12 2019** the Board of LG approved the investment program of the LG Group of Companies into the measures required to be implemented in order the services of the LG Group of Companies would meet the Regulation (EC) No 1371/2007 of the European Parliament and of the Council of 23 October 2007 on rail passengers' rights and obligations in respect of disabled persons and persons with reduced mobility.

On **08 12 2019** business operation of the Railway Infrastructure Directorate were transferred to AB Lietuvos Geležinkelių Infrastruktūra. As of 8 December, AB Lietuvos Geležinkelių Infrastruktūra took over the allocation of public railway infrastructure capacity of the Lithuanian Transport Safety Administration under the Ministry of Transport and Communications of the Republic of Lithuania and the setting of tax rates for the use of public railway infrastructure.

On **08 12 2019** LG Keleiviams updated their annual passenger train schedules. The frequency of train trips on the Vilnius-Kaunas route was increased to 40 train trips per day, and the Kaunas-Šiauliai route was also returned on weekends.

On **20 05 2019** in order to reduce congestion in Klaipėda, the Company scheduled two additional stops on the train route Šilutė - Klaipėda (Dituvos and Gručeikių), therefore satisfying the needs of commuters.

On **11 12 2019** LG CARGO signed a three-year freight transportation agreement with the undertakings within the Achemos Grupė on provision of freight transportation, wagon rental and shunting services to Achema,Transachema, Agrochema, Agrochema Plius and undertakings operating at the Klaipėda Sea Port, namely Krovinių Terminalas, Centrinis Klaipėdos Terminalas and Klaipėdos Jūrų Krovinių Kompanija (KLASCO). It is planned to transport about 30 Mt of cargo in three years. Until now, freight had been transported under separate contracts with companies. The new agreement came into force on 1 January 2020.

On **13 12 2019** after the submission, the Seimas of the Republic of Lithuania approved the proposal to extend the Regulation (EC) No 1371/2007 of the European Parliament and of the Council of 23 October 2007 on rail passengers' rights and obligations, which guarantees passengers' rights, in order to maximize the quality of passenger transportation by rail services, taking into account the needs of disabled persons and persons with reduced mobility. LG Group's companies have developed a plan of actions regarding the implementation of the requirements of the regulation; the plan was coordinated with the representatives of the organizations of the disabled. According to the plan, by 2024, there will be a need to allocate over EUR 260 million for the renewal of the railway system (rolling stock, ticketing system, infrastructure), which would allow the railway system to be further adapted to the needs of persons with reduced mobility.

On **18 12 2019** LGI signed an agreement with the Spanish company Indra Sistemas S.A. on scaling and upgrade of the part of the Traffic Management Centre. It is the final activity of the EU-funded project Construction of the second track in Corridor IXB Vilnius bypass section Pušynas–Paneriai This part of the project reconstructed the facilities of the Vaidotai and Paneriai traffic management and control systems and integrated them into the DaVinci, a Vilnius-based centralized traffic management and control system of all LG stations. The cost of the agreement amounts to MEUR 1 (excl. VAT), 85 percent of which will be financed by the EU Cohesion Fund. Estimated completion of the project is in the end of October 2020.

Most Significant Events in 2019

- On **20 12 2019** an agreement on electrification of the Vilnius-Klaipėda railway section was awarded to the joint activity partners Elecnor S.A. and Instalaciones Inabensa S.A after they placed the best bid at the international tender. The value of the agreements amounts to EUR 363.1 million. The estimated delivery of works is in 2023 and the electric trains will be launched on the Vilnius - Klaipėda route in 2024. Electrification is estimated to have significant environmental benefits, with 46 Kt less diesel being burned each year on the rail network and an average of 150 Kt per year reduced emissions. In addition, lower energy costs and cheaper rolling stock maintenance will reduce the Group's costs. In addition, lower energy costs and cheaper rolling stock maintenance will reduce the Group's costs.

- On **23 12 2019** during the implementation of the Rail Baltica project, a contract was signed for the preparation of the engineering infrastructure development plan and environmental impact assessment for the Kaunas-Vilnius railway line. The project will be implemented by the Ministry of Transport and Communications of the Republic of Lithuania, AB Lietuvos Geležinkeliai and the international engineering companies UAB Sweco Lietuva and DB Engineering & Consulting GMbH, which have joined together under a joint venture agreement.

- On **30 12 2019** the Rengė section's reconstruction was completed. Reconstruction of a 19 km railway track amounted to EUR 9.4 million.

- On **31 12 2019** an agreement was signed for the procurement of engineering design and contracting works for construction of the second track in the section Plungė – Šateikiai. AB Kauno Tiltai placed the most cost-effective quote at EUR 46.7 million and was awarded the contract. The project covers reconstruction of 13.9 km existing track, construction of 13.9 new track, reconstruction of existing bridges and culverts, switches, crossings, installation of noise reduction panels, reconstruction of power supply, signalling and communication systems, installation of fences, rain and drainage systems, rearrangement of Plungė and Šateikiai railway stations by extending the the useful length of the main departure and arrival tracks.

- On **31 12 2019** while implementing the Description of the Procedure for Compensation (Remuneration) of Carriers' Expenses (Unearned Revenue) Related to the Application of Transport Benefits, approved by Resolution No. 478 of 28 April 2000 of the Government of the Republic of Lithuania "Regarding the Implementation of the Law on Transport Benefits of the Republic of Lithuania", an agreement was signed with the Lithuanian Transport Safety Administration under the Ministry of Transport and Communications of the Republic of Lithuania, which was entrusted with the administration of compensation for the costs (loss of revenue) of carriers for the benefits of passenger transportation as of 1 January 2020.

Events after the End of the Reporting Period

- On **01 02 2020** UAB LG Keleiviams became a partner to the family card provided for by the Law on Family Card of the Republic of Lithuania. Family card owners are offered 20 percent discount for local train travel in Lithuania.

- On **15 01 2020** the authorised capital of AB Lietuvos Geležinkelių Infrastruktūra was increased from EUR 150 thousand to EUR 654 928 thousand, issuing 654 778 units of ordinary registered shares. The par value of one share is EUR 1 000.

- From **30 01 2020** LG CARGO continues its cooperation with Vakarų Medienos Group, which is planning to launch 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 tons per year.

- On **06 02 2020** Povilas Drižas, a representative of the Ministry of Transport and Communication RoL, was appointed Member of the Board.

- 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 **01 03 2020** Christian Kuhn resigned from the position of the Board Member.

Events after the End of the Reporting Period

- On **2020 03 17** for the sake of covering negative margins incurred on the account of de-merge the reduction of the authorised capital of LG CARGO and LG Keleiviams was initiated. By the decision of the sole shareholder AB Lietuvos Geležinkeliai it was decided to reduce the authorised capital of LG CARGO by EUR 16,475.9 thousand and LG Keleiviams by EUR 12,647.0 thousand. The creditors of these companies have been informed about the reduction of the authorized capital.

- On **06 05 2020** the Company was informed about the change of the name and address of the associated company UAB voestalpine VAE Legetecha (address Draugystės g. 8, Valčiūnai, Juodšilių elderate, Vilnius district, LT-13220) to voestalpine Railway Systems Lietuva, UAB (address Sostinės g. 18, Valčiūnai, Juodšilių elderate, Vilnius district, LT-13221).

- On **03 07 2020** the Company introduced its rebranding program. The logo of AB Lietuvos Geležinkeliai and related style elements were changed. The name of the Company remained the same, but its new acronym LTG, which emphasizes patriotism, has been introduced. From now on, this acronym will unite the names of all the main companies of the Group: the company engaged in passenger transportation LG Keleiviams is to become LTG Link, the cargo transportation company LG Cargo becomes LTG Cargo, and the infrastructure management company Lietuvos Geležinkelių Infrastruktūra will henceforth be called LTG Infra. The names of these companies in the Centre of Registers will be changed in the second half of 2020.

INFORMATION ON IMPACT OF CORONAVIRUS (COVID-19) ON THE GROUP OF COMPANIES

The coronavirus (COVID-19) pandemic has created a difficult-to-predict and unprecedented situation not only in Lithuania, but also around the world, which has affected 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 nationals, cross-border movement, 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 state-level emergency situation in Lithuania due to the threat of the spread of coronavirus (COVID-19), new business continuity and preventive measures have been reviewed and planned in the Group of companies:

- additional occupational safety and prevention measures have been introduced for employees working at stations, trains, locomotive depots;
- preventive actions are taken on passenger trains: disinfection is carried out, safe distance between passengers is ensured, no cash accepted, catering services are no longer provided;
- restrictions related to the movement of employees, work in the offices and other premises of the Group of companies have been introduced;
- workplaces have been computerized, technical measures implemented, making it possible to work remotely;
- employees responsible for monitoring the situation and providing information to the Company's management and employees have been appointed: they constantly inform about the latest decisions of the Government of the Republic of Lithuania, give regular updates on the latest WHO recommendations related to the threat posed by the virus and update information about the existing threats related to the virus and measures to reduce them;
- Units and employees performing critical functions and administrating core systems have been identified;
- technical and substitution measures in case of spread of the virus have been planned;
- emergency plans are being revised; preparation for additional continuity of critical activities is being conducted.

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

- a possibility of intra-Group borrowing through a short term borrowing account (cashpool);
- the adequacy of the limit for short-term intra-group borrowing from this account to ensure a sufficient need for working capital;
- has taken additional measures for tightened payment control;
- has taken additional measures for tightened cost control;
- has reviewed the planned investments in terms of the possibility for postponing some of the investment projects;
- has assessed the possibility to be granted an additional subsidy from the Government of the Republic of Lithuania

After assessing the main threats that could affect the operations, the Company identified possible scenarios related to the spread of COVID-19 and the expected impact on the Group's performance. For detailed disclosures see section Consolidated and Separate Financial Statements of the report. Nevertheless, the existing adverse virus-related circumstances, in the Company Management's opinion, cause no doubts about continuity of the Company's activities and do not change the long-term performance plans and goals of the Group.

Railway transport remains the most reliable means of transport during the pandemic period. The Group operates in one of the most strategic and secure sectors of the state and can expect state support or guarantees if necessary.

While continuing its work and fulfilling its obligations the Group emphasizes that it always acts in a socially responsible manner. The health and safety of customers, suppliers, partners, employees and their families is a top priority.

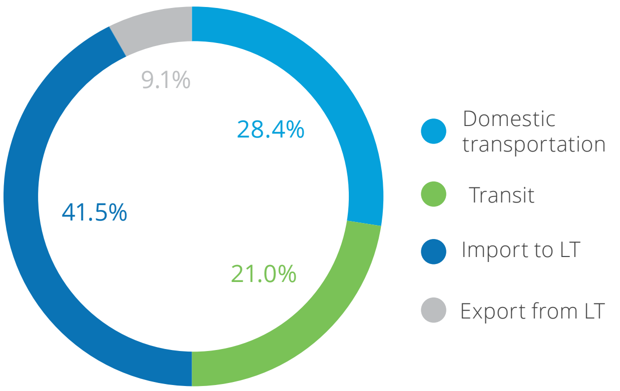
Overview of the Group's KPIs

Transportation volumes		2017	2018	2019	2019/2018 Δ, %
Freight turnover	**in billion tons km**	**15.4**	**16.9**	**16.2**	**(4.2%)**
Average distance travelled per ton	**km**	**292.8**	**297.4**	**293.1**	**(1.4%)**
Freight carried	**in million tons**	**52.6**	**56.8**	**55.2**	**(2.8%)**
Freight transportation segments					
Domestic transportation	in million tons	15.5	15.1	15.7	3.8%
International transportation	in million tons	37.1	41.7	39.5	(5.1%)
Transit	in million tons	11.7	13.5	11.6	(13.9%)
Export from Lithuania	in million tons	4.7	4.5	5.0	10.6%
Import to Lithuania	in million tons	20.8	23.7	22.9	(3.1%)
Freight types					
Chemical and mineral fertilizers	in million tons	15.6	16.3	16.1	(1.0%)
Oil and its products	in million tons	14.6	14.3	13.1	(8.0%)
Food and plant products	in million tons	5.9	14.3	6.4	4.4%
Construction materials	in million tons	5.7	6.8	7.7	14.1%
Coal	in million tons	4.4	5.8	4.8	(17.1%)
Ferrous metals	in million tons	3.1	3.5	2.5	(29.8%)
Other cargo	in million tons	3.3	4.0	4.6	13.7%
Passenger turnover	**in million passenger km**	**424.2**	**468.1**	**479.4**	**2.4%**
Average distance travelled by passenger	**km**	**91.1**	**90.6**	**86.9**	**(4.0%)**
Passengers carried	**in millions of pass.**	**4.7**	**5.2**	**5.5**	**6.7%**
Domestic	in millions of pass.	3.9	4.3	4.5	6.2%
International	in millions of pass.	0.8	0.9	1.0	9.5%
Train operational volume	**bn tkm gross gross**	**30.8**	**33.5**	**32.5**	**(3.0%)**

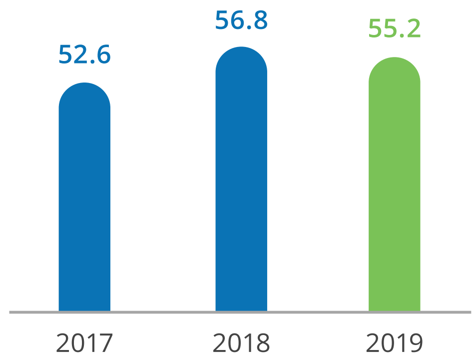
Overview of the Group's KPIs

FREIGHT TRANSPORTATION BY RAIL

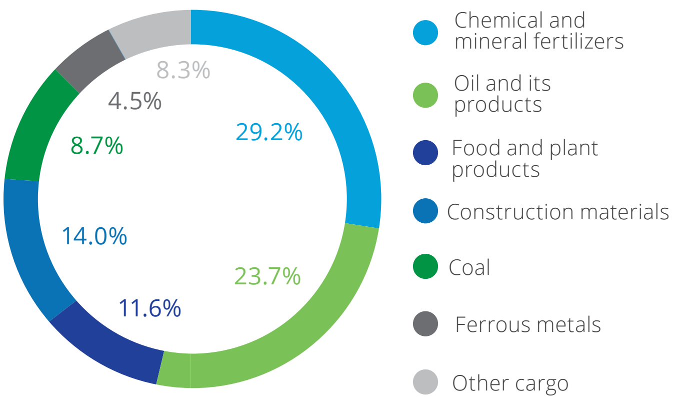
Freight transportation segments in 2019, %



Freight volumes (million tons)



Freight transportation structure in 2019, %



As part of the programme on streamlining business activities of the Group, on 28 December 2018 AB LG CARGO was registered in the Register of Legal Entities, to which the freight transportation operations of the Freight Transportation Directorate of AB Lietuvos Geležinkeliai were transferred as of 1 May 2019.

In 2019 freight volume accounted for 55.2 million tons and was 2.8 percent lower than in 2018.

In 2019 railway transportation continued to be dominated by the transportation of "heavy" cargo: chemical and mineral fertilizers, oil and its products. These types of freight account for more than a half of total freight volume at 52.9%.

International transportation, with 71.6 percent total freight transported recorded a 5.1 percent drop compared with 2018 and amounted to 39.5 million tons. This was mostly affected by 13.9% lesser transit freight flows to the Kaliningrad region during the comparative period (coals, oil, and food products). Besides, the import of oil, fertilizers, and ferrous metals had also somewhat lessened via Klaipėda Port.

A negative evolution of cargo flow was also recorded in the neighbouring countries. Changes in oil and fertilizer prices in the international markets, geopolitical events have reduced cargo volumes and increased competition among carriers. In Poland, the freight transportation flows decreased by 5.5% in 2019, in Latvia – by 15.8%, in Estonia – by 23.3%.

However, the declining flow of transit cargo was partially compensated by active actions in growing domestic transportation. Volume of domestic freight transportation in 2019 increased by 3.8% and amounted to 15.7 million tons. Domestic transportation accounted for 28.4% total volume of transported cargo. Transportation of building materials, food and plant products increased on domestic routes.

The growth of certain cargo flows was also recorded in foreign markets - imports of construction materials and biofuels from Belarus, exports of oil products to Ukraine and Poland. Container transportation is being further developed - a regular container transportation line from Klaipėda to Kyiv was introduced, as well as delivery of postal parcels from China to Lithuania.

PASSENGER TRANSPORTATION BY RAIL

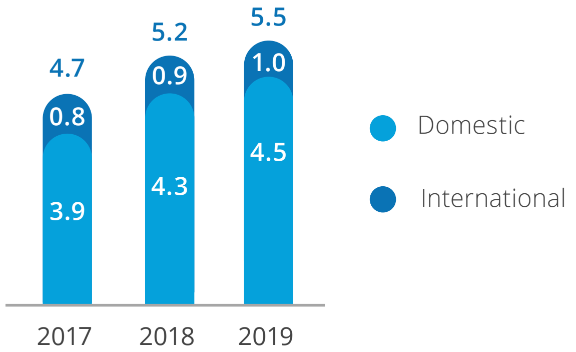
As part of the programme on streamlining business activities of the Group, on 28 February 2019 UAB LG Keleiviams was registered in the Register of Legal Entities, to which the passenger transportation operations of AB Lietuvos Geležinkeliai were transferred as of 01 September 2019.

In 2019 the number of railway passengers increased 6.7% compared with 2018. A more intense passenger transportation was recorded both on domestic and international routes.

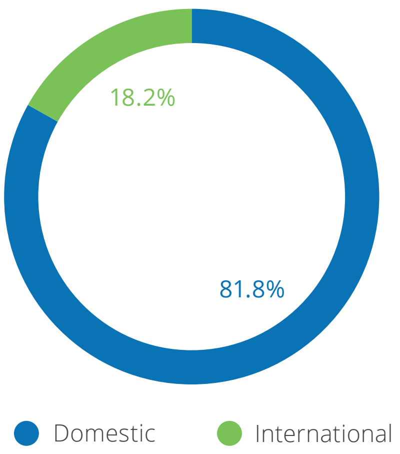
Passengers are served on 43 domestic and 16 international routes. Domestic carriage accounted for 81.8% in 2019, whereas international transport – for 18.2% of railway passengers.

Overview of the Group's KPIs

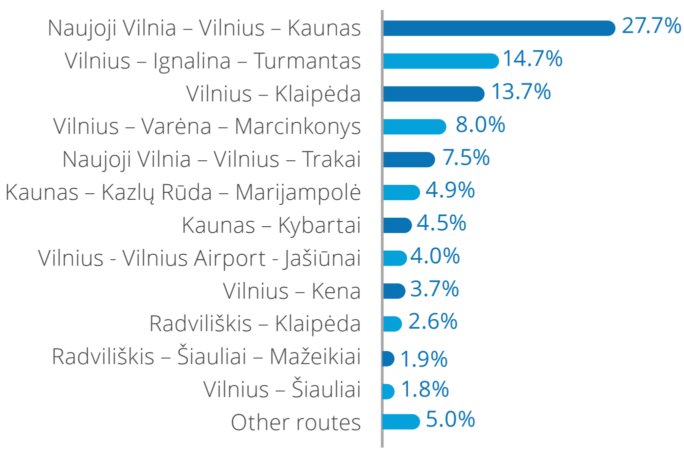
Passenger transportation volumes (million passengers)



Passenger market segments in 2019, %



Structure of domestic transportation in 2019, %



DOMESTIC ROUTES

Domestic routes climbed 6.2% to 4.5 million passengers in 2019. The growth of passenger traffic is a result of the constant improvement of passenger timetables, the improving passenger service culture and the changing image of train travel, launch of services attractive to various business segment, and the growing accessibility of services for disabled people and people with reduced mobility.

At the end of 2019, for the second year running, train timetables on many routes were updated for the convenience of passengers, adapted to the needs of commuters by increasing the frequency of trains on the most popular routes.

Vilnius-Kaunas remains among the most popular routes (27.7% total domestic carriage), with 1.3 million passengers travelling in 2019. Our summer season's hit the Seaside Express is popular among the passengers. The itinerary offers train trip from Vilnius to Klaipėda followed by the choice of Seaside destinations Palanga or Nida connected via shuttle buses.

From 2020, it is planned to install new wireless Internet connection equipment in most trains, as well as to expand ticketing channels - train passengers will be able to purchase tickets in a modern mobile app, on a new website or at ticket vending machines at stations.

INTERNATIONAL ROUTES

International routes climbed 9.5% to 1.0 million passengers in 2019. During the analysed period transit trains carried 0.5 million passengers across the Republic of Lithuania. Transit trains carry passengers to/from the Kaliningrad region and Russia. Starting from September 2018 the trains also carry passengers to/from Ukraine and Riga via Minsk and Vilnius.

Passengers were introduced with routes formed from the trains of LG Keleiviams and other countries: Vilnius–Minsk, Vilnius–Daugavpils, Kaunas–Bialystok. After the electrification of the line from Vilnius to Minsk and the introduction of new electric trains, the passenger flow on this route has been constantly increasing.

Overview of the Group's KPIs

SERVICES OF THE PUBLIC RAILWAY INFRASTRUCTURE MANAGER

Until 8 December 2019 the functions of the public railway infrastructure manager were carried out by the Railway Infrastructure Directorate which in accordance with the Railway Transport Code of the Republic of Lithuania provided services related to gaining access to the public railway infrastructure capacities and service facilities for all cargo and passenger carriers on non-discriminatory terms and ensured the safe movement of trains on the railway network. On 01 07 2019 AB Lietuvos Geležinkelių Infrastruktūra was founded. It gradually took-over business activities of LG Railway Infrastructure Directorate starting from 08 12 2019.

The fees for the services provided by the public railway infrastructure manager, namely the minimum access package and access to railway infrastructure objects, are set in accordance with Government Resolution No. 610 of 19 May 2004 and the Rules approved by the amendments to the Resolution. An updated version approved by Resolution No. 356 of 08 April 2020.

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

AB Lietuvos Geležinkelių Infrastruktūra holds and manages assets with EUR 1.5 billion value.

In 2019 the maximum train speed limits were 140 km/h for passenger trains, 90 km/h freight. The maximum speed limit is determined by the overall standing of the railway infrastructure tracks, track facilities, communications, automation, signalling and power supply systems.

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

Total lenght of the railway

3,459.9 km

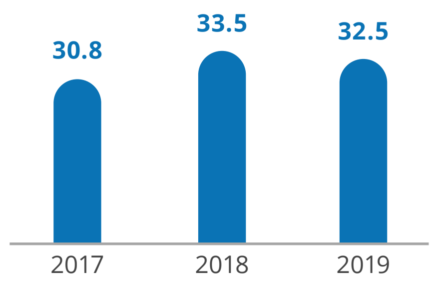
Of which electrified tracks

317.5

Stations

105

Train operational volume (Bn tkm gross gross)



Analysis of Financial and Operational Performance

ANALYSIS OF GROUP ACTIVITIES

GROUP INCOME

In 2019 the Group earned EUR 505.5 million of total income, i.e. EUR 9.7 million or 1.9 % more than in 2018. Freight business accounted for the major share of income, i.e. 82.4 %.

- **Group revenue**

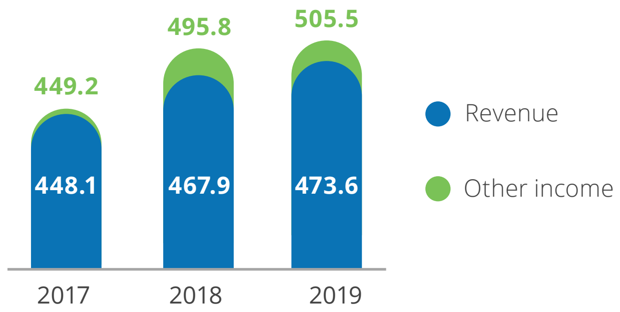
The freight transportation revenue decreased 0.4% or EUR 1.5 million compared with 2018 and amounted to EUR 416.6 million (in 2018 it was EUR 418.1 million). Decrease in freight volumes over the reporting period led to drop in revenue from freight transportation on international routes and the volumes of auxiliary services.

The revenue from passenger carriage increased by EUR 1.2 million or 4.3 % amounting to EUR 28.4 million in 2019. The revenue from passenger carriage business amounted to 5.6 % of the total income structure of the Group. Increased ridership in domestic and international routes triggered positive dynamics.

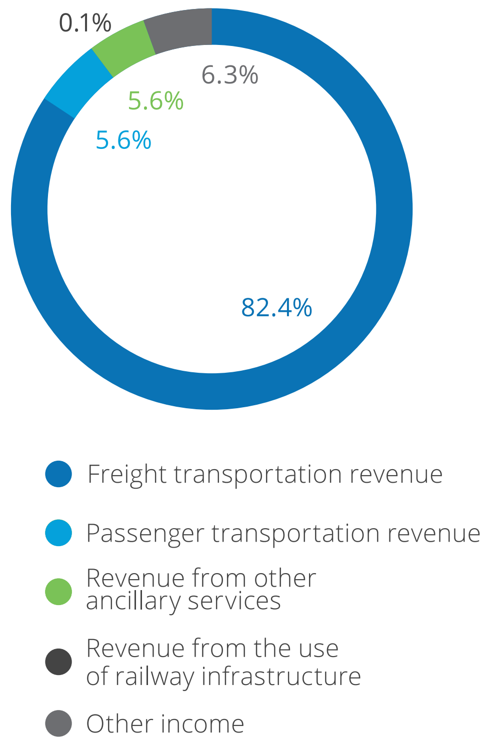
The Group also provides with the **ancillary services**, namely technical maintenance and repair of rolling stock and public railway infrastructure facilities, property lease, sale of scrap metal, other services. The revenue generated from this group of services accounted for 5.6 % of the total income structure of the Group and increased by 23.8 % over the reporting period amounting to EUR 28.0 million. There was a significant increase in services rendered to external clients and income earned by UAB Vilniaus Lokomotyvų Remonto Depas. The railway machinery repair service undertaking has been actively participating in tenders across Europe and has carried out repairs for a number of foreign companies. Over the reporting period the Group has also increased its revenue from sale of scrap metal through investment railway repairs and replacement of track structures.

- **Other Group income** accounted for EUR 31.9 million (EUR 27.9 million in 2018). Significant share of other income included the 94.2 % state subsidies to compensate for losses incurred when carrying passengers on domestic routes. In 2019 the public passenger transportation was allocated with EUR 30.1 million, in 2018 with EUR 27.0 million.

Group income, EUR million



Group income structure 2019, %



GROUP COSTS

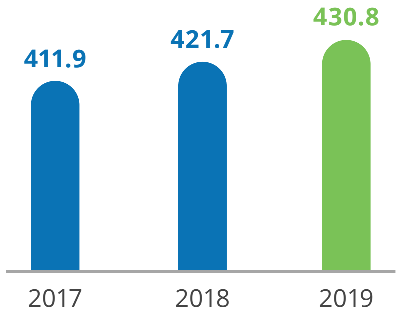
In 2019 the costs of the Group related to the core and other businesses amounted to EUR 430.8 million. The costs increased by EUR 9.1 million or 2.1 % as compared with 2018.

The larger proportion of the Group costs is constituted by the labour costs (41.0 %), depreciation and amortisation (27.5 %) and energy resources (15.3 %).

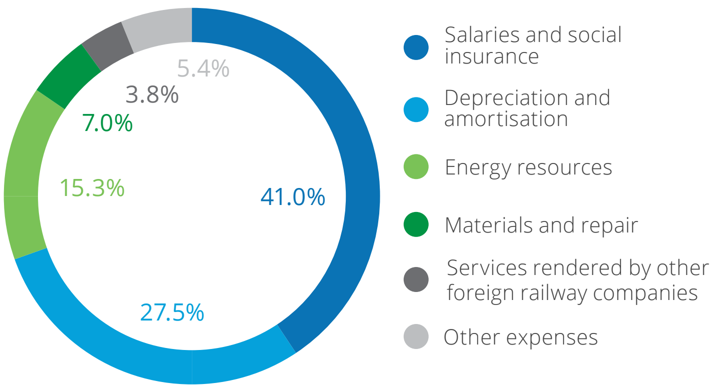
The increase in the Group's costs compared to 2018 was influenced by the increased fuel and diesel consumption in passenger transportation due to the increased operating capacities of trains. As a result, changes in electricity prices during the reporting period resulted in higher costs for energy resources.

As a result of the employee salary review, the cost of employee benefits increased in 2019, and more repairs were performed in the Group companies in 2019 with the help of external contractors.

Group costs, EUR million

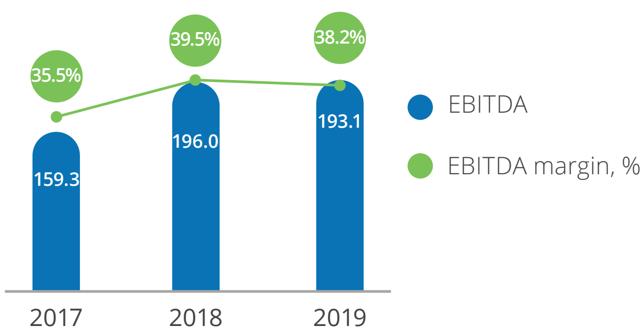


Group costs structure 2019, %

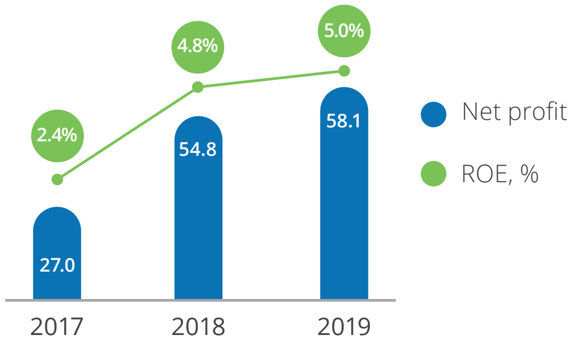


GROUP RESULTS

Group EBITDA, EUR million



Net profit of the Group, EUR million



MAIN FINANCIAL INDICATORS*

		Group			Company		
		2017	201	2019	2017	2018	2019
Revenue	million EUR	448.1	467.9	473.6	445.3	462.5	357.9
Other operating revenue	million EUR	1.1	27.9	31.9	0.9	30.5	20.7
Total income	million EUR	449.2	495.8	505.5	446.2	493.0	378.6
Costs	million EUR	411.9	421.7	430.8	411.2	421.7	329.3
EBITDA**	million EUR	159.3	196.0	193.1	154.3	190.6	134.0
Adjusted EBITDA	million EUR	147.2	202.3	184.6	143.5	197.1	126.4
EBITDA margin	%	35.5%	39.5%	38.2%	34.6%	38.7%	35.4%
Adjusted EBITDA margin	%	32.8%	40.8%	36.5%	32.2%	40.0%	33.4%
EBIT**	million EUR	37.3	74.1	74.7	34.9	71.3	49.3
EBIT margin	%	8.3%	14.9%	14.8%	7.8%	14.5%	13.0%
Net profit	million EUR	27.0	54.8	58.1	25.6	53.5	39.3
Net profit margin	%	6.0%	11.1%	11.5%	5.7%	10.9%	10.4%
		31 12 2017	31 12 2018	31 12 2019	31 12 2017	31 12 2018	31 12 2019
Fixed assets	million EUR	1,909.8	1,846.9	1,825.4	1,904.1	1,881.2	1,108.3
Current assets	million EUR	157.8	178.8	231.1	140.6	136.4	110.7
Total assets	million EUR	2,067.6	2,025.7	2,056.5	2,044.7	2,017.6	1,219.0
Equity	million EUR	1,138.7	1,151.4	1,167.1	1,127.1	1,138.5	1,135.5
Financial debt	million EUR	268.5	210.9	184.3	255.8	210.8	38.9
Net debt	million EUR	185.0	118.1	79.2	178.6	156.0	-11.7
Debt	million EUR	280.3	220.7	195.0	266.0	219.3	40.0
Return on equity (ROE)	%	2.4%	4.8%	5.0%	2.3%	4.7%	3.5%
Return on assets (ROA)	%	1.3%	2.7%	2.8%	1.2%	2.6%	2.4%
Return on investment (ROI)	%	1.4%	2.9%	2.9%	1.3%	2.8%	2.6%
Financial debt / EBITDA	times	1.7	1.1	1.0	1.7	1.1	0.3
Net debt / Adjusted EBITDA	times	1.3	0.6	0.4	1.2	0.8	-0.1
Debt / Adjusted EBITDA	times	1.9	1.1	1.1	1.9	1.1	0.3
Equity ratio	%	55.1%	56.8%	56.8%	55.1%	56.4%	93.2%
Debt servicing ratio	times	2.8	3.0	4.9	-	-	-
Debt / Equity	%	24.6%	19.2%	16.7%	23.6%	19.3%	3.5%
Asset turnover indicator	times	0.2	0.2	0.2	0.2	0.2	0.3
Quick liquidity ratio	times	0.9	1.1	1.5	0.8	0.8	1.9
Total liquidity rate	times	1.1	1.5	1.8	1.0	1.1	2.0

** From 2019, the Company started to apply another method of calculating EBIT, EBITDA indicators (definitions of indicators are provided on page 68 of the report). The financial indicators for 2017-2018 have been recalculated using new definitions;

** During the strategic reorganization of the LG Group of companies, on 1 May 2019, LG's freight transport activities were transferred to AB LG CARGO, on 1 September 2019, LG's passenger transport activities were transferred to UAB LG Keleiviams, and on 8 December 2019, railway infrastructure activities were transferred to AB Lietuvos Geležinkelių Infrastruktūra, which has a material impact on the Company's financial indicators as at 31 December 2019.

