2019

UAB LG KELEIVIAMS
ANNUAL MANAGEMENT REPORT

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ABBREVIATIONS:

LG, "Lietuvos Geležinkeliai – AB Lietuvos Geležinkeliai
govt. – The Government of the Republic of Lithuania
EU – The European Union
UAB LG Keleiviams – The Company, LG Keleiviams,
LTSA – Lithuanian Transport Safety Administration under the Ministry of Transport and Communications of the Republic of Lithuania
SOE – State-owned enterprise

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

CEO FOREWORD

DEAR PARTNERS, CUSTOMERS AND COLLEAGUES,

The passenger transportation company LG Keleiviams, a member of the Lietuvos Geležinkeliai Group, entrusted with ensuring comfortable and safe travels for its customers, took its first steps in 2019 as a separate company. I am pleased with the results achieved by the Company last year that was full of challenges: we purified our passenger transportation activities and formed a new company, carried out efficiency improvement projects, and offered new routes to the travellers.

One of the most important works in 2019 was the establishment of a new company on 28 February 2019. In accordance with the main streamlining program "LG is changing", we have established a new passenger transportation company LG Keleiviams, which is the first specialized railway passenger transportation company in the history of the Lithuanian transport. From 1 September 2019, the new company has been continuing the operations performed so far by the Passenger Transportation Directorate of the Lietuvos Geležinkeliai Group.

Our main goal remains the creation of a new travel culture and the aspiration to become the first choice for travellers, valued for our sustainable, environmentally-friendly and responsible approach as well as high-level services. I am glad that in 2019 we carried a record number of passengers. The growing number of passengers is not only an indicator of success to LG Keleiviams, but also to Lithuania, and shows that more and more people consider not only their personal comfort, but also the protection of nature.

Of course, we faced considerable challenges related to a half-year traffic break at the Kaunas railway node, during which the construction works of Rail Baltica took place. I am glad that careful preparation and constant customer care in 2019 allowed the route Vilnius-Kaunas to remain the most popular.

We are constantly striving to take into account the needs of our customers and create opportunities for people to travel safely and comfortably, thus in 2019 we offered 3 additional stops on the route Šilutė-Klaipėda: in Rimkai, Gružeikiai and Dituva. We are convinced that rail trips must be accessible and comfortable for all passengers, therefore together with the Lietuvos Geležinkeliai Group we have been implementing a project of adaptation of railway services under universal design principles, which will ensure that rail trips will be suitable for all passengers, including the disabled and people with reduced mobility.

For the convenience of our passengers, we have been updating passenger train schedules for the second year in a row: in 2019, on the most popular route Vilnius-Kaunas, we increased the frequency of train running up to 40 train trips per day, and on the route Vilnius-Klaipėda, which receives the most attention, trains run 12 times per day.

As every year, our summer season's hit the Seaside Express was 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.

We do not intend to stop and in 2020 we will undergo significant changes: most trains will be equipped with new wireless internet equipment, and passengers will be able to plan their trips even more conveniently in the second half of the year as they will be provided with an opportunity to buy train tickets via a modern mobile app, a new website or ticket vending machines.

We would not have achieved all these results without the large and enthusiastic team of LG Keleiviams. Ambitious goals have been set, and every step – even the smallest one – as well as great enthusiasm to do the best in a fastest possible way lead to successful outcome for the whole year. The year 2019 was full of challenges, learning and victories, so I believe that the year 2020 will be no less impressive, and our passengers will with no doubt appreciate our efforts by choosing the most sustainable mode of transport – trains.

LINAS BAUŽYS

CEO
UAB LG Keleiviams

Main information about the company

Name	UAB LG Keleiviams
Legal form	Joint stock company
Date and place of registration	25/02/2019; the Register of Legal Entities of the Republic of Lithuania
Company code	305052228
Address	Mindaugo g. 12, LT-03603, Vilnius
Telephone	(8 5) 269 3265
Email	lgkeleiviams@litrail.lt
Website	www.litrail.lt/keleiviams; www.traukiniobilietas.lt
Principal activities	Passenger and luggage transportation by rail and provision of related services
Company's Chief Executive Officer	Linas Baužys
Shareholders	100% of shares are owned by AB Lietuvos Geležinkeliai

COMPANY'S BUSINESS MODEL

On 28 February 2019, UAB LG Keleiviams was registered in the Register of Legal Entities, and on 1 September 2019 the operations of the Passenger Transportation Directorate of AB Lietuvos Geležinkeliai were transferred to LG Keleiviams.

Until 01 September 2019, UAB LG Keleiviams carried out preparatory actions aimed at taking over the activities of the Passenger Transportation Directorate of AB Lietuvos Geležinkeliai. In March of 2019, the Lithuanian Transport Safety Administration (LTSA) completed the licensing procedure and granted a license to UAB LG Keleiviams to render railway transport services, and issued safety certificates required for passenger transportation activities. From 1 September 2019, the passenger transportation activities have been fully transferred to UAB LG Keleiviams.

MAIN BUSINESS ACTIVITY AND SERVICES

UAB LG Keleiviams provides with the following services:

- Transportation of passengers on domestic routes;
- Transportation of passengers on 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).

THE MARKET

The main market of UAB LG Keleiviams includes domestic and cross-border transportation. Currently, passengers are served on 43 domestic and 16 international routes.

LITHUANIAN MARKET

Historically, passenger transportation by rail has competed with other modes of transport – road and air transportation.

The market share of passenger transportation by rail is relatively small and, according to the data of 2018, amounted to only 1.4%.[1] The measures applied by the Company (adaptation of train schedules to the needs of customer, the renewal of the rolling stock, introduction of a new customer service culture and launch of attractive services to the business segment, etc.) determine the growth of the number of rail passengers –- in the 3rd quarter of 2019, according to the data of the Department of Statistics under the Government of the Republic of Lithuania, the market share of passenger transportation by rail amounted to 1.5%.

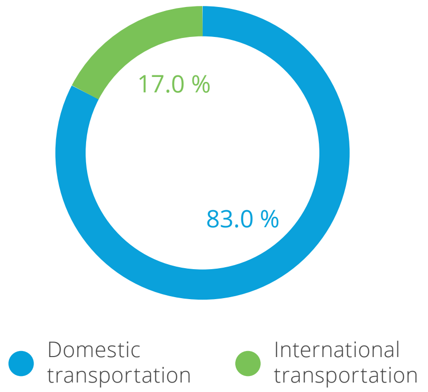
1.4 million passengers travelled locally in September-December of 2019 accounting for 83.0% of all rail passengers during that period.

[1] Data of the Department of Statistics of Lithuania

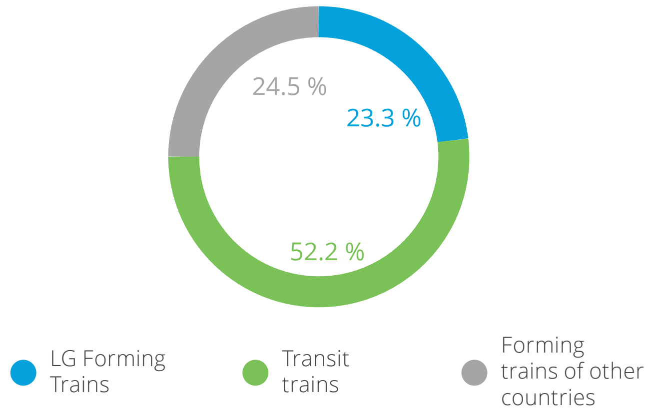
INTERNATIONAL MARKET

In September - December 2019, 0.3 million passengers travelled on international routes accounting for 17% rail passengersduring that period. Passengers travelled to Minsk, Daugavpils and Białystok on trains formed by UAB LG Keleiviams. This segment accounted for 23.3% total ridership on international routes. Trains formed in other countries and transit trains (mostly travelling to/from Kaliningrad region) transported the remaining number of passengers.

Market segments of rail passenger transportation in September-December 2019,%



Market segments of international passenger transportation in September-December 2019,%



MAIN CUSTOMERS

Citizens of Lithuania and other countries use the services provided by the Company.

The Transport Exemption Law No. VIII - 1605 of 30 March 2000 of the Republic of Lithuania encourages the socially disadvantaged groups, who have the right to purchase tickets with 80% and 50% discount, to use rail transportation. These activities are subsidized from the State budget, with compensation of lost income, transporting passengers on local transport routes on preferential terms.

In order to attract more customers, the Company is expanding its service offerings to various groups of passengers – families, students, business representatives, active leisure enthusiasts.

Management of the company

INFORMATION ABOUT THE SHARES

Amount of the authorized capital, Eur	Number of shares, pcs.	Par value per share, Eur
156,237,000	156,237	1,000

On 28 February 2019, AB Lietuvos Geležinkeliai established the company UAB LG Keleiviams. The authorized capital of the Company was formed by issuing 156,237 ordinary shares and is equal to EUR 156,237 thousand; the par value of each share is EUR 1 thousand. All shares of LG Keleiviams are of a single class – ordinary registered shares. The shares are non-certified, and they are recorded in personal securities accounts following the procedure established by the legislation.

The sole shareholder of UAB LG Keleiviams was AB Lietuvos Geležinkeliai as of 31 December 2019. During the reporting period, the Company did not acquire its own shares or shares of other companies of the Group.

In addition, during the analysed period, the Company did not establish branches or representative offices.