SPECIAL OBLIGATIONS

Special obligations are the functions that a state-owned enterprise (SOE) would not undertake to perform on a commercial basis (or would perform them at a higher price than specified) and which a SOE is entrusted to perform under the State's decision.

The LG Group of companies is delivering on the special obligations. **It provides with public passenger services; services comprising the minimum access package and carries out maintenance, modernization and development of the public infrastructure.**

The purpose of the special obligations:

- to ensure public passenger transportation by rail services and/or public combined passenger transportation on local routes;
- to provide services constituting the minimum access package to railway undertakings (carriers) on non-discriminatory terms;
- to maintain, modernize and expand the public railway infrastructure by implementing the projects provided for in the state investment program and ensuring the use of European Union funds.

PUBLIC RAIL PASSENGER SERVICES

The function is performed in accordance with the annual public service agreement concluded between the Ministry of Transport and Communications of the Republic of Lithuania and AB Lietuvos Geležinkeliai (i.e., for the use of the State budget funds allocated for the LG programme "Ensuring communication by rail"), the object of which is, among other obligations, the performance of public service obligations. State budget appropriations are allocated for the implementation of the special obligation.

Legislation entrusting SOEs with this special obligation: Article 12 of the Railway Transport Code of the Republic of Lithuania.

Legislation establishing the conditions for the performance of this special obligation: Article 12 of the Railway Transport Code of the Republic of Lithuania, Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70, as last amended by Regulation (EU) 2016/2338 of the European Parliament and of the Council of 14 December 2016 amending Regulation (EC) No 1370/2007 concerning the opening of the market for domestic passenger transport services by rail, as well as the Resolution No. 716 of 7 June 2010 of the Government of the Republic of Lithuania "Regarding the Approval of the Description of the Procedure for Compensation for Losses incurred in the Execution of Public Service Obligations", and Resolution No. 1036 of 19 August 2004 of the Government of the Republic of Lithuania "Regarding the Amendment of the Granting of Obligations.

Legislation regulating pricing: Article 34 Part 1 of the Railway Transport Code of the Republic of Lithuania.

PROVISION OF SERVICES FORMING PART OF THE MINIMUM ACCESS PACKAGE AND MAINTENANCE, MODERNIZATION AND DEVELOPMENT OF PUBLIC RAILWAY INFRASTRUCTURE

Legislation entrusting SOEs with the following special obligations:

- provision of minimum access package services: Paragraph 1 of Article 23 and Item 5 of Article 24 of the Railway Transport Code of the Republic of Lithuania;
- maintenance, modernization and development of public railway infrastructure: Paragraph 1 of Article 23 and Item 4 of Article 24 of the Railway Transport Code of the Republic of Lithuania.

Legislation establishing the conditions for the fulfilment of the following special obligations and regulating pricing:

- provision of minimum access package services: budget appropriations are not allocated, pricing is regulated by Article 25 of the Railway Transport Code of the Republic of Lithuania and the Rules for the Setting and Publication of Charges for the Minimum Access Package, Calculating the Fee Payable by the Railway Undertaking (Carrier) approved by Resolution No. 610 of the Government of the Republic of Lithuania of 19 May 2004 "On the Approval of the Rules for the Setting and Publication of Charges for the Minimum Access Package, Calculating the Fee Payable by the Railway Undertaking (Carrier)";
- maintenance, modernization and development of public railway infrastructure: the function is performed in accordance with the annual agreement concluded by the Ministry of Transport and Communications RoL and AB Lietuvos Geležinkeliai on the use of state budget funds for the implementation of the LG program "Ensuring Railway Transport". The European Union Cohesion, CEF, ERDF, TEN-T, ISF funds are allocated for the implementation of the special obligation (modernization and development of public railway infrastructure). Pricing is not regulated.

Results of the Group's special obligations in 2019

Special obligations	Income from special obligation, EUR thousand	Costs from special obligation, EUR thousand	Profit before tax from special obligation, EUR thousand	Assets*, EUR thousand
Public rail passenger services**	44,334	41,997	2,337	154,006
Services of the minimum access package and maintenance, modernization and development of public railway infrastructure***	202,526	164,502	38,024	1,463.926

*the assets required for the fulfilment of special obligations is not separated and is equal to the total assets of UAB LG Keleiviams and AB Lietuvos Geležinkelių Infrastruktūra;

**the data of AB LG for January - August 2019 and the data of UAB LG Keleiviams for September - December 2019 are submitted after having assessed the state grants for the provision of public passenger transport services by rail;

***the data of AB LG for January to 1-7th December 2019 and the data of AB Lietuvos Geležinkelių Infrastruktūra for 8-31st December 2019 are submitted.

DIVIDEND POLICIES

The payment of dividends and the size of profit contributions are regulated by Resolution No. 20 of the Government RoL of 14 January 1997 and any amendments thereto.

The allocation and payment of dividends by the companies of the Group 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).

The Group and individual subsidiaries plan 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 Group and its subsidiaries 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 Group 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.

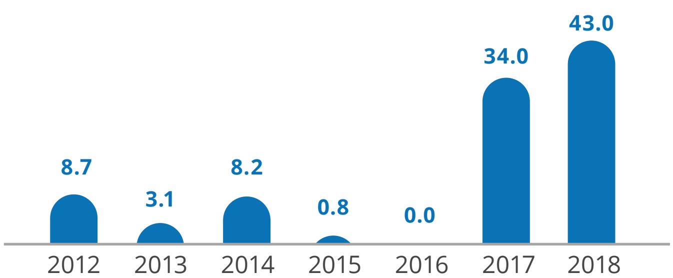
The Board of the subsidiary may propose to allocate a higher share of the profit for the payment of dividends taking into account the implementation of the Company's financial plans, its net profit, EBITDA, the ratio of the financial debt to EBITDA, the D/E ratio and other significant indicators at the 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.

AB Lietuvos Geležinkeliai Infrastructure, established to perform the functions of the public railway infrastructure manager, pays dividends calculated in accordance with the procedure established by the Policy to the extent that it complies with the requirements of the Railway Transport Code of the Republic of Lithuania.

Based on the decision of the Shareholder and having approved the financial statements for 2018 the Company disbursed EUR 43.0 million dividends for the reporting period.

Over 2019 the Company received EUR 1.85 million from the subsidiary UAB Gelsauga and EUR 0.2 million from the associated company UAB Voestalpine VAE Legetecha.

Dividends assigned by LG, EUR million



Analysis of Financial and Operational Performance

GROUP FUNDING

As of 31 December 2019, the net debt of the Group amounted to EUR 79.2 million. Compared to 31 December 2018, the ratio decreased by 32.9 % or EUR 38.9 million. The decrease of the net debt of the Group was the result of decrease of financial debt by EUR 26.6 million and the funds accumulated in the course of 2019.

As of 31 December 2019 the cash balance of the companies within the Group amounted to EUR 105.1 million, i.e. EUR 12.3 million more than as of 31 December 2018.

As of 31 December 2019 the weighted average interest rate of the debt portfolio of Company amounted to 2.6 % (compared to 2.0 % as of 31 12 2018).

The longest debt repayment period reached 13 years, and the last deadline for the repayment 2032.

The ratio of the net debt of the Group and adjusted EBITDA (of the last 12 months) decreased from 0.6 as of 31 December 2018 to 0.4 as of 31 December 2019.

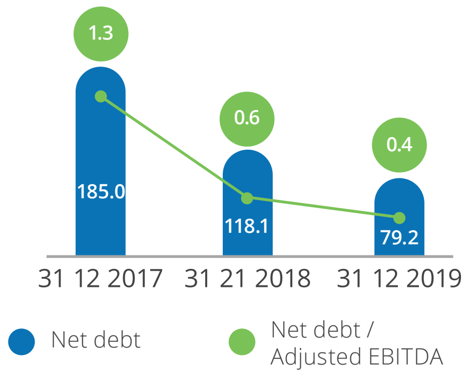
The ratio of Group debt and equity decreased from 19.2% as of 31 December 2018 to 16.7% as of 31 December 2019. On 31 December 2019 the debt level of the Group remains sufficiently low both in relation to profits and capital structure.

Compared to 31 December 2018, liquidity ratio of the Group increased from 1.5 to 1.8.

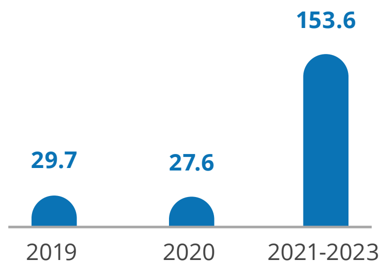
For the sake of higher efficiency in cash management and liquidity assurance within the companies of the Group, LG signed a cash-pool agreement with a credit institution. This will allow optimizing the use of the Group's working capital and short-term borrowing costs.

In accordance with the provisions of the funding agreements signed between the Company and the European Investment Bank (EIB) and the Nordic Investment Bank (NIB), the Company has requested the NIB and the EIB to agree to the proposed split-off of activities. The Company has requested the NIB and the EIB to agree to the proposed transfer of activities. Upon request of the banks to provide additional security for the fulfilment of obligations - first call guarantees, thus ensuring the fulfilment of all the Company's obligations under the financing agreements, AB LG CARGO and UAB LG Keleiviams concluded guarantee agreements on the security of obligations.

Group financial debt, EUR million



Loans repaid by the Group, EUR million



PERFORMANCE OF THE MAIN GROUP COMPANIES

AB LG CARGO

The Board	Position	Appointed on	Main Employer, Position
Mantas Bartuška	Chairman of the Board	29 11 2019	CEO of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Egidijus Lazauskas	Board Member	21 12 2018	CEO of AB LG CARGO, Mindaugo g. 12, Vilnius, company code 304977594.
Lukas Danielevičius	Board Member	21 12 2018	Director of the Corporate Operations Department of AB LG CARGO, Mindaugo g. 12, Vilnius, company code 304977594.
Brigita Valenčienė	Board Member	29 11 2019	Head of HR Business Partner Group of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Rokas Janutėnas	Board Member	29 11 2019	Director of the Strategy and Operational Efficiency Department of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.

CEO – Egidijus Lazauskas, appointed on 01 May 2019.

Core business:

- Domestic and international freight transportation services: 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.

Indicators, EUR million	2018	2019
Revenue	-	297.8
Costs	0.1	275.3
EBITDA	(0.1)	45.8
Net profit/losses	(0.1)	18.7
Assets	30.0	285.5
Equity	29.9	58.2
Financial debts	-	158.7
Net debt	-	133.6
EBITDA margin, %	-	15.4%
Net debt / EBITDA	-	2.9
Return on equity ,%	-	42.4%
Equity/total assets, %	-	20.4%

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

The annual and interim reports and financial statements of AB LG CARGO are publicly available on the website http://cargo.litrail.lt/.

UAB LG KELEIVIAMS

The Board	Position	Appointed on	Main Employer, Position
Mantas Bartuška	Chairman of the Board	29 11 2019	CEO of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Linas Baužys	Board Member	25 02 2019	CEO of UAB LG Keleiviams, Mindaugo g. 12, Vilnius, company code 305052228.
Daiva Pivoriūnienė	Board Member	29 11 2019	Director of the Asset Management Services Centre of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Dovilė Aleksandravičienė	Board Member	25 03 2019	Director of Business Development and Marketing of UAB LG Keleiviams, Mindaugo g. 12, Vilnius, 305052228.
Mantas Dubauskas	Board Member	29 11 2019	Chief Communications Officer of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.

CEO – Linas Baužys, appointed on 28 February 2019.

Core business:

- Passenger transportation on domestic and international routes;
- Carriage of mail and luggage, bicycles and animals in the territory of Lithuania and abroad.
- Organization of charter routes.
- Rental and sale of rolling stock.
- Advertising services.
- Services at stations (luggage storage, carriage of parcels, sale of goods and services, travel ticket processing).
- Services at train (sale of travel tickets, sale of food and beverages).

Indicators, EUR million	2019
Revenue	19.7
Costs	18.4
EBITDA	5.4
Net profit/losses	1.2
Assets	154.0
Equity	143.9
Financial debts	0.3
Net debt	(7.0)
EBITDA margin, %	27.5%
Net debt / EBITDA	(1.3)
Return on equity ,%	1.6%
Equity/total assets, %	93.4%

On 28 February 2019 UAB LG Keleiviams was registered in the Register of Legal Entities, to which the passenger transportation operations of AB Lietuvos Geležinkeliai were transferred as of 01 September 2019.

The annual and interim reports and financial statements of UAB LG Keleiviams are publicly available on the website http://www.litrail.lt.

AB LIETUVOS GELEŽINKELIŲ INFRASTRUKTŪRA

The Board	Position	Appointed on	Main Employer, Position
Andrej Kosiakov	Chairman of the Board	27 11 2019	CFO of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Ilona Daugėlaitė	Board Member	20 11 2019	Director of the Corporate Development Department of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Irena Jankutė-Balkūnė	Board Member	19 06 2019	Chief Human Resources Officer of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Karolis Sankovski	Board Member	19 06 2019	CEO of AB Lietuvos Geležinkelių Infrastruktūra, Mindaugo g. 12, Vilnius, company code 305202934.
Arenijus Jackus	Board Member	19 06 2019	Director of Rail Baltica Coordination Department of AB Lietuvos Geležinkelių Infrastruktūra, Mindaugo g. 12, Vilnius, company code 305202934.

CEO – Karolis Sankovski, appointed on 01 July 2019.

Core business:

- Management of the state-owned public railway infrastructure and railway service equipment.
- Provision of a minimum package of access services to the public railway infrastructure, provision of access to and services in railway service facilities, provision of commercial services.
- Organization of rail traffic.
- Upgrade, maintenance and development of public railway infrastructure.

Indicators, EUR million	2019
Revenue	13.8
Costs	15.3
EBITDA	4.6
Net profit/losses	(1.4)
Assets	1,463.9
Equity	672.3
Financial debts	145.3
Net debt	131.9
EBITDA margin, %	33.1%
Net debt / EBITDA	28.7
Return on equity ,%	(0.2%)
Equity/total assets, %	45.9%

On 01 July 2019 AB Lietuvos Geležinkelių Infrastruktūra was registered in the Register of Legal Entities, to which the operations of the Railway Infrastructure Directorate of AB Lietuvos Geležinkeliai were transferred as of 08 December 2019.

The annual and interim reports and financial statements of AB Lietuvos Geležinkelių Infrastruktūra are publicly available on the website http://lginfrastruktura.lt/.

UAB VILNIAUS LOKOMOTYVŲ REMONTO DEPAS

The Board	Position	Appointed on	Main Employer, Position
Egidijus Lazauskas	Chairman of the Board	29 11 2019	CEO of AB LG CARGO, Mindaugo g. 12, Vilnius, company code 304977594.
Agnė Grambaitė	Board Member	29 11 2019	Director of the Planning and Management Accounting Centre, Mindaugo g. 12, Vilnius, 110053842.
Lukas Danielevičius	Board Member	25 03 2019	Director of the Corporate Operations Department of AB LG CARGO, Mindaugo g. 12, Vilnius, company code 304977594.
Rokas Janutėnas	Board Member	13 12 2017	Director of the Strategy and Operational Efficiency Department of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Greta Kernagienė	Board Member	29 11 2019	HR Business Partner of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.

CEO – Albertas Bajorinas, appointed on 05 April 2017.

Core business:

- Manufacture and of new locomotives, railcars and track machinery.
- Overhaul and routine repairs, maintenance of rolling stock.
- Repair and manufacture of freight wagons.
- Repair of nodes and units.

Indicators, EUR million	2017	2018	2019
Revenue	29.6	50.7	52.2
Costs	28.9	47.0	47.8
EBITDA	1.8	4.8	6.8
Net profit/losses	0.5	3.2	3.7
Assets	33.2	34.1	49.9
Equity	21.7	24.9	28.6
Financial debts	-	-	4.0
Net debt	(3.8)	(1.2)	(0.1)
EBITDA margin, %	6.0%	9.5%	13.0%
Net debt / EBITDA	(2.1)	(0.2)	(0.0)
Return on equity ,%	2.5%	13.7%	13.7%
Equity/total assets, %	65.5%	73.1%	57.3%

The annual and interim reports and financial statements of UAB Vilniaus Lokomotyvų Remonto Depas are publicly available on the website http://www.vlrd.lt.

UAB GELEŽINKELIO TIESIMO CENTRAS

The Board	Position	Appointed on	Main Employer, Position
Linas Baužys	Chairman of the Board	13 12 2017	CEO of UAB LG Keleiviams, Mindaugo g. 12, Vilnius, company code 305052228.
Rokas Janutėnas	Board Member	13 12 2017	Director of the Strategy and Operational Efficiency Department of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Sigitas Kubilis	Board Member	13 12 2017	Director of the Investment Planning and Control Department of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Brigita Valenčienė	Board Member	29 11 2019	Head of HR Business Partner Group of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Vaidotas Dirmeikis	Board Member	29 11 2019	Head of the Finance Management Unit of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.

CEO – Vytautas Radzevičius, appointed on 12 April 2019.

Core business:

- Construction and repair of railway tracks.
- Maintenance of railways and structures.
- Repair, reconstruction, construction of other engineering structures.
- Rent of tamping machines, mechanisms and equipment.
- Installation of engineering systems within the transport and communications infrastructure;
- Design, consulting.

Indicators, EUR million	2017	2018	2019
Revenue	19.3	29.8	25.0
Costs	21.1	25.4	24.7
EBITDA	1.3	7.4	3.6
Net profit/losses	(1.5)	3.6	0.4
Assets	34.8	43.0	37.4
Equity	19.2	30.5	30.9
Financial debts	12.7	-	2.2
Net debt	12.7	(3.1)	0.8
EBITDA margin, %	6.5%	24.9%	14.3%
Net debt / EBITDA	10.1	(0.4)	0.2
Return on equity ,%	(7.5%)	14.1%	1.3%
Equity/total assets, %	55.2%	70.9%	82.6%

The annual and interim reports and financial statements of UAB Geležinkelio Tiesimo Centras are publicly available on the website http://www.gtc.lt.

UAB GELSAUGA

The Board	Position	Appointed on	Main Employer, Position
Rokas Janutėnas	Chairman of the Board	13 12 2017	Director of the Strategy and Operational Efficiency Department of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Andrej Kosiakov	Board Member	13 12 2017	CFO of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Irena Jankutė-Balkūnė	Board Member	13 12 2017	Chief Human Resources Officer of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Sigitas Kubilis	Board Member	13 12 2017	Director of the Investment Planning and Control Department of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Paulius Voleika	Board Member	13 12 2017	Senior Lawyer of the Commercial Law Unit, Legal Department, AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.

CEO – Daiva Pivoriūnienė, appointed on 12 April 2019.

The company was reorganised on 10 June 2019 by way of de-merger and UAB Saugos Paslaugos was established.

Core business prior to de-merger:

- Provision of security services by physical and technical means.
- Maintenance and repair of technical security devices.
- Cleaning plant maintenance and other related activities.

Core business after de-merger:

- Cleaning plant maintenance and other related activities.

Indicators, EUR million	2017	2018	2019
Revenue	13.6	17.7	4.3
Costs	12.7	16.1	5.0
EBITDA	1.8	2.4	(0.1)
Net profit/losses	0.8	1.3	(0.5)
Assets	8.1	10.5	5.0
Equity	5.6	6.9	3.9
Financial debts	-	0.2	0.3
Net debt	(1.8)	(3.6)	(2.6)
EBITDA margin, %	13.1%	13.3%	(2.9%)
Net debt / EBITDA	(1.0)	(1.5)	20.6
Return on equity ,%	16.3%	20.8%	(9.0%)
Equity/total assets, %	68.4%	65.4%	77.5%

The annual and interim reports and financial statements of UAB Gelsauga are publicly available on the website http://www.gelsauga.lt.

UAB SAUGOS PASLAUGOS

The Board	Position	Appointed on	Main Employer, Position
Daiva Pivoriūnienė	Chairman of the Board	10 06 2019	Director of the Asset Management Services Centre of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Ramūnas Moroza	Board Member	10 06 2019	Director of the Corporate Affairs Department of UAB Gelsauga, Prūsų g. 1, Vilnius, company code 125825125;
Ramutė Valaitienė	Board Member	10 06 2019	Chief Financial Officer of UAB Gelsauga, Prūsų g. 1, Vilnius, company code 125825125;

CEO – Daiva Pivoriūnienė, appointed on 10 June 2019.

UAB Saugos Paslaugos was established on 10 June 2019. The Company started operating on 1 August 2019.

Core business:

- Provision of security services by physical and technical means.
- Maintenance and repair services of technical security devices - installation, maintenance and repair services of fire extinguishing systems, fire alarm systems, access control systems, video surveillance systems, security alarm systems.

Indicators, EUR million	2019
Revenue	2.54
Costs	2.58
EBITDA	(0.00)
Net profit/losses	(0.03)
Assets	1.61
Equity	0.58
Financial debts	0.05
Net debt	(0.14)
EBITDA margin, %	(0.2%)
Net debt / EBITDA	33.8
Return on equity ,%	(5.3%)
Equity/total assets, %	36.0%

The annual and interim reports and financial statements of UAB Saugos Paslaugos are publicly available on the website http://www.gelsauga.lt.

UAB RAIL BALTICA STATYBA

The Board	Position	Appointed on	Main Employer, Position
Karolis Sankovski	Chairman of the Board	13 12 2017	CEO of AB Lietuvos Geležinkelių Infrastruktūra, Mindaugo g. 12, Vilnius, company code 305202934.
Odeta Tručinskaitė-Šiušienė	Board Member	13 12 2017	Director of Legal and Compliance of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.
Arenijus Jackus	Board Member	13 12 2017	Director of Rail Baltica Coordination Department of AB Lietuvos Geležinkelių Infrastruktūra, Mindaugo g. 12, Vilnius, company code 305202934.

CEO – Karolis Sankovski, appointed on 01 June 2017.

UAB Rail Baltica statyba was established to participate in the implementation process of the Rail Baltica project and in the management of RB Rail AS established by the Baltic States (33.33% of the shares are controlled).

Core business: management of RB Rail AS shares, implementation of the rights and obligations granted thereunder.

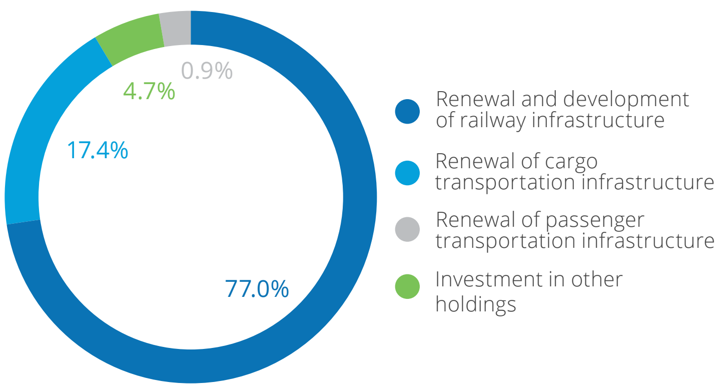
Indicators, EUR million	2017	2018	2019
Revenue	0.03	0.07	0.05
Costs	0.14	0.07	0.08
EBITDA	(0.11)	0.00	(0.03)
Net profit/losses	(0.37)	(0.48)	(0.48)
Assets	2.07	2.24	2.41
Equity	2.06	2.23	2.40
Financial debts	-	-	-
Net debt	(0.13)	(0.12)	(0.09)

The annual and interim reports and financial statements of UAB Rail Baltica Statyba are publicly available on the website http://www.rail-baltica.lt.

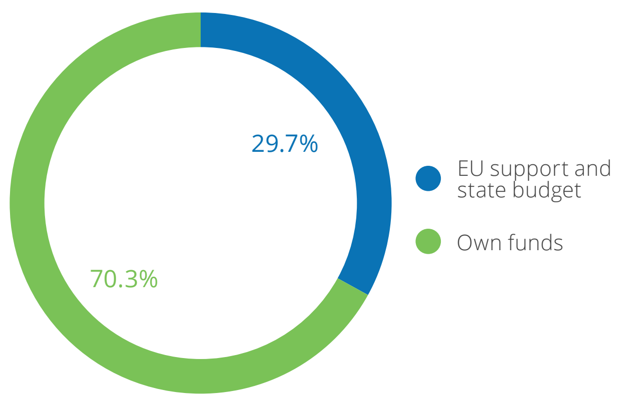
INVESTMENTS

LG Group invested EUR 112.6 million in 2019. 70.3 % of LG Group investments of 2019 were financed with own funds. EUR 33.4 million EU support and State budget funds were utilized over the reporting period. The majority of investments went to the upgrade and expansion of the railway infrastructure (77.0 %).

Group's investment structure in 2019, %



Group's investment funding structure in 2019, %



Group's investments (Works completed and advances paid), EUR million	2017	2018	2019	2019/2018 Δ, %
Renewal and development of railway infrastructure	60.9	63.0	86.7	37.6%
Renewal of cargo transportation infrastructure	4.6	17.1	19.6	14.6%
Renewal of passenger transportation infrastructure	18.4	5.1	1.0	(80.4%)
Other investments (IT, etc.)	1.5	2.4	5.3	120.8%
Total	**85.4**	**87.6**	**112.6**	**28.5%**

INVESTMENT PROJECTS IMPLEMENTED BY THE LG GROUP OF COMPANIES IN 2019

Fixed asset renewal projects:

- The major railway track upgrade programme has been implemented; more than EUR 30 million used for track repair works in 2019. The major track upgrade works are a part of the long-term track repair programme, covering 10-year period. The aim of the programme is to halve the number of tracks in the entire Lithuanian railway network that require major repairs due to their poor technical condition.
- Works for renewal of other railway infrastructure facilities (crossings, bridges, culverts, railroad switches, other railway infrastructure facilities) have been performed – EUR 11.7 million used for that in 2019.
- In 2019 the Company carried out the rolling stock repair programs: 2,063 freight wagons were repaired, 39 freight locomotives (7 of which were Sielmens locomotives) underwent repairs of various complexity, passenger rolling stock was repaired (15 diesel trains, 3 electric trains, 1 railbus and 1 passenger car).

The main development and modernization projects implemented in 2019:

- Completion of the construction of the second track in the section Telšiai-Lieplaukė. 8 km of tracks reconstructed and 10,8 km of tracks were newly installed. Project effect: increased throughput of the section, maximum speeds of passenger trains up to 160 km / h, freight trains - 120 km / h are expected in the reconstructed section.
- Completion of the reconstruction of the railway section Mažeikiai - LT/LV border (Rengė direction). The length of the section is 19 km, five crossings, six bridges were restored, and other works were performed.
- A connecting siding and loading tracks were installed on the Akmenė FEZ. The constructed 3 km railway track will allow the development of Akmenė FEZ activities and increase the volume of freight transportation by rail.
- Stage II of installation of LED lights on the public railway infrastructure objects in 2017-2019 completed. 783 LED lights installed. Implementation of the project ensured efficient, economic, safe lighting of railway facilities and eligible lighting of railway objects.

The main on-going development and modernization projects:

- In 2019, the implementation of the Rail Baltica project was continued:
  - In 2019, during the reconstruction of the Kaunas – Palemonas section, the cost of works delivered amounted to EUR 20.4 million. Installation works of this Rail Baltica section included the construction of 9 km new European gauge railway line and 2 km parallel European and wide gauge railway track, as well as reconstruction of 3.6 km existing wide gauge railway; Completion of contracting works will allow transporting cargoes to the public terminal of intermodal cargoes in Palemonas using the European gauge starting from 2021;
  - Procedures required for taking over the land in the interest of the public for installation of a new European gauge railway line from Kaunas to the Lithuanian and Latvian state border have been carried out. Asset valuation reports have been drafted along with the projects for taking over the land in the interest of the public; 62 land plots will be formed on the basis of 1,740 (99.9%) signed land takeover certificates; 52 land plots have already been registered on behalf of the State;
  - Engineering design works have been started in the sections Kaunas–Ramygala and Ramygala–Lithuanian and Latvian state border. This stage covers surveying, development of the principal and detailed engineering design;
  - During the implementation of the Rail Baltica project, a contract was signed for the preparation of the communications engineering infrastructure development plan and environmental impact assessment for the Kaunas-Vilnius railway line. For

the purpose of execution of the agreement, it is intended to plan and build a European gauge railway line from Kaunas to Vilnius, with the maximum speed of passenger trains of up to 234 km/h. When planning the railway line, some solutions for the development of Vilnius passenger railway station, its connection with Vilnius International Airport, Vilnius Intermodal Terminal and the freight train yard designed for the Terminal's servicing will also be prepared in accordance with the requirements of the Rail Baltica project. Additionally, Lentvaris, Vievis and Kaišiadorys regional passenger stations and interconnections will be planned.