MANAGEMENT AND ORGANIZATIONAL STRUCTURE OF THE COMPANY

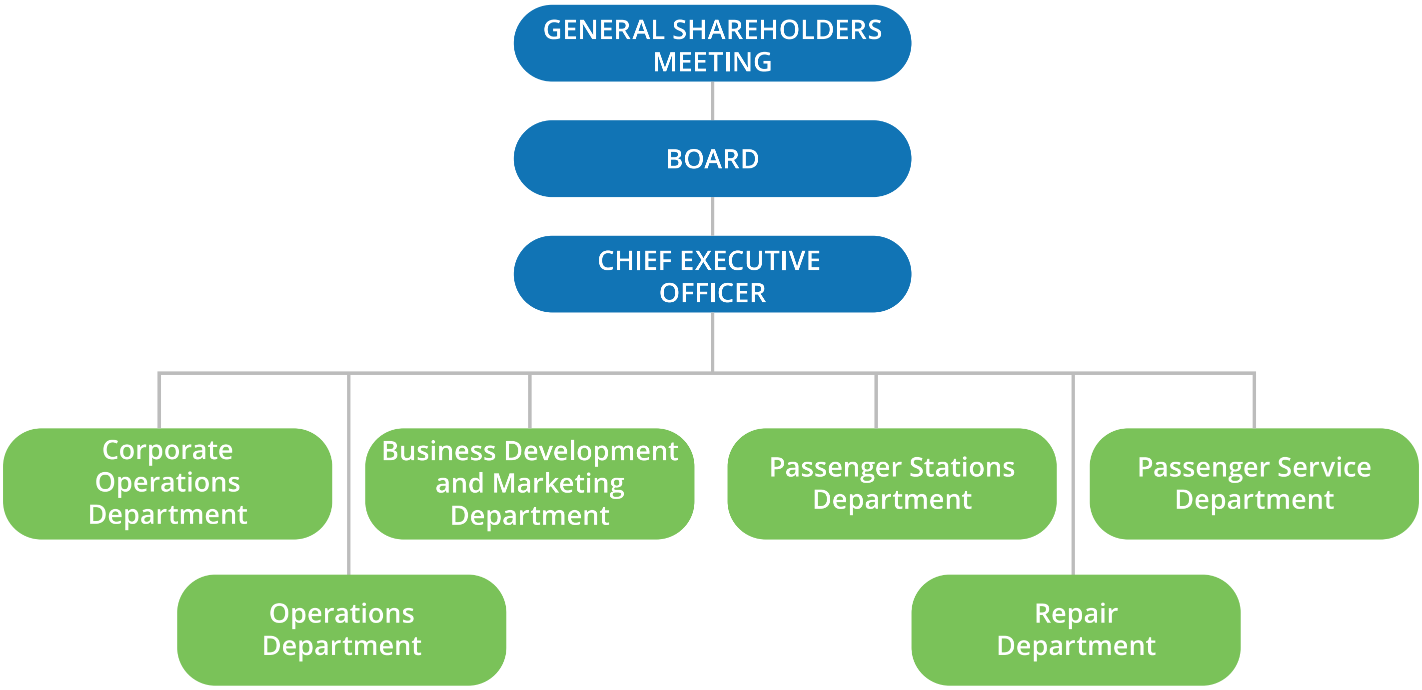
LG Keleiviams is a company of the AB Lietuvos Geležinkeliai Group with its parent company AB Lietuvos Geležinkeliai acting as the sole shareholder.

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

Aiming at the long-term growth of the value of the AB Lietuvos Geležinkeliai Group, as well as the rational and effective use of the assets, funds and other resources, meeting the expectations and representing the interests of the Shareholder, the Group's business model is focused on refining and concentrating core activities in subsidiaries as well as separating corporate functions (e.g. accounting, procurement, asset management, IT, etc.) and provision of centralised services group-wide.

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

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



COMPANY'S MANAGEMENT BODIES

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

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

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

The term of office of the Board is from 25/02/2019 to 25/02/2023.

During the reporting period, 7 meetings of the Board took place.

COMPOSITION OF THE COMPANY'S BOARD

MANTAS BARTUŠKA

Chairman of the Board
Appointed on 29/11/2019

EDUCATION

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

MAIN EMPLOYER, POSITION

AB „Lietuvos geležinkeliai" generalinis direktorius, Mindaugo g. 12, Vilnius, įm. kodas 110053842.

OTHER POSITIONS HELD

- Chairman of the Board of UAB LG CARGO, Mindaugo g. 12, Vilnius, company code 304977594;
- Member of the Board of AB Klaipėdos Nafta, Burių g. 19, Klaipėda, company code 110648893.

LINAS BAUŽYS

Member of the Board
Appointed on 25/02/2019

EDUCATION

- Klaipėda University, Master in Transport Engineering;
- Šiauliai University, Bachelor in Business Management;
- Baltic Institute of Corporate Governance, Board Member Studies, Chairman of the Board Studies.

MAIN EMPLOYER, POSITION

CEO of UAB LG Keleiviams, Mindaugo g. 12, Vilnius, 305052228.

OTHER POSITIONS HELD

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

DAIVA PIVORIŪNIENĖ

Member of the Board
Appointed on 29/11/2019
(also held the position of a member of the Board from 25/02/2019 to 25/03/2019)

EDUCATION

- Baltic Management Institute, International Executive MBA, Business Administration;
- Vilnius University, International Business School, Master in International Business Law;
- Vilnius Gediminas Technical University, Bachelor in Transport Management and Engineering.

MAIN EMPLOYER, POSITION

Director of the Asset Management Services Center of AB Lietuvos Geležinkeliai, Mindaugo g. 12, Vilnius, company code 110053842.

OTHER POSITIONS HELD

- Director of UAB Gelsauga, Prūsų g. 1, Vilnius, company code 125825125;
- Director and Chairwoman of the Board of UAB Saugos Paslaugos, Prūsų g. 1, Vilnius, company code 305186992.

DOVILĖ ALEKSANDRAVIČIENĖ

Member of the Board
Appointed on 25/03/2019

EDUCATION

- ISM University of Management and Economics, Leadership Studies;
- Programme of Marketing Strategy and Management, Master' degree;
- Vilnius University, Bachelor in Sociology, Master's degree.

MAIN EMPLOYER

Director of Business Development and Marketing of UAB LG Keleiviams, Mindaugo g. 12, Vilnius, 305052228.

MANTAS DUBAUSKAS

Member of the Board
Appointed on 29/11/2019

EDUCATION

- Vilnius Gediminas Technical University, Bachelor in Business Management.

MAIN EMPLOYER

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

Changes in the composition of the Board during the reporting period: after the establishment of LG Keleiviams, the Board consisted of 3 (out of 5) members. From 25/02/2019 to 29/11/2019, the position of the chairman of the Board was held by Linas Baužys; in addition, the position of a member of the Board was held by Gediminas Šečkus during this period (Director of the Corporate Operations Department of LG Keleiviams).

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

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

COMPANY'S MANAGEMENT

LINAS BAUŽYS	Chief Executive Officer of the Company	Holds the position since 28/02/2019
DOVILĖ ALEKSANDRAVIČIENĖ	Director of the Company's Business Development and Marketing Department	Holds the position since 01/09/2019
GEDIMINAS ŠEČKUS	Director of the Company's Corporate Operations Department	Holds the position since 01/04/2019
MANTAS GEDRAITIS	Director of the Company's Repair Department	Holds the position since 06/01/2020
AURELIJUS BOLDINOVAS	Director of the Company's Operations Department	Holds the position since 01/09/2019
KĘSTUTIS JASIULEVIČIUS	Director of the Company's Passenger Servicing Department	Holds the position since 18/11/2019

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

The monthly basic salary of the CEO of the Company, established in the employment contract at the end of 2019, was EUR 8,200.

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

The maximum possibility of such payment may not exceed 30% of the fixed annual basic salary. The maximum monthly, i. e. 1/12 part of the annual incentives, may not exceed EUR 2,460.

Strategy

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

COMPANY'S MISSION

We connect people and businesses by creating a new culture of travelling by train.

COMPANY'S VISION

To become the preferred choice of passengers, valued for a high level of service, operational efficiency and management.

STRATEGICAL DIRECTIONS OF THE COMPANY:

1. Trains – newer trains and more efficient use of trains.
2. Service – greater focus on customers, greater customer satisfaction and automated ticket sales.
3. Stations – centers of attraction that connect people and businesses.
4. Services on the go – more comfortable and cozy trips, door-to-door service.
5. Image – the passenger's first choice.

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

Indicator	Unit	2020	2030
Passenger transportation volumes	millions of passengers	5.9	9.0
Proportion of tickets sold without human intervention	%	30.0	100
Punctuality of train arrivals	%	98.0	98.3
Evaluation of passenger transportation services according to the CSAT indicator	%	82.0	90.0

KEY PROJECTS IMPLEMENTED IN 2019:

- Separation and transfer of passenger transportation activities from AB „Lietuvos geležinkeliai" to UAB "LG Keleiviams". The implementation of the project was completed on 1 September 2019.
- A ticketing system project has been launched. The new ticketing system will allow passengers to purchase train tickets via a mobile app, on a new website or from ticket vending machines at stations. The system will be adapted for all passengers, including people with disabilities. Procurement procedures for leasing have been launched.

Most important events in 2019

- On **25/02/2019**, the first Board of UAB LG Keleiviams was appointed.
- On **28/02/2019**, UAB LG Keleiviams was registered in the Register of Legal Entities. This company gradually takes over the Passenger Transportation Directorate's business activities.
- On **27/03/2019**, LTSA completed the licensing procedure and issued a passenger transportation license to the company UAB LG Keleiviams. The license entitles the company to engage in passenger transportation activities in the territory of Lithuania. After the reorganization of the LG Group of companies, 100 percent of the shares of the new company UAB LG Keleiviams will be owned by the parent company LG. The shares of the latter will continue to be managed by the Ministry of Transport and Communications.
- 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, transshipment and warehousing terminals) on the Kaunas - Palemonas section of the Kaunas node. Due to the planned large-scale works, train traffic from Palemonas to Kaunas Railway Station was suspended from the 22nd of May.
- On **20/05/2019**, in order to reduce congestion in Klaipėda, an additional stop was planned on the route Šilutė-Klaipėda in Rimkai, thus the route is even more adapted to the needs of commuters.
- On **07/06/219**, the Company launched the Seaside Express - a connecting itinerary for passengers travelling to Palanga, Nida, Preila, Pervalka and Juodkrantė in summer.
- On **27/06/2019**, govt. 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. To date, capacity has been transferred under a joint venture agreement with LG.

Most important events in 2019

- On **06/08/2019**, LG's Board supported the decision to transfer the passenger transportation business to the newly established company UAB LG Keleiviams as from September 1.

- 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 **01/09/2019**, LG's passenger transportation operations and employees 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 **11/10/2019**, the share capital of UAB LG Keleiviams was increased from 150 thousand euros up to 156,237 thousand euros, issuing 156,087 units of ordinary registered shares. The par value of one share is EUR 1.000. The Articles of Association of the Company were amended.

- On **14/10/2019**, UAB 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 **18/11/2019**, Kęstutis Jasiulevičius, Director of the Passenger Servicing Department, started working at UAB LG Keleiviams.

- On **22/11/2019**, the number of members of the Board was increased from 3 to 5 and the Articles of Association of the Company were amended.

- 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 **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 **02/12/2019**, the direct connection of passenger trains between Vilnius and Kaunas was renewed. The reconstruction of the unique Kaunas railway tunnel built in the 19th century was carried out in this section: a parallel European and wide-gauge railway was installed. There have been also 3 underground tunnels for cars and pedestrians built.

- 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**, a new annual schedule of passenger trains of UAB LG Keleiviams came into force. 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 **08/12/2019**, in order to reduce traffic jams in Klaipėda, additional stops were planned on the train route Šilutė-Klaipėda in Dituva and Gružeikiai, thus the route is even more adapted to the needs of commuters.