- The procedures for the procurement of design and contracting works within the scope of the largest LG project – Electrification of Corridor IX – were completed in 2019, and a contract was signed, according to which the Vilnius node and the railway line from Kaišiadorys to Klaipėda (Draugystė station) (366 km) will be electrified within a period of 4 years. After the main railway line in Lithuania is electrified, more than 50% of freight will be transported with the use of eco-friendly and efficient electric traction, while modern electric trains will be used for the transportation of passengers on the route Vilnius–Šiauliai–Klaipėda.

- The implementation of the projects on the construction of the second railway tracks of Corridor IX B was continued in 2019. The new tracks will increase the throughput of the railway network:

    - Procedures for completion the construction of Pušynas–Paneriai section and the procurement of traffic control centralization services were carried out. The length of the newly installed track will reach 8 km, with a 6.6km section already reconstructed. The new track constructed on the section Pušynas (Vaidotai)–Paneriai connects the track Vilnius–Kaunas and Vaidotai stations via a connecting double track, thus increasing the throughput of this section.

    - Contracts for the construction of the second tracks in Livintai–Gaižiūnai and Plungė–Šateikiai sections have been signed. The main purpose of the construction of these second tracks is to increase the throughput of the line as well as the train speeds on the main Lithuanian railway corridor Vilnius–Klaipėda.

- Technical projects for installation of noise barriers have been drafted, and partnership agreements have been signed with five municipalities. The installation of noise barriers will allow improving the living conditions of people living near the railway, and will ensure that the noise pollution complies with the applicable hygiene standards.

- Five locotractors were procured in 2019. Upon completion of their validation procedures in 2020, shunting works at railway stations, where the flow of the wagons serviced is not intensive, will be performed in a more cost-effective manner.

Other large-scale investment projects with the preparatory works carried out and the procurement procedures initiated in 2019:

- Ticket sales system (Smart Ticketing). After installation of a new system, passengers will be able to buy tickets through a modern mobile app, on a new website or on ticket vending machines at stations. The ticket sales system will be adapted for all passengers, including people with disabilities, older people and families with small children.

- Procurement of a self-propelled diagnostic rolling stock. The new rolling stock will allow performing inspections of the upper railway track in a more efficient manner, with the immediate detection of potential breakdowns. This will allow ensuring the traffic safety with fewer expenses for track maintenance.

- The reconstruction of Jonava Railway Bridge. Upon reconstruction of the longest (9200 m) bridge on the corridor Vilnius–Klaipėda, safe, continuous and efficient provision of railway services will be ensured.

- Installation of a freight wagon manufacturing line. Upon assessment of the demand for freight wagons on the market, wagons of certain types will be manufactured in Lithuania in order to ensure the needs of the LG Group's customers and generate additional income.

- Reconstruction of the 3rd yard of Radviliškis Railway Station. Upon implementation of the project, a possibility will be ensured to lengthen freight train units and increase the transport capacity.

- Upgrade of GSM-R cores. New equipment installed in the entire railway network will ensure the communication necessary for safe railway traffic.

EMPLOYEES

In order to succeed in implementation of its strategy the LG Group of companies 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 in the following priority areas:

DIRECTION

Understanding the organization's mission, vision and goals, perception of the strategy

LEADERSHIP

strengthening the role of the CEO as a team leader

OPENNESS

Understanding the organization as an open system in order to meet customers' needs

ABILITY TO ADAPT

Ability of each of us, the team and the organization to adapt to the changes occurring in the external and internal environment, to respond to them properly

PHYSICAL WORKING ENVIRONMENT

Provision of necessary work and safety equipment, systematic and continiuius attention to quality of workplaces and the working environment

OPERATIONS MANAGEMENT

Results oriented approach in actions and operations, so that each task is completed by obtaining a specific result

COMPETENCIES

Talent engagement and development/training, empowerment of necessary competencies and employees

Initiatives and important events in 2019:

- Approval of the remuneration management model (personnel activities management processes, annual incentive processes, periodical wage revision processes), adoption of the uniform salary revision principles for all employees of the LG Group of companies;
- Additional voluntary health insurance provided to the employees of LG Group of companies since the beginning of 2019;
- Apprenticeship programme "Growing Talents" that has attracted students both from Lithuanian and foreign universities;
- Development and implementation of a leadership training programme. The programme covers the following topics: personnel recruitment and adaptation, the assessment of personnel activities and wage, feedback, communication,

Analysis of Financial and Operational Performance

team training, the management of labour relations, safety management, the change management;

- Implementation of a project on future competence in order to develop the necessary competencies for future strategic directions of LG by closely cooperating with educational partners;
- Initiation of personnel services digitization and automation.

The number of employees in the Group as of 31 December 2019 amounted to 9,190. The total number of the employees of the LG Group of companies decreased by 256 in comparison with 31 December 2018 as a result of the changes carried out.

Number of AB LG employees and average salary

Group's companies	31 12 2017*		31 12 2018*		31 12 2019	
	Actual number of employees as of the end of the period	Average salary, EUR	Actual number of employees as of the end of the period	Average salary, EUR	Actual number of employees as of the end of the period	Average salary, EUR
AB Lietuvos Geležinkeliai	7,447	1,439	7,353	1,578	1,152	1,649
UAB Vilniaus Lokomotyvų Remonto Depas	1,054	1,265	1,055	1,375	940	1,514
UAB Geležinkelio tiesimo centras	438	1,195	551	1,459	461	1,532
UAB Gelsauga	1,010	687	483	924	22	1,053
UAB Rail Baltica statyba	4	2,283	4	2,059	4	2,657
AB LG CARGO**	-	-	-	-	2,355	1,705
UAB LG Keleiviams**	-	-	-	-	710	1,636
AB Lietuvos geležinkelių infrastruktūra**	-	-	-	-	3,159	1,496
UAB Saugos paslaugos**	-	-	-	-	387	1,056
Total	**9,953**		**9,446**		**9,190**	

*for data comparability purposes, average salary figures for 2017 and 2018 have been recalculated under the new tax system by multiplying a coefficient of 1.289;
** data of AB LG CARGO for May-December 2019; data of UAB LG Keleiviams for September-December 2019; data of AB Lietuvos Geležinkelių Infrastruktūra for 8-31 December 2019; data of UAB Saugos Paslaugos for August-December.

LG EMPLOYEES

As of 31 December 2019, the number of the employees of AB Lietuvos Geležinkeliai was 1,152. As compared to 31 December 2018, the number of employees decreased by 6,201, or 84.3%. In 2019, during the restructuring of LG's activities and management, three new legal entities were established, to which the employees of the Freight Transportation Directorate, the Passenger Transportation Directorate and Railway Infrastructure Directorate of AB Lietuvos Geležinkeliai have been transferred.

The average monthly salary of LG's employees increased from 1,578 EUR to 1,649 EUR, or by 4.5% as compared to 2018. The change had been affected by the implemented annual wage revision programme and the transfer of the employees to the newly established companies conducted during the de-merger of the companies carried out in May, September and December of 2019.

The total payroll fund of AB Lietuvos Geležinkeliai, not including the annual incentives for the performance results in 2018, decreased from EUR 131.9 million (the amount estimated under the new tax system) to EUR 103.5 million. This change had been conditioned by the processes of the de-merger of the companies and the transfer of the employees.

In addition, in March of 2019, the annual incentives in the amount of EUR 6.8 million were paid to LG's employees as well as to the employees of other companies of the LG Group (EUR 936 to an employee on the average).

Number of AB LG employees and average salary

Employee groups by position	31 12 2017**		31 12 2018**		31 12 2019	
	Actual number of employees as of the end of the period	Average salary, EUR	Actual number of employees as of the end of the period	Average salary, EUR	Actual number of employees as of the end of the period	Average salary, EUR
CEO*	1	8,251	1	8,251	1	9,305
Top-Level Managers*	8	6,855	8	6,855	5	7,239
Mid-level Managers, Senior Specialists	1,069	2,249	1,261	2,312	418	2,387
Specialists, Workers	6,369	1,299	6,083	1,425	728	1,449
Total	**7,447**	**1,439**	**7,353**	**1,578**	**1,152**	**1,649**

* a fixed remuneration as of the end of the period is provided;

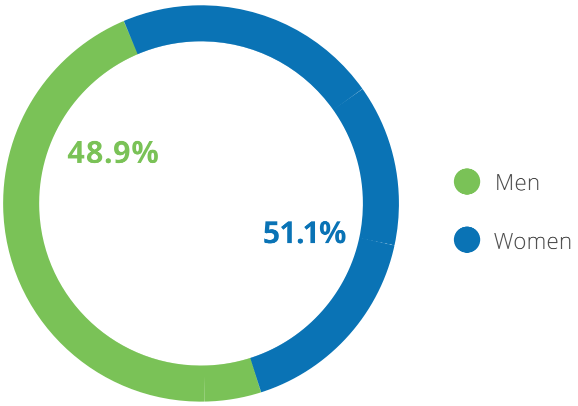
** for data comparability purposes, average salary figures for 2017 and 2018 have been recalculated under the new tax system by multiplying a coefficient of 1.289.

The monthly remuneration set for the CEO of the Company as at 31 December 2019 was EUR 9,305, and the average actual salary of the CEO, taking into account the annual incentive, amounted to EUR 11,550 in 2019. The average actual salary of a senior manager, taking into account the annual incentive, in 2019 amounted to EUR 8,848.

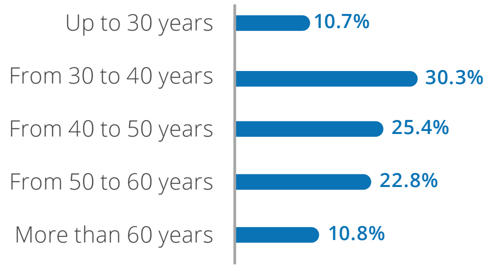
the CEO's variable annual salary (annual incentive) is linked to the achievement of the general LG Group targets. The maximum amount of the variable annual salary of the CEO of the Company is 30% of the fixed annual fixed remuneration.

Analysis of Financial and Operational Performance

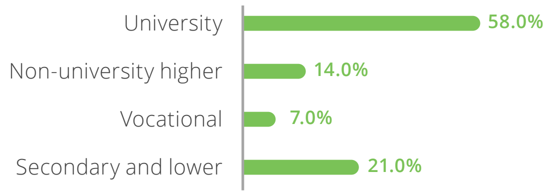
Employee distribution by gender, %



Employee distribution by age group, %

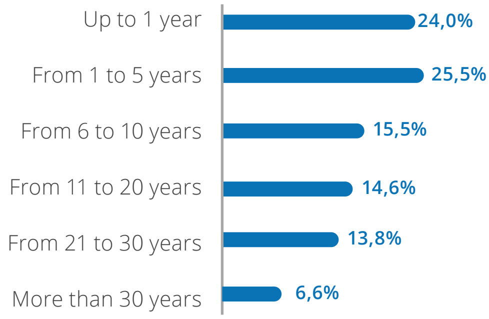


Employee distribution by education, %



Age group	Average lenth of service, in years
Up to 30 years	1.4
From 30 to 40 years	4.0
From 40 to 50 years	9.1
From 50 to 60 years	16.7
More then 60 years	20.5
Vidutinis stažas	**9.6**

Empoyee distribution bt length of service, %



SOCIAL PARTNERSHIP

As of 1 January 2019, a collective bargaining agreement has entered into force in 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.

In order to strengthen the social dialogue of the LG group of companies with the employees' representatives, great attention has been paid to the development of social partners in the areas of personnel, change management and leadership. To this end, targeted training was organized for trade union chairmen.

In 2019, a memorandum was signed agreeing that the exercise of the rights and functions of the Works Council in the LG Group of companies would be taken over by a joint trade union representation represented by two trade unions - the Lithuanian Railway Trade Union Federation and the Lithuanian Railway Trade Union Confederation.

In March 2019, representatives of employees were informed and consulted on the implementation of the collective agreement in 2018, the condition and structure of the LG Group of companies, changes that have taken place and are planned. The plans for the development of the Company and structural units, changes in remuneration and future prospects, the results of the implementation of occupational safety and health measures that help to improve the working environment were presented.

By entrenching an active social partnership, the communication and cooperation with the representatives of the trade unions operating in the LG Group of companies 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 LG Group of companies are carried out.

REMUNERATION AND PERFORMANCE MANAGEMENT

The Remuneration Policy 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 COMPETENCIES

To encourage the employees to use their potential and career opportunities, LG 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 LG Group of companies 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 LG managers 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 LG Group.

3,116 employees of the Company underwent in-house training, were certified, and received certificates.

Employees of companies that work under contract in LG's territory are trained to work safely in the risk areas of railways or their facilities. In 2019, a total of 489 employees of contractors completed internal training programs.

The employees engaged in hazardous works and handling and maintaining potentially hazardous equipment are trained to apply safe working methods. In 2019, 3,149 employees were trained in occupational safety and health at work. 3,912 employees participated in specialized training of railway transport, of which 3,486 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.

Corporate Social Responsibility Report

OCCUPATIONAL HEALTH AND SAFETY

- The strengthening of the leadership and culture of employees, and the improvement of the processes and measures regulating occupational safety and health aimed at reducing possible incidents and risks to health make the major goals of the occupational safety and health policy within the Lietuvos Geležinkeliai Group.
- In order to develop an independent safety culture within the Lietuvos Geležinkeliai Group, the Group's operations are standardized and organized with the use of **PDCA elements (plan, do, check, adjust)**, by additionally developing the leadership skills of each employee and by ensuring a social dialogue as well as the distribution of duties, rights and liabilities in the area of safety.

STANDARDIZATION OF OCCUPATIONAL SAFETY AND HEALTH IN THE GROUP

- During the process of the split-off of AB Lietuvos Geležinkeliai companies (AB LG CARGO, UAB LG Keleiviams, AB Lietuvos Geležinkelių Infrastruktūra) that took place in 2019, the integrity of the safety management elements was ensured as well as the effective and efficient implementation of occupational safety and health methodologies and processes in day-to-day operations, including the compliance of the Company's rules on occupational safety and health with the applicable requirements.
- While developing a social dialogue between the employer and the employees, new elections of representatives for occupational safety and health were initiated in 2019, who were later provided with the possibility to participate in internal training hosted by occupational safety and health specialists.
- In June 2019, a new **Corporate Occupational Safety and Health Committee** (consisting of 8 members) was set up, charged with the task to develop a safety culture improving the occupational safety and health situation, to consult with the representatives of the employees for the purpose of ensuring the improvement of occupational safety and health situation, to assess the occupational safety and health indicators within the LG Group of companies as well as preventive measures implemented by it, and to prepare recommendations for their improvement.

- On the first business day of each month **Safety Days** are held, involving all employees, when the executive officers of the units discuss the information provided with their employees. In 2019, safety specialists organised as much as 11 Safety Days on such issues as alcohol abuse prevention, the management of fire risks, the election of representatives for occupational safety and health and their rights and duties, updates on the road safety situation and safe conduct, healthy lifestyle, manual cargo handling, reduction of stress at work, and other relevant issues.

- For the purpose of providing safe and healthy conditions, a sufficient number of occupational safety and health specialists is ensured, and professional risk assessment plans as well as division, contractor, customer inspection and audit plans are drawn up. After they are implemented, plans on preventive measures are prepared and their implementation is controlled.

- Taking into account the management guidelines provided for in ISO 450001:2018 *Occupational safety* and *health management systems. Requirements with guidance for use*, in 2019 the **Occupational Safety and Health Assurance Methodology** was developed, applicable to the LG Group of companies, as well as processes regulating the creation of safe and healthy conditions (briefing, occupational risks, availability of personal protective equipment for employees, etc.).

- Occupational safety and health instructions were updated (visualized). Taking into account the circumstances of the accident that occurred on 5 March 2018, which caused the death of two AB Lietuvos Geležinkeliai's employees at Vaidotai Railway Station (who were engaged in the removing of snow from a railway switch), visual materials for employees was prepared illustrating the process of safe removing of snow from railway switches, and instructing how employees should work safely in dangerous railway areas.

- In addition, LG Group implements the prevention of work-related incidents, accidents at work and commuting to work, health and occupational diseases, and investigates all occurred accidents. The employees of the LG Group are additionally insured from accidents at the expense of the employer.

- Considerable focus is paid on the development of the employees' competence: in 2019, 5,456 employees attended trainings on occupational safety and health (including 498 chief executive officers of the units, 134 representatives for occupational safety and health, 2,043 employees tasked with performing hazardous works, and 2,781 other employees, who attended trainings related to occupational safety and health). The specialists from the Occupational Safety and Health Department host the major part of the trainings related to occupational safety and health in the LG Group of companies (emergency first aid, manual cargo handling, work at height, trainings for chief executive officers of the units and representatives for occupational safety and health, etc.), prepare training materials and certify the employees.

- It is mandatory for all chief executive officers of the units, organizing the production processes, to attend trainings related to occupational safety and health. In 2019, the majority of the chief executive officers of the units attended the Leadership standard training organized by the HR Department, where they were familiarized with safety requirements for organization of the operations in their units.

- In 2019, the updated employee competence management system was started to implement, accordingly developing an employee competency matrix as well as a draft matrix for acquiring practical skills at the workplace for each operational unit of LG.

- All employees could receive a flu vaccination if they wanted it (in 2019, 1,592 employees were vaccinated), and taking into account the risk factors at a workplace, the employees could receive a tick-borne encephalitis vaccination (in 2019, 2,234 employees were vaccinated).

- At the initiative of the Safety and Risk Management Department, the companies UAB LG Keleiviams and AB Lietuvos Geležinkelių Infrastruktūra participated in the mobile worksite health promotion project implemented by SE Pozytivios Sveikatos Komanda, which had lasted for 5 months. Nearly 100 train conductors-controllers took part in it. Psychologists and nutrition specialists gave recommendations on how to promote health; the employees were provided with additional trainings; visual materials Healthy diet eating at work were prepared, which were used within the LG Group of companies. At the end of the project, a rest and relaxation area was installed for the employees.

- All employees are provided with quality collective and personal protective equipment by ensuring working clothes rental services with periodic laundering and tailoring repairs as well as purchases of work shoes and other personal protection equipment.

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 LG Group'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 LG Group of companies, taking into account the best practices and regulations of other countries, has developed and approved new safety management systems and related documents; in addition, it has defined relevant safety objectives oriented to the highest operational risks; the Company has outlined and implemented plans of complex measures aimed at reaching them, and fosters an integrated corporate safety culture model that raises the employees' safety awareness.

- The LG Group of companies, 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.

PREVENTION OF CORRUPTION AND BRIBERY

- Together we are building a common anti-corruption system. Together with the business units of the Company, we strive to create a reliable and mature Company and its environment, so it is important for each of us to act transparently, responsibly and reliably. The responsible attitude of each employee of the Company and business unit of the Group 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.

- That is why we have a number of measures to prevent 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 law, the reliability of persons seeking or holding office was checked. 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 offences related to corruption through whistle-blower channels (phone (8 5) 269 3600, email 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 offences.

- 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

AB Lietuvos Geležinkeliai takes care of the protection of personal data and protects the information entrusted by its employees, customers and partners. 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 group-wide;
- preparation of new internal legal acts of the Company related to personal data protection;
- 22 requests from data subjects were received to exercise their rights under the EU's General Data Protection Regulation;
- The Company recorded 13 personal data security breaches, but all of them have been handled;
- 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.

ENVIRONMENTAL PROTECTION

Railway transport is one of the most environmentally friendly modes of transport which consumes up to ten times less fuel than road transport. Along with the continuous improvement of the legal framework of the European Union and well-balanced financial support it creates the preconditions for developing a more nature friendly railway transport business, improving technical-technological and organizational mechanisms for interaction of the railway transport and other modes of transport. In this context LG can enjoy its successful development.

AB Lietuvos Geležinkeliai Group of companies, being socially responsible, carries out its activities in compliance with its environmental obligations - we efficiently use energy and natural resources, seek for solutions allowing to reduce the negative impact of our activities on the environment and the climate change.

- In 2019, burning fuel in boiler houses emitted 29% less pollutants into the ambient air than in 2018. The decrease in emissions was resulted by lower fuel combustion volumes due to the use of less polluting energy resources and a warmer-than-average cold season.
- The LG Group of companies operates vehicles, where the majority (58%) consists of vehicles that meet the highest emission standards - Euro V and VI.
- During 2019, the total CO2e emissions of LG decreased by 5% compared to 2018 and amounted to 227.1 thousand tons. Emissions from rail transport account for the largest share at 90% (85% in 2018). Other sources are motor vehicles for infrastructure maintenance and administrative purposes (9%) and stationary combustion apparatuses (1%). In 2019, CO2e emissions from road transport decreased by 39% - the vehicle fleet was renewed and fuel consumption was reduced. Emissions from stationary combustion apparatuses also decreased by 23 percent. Increased fuel consumption has led to a 1% increase in emissions from rail transport. From 2018, electric traction is using electricity that is produced only from renewable energy sources. The use of green energy for electric traction in 2019 allowed to save 5.4 thousand tons of CO2e.
- The waste management priorities of the LG Group are to reduce the amount of waste generated, to ensure the safe management of waste for human health and the environment, and the rational use of material and energy resources, thus reducing the use of natural and other resources and landfilling. In 2019, the share of recyclable waste in the LG Group of companies was 90%.
- In order to protect the environment from pollution during wastewater discharges and to ensure compliance with the requirements of environmental protection legislation, discharges from the LG Group are treated in wastewater treatment plants. In order to ensure the efficient operation of these facilities, the maintenance of the discharged domestic, industrial and surface (rain) wastewater treatment facilities and the laboratory control of the discharged wastewater are periodically performed. In 2019, the laboratory control network was expanded.
- In 2019, there were 10 events with the threat of environmental damage. In all cases, no damage was done to the environment due to timely preventive measures.
- The levels of noise caused by the railway transport depends on the type and condition of rails, wheels, type of the brake system and wagon coupling, axle load. In order to minimize the negative effects of the noise pollution from railways LG Group of companies is putting in place noise pollution mitigation measures covering the improvement and control of the railway infrastructure and upgrade of the rolling stock. In 2019, 0.67 km of noise barriers were installed during the implementation of investment projects.

COOPERATION WITH EDUCATIONAL INSTITUTIONS

- In 2019, the LG Group of companies carried out a programme aimed at attracting young talents to the railway sector. In summer, students from Lithuanian and foreign universities were invited to join the internship programme "Growing Leaders". 24 most prospective young people were selected out of 112 candidates, who worked with experienced professionals in the railway sector for two months. Upon completion of the programme, one-fourth of its participants (6 trainees) were offered positions at the LG Group of companies. Other students stated they were planning to return and join the LG Group of companies after the graduation. An anonymous survey showed that 8 out of 10 respondents would recommend the programme to their friends.

- The internship program was attended not only by students of Lithuanian higher education institutions, but also by students at prestige foreign universities. Students from 21 foreign education institutions applied to the programme "Growing Leaders", including students from Leeds, Manchester, Tilburg, and London University College as well as from Stockholm School of Economics in Riga. Young people studying in Lithuania came from 17 different education institutions, such as Vilnius Gediminas Technical University, Kaunas Technology University, Mykolas Romeris University, Vytautas Magnus University, and Vilnius University.

- The Company also joined the national project "I will be", during which educational guided tours were organized in order to promote professions related to the railway industry. 10 tours to the different structural units of LG Group of companies took place during the project, attended by more than 200 pupils from various schools. Professions of the railway sector had also been promoted among students of universities and higher non-university schools (colleges). Almost 60 educational tours were organized throughout 2019, and approximately 500 students representing different professions visited various structural units of the LG Group: the Diesel Train Depot, the Vaidotai, Palemonas and Paneriai railway stations, the workshops of Vilnius locomotive repair depot, Vilnius Intermodal Terminal, etc.

- The LG Group of companies has been participating in the Career Days organized by Vilnius Gediminas Technical University and Kaunas Technology University for several years now. In 2019, a total of 124 students completed an internship in the LG group of companies. The most talented and most motivated interns have been offered to take positions in various teams of the LG Group of companies.

INNOVATIONS

- In 2019, AB Lietuvos Geležinkelių Infrastruktūra, a company of the Group, announced its intends to purchase a self-propelled diagnostic rolling stock. This equipment will replace the previously used mechanical railway network quality measurement machinery that requires high involvement of the employees and is inefficient in terms of productivity.

- LG CARGO, the freight transportation company, signed locotractor procurement agreement. These machines are designed for shunting work at stations and can operate on both 1435 and 1520 mm gauge railways. They serve as the basis the for developing new services, which have not been offered on the market so far. These services were introduced to customers in Q1 2020.

- In 2019, the passenger transportation company LG Keleiviams launched a very important Smart Ticketing project - to develop a new ticket selling system. The system will create a possibility for a fast and user-friendly purchase of travel tickets in a mobile app, website or - for the first time in Lithuania - in ticket vending machines at passenger stations. From the very beginning the development of the system includes accessibility thereof to the passengers with various needs.

- Implementation of the group-wide project No Paper has accelerated. The project focuses on streamlining work processes in the organization and is expected to cut paper costs across the Group and thus contribute to more sustainable use of natural resources. The project is gaining momentum and we can already review its deliverables: the Group's company LG CARGO has managed to cut paper costs by as much as 54 percent.

- Dash cameras have been installed in trains of LG Keleiviams to ensure safety of passengers. Materials captured are used to examine accidents, to increase safety of passengers.

- Innovation in the Group is inseparable from work organization processes. Upon implementation of the new operating model, the capacity planners of the freight company LG CARGO arranged the operations so as to ensure the largest amounts of grain in the past decade was transported. In August 2019, it took 18 hours less to travel from a customer to the Klaipėda Seaport. Customers were notified of the transportation progress in a timely manner so that they could accurately plan the time of delivery. Customers were offered a real-time freight tracking, customized train paths exclusively allocated to grain transportation.

OPENNESS TO THE SOCIETY

- The Group seeks to carry out its activities in an open manner, involving stakeholders and taking into consideration the needs of all members of society. All services provided by the Group's companies are developed in cooperation with stakeholders, in accordance with the legislation of the country and creating benefits for the shareholder - the State of Lithuania.

- AB Lietuvos Geležinkelių Infrastruktūra, the company of the Group that manages the national railway network, ensures the involvement of all market participants in the development of the network, repair planning, and development of innovations. For this reason, the Company organizes regular annual meetings with its contractors and suppliers, in which procurement and investment plans of the Company are presented in detail. In this way, the market participants are provided with the possibility to properly prepare for forthcoming projects. The Company also actively participates and initiates meetings with communities affected by nearby railways. Discussions allow finding out he needs of communities and together with municipalities to look for solutions which could help to improve the quality of life of these people.

- LG Keleiviams has also been actively communicating with its target audience: rail passengers and station visitors. Regular passenger surveys are conducted to ensure the high quality of services provided and to develop customer-oriented services, considering also the needs of pets carried by the customers.

- The Group seeks to make passenger stations the centres of attraction: the railway stations of different Lithuanian cities/towns were turned into art galleries, concert halls or the centres of other cultural events. The major stations also host traditional Christmas festivities, that are organised especially for small passengers.

- The Group is also engaged in maintaining and expanding the collection of artefacts of the Railway Museum - one of the kind in the country. The museum contains the evidence of the entire history of the Lithuanian railways with indoor and outdoor expositions of various railway machinery and equipment. Last summer the territory of the Railway Museum located at the Vilnius Railway Station hosted a cultural event Platforma involving a large group of fans of alternative culture.

- LG Keleviams cooperated with the organisation Renkuosi Mokytis (I choose studying): on the Teachers' Day, educators from various schools could take their pupils to have their lessons on trains instead of classrooms. The initiative was aimed at enhancing the status of a teacher as a representative of the creative profession.

EQUAL OPPORTUNITIES

- The Group has an Equal Opportunities Policy, which aims to ensure equal treatment of all persons applying for employment and the Group's employees both before and after the conclusion of an employment contract, regardless of gender, race, nationality, language, origin, social status, age, sexual orientation, disability, ethnicity, membership in a political party or association, religion, beliefs or views.

- The Group strives to create a culture where employee equality and diversity is an integral part of the Group's life, where each manager is responsible for promoting employee equality and diversity, implementing change, disseminating information and constantly reviewing progress, where differences are fostered for the benefit of both employees and business.

- The Group does not tolerate any forms of direct or indirect discrimination, nor instructions to discriminate on the basis of sex, race, nationality, language, origin, social status, age, sexual orientation, disability, ethnicity, membership in a political party or association, religion, beliefs or views. The Group also does not tolerate any form of harassment, psychological violence, bullying or abuse of authority.

- On 26 November 2019, the Ministry of Transport and Communications, Lietuvos Geležinkeliai and the Lithuanian Disability Organizations Forum signed a Cooperation Letter of Intent. The main objective is to implement the provisions of EU regulations and to agree together on the current state of trains, infrastructure and services, to develop and implement a national action plan to adapt travel to the needs of all people.

- The Group envisages several investment directions adapting travel to the needs of all people - purchase of new passenger trains, new ticketing system, new station system, Vilnius and Kaišiadorys pedestrian bridge renovation program, platform repair program, infrastructure modernization on Vilnius-Klaipėda line.

- Following the assessment of passenger trains and the identification of existing barriers to accessibility, an additional market analysis was carried out to assess the different ways of boarding passengers with wheelchairs, the possibility of upgrading the existing passenger information system, adapting toilets and more. It has been established that trains running between major Lithuanian cities have wheelchair lifts or delivery ramps for wheelchair access, wheelchair space, a universal toilet, and the most important information marked in Braille. Attention was drawn to the fact that it is difficult for disabled people to access older model diesel trains (due to their design features), the toilet is not wheelchair accessible, so these issues are considered a priority.

Risks and their Management

LG Group of companies 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. Risk management ensures that operational risks are identified, assessed, managed and their potential impact is minimized. **The level of risks arising from the operations of the LG Group of Companies is assessed by determining their likelihood and potential impact (assessing financial, legal and reputational impact) and assigned to the appropriate risk category**. Risks related to substantial changes in business environment and the ability of the Group to take advantage of these changes or plan ahead in order to achieve the strategic goals are considered Strategic risks. Given the specifics of the LG Group's operations and the current context, the main strategic risks that may have a significant impact on the implementation of strategic objectives of the LG Group of companies are identified and presented below.

Risk	Risk level	Description of risk and impact	Basic risk management measures
Risk of procurement regulation	The highest	Due to public procurement regulations once LG CARGO, VLRD and GTC become purchasing authorities and other unpredictable external factors such as received claims, LG group faces the risk of lagging procurement and, consequently, delays in project implementation and revenue losses. If the companies within the Group were recognized as contracting authorities they would unreasonably find themselves in a less advantageous competing position. Most of the revenues and profits would be passed on to carriers in other countries, which would have a significant competitive advantage - to buy goods and services more efficiently and quickly.	• LG aims to ensure pro-active public-commercial procurement planning, efficient and transparent management of procurement processes by implementing measures such as market consultation and risk and procurement controls; • LG cooperates with the Public Procurement Office and defends its positions by legal means.
Risk of loss of market share	Very high	There is a risk of loss of market share in the Group's operations due to a possible loss of freight and passenger traffic. Revenue generated by LG CARGO has always been the largest revenue source for the Group. In the field of freight flows, LG CARGO competes with the carriers of Lithuania and other countries, cargo terminals, and ports. 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. In providing passenger transportation services, UAB LG Keleiviams also competes with other modes of transport. There is a risk that, due to the infrastructure that does not meet the expectations, routes and other reasons, passengers will choose travel modes other than trains for long-distance travel.	• The aim is to ensure long-term cooperation with the most important and largest Lithuanian and foreign partners, the search for new customers is being carried out; • Train travel campaigns are being launched, new products are being introduced and the quality of services is being improved.
Risk of geopolitical changes	Very high	Business activities of the Group are directly determined by the political decisions in Lithuania, the neighbour states, Russia and EU. Imports, exports and transit account for the majority of transported freight and consequently the generate the largest revenues. Geopolitical factors result in unpredictable fluctuations of freight flows.	• There is a constant search for new markets.

Risks and their Management

Risk	Risk level	Description of risk and impact	Basic risk management measures
Risk of project funding	Very high	The risk exists of external underinvestment for the construction of new railway infrastructure. The limit of the state budget and EU funds for investment projects implemented by the Group's companies is reviewed and set annually. Therefore, long-term financing is not guaranteed.	• LG monitors ongoing projects and maintains regular communication with the Ministry of Transport and Communications of the Republic of Lithuania and other responsible institutions regarding the provision of funding for priority and critical projects.
Risk of violations of the competition law	Very high	Violations of the competition law (Rengė case) are likely to result in negative effects such as fines imposed by the Competition Council, lawsuits of the third parties on compensation for the damages.	• LG cooperates with the European Commission in the field of competition law. The interests of the Group companies in legal proceedings are also constantly represented, and LG's internal competencies in the field of competition law are strengthened.
Work and traffic safety risk	High	There is a possible risk that business activities or inadequate work safety may cause a railway traffic accident (catastrophe) resulting in injury or death of employees, passengers.	• The Group implements long-term traffic safety and employee safety measures.

Information on Compliance with the Transparency Guidelines

LG and its subsidiaries follow the requirements of the Guidelines for Ensuring Transparency of State-Owned Enterprises approved under GOV Resolution No. 1052 of 14 July 2010 by disclosing the required information in annual and interim reports and by ensuring the disclosure of the information on their websites.

STRUCTURED INFORMATION ON THE COMPLIANCE WITH GUIDELINES ON TRANSPARENCY

Provisions of guidelines on transparency	Yes/No
Disclosure of corporate information	
1. The following data and information must be posted on the websites of state-owned enterprises:	
1.1. Company name;	Yes
1.2. Code and register in which corporate data is collected and stored;	Yes
1.3. Office (address);	Yes
1.4. Legal status, if a state-owned enterprise is undergoing restructuring, reorganization (with the method of reorganization specified), liquidation, bankruptcy, or is bankrupt;	Yes
1.5. the name of the institution representing the state and a link to its website;	Yes

Information on Compliance with the Transparency Guidelines

Provisions of guidelines on transparency	Yes/No
1.6. Performance targets, vision and mission;	Yes
1.7. Structure;	Yes
1.8. Information on the CEO;	Yes
1.9. Information on the Chairperson and members of the Board, if the Board is formed in accordance with the Articles of Association;	Yes
1.10. Information on the Chairperson and members of the Supervisory Board, if the Supervisory Board is formed in accordance with the Articles of Association;	Yes
1.11. Names of Committees, information on their Chairpersons and members, if Committees are established;	Yes
1.12. The sum of par values of the shares owned by the State (on euro and euro cent basis), and their share (percentage) in the authorised capital of a state-owned enterprise;	Yes
1.13. Specific obligations to be fulfilled, established in accordance with the recommendations approved by the Minister of Economy and Innovation of the Republic of Lithuania: the objective of specific obligations, the state budget appropriations allocated for the fulfilment of the specific obligations in the current calendar year, and the legislation based on which a state-owned enterprise has been tasked to fulfil a specific obligation, the conditions for the fulfilment of the specific obligation and (or) regulatory pricing;	Yes
1.14. Information about social responsibility initiatives and measures, important investment projects (scheduled or under implementation).	Yes
2. The following data of the persons specified in Clauses 5.8–5.11 of the Description must be published in order to ensure publicity related to the governing and supervisory bodies established in state-owned enterprises, as well as the professionalism of the members of committees: name, surname, date of taking up the current position, other executive positions held in other legal entities, education, qualification, professional experience. If a person specified in Clauses 5.9–5.11 of the Description has been elected or appointed as an independent member, this will also be additionally specified in his/her information.	Yes
3. The following documents are to be posted on the website of a state-owned enterprise:	
3.1. Articles of association;	Yes
3.2. Letter from the authority representing the State on the establishment of the State's objectives and expectations at a state-owned enterprise;	Yes
3.3. Business strategy or its summary provided the business strategy contains some confidential information or information that is considered a proprietary trade secret;	Yes
3.4. Document establishing the payroll policy, covering the establishment of wages of the CEO of a state-owned enterprise and the remuneration for the committee members and collegial bodies established at the state-owned enterprise, described in more detail in the Corporate Governance Code;	Yes
3.5. Annual and interim reports of a state-owned enterprise, annual and interim activity reports of a state enterprise for at least 5 years' period;	Yes
3.6. Sets of annual and interim financial statements and auditor reports on annual financial statements for at least 5 years' period.	Yes
4. When a state-owned enterprise is a parent company, the structure of the group of companies is to be published on its website as well as the information of its subsidiaries and further subsidiaries as specified in Clauses 5.1–5.3 of the Description, the website addresses, the share (percentage) of the share capital owned by the parent company in their authorised capital, and consolidated annual reports.	Yes
5. When a state-owned enterprise is a participant of legal entities other than those specified in Clause 8, the details of these legal entities specified in Clauses 5.1–5.3 of the Description as well as their website addresses must be posted on its website.	Yes
6. If details specified in Clauses 5, 6, 7.1–7.4, 8 and 9 of the Description change or are found to be false, information and documents must also be immediately corrected on the website.	Yes
7. A set of annual financial statements of a state-owned enterprise, an annual report of a state-owned enterprise, an auditor's report on the annual financial statements of a state-owned enterprise must be posted on the website of the state-owned enterprise within 10 business days after their approval.	Yes

Information on Compliance with the Transparency Guidelines

Provisions of guidelines on transparency	Yes/No
8. Sets of interim financial statements of a state-owned enterprise, interim reports of a state-owned enterprise must be posted on the website of the state-owned enterprise within 2 months after the end of the reporting period.	Yes
9. Documents specified in Clause 7 of the Description must be posted in the PDF format with the option of printing.	Yes
Preparation of sets of financial statements and reports	
10. State-owned enterprises maintain their accounts in a manner that ensures the preparation of financial statements in accordance with international accounting standards.	Yes
11. In addition to a set of annual financial statements, a state-owned enterprise must prepare a set of interim financial statements for periods of 6 months.	Yes
12. A state-owned enterprise, considered to be a public interest company in accordance with the Law on the Audit of Financial Statements of the Republic of Lithuania, apart from the annual report must additionally prepare a 6-month interim report.	Yes
13. The following additional details must be provided in an annual report of a state-owned enterprise or an annual activity report of a state enterprise:	
13.1. A short description of the operating model of the state-owned enterprise;	Yes
13.2. Information about major events, which had occurred during a fiscal year and later (prior to the preparation of the annual report or the annual activity report) and which were of primary importance to the activities of the state-owned enterprise;	Yes
13.3. The results of implementation of the targets specified in the established business strategy of the state-owned enterprise;	Yes
13.4. The profitability, liquidity, assets negotiability, and debt indicators;	Yes
13.5. The fulfilment of the specific obligations;	Yes
13.6. The implementation of the investment policy, planned investment projects and investments as well as those under implementation during the reporting year;	Yes
13.7. The implementation of the risk management policy applicable at the state-owned enterprise;	Yes
13.8. The implementation of the dividend policy at state-owned enterprises;	Yes
13.9. The implementation of the remuneration policy;	Yes
13.10. The total annual payroll fund, the average monthly wages according to the positions held and (or) divisions;	Yes
13.11. Information on the compliance with the provisions of Chapters II and II of the Description, including the information on how they are being implemented, what provisions have not been complied with and why.	Yes
14. State-owned enterprises, which are not imposed a duty to prepare a social responsibility report, are recommended to respectively provide information in their annual reports on the issues of environment protection, social and personnel-related issues, the protection of human rights, anti-corruption and anti-bribery measures.	Yes
15. If the information specified in Clause 17 of the Description is considered a proprietary trade secret or confidential information of a state-owned enterprise, the state-owned enterprise is entitled not to disclose such information; however, it must specify in its annual report or the annual activity report that this information is not being disclosed and specify reasons for non-disclosure.	Yes
16. Other information not specified in the Description may be provided in an annual report of a state-owned enterprise.	Yes

Information on Compliance with the Transparency Guidelines

Provisions of guidelines on transparency	Yes/No
17. A state-owned company, which is a parent company, must provide the structure of the group of companies, the details of each subsidiary specified in Clauses 5.1–5.3 of the Description, the equity interest in the subsidiary (the percentage share), the financial and non-financial performance results of a fiscal year in its consolidated annual report, and if it is not obliged to prepare a consolidated annual report, in its annual report. If a state-owned company, which is a parent company, prepares a consolidated annual report, the requirements of Clause 17 of the Description apply to it *mutatis mutandis*.	
18. An interim report of a state-owned enterprise or an interim activity report of a state enterprise must contain a short description of the operating model of the state-owned enterprise, the analysis of financial performance for a reporting period, information on major event, which had occurred during the reporting period, and also profitability, liquidity, assets negotiability, debt indicators and their changes in comparison with the respective period of the previous year.	Yes

INFORMATION ABOUT THE EXTERNAL AUDIT

The Group's and the Company's annual financial statements are audited in accordance with the International Auditing Standards. UAB KPMG Baltics won the public tender for auditing of the consolidated statements, and the statements of the Company and individual subsidiaries prepared in accordance with international financial reporting standards in the period of 2016-2019.

Group's companies	Fixed remuneration to the audit company for the auditing of the financial statements of 2019, EUR (excluding VAT)
AB Lietuvos Geležinkeliai	33,000
AB LG CARGO	45,000
UAB LG Keleiviams	25,000
AB Lietuvos Geležinkelių Infrastruktūra	52,000
UAB Vilniaus Lokomotyvų Remonto Depas	21,500
UAB Geležinkelio Tiesimo Centras	21,500
UAB Gelsauga	13,000
UAB Saugos Paslaugos	2,500
UAB Rail Baltica Statyba	5,400

DEFINITIONS

Income	Revenue + Income from other activities after assessment of grants intended for compensation of losses due to passenger transportation activities, excluding income from financial activities
Revenue	Revenue, excluding income from other activities and financial activities
Costs	Costs, excluding the corporate tax and financial activities expenses
Financial debt	Indebtedness for borrowed money, including financial/ operating leasing
Net debt	Indebtedness for borrowed money, including financial/operating leasing – cash and cash equivalents investments
Debt	Indebtedness for borrowed money, including financial/operating leasing + pension liabilities
Return on equity (ROE)	Net profit (loss) of a period of 12 months ending on reporting date / Average amount of equity on reporting date
Return on assets (ROA)	Net profit (loss) of a period of 12 months ending on reporting date / Average amount of assets at the end of period
Return on investment (ROI)	Net profit (loss) of a period of 12 months ending on reporting date / (Average amount of assets at the end of period - average amount of current liabilities at the end of period)
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
Adjusted EBITDA	Profit (loss) before taxation + Interest expenses - Interest income + Depreciation and amortisation + Increase (decrease) in the value of non-current assets, inventories and investments + Increase (decrease) in the value of amounts receivable and contract assets + Expenses of provisions not related to typical activities
EBIT margin	EBIT / Revenue
EBITDA margin	EBITDA / Revenue
Adjusted EBITDA margin	Adjusted EBITDA / Revenue
Net profit margin	Net profit (loss) / Revenue
Equity ratio	Equity at the end of the period / total assets at the end of the period
Debt servicing ratio	(Net profit (loss) + depreciation and amortisation + interest expense for period of 12 months ending on reporting date (adjusted for non-cash item)) / Amortisation of interest payments on debt due reporting date
Asset turnover indicator	Revenue of a period of 12 months ending on reporting date / Total assets at the end of the period
Quick liquidity ratio	(Current assets at the end of the period-inventories) / Current liabilities at the end of the period
Total liquidity rate	Current assets at the end of the period / Current liabilities at the end of the period
Freight turnover (tonne-kilometre)	A freight transportation indicator representing the transport of one tonne of freight by rail over a distance of one kilometre
Passenger turnover (passenger-kilometre)	A passenger transportation indicator representing the transport of one passenger by rail over one kilometre
Train operational volume (Gross-gross tonne-kilometre)	Unit of measure representing the movement over a distance of one kilometre of one tonne of rail vehicle including the weight of tractive vehicle
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 LIETUVOS GELEŽINKELIAI
FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION, AND INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Contents

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 Lietuvos Geležinkeliai

Report on the Audit of the Separate and the Consolidated Financial Statements

Opinion

We have audited the separate financial statements of AB Lietuvos Geležinkeliai ("the Company") and the consolidated financial statements of AB Lietuvos Geležinkeliai and its subsidiaries ("the Group"). The Company's separate and the Group's consolidated financial statements comprise:

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

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

Basis for 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 Separate and Consolidated Financial Statements section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each audit matter and our respective response are described below.

Company code: 111494971
VAT code: LT114949716

Control over infrastructure subsidiary and related property, plant and equipment	
We refer to the consolidated financial statements: *Significant accounting policies – 3 Significant Judgements and Estimates, Note 7 Property, plant and equipment and accounting policies.*	
The key audit matter	**How the matter was addressed in our audit**
The Group holds items of public railway infrastructure and railway service equipment and land plots underneath those items (hereinafter 'infrastructure facilities'). The Group accounts for these assets as property, plant and equipment in accordance with IAS 16. During 2019, following the amendments to the Railway Transport Code (the "Code") adopted by the Parliament of the Republic of Lithuania, the Group has implemented a new reorganization program. As a result, three new entities: AB LG CARGO, UAB LG Keleiviams and AB Lietuvos Geležinkelių Infrastruktūra were demerged from AB Lietuvos Geležinkeliai and became its 100% subsidiaries. The infrastructure facilities, referred to above, have been transferred to AB Lietuvos Geležinkelių Infrastruktūra. The amendment to the Code also established certain restrictions on how income, generated from the use of infrastructure facilities, can be utilised. Under the Code, these income should be either spent on the development, modernization and maintenance of the infrastructure facilities or remitted to the State. In addition, the State maintains all owner of infrastructure facilities rights, including deciding how development of the new infrastructure facilities has to be financed, charged and used in case this property is no longer necessary for the needs of AB Lietuvos Geležinkelių Infrastruktūra. Due to the above factors, significant judgement is required in determining whether the Group has control over AB Lietuvos Geležinkelių Infrastruktūra and the related infrastructure facilities and it was considered to be associated with a significant risk of material misstatement, which required our increased attention in the audit. As such, we have identified it to be a key audit matter.	Our audit procedures performed included, among others: • understanding of the relevant legal requirements related to the demerger of AB Lietuvos Geležinkelių Infrastruktūra with the related infrastructure facilities; • assessing objectivity and professional qualifications of management's experts who assisted the management in their assessment whether the Group has control over AB Lietuvos Geležinkelių Infrastruktūra and the related infrastructure facilities; • with the assistance from our internal lawyers, analysing the changes in the Code and their impact on the control assessment over AB Lietuvos Geležinkelių Infrastruktūra and the related infrastructure facilities. In particular, we analysed the implication of the changes in the Code related to restrictions on utilization of profits and also the State's rights to manage some of the relevant activities of AB Lietuvos Geležinkelių Infrastruktūra on the assessment of control, in the context of the relevant requirements of the financial reporting framework; • assessing the adequacy of the Group's disclosures in relation to the use of significant judgements regarding the recognition of railway infrastructure assets and the control over AB Lietuvos Geležinkelių Infrastruktūra.

Other Information

The other information comprises the information included in the consolidated annual management report, including the Corporate Social Responsibility Report, but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

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

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

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

KPMG

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Under order of the Minister of Transport and Communications of the Republic of Lithuania we were appointed on 17 January 2018 for the first time to audit the Company's and the Group's separate and consolidated financial statements. Our appointment to audit the Company's and the Group's separate and consolidated financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 4 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented on 31 July 2020 to the Company and the Group and its Audit Committee.

We confirm that to the best of our knowledge and belief, we have not provided to the Company and the Group any prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In addition to services provided to the Company and the Group in the course of audit and disclosed in the consolidated annual management report or the separate and consolidated financial statements, we have provided the services of translation of the separate and consolidated financial statements into English language.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner
Certified Auditor

Vilnius, the Republic of Lithuania
31 July 2020

(all amounts are in EUR thousand unless otherwise stated)

Statements of financial position

	Notes	Group		Company	
		2019	2018	2019	2018
NON-CURRENT ASSETS					
Property, plant and equipment	7	1,795,281	1,819,510	47,913	1,776,175
Land		150,847	146,792	-	146,786
Buildings and structures		880,273	900,796	28,006	882,770
Machinery and plant		156,110	171,294	7,039	152,758
Vehicles		340,724	360,030	1,347	353,609
Other equipment, fittings and tools		81,589	88,939	8,512	88,466
Construction in progress and prepayments		185,738	151,659	3,009	151,786
Right-of-use assets	8	2,983	-	2,045	-
Intangible assets	9	18,681	21,025	2,261	20,989
Software		18,289	20,134	2,058	20,186
Licences and similar rights		210	586	203	586
Other intangible assets		182	305	-	217
Investment property	10	248	626	8,284	7,590
Financial assets		4,945	4,326	1,046,329	76,442
Investments	11	4,685	4,223	902,690	76,338
Loans to related and other companies	31	160	100	143,539	100
Trade and other receivables	13	100	3	100	4
Deferred income tax asset	30	3,307	1,383	1,476	-
Total non-current assets		**1,825,445**	**1,846,870**	**1,108,308**	**1,881,196**
CURRENT ASSETS					
Inventories	12	41,010	44,688	5,787	34,037
Loans to related and other companies	31	-	-	15,142	-
Trade and other receivables	13	78,183	38,928	38,064	46,294
Prepayments	14	6,724	2,339	1,169	1,252
Cash and cash equivalents	15	105,153	92,832	50,533	54,774
Total current assets		**231,070**	**178,787**	**110,695**	**136,357**
TOTAL ASSETS		**2,056,515**	**2,025,657**	**1,219,003**	**2,017,553**

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

(all amounts are in EUR thousand unless otherwise stated)

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

	Notes	Group		Company	
		2019	2018	2019	2018
EQUITY					
Authorised share capital	16	1,059,282	1,058,632	1,059,282	1,058,632
Legal reserve	18	31,020	28,344	31,020	28,344
Other reserves	18	5,863	6,784	5,863	6,784
Retained earnings (losses)		70,966	57,626	39,339	44,755
Total equity		**1,167,131**	**1,151,386**	**1,135,504**	**1,138,515**
LIABILITIES					
Non-current liabilities					
Grants	19	556,015	538,882	725	538,815
Loans and borrowings	20	153,641	181,220	23,849	181,106
Lease liabilities	21	1,843	-	1,223	-
Employee benefits	22,28	10,738	9,728	1,102	8,517
Trade and other payables	24	2,703	1,880	-	1,880
Prepayments received	25	-	541	-	541
Provisions	23	15,900	15,900	1,500	15,900
Deferred tax liabilities	30	17,748	5,351	-	5,347
Total non-current liabilities		**758,588**	**753,502**	28,399	**752,106**
Current liabilities					
Loans and borrowings	20	27,574	29,706	12,894	29,664
Loan interest		769	910	308	910
Lease liabilities	21	1,254	-	917	-
Corporate income tax liabilities		4,194	16,873	2,861	15,660
Employee benefits	22,28	32,132	26,868	6,064	20,864
Trade and other payables	24	43,436	29,019	30,172	42,775
Prepayments received	25	19,945	16,255	1,169	16,492
Provisions	23	1,492	1,138	715	567
Total current liabilities		**130,796**	**120,769**	**55,100**	**126,932**
Total liabilities		**889,384**	**874,271**	**83,499**	**879,038**
TOTAL EQUITY AND LIABILITIES		**2,056,515**	**2,025,657**	**1,219,003**	**2,017,553**

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

IFRS 16 was initially applied by the Company as of 1 January 2019, applying the modified retrospective approach. Comparative information was not restated using this approach. Effect of the initial application of IFRS 16 was recognised in the accumulated earnings (loss) at the moment of the initial application.

Financial statements and explanatory notes on pages from 76 to 144 were approved and signed on 31 July 2020:

General Director Mantas Bartuška

Chief Financial Officert Andrej Kosiakov

Director of Accounting Services Centre Odeta Švažienė

(all amounts are in EUR thousand unless otherwise stated)

Statements of profit or loss and other comprehensive income

	Notes	Group		Company	
		2019	2018	2019	2018
Revenue	26	473,541	467,952	357,870	462,487
Other income	27	31,933	27,896	20,693	30,484
Total income		505,474	495,848	378,563	492,971
Employee benefits costs	28	(176,581)	(171,854)	(115,769)	(143,329)
Depreciation and amortisation		(118,373)	(121,908)	(84,746)	(119,316)
Fuel		(58,878)	(56,971)	(20,691)	(55,985)
Materials		(19,746)	(19,860)	(44,681)	(7,840)
Services rendered by other foreign railway companies		(16,266)	(16,469)	(5,739)	(16,469)
Electricity consumption		(7,174)	(6,400)	(6,298)	(6,629)
Repairs and maintenance		(10,251)	(3,394)	(17,842)	(36,900)
Increase (decrease) in the value of non-current assets		99	(2,109)	(118)	(2,109)
Increase (decrease) in the value of inventories		(405)	(3,364)	(21)	(3,289)
Increase (decrease) in the value of investments		(467)	38	(432)	(510)
Increase (decrease) in the value of receivables		(926)	(325)	(78)	(39)
Change in provisions		(1,466)	(1,044)	207	(1,707)
Other expenses		(20,334)	(18,085)	(33,072)	(27,556)
Profit (loss) from operations		74,706	74,103	49,283	71,293
Finance income	29	199	165	3,309	348
Finance costs	29	(3,535)	(3,883)	(3,180)	(3,847)
Share of profit of equity accounted investees		322	197	-	-
Profit (loss) before taxation		71,692	70,582	49,412	67,794
Corporate income tax	30	(13,597)	(15,776)	(10,073)	(14,275)
Net profit (loss)		**58,095**	**54,806**	**39,339**	**53,519**
Other comprehensive income (expenses)		-	-	-	-
Total comprehensive income (expenses)		**58,095**	**54,806**	**39,339**	**53,519**

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

IFRS 16 was initially applied by the Company as of 1 January 2019, applying the modified retrospective approach. Comparative information was not restated using this approach. Effect of the initial application of IFRS 16 was recognised in the accumulated earnings (loss) at the moment of the initial application.

(all amounts are in EUR thousand unless otherwise stated)

Statements of changes in equity

Group	Notes	Authorised share capital	Share premium	Legal reserve	Other reserves	Retained earnings (loss)	Total
Balance as at 31 December 2017		1,057,982	-	27,066	13,307	40,339	1,138,694
Impact of initial application of IFRS 9		-	-	-	-	(50)	(50)
Impact of initial application of IFRS 15		-	-	-	-	-	-
Net profit (loss)		-	-	-	-	54,856	54,856
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		*-*	*-*	*-*	*-*	*54,806*	*54,806*
Unrecognised profit (loss) for the reporting year		-	-	-	-	(8,764)	(8,764)
Increase in share capital		650	-	-	-	-	650
Transfers between reserves		-	-	1,278	(6,523)	5,245	-
Dividends paid		-	-	-	-	(34,000)	(34,000)
Total transactions with owners of the Company		*650*	*-*	*1,278*	*(6,523)*	*(37,519)*	*(42,114)*
Balance as at 31 December 2018		1,058,632	-	28,344	6,784	57,626	1,151,386
Impact of initial application of IFRS 16		-	-	-	-	-	-
Net profit (loss)		-	-	-	-	58,095	58,095
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		*-*	*-*	*-*	*-*	*58,095*	*58,095*
Increase in share capital	16	650	-	-	-	-	650
Transfers between reserves	18	-	-	2,676	-	(2,676)	-
Reserves used	18			-	(921)	921	-
Dividends	17	-	-	-	-	(43,000)	(43,000)
Total transactions with owners of the Company		*650*	*-*	*2,676*	*(921)*	*(44,755)*	*(42,350)*
Balance as at 31 December 2019		**1,059,282**	**-**	**31,020**	**5,863**	**70,966**	**1,167,131**

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

(all amounts are in EUR thousand unless otherwise stated)

Statements of changes in equity (continued)

Company	Notes	Authorised share capital	Share premium	Legal reserve	Other reserves	Retained earnings (loss)	Total
Balance as at 31 December 2017		1,057,982	-	27,066	13,307	28,755	1,127,110
Impact of initial application of IFRS 9		-	-	-	-	-	-
Impact of initial application of IFRS 15		-	-	-	-	-	-
Net profit (loss)		-	-	-	-	53,519	53,519
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		*-*	*-*	*-*	*-*	*53,519*	*53,519*
Unrecognised profit (loss) for the reporting year		-	-	-	-	(8,764)	(8,764)
Increase in share capital		650	-	-	-	-	650
Transfers between reserves		-	-	1,278	(6,523)	5,245	-
Dividends		-	-	-	-	(34,000)	(34,000)
Total transactions with owners of the Company		*650*	*-*	*1,278*	*(6,523)*	*(37,519)*	*(42,114)*
Balance as at 31 December 2018		1,058,632	-	28,344	6,784	44,755	1,138,515
Impact of initial application of IFRS 16		-	-	-	-	-	-
Net profit (loss)		-	-	-	-	39,339	39,339
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		*-*	*-*	*-*	*-*	*39,339*	*58,095*
Increase in share capital	16	650	-	-	-	-	650
Transfers between reserves	18	-	-	2,676	-	(2,676)	-
Reserves used	18	-	-	-	(921)	921	-
Dividends	17	-	-	-	-	(43,000)	(43,000)
Total transactions with owners of the Company		*650*	*-*	*2,676*	*(921)*	*(44,755)*	*(42,350)*
Balance as at 31 December 2019		**1,059,282**	**-**	**31,020**	**5,863**	**39,339**	**1,135,504**

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

(all amounts are in EUR thousand unless otherwise stated)

Statements of cash flows

	Notes	Group		Company	
		2019	2018	2019	2018
Cash flows from operating activities					
Net profit (loss)		**58,095**	**54,806**	**39,339**	**53,519**
Adjustment to non-cash items					
Depreciation and amortisation expenses	7,8,9,10	136,822	138,646	99,450	134,683
(Depreciation) of grants	19	(16,078)	(15,327)	(14,704)	(15,301)
(Gain) loss from disposal/write-off of non-current assets		(745)	83	4,892	(1,899)
Impairment (reversal)		(8,779)	5,760	(9,829)	5,947
Change in accrued income/expenses		(1,692)	(252)	3,215	(1,524)
Interest (income) expenses		3,239	4,053	1,990	4,011
Increase (decrease) in provisions		1,467	844	924	410
Effect of currency exchange fluctuations		38	90	118	91
Interest on lease liabilities		84	-	63	-
Corporate income tax expenses (income)	30	13,597	15,776	10,073	14,275
(Profit) loss of an associated company		(322)	(197)	-	-
Cash flows from operating activities after adjustment to non-cash items		185,726	204,282	135,531	194,212
Changes in working capital					
Decrease (increase) in inventories		5,782	(9,728)	28,407	(10,767)
Decrease (increase) in trade and other receivables and prepayments		(18,316)	(23,952)	18,360	(29,707)
Increase (decrease) in current and non-current trade payables and received prepayments		7,943	5,324	(33,579)	10,829
Increase (decrease) in employment related liabilities		5,263	(6,461)	(14,800)	(6,748)
Increase (decrease) in other non-current and current payables		721	(15,544)	(33,205)	(14,688)
(Paid) income tax		(24,873)	(1,873)	(24,296)	(1,472)
Net cash from operating activities		162,246	152,048	76,418	141,659
Cash flows from investing activities					
(Acquisition) disposal of non-current assets		(105,905)	(80,661)	(35,474)	(85,527)
(Acquisition) disposal of investments		-	-	(386)	(29,135)
Dividends received		227	149	2,077	149
Interest received		-	9	437	5
Loans granted		(60)	(100)	(1,547)	(100)
Recovery of loans		-	97	-	97
Net cash used in investing activities		(105,738)	(80,506)	(34,893)	(114,511)
Cash flows from financing activities					
Loans received		-	175	-	-
Loans (repaid)		(29,711)	(57,782)	(29,664)	(45,035)
Grants received (repaid, used)		32,993	34,106	31,015	34,106
Interest on lease liabilities		(84)	-	(63)	-
Payment of lease liabilities		(1,002)	-	(679)	-
Interest (paid)		(3,383)	(4,745)	(3,375)	(4,698)
Dividends (paid)	18	(43,000)	(34,000)	(43,000)	(34,000)
Net cash flows from financing activities		(44,187)	(62,246)	(45,766)	(49,627)
Increase (decrease) in net cash flows		12,321	9,296	(4,241)	(22,479)
Cash and cash equivalents at the beginning of the period		92,832	83,536	54,774	77,253
Cash and cash equivalents at the end of the period		**105,153**	**92,832**	**50,533**	**54,774**

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

IFRS 16 was initially applied by the Company as of 1 January 2019, applying the modified retrospective approach. Comparative information was not restated using this approach. Effect of the initial application of IFRS 16 was recognised in the accumulated earnings (loss) at the moment of the initial application.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes

1. Background information

AB Lietuvos Geležinkeliai (hereinafter referred to as the Company) was registered in the Register of Legal Entities of the Republic of Lithuania on 24 December 1991 after the reorganisation of SPAB Lietuvos Geležinkeliai. In its activities the Company follows the Constitution of the Republic of Lithuania, Law on Companies of the Republic of Lithuania, Railway Transport Code of the Republic of Lithuania, and other valid legal acts of the Republic of Lithuania.

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

The main activities of the Company before the establishment of new companies are freight and passenger transportation by rail, administration of railway network, management, supervision and development of public railway infrastructure.