- On **13/12/2019**, after the submission, the Seimas of the Republic of Lithuania approved the proposal to extend 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 **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 reporting period

- On **01/012020**, the Company joined the partners of the family card provided for in the Law on Family Card of the Republic of Lithuania. UAB LG Keleiviams started to apply 20 percent discount to family card holders for trips by local trains in Lithuania.
- On **06/01/2020**, Mantas Giedraitis, Director of the Repair Service Department, started working at UAB LG Keleiviams.
- On **17/03/2020**, by the decision of the sole shareholder of UAB LG Keleiviams, AB Lietuvos Geležinkeliai, it was decided to reduce the authorized capital of UAB LG Keleiviams by EUR 12,647,000 through the cancellation of 12,647 ordinary registered shares of the Company, the par value of each of which is EUR 1,000.

The coronavirus (COVID-19) pandemic was unpredictable and unprecedented situation not only in Lithuania, but also all over the world, the effects of which we are all feeling. On 11th of March, 2020 The World Health Organization has published a coronavirus outbreak, and the Government of the Republic of Lithuania on 26 th of February, 2020 introduced a state of emergency and on 16th of March, 2020 in the country declared quarantine.

- The economic impact of these events includes:

  - disruption of business and economic activity in Lithuania, affecting both supply and consumer chains;

  - restriction of the movement of foreign and Lithuanian citizens both across the state border and within the country;

  - significant business disruption in some sectors both in Lithuania and in markets that are highly dependent on the foreign supply chain, as well as export-oriented companies that are highly dependent on foreign markets;

  - the sectors most affected are trade and transport, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;

  - a significant decrease in demand for non-essential goods and services;

  - increased economic uncertainty, reflected in volatile prices and exchange rates

Taking into account the declaration of a state-level emergency situation in Lithuania due to the threat of the spread of the new coronavirus (COVID-19), the Company, based on the 14th of March, 2020. Government Resolution No. 207 "On the Announcement of Quarantine in the Republic of Lithuania" performs preventive actions in passenger trains: it constantly disinfects trains, ensures a safe distance between seated passengers, refuses to pay in cash, and suspends the provision of catering services on trains.

New business continuity and preventive measures are also reviewed and planned: staff responsible for monitoring the situation and providing information to the Company's management are appointed, departments and employees performing critical functions and administering the main systems are identified, additional organizational measures are applied in system control centers, technical and replacement measures are planned. if the virus spreads. Following the recommendations of the Government and taking into account the situation, we change the organization of our work and, as far as possible, work remotely from home and comply with travel restrictions.

As the outbreak situation is very dynamic and the response of Lithuanian and other governments around the world is growing rapidly, and some management-initiated measures are still being implemented, their consequences are currently unclear. Due to COVID 19, UAB LG Keleiviams temporarily suspended almost half (106 of 226) local train journeys, maintaining the necessary long-distance connections for employees, passengers going to medical institutions or grocery stores. Bus fleets interrupted long-distance travel, so trains remained the only means of long-distance transportation for some people.

From 16th March 2020 international train traffic was suspended and transit train traffic was suspended from April 6th.

The company's management considered various scenarios related to the possible spread of the disease outbreak and the expected impact on the company and the economic environment in which the company operates, and envisaged different action plans. Management estimates that the cash flows generated by operating activities are likely to be sufficient to service its existing liabilities to its partners, taking into account the approved government support, and that the current cash shortfall will be secured through intra-group borrowing.

In continuing its work and fulfilling its obligations, the company emphasizes that it always behaves in a socially responsible manner. The health and safety of the Company's customers, suppliers, partners, employees and their family members is the Company's top priority.

Overview of the key performance indicators

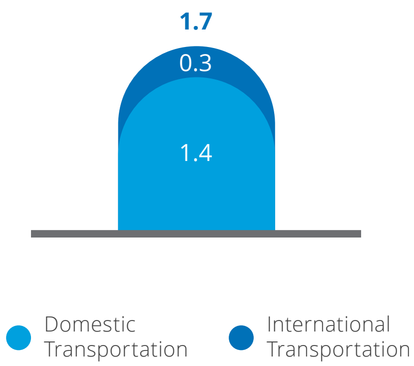
Indicators	Unit	September-December 2019
Passenger transportation in total	**Million passengers**	**1.7**
Domestic transportation	Million passengers	1.4
International transportation	Million passengers	0.3
Passenger turnover	**Million passengers per km**	**144.9**
Local transportation	Million passengers per km	105.0
International transportation	Million passengers per km	39.9
Average transportation distance per passenger	**km**	**83.6**
Proportion of tickets sold without human intervention	%	25.0
Punctuality of train arrivals	%	95.8
Evaluation of passenger transportation services according to the CSAT indicator	%	79

TRANSPORTATION OF PASSENGERS ON DOMESTIC ROUTES

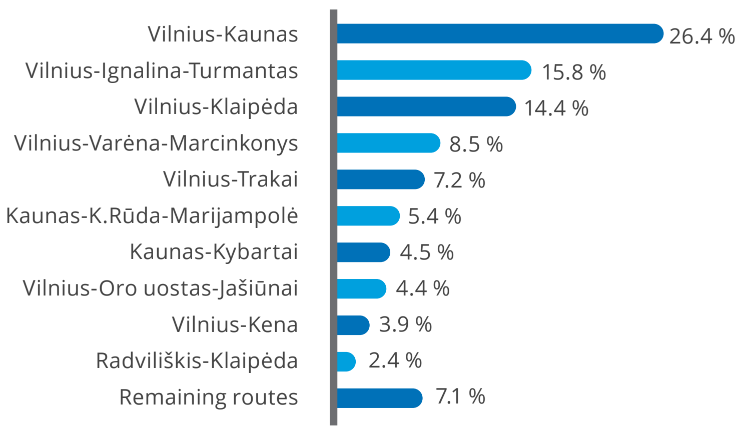
In December 2019 the Company introduced updated timetables that were designed to meet the demands of commuters. People working regular hours and on shifts are offered more opportunities to travel on train, be it the city or smaller town residents. The number of various new routes increased by 9%.

The leaders of the most popular routes remain the same with Vilnius–Kaunas (26.4% total domestic carriage) that carried 0.4 million passengers in September-December 2019.

Volumes of passenger transportation
in September-December of 2019 (million passengers)



Domestic transportation structure
in September-December 2019, %



The number of tickets sold on the website http://www.traukiniobilietas.lt accounted for 25 percent. The Company pro-actively worked to offer business clients better conditions to travel to/from work.

TRANSPORTATION OF PASSENGERS ON INTERNATIONAL ROUTES

Transportation on international routes in September-December of 2019 amounted to 0.3 million passengers. During the analysed period transit trains carried 0.15 million passengers across the Republic of Lithuania. Transit trains transport passengers to and from Kaliningrad to Russia.

Passengers have the opportunity to travel on the international trains Vilnius-Minsk, Vilnius-Daugavpils, Kaunas- Bialystok, Kiev-Minsk-Vilnius-Riga on trains formed by the Company and other countries. 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.

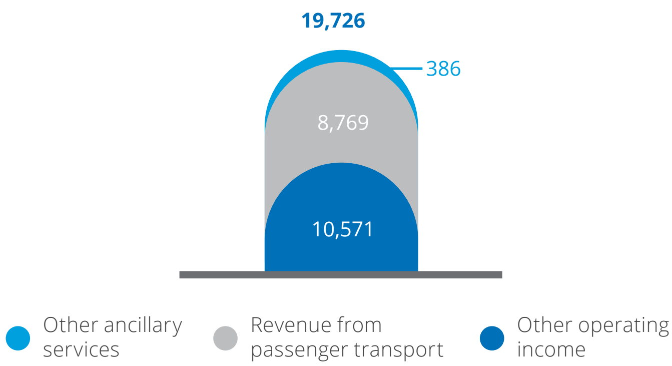
Analysis of financial performance

PERFORMANCE RESULTS

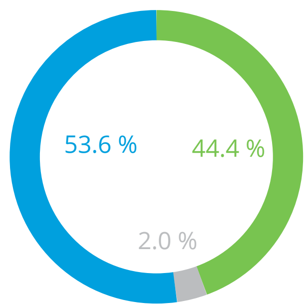
REVENUE

- **Passenger transportation revenue** in September-December of 2019 amounted to 8.8 million euros. These revenue accounted for 44,4 percent of the total earned income in the Company's revenue structure. Revenue from the carriage of passengers on domestic and international routes amounts to almost equal parts, i.e. 22.9 and 21.8 percent, respectively.
- The Company also provides other **additional services** – luggage storage, transportation of small consignments, travel ticket processing, advertising services, sale of travel tickets and food on trains. The revenue of this group amounted to 0.4 million euros during the analysed period.
- **Other operating income** amounted to 10.6 million euros. Significant growth in other income was driven by the EUR 10.4 million subsidies to compensate for losses incurred when carrying passengers on domestic routes.

Company's revenue in September-December 2019, thousand euros



Company's revenue in September-December 2019, %

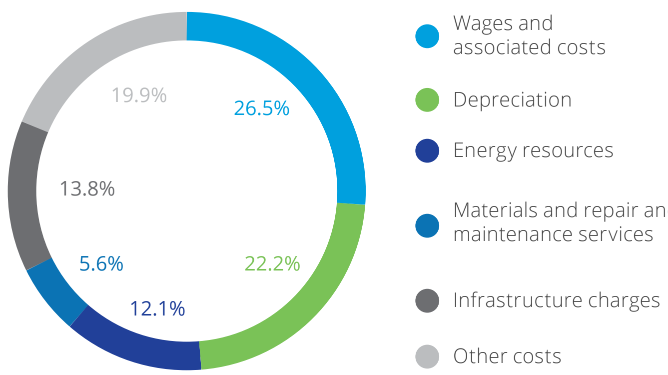


COMPANY'S COSTS

In September-December 2019, the costs of the Company related to the core and other businesses amounted to EUR 18.4 million.

The larger proportion of these costs is constituted by the labour costs (26.5 %), depreciation and amortisation (22.2 %), infrastructure charges (13.8 %) and energy resources (12.1%).

Structure of the Company's costs in September-December 2019, %



KEY FINANCIAL PERFORMANCE INDICATORS *

		2019 (September-December)
Sales revenue	Thous. Eur	9,155
Other operating income	Thous. Eur	10,571
Incl. a grant to compensate for losses in passenger transport activities	Thous. Eur	10,402
Revenue	Thous. Eur	19,726
Expenses	Thous. Eur	18,362
EBITDA	Thous. Eur	5,434
EBITDA margin	%	27.5%
EBIT	Thous. Eur	1,365
EBITDA margin	%	6.9 %
Net profit	Thous. Eur	1,163
Net profit margin	%	5.9 %
		2019 12 31
Non-current assets	Thous. Eur	142,023
Current assets	Thous. Eur	12,011
Total assets	Thous. Eur	154,034
Equity	Thous. Eur	143,941
Financial debt	Thous. Eur	275
Net debt	Thous. Eur	-7,013
Debt	Thous. Eur	942
Return on equity capital (ROE)	%	1.6 %
Return on Assets (ROA)	%	1.5 %
Return on Investment (ROI)	%	1.6 %
Financial debt / EBITDA	times	0.1
Net debt / EBITDA	times	-1.3
Debt / EBITDA	times	0.2
Debt / Equity (D/E)	times	0.01
Equity ratio	%	93.4 %
Asset turnover indicator	times	0.1
Quick liquidity ratio	times	1.2
Total liquidity ratio	times	1.3

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

DIVIDEND POLICY

The payment of dividends by State-owned enterprises and the amount of profit distributions is governed by the Resolution No. 20 of 14 January 1997 of the Government of the Republic of Lithuania and any amendments thereto.

The allocation and payment of dividends of UAB LG Keleiviams 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).

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

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

The Board of UAB LG Keleiviams 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.

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 title of the special obligation: public passenger transportation by rail services.

The purpose of the special obligation is to ensure public passenger transportation by rail services and/or public combined passenger transportation on local routes.

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 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.

Special obligations	Income from special obligation, thous. Eur	Costs for special obligation, thous. Eur	Profit before tax from special obligation, thous. Eur	Company's assets*, thous. Eur
Public rail passenger services	14,833	14,127	706	154,034

* Assets for the performance of the special obligations are not separated and are equal to the Company's total assets.

INVESTMENTS

Since the establishment of UAB LG Keleiviams, in September-December of 2019 the funds used for investments amounted to EUR 367 thousand. All investments were financed with the Company's funds.

Major investment projects and the works completed in 2019:

- A rolling stock repair program was carried out – 9 diesel and 1 electric trains were repaired;
- While implementing investment approved in 2019, the first stage of the public procurement of a ticket sales system by way lease was successfully completed. The contract is expected to be signed in 2020.

EMPLOYEES

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

We are ambitious

We work for our clients

We respect each other

We promote integrity

We are responsible

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

Initiatives in 2019:

- All employees were involved in the setting of annual goals and the measuring of their achievement;
- A benefits package was supplemented – from the beginning of 2019, all employees are covered by supplementary voluntary health insurance;
- Uniform remuneration review principles were established;
- An annual 360-feedback survey for managers was conducted.

The number of employees of the Company amounted to 710 as of 31 December 2019.

The average monthly salary in September-December of 2019 in the Company was EUR 1.636. The monthly salary of the CEO of UAB LG Keleiviams was EUR 8.200 as of 31 December 2019. The annual performance incentive to the current UAB LG Keleiviams employees who worked at the time was paid in March, when UAB LG Keleiviams was still in the process of incorporation, and its employees were considered to be the employees of AB Lietuvos Geležinkeliai at the time. However, the general principles of the UAB LG Keleiviams Remuneration Policy are now the same as those of the rest of the LG Group; thus, the CEO's variable annual salary (annual incentive) is linked to the achievement of the general LG Group targets (60 percent) and annual Company targets (40 percent). The maximum amount of the variable annual salary of the CEO of the Company is 30% of the fixed annual remuneration.

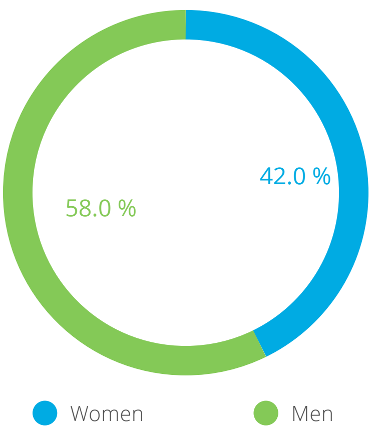
The salary set for the top executives was EUR 5.280 on the last day of 2019. In September-December 2019, the average salary of the middle-level managers and chief specialists amounted to EUR 2.261, while the average salary of specialists and workers amounted to EUR 1.530.

The total payroll fund of UAB LG Keleiviams in September-December of 2019 amounted to EUR 4.48 million.

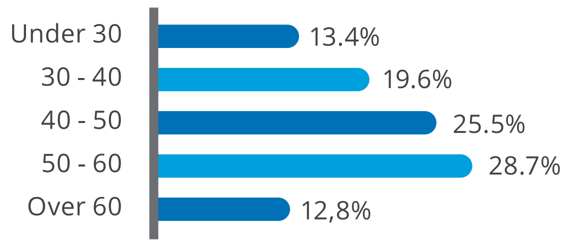
Position groups	2019 12 31	
	The actual number of employees at the end of the period	Average salaries, Eur
Chief Executive Officer*	1	8,200
Top-level managers*	4	5,280
Middle-level managers, chief specialists**	75	2,261
Specialists, workers**	630	1,530
In total	**710**	**1,636**

* a fixed remuneration as of the end of the period is provided;
** data of UAB LG Keleiviams covers September-December 2019.

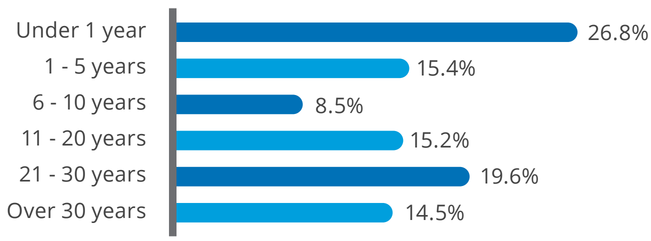
Employee distribution by gender, %



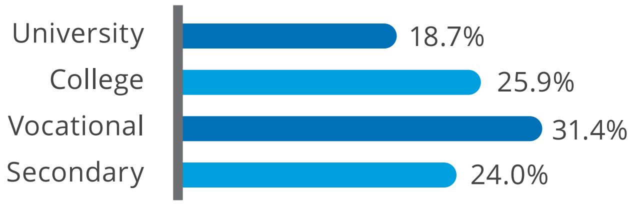
Employee distribution by age group, %



Employee distribution by length of service, %



Employee distribution by education, %



Age group	Average length of service, in years
Under 30 years	2.3
30- 40 years	6,2
40- 50 years	13.6
50- 60 years	19.1
Over 60 years	2.,6
Vidutinis stažas	**13.3**

SOCIAL PARTNERSHIP

As of 1 January 2019, a collective bargaining agreement has entered into force in the Company, as well as the entire LG Group. This agreement has been achieved as the result of constructive cooperation with the trade unions and their organizations acting within the LG Group.

By entrenching an active social partnership, the communication and cooperation with the representatives of the trade unions operating in the Company are constantly developed, periodic meetings are organized in order to discuss day-to-day issues of work organization, and the issues important to the employees' social and economic situation are solved. In accordance with the procedure established by the legislation, information relevant to the trade unions is provided, and consultations are made when decisions related to the changes occurring in the Company are carried out.

REMUNERATION AND PERFORMANCE MANAGEMENT

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

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

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

TRAINING AND DEVELOPMENT OF COMPETENCES

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

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

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

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

In 2019, in-house trainers conducted training under 14 training programs prepared to take into consideration the business needs of the entire LG Group. Meanwhile, 258 employees of the Company underwent in-house training, were certified, and received certificates.

The employees engaged in hazardous works and handling and maintaining potentially hazardous equipment are trained to apply safe working methods. In 2019, 411 employees were trained in occupational safety and health at work. 251 employees participated in specialized railway transport training.

Risks and their management

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

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

Name of risk	Level of risk	Description of the risk and its effects	Basic risk management measures
Risk of lack of financial resources	Highest	There is a risk of a lack of financial resources while implementing strategic initiatives in the activities of UAB LG Keleiviams. There is a risk that sustainable and long-term funding will not be secured for the fulfilment of the special obligations imposed by the State's decision.	• Proactive participation in the development of the national long-term transport development strategy; • Operational efficiency; • Conclusion and execution of a public service contract with the State.
Risk of loss of market share	Very high	In providing passenger transportation services, UAB LG Keleiviams competes with other modes of transport (buses, cars). 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.	• Campaigns on train travel image enhancement; • Introduction of new products; • Continuous improvement of service quality.

Information on the compliance with the guidelines on the transparency

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

The Company's financial statements are audited in accordance with International Standards on Auditing. In 2019, a public procurement for the services of auditioning of the Company's financial statements prepared in accordance with International Financial Reporting Standards was awarded to UAB KPMG Baltics. The remuneration to the audit company for the auditing of the financial statements of 2019 was EUR 25 thousand (excluding VAT).

Corporate social responsibility report

OCCUPATIONAL SAFETY AND HEALTH

- In 2019, during the separation of LG Keleiviams, the integrity of the safety management elements was ensured as well as the effective and efficient implementation of safety methodologies and processes in day-to-day operations and the compliance of the Company with occupational safety and health legislation.

- Seeking to develop an independent corporate safety culture, LG Keleiviams activities are organized, taking into account the PDCA elements (plan-do-check-adjust), additionally implementing the leadership of each employee and ensuring the allocation of the duties, rights, and responsibilities in the safety area.

- The highest priority is given to the safety and health of our employees, which has led to the standardization of safety management within the LG Group, and this process is being continuously improved.

- While developing a safe work culture, on the first business day of every month, safety days are organised, where the focus is paid on occupational safety and health. LG Keleiviams continually assesses occupational risk at the workplaces, performs departmental inspections, implements the prevention intoxication, controls whether the employees follow safe access to the workplace procedures when crossing rail tracks, and how the inconsistencies identified during the occupational risk assessment and departmental inspections are removed.

- In addition, the 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. All LG Keleiviams employees are additionally insured against accidents at the employer's expense, and every employee who wished could receive a flu vaccination (86 employees were vaccinated in 2019).

- Considerable focus is paid on the development of the employees' competence: in 2019, 57 employees were trained in the field of occupational safety and health (the unit managers, representatives of the employees in the area of safety and health, the employees before starting dangerous works). LG Keleiviams has developed an employee competency matrix as well as a draft matrix for acquiring practical skills at the workplace.

- All employees are provided with quality collective and personal protective equipment by ensuring working clothes rental services with periodic laundry and repair.

- LG Keleiviams participated in a 5 month project of the public institution Pozityvios Sveikatos Komanda implemented together with AB Lietuvos Geležinkeliai. The project was run under a health promotion program in mobile workplaces involving about 100 train conductors-controllers. Such a project supported by the State Public Health Strengthening Fund in mobile workplaces in Lithuania was implemented for the first time. During the project, health psychologists and nutritionists, following the recommendations approved by the World Health Organization and other health organizations, sought to establish the most effective means to help the Company's employees to ensure a healthy diet during working hours. A video "Healthy Nutrition at Work" was created, in the production of which the employees of the AB „Lietuvos geležinkeliai" Group participated. At the end of the project, a rest and relaxation area was installed.