Based on the amendments to Railway Transport Code adopted by the Parliament of the Republic of Lithuania, regulating the separation of the activities of freight and passenger, baggage transportation by rail, and management of public railway infrastructure, in 2019 the Company implemented a new restructuring programme, which included purification of main activities and establishment of 3 (three) new subsidiaries, to which the main activities were transferred from three directorates: Freight, Passenger and Railway Infrastructure. In stage 1, transfer of the activity of freight transportation by rail was implemented. On 28 December 2018, AB LG CARGO was established which on 1 May 2019 took over the activities of freight transportation; on 28 February 2019, UAB LG Keleviams was established which took over the activities of passenger and baggage transportation by rail; on 1 July 2019, AB Lietuvos Geležinkelių Infrastruktūra was established which on 8 December 2019 took over the activities of the manager of public railway infrastructure previously implemented by the Railway Infrastructure Directorate of AB Lietuvos Geležinkeliai.

During 2019, newly established legal entities of the Group companies were: VšĮ Transporto Inovacijų Centras on 8 February 2019 and UAB Saugos Paslaugos on 10 June 2019.

As at 31 December 2019, the sole shareholder of the newly established companies AB LG CARGO, UAB LG Keleiviams and AB Lietuvos Geležinkelių Infrastruktūra was the parent company AB Lietuvos Geležinkeliai, which controlled 100% of shares of these companies.

As at 31 December 2019 and 2018, the Republic of Lithuania represented by the Ministry of Transport and Communications was the sole shareholder of AB Lietuvos Geležinkeliai, owning 100% of AB Lietuvos Geležinkeliai shares.

As at 31 December 2019, the Group comprised the Company and its subsidiaries, as presented below:

Company name	Registered address	Owned share, % 2019	Owned share, % 2018	Main activities
AB LG CARGO	Mindaugo St. 12, Vilnius	100	100	Freight transportation by rail
UAB LG Keleiviams	Mindaugo St. 12, Vilnius	100	-	Passenger transportation by rail
AB Lietuvos Geležinkelių Infrastruktūra	Mindaugo St. 12, Vilnius	100	-	Management of railway infrastructure and implementation of functions of the manager of public railway infrastructure
UAB Geležinkelio Tiesimo Centras	Trikampio St. 10, Lentvaris	100	100	Railway infrastructure road repairs and construction
UAB Vilniaus Lokomotyvų Remonto Depas	Švitrigailos St. 39/16, Vilnius	100	100	Repairs and manufacturing of railway rolling stock
UAB Gelsauga	Prūsų St. 1, Vilnius	100	100	Security services
UAB Saugos Paslaugos	Prūsų St. 1, Vilnius	100	-	Physical and electronic security, installation, monitoring and repairs of technical security surveillance devices

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

1. Background information (continued)

Company name	Registered address	Owned share, %		Main activities
		2019	2018	
UAB Rail Baltica Statyba	Mindaugo St. 12, Vilnius	100	100	Implementation of shareholder's functions of the joint Baltic States company RB Rail AS, which monitors implementation of the Rail Baltica 2 project.
LUAB Geležinkelių Aplinkosaugos Centras	Konstitucijos Ave. 8 A, Vilnius	-	100	On 10/01/2019 the legal entity was deregistered from the Register of Legal Entities
BAB Lietuvos Jūrų Laivininkystė	Malūnininkų St. 3, Klaipėda	-	56.66	On 05/08/2019 the legal entity was deregistered from the Register of Legal Entities
Association of Lithuanian Railway Companies	Mindaugo St. 12, Vilnius	-	-	Representation of members of association – rights of employers and interests in social partnership
VšĮ Geležinkelių Logistikos Parkas	Švitrigailos St. 39, Vilnius	79.61	79.61	Responsible for the development and management of Vilnius Public Logistics Centre Fleet. The Company is not significant thus not material for consolidation.

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

Investments to the associated companies are specified below:

Company name	Registered address	Owned share, %		Main activities
		2019	2018	
UAB Voestalpine VAE Legetecha	Draugystės St. 8, Vilnius district, Valčiūnai	34	34	Manufacture of railway switches
RB Rail AS	Gogolio St. 3, Riga	33.33	33.33	Implementation of Rail Baltica project and of functions of central project coordinator. Controlled through UAB Rail Baltica Statyba
VšĮ Transporto Inovacijų Centras	Mindaugo St. 12, Vilnius	33.33	-	Development of innovation testing possibilities in transport sector infrastructure
UAB Lokomotyvai ir Transporto Komponentai	Švitrigailos St. 39, Vilnius	25	25	Provision of railway transport services (activities are not being implemented). Controlled through UAB Vilniaus Lokomotyvų Remonto Depas

The main activities of the Company after the establishment of new companies and separation of activities of freight, passenger and baggage transportation by rail and of the management of public railway infrastructure are management services, railway service devices (RSC) and commercial services.

As at 31 December 2019 the listed number of active employees of the Group and the Company at the end of the period (excluding the employees on parental leave, employees doing military service, long-term incapacity) was 9,190 and 1,152 respectively (as at 31 December 2018: 9,446 and 7,353 employees respectively).

The Company's management authorised these financial statements on 31 July 2020. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

2. Significant accounting policies

Basis of preparation. The Group's and 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.

Explanatory notes (continued)

2. Significant accounting policies (continued)

The Group's and 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, financial performance 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.

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

Use of estimates and judgements. The preparation of financial statements in conformity with IFRS IAS requires the use of certain significant accounting estimates and assumptions which have influence on application of accounting principles and amounts related to assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Judgements made by the management in the application of IFRSs that have significant effect on the consolidated and separate financial statements and estimates with a significant risk within the next financial year are discussed in paragraph No. 3 Critical accounting estimates and judgements.

Going concern. These financial statements for the financial year ended 31 December 2019 have been prepared under the assumption that the Group and the Company will continue as a going concern.

Consolidated financial statements. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. AB Lietuvos Geležinkeliai controls Group companies, to which it invests, when it may have or has a right to receive variable returns from its investee and may have an effect on this return using its power over the investee, according to IFRS 10 *Consolidated Financial Statements*, the purpose of which is to set the principles of presentation and preparation of consolidated financial statements for entities that control one or several entities.

Associates. Associates are entities over which the Group and the Company have significant influence (directly or indirectly), but not control. Generally, it is assumed that when owning a shareholding of between 20 and 50 per cent of the voting rights a significant influence can be made. Investment in associates is accounted for using equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence ceases. Dividends received from associates reduce the carrying amount of the investments in associates.

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

Foreign currency. Transactions in foreign currency are measured at functional currency applying the effective exchange rate on the date of the transaction. Monetary assets and monetary liabilities in foreign currencies are translated into functional currency as at the date of the preparation of the financial statements applying the exchange rates set and announced by the European Central Bank. Currency exchange gains or losses are stated as profit or loss in the statements of profit or loss and other comprehensive income. Non-monetary assets and liabilities, denominated in foreign currency and measured at fair value, are translated into functional currency using exchange rates valid at the date when the fair value was determined. Non-monetary assets and liabilities denominated in a foreign currency and measured at cost are translated into functional currency applying the exchange rates effective as at the date of recognition of assets and liabilities in the statements of financial position. Currency exchange gains or losses are stated as profit or loss in the statements of profit or loss and other comprehensive income.

Property, plant and equipment. Property, plant and equipment are non-current tangible assets which: a) are intended for use in the production or supply of goods or services or for administrative purposes; and b) expected to be used for a period longer than one reporting period. The cost of property, plant and equipment shall only be recognised as assets when: a) the entity reasonably expects a flow of

(all amounts are in EUR thousand unless otherwise stated)

2. Significant accounting policies (continued)

economic benefits from such asset in future periods; and b) the entity can reliably measure the acquisition (production) cost of the asset.

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (components) of property, plant and equipment. The cost of replacing part of an item of property, plant and equipment is capitalised only if it is probable that the part will generate economic benefit and its cost can be measured reliably. The carrying amount of the replaced part is written off. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

At the end of each reporting period, if any indication of impairment exists, property, plant and equipment are tested for impairment. If any indication of impairment exists, the recoverable amount, which is the higher of the fair value less costs to sell and its value in use, is estimated. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statements of profit or loss and other comprehensive income. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. The impairment of assets is reversed to the extent of the increase in the recoverable amount but not exceeding the carrying amount prior to the accounted impairment, assessing the estimated depreciation.

Subsequent to their recognition, property, plant and equipment shall be stated at cost less any accumulated depreciation and any accumulated impairment losses.

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

Gains or losses from disposal of property, plant and equipment are determined comparing the income from disposal with their carrying amount and are recognised in the statements of profit or loss and other comprehensive income.

As at 31 December 2019, the Group had assets managed under the right of trust; more details are provided in Notes 3 and 7.

Depreciation. Land is not depreciated. Depreciation on other groups of property, plant and equipment is calculated using the straight-line method to allocate their cost to their carrying amounts over their estimated useful lives.

Groups of property, plant and equipment	Useful life
Buildings and structures	8-78
Machinery and plant	5-40
Road transport	4–10
Rolling stock (including wagons)	8–35
Computers and hardware	4–15
Other equipment, fittings and tools	4-24

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

Construction in progress. Construction in progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and put into operation.

Investment property. Investment property, including part of buildings and structures, is held for earning rentals and/or for capital appreciation rather than for use in the production, provision of services, or for administration purposes or sale. Investment property is stated at historical cost less accumulated depreciation and adjusted for impairment loss, if any. Depreciation is calculated on the straight-line method over the estimated useful life: 10–50 years. Transfers to and from

Explanatory notes (continued)

2. Significant accounting policies (continued)

investment property are made only when there is an evidence of change in an asset's use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value of investment property at the date of change in use. If owner-occupied property becomes an investment property the Company and the Group account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The deemed cost for subsequent investment property accounting is the carrying amount at the time of assets' transfer.

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

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

Development costs that are directly associated with identifiable and unique software controlled by the Group and the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives, lasting between 2 and 20 years. Amortisation period shall be reviewed at the end of each financial year.

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

Useful lives of non-amortised intangible assets shall be reviewed during every reporting period, in order to determine whether the events and circumstances confirm such assessment of indefinite useful life. If not, the reversal of indefinite useful life to definite has to be recorded as an adjustment to accounting estimate.

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

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

Impairment of property, plant and equipment and intangible assets. At each statements of financial position date, the Group and the Company review the carrying amounts of their property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimate the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, the Group's and the Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognised in the statements of profit or loss and other comprehensive income.

Financial instruments

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period.

Financial assets measured at fair value through profit or loss are initially recognised at fair value. Subsequently, gains and losses from the change in fair value, including all interest and dividends, are recognised in profit or loss 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 have expired;
- The Group and the Company retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement;
- The Group and the Company have transferred the rights to the cash flows and/or:

  a. have transferred substantially all the risks and rewards of the asset, or

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

When the Group and the Company have transferred their rights to receive cash flows from an asset and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Company's continuing involvement in the asset. The Group's and the Company's assets that take the form of a guarantee over the transferred asset are measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay.

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

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

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

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

Explanatory notes (continued)

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- a breach of contract such as default or payment delay:
- the counterparty considers bankruptcy or taking measures for a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

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

The gross carrying amount of a financial asset is derecognised when the Group and the Company have no reasonable expectation of recovering all or part of the asset. Uncollectible assets are written off against the related impairment loss allowance after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the statements of profit or loss and other comprehensive income.

Derivative financial instruments. During 2019 and 2018, the Group and the Company had no derivative financial instruments.

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

2. Significant accounting policies (continued)

at amortised cost.

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

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

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

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group and the Company to make specified payments to reimburse the holder of the guarantee for a loss they incur because a specified debtor fails to make payment when due in accordance with the original or updated terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

Lease (accounting policy applicable until 31 December 2018)

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

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

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

- the ownership right is transferred to the lessee by the end of lease term;
- the lessee has a right of choice to purchase assets at a price which is probably lower than the fair value of the asset when the right becomes valid, and at the commencement of the lease it is known that this opportunity will be used;
- the period of lease covers the larger part of the useful live of the asset, even if the ownership right is not transferred;
- the present value of minimal lease payments at the beginning of lease at least approximately equals the fair value of the assets leased;
- the assets leased are of a specialised nature; therefore, unless major changes are made, the lessee has a right to utilise it.

At the beginning of contract execution or subsequent to its re-assessment, the Group and the Company differentiate between the payments and other amounts which are indicated in the contract, into lease payments and other payments respectively, based on their relative fair value. If the Group and the Company decide that the payments cannot be reliably differentiated with regard to finance lease, then the asset and the liabilities are carried at amount equal to the fair value of related assets.

Subsequently, the amount of liabilities is decreased by payments made, and finance costs incurred are accounted for respectively, applying the Group's and the Company's incremental borrowing rate.

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

Leases embedded in other agreements are separated if:

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

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

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

Finance lease. Where the Group and the Company are lessors in a lease which has not transferred substantially all the risks

2. Significant accounting policies (continued)

and rewards incidental to ownership to the Group and the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease liabilities, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group and the Company are reasonably certain that they will obtain ownership by the end of the lease term.

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

The Group and the Company do 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 Group and the Company assess each asset separately. In deciding whether the value of an asset is low, lease charges 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 does not apply the lease recognition provisions to all intangible assets. The Company applies the provisions of IAS 38 Intangible Assets to such assets.

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

At the commencement date, the Group and the Company measure the right-of-use assets at cost. Subsequently right-of-use assets 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 Group and the Company 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 uses the incremental borrowing rate charged by the lessee. The incremental borrowing rate of the lessee is recorded by the Group and 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 Group and the Company measure right-of-use assets at cost. The cost of a right-of-use asset comprises: 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 Group and the Company; and an estimate of the costs that the Group and 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 inventories. The Group and the Company assume a liability relating to these costs on the commencement date or after using the leased assets for a specific period. The Group and the Company 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 Group and the Company assess the right-of-use assets applying the cost method. By applying the cost method the Group and the Company measure the right-of-use assets at cost: less any accumulated depreciation and any accumulated impairment losses; and adjusted for reassessment of the lease liability.

In calculating the depreciation of right-of-use assets, the Company applies the depreciation requirements of IAS 16 *Property, Plant and Equipment.*

Initial assessment of the lease liability. On the commencement date the Group and the Company measure a lease liability at the present value of the lease payments outstanding at that date. Lease fees are 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 Group and the Company use the borrowing rate published by the Bank of Lithuania.

Reassessment of the lease liability. After initial recognition, the lease liability is reassessed to take into account changes in the lease fees. The Group and the Company 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

2. Significant accounting policies (continued)

lease liability is further reduced, the Group and the Company recognise any remaining amount of the reassessment as profit or loss. The Company reports 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.

Lessor

Finance lease. On the commencement date the Group and the Company recognise assets leased under finance leases in the statement of financial position and present 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 Group and the Company 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 uses 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 is determined in such a way that the initial direct costs are automatically included in the amount of net investment in the lease; they are not added separately.

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

Operating lease. The Group and the Company recognise the lease fees related to operating lease, as income on a straight-line basis. Costs (including depreciation) incurred in earning lease related income are recognised by the Group and the Company as costs. The initial direct costs incurred in obtaining the operating lease are included by the Group and the Company in the carrying amount of the leased assets and are recognised as expenditure during the lease period on the same basis as the lease income. The Company accounts for the change in the operating lease as a new lease from the date of the change entry into force and treats 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 by the end of the reporting period. The income tax charge comprises current tax and deferred income tax and is recognised in the statements of profit or loss and other comprehensive income, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Income tax rate for the companies in Lithuania for the years 2019 and 2018 was 15%.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than income tax are recorded within operating expenses.

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

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

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

Deferred tax assets have been recognised in the statements of financial position to the extent the management believes they will be realised in the foreseeable future, based on taxable profit forecasts. When it is probable that a portion of deferred tax will

Explanatory notes (continued)

2. Significant accounting policies (continued)

not be utilised, this portion of deferred tax is not recognised in the financial statements.

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

From 2014 tax losses carried forward can cover not more than 70 per cent of the taxable profit of a taxable period according to Lithuanian laws.

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

Dividends. Dividends are recognised as a liability and deducted from equity in the period in which they are declared and approved. Dividends are accounted for in the financial statements in the period when they are approved by the annual General Shareholders' Meeting. If dividends are declared subsequent to reporting period, but antecedent the approval of financial statements by the management, they are disclosed in the explanatory notes.

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

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

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

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

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

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

Provisions for retirement benefits. According to the legislative requirements of the Republic of Lithuania, each employee at the age of retirement is entitled to a one-off payment in the amount of 2-month salary. The past service costs are recognised as an expense on a straight-line basis in profit or loss immediately after the assessment of such liability. Any gains or losses appearing as a result of curtailment and/or settlement are recognised as incurred. The above mentioned employment benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Obligation is recognised in the statements of financial position and reflects the present value of these benefits on the preparation date of the statements of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government securities of the same currency and similar maturity as the employment

2. Significant accounting policies (continued)

benefits. Actuarial gains and losses are recognised in other comprehensive income as incurred. Therefore, provisions are formed for the possible benefits. Actuarial estimates are carried out in order to assess the liability of such retirement payments.

Plans of bonuses. The Company recognises a liability and an expense for bonuses where it is contractually obliged or where there is a past practice that has created a constructive obligation. Based on the provisions of Collective Agreement, the liabilities are recognised for possible benefits to employees reaching the jubilees of 50 and 60.

Revenue recognition. As of 1 January 2018, revenues of the Group and the Company are recognised in accordance with IFRS 15, i. e, the Group and the Company recognise income at the time and to such an extent that the transfer of committed goods or services to customers would represent an amount that corresponds to the consideration that the Group and the Company expect to obtain in exchange for those goods or services. In applying this Standard, the Group and the Company take into account the terms of the contract and all relevant facts and circumstances. For such purpose, the Group's and the Company's revenue is recognised using the 5-step model:

Step 1 - Identify Customer Agreements.

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

- the parties have approved the contract (in writing, orally or in accordance with other usual business practices) and are bound by the obligations under the contract;
- there is a possibility to identify the rights of each party regarding the transferable goods and/or services;
- there is a possibility to identify the payment terms provided for the transferable goods and/or services;
- the contract has commercial substance; and
- it is probable that the consideration to which the Group and the Company are entitled to in exchange for the goods or services will be collected.

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

Step 2 - Identify performance obligations in the contract.

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

- the product and/or service is separate;
- a set of individual goods and/or services that are essentially the same and passed on to the customer in a uniform model.

Step 3 - Determine the transaction price.

Transaction price may be fixed, variable or both.

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

Step 4 - Assigning a transaction price to performance obligations.

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

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

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

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

Explanatory notes (continued)

2. Significant accounting policies (continued)

customer type, the transaction type and the characteristics of each agreement.

Revenue is recognised by using the methods described below:

Service sales revenue

Revenue from sales of the services is recognised based on invoices issued to customers for services rendered. The invoices are issued based on work completion certificates. At the end of the period, income from services that were not invoiced but provided is accumulated on an accrual basis.

Sales of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The Group and the Company have transferred ownership control to a buyer;
- The Group and the Company retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the Group and the Company will get economic benefit and transaction-related expenses incurred or to be incurred may be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Revenue from sales is recognised net of VAT and discounts, including accrued expected discounts for the year.

The Group's and the Company's revenue is recognised in accordance with provisions of IFRS 15, i.e. the Group and the Company recognise 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.

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time– requires judgement.

Operating revenue generated by the Company includes the following:

- Freight transportation income. Freight transportation income reflect income from freight transportation on local and international routes and from services related to freight transportation;
- Passenger transportation income. It reflects income received from transportation of passengers, luggage and post;
- Income for the use of public railway infrastructure;
- Other income.

Income from freight transportation and services related to freight transportation

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

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

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

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

As of 1 May 2019, freight transportation activities have been transferred to AB LG CARGO.

Passenger transportation income

Passenger transportation income reflect income received from transportation of passengers, luggage and post. Income from transportation of passengers, luggage and post is recognised at a point in time, after the services have been rendered, after delivery has taken place to a destination specified in freight document of after the validity period of freight document has expired.

Sales of advanced tickets comprise a small part in the sales revenue from all tickets and the ticket purchase date usually coincides with the date of service provision.

As of 1 September 2019, passenger transportation activities have been transferred to UAB LG Keleiviams.

Income for the use of public railway infrastructure

Income for the use of public railway infrastructure reflects

Explanatory notes (continued)

2. Significant accounting policies (continued)

income received from the use of public railway infrastructure. Income related to the use of public railway infrastructure and from related additional services is recognised at a point in time, i.e. after the services have been rendered: the public railway infrastructure has been used.

As of 8 December 2019, the activities of the management of the public railway infrastructure have been transferred to AB Lietuvos Geležinkelių Infrastruktūra.

Other income

Other income comprises lease services, repairs and maintenance, wholesale trade and other income.

Lease income

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

Income from repairs and maintenance

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

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 and passenger transportation	Invoices for freight transportation and related additional services are issued periodically, as agreed with customer (daily, every ten days, monthly). Invoices are prepared after the service has been rendered based on primary documents of freight transportation and additional services: in case of transit freight transportation - based on dispatch date from Lithuania, in case of import - date of transfer of fright to a customer; in case of exports and transportation in Lithuania - date of freight dispatch, in case of additional services - actual date of rendering the service. Having assessed the reliability of a service customer, payment conditions are set in the agreements: • Prepayment; • After provision of services applying collaterals (cash deposit, bank guarantee, commercial credit); • After provision of services without collaterals (up to 30 days, mostly 7 to 10 days); • A common term for payment of invoices is 30 days. Passenger and freight transportation services based on train tickets sold. The major part of ticket sales coincides with the date of transportation. The major part of income is paid immediately, upon the purchase of a ticket. Invoices for passenger transportation and related additional services are issued periodically, as contractually agreed with a customer; the invoices are formed according to initial passenger transportation and additional service documents after the service has been rendered. Most invoices are to be paid within 15 calendar days; a 30-calendar day period is applied to separate customers.	Income from services related to freight transportation is recognised at a point in time, when services have been rendered, i.e. after the freight has been delivered to a destination agreed in freight document. Freight transportation usually takes up to 24 hours; therefore, income is recognised at a point in time. The amount of recognised income is assessed at the price indicated in freight documents and additional services documents. Advances received are included into contractual liabilities. If services under one agreement are rendered in different reporting periods, then the consideration is allocated based on their relative independent sales prices. The separate sales price is determined based on service prices indicated in the agreement. Income from transportation of passengers, luggage and post is recognised at a point in time, after the services have been rendered, after delivery has taken place to a destination specified in freight document of after the validity period of freight document has expired. Sales of advanced tickets comprise a small part in the sales revenue from all tickets and the ticket purchase date usually coincides with the date of service provision.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

2. Significant accounting policies (continued)

Type of services	Nature, timing and payment conditions of operating liabilities	Revenue recognition under IFRS 15
Use of public railway infrastructure	Invoices for the use of public railway infrastructure and related additional services are issued periodically, as contractually agreed with a customer (daily, every ten days, monthly); the invoices are formed according to initial and additional service documents after the service has been rendered applying a rate: • Prepayment; • After provision of services applying collaterals (cash deposit, bank guarantee, commercial credit); • After provision of services without collaterals (up to 30 days, mostly 7 to 10 days); • A common term for payment of invoices is 7 to 10 days.	Income related to the use of public railway infrastructure and from related additional services is recognised at a point in time, i.e. after the services have been rendered: the public railway infrastructure has been used. Use of infrastructure usually takes up to 24 hours; therefore, income is recognised at a point in time. The amount of recognised income is assessed following the procedure set out in the service provision rules and at the price indicated in additional services documents. Advances received are included into contractual liabilities. If services under one agreement are rendered in different reporting periods, then the consideration is allocated based on their relative independent sales prices. The separate sales price is determined based on a rate for service prices.
Use of public railway infrastructure	Invoices for the use of public railway infrastructure and related additional services are issued periodically, as contractually agreed with a customer (daily, every ten days, monthly); the invoices are formed according to initial and additional service documents after the service has been rendered applying a rate: • Prepayment; • After provision of services applying collaterals (cash deposit, bank guarantee, commercial credit); • After provision of services without collaterals (up to 30 days, mostly 7 to 10 days); • A common term for payment of invoices is 7 to 10 days.	Income related to the use of public railway infrastructure and from related additional services is recognised at a point in time, i.e. after the services have been rendered: the public railway infrastructure has been used. Use of infrastructure usually takes up to 24 hours; therefore, income is recognised at a point in time. The amount of recognised income is assessed following the procedure set out in the service provision rules and at the price indicated in additional services documents. Advances received are included into contractual liabilities. If services under one agreement are rendered in different reporting periods, then the consideration is allocated based on their relative independent sales prices. The separate sales price is determined based on a rate for service prices.
Lease income	Invoices are issued after the service has been rendered and the deed of acceptance and delivery of works has been signed. A common term for payment of invoices is 30 days. Payments for removal of private wagons are subject to a 10-day term, a cash deposit may also be applied.	Revenue is recognised monthly over time when services are being rendered. The amount of recognised revenue is measured based on signed deeds of services rendered. The amount of revenue from wagon lease is calculated based on formal accounting cards, which assess the number of leased wagons and the period of lease. If services under one agreement are rendered in different reporting periods, then the consideration is allocated based on their relative independent sales prices. The stand-alone sales price is determined based on service prices indicated in the agreement.
Income from repairs and maintenance	Invoices are issued after the service has been rendered and the deed of acceptance and delivery of works has been signed. A common term for payment of invoices is 30 days. Payments for removal of private wagons are subject to a 10-day term, a cash deposit may also be applied.	Revenue is recognised over time based on stage of completion method. The related costs are recognised in profit or loss and other comprehensive income when incurred. Expected contract related loss was recognised immediately in the statement of profit or loss and other comprehensive income. Advances received are included into contractual liabilities. If services under one agreement are rendered in different reporting periods, then the consideration is allocated based on their relative stand-alone sales prices. It is determined based on service prices indicated in the agreement.

Explanatory notes (continued)

2. Significant accounting policies (continued)

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

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

Dividend income from subsidiaries is recognised in the Company's stand-alone financial statements when the dividends are declared by the subsidiary.

Contingent assets and liabilities. Contingent liabilities are not recognised in the financial statements, except for contingent liabilities associated with acquisitions. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits are probable.

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

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

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

Business combinations. The Group and the Company apply 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 Group's and 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 Group and the Company 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 Group and Company are the acquirers, they determine the acquisition date at which they acquire 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. Applying the acquisition method requires:

a) identifying the acquirer;

b) determining the acquisition date;

c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and

d) recognising and measuring goodwill or a gain from a bargain purchase.

Explanatory notes (continued)

2. Significant accounting policies (continued)

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 measurements appropriately reflect consideration of all available information as of the acquisition date.

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.

The business combination of the Group and 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 carrying amounts.

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

Related parties. Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

The preparation of the financial reporting in accordance with IFRS, as adopted by the EU, requires from the Company's management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimates. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3. Critical accounting estimates and judgements

Significant judgements

Subsequent events. 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.

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

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

3. Critical accounting estimates and judgements (continued)

Assets managed under the right of trust. The Group holds items of public railway infrastructure and state owned service facilities and state land plots underneath those items (hereinafter 'infrastructure facilities'). Under the Trust agreement with the Ministry of Transport and Communications of the Republic of Lithuania and in accordance with the Railway Transport Code, the Group's subsidiary, AB Lietuvos Geležinkelių Infrastruktūra, operates, manages and disposes the infrastructure facilities, while the Government of the Republic of Lithuania retains legal title. (Before reorganization explained below these functions were fulfilled by AB Lietuvos Geležinkeliai). AB Lietuvos Geležinkelių Infrastruktūra and the Group accounts for these assets as property, plant and equipment in accordance with IAS 16 based on the following:

- AB Lietuvos Geležinkelių Infrastruktūra has a right to use the infrastructure facilities free of charge for indefinite period of time, the State can revoke that right only by changing the legislation;

- Having transferred that right to AB Lietuvos Geležinkelių Infrastruktūra, the State has also transferred the significant risks and rewards of ownership – AB Lietuvos Geležinkelių Infrastruktūra uses the infrastructure facilities to generate revenue and incurs expenses for its maintenance; although the State is to ensure that the general public has access to the railway transportation in the country, the State does not retain direct financial risks associated with the infrastructure facilities.

- Although some rights that are generally associated with the ownership of the infrastructure facilities are restricted (e.g. AB Lietuvos Geležinkelių Infrastruktūra cannot sell or pledge these assets), similar restrictions are common in private and privatised infrastructure and utility companies – including entities that are subject to strict cost-of-service forms of rate regulation.

As at 31 December 2019, the carrying amount of these assets is EUR 982 986 thousand (as at 31 December 2018 - EUR 987 143 thousand).

Business combinations. The transfer of the business to the Company was treated as a transaction of joint ventures and took place at carrying amounts. 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.

Consolidation of AB Lietuvos Geležinkelių Infrastruktūra. During 2019, following the amendments to the Code adopted by the Parliament of the Republic of Lithuania, the Group has implemented a new reorganization program. As a result, three new entities – AB LG CARGO, UAB LG Keleiviams and AB Lietuvos Geležinkelių Infrastruktūra – were demerged from AB Lietuvos Geležinkeliai and became its 100% subsidiaries; the infrastructure facilities, referred to above, have been transferred to AB Lietuvos Geležinkelių Infrastruktūra. The amendment to the Code also established certain restrictions on how income, generated from the use of infrastructure facilities, can be utilised. Under the Code, these incomes should be either spent on the development, modernization and maintenance of the infrastructure facilities or remitted to the State. In addition, the State maintains all owner of infrastructure facilities rights , including deciding how development of the new infrastructure facilities has to be financed, charged and used in case this property are no longer necessary for the needs of AB Lietuvos Geležinkelių Infrastruktūra,

Management considered the following factors:

a) Being the sole shareholder of AB Lietuvos Geležinkeliai before and after reorganization, the State controls the Group, including, indirectly, AB Lietuvos Geležinkelių Infrastruktūra, through its voting rights. The State does not utilize its rights, provided by the Code, to manage the relevant activities of AB Lietuvos Geležinkelių Infrastruktūra bypassing the AB Lietuvos Geležinkeliai. Therefore, these rights are deemed protective.

b) Although the Code has established certain restrictions on how the income derived from the use of the infrastructure facilities can be utilized, the AB Lietuvos Geležinkeliai is entitled to receive dividends from income of AB Lietuvos Geležinkelių Infrastruktūra generated from its activities and is also exposed to variable returns arising from other sources (e.g. management fee, financial guarantees issued in relation to the loans received by AB Lietuvos Geležinkelių Infrastruktūra etc.). Accordingly, the AB Lietuvos Geležinkeliai benefits itself from its investments.

Based on the above management concluded that neither the reorganization nor the changes to the Code affect the AB Lietuvos Geležinkeliai control over AB Lietuvos Geležinkelių Infrastruktūra.

The Group prepares the consolidated financial statements applying the same accounting policies for similar transactions and other events occurring under similar conditions to all Group companies.

Explanatory notes (continued)

3. Critical accounting estimates and judgements (continued)

Significant estimates and assumptions

Information on significant estimates and assumptions is provided below:

Useful lives of intangible assets and property, plant and equipment. The useful lives are reviewed on an annual basis and, if necessary, are adjusted to reflect the current estimate of remaining useful life, considering technological changes, future economic use of assets and their physical condition. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate in accordance with IAS 8.