- The employees of LG Keleiviams participated in additional training: "Recognition and Management of Aggression", "How the food we eat affects the quality of our work", "How working out can help to relieve psychological stress" and "Healthy spine".

- Updated (visualized) occupational safety and health instructions.

Standardization of occupational safety and health in the company

TRAFFIC SAFETY

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

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

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

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

ENVIRONMENTAL PROTECTION

LG Keleiviams has a target to double the number of passengers carried compared to 2017 by 2030. The Company pursues this goal in compliance with the general environmental protection obligations of the AB Lietuvos Geležinkeliai group of companies – the Company efficiently uses energy and natural resources, seeks for solutions allowing to reduce the negative impact of its activities on the environment and the climate change.

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

The Company pays a lot of attention to environmental commitments, including the Railway Climate Responsibility Pledge of the International Union of Railways (UIC) updated at the end of 2019, which is aimed at the strengthening of the targets in the combat against climate change: by 2030, to reduce the amount of CO_2e[2] emitted from passenger transportation by 30%, and to reduce specific CO_2e emissions by 40% by 2020, and by 50% until 2030 compared to 2005. In 2019, the number of kilometres travelled by passenger trains increased by 12% compared to 2005, and the emission of CO_2e was reduced by as much as 35%. Specific CO_2 emissions from passenger transportation reduced by 42%. Merely 8% of the railway infrastructure is electrified, thus the majority of passengers travel on diesel trains. Diesel fuel not only affects the climate but also the ambient air, as nitrogen oxides and particulate are emitted. Already in 2019, LG Keleiviams achieved the UIC target for reduction of these pollutants –. to reduce their amount by 40% by 2030 compared to 2005.

The reduction of air pollution was significantly influenced by the expansion of electric train routes, the renewal of the passenger train fleet, and the fact that from 2018 electricity has been used for electric traction that is produced only from renewable energy sources. The use of green energy for electric traction in 2019 allowed reducing emissions by 5,440 t CO2e.

LG Keleiviams aims to protect natural and energy resources through the rational use of materials and raw materials, proper maintenance of rolling stock, thus extending their service life. The generated waste is sorted to ensure high recycling potential. As much as 87% of the waste generated by LG Keleiviams last year was suitable for recyclable. The Company is also involved in the LG group-wide No Paper Project, which focuses on more efficient document management and elimination of paper documents. Passengers are also able to purchase tickets online and provide digital copies of tickets at check-in, avoiding ticket printing.

Given the growing public concern about climate change and environmental pollution, "LG Keleiviams" remains committed to reducing the environmental impact of its operations, to sustainably using natural and energy resources, to meeting the set climate change goals, and to providing with the most environmentally friendly passenger services.

PREVENTION OF CORRUPTION AND BRIBERY

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

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

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

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

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

In order to promote the responsibility and activity of its employees, the Company enables its staff to report anonymously any offenses related to corruption through whistle-blower channels (phone (8 5) 269 3600, email: prevencija@bekorupcijos.lt, and the form for whistleblowing is available on the website www.litrail.lt/korupcijos-prevencija).

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

Following the provisions of the Law on the Protection of Objects

[2]CO_2e – Greenhouse gases, expressed in carbon dioxide equivalent.

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

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

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

COOPERATION WITH EDUCATIONAL INSTITUTIONS

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

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

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

DEFINITIONS

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

* When calculating the indicators, the average of the balances of the balance sheet indicators for the period of the Company's incorporation (28/09/2019) and the end of the reporting period (31 December 2019) were used.

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

FOR THE FINANCIAL YEAR
ENDED 31 DECEMBER 2019

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Independent Auditor's Report

To the Shareholders of UAB LG Keleiviams

Opinion

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

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

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

Basis for Opinion

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

Other Information

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

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

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

Company code: 111494971
VAT code: LT114949716

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

On behalf of KPMG Baltics, UAB

R. Kupinienė

Rūta Kupinienė
Certified Auditor

Vilnius, the Republic of Lithuania
30 April 2020

(all amounts are in EUR thousand unless otherwise stated)

Statement of financial position

	Notes	2019	2018
NON-CURRENT ASSETS			
Property, plant and equipment	7	140,784	-
Buildings and constructions		3,580	-
Machinery and plant		502	-
Vehicles		136,162	-
Other equipment, fittings and tools		540	-
Right-of-use assets	8	262	-
Intangible assets	9	123	-
Software		107	-
Other intangible assets		16	-
Investment property		-	-
Financial assets		-	-
Deferred tax assets	24	854	-
Total non-current assets		**142,023**	**-**
CURRENT ASSETS			
Inventories	10	1,313	-
Trade and other receivables	11	3,298	-
Prepayments	12	112	-
Cash and cash equivalents	13	7,288	-
Total current assets		**12,011**	**-**
TOTAL ASSETS		**154,034**	**-**

(all amounts are in EUR thousand unless otherwise stated)

Statement of financial position (continued)

	Notes	2019	2018
EQUITY			
Share capital	14	156,237	-
Legal reserve		-	-
Other reserves		-	-
Retained losses	15	(12,296)	-
Total equity		**143,941**	**-**
LIABILITIES			
Non-current liabilities			
Loans and borrowings		-	-
Lease liabilities	16	179	-
Employee benefits	17	668	-
Total non-current liabilities		**847**	**-**
Current liabilities			
Loans and borrowings		-	-
Lease liabilities	16	95	-
Income tax liability	24	396	-
Employee benefits	17	2,778	-
Trade and other payables	19	5,388	-
Prepayments received	18	589	-
Total current liabilities		**9,246**	**-**
Total liabilities		**10,093**	**-**
TOTAL EQUITY AND LIABILITIES		**154,034**	**-**

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

The financial statements and the explanatory notes on pages 30-68 were approved and signed on 30 April 2020:

Chief Executive Officer		Linas Baužys
Head of the II Statement Preparation Group Accounting Services Centre AB Lietuvos Geležinkeliai Acting under Power of Attorney No JG(LGKL)-19 of 18/03/2020		Svetlana Pupeikienė

(all amounts are in EUR thousand unless otherwise stated)

Statement of profit or loss and other comprehensive income

	Notes	2019	2018
Revenue	20	9,155	-
Other income	21	10,571	-
Total income		19,726	-
Employee benefits	22	(4,822)	-
Depreciation and amortisation		(4,070)	-
Fuel		(1,882)	-
Infrastructure services		(2,535)	-
Management service		(2,036)	-
Materials		(585)	-
Services rendered by other foreign railway companies		(315)	-
Electricity		(343)	-
Repairs and maintenance		(440)	-
Impairment (increase) of inventories		(50)	-
Impairment (increase) of receivables		(1)	-
Other		(1,283)	-
Operating profit (loss)		1,364	-
Finance income	23	22	-
Finance costs	23	(7)	-
Profit (loss) before taxation		1,379	-
Income tax	24	(216)	-
Net profit (loss)		**1,163**	**-**
Other comprehensive income (expenses)		-	-
Total comprehensive income (expenses)		**1,163**	**-**

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

(all amounts are in EUR thousand unless otherwise stated)

Statement of changes in equity

	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings (losses)	Total
Balance as at 31 December 2017		**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) for the period		-	-	-	-	-	-
Other comprehensive income (expenses), after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	-	-
Unrecognized profit (loss) for the reporting year		-	-	-	-	-	-
Increase in share capital		-	-	-	-	-	-
Reduction of share capital		-	-	-	-	-	-
Total transactions with owners of the Company		-	-	-	-	-	-
Balance as at 31 December 2018		**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) for the period		-	-	-	-	1,163	1,163
Other comprehensive income (expenses), after tax		-	-	-	-	-	-
Total comprehensive income		-	-	-	-	*1,163*	*1,163*
Increase in share capital		150	-	-	-	-	150
Increase in share capital by an asset contribution	15	156,087	-	-	-	(13,459)	142,628
Total transactions with owners of the Company		*156,087*	-	-	-	*(13,459)*	*142,778*
Balance as at 31 December 2019		**156,237**	**-**	**-**	**-**	**(12,296)**	**143,941**

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

(all amounts are in EUR thousand unless otherwise stated)

Statement of cash flows

	Notes	2019	2018
Cash flows from operating activities			
Net profit (loss)		**1,163**	**-**
Adjustment to non-cash items			
Depreciation and amortization	7,8,9	4,070	-
(Gain) loss from disposal/write-off of non-current assets		(159)	-
(Reversal) of impairment losses		51	-
Lease liability interest		1	-
Effect of currency exchange fluctuations		2	-
Income tax expenses (income)		216	-
Cash flows from operating activities after adjustment to non-cash items		5,344	-
Changes in working capital			
Decrease (increase) in inventories		347	-
Decrease (increase) in trade and other receivables and prepayments		(15,074)	-
Increase (decrease) in current and non-current trade payables and received prepayments		3,586	-
Increase (decrease) in employment related liabilities		907	-
Increase (decrease) in other non-current and current payables		636	-
Net cash from operating activities		(4,254)	-
Cash flows from investing activities			
(Acquisition) disposal of non-current assets		(423)	-
Net cash used in investing activities		(423)	-
Cash flows from financing activities			
Grants received		11,825	-
Payment of lease liabilities		(9)	-
Payment of lease liability interest		(1)	-
Cash flows related to owners		150	-
Net cash flows from financing activities		11,965	-
Net increase in cash and cash equivalents		**7,288**	**-**
Cash and cash equivalents at the beginning of the period		-	-
Cash and cash equivalents at the end of the period		**7,288**	**-**

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

Explanatory notes

1. General information

UAB LG Keleiviams (hereinafter referred to as the Company) was registered in the Register of Legal Entities of the Republic of Lithuania on 28 February 2019. In its activities the Company follows the Constitution of the Republic of Lithuania, the Law on Companies of the Republic of Lithuania, the Railway Transport Code of the Republic of Lithuania, and other valid regulations of the Republic of Lithuania.

The Company is a private legal entity of limited civil liability, independently organizing economic, financial, organizational, and legal activities. UAB LG Keleiviams is the company of AB Lietuvos Geležinkeliai Group. AB Lietuvos Geležinkeliai is its sole shareholder. The Company's code: 305052228, VAT code: LT100012462811, legal (registration) address: 12 Mindaugo g., LT-03603 Vilnius. The main activities of the Company are passenger and luggage transportation by rail and provision of related services.

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

As of 31 December 2019, the parent company AB Lietuvos Geležinkeliai was the sole shareholder of the Company.

The Ministry of Transport and Communications of the Republic of Lithuania holds 100 percent of AB Lietuvos Geležinkeliai.

The Company has no branches and representative offices.

As of 31 December 2019, the listed number of active employees at the end of the period (excluding the employees on parental leave, military service, long-term incapacity) was 710.

2. Significant accounting policies

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

The financial statements are prepared on the historical cost basis.

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

Changes in accounting policies. The Company has applied the accounting policy set out in Note 2 for the first time.

Use of estimates and judgements. The preparation of financial statements in conformity with IFRS requires the use of certain significant accounting estimates and assumptions which have influence on application of accounting principles and amounts related to assets, liabilities, income and expenses.

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

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

Foreign currency. Transactions in foreign currency are measured in functional currency applying the currency exchange rate applicable during transactions. Monetary assets and monetary liabilities in foreign currency are revaluated in functional currency on the date of preparation of the financial statements applying reference exchange rates set and published by the European Central Bank. 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 revaluated in functional currency at exchange rates valid on the date of determination of the fair value. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are revaluated in functional currency at exchange rates valid on the date of recognition of assets and liabilities in the statement of financial position. Currency exchange gains or losses are stated as profit or loss in the statements of profit or loss and other comprehensive income.

Property, plant and equipment. Property, plant and equipment are non-current tangible assets which: a) are kept for purposes of production of goods or provision of services, or for administrative purposes; and b) are intended to be used for a period longer than one reporting period.

The cost of property, plant and equipment shall only be recognised as assets when and only when: a) it is probable that the future economic benefits embodied in the asset will eventuate; and b) the asset possesses a cost or other value that can be measured reliably.

2. Significant accounting policies (continued)

Property, plant and equipment are attributed to non-current tangible assets and accounted for at cost less accumulated depreciation and impairment loss. The initial value of noncurrent tangible assets comprises their acquisition cost, including unrecoverable taxes of acquisition, capitalised borrowing costs and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the tangible non-current assets have been put into operation are normally charged to profit or loss in the period the costs are incurred.

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

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

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

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

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

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

Groups of property, plant and equipment	Useful life
Buildings and structures	8–77
Machinery and plant	5–40
Road transport	4–10
Rolling stock (including wagons)	8–35
Computers and hardware	4–15
Other equipment, fittings and tools	4–70

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

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

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

2. Significant accounting policies (continued)

production, provision of services, or for administration purposes or sale. Investment property is stated at historical cost less accumulated depreciation and impairment loss, if any. Depreciation is calculated by applying the straight-line method during estimated useful life. Transfers to and from investment property are made only when there is an obvious change in intended use of assets. 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 accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The deemed cost for subsequent investment property accounting is the carrying value at the time of assets' transfer.

Intangible assets. The Company's intangible assets have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences. Acquired computer software, licences, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use. Expenditures, which are directly related to development of unique software controlled by the Company, are recorded as intangible assets, where it is expected that future economic benefit will exceed expenditures incurred. Capital expenditures include costs of a software development team and related overhead costs. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

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

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

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

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

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

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

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

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

Financial instruments

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

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

Explanatory notes

2. Significant accounting policies (continued)

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

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

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

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

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

- the financial asset is held according to s business model, an objective of which is to hold the financial asset to collect its contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

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

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

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

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

- the right to receive cash flows from the financial asset has expired;
- the Company retains the right to cash flows, but has assumed an obligation to pay the full amount to the third party under an assignment agreement within a short period of time;
- the Company transfers its right to receive the cash flows and/or:

a) transfers substantially all risks and benefit related to ownership to the financial asset,

b) neither transfers nor retains risks and benefit related to ownership to the financial asset, but transfers control of the asset.

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

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

Writing down is an event of derecognition.

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

The gross carrying amount of a financial asset is written down when the Company has no reasonable expectations of recovering all or part of the asset. Uncollectible assets are written off based on admitted impairment loss after all the necessary procedures for recovery of the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss item in the statement of profit or loss and other comprehensive income.

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

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

Trade and other payables. At initial recognition trade and other payables are recognised when the Company becomes a

Explanatory notes

2. Significant accounting policies (continued)

party to the contractual terms. Trade and other payables are initially measured at fair value plus directly related transaction costs.

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

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

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

Lease

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

Lessee

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

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

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

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

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

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

Subsequent assessment of right-of-use assets. After the commencement date, the Company shall assess the right-of-use assets applying the cost method. By applying the cost method, the Company shall measure the assets managed under the right-of-use at cost: less any accumulated depreciation and any accumulated impairment losses; and adjusted for reassessment of the lease liability. In calculating the depreciation of rights-of-use assets, the Company shall apply the depreciation requirements of IAS 16 Property, Plant and Equipment.

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

2. Significant accounting policies (continued)

borrowing rate published by the Bank of Lithuania.

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

Lessor

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

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

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

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

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

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

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax

2. Significant accounting policies (continued)

laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

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

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

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

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

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

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

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

Provisions for retirement benefits. Following the legislative requirements of the Republic of Lithuania, each employee at the age of retirement is entitled to a one-off payment in the amount of 2-month salary. The historical cost is recognised as expenses in the statement of profit or loss and other comprehensive income immediately after the assessment of such liability. Any profit or losses which have appeared as a result of a change in benefit conditions are recognised immediately. The above-mentioned employment benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. The obligation is recorded in the Statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is determined

2. Significant accounting policies (continued)

by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial profit and losses are recognised in other comprehensive income. Therefore, provisions are formed for the possible benefits. Actuarial estimates are carried out in order to assess the liability of such retirement payments.

Plans of bonuses. The Company recognises the liability and expenses of bonuses when a contractual liability is present or a practice which created a constructive liability was applied in the past.

Revenue recognition. The Company recognises revenue to depict transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company takes into account the terms of the contract and all relevant facts and circumstances. For that purpose the Company's revenue is recognised using the 5-step model:

Step 1 - Identify the contracts with a customer.

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

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

Step 2 - Identify the performance obligations in the contract.

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

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

Step 3 - Determine the transaction price.

The transaction price may be fixed, variable or both.

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

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

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

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

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

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

Revenue is recognized by using the methods described below:

Service sales revenue

Revenue from sales of the services is recognized based on train tickets sold to passengers. The major part of payments for

2. Significant accounting policies (continued)

train tickets is made in cash. At the end of the period revenue, for which invoices have not been issued, but the services have been provided, is accrued based on the accrual principle.

Goods sales revenue

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

- The Company has transferred ownership control to a buyer;
- The Company retains neither further possession of the sold goods to the extent that is usually associated with ownership nor effective control;
- Amount of revenue may be reliably measured;
- It is probable that the Company will get economic benefit and transaction-related expenses incurred or to be incurred may be reliably measured.

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

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

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

Operating revenue generated by the Company includes the following:

- Passenger transportation revenue;
- Lease revenue.

Passenger transportation revenue

Passenger transportation revenue reflects revenue earned from transportation of passengers, baggage and mail. Revenue earned from transportation of passengers, baggage and mail is recognized at a given time when the services have been provided by delivering to a place agreed in a shipping document or upon expiry of a shipping document.

Sale of advance tickets makes up a small part of all revenue earned from ticket sales, and a date of purchase of a ticket usually matches a date of provision of the service.

Lease revenue

Revenue earned from lease of investment and other assets are accounted for by a straight-line method during the lease period.

Operating revenue generated by the Company is recognized based on a moment of recognition of revenue:

- Recognized immediately;
- Recognized during the continuous period.

Explanatory notes

2. Significant accounting policies (continued)

Type of services	Nature, timing and payment conditions of operating liabilities	Revenue recognition
Income from passenger and luggage transportation	Passenger and luggage transportation services are provided on the basis of train tickets sold. Most train ticket sales coincide with the date of carriage. Most of the revenue is paid immediately upon purchase of the ticket. Invoices for the carriage of passengers and related ancillary services shall be issued at the intervals agreed with the buyer in the contract, formed from the documents of the primary carriage of passengers and ancillary services after the provision of the service. The term for payment of invoices is usually 15 calendar days, for individual customers – 30 calendar days.	Revenue from the carriage of passengers, luggage and mail shall be recognized when the services have been provided, on arrival at the place agreed in the transport document or at the end of the period of validity of the transport document. Advance ticket sales represent a small portion of total ticket sales revenue, and the date of ticket purchase usually coincides with the date the service is provided.
Lease income	Invoices are issued after the service has been provided and the deed of acceptance-transfer of the performed works has been signed. The normal invoice payment term is 30 days.	Revenue is recognized on a monthly basis when the services are rendered. The amount of revenue recognized is estimated on the basis of the signed service provision deeds. The amount of wagon rental income is calculated on the basis of issued accounting cards, which estimate the number of rented wagons and the rental time. If services are provided under different arrangements in different reporting periods, then the consideration is allocated according to their relative independent selling prices. The individual selling price is determined on the basis of the service prices specified in the contract.
Other income	Invoices for additional services provided are issued immediately after the services are provided. Income from the sale of goods is recognized when the goods are loaded from the warehouse. The normal payment term is 30 days.	Income is recognized immediately when the services are rendered or the goods are removed from the warehouse. Services are considered provided when the deed of acceptance-transfer of the performed works is signed. Income from the sale of goods is recognized when the goods are loaded from the warehouse.

Recognition of expenses. Expenses are recognized on an accrual and comparative basis in the period in which the related revenue is earned, regardless of the time of disbursement. If expenses incurred during the reporting period cannot be directly related to the earning of specific income and will not generate income in future periods, such expenses are recognized as expenses in the same period when incurred.

Income and expenses from financial activities. Income from financial activities consists of interest income. Interest income is recognized on an accrual basis using the effective interest method. Financial activity expenses include interest expenses. Borrowing expenses that is not directly attributable to the acquisition or production of a qualifying asset is recognized in the statement of profit or loss and other comprehensive income statement, based on the effective interest method. The positive or negative effect of exchange rate changes is presented in the income statement on a net basis.

Government grants. State grants are state aid that is made in the form of a transfer of resources to an entity, provided that the entity has complied or will comply with certain conditions relating to the entity's principal activities. A state grant is not recognized until there is reasonable assurance that the entity will comply with the relevant conditions and that the grant will be received. A state grant may take a variety of forms, which may vary both in the nature of the grant and in the conditions normally attached to the grant.

Grants related to income and expenses. Grants received to offset current or prior period expenses or unearned income, as well as all other grants, except for grants related to assets, are treated as grants related to income. Grants related to income are recognized as used parts to the extent that the expenses are incurred during the reporting period or the estimated loss of income for which the grant is intended to compensate. Grants to compensate for loss of income are recognized in article of other income in the Profit (loss) and other comprehensive income statements. Grants intended to offset specific expenses are recognized in the income statement by deducting the amount

2. Significant accounting policies (continued)

of the grant from the related amount of the related expenses.

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

Events after the reporting period. These are events that provide additional information about the Company's position at the statement of financial position date. Adjusting events are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

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

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

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

a) to identify the acquiring entity;

b) to set the acquisition date;

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

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

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

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

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

3. Significant accounting estimates and judgements

Significant judgements

Moment of recognition of income. Management estimates the moment of recognition of income, i.e. whether income is recognized over a period of time or at a particular point in time.