Impairment losses of property, plant and equipment. The carrying amounts of the Group's and the Company's property, plant and equipment are reviewed at each reporting date to determine, whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

Write down of inventories to net realisable value. The Group reviews its list of inventories at least annually to establish their net realisable value. Inventories acquired earlier than one year before, are reviewed in order to determine whether they will be realisable in the future. In case of slow moving spare parts and other materials, an impairment is registered for the entire acquisition cost of the inventories,

Explanatory notes (continued)

3. Critical accounting estimates and judgements (continued)

if inventories have been on the list of inventories for longer than 2 years and have not been used since then.

Provisions and contingent liabilities. The Group and the Company exercise considerable judgement in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily related to internal specialists, such as legal counsel. Revisions to the estimates may significantly affect future operating results of the Group and the Company.

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

4. New standards, amendments and interpretations not yet adopted

New standards, amendments to standards and interpretations, which are effective for annual periods beginning on or after 1 January 2020 and which have not been applied in preparing 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).

The revised conceptual framework contains a new chapter pertaining to measurement; the guidelines for reporting financial results are presented; definitions and criteria are updated, especially the definition of a liability, and explanations pertaining to important areas such as the role of management, prudence and the uncertainty of measurement in financial statements.

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.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

Amendments are effective as of 1 January 2020. Early application is permitted. The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

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 material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific 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 specify definition of a business. A business must include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidelines provide a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. For a combination of activities and assets and to be a business without outputs, there would need to be an organised workforce. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent 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

Explanatory notes (continued)

4. New standards, amendments and interpretations not yet adopted (continued)

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 recognise 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 policies

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

For preparation of these financial statements, the Group and the Company for the first time applied the provisions of IFRS 16 Leases.

Because of the selected transition period that has been selected by the Group and 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 Group and 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 obtains the right to use assets at the inception of lease and, if lease payments are carried out within certain period, also receives financing. Therefore, IFRS 16 eliminates the division of lease into operating lease or finance lease as required under IAS 17, and a general accounting model of lessee is introduced. Lessees are required to recognise: (a) assets and liabilities of all types of leases with a lease term longer than 12 months, except leases where the underlying asset has a low value ('small-ticket' leases); (b) depreciation of leased property separately from interest for lease liabilities in the statement of profit or loss. Lessor accounting requirements defined in IAS 17 are essentially transferred to IFRS 16. Accordingly, the lessor is required to continue dividing lease into operating lease or finance lease, and recording these two types of leases separately in the accounting.

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 recognised as at 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. In addition, the Group has concluded land lease agreements with the period from 36 to 73 years. Lease contracts for premises are usually concluded for a fixed period without the possibility 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.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

5. Significant changes in accounting policies (continued)

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

Based on IFRS 16 Leases, finance lease under IAS 17 Leases was assessed at the carrying amount of the right-of-use assets and lease liabilities as at 1 January 2019 – based on the carrying amount of the assets and lease liabilities before the assessment date.

As at 1 January 2019, the Group and the Company recognised right-of-use assets in the amount of EUR 1,327 thousand and EUR 909 thousand, respectively, and lease liabilities of EUR 1,327 thousand and EUR 909 thousand, respectively. Lease liabilities as at 1 January 2019 are reconciled to the operating lease liabilities as at 31 December 2019, as presented below:

Statements of financial position:

	Group	Company
	01/01/2019	01/01/2019
Right-of-use assets – property, plant and equipment	1,327	909
Lease liabilities	1,327	909
Retained earnings	**-**	**-**

Discount rate applied to lease agreements as at 1 January 2019 comprises 6-month EURIBOR and market research, market margin determined under the current market conditions.

	Group	Company
Operating lease as at 31 December 2018 based on IAS 17 Leases in the financial statements	1,521	1,042
Recognised short-term leases	(147)	(106)
Justified use of the right of extension	-	-
Discounted amount using borrowing interest rate	(47)	(27)
Lease recognition as at 1 January 2019	**1,327**	**909**
Finance lease liabilities recognised as at 1 January 2019	**1,327**	**909**

Statements of profit or loss and other comprehensive income:

	Group	Company
Lease in 2019 under IFRS 16 Leases	**(1,347)**	**(943)**
Depreciation expenses	(1,116)	(774)
Interest on lease liabilities	(84)	(63)
Expenses of short-term leases	(147)	(106)
Operating lease in 2018 under IAS 17 Leases	**(1,233)**	**(848)**
Lease expenses	(1,233)	(848)
Impact on the statements of profit or loss and other comprehensive income	**(114)**	**(95)**

(all amounts are in EUR thousand unless otherwise stated)

5. Significant changes in accounting policies (continued)

Statements of cash flows:

	Group	Company
Net profit (loss)	(114)	(95)
Depreciation expenses	1,116	774
Interest expenses	84	63
Cash flows from operating activities after adjustment to non-cash items	**1,086**	**742**
Lease payments for right-of-use assets	(1,002)	(679)
Paid lease interest	(84)	(63)
Net cash flows from (to) financing activities	**(1,086)**	**(742)**
Impact on cash flows	**-**	**-**

The new IFRS 16 Leases had an effect on the balances and changes of the Group's and the Company's statements of financial position and profit or loss and other comprehensive income as at 31 December 2019. More information in Note 21.

6. Financial instruments and risk management

Financial instruments. Fair value

The Group's and the Company's main financial instruments not carried at fair value are trade and other receivables, contract assets, trade and other payables, contract liabilities, cash and long-term and short-term borrowings. In the opinion of the management of the Company, the carrying amounts of these financial instruments approximate their fair values as the borrowing costs are related to interbank borrowing interest rate EURIBOR and other financial assets and liabilities are short-term thus the fluctuation in their fair value is insignificant.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group and the Company have access at that date, irrespective of whether this price is directly observable or measured using valuation methods.

The Group's and the Company's financial instruments according to their types:

	Group		Company	
	2019	**2018**	**2019**	**2018**
Financial assets				
Assets arising from contracts with customers	176	-	-	-
Trade and other receivables	37,159	36,040	25,737	44,030
Cash and cash equivalents	105,153	92,832	50,533	54,774
Total	**142,488**	**128,872**	**76,270**	**98,804**
Financial liabilities				
Liabilities arising from contracts with customers	175	-	-	-
Loans and borrowings	181,215	210,926	36,743	210,770
Lease liabilities	3,097	-	2,140	-
Trade and other payables	39,835	29,196	29,267	43,966
Total	**224,322**	**240,122**	**68,150**	**254,736**

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

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

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

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

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

	Carrying amount 2019		Fair value 2019		Carrying amount 2018		Fair value 2018	
Financial assets	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets arising from contracts with customers	176	-	-	176	-	-	-	-
Trade and other receivables	37,159	-	-	37,159	36,040	-	-	36,040
Cash and cash equivalents	105,153	105,153	-	-	92,832	92,832	-	-
Total	**142,488**	**105,153**	**-**	**37,335**	**128,872**	**92,832**	**-**	**36,040**
Financial liabilities								
Liabilities arising from contracts with customers	175	-	-	175	-	-	-	-
Loans and borrowings	181,215	-	181,215	-	210,926	-	210,926	-
Lease liabilities	3,097	-	-	3,097	-	-	-	-
Trade and other payables	39,835	-	-	39,835	29,196	-	-	29,196
Total	**224,322**	**-**	**181,215**	**43,107**	**240,122**	**-**	**210,926**	**29,196**

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

	Carrying amount 2019		Fair value 2019		Carrying amount 2018		Fair value 2018	
Financial assets	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Trade and other receivables	25,737	-	-	25,737	44,030	-	-	44,030
Cash and cash equivalents	50,533	50,533	-	-	54,774	54,774	-	-
Total	**76,270**	**50,533**	**-**	**25,737**	**98,804**	**54,774**	**-**	**44,030**
Financial liabilities								
Loans and borrowings	36,743	-	36,743	-	210,770	-	210,770	-
Lease liabilities	2,140	-	-	2,140	-	-	-	-
Trade and other payables	29,267	-	-	29,267	43,966	-	-	43,966
Total	**68,150**	**-**	**36,743**	**31,407**	**254,736**	**-**	**210,770**	**43,966**

6. Financial instruments and risk management (continued)

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

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

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

Risk management

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

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

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

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

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

The Group and the Company manage credit risk through procedures. The basis of management of credit risk arising from trade receivables is evaluation of client reliability. The Group and the Company constantly evaluate creditworthiness of current and prospective service buyers/providers. If a service buyer is evaluated as risky or if the client is new and does not have history of collaboration with the Group and the Company, prepayment conditions are applied. When payments are deferred in settlements with clients, legal credit risk mitigation instruments are used – credit insurance or pledge. Various means of credit management and mitigation are provided in bilateral agreements between the Group and the Company and service buyers/providers: limitations, guarantee for discharge of contract obligations and other instruments that protect the interests of the Group and the Company. Credit risk is constantly monitored.

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

Credit risk is measured as the maximum credit exposure for each group of financial instruments and is equal to their carrying amount. The major credit risk relates to the carrying amount of each group of assets.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

	Group		Company	
	2019	2018	2019	2018
Client A	4,877	7,829	4,877	7,829
Client B	2,633	4,430	800	4,202
Client C	2,363	1,370	678	1,370
Client D	1,811	1,368	222	1,368
Client E	1,668	720	182	720
Client F	1,576	681	95	681
Other	13,980	7,050	101	5,841
Total	**28,908**	**23,448**	**6,955**	**22,011**

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

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

Group	Initial value	Expected credit loss, %	Impairment	Carrying amount
Low risk	21,943	0.00%	-	21,943
Fair risk	1,055	0.28%	(3)	1,052
Increased risk	5,011	2.61%	(131)	4,880
High risk	3,903	73.53%	(2,870)	1,033
Total	**31,912**		**(3,004)**	**28,908**

Company	Initial value	Expected credit loss, %	Impairment	Carrying amount
Low risk	5,046	0.04%	(2)	5,044
Fair risk	1,881	0.04%	(1)	1,880
Increased risk	9	5.98%	-	9
High risk	52	56.93%	(30)	22
Total	**6,988**		**(33)**	**6,955**

Low risk – none of the customer's invoices are past due;

Fair risk – at least one of the customer's invoices is past due up to 30 days;

Increased risk – at least one of the customer's invoices is past due up to 120 days;

High risk – at least one of the customer's invoices is past due over 120 days.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

6. Financial instruments and risk management (continued)

The Group and the Company apply a simplified method to calculate the lifetime expected credit losses over the period of validity and use a provisioning matrix for all trade and other receivables. For calculation of the expected credit losses using the provisioning matrix, trade receivables and other receivables are categorised into separate groups according to credit risk characteristics. The amounts for each group are analysed by the number of days past due. As trade and other receivables usually do not include deposit or other collaterals, the ratio of expected losses coincides with the probability of default.

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

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

Group	Expected credit losses, %	Initial value	Impairment	Carrying amount
Not past due	0.00%	23,302	-	23,302
Past due for 1 to 30 days	0.67%	598	(4)	594
Past due for 31 to 60 days	0.13%	4,502	(6)	4,496
Past due for 61 to 120 days	30.29%	383	(116)	267
Past due for over 120 days	92.04%	3,127	(2,878)	249
Total		**31,912**	**(3,004)**	**28,908**

Company	Expected credit losses, %	Initial value	Impairment	Carrying amount
Not past due	0.04%	6,937	(3)	6,934
Past due for 1 to 30 days	1.10%	1	-	1
Past due for 31 to 60 days	7.71%	8	(1)	7
Past due for 61 to 120 days	11.50%	2	-	2
Past due for over 120 days	73.44%	40	(29)	11
Total		**6,988**	**(33)**	**6,955**

Impairment accounted for by the Group and the Company reflects the estimated losses from doubtful trade receivables. The principal component of impairment is individually assessed losses from significant doubtful trade receivables. Impairment assessment methods are constantly reviewed to ensure that the difference between the estimated and actual losses is as low as possible.

The Group's and the Company's movement of impairment allowance of doubtful trade receivables:

	Group		Company	
	2019	2018	2019	2018
Balance at the beginning of the period	(2,065)	(1,550)	(1,771)	(1,541)
Effect of reorganisation*	-	-	1,816	-
Change in impairment of trade receivables	(939)	(515)	(78)	(230)
Balance at the end of the period	**(3,004)**	**(2,065)**	**(33)**	**(1,771)**

*As at 31 December 2019, the impairment of trade receivables was mostly affected by the transfer of balances of trade receivables to AB LG CARGO, UAB LG Keleiviams, AB Lietuvos Geležinkelių Infrastruktūra due to separation of activities.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

6. Financial instruments and risk management (continued)

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

	Group		Company	
	2019	2018	2019	2018
Balance at the beginning of the period	(9,315)	(8,990)	(9,020)	(8,981)
Effect of reorganisation*	-	-	1,964	-
The movements in impairment of loans and receivables	1,900	(325)	2,748	(39)
Balance at the end of the period	**(7,415)**	**(9,315)**	**(4,308)**	**(9,020)**

*As at 31 December 2019, the impairment of trade receivables was mostly affected by the transfer of balances of trade receivables to AB LG CARGO, UAB LG Keleiviams, AB Lietuvos Geležinkelių Infrastruktūra due to separation of activities.

On 5 August 2019, after the deregistration of BAB Lietuvos Jūrų Laivininkystė from the Register of Legal Entities, impairment of EUR 2,826 thousand of the loan granted was reversed, by its write-off to losses.

As at 31 December 2019, the Group's and the Company's impairment allowance for receivable debts is presented in the statements of profit or loss and other comprehensive income, under items of increase (decrease) in value of receivables.

Cash and cash equivalents comprise cash and cash at bank; therefore, the related credit risk is minimal. Diversification principle is applied for the monetary resources held by the Group and the Company, the funds are at banks that have international credit ratings of BBB-/Baa3 and higher.

	Group		Company	
	2019	2018	2019	2018
Aa2,AA	21,938	50,110	7,508	12,163
A+,A1	-	-	-	-
A1-,A+	-	-	-	-
AA-, Aa3	37,538	-	9,754	-
Baa1,BBB+	45,540	42,567	33,180	42,461
Below BBB-/Baa3	92	119	90	119
Cash in hand	45	36	1	31
Total	**105,153**	**92,832**	**50,533**	**54,774**

Although the economic circumstances may have an impact on the recoverability of borrowings, as to the Company's management, the Group and the Company are not exposed to material risk to incur loss which would exceed the impairment that has already been recognised.

If the rating requirement is not met, net amount of cash trusted to the entity cannot exceed the maximal limit of deposit hedged by the state, i.e., EUR 100 thousand.

Liquidity risk. Liquidity risk is a risk that the Group and the Company will be unable to fulfil their financial liabilities at maturity. Risk management ensures that the Group and the Company always have sufficient liquid assets and are able to meet liabilities in a timely manner. Management of liquidity and solvency risk is related to cash flow planning and control and forecast of unforeseeable events that may have a negative effect on cash flows and pose a threat to solvency and liquidity. Liquidity and solvency risk is assessed by monitoring and

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

6. Financial instruments and risk management (continued)

analysing relative liquidity and solvency ratios which are used to assess the state of current and non-current liabilities and the efficiency of cash flow management. The Group's and the Company's shortage of operating capital is balanced using credit facilities if necessary. In addition, according to the Group's and the Company's standard policy, payment period for suppliers is 45 days.

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

	2019	2018	Value set by the bank
Net debt/adjusted EBITDA*	comply	comply	Not higher than 3.0
Debt/adjusted EBITDA*	comply	comply	Not higher than 3.0
Equity ratio	comply	comply	Not lower than 40 per cent
Loan servicing ratio	comply	comply	Not lower than 2
Debt/Equity	comply	comply	Not higher than 40.0 per cent
Financial loan of subsidiaries	not observed	comply	Not higher than 10.0 per cent
Financial loan of the group	comply	comply	Not higher than EUR 400 million

*Adjusted EBITDA: profit (loss) before taxation + Interest expenses - Interest income + Depreciation and amortisation + Increase (decrease) in the value of non-current assets, inventories and investments + Increase (decrease) in the value of amounts receivable and contract assets + Expenses of provisions not related to typical activities.

Based on financial terms of credit agreements, as of 30 June 2020, financial covenants of AB Lietuvos Geležinkelių Infrastruktūra will be monitored; those financial covenants will be calculated considering the financial performance of AB Lietuvos Geležinkelių Infrastruktūra.

The table below shows the information about maturity dates for non-derivative financial liabilities as per agreements. The information has been prepared on the basis of non-discounted flows of financial liabilities taking into consideration the earliest maturity dates for the Group and the Company to cover these liabilities. The balances of liabilities, the maturity term of which is up to 12 months, approximately correspond to their carrying amounts.

The Group's and the Company's loan maturities by undiscounted cash flows method were:

	Group		Company	
	2019	2018	2019	2018
Within one year	27,574	29,706	12,894	29,664
One to five years	72,689	88,808	23,849	88,694
After five years	80,952	92,412	-	92,412
Total	**181,215**	**210,926**	**36,743**	**210,770**

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

	Group		Company	
	2019	2018	2019	2018
Within one year	2,784	3,378	842	3,370
One to five years	6,944	8,493	1,023	8,480
After five years	4,514	5,763	-	5,764
Total	**14,242**	**17,634**	**1,865**	**17,614**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

6. Financial instruments and risk management (continued)

The Group's maturities of trade payables and lease liabilities by undiscounted cash flows method were:

	Trade and other payables		Lease liabilities	
	2019	2018	2019	2018
Within one year	37,132	27,316	1,254	-
One to five years	2,703	1,880	1,843	-
After five years	-	-	-	-
Total	**39,835**	**29,196**	**3,097**	-

The Company's maturities of trade payables and lease liabilities by undiscounted cash flows method were:

	Trade and other payables		Lease liabilities	
	2019	2018	2019	2018
Within one year	29,267	42,086	917	-
One to five years	-	1,880	1,223	-
After five years	-	-	-	-
Total	**29,267**	**43,966**	**2,140**	-

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

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

In 2019 and 2018, the Group and the Company did not conclude derivative financial transactions with banks in order to manage currency exchange risk.

Interest rate risk. The Group's and the Company's loans granted and received and other borrowings are subject to variable interest rates related to EURIBOR.

Long-term loans have the greatest impact on the increase of interest rate risk. The value of the Company's long-term loan portfolio as at 31 December 2019 was EUR 36,743 thousand, as at 31 December 2018 was EUR 210,770 thousand. Upon separation of activities, loans of EUR 144,364 thousand were transferred to AB Lietuvos Geležinkelių Infrastruktūra.

The Group and the Company seek that the ratio of fixed and variable interest rates for the loans obtained is optimal. As at 31 December 2019 in the Company's loan portfolio loans with fixed interest rate comprised 91.5%, with interest rate that is reviewed – 2.3%, and with variable interest rate – 6.2%. As at 31 December 2018 with fixed interest rate comprised 21.5%, with interest rate that is reviewed – 1.2%, and with variable interest rate – 77.3%. Given the current state in financial markets, variable interest rate is more favourable. Upon separation of activities, loans that were transferred to AB Lietuvos Geležinkelių Infrastruktūra are subject to variable interest rate.

As at 31 December 2019 the weighted interest rate of the Company's loan portfolio was 2.6%, and as at 31 December 2018 was 2.0%. If the interest rate grew by 0.5 percentage points during 2020, the annual interest expenses would increase by EUR 10 thousand.

In 2019 and 2018, the Group and the Company did not use derivative financial instruments to manage interest rate risk. The Group and the Company have a provision that 30% and more of the total amount of the Group's and the Company's financial resources shall be invested in highly liquid financial instruments: funds in current accounts in commercial banks, call deposits and term deposits the maturity of which is less than 12 months. The Group and the Company have cash in large banks of Lithuania that have credit ratings of BBB-/Baa3 and higher as assigned by international rating agencies.

The Group and the Company are not exposed to significant interest rate risk, currency exchange or price index fluctuation risks related to banking products.

Capital management. Capital includes equity attributable to

Explanatory notes (continued)

6. Financial instruments and risk management (continued)

shareholders. The main objective of the capital management is to guarantee that the Group and the Company meet the external requirements of the capital. The objectives of the Group's and the Company's capital management is to ensure the Group's and the Company's ability to continue as a going concern while seeking to earn profit for the shareholders and maintain an optimal capital structure by decreasing capital cost. In order to maintain or change the capital structure, the Company may pay the capital to the shareholders or issue new shares.

Pursuant to the Law on Companies of the Republic of Lithuania, authorised capital of a public limited company has to be EUR 40 thousand or higher (EUR 2.5 thousand or higher of a private limited company) and equity - not less than 50% of the authorised capital of the Company.

The management of the Company controls adherence to the provisions of the Law on Companies of the Republic of Lithuania which state that if a company's equity capital becomes less than 1/2 of the size of the authorised capital set out in the company's articles of association, the board, no later than in 3 months since the day they learned or had to be made aware of the situation, shall convene the general meeting of shareholders which shall consider questions on decisions as set out in Article 59, Section 10, Clause 2 and Section 11 of the aforementioned law. The situation in the company has to be resolved in no more than 6 months since the day the board learned or had to be made aware of the situation.

As at 31 December 2019 and 31 December 2018, the Group and the Company were in compliance with the above-mentioned requirements of the provisions of the Law on Companies of the Republic of Lithuania.

In addition, the Group and the Company, by managing capital risk in the long-term, aim to maintain an optimum capital structure which would ensure a harmonised implementation of objectives for capital costs and risk minimisation. The Group and the Company form the capital structure by evaluating internal factors of regular operations, investments and expansions planned of the companies, and by taking into account operational strategies of the Group and the Company, external current and anticipated factors of markets regulation and country environment which are significant for the operations.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

7. Property, plant and equipment

Property, plant and equipment of the Group comprised:

	Land	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
31 December 2017	**146,604**	**1,137,971**	**239,766**	**488,189**	**99,193**	**154,900**	**2,266,623**
- acquisitions for the year	191	421	2,745	20,399	700	58,372	82,828
- sold, written off, disposed assets	(3)	(467)	(660)	(6,264)	(2,288)	(75)	(9,757)
- reclassifications	-	17,593	6,460	21	23,202	(46,190)	1,086
31 December 2018	**146,792**	**1,155,518**	**248,311**	**502,345**	**120,807**	**167,007**	**2,340,780**
- acquisitions for the year	4,084	2,205	765	17,023	449	86,972	111,498
- sold, written off, disposed assets	(23)	(3,842)	(2,034)	(278)	(1,847)	(7,368)	(15,392)
- reclassifications from/(to) current assets	(6)	1	(56)	(645)	176	(943)	(1,473)
- reclassifications	-	49,075	2,400	(1,155)	900	(50,683)	537
31 December 2019	**150,847**	**1,202,957**	**249,386**	**517,290**	**120,485**	**194,985**	**2,435,950**
Accumulated depreciation and impairment losses							
As at 31 December 2017	**-**	**(188,160)**	**(59,234)**	**(103,917)**	**(23,696)**	**(13,588)**	**(388,595)**
- depreciation	-	(66,290)	(18,240)	(41,147)	(9,604)	-	(135,281)
- impairment for the year	-	(9)	(129)	490	(26)	(1,760)	(1,434)
- sold, written off, disposed assets	-	43	590	2,259	1,454	-	4,346
- reclassifications	-	(306)	(4)	-	4	-	(306)
31 December 2018	**-**	**(254,722)**	**(77,017)**	**(142,315)**	**(31,868)**	**(15,348)**	**(521,270)**
- depreciation	-	(67,943)	(18,034)	(37,568)	(8,645)	-	(132,190)
- impairment reversal for the year	-	(134)	117	455	(8)	6,101	6,531
- sold, written off, disposed assets	-	290	1,554	2,543	1,580	-	5,967
- reclassifications from/(to) current assets	-	-	107	316	46	-	469
- reclassifications	-	(175)	(3)	3	(1)	-	(176)
31 December 2019	**-**	**(322,684)**	**(93,276)**	**(176,566)**	**(38,896)**	**(9,247)**	**(640,669)**
Carrying amount							
31 December 2017	**146,604**	**949,811**	**180,532**	**384,272**	**75,497**	**141,312**	**1,878,028**
31 December 2018	**146,792**	**900,796**	**171,294**	**360,030**	**88,939**	**151,659**	**1,819,510**
31 December 2019	**150,847**	**880,273**	**156,110**	**340,724**	**81,589**	**185,738**	**1,795,281**

(all amounts are in EUR thousand unless otherwise stated)

7. Property, plant and equipment (continued)

Property, plant and equipment of the Company comprised:

	Land	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
31 December 2017	**146,598**	**1,116,012**	**39,244**	**480,030**	**96,375**	**150,031**	**2,205,426**
- acquisitions for the year	191	230	1,647	19,992	168	63,236	85,464
- sold, written off, disposed assets	(3)	(71)	(7,784)	(8,257)	(342)	(24)	(16,481)
- reclassifications	-	16,496	6,460	13	23,186	(46,109)	46
31 December 2018	**146,786**	**1,132,667**	**216,703**	**491,778**	**119,387**	**167,134**	**2,274,455**
- acquisitions for the year	4,083	436	607	877	188	64,484	70,675
- sold, written off, disposed assets	-	(103)	(1,191)	(283,632)	(1,176)	(8,854)	(294,956)
- disposal of assets due to reorganisation*	(150,869)	(1,138,481)	(203,324)	(206,084)	(99,837)	(168,501)	(1,967,096)
- reclassifications	-	44,725	1,849	(9)	852	(51,113)	(3,696)
31 December 2019	**-**	**39,244**	**14,644**	**2,930**	**19,414**	**3,150**	**79,382**
Accumulated depreciation and impairment losses							
As at 31 December 2017	**-**	**(184,635)**	**(52,408)**	**(101,117)**	**(22,199)**	**(13,588)**	**(373,947)**
- depreciation	-	(65,235)	(15,944)	(40,922)	(8,832)	-	(130,933)
- impairment for the year	-	(9)	(129)	490	(26)	(1,760)	(1,434)
- sold, written off, disposed assets	-	8	4,540	3,380	132	-	8,060
- reclassifications	-	(26)	(4)	-	4	-	(26)
31 December 2018	**-**	**(249,897)**	**(63,945)**	**(138,169)**	**(30,921)**	**(15,348)**	**(498,280)**
- depreciation	-	(61,273)	(14,432)	(11,444)	(7,744)	-	(94,893)
- transfer of depreciation due to reorganisation*	-	298,725	70,179	52,362	27,045	-	448,311
- impairment reversal for the year	-	(134)	125	393	23	6,053	6,460
- impairment reversal for the year due to reorganisation*	-	143	3	107	1	9,154	9,408
- sold, written off, disposed assets	-	7	468	95,165	695	-	96,335
- reclassifications	-	1,191	(3)	3	(1)	-	1,190
31 December 2019	**-**	**(11,238)**	**(7,605)**	**(1,583)**	**(10,902)**	**(141)**	**(31,469)**
Carrying amount							
31 December 2017	**146,598**	**931,377**	**163,972**	**378,913**	**74,176**	**136,443**	**1,831,479**
31 December 2018	**146,786**	**882,770**	**152,758**	**353,609**	**88,466**	**151,786**	**1,776,175**
31 December 2019	**-**	**28,006**	**7,039**	**1,347**	**8,512**	**3,009**	**47,913**

*On 1 May 2019 freight transportation activities together with the non-current assets owned by the Freight Transportation Directorate were transferred to AB LG CARGO; on 1 September 2019 passenger transportation activities together with the non-current assets owned by the Passenger Transportation Directorate were transferred to UAB LG Keleiviams; on 8 December 2019 public railway infrastructure activities together with the non-current assets owned by the Railway Infrastructure Directorate were transferred to AB Lietuvos Geležinkelių Infrastruktūra.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

7. Property, plant and equipment (continued)

The Group's depreciation charge included to the statement of profit or loss and other comprehensive income of the Group amounted to EUR 114,428 thousand (EUR 119,259 thousand in 2018). This amount included EUR 132,190 thousand (EUR 135,281 thousand in 2018) depreciation expenses which were reduced by depreciation of grants of EUR 15,393 thousand (EUR 14,610 thousand in 2018) as disclosed in Note 19. Capitalised depreciation amounted to EUR 2,369 thousand (EUR 1,412 thousand in 2018).

The Company's depreciation charge included to the statement of profit or loss and other comprehensive income amounted to EUR 80,935 thousand (EUR 116,285 thousand in 2018). This amount included EUR 94,893 thousand (EUR 130,933 thousand in 2018) depreciation expenses which were reduced by depreciation of grants of EUR 14,065 thousand (EUR 14,584 thousand in 2018) as disclosed in Note 19. Capitalised depreciation amounted to EUR 18 thousand (EUR 64 thousand in 2018).

As at 31 December 2019, the carrying amount of assets managed under the right of trust at the Group comprised EUR 982,986 thousand (at 31 December 2018: EUR 987,143 thousand). As at 31 December 2019, the Company had no assets managed under the right of trust (31 December 2018: EUR 987,143). All of the Company's assets managed under the right of trust based on the Trust Agreement were transferred to the new manager of public railway infrastructure AB Lietuvos Geležinkelių Infrastruktūra on 8 December 2019.

The acquisition cost of fully depreciated but still used property, plant and equipment of the Group was EUR 47,405 thousand (EUR 43,352 thousand in 2018) and the Company EUR 7,892 thousand (EUR 39,293 thousand in 2018). Most of fully depreciated property, plant and equipment comprised other equipment, fittings and tools.

8. Right-of-use assets

The new IFRS 16 Leases became effective on 1 January 2019. IFRS 16 has no significant effect on the Company's statements of financial position and profit or loss and other comprehensive income. Discount rate applied to lease agreements in 2019 comprises 6-month EURIBOR and market research, market margin determined under the current market conditions.