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

3. Significant accounting estimates and judgements (continued)

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. AB Lietuvos Geležinkeliai controls the Company in which it invests when it can or has the right to receive a variable return from its relationship with the Company in which it invests and may affect this return by exercising its power to manage the Company in which it invests.

Significant estimates and assumptions

Information on significant estimates and assumptions is provided below:

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

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

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

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

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

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

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

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

Deferred tax assets. Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the liability. Deferred tax assets are recognized only to the extent that it

3. Significant accounting estimates and decisions (continued)

is probable that future taxable profits will be available against which the deferred tax assets can be utilized. The values of deferred tax assets shall be reviewed at the date of each statement of financial position and reduced if the associated tax benefit is not likely to be used.

4. Standards and interpretations of standards not yet effective

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

Amendments to Conceptual Financial Reporting Framework (effective for annual periods beginning on or after 1 January 2020).

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

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

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

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

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

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

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

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

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

The amendments clarify the definition of business. A business must consist of resources and a substantial process, while having a significant impact on the ability to create output. The new guidelines provide a framework for assessing the existence of resources and the underlying process, including for companies that have not yet produced production at an early stage of their operations. In the absence of output, the condition of the existence of an organized workforce would have to be fulfilled in order for a combination of activities and assets to be classified as a business. The definition of „output" is narrowed to include goods and services supplied to customers that generate investment income and other income, excluding profits in the form of lower costs and other economic benefits. It is also no longer required to assess whether market participants will be able to replace missing elements or integrate acquired activities and assets. An entity may perform a concentration test. If, in principle, the total fair value of the acquired gross assets were concentrated in a single asset unit (or group of similar assets), the acquired assets would not constitute a business. According to the preliminary assessment of the Company's management, the application of this standard will not have a significant impact on the company's financial statements.

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet endorsed by the European Union). IFRS 17 replaces IFRS 4, which allowed entities to continue using current practice for accounting for insurance contracts. This made it difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a general principles-based standard setting accounting requirement for all types of insurance contracts, including reinsurance contracts held by an insurer. The standard requires groups of insurance contracts to recognize and measure: (i) future cash flows (cash flows arising from the performance of the contract) at risk-adjusted present value, which includes all available information about the cash flows arising from the performance of the contract consistent with observable market data; by adding (if this value is a liability) or subtracting (if this value is an asset) (ii) an amount representing the unearned profit from the group of contracts (the contractual service margin). The profits generated by a group of insurance contracts will be

4. Standards and interpretations of standards not yet effective (continued)

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.

"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 approved by the European Union).

These amendments address the discrepancy between IFRS 10 and IAS 28 in relation to asset sales or contributions between an investor and its associate or joint venture. The main consequence of these adjustments is that the full amount of the gain or loss is recognized when the transaction involves a business. A profit or loss shall be partially recognised when the transaction includes assets that are not business, even if those assets are owned by a subsidiary and the shares of the subsidiary are transferred at the time of the transaction. The Company estimates that these amendments will not have a material impact on the financial statements.

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.

The objective of this standard is to permit first-time adopters of IFRSs that currently recognize regulatory provision accounts in accordance with their previous BAP to continue to do so in transition to IFRSs. The Company does not assess the impact of the new interpretation on its financial statements.

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

5. Significant changes in accounting policy

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

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

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

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

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

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

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

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

At the date of the conclusion of the financial statements, the Company has concluded contracts for the lease of real estate (premises, areas) and vehicles. Lease contracts for premises are usually concluded for a fixed period without the possibility of renewal. Vehicle lease contracts are concluded for a period of 1-4 years with the possibility to extend them for one year. In determining the lease term, management considers all the facts and circumstances that give rise to the economic incentive to exercise the option to extend the contract or not to exercise the option to terminate it. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated). Possible future cash payments were not included in the lease liabilities as there is no reason to be certain that the leases will be extended (or not terminated). Other low-value contracts are awarded for an indefinite period.

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

The new IFRS 16 Leases did not have a material impact on the opening balances of the Company's statement of financial position and profit or loss and other comprehensive income statements as the Company was established on 28 February

(all amounts are in EUR thousand unless otherwise stated)

5. Significant changes in accounting policy (continued)

2019. No transfer of right-of-use assets or liabilities occurred at the time of the reorganisation. See Note 16 for more details.

6. Financial instruments and risk management

Financial instruments. Fair value

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

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

The Company's financial instruments by their types consisted of:

	2019	2018
Financial assets		
Trade and other receivables	2,584	-
Cash and cash equivalents	7,288	-
Total	**9,872**	**-**

	2019	2018
Financial liabilities		
Lease liabilities	274	-
Trade and other payables	5,237	-
Total	**5,511**	**-**

Fair value is classified according to a hierarchy that reveals the significance of the initial valuation data used. The fair value hierarchy includes the following levels:

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

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

Level 3 – inputs for assets and liabilities that are not based on observable market data (unobservable inputs).

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

	Carrying amount 2019	Fair value 2019			Carrying amount 2018	Fair value 2018		
Financial assets	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Trade and other receivables	2,584	-	-	2,584	-	-	-	-
Cash and cash equivalents	7,288	7,288	-	-	-	-	-	-
Total	**9,872**	**7,288**	**-**	**2,584**	**-**	**-**	**-**	**-**
Financial liabilities								
Lease liabilities	274	-	-	274	-	-	-	-
Trade and other payables	5,237	-	-	5,237	-	-	-	-
Total	**5,511**	**-**	**-**	**5,511**	**-**	**-**	**-**	**-**

Cash and cash equivalents. These are monetary funds, the value of which is close to their fair value.

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

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

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

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

Credit risk is the risk that the Company will incur a financial loss if a buyer or other party fails to meet its contractual obligations.

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

The majority of trade and other receivables 1,313 thousand are receivables from related parties, receivables from external customers amount to 27 thousand. The Company is not exposed to credit risk related to the Company's trade receivables.

The Company's receivables from related party debt were not past due and were not impaired.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

The Company's receivables subject to credit risk and expected credit loss as at 31 December 2019 by individual external customers amounted to:

	Initial value	Expected credit losses, %	Impairment	Carrying amount
Low risk	17	0.6 %	-	17
Fair risk	-	1.8 %	-	-
Increased risk	7	3.1 %	-	7
High risk	7	58.3 %	(4)	3
Total	**31**		**(4)**	**27**

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

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

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

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

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

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

The Company's information on credit risk applicable to trade receivables and expected credit loss as at 31 December 2019 included:

	Expected credit losses, %	Initial value	Impairment	Carrying amount
Not past due	0.6%	18	-	18
1-30 days past due	1.8%	-	-	-
31-60 days past due	3.6%	7	-	7
61-120 days past due	10.0%	-	-	-
More than 120 days past due	61.7%	6	(4)	2
Total		**31**	**(4)**	**27**

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

	2019	2018
Balance at the beginning of the period	-	-
Impairment of receivables carried forward during the reorganization	(3)	-
Change in impairment of trade receivables	(1)	-
Balance at the end of the period	**(4)**	**-**

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

Cash and cash equivalents consist of cash and cash on hand, so the credit risk associated with them is minimal. The Company's cash resources are subject to the principle of diversification, the funds are held in banks with an international credit rating of not less than Aa2, AA.

	2019	2018
Aa2; A+; AA-	400	-
Aa3; AA-; AA-	6,836	-
Baa1	10	-
Less than BBB-/Baa3	2	-
Cash on hand	40	-
Total	**7,288**	**-**

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

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

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

	Trade and other payables		Lease liabilities	
	2019	2018	2019	2018
Within one year	5,237	-	95	-
From one to five years	-	-	179	-
After five years	-	-	-	-
Total	**5,237**	**-**	**274**	**-**

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

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

During 2019, the Company did not enter into derivative financial transactions to manage the risk of exchange rate fluctuations with servicing banks.

The main currency of the Company's ticket sales is euro. The Company is not exposed to the risk of incurring losses due to foreign exchange rate fluctuations against the euro.

Interest rate risk. Changes in the interest rate do not affect the Company's result or the values of available financial instruments.

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

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

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

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

7. Property, plant and equipment

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

	Land	Buildings and structures	Machinery and equipment	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
31 December 2018	-	-	-	-	-	-	-
- acquisition of assets due to reorganization*	-	3,733	572	139,537	581	-	144,423
- acquisitions per year	-	-	-	371	-	-	371
- transferred from current assets	-	-	-	55	-	-	55
- assets sold, written off, disposed	-	-	-	(70)	(2)	-	(72)
- reclassifications	-	-	-	-	-	-	-
31 December 2019	-	3,733	572	139,893	579	-	144,777
Accumulated depreciation and impairment losses							
31 December 2018	-	-	-	-	-	-	-
- depreciation	-	(153)	(70)	(3,737)	(39)	-	(3,999)
- impairment during the year	-	-	-	-	-	-	-
- assets sold, written off, disposed	-	-	-	6	-	-	6
- reclassifications	-	-	-	-	-	-	-
31 December 2019	-	(153)	(70)	(3,731)	(39)	-	(3,993)
Carrying amount							
31 December 2018	-	-	-	-	-	-	-
31 December 2019	**-**	**3,580**	**502**	**136,162**	**540**	**-**	**140,784**

*On 1 September 2019, the passenger and luggage transportation activities together with the non-current assets belonging to the Passenger Transportation Directorate of AB Lietuvos Geležinkeliai were transferred to the Company. The values of assets and liabilities transferred by the Passenger Transport Directorate are given in Note 15.

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes

7. Property, plant and equipment (continued)

Depreciation and amortization expense included in the statement of profit or loss and other comprehensive income amounted to EUR 4,070 thousand. This amount includes EUR 3,999 thousand of depreciation of property, plant and equipment, EUR 21 thousand of depreciation of right-of-use assets and EUR 56 thousand of amortization of intangible assets. Capitalized depreciation and amortization amounted to EUR 6 thousand. The cost of the Company's fully depreciated but still used property, plant and equipment amounted to EUR 579 thousand. Vehicles comprised for the majority of fully depreciated property, plant and equipment.