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

	Assets						
	Land	**Buildings and structures**	**Machinery and plant**	**Vehicles**	**Other equipment, fittings and tools**	**Total:**	**Lease liabilities**
Balance as at 1 January 2019	**156**	**189**	**-**	**982**	**-**	**1,327**	**1,327**
Acquisitions for the year	-	100	325	2,263	84	2,772	2,772
Depreciation	(3)	(62)	(175)	(865)	(11)	(1,116)	-
Interest	-	-	-	-	-	-	84
Payments	-	-	-	-	-	-	(1,086)
Balance as at 31 December 2019	**153**	**227**	**150**	**2,380**	**73**	**2,983**	**3,097**

(all amounts are in EUR thousand unless otherwise stated)

8. Right-of-use assets (continued)

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

	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Total:	Lease liabilities
Balance as at 1 January 2019	**189**	**-**	**720**	**-**	**909**	**909**
Acquisitions for the year	226	20	1,605	84	1,935	1,935
Disposal of assets due to reorganisation*	(25)	-	-	-	(25)	-
Depreciation	(86)	(1)	(681)	(11)	(779)	
Transfer of depreciation due to reorganisation*	5	-	-	-	5	-
Interest	-	-	-	-	-	63
Payments	-	-	-	-	-	(767)
Balance as at 31 December 2019	**309**	**19**	**1,644**	**73**	**2,045**	**2,140**

*On 8 December 2019 public railway infrastructure activities together with the right-of-use assets owned by the Railway Infrastructure Directorate were transferred to AB Lietuvos Geležinkelių Infrastruktūra.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

9. Intangible assets

Intangible assets of the Group comprised the following:

	Software	Licences and similar rights	Other intangible assets	Total
Acquisition cost				
31 December 2017	**29,474**	**2,022**	**1,470**	**32,966**
- additions	793	62	10	865
- sales, disposals, write-offs	(90)	-	(601)	(691)
- reclassifications	-	-	-	-
31 December 2018	**30,177**	**2,084**	**879**	**33,140**
- additions	963	122	70	1,155
- sales, disposals, write-offs	(101)	(8)	(17)	(126)
- reclassifications	-	-	-	-
31 December 2019	**31,039**	**2,198**	**932**	**34,169**
Accumulated amortisation and impairment losses				
As at 31 December 2017	**(6,542)**	**(1,050)**	**(929)**	**(8,521)**
- amortisation	(2,649)	(448)	(211)	(3,308)
- impairment for the year	(940)	-	566	(374)
- sales, disposals, write-offs	88	-	-	88
- reclassifications	-	-	-	-
31 December 2018	**(10,043)**	**(1,498)**	**(574)**	**(12,115)**
- amortisation	(2,813)	(496)	(188)	(3,497)
- impairment for the year	-	(1)	2	1
- sales, disposals, write-offs	106	7	10	123
- reclassifications	-	-	-	-
31 December 2019	**(12,750)**	**(1,988)**	**(750)**	**(15,488)**
Carrying amount				
31 December 2017	**22,932**	**972**	**541**	**24,445**
31 December 2018	**20,134**	**586**	**305**	**21,025**
31 December 2019	**18,289**	**210**	**182**	**18,681**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

9. Intangible assets (continued)

Intangible assets of the Company comprised the following:

	Software	Licences and similar rights	Other intangible assets	Total
Acquisition cost				
31 December 2017	**29,189**	**2,021**	**459**	**31,669**
- additions	798	62	15	875
- sales, disposals, write-offs	(4)	(1)	-	(5)
- reclassifications	-	-	-	-
31 December 2018	**29,983**	**2,082**	**474**	**32,539**
- additions	965	123		1,088
- sales, disposals, write-offs	(11)	(6)	(19)	(36)
- disposal of assets due to reorganisation*	(23,371)	(169)	(420)	(23,960)
- reclassifications	-	-	-	-
31 December 2019	**7,566**	**2,030**	**35**	**9,631**
Accumulated amortisation and impairment losses				
As at 31 December 2017	**(6,236)**	**(1,049)**	**(145)**	**(7,430)**
- amortisation	(2,624)	(447)	(110)	(3,181)
- impairment for the year	(940)	-	(2)	(942)
- sales, disposals, write-offs	3	-	-	3
- reclassifications	-	-	-	-
31 December 2018	**(9,797)**	**(1,496)**	**(257)**	**(11,550)**
- amortisation	(2,572)	(493)	(100)	(3,165)
- transfer of amortisation due to reorganisation*	6,799	157	304	7,260
- impairment for the year	-	(1)	2	1
- impairment reversal for the year due to reorganisation*	52	-	-	52
- sales, disposals, write-offs	10	6	16	32
- reclassifications	-	-	-	-
31 December 2019	**(5,508)**	**(1,827)**	**(35)**	**(7,370)**
Carrying amount				
31 December 2017	**22,953**	**972**	**314**	**24,239**
31 December 2018	**20,186**	**586**	**217**	**20,989**
31 December 2019	**2,058**	**203**	**-**	**2,261**

*On 1 May 2019 freight transportation activities together with the non-current assets owned by the Freight Transportation Directorate were transferred to AB LG CARGO; on 1 September 2019 passenger transportation activities together with the non-current assets owned by the Passenger Transportation Directorate were transferred to UAB LG Keleiviams; on 8 December 2019 public railway infrastructure activities together with the non-current assets owned by the Railway Infrastructure Directorate were transferred to AB Lietuvos Geležinkelių Infrastruktūra.

The Group and the Company do not have internally generated intangible assets.

Amortisation costs of intangible assets of the Group which in 2019 amounted to EUR 2,812 thousand (EUR 2,591 thousand in 2018) are accounted for in the statement of profit or loss and other comprehensive income, under depreciation and amortisation. Amounts of EUR 3,497 thousand (EUR 3,181 thousand in 2018) included into amortisation expenses which were reduced by amortisation of grants of EUR 685 thousand (EUR 717 thousand in 2018) as disclosed in Note 19.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

9. Intangible assets (continued)

Amortisation costs of intangible assets of the Company which in 2019 amounted to EUR 2,526 thousand (EUR 2,464 thousand in 2018) are accounted for in the statement of profit or loss and other comprehensive income, under depreciation and amortisation. Amounts of EUR 3,165 thousand (EUR 3,181 thousand in 2018) included into amortisation expenses which were reduced by amortisation of grants of EUR 639 thousand (EUR 717 thousand in 2018) as disclosed in Note 19.

The Group's fully amortised intangible assets still in use amounted to EUR 4,593 thousand (EUR 870 thousand in 2018). The Company's fully amortised intangible assets still in use amounted to EUR 3,892 thousand (EUR 742 thousand in 2018). Most of fully amortised assets was software.

10. Investment property

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

	Group	Company
Acquisition cost		
31 December 2017	**1,939**	**9,932**
- acquisitions for the year	-	-
- sold, written off, disposed assets	-	-
- reclassifications	(1,086)	(46)
31 December 2018	**853**	**9,886**
- acquisitions for the year	-	-
- sold, written off, disposed assets	-	-
- disposal of assets due to reorganisation*	-	(2,067)
- reclassifications	(537)	3,696
31 December 2019	**316**	**11,515**
Accumulated depreciation and impairment losses		
As at 31 December 2017	**(475)**	**(1,755)**
- depreciation	(58)	(567)
- sold, written off, disposed assets	-	-
- reclassifications	306	26
31 December 2018	**(227)**	**(2,296)**
- depreciation	(17)	(506)
- sold, written off, disposed assets	-	-
- transfer of depreciation due to reorganisation*	-	761
- reclassifications	176	(1,190)
31 December 2019	**(68)**	**(3,231)**
Carrying amount		
31 December 2017	**1,464**	**8,177**
31 December 2018	**626**	**7,590**
31 December 2019	**248**	**8,284**

*On 1 September 2019 passenger transportation activities together with the investment property owned by the Passenger Transportation Directorate were transferred to UAB LG Keleiviams; on 8 December 2019 public railway infrastructure activities together with the investment property owned by the Railway Infrastructure Directorate were transferred to AB Lietuvos Geležinkelių Infrastruktūra.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

10. Investment property (continued)

Investment property comprised a number of buildings that are leased to the third parties. Average non-cancellable term of the lease is 3 years with possibility to prolong.

Part of the Group's investment property with the acquisition cost as at 31 December 2019 of EUR 11 thousand (at 31 December 2018 the Group had no fully depreciated investment property in use) was fully depreciated but still used in operations.

Part of the Company's investment property with the acquisition cost as at 31 December 2019 of EUR 260 thousand (at 31 December 2018 EUR 61 thousand) was fully depreciated but still used in operations. In 2019 and 2018, the Group had no fully depreciated investment property still in use.

11. Investments

The movement of investments of the Company to subsidiaries and other companies:

Company name	Owned share, %	2019			2018		
		Investment value	Accounted impairment	Carrying amount	Investment value	Accounted impairment	Carrying amount
Shares of associates							
UAB Voestalpine VAE Legetecha	34	745	-	745	745	-	745
VšĮ Transporto Inovacijų Centras	33.33	86	(49)	37	-	-	-
RB Rail AS	33.33	3,900	(1,596)	2,304	3,250	(1,049)	2,201
UAB Lokomotyvai ir Transporto Komponentai	25	72	(72)	-	72	(72)	-
		4,803	**(1,717)**	**3,086**	**4,067**	**(1,121)**	**2,946**
Long-term investments							
Brussels Centralised Payment Centre	1.34	2	-	2	2	-	2
		2	**-**	**2**	**2**	**-**	**2**
Application of equity method		-	-	1,597	-	-	1,275
Total		**4,805**	**(1,717)**	**4,685**	**4,069**	**(1,121)**	**4,223**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

11. Investments (continued)

The movement of investments of the Company to subsidiaries and other companies:

Company name		Owned share, %	2019 Investment value	2019 Accounted impairment	2019 Carrying amount	2018 Investment value	2018 Accounted impairment	2018 Carrying amount
Shares of subsidiaries								
AB LG CARGO	a)	100	39,602	-	39,602	30,000	-	30,000
UAB LG Keleiviams	b)	100	142,778	-	142,778	-	-	-
AB Lietuvos Geležinkelių Infrastruktūra	c)	100	673,668	-	673,668	-	-	-
UAB Geležinkelio Tiesimo Centras	d)	100	24,752	-	24,752	24,752	-	24,752
UAB Vilniaus Lokomotyvų Remonto Depas		100	15,252	-	15,252	15,252	-	15,252
UAB Gelsauga	e)	100	3,002	-	3,002	3,456	-	3,456
UAB Saugos Paslaugos	e)		454	-	454	-	-	-
UAB Rail Baltica Statyba	f)	100	4,804	(2,406)	2,398	4,154	(2,023)	2,131
LUAB Geležinkelių Aplinkosaugos Centras	g)	100	-	-	-	988	(988)	-
BAB Lietuvos Jūrų Laivininkystė	h)	56.66	-	-	-	469	(469)	-
VšĮ Geležinkelių Logistikos Parkas		79.61	265	(265)	-	265	(265)	-
			904,577	**(2,671)**	**901,906**	**79,336**	**(3,745)**	**75,591**
Shares of associates								
UAB Voestalpine VAE Legetecha		34	745	-	745	745	-	745
VšĮ Transporto Inovacijų Centras	i)	33.33	86	(49)	37	-	-	-
			831	**(49)**	**782**	**745**	**-**	**745**
Long-term investments								
Brussels Centralised Payment Centre		1.34	2	-	2	2	-	2
			2	**-**	**2**	**2**	**-**	**2**
Total			**905,410**	**(2,720)**	**902,690**	**80,083**	**(3,745)**	**76,338**

As at 31 December 2019, the programme of the refinement of the activities of Lietuvos Geležinkeliai group was implemented. After the separation of activities, four new subsidiaries became part of LG Group: On 1 May 2019 AB LG CARGO was split-off, on 10 June 2019, UAB Saugos Paslaugos was established by reorganisation of UAB Gelsauga, on 1 September 2019, UAB LG Keleiviams and on 8 December 2019 AB Lietuvos Geležinkelių Infrastruktūra were split-off.

a) On 28 December 2018 AB LG CARGO was established and the authorised share capital of EUR 30,000 thousand was formed issuing 103,585 ordinary registered shares with the par value of EUR 289.62 each. While implementing the programme LG Changes, on 1 May 2019 AB Lietuvos Geležinkeliai fully implemented the reorganisation related to freight transportation business and transferred the activities of the Freight Transportation Directorate to the Company. The transfer of activities from the Company is assessed as a transaction of joint ventures. During the first stage AB LG CARGO purchased the rolling stock (rolling stock fleet) from the Company at the market value of EUR 192,779 thousand as determined by an independent appraiser. 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 the Company, the difference of EUR 3,994 thousand between market and carrying amounts has been accounted for as a reduction of the investment in AB LG

11. Investments (continued)

CARGO; during the second stage on 1 May 2019 business of the value of EUR 13,596 thousand was transferred to AB LG CARGO; business relocation based on the selected reorganization policy is treated as business transfer and accounted for at carrying amounts as an increase in the investment in AB LG CARGO; i.e., the carrying amount of the transferred assets amounted to EUR 29,564 thousand and liabilities to EUR 15,968 thousand.

b) On 28 February 2019 UAB LG Keleiviams was established and the authorised share capital of EUR 150 thousand was formed issuing 150 ordinary registered shares with the par value of EUR 1 thousand each. During the implementation of the LG Changes programme, on 1 September 2019, the Company fully completed the reorganization related to rail passenger and luggage transportation business and related services and transferred the business of the Passenger Transportation Directorate as a property complex to UAB LG Keleiviams. Business transaction with the carrying amount of EUR 142,628 thousand based on the selected reorganization policy is treated as business transfer and has been accounted for at carrying amounts, as an increase in the investment in UAB LG Keleiviams; i.e., the carrying amount of the transferred assets amounted to EUR 147,263 thousand and liabilities to EUR 4,635 thousand.

c) On 1 July 2019 AB Lietuvos Geležinkelių Infrastruktūra was established and the authorised share capital of EUR 150 thousand was formed issuing 150 ordinary registered shares with the par value of EUR 1 thousand each. While implementing the programme LG Changes, on 8 December 2019 AB Lietuvos Geležinkeliai fully implemented the reorganisation related to railway infrastructure business and transferred the activities of the Railway Infrastructure Directorate to AB Lietuvos Geležinkelių Infrastruktūra. Business transaction with the carrying amount of EUR 673,518 thousand based on the selected reorganization policy is treated as business transfer and has been accounted for at carrying amounts, as an increase in the investment in AB Lietuvos Geležinkelių Infrastruktūra; i.e., the carrying amount of the transferred assets amounted to EUR 1,468,993 thousand and liabilities to EUR 795,475 thousand.

d) On 27 July 2018, the Company adopted a decision to increase the authorised capital of UAB Geležinkelio Tiesimo Centras by a contribution in kind of EUR 15,999 thousand, the size of which was reduced by EUR 8,319 thousand as at 31 December 2018. The increase of authorised capital by EUR 15,999 thousand was registered on 21 November 2018, and adjustment that was made as at 31 December 2018, due to improper valuation of the transferred assets, was registered in the financial statements of UAB Geležinkelio Tiesimo Centras on 7 October 2019;

e) As a result of reorganisation of UAB Gelsauga by way of split-off, on 25 February 2019 the Company adopted a decision to establish a company of the same legal form – UAB Saugos Paslaugos. On 10 June 2019, after the registration of the Articles of Association of UAB Saugos Paslaugos, the authorised share capital of UAB Saugos Paslaugos was increased by EUR 454 thousand and that of UAB Gelsauga – reduced by EUR 454 thousand.

f) On 17 August 2018, the Company made a decision to increase the authorised capital of UAB Rail Baltica Statyba by EUR 650 thousand additional contributions. Increase of the authorised capital was registered on 24 August 2018. On 15 July 2019, the Company made a decision to increase the authorised capital of UAB Rail Baltica Statyba by EUR 650 thousand additional contributions. Increase of the authorised capital was registered on 25 July 2019;

g) On 1 January 2019 LUAB Geležinkelių Aplikosaugos Centras was deregistered from the Register of Legal Entities.

h) On 5 December 2019, a statement was received from the bankruptcy administrator regarding the deregistration of LAB Lietuvos Jūrų Laivininkystė from the Register of Legal Entities;

i) On 8 February 2019, VšĮ Transporto Inovacijų Centras was established with the purpose of innovation promotion in the field of transport and communications. The authorised share capital of VšĮ Transporto Inovacijų Centras amounted to EUR 86 thousand, from which the Company's part comprised EUR 86 thousand. On 8 August 2019, AB Kelių Priežiūra also became the shareholder of VšĮ Transporto Inovacijų Centras thus reducing the share controlled by the Company to 50%. As of 28 August 2019, AB Kelių Priežiūra (33%) and AB Lietuvos Paštas (33%) jointed the activities of VšĮ Transporto Inovacijų Centras as shareholders. The Company's share in VšĮ Transporto Inovacijų Centras decreased to 33%.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

11. Investments (continued)

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

	Investment value
Acquisition value as at 31 December 2017	40,161
Increase (+)	38,331
Decrease (-)	(2,154)
Acquisition value as at 31 December 2018	76,338
Effect of reorganisation*	825,748
Increase (+)	1,035
Decrease (-)	(431)
Acquisition value as at 31 December 2019	**902,690**

*Based on the selected reorganization policy business transfer transactions were carried out at carrying amounts. On 1 May 2019, the carrying amount of EUR 9,602 thousand of assets and liabilities of freight transportation business was transferred to AB LG CARGO; on 1 September 2019, the carrying amount of EUR 142,628 thousand of assets and liabilities of passenger transportation business was transferred to AB LG Keleiviams; on 8 December 2019, the carrying amount of EUR 673,518 thousand of assets and liabilities of public railway infrastructure business was transferred to AB Lietuvos Geležinkelių Infrastruktūra.

12. Inventories

The Group's and the Company's inventories comprised:

	Group		Company	
	2019	2018	2019	2018
Spare parts	12,305	9,926	10	2,539
Materials of the upper railway part	13,761	15,278	43	14,170
Materials	4,705	7,378	146	5,822
Fuel	5,453	8,758	4,387	8,681
Other inventories	1,323	1,220	439	697
Total raw materials, materials and component parts	37,547	42,560	5,025	31,909
Goods for resale	1,095	1,530	624	1,530
Total goods for resale	1,095	1,530	624	1,530
Non-current assets held-for-sale	2,368	598	138	598
Total on-current assets held-for-sale	2,368	598	138	598
Total	**41,010**	**44,688**	**5,787**	**34,037**

The carrying amount of the Group's inventories of EUR 46,157 thousand was reduced by EUR 5,147 thousand to the net realizable value as at 31 December 2019 (the carrying amount of EUR 51,937 thousand was reduced by EUR 7,249 thousand to the net realizable value as at 31 December 2018).

The carrying amount of the Company's inventories of EUR 6,829 thousand was reduced by EUR 1,042 thousand to the net realizable value as at 31 December 2019 (the carrying amount of EUR 40,581 thousand was reduced by EUR 6,544 thousand to the net realizable value as at 31 December 2018).

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

As at 31 December 2019, the Company's inventories decreased by EUR 28,250 thousand. Mostly, the decrease of inventories was determined by the transfer of inventory balances of EUR 22,636 thousand at carrying amounts due to reorganisation to AB LG CARGO, UAB LG Keleiviams and AB Lietuvos Geležinkelių Infrastruktūra. During 2019 inventories of EUR 36,826 thousand were written off to cost of sales.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

13. Trade and other receivables

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

	Group		Company	
	2019	2018	2019	2018
Gross external trade debtors	31,898	25,513	6,988	23,782
Impairment allowance (-)	(3,004)	(2,065)	(33)	(1,771)
Total external trade receivables	**28,894**	**23,448**	**6,955**	**22,011**
Receivables from related parties	14	2,826	15,384	12,423
Impairment allowance (-)	-	(2,826)	-	(2,826)
Total receivables from related parties	**14**	**-**	**15,384**	**9,597**
Receivable VAT	27,747	2,258	-	1,908
Other amounts receivable from the budget	13,201	633	12,427	360
Accrued other amounts receivable from related parties	-	-	2,524	-
Accrued income	2,221	464	-	451
Assets arising from contracts with customers	176	-	-	-
Other receivables	10,454	16,552	5,150	16,395
Impairment allowance (-)	(4,424)	(4,424)	(4,276)	(4,424)
Total other receivables	**49,375**	**15,483**	**15,825**	**14,690**
Total	**78,283**	**38,931**	**38,164**	**46,298**

The Company accrued other amounts receivable from related parties of EUR 2,524 thousand for management services rendered to Group companies.

In 2019, the Company's trade and other receivables compared to 2018 decreased by EUR 8,134 thousand which was mostly determined by the transfer of assets and liabilities at carrying amounts to the newly established companies. In 2019, the Group's trade and other receivables compared to 2018 increased by EUR 39,368 thousand which was mostly determined by the accounting for repayable VAT of EUR 26,439 by AB LG CARGO; i.e. the difference between the payable and receivable VAT, the larger part of which was repaid in April 2020.

14. Prepayments

Prepayments of the Group and the Company comprised:

	Group		Company	
	2019	2018	2019	2018
Prepayments	4,973	1,148	98	98
Guaranties paid to suppliers	40	53	30	53
Deferred costs	1,711	1,138	1,041	1,101
Total	**6,724**	**2,339**	**1,169**	**1,252**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

15. Cash and cash equivalents

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

	Group		Company	
	2019	2018	2019	2018
Cash in banks	105,108	92,798	50,533	54,743
Cash in hand	45	34	-	31
Total	**105,153**	**92,832**	**50,533**	**54,774**

As at 31 December 2019 and 2018, the Group and the Company had no term deposits. Cash was not pledged.

In order to ensure more efficient fund management and ensure the liquidity of the Group's companies, on 21 December 2018 the Group's cash-pool agreement was signed with Swedbank, AB. Under this agreement, the members of the Group may borrow and lend funds to the members of the Group on a mutual borrowing platform for a maximum period of one year. As at 31 December 2019, the debt of UAB Geležinkelio Tiesimo Centras to cash-pool was EUR 1,486 thousand. During 2019, the Group's members used cash-pool funds based on their needs, interest of EUR 14 thousand was calculated.

As at 31 December 2019, due to bank guarantees issued, the use of cash and cash equivalents of EUR 116 thousand was restricted.

16. Share capital

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

	Authorised share capital	Number of shares, items
Subscribed capital		
31 December 2017	1,057,982	3,653,002
Increase	650	2,245
Decrease	-	-
31 December 2018	1,058,632	3,655,247
Increase	650	2,245
Decrease	-	-
31 December 2019	1,059,282	3,657,492
Capital structure at the end of reporting period		
By type of shares	-	-
Ordinary shares	1,059,282	3,657,492
Privileged shares	-	-
Total	**1,059,282**	**3,657,492**

Contributions for increase of share capital

On 27 December 2018 the authorised capital of the Company was increased by additional contributions of EUR 650 thousand, issuing 2,245 ordinary registered shares. The authorised capital was increased implementing Resolution No. 677 of the Government of the Republic of Lithuania as of 11 July 2018.

On 1 July 2019, the Minister of Transport and Communications of the Republic of Lithuania issued Order No. 3-325 and increased the authorised capital of the Company by a contribution of EUR 650 thousand, issuing 2,245 ordinary registered shares. The authorised capital was increased implementing Resolution No. 607 of the Government of the Republic of Lithuania as of 19 June 2019. The increase of the authorised capital was registered on 25 July 2019.

17. Dividends

Payment of dividends by the State controlled companies is regulated by the Government of the Republic of Lithuania Resolution No. 786 which states what share of profit shall be attributed to pay the dividends depending on the return on equity (ROE). Amount of dividends to be paid varies from 85% to 60% of the total amount of retained earnings depending on the achieved levels of ROE (from 1% to more than 15%). Also, the Resolution regulates cases when the Government of the Republic of Lithuania may set a lower share of profits for distribution, if a company implements or participated in the implementation of an important economic project to the State. In case of the Company, important projects are Rail Baltica and Lithuanian part of the East West Transport Corridor (the infrastructure complex of Klaipėda State Sea Port, roads and railways).

Based on Order No 3-195 of the Minister of Transport and Communications dated 25 April 2019, a decision to allocate to dividends EUR 43,000 thousand from the Company's retained earnings of 2018 was taken; payments were made on 20 May 2019 (EUR 13,000 thousand), 20 June 2019 (EUR 15,000 thousand) and 19 July (EUR 15,000 thousand).

Drafts of profit (loss) appropriation of the Company and subsidiaries are prepared only based on the decision of the General Meeting of Shareholders after the set of annual financial statements has been approved; the shareholder will allocate the profit (loss) for distribution of the Company and subsidiaries considering the external and internal legal acts regulating the payment of dividends and other conditions.

18. Reserves

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

Other reserves. As at 31 December 2019, the Company's other reserves' balance consisted of reserves for investments of EUR 5,863 thousand.

Explanatory notes (continued)

19. Grants

Movement of grants of the Group and the Company:

	Group		Company	
	2019	2018	2019	2018
Balance at the beginning of the period	**538,882**	**520,962**	**538,815**	**520,868**
Received during the year	39,714	36,250	37,476	36,251
Used for reduction of depreciation costs of non-current assets	(16,078)	(15,327)	(14,704)	(15,301)
Used for reduction of other expenses	(1,301)	(2,353)	(992)	(2,353)
Increased authorised capital	(650)	(650)	(650)	(650)
Repaid/transferred to the account of liabilities to partners	(4,552)	-	(4,552)	-
Effect of reorganisation*	-	-	(554,668)	-
Balance at the end of the period	**556,015**	**538,882**	**725**	**538,815**
Including assets managed under right of trust	**228,248**	**224,394**	**-**	**224,394**

*On 8 December 2019 public railway infrastructure activities together with the grants owned by the Railway Infrastructure Directorate were transferred to AB Lietuvos Geležinkelių Infrastruktūra.

20. Loans and borrowings

Borrowings of the Group and the Company comprised:

	Group		Company	
	2019	2018	2019	2018
Non-current loans	153,641	181,220	23,849	181,106
Current loans	27,574	29,706	12,894	29,664
Total	**181,215**	**210,926**	**36,743**	**210,770**

As at 31 December 2019, the Company's financial debts decreased by EUR 174,027 thousand. The decrease was mostly driven by the transfer of loans of EUR 144,364 thousand to AB Lietuvos Geležinkelių Infrastruktūra due to reorganisation. During 2019, the Company repaid EUR 29,664 thousand of loans and paid EUR 3,375 thousand of interest, EUR 126 thousand of liabilities and other charges. As at 31 December 2019, accrued interest of the Group and the Company comprised EUR 769 thousand and EUR 308 thousand, respectively (31 December 2018: EUR 910 thousand, respectively).

The Group's loans comprised:

	Loan currency	2019	2018
Bank EIB- 2, total [2]	EUR	4,409	10,227
Bank EIB- 3, total [3]	EUR	5,000	6,818
Bank EIB- 4, total [4]	EUR	27,334	34,000
Nordic Investment Bank-1, total [1]	EUR	-	790
Nordic Investment Bank-2, total [1]	EUR	9,444	13,222
Nordic Investment Bank-3, total [1]	EUR	91,936	99,290
Nordic Investment Bank-4, total [1]	EUR	42,984	46,423
AB Šiaulių Bankas[5]	EUR	108	156
Total		**181,215**	**210,926**

Explanatory notes (continued)

20. Loans and borrowings (continued)

The Company's loans comprised:

	Loan currency	2019	2018
Bank EIB- 2, total [2]	EUR	4,409	10,227
Bank EIB- 3, total [3]	EUR	5,000	6,818
Bank EIB- 4, total [4]	EUR	27,334	34,000
Nordic Investment Bank-1, total [1]	EUR	-	790
Nordic Investment Bank-2, total [1]	EUR	-	13,222
Nordic Investment Bank-3, total [1]	EUR	-	99,290
Nordic Investment Bank-4, total [1]	EUR	-	46,423
Total		**36,743**	**210,770**

[1] On 8 December 2019 all loans concluded between the Company and the Nordic Investment Bank equal to EUR 144,364 thousand were transferred to AB Lietuvos Geležinkelių Infrastruktūra by re-signing the loan agreements. During 2019, the Company repaid EUR 15,361 thousand, EUR 2,122 thousand of interest and EUR 126 thousand of liabilities and other charges.

[2] On 16 June 2006 the Company and the European Investment Bank signed a loan agreement for EUR 64,000 thousand (EIB-2) to be used for the procurement of new railway rolling stocks. During 2019 the Company paid EUR 5,818 thousand of the loan and EUR 307 thousand of interest.

[3] On 29 March 2010 the Company and the European Investment Bank signed a loan agreement for EUR 20,000 thousand (EIB-3) to be used for the procurement of new railway rolling stocks. During 2019 the Company paid EUR 1,818 thousand of the loan and EUR 136 thousand of interest.

[4] On 3 June 2013 the Company and the European Investment Bank signed a loan agreement for EUR 50,000 thousand (EIB-4) to be used for the procurement of new railway rolling stocks. Interest for each share of loan is set individually. During 2019 the Company paid EUR 6,667 thousand of the loan and EUR 810 thousand of interest.

[5] On 16 March 2018, UAB Gelsauga entered into a trilateral agreement with UAB Vensva and AB Šiaulių Bankas. Under the conditions of finance lease agreement, the assets with the value of EUR 206 thousand were transferred to UAB Gelsauga. The balance of financial liability comprised EUR 108 thousand as at 31 December 2019.

On 18 December 2015 the Company and the European Investment Bank signed a new loan agreement (EIB-5) for EUR 68,000 thousand. The loan is granted for funding of 2014-2020 investment projects, namely, reconstruction and modernisation of public railway infrastructure and the procurement of passenger rolling stocks. After the change of the list of projects, in March 2019 the agreement was terminated.

Loan interest rates, maturity terms and financial covenants to be complied with by the Group and the Company are disclosed in Note 6. As at 31 December 2019 and 2018, the Group and the Company complied with all the financial debt covenants.

Pursuant to the provisions of the financing agreements signed between the Company and the European Investment Bank (EIB) and the Nordic Investment Bank (NIB), the split-off of the Company's business activities was possible only with the consent of the banks. For this reason, AB LG CARGO and UAB LG Keleiviams have entered into guarantee agreements for securing liabilities – first call guarantees, thus ensuring the fulfilment of all liabilities of AB Lietuvos Geležinkeliai under financing agreements before completion of the restructuring process. As at 31 December 2019 those liabilities amounted to EUR 181,106 thousand. On 8 December 2019, non-current liabilities to NIB were transferred to AB Lietuvos Geležinkelių Infrastruktūra. The Company guaranteed NIB for the fulfilment of liabilities transferred to AB Lietuvos Geležinkelių Infrastruktūra under financing agreements; however, the guarantee agreement signed between the NIB and the Company will only become effective after the completion of the loan restructuring process; i.e. after the transfer of all non-current liabilities to external creditors to subsidiaries.

21. Lease liabilities

The Company leases buildings and other assets (vehicles and buildings). 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. 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

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

21. Lease liabilities (continued)

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 as expenses in the statement of profit or loss and other comprehensive income.

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

	2019
Assets:	
Right-of-use assets	2,983
Non-current liabilities:	
Lease liabilities	(1,843)
Current liabilities:	
Lease liabilities	(1,254)
Impact on the statement of profit or loss	**(114)**

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

	2019
Depreciation expenses	(1,116)
Lease expenses	1,086
Profit (loss) from operations	**(30)**
Finance costs:	
Interest	(84)
Profit (loss) for the reporting period	**(114)**

Impact on the Group's statement of cash flows (increase / (decrease)) as at 31 December 2019:

	2019
Net profit (loss)	**(114)**
Depreciation and amortisation expenses	1,116
Interest on lease liabilities	84
Cash flows from (to) investing activities	
Payment of lease liabilities	(1,002)
Interest on lease liabilities	(84)
Net increase (decrease) in cash flows	**-**

(all amounts are in EUR thousand unless otherwise stated)

21. Lease liabilities (continued)

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

	2019
Assets:	
Right-of-use assets	2,045
Non-current liabilities:	
Lease liabilities	(1,223)
Current liabilities:	
Lease liabilities	(917)
Impact on the statement of profit or loss	**(95)**

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

	2019
Depreciation expenses	(774)
Lease expenses	742
Profit (loss) from operations	**(32)**
Finance costs:	
Interest	(63)
Profit (loss) for the reporting period	**(95)**

Impact on the Company's statement of cash flows (increase / (decrease)) as at 31 December 2019:

	2019
Net profit (loss)	**(95)**
Depreciation and amortisation expenses	774
Interest on lease liabilities	63
Cash flows from (to) investing activities	**-**
Payment of lease liabilities	(679)
Interest on lease liabilities	(63)
Net increase (decrease) in cash flows	**-**

If the discount rate applicable at the Company increased or decreased by 1 percent, the amount of lease liabilities as at 31 December 2019 would accordingly make up EUR 2,113 thousand or EUR 2,162 thousand accordingly.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

22. Employee benefits

According to the legislative requirements of the Republic of Lithuania, each employee of the Company at the age of retirement is entitled to a one-off payment in the amount of 2-month salary. In addition, under the effective collective agreement, payment of up to 1 month average remuneration is paid to an employee who has served for 25 years or more. Jubilee payments also comprise provisions for pensions and similar liabilities. Under the collective agreement effective at the Group and the Company, a payment of EUR 300 is paid to members of trade unions when they reach the ages of 50 and 60 years.

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

	Group	Company
Balance as at 31 December 2017	**11,725**	**10,174**
Formed additionally (+)	-	-
Used (-)	(1,997)	(1,657)
Balance as at 31 December 2018	**9,728**	**8,517**
Formed additionally (+)	1,292	405
Effect of reorganisation (-)*	-	(8,547)
Used (-)	(282)	727
Balance as at 31 December 2019	**10,738**	**1,102**

* On 1 May 2019 freight transportation activities together with the liabilities assumed by the Freight Transportation Directorate were transferred to AB LG CARGO; on 1 September 2019 passenger transportation activities together with the liabilities assumed by the Passenger Transportation Directorate were transferred to UAB LG Keleiviams; on 8 December 2019 public railway infrastructure activities together with the liabilities assumed by the Railway Infrastructure Directorate were transferred to AB Lietuvos Geležinkelių Infrastruktūra.

Main assumptions applied in assessment of the Company's non-current employee benefit liability are provided below:

	2019	2018
Discount rate, %	0.65	1.28
Staff turnover ratio, %	7.38	5.70
Salary increase rate, %	3.00	1.50

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

22. Employee benefits (continued)

Change in the Group's employee benefits during 2019 by type:

	2018	Calculated to the statement of profit or loss and other comprehensive income	Calculated capitalised costs	Paid	2019
Non-current liabilities					
Provisions for pensions and similar obligations	9,728	1,197	-	(187)	10,738
Total non-current liabilities:	**9,728**	**1,197**	**-**	**(187)**	**10,738**
Current liabilities					
Vacation pay accrual	12,511	7,641	-	(7,300)	12,852
Payable remuneration	970	92,573	12,542	(99,584)	6,501
Payable social insurance contributions	5,358	35,472	220	(37,571)	3,479
Payable personal income tax contributions	154	34,597	-	(32,504)	2,247
Other employment related liabilities	7,875	5,101	-	(5,923)	7,053
Total current liabilities:	**26,868**	**175,384**	**12,762**	**(182,882)**	**32,132**
Total	**36,596**	**176,581**	**12,762**	**(183,069)**	**42,870**

Change in the Company's employee benefits during 2019 by type:

	2018	Calculated to the statement of profit or loss and other comprehensive income	Calculated capitalised costs	Paid	Effect of reorganisation	2019
Non-current liabilities						
Provisions for pensions and similar obligations	8,517	1,203	-	(71)	(8,547)	1,102
Total non-current liabilities:	**8,517**	**1,203**	**-**	**(71)**	**(8,547)**	**1,102**
Current liabilities						
Vacation pay accrual	9,073	2,088	-	(749)	(8,339)	2,073
Payable remuneration	623	63,691	268	(58,298)	(4,815)	1,201
Payable social insurance contributions	4,066	26,025	6	(28,130)	(1,070)	891
Payable personal income tax contributions	122	21,496	-	(20,364)	(836)	418
Other employment related liabilities	6,980	1,266	-	(4,099)	(2,666)	1,481
Total current liabilities:	**20,864**	**114,566**	**274**	**(111,640)**	**(17,726)**	**6,064**
Total	**29,381**	**115,769**	**274**	**(111,711)**	**(26,273)**	**7,166**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

22. Employee benefits (continued)

Change in the Company's employee benefits during 2019 by type:

	Group		Company	
	2019	2018	2019	2018
Vacation pay accrual	12,852	12,511	2,073	9,073
Payable remuneration	6,501	970	1,201	623
Payable social insurance contributions	3,479	5,358	891	4,066
Payable personal income tax contributions	2,247	154	418	122
Other employment related liabilities	7,053	7,875	1,481	6,980
Total	**32,132**	**26,868**	**6,064**	**20,864**

23. Provisions

Other provisions of the Group and the Company comprised:

	Group		Company	
	2019	2018	2019	2018
Non-current provisions	15,900	15,900	1,500	15,900
Current provisions	1,492	1,138	715	567
Total	**17,392**	**17,038**	**2,215**	**16,467**

In 2019 and 2018, the Group's non-current provisions mainly comprised provisions for legal proceedings as disclosed in Note 32.

The movement in provisions could be specified:

	Group	Company
Balance as at 31 December 2017	14,614	14,400
Formed additionally (+)	2,431	2,067
Used (-)	(7)	-
Balance as at 31 December 2018	17,038	16,467
Formed additionally (+)	383	355
Used (-)	(29)	(207)
Effect of reorganisation (-)*	-	(14,400)
Balance at 31 December 2019	**17,392**	**2,215**

*On 8 December 2019 public railway infrastructure activities together with the provision for other legal proceedings owned by the Railway Infrastructure Directorate were transferred to AB Lietuvos Geležinkelių Infrastruktūra.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

24. Trade and other payables

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

	Group		Company	
	2019	2018	2019	2018
Trade payables	26,003	21,134	9,555	17,308
Trade payables to related parties	1,084	1,159	8,182	20,285
Cash guarantees received	4,714	4,703	2,978	5,202
Other taxes payable to the budget	6,129	1,703	905	689
Accumulated service costs of foreign railways	1,243	496	-	496
Accrued other amounts payable from related parties	-	-	6,731	-
Other accrued costs	930	1,457	218	562
Liabilities arising from contracts with customers	175	-	-	-
Other amounts payable and liabilities	5,861	247	1,603	113
Total	**46,139**	**30,899**	**30,172**	**44,655**

Under other accrued expenses, the Group and the Company accounted for audit service expenses of EUR 214 thousand (2018: EUR 179 thousand) and EUR 33 thousand (2018: 120 thousand), respectively.

At the Company, accrued expenses comprised accruals of not invoiced management services to related parties.

25. Received prepayments

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

	Group		Company	
	2019	2018	2019	2018
Received prepayments, non-current portion	-	541	-	541
Received prepayments, current portion	19,945	16,255	1,169	16,492
Total	**19,945**	**16,796**	**1,169**	**17,033**

In 2019, the major part of the prepayments received by the Group comprised EUR 13,000 thousand of project implementation funds received in advance, which, after having signed a grant agreement, will be accounted for as grants. In 2018, the Group's and the Company's project implementation funds received in advance comprised EUR 11,741 thousand.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

26. Sales

Sales revenue of the Group and the Company comprised:

	Group		Company	
	2019	**2018**	**2019**	**2018**
Freight transportation income:	416,600	418,132	137,274	419,186
Freight transportation on local routes	85,326	80,037	25,769	81,091
Freight transportation on international routes	212,838	217,238	70,865	217,238
Provision of services related to freight transportation	118,436	120,857	40,640	120,857
Income for the use of public railway infrastructure	571	-	131,191	103
Passenger transportation income:	28,402	27,224	19,961	27,295
Passenger transportation on local routes	13,530	13,872	9,400	13,943
Passenger transportation on international routes	14,573	13,068	10,357	13,068
Provision of services related to passenger transportation	299	284	204	284
Other revenue:	27,968	22,596	69,444	15,903
Leased assets	1,116	1,173	3,678	4,219
Locomotive and locomotive crew work abroad	4,874	4,205	1,798	4,205
Maintenance and repairs	4,304	6,596	1,198	1,024
Electricity, gas, vapour and water supply	941	867	2,185	1,511
Wholesale trade	8,063	3,649	39,334	985
Management services	-	-	13,012	-
Other services	8,670	6,106	8,239	3,959
Total	**473,541**	**467,952**	**357,870**	**462,487**

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

	Group		Company	
	2019	**2018**	**2019**	**2018**
Recognised at a point in time	467,877	460,183	352,994	457,244
Recognised over time	5,664	7,769	4,876	5,243
Total	**473,541**	**467,952**	**357,870**	**462,487**

27. Other income

In 2019, the Group's and the Company's other operating income comprised EUR 31,933 thousand (EUR 27,896 thousand in 2018) and EUR 20,693 thousand (EUR 30,484 thousand in 2018), respectively. Loss compensation for passenger transportation on local routes comprised the major part of other operating income. From 1 January 2019 until 1 September 2019 the measure of rail passenger transportation services unprofitable for the carrier but necessary for society according to the programme "Ensuring communication by rail" was implemented by the Company, and from 1 September 2019 until 31 December 2019 – the subsidiary UAB LG Keleiviams. During 2019, the Company's income for loss compensation amounted to EUR 19,684 thousand (2018: EUR 27,000 thousand), at the Group – EUR 30,086 thousand (2018: EUR 27,000 thousand).

The Group's and the Company's profit from sales of non-current assets in 2019 comprised EUR 950 thousand and EUR 558 thousand accordingly (2018: EUR 657 thousand and EUR 3,341 thousand accordingly).

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

28. Employee benefits

The Group's employee benefits expenses by type:

	2019	2018
Wages and salaries	(165,313)	(129,407)
Social security costs	(2,430)	(39,742)
Vacation accrual	(7,641)	(1,138)
Pensions and similar obligations	(1,197)	(1,567)
Total	**(176,581)**	**(171,854)**

The Company's employee benefits expenses by type:

	2019	2018
Wages and salaries	(111,245)	(112,360)
Social security costs	(2,209)	(32,916)
Vacation accrual	(1,183)	290
Pensions and similar obligations	(1,132)	1,657
Total	**(115,769)**	**(143,329)**

29. Result from financing activities

Result from financing activities of the Group and the Company comprised:

	Group		Company	
	2019	2018	2019	2018
Total finance income	199	165	3,309	348
Interest	-	9	1,087	4
Currency exchange gain	38	90	118	91
Dividends	-	-	2,077	149
Fines and penalties	209	66	74	104
Other income	(48)	-	(47)	-
Total finance costs	(3,535)	(3,883)	(3,180)	(3,847)
Interest	(3,239)	(4,062)	(3,077)	(4,008)
Currency exchange loss	-	-	-	-
Expenses of fines and interest on late payment	(199)	-	(40)	-
Other expenses	(97)	179	(63)	161
Total	**(3,336)**	**(3,718)**	**129**	**(3,499)**

During 2019, the Company received EUR 1,850 thousand dividends from UAB Gelsauga and EUR 227 thousand from UAB Voestalpine VAE Legetecha.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

30. Corporate income and deferred tax

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

	Group		Company	
	2019	2018	2019	2018
Income tax for the year	6,007	12,826	2,861	11,564
Adjustment to income tax of the previous year	(2,612)	(41)	(2,612)	(41)
Deferred tax expenses (income)	10,202	2,991	9,824	2,752
Total corporate income tax expenses (income) recognised in profit or loss	**13,597**	**15,776**	**10,073**	**14,275**

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

	Group		Company	
	2019	2018	2019	2018
Profit (loss) before tax	71,692	70,582	49,412	67,794
Corporate income tax	10,754	10,587	7,412	10,169
Non-deductible expenses	4,126	4,660	3,174	4,543
(Deductible) expenses	(8,496)	(54)	(6,605)	-
Income increasing income tax	544	-	544	-
Income (reducing) income tax	(1,293)	(464)	(1,248)	(396)
Total corporate income tax (income) expenses	**5,635**	**14,729**	**3,277**	**14,316**
Effective rate, %	7.86%	20.87%	6.63%	21.12%

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

30. Corporate income and deferred tax (continued)

Deferred tax assets (liabilities)

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

	Group		Company			
	2019	2018	2018	Effect of reorganisation	Change during 2019	2019
Deferred income tax assets:						
Impairment of amounts receivable and write-off of bad debts	380	314	270	(192)	(72)	6
Write down of inventories	860	1,077	981	(587)	(238)	156
Vacation and bonus accruals	2,593	2,492	2,408	(1,080)	(795)	533
Liabilities of long-term employee benefits	1,075	1,698	1,278	(747)	(366)	165
Accrued expenses	16	-	-	-	5	5
Difference between accounting and tax value of non-current assets	499	-	-	-	-	-
Other provisions	300	307	54	-	53	107
Tax losses carried forward	270	380	-	-	-	
Deferred income tax assets	5,993	6,268	4,991	(2,606)	(1,413)	972
Deferred income tax liabilities:						
Difference between accounting and tax value of non-current assets	(12,845)	(2,140)	(2,242)	11,915	(9,109)	564
Difference in grants	(7,589)	(8,096)	(8,096)	7,338	698	(60)
Deferred tax liability	(20,434)	(10,236)	(10,338)	19,253	(8,411)	504
Net deferred tax assets (liabilities)	**(14,441)**	**(3,968)**	**(5,347)**	**16,647**	**(9,824)**	**1,476**
Recognised as deferred tax assets in the statement of financial position	3,307	1,383	-	16,647	-	1,476
Recognised as deferred tax liabilities in the statement of financial position	(17,748)	(5,351)	(5,347)	-	(9,824)	-

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

31. Related party transactions

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

As defined by IAS 24 *Related Party Disclosures*, the entity is related to a reporting entity if any of the following conditions applies:

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

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

31. Related party transactions (continued)

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

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

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

Financial statements of the Group's subsidiaries and associates:

2019	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Ownership
AB LG CARGO	191,276	94,252	149,348	77,989	58,191
UAB LG Keleiviams	142,023	12,011	847	9,246	143,941
AB Lietuvos Geležinkelių Infrastruktūra	1,396,144	67,782	723,274	68,380	672,272
UAB Geležinkelio Tiesimo Centras	29,101	8,279	754	5,729	30,897
UAB Vilniaus Lokomotyvų Remonto Depas	14,253	35,653	3,521	17,776	28,609
UAB Gelsauga	-	5,048	-	1,134	3,914
UAB Saugos Paslaugos	182	1,429	156	875	580
UAB Rail Baltica Statyba	2,304	107	-	13	2,398
UAB Voestalpine VAE Legetecha	4,597	7,674	3	2,583	9,685
VšĮ Transporto Inovacijų Centras	1	109	-	-	110

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

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

31. Related party transactions (continued)

The Company's related party transactions before elimination:

	2019 12		2019	
	Company's purchases	Company's sales	Company's receivables	Company's payables
AB LG CARGO	19,668	385,572	166,304	5,899
UAB LG Keleiviams	3,417	7,405	3,004	1,240
AB Lietuvos Geležinkelių Infrastruktūra	-	2,246	2,711	-
UAB Geležinkelio Tiesimo Centras	20,953	1,794	1,582	58
UAB Vilniaus Lokomotyvų Remonto Depas	3,883	4,855	290	998
UAB Gelsauga	3,743	67	14	78
UAB Saugos Paslaugos	2,230	-	-	1,071
UAB Rail Baltica Statyba	50	9	1	-
UAB Voestalpine VAE Legetecha	2,800	2	-	-
Total	**56,744**	**401,950**	**173,906**	**9,344**

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

The Company's accrued income and expenses with related parties recognised in the statement of financial position as at 31 December 2019:

	2019	
	Accrued receivables	Accrued payables
AB LG CARGO	687	6,613
UAB LG Keleiviams	292	118
AB Lietuvos Geležinkelių Infrastruktūra	454	-
UAB Gelsauga	224	-
UAB Geležinkelio Tiesimo Centras	366	-
UAB Vilniaus Lokomotyvų Remonto Depas	501	-
Iš viso	**2,524**	**6,731**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

31. Related party transactions (continued)

Accrued expenses comprised management service accruals to related parties.

According to the methodology of the LG companies group, all transactions with related parties are carried out under market conditions and comply with the arm's length principle.

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

In 2018, the management of UAB Gelsauga, considering the decision of the Government of the Republic of Lithuania to prohibit internal transactions between state owned companies, decided to cease part of its activities related to building maintenance and cleaning, keeping security services only. As a result of reorganisation of UAB Gelsauga by way of split-off, on 25 February 2019 the Company adopted a decision to establish a company of the same legal form – UAB Saugos Paslaugos. Under the implemented model of UAB Gelsauga and split-off of activities of a split-off company, after the split-off UAB Gelsauga continues the activities of professional trainings, maintenance of cleaning equipment, and UAB Saugos Paslaugos carries out the activities of physical and electronic security and installation, maintenance and repairs of technical security monitoring devices.

While implementing the programme LG Changes, on 1 May 2019 the Company implemented the reorganisation related to freight transportation business and transferred the activities of the Freight Transportation Directorate to AB LG CARGO. The transfer of activities is assessed as a transaction of joint ventures. On 1 September 2019 the Company fully completed the reorganization related to rail passenger and luggage transportation business and related services and transferred the business of the Passenger Transportation Directorate as a property complex to UAB LG Keleiviams. On 8 December 2019 the Company fully implemented the reorganisation related to railway infrastructure business and transferred the activities of the Railway Infrastructure Directorate as a property complex to AB Lietuvos Geležinkelių Infrastruktūra.

In 2019, profit of associates by equity method comprised EUR 334 thousand (EUR 198 thousand in 2018), loss – EUR 12 thousand (EUR 1 thousand in 2018). Result of associates, included in the statement of profit or loss and other comprehensive income, comprised profit of EUR 322 thousand in 2019 (loss of EUR 197 thousand in 2018).

The Group's and the Company's loans to related companies comprised:

	Group		Company	
	2019	2018	2019	2018
Loans granted to related parties	160	100	143,539	100
Total non-current part	**160**	**100**	**143,539**	**100**
Loans granted to related parties	-	2,826	13,656	2,826
Cashpool	-	-	1,486	-
Impairment of loans granted (-)	-	(2,826)	-	(2,826)
Total current part	**-**	**-**	**15,142**	**-**
Total	**160**	**100**	**158,681**	**100**

Based on the loan agreement dated 12 March 2019, the loan of EUR 163,862 thousand was granted to AB LG CARGO in the form of non-current assets: for the acquisition of railway transport rolling stock – wagons, containers and locomotives. The loan matures in 2031. During 2019, based on the schedule agreed upon with AB LG CARGO, it repaid (paid for the acquired assets) EUR 6,828 thousand of the loan and paid EUR 437 thousand of interest. Interest was determined applying variable interest rate linked with 6-month EURIBOR and the market margin estimated by a market survey. As at 31 December 2019, no contract breaches were identified.

More details on the borrowing from cashpool are presented in Note 15.

Management salary and other benefits. As at 31 December 2019, the number of managers of the Company was equal to 6, i.e., 1 Director General, 1 Chief Financial Officer, 1 Director of Strategy and Development, 1 Director of Legal Department, 1 Director of Human Resources Department, 1 Director of Communications Department.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes (continued)

31. Related party transactions (continued)

Company	2019	2018
Management salary	655	560
Incentive payments*	246	137
Number of managers	6	9
Benefits to Board members	84	92
Number of Board members	6	5
Payments to audit committee members	9	-
Number of audit committee members	2	-

* Incentive payments are additional payment for performance results and one-off payments.

In 2019 and 2018, the management of the Company was not granted with loans, provided with guarantees or other paid or accrued benefits or disposed assets, except as disclosed above.

32. Contingent assets and liabilities

Pursuant to the provisions of the financing agreements signed between the Company and the European Investment Bank (EIB) and the Nordic Investment Bank (NIB), the split-off of the Company's business activities by establishing subsidiaries is possible only with the consent of the banks. The Company applied to the NIB and EIB for the consent to the planned split-off of activities. The banks required additional guarantees – first call guarantees, thus ensuring the fulfilment of all the Company's liabilities under financing agreements. More details are presented in Note 20.

Based on the decision of the Board dated 1 October 2019, as of 8 December 2019, the business of public railway infrastructure management was transferred to AB Lietuvos Geležinkelių Infrastruktūra, including assets and employees necessary for the performance of these activities, and all liabilities related to public railway infrastructure management activities. All rights and obligations arising from the activities of infrastructure manager have been transferred to AB Lietuvos Geležinkelių Infrastruktūra. The issue of the removed Rengė rail track connecting Mažeikiai with the Latvian border and damage compensation is firstly related to the activities, rights and obligations (including liability) of infrastructure manager.

In October 2017, the European Commission imposed a fine of EUR 28 million for the removed Rengė rail track connecting Mažeikiai with the Latvian border and damage compensation for the period when the track was not in use. The Company paid a fine and committed to rebuild the railway track, which was implemented. The Company's action has not been heard at the EU General Court regarding a complete or partial annulment of the Decision C(2017) 6544 and/or a reduction of the fine. Also, the final decision regarding the Company's infringement has not been taken.

33. Investment liabilities

For the implementation of Rail Baltica project stage "Reconstruction of the current railway track Kaunas-Palemonas by building the 1,435 mm track gauge", in 2018 the Company signed a contract with the partners of a joint-activity agreement, i.e., UAB Hidrostatyba, LEONHARD WEISS RTE AS and UAB Autokausta. On 8 December 2019, due to the transfer of public railway infrastructure management activities, AB Lietuvos Geležinkelių Infrastruktūra took over all contractual rights and obligations. The value of works is EUR 58,725 thousand (excluding VAT). The expected maturity term of the contract is in 2021. The Companies committed to build a European track gauge from Kaunas railway station until intermodal terminal located in Palemonas.

On 20 December 2019 AB Lietuvos Geležinkelių Infrastruktūra entered into a contract regarding the electrification of railway track Vilnius-Klaipėda with joint-activity partners Elecnor S.A. and Instalaciones Inabensa S.A., which submitted the best proposal at the international tender. Contract value is EUR 363.1 million. The works are planned to be completed in 2023 and electric trains are planned to start operations on Vilnius-Klaipėda route in 2024. The electrification is expected to bring large environmental benefits: each year, the use of diesel is estimated to decrease by 46 thousand tonnes annually and emissions are estimated to decrease by approximately 150 thousand tonnes annually. Based on the trilateral agreement, the commitment for the implementation of the project is transferred to AB Lietuvos Geležinkelių Infrastruktūra.

34. Potential disputes

On 30 August 2018, VAS Latvijas dzelzcelš and SIA LDZ CARGO applied to the Company in writing demanding compensation for the damage incurred by these companies. According to these companies, they incurred the damage because the Company removed a rail track connecting Mažeikiai with the Latvian border, and the amount of damage is EUR 82,340 thousand. The above-mentioned companies also demand the payment of 6% interest for the period from the occurrence of damage until the date of indemnification. The Company disagrees with these claims and considers them unjustified, as, based on the claims submitted by VAS Latvijas dzelzcelš and SIA LDZ CARGO, it is currently impossible neither to reliably determine, whether these companies have actually incurred damages, nor measure the size of the alleged damage nor to tell, whether it is justified. In addition, the Company's action has not been heard at the EU General Court regarding a complete or partial annulment of the Decision C(2017) 6544 and/or a reduction of the fine. Also, the final decision regarding the Company's infringement has not been taken. Therefore, no provisions related to these claims were accounted for in the financial statements. On 5 February 2020, the EU General Court hearing was held, where the Company's claim regarding the fine of EUR 28 million imposed by the EC was heard (the fine has already been paid). The case has been finalised, and the court decision will be adopted within 4 to 6 months. After the announcement of the court's decision, based on its substance, LDZ and LDZ CARGO might take more active steps.

35. Subsequent events

On 15 January 2020, the authorised capital of AB Lietuvos Geležinkelių Infrastruktūra was increased by a non-monetary contribution of EUR 654,928 thousand, issuing 654,928 ordinary registered shares with the par value of EUR 1,000.00.

In order to eliminate the difference which occurred in the statement of financial position as at 31 October 2019 due to reorganisation, in February 2020, the Company decided to reduce the authorised capital of UAB LG Keleiviams by EUR 12,647 thousand by reducing the par value per ordinary registered share from EUR 1,000 to EUR 919.05.

In order to eliminate the difference which occurred in the statement of financial position as at 31 August 2019 due to reorganisation, in March 2020, the Company decided to reduce the authorised capital of AB LG CARGO by EUR 16,474 thousand by reducing the par value per ordinary registered share from EUR 289.62 to EUR 210.64.

UAB Voestalpine VAE Legetecha (on 6 May 2020, the company's name was changed to Voestalpine Railway Systems Lietuva, UAB) and UAB Vilniaus Lokomotyvų Remonto Depas paid dividends to the Company from profit for distribution of 2019 of EUR 248 thousand and EUR 7,690 thousand accordingly.

On 30 June 2020, the restructuring of the Company's long-term credits was completed. AB LG CARGO and the European Investment Bank (EIB) signed an additional agreement on credit restructuring stipulating that the Company hereby transfers its existing long-term credit liabilities with EIB, EUR 29,590 thousand credit to the subsidiary AB LG CARGO. Accordingly, the debts of AB LG CARGO to the Company were reduced by the same amount.

In July, the Company established a subsidiary, LTG Cargo Polska, which will develop its rail freight operations in Poland.

On 3 July 2020, the Company presented its rebranding program. The name of the Company remained the same, but its new acronym LTG has been introduced. From now on, this acronym will unite the names of all the main companies of the Group: LG Keleiviams is to become LTG Link, LG Cargo becomes LTG Cargo and Lietuvos Geležinkelių Infrastruktūra will henceforth be called LTG Infra. The names of these companies will be changed in the Centre of Registers in the second half of 2020.

On 1 July 2020, the Company (as a guarantor) together with AB Lietuvos Geležinkelių Infrastruktūra and the Nordic Investment Bank (NIB) signed a Binding Offer, which makes an integral part of the Amended and Restated loan agreement signed on 31 December 2019 by AB Lietuvos Geležinkelių Infrastruktūra and NIB. This agreement served as the basis for setting a fixed interest on EUR 50,000 thousand loan for 2 years. On 3 July 2020, AB Lietuvos Geležinkelių Infrastruktūra took out a loan of EUR 50,000 thousand under the Amended and Restated loan agreement concluded with NIB in December 2019.

On 15 July 2020 the Company's Board adopted a decision on liquidation of the subsidiary UAB Gelsauga. The liquidation is scheduled on 1 November 2020.

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 almost all 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.

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

- borrowing possibilities inside the Group (cashpool);
- the adequacy of the limit for short-term borrowing within

35. Subsequent events (continued)

the Group from this account to ensure a sufficiency of working capital;

- has taken additional measures to strengthen payment control;
- has taken additional measures to strengthen cost control;
- has revised planned investments and assessed the possibility of postponing part of the investment projects to the future;
- has estimated the possibility of receipt of the subsidy from the Government of the Republic of Lithuania.

After a comprehensive assessment of the main threats that could affect operations, the Company identified possible scenarios related to the potential spread of the disease outbreak and the expected impact on the Group's activities:

- COVID-19 realistic scenario. Potential decrease in the Group's income up to 15% due to expected decrease of freight flow up to 15%, decrease of passenger flow up to 40% due to cancellation of 106 local train journeys in April-May and all international train journeys until August with subsequent renewal (local as of May, international as of August);
- COVID-19 conservative scenario. Potential decrease in the Group's activity income up to 20% due to expected decrease of freight flow up to 15%, decrease of passenger flow up to 50% due to cancellation of 106 local train journeys in April-May and all international train journeys until August with subsequent renewal (local as of May, international as of August); however, applying additional restrictions on the number of passengers in trains to ensure safe distance;
- COVID-19 pessimistic scenario. Potential decrease in the Group's activity income by approximately 30% due to expected decrease of freight flow up to 30%, decrease of passenger flow up to 60%, together with the assumptions of the conservative scenario and possibility of the second wave of COVID-19 pandemics in November-December.

Due to COVID-19 pandemic, UAB LG Keleiviams has temporarily suspended almost half (106 out of 226) of local train journeys, maintaining the necessary long-distance connections for commuters, passengers going to medical facilities or grocery stores. International train traffic was suspended from 16 March 2020 and transit train traffic from 6 April 2020. These reasons led to drop in sales during the first quarter of 2020. Currently, the decrease in income of AB LG CARGO is also observed; however, the main customers of the company are large enterprises that are deemed to be low-risk enterprises. Also, the decreased payments of freight and passenger carriers for the services rendered by the public railway infrastructure manager led to a respective decrease in income of AB Lietuvos Geležinkelių Infrastruktūra. A decrease in sales during the first quarter of 2020 does not exceed the Group's realistic forecast scenario. All of the Group companies continued their activities.

Pursuant to the Strategic Action Plan of the Minister of Transport and Communications of the Republic of Lithuania for 2020-2022, approved by Order of the Minister of Transport and Communications of the Republic of Lithuania of 11 February 2020 No. 3-72 "On Approval of the Strategic Action Plan of Control Areas of the Minister of Transport and Communications of the Republic of Lithuania for 2020-2022", the allocations for the implementation of the program "Ensuring Railway Communications" have been approved for the Group company UAB LG Keleiviams. The task of the programme is to ensure the carriage of passengers on preferential terms and the provision of services to carriers on routes that are not commercially viable but necessary for the public.

The forecasted COVID-19 scenarios include the estimates of allocations for UAB LG Keleiviams to finance the passenger transportation activities; however, larger losses of passenger transportation activities are forecasted.

The Company's Management has also estimated borrowing possibilities inside the Group (cashpool) to ensure sufficiency of cash flows to UAB LG Keleiviams for performance of its activities in case the Ministry of Transport and Communications of the Republic of Lithuania fails to grant the additional allocations to the company.

Based on the possible scenarios, the Group companies do not plan to withdraw from investment projects; however, they do not eliminate the possibility to revise the investment portfolio, to postpone the implementation of some investment projects to the future. 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 financial statements payments had been made as usual; no additional liquidity or credit risks issues were identified.

According to the Company's Management, the negative circumstances related to the virus do not raise doubts about the business continuity of the Group companies and do not change the Group's long-term business plans and goals.

As the situation related with COVID-19 outbreak is very dynamic, actions of the Lithuanian and other governments are changing rapidly, so it is very difficult to reliably estimate possible effects on annual results at this stage. However, the Management cannot deny the possibility that long "closure" periods, increase in rigidity of the measures or an adverse effect of those measures on economic environment, where the Group companies operate, will have an adverse effect on the Group's financial position and performance results in the medium and long term. The management continues to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.