8. Right-of-use assets

The Company's right-of-use assets consisted of:

	Buildings and structures	Vehicles	Other equipment, fittings and tools	Total
Acquisition cost				
31 December 2018	-	-	-	-
- acquisitions per year	209	70	4	283
- assets sold, written off, disposed	-	-	-	-
- reclassifications	-	-	-	-
31 December 2019	209	70	4	283
Accumulated depreciation and impairment losses				
31 December 2018	-	-	-	-
- depreciation	(12)	(9)	-	(21)
- impairment during the year	-	-	-	-
- assets sold, written off, disposed	-	-	-	-
- reclassifications	-	-	-	-
31 December 2019	(12)	(9)	-	(21)
Carrying amount				
31 December 2018	-	-	-	-
31 December 2019	**197**	**61**	**4**	**262**

(all amounts are in EUR thousand unless otherwise stated)

9. Intangible assets

The Company's intangible assets consisted of:

	Software	Other intangible assets	Total
Acquisition cost			
31 December 2018	-	-	-
- acquisition of assets due to reorganization*	159	20	179
- acquisitions per year	-	-	-
- assets sold, written off, disposed	-	-	-
- reclassifications	-	-	-
31 December 2019	159	20	179
Accumulated amortization and impairment losses			
31 December 2018	-	-	-
- amortization	(52)	(4)	(56)
- impairment during the year	-	-	-
- assets sold, written off, disposed	-	-	-
- reclassifications	-	-	-
31 December 2019	(52)	(4)	(56)
Carrying amount			
31 December 2018	-	-	-
31 December 2019	**107**	**16**	**123**

*On 1 September 2019, the passenger and luggage transportation activities together with the non-current assets belonging to the Passenger Transportation Directorate of AB Lietuvos Geležinkeliai were transferred to the Company. The values of assets and liabilities transferred by the Passenger Transport Directorate are given in Note 15.

10. Inventories

The Company's inventories consisted of:

	2019	2018
Fuel	78	-
Spare parts	486	-
Other	102	
Total raw materials, supplies and components	666	-
Non-current assets held for sale	180	-
Non-current assets held for sale, total	180	-
Purchased goods for resale	467	-
Total goods purchased for resale	467	-
Total	**1,313**	**-**

The carrying amount of the Company's inventories was reduced by EUR 50 thousand to the net realizable value as at 31 December 2019. The change in the write-down of the Company's inventories to net realizable value is reflected in the expense item in the statement of profit or loss and other comprehensive income.

During 2019 inventories of EUR 2,467 thousand were written off at cost of sales.

(all amounts are in EUR thousand unless otherwise stated)

11. Trade and other receivables

The Company's trade and other receivables included:

	2019	2018
External trade receivables, gross value	31	-
Impairment (-)	(4)	-
Total external trade receivables	**27**	**-**
Receivables from related parties	1,311	-
Impairment (-)	-	-
Total receivables from related parties	**1,311**	**-**
VAT receivable	681	-
Other receivables from the budget	33	-
Accrued income from related parties	353	-
Accrued income	889	-
Other receivables	4	-
Impairment (-)	-	-
Total other receivables	**1,960**	**-**
Total	**3,298**	**-**

The change in impairment is disclosed in Note 6.

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

12. Prepayments

The Company's prepayments consisted of:

	2019	2018
Prepayments to external suppliers	55	-
Prepayments to related parties	1	-
Guarantees paid to related parties	19	-
Deferred expenses	37	-
Total	**112**	**-**

13. Cash and cash equivalents

The Company's cash and cash equivalents consisted of:

	2019	2018
Money in the bank	7,248	-
Cash on hand	40	-
Total	**7,288**	**-**

(all amounts are in EUR thousand unless otherwise stated)

13. Cash and cash equivalents (continued)

As at 31 December 2019, the Company had no term deposits. Money 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 AB Swedbank. On 29 August 2019, UAB LG Keleiviams signed an agreement to join the Group's account. 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 under market conditions. As at 31 December 2019, the Company had no receivables or liabilities under this agreement.

14. Share capital

The nominal value per share of the company is EUR 1 thousand. The change in the share capital is presented in the following table:

	Share capital	Number of shares, units
Subscribed share capital		
31 December 2018	-	-
Increase	156,237	156,237
Decrease	-	-
31 December 2019	156,237	156,237
Capital structure at the end of the reporting period		
By type of shares		
Ordinary shares	156,237	156,237
Privileged shares	-	-
Total	**156,237**	**156,237**

On 28 February 2019, AB Lietuvos Geležinkeliai established the company UAB LG Keleiviams. The share capital of the Company is formed by issuing 156,237 ordinary shares and is equal to EUR 156,237 thousand, each of which has a nominal value of EUR 1 thousand.

15. Retained earnings

On 20 December 2018 amendments to the Railway Transport Code of the Republic of Lithuania (hereinafter referred to as the Code) were adopted. Following the amendments to the Code AB Lietuvos Geležinkeliai has launched a new restructuring program LG Changes, which includes the refinement of key activities, during which the newly established companies of the Group will continue the operations of three directorates – Freight, Passenger Transport and Railway Infrastructure. The transfer of operations from AB Lietuvos Geležinkeliai is assessed as a transaction of joint ventures.

During the implementation of the LG Changes program, on 1 September 2019, AB Lietuvos Geležinkeliai 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 the Company. The business transferred to the Company includes assets related to passenger and luggage transportation activities, liabilities and employees. The fair market value of the business, determined by the independent assessor, has made up EUR 156,087 thousand. Accordingly, on 11 October 2019 the Company's share capital was increased by EUR 156,087 thousand with a non-monetary property contribution. Business relocation based on the selected reorganization policy is treated as business transfer and has been accounted for at carrying values. Difference between the assets received and liabilities accepted by the Company and the business market value in the amount of EUR 13,459 thousand loss is considered the reorganization result that has been accounted for in the Company's retained earnings (losses).

Following the registration procedures for the increase of the share capital, the accounting data as of 31 December 2019 resulted in a total reorganization result of a loss of EUR 13,459 thousand that is accounted for in the Company's retained earnings (losses).

(all amounts are in EUR thousand unless otherwise stated)

15. Retained earnings (continued)

Balance of transfer of passenger and luggage transportation business (at carrying values of AB Lietuvos Geležinkeliai):

ASSETS		EQUITY AND LIABILITIES	
Property, plant and equipment	144,478	Employee benefits	713
Intangible assets	179	**Total non-current liabilities**	**713**
Deferred tax asset	674	Employee benefits	1,827
Total non-current assets	**145,331**	Trade and other payables	2,059
Inventories	1,710	Prepayments received	35
Trade and other receivables	140	**Total current liabilities**	**3,921**
Prepayments	72	**Net assets**	**142,628**
Cash and cash equivalents	9		
Total current assets	**1,931**		
TOTAL ASSETS	**147,262**	**TOTAL EQUITY AND LIABILITIES**	**147,262**

16. Lease liabilities

	2019	2018
Non-current part	179	-
Current part	95	-
Total	**274**	**-**

The lease contracts consist of vehicle and premises lease agreements. Vehicle contracts are concluded for a period of 3 years without the possibility of contract extension. Leases of buildings are usually concluded for a period of 3 years with the possibility of extending the lease. When determining the lease period, the Company's management evaluates all facts and circumstances, which give rise to economic incentives to avail themselves of the possibility to extend or terminate the contract. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated). Possible future cash payments were not included in the lease liabilities as there is no reason to be certain that the leases will be extended (or not terminated).

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

The discount rate applicable to lease contracts is 6-month EURIBOR and the market margin estimated by a market survey in accordance with applicable market conditions.

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

	2019
Asset:	
Right-of-use assets	262
Non-current liabilities:	
Lease liabilities	(179)
Current liabilities:	
Lease liabilities	(95)
Impact on the statement of profit or loss and other comprehensive income	**(12)**

(all amounts are in EUR thousand unless otherwise stated)

16. Lease liabilities (continued)

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

	2019
Depreciation costs	(21)
Lease costs	10
Operating profit (loss)	**(11)**
Financial operating costs:	
Interest	(1)
Profit (loss) for the reporting period	**(12)**

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

	2019
Net profit (loss)	**(12)**
Depreciation costs	21
Interest on the lease liability	1
Cash flow from investment activities	
Lease liability payments	(9)
Interest on lease liability	(1)
Net cash flow increase (decrease)	**-**

If the discount rate applicable at the Company increases or decreases by 1 percent, the amount of lease liabilities as of 31 December 2019 will accordingly make up EUR 271 thousand or EUR 279 thousand accordingly.

17. Employee benefits

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

The key assumptions used in estimating the Company's non-current employee benefits liabilities are set out below:

	2019	2018
Discount rate	0.57 %	-
Employee turnover rate	9.18 %	-
Salary accrual rate	3.00 %	-

(all amounts are in EUR thousand unless otherwise stated)

17. Employee benefits (continued)

Change in employee benefits during 2019 by type:

	31 December 2018	Effect of re-organization	Calculated	Capitalized costs	Paid	Balance as of 31 December 2019
Non-current liabilities						
Provisions for pensions and similar liabilities	-	713	(42)	-	(3)	668
Total non-current liabilities:	**-**	**713**	**(42)**	**-**	**(3)**	**668**
Current liabilities						
Accumulated leave	-	1,043	277	-	(273)	1,047
Wages and salaries payable	-	525	2,297	171	(2,387)	606
Social security contributions payable	-	-	1,039	3	(773)	269
Personal income tax payable	-	-	865	-	(654)	211
Other employment-related liabilities	-	259	386	-	-	645
Total current liabilities:	**-**	**1,827**	**4,864**	**-**	**(4,087)**	**2,778**
Total	**-**	**2,540**	**4,822**	**174**	**(4,090)**	**3,446**

18. Prepayments received

The prepayments received by the Company consisted of:

	2019	2018
Prepayments received	589	-
Total	**589**	**-**

Most of the prepayments received amounted to EUR 571 thousand from the state budget to compensate for losses in passenger transport by train on local transport routes.

(all amounts are in EUR thousand unless otherwise stated)

19. Trade and other payables

The Company's trade and other payables consisted of:

	2019	2018
Trade accounts payable	175	-
Trade accounts payable to related parties	4,318	-
Cash guarantees received	6	-
Other taxes payable to the budget	31	-
Accumulated costs	744	-
Other accounts payable and liabilities	114	-
Total	**5,388**	**-**

The Company recorded a liability of EUR 25 thousand for audit services under accrued expenses.

The major part of trade payables to related parties consists of the management fee, based on the calculation of the management service fee of the shareholder AB Lietuvos Geležinkeliai, in accordance with the management services agreement of 20 July 2019.

The majority of accrued expenses amounted to EUR 631 thousand are to related parties.

20. Revenue

The Company's revenue consisted of:

	2019	2018
Revenue from passenger transportation:	8,769	-
Revenue from domestic passenger transportation	4,431	-
Revenue from international passenger transportation	4,216	-
Revenue from services related to passenger transportation	122	-
Other revenue:	386	-
Leased assets	90	-
Other income	296	-
Total	**9,155**	**-**

In 2019, the Company accounted for EUR 786 thousand of income compensation for the provision of passenger transportation services to certain socially disadvantaged groups by applying discounts of 80 percent and 50 percent.

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

	2019	2018
Recognized immediately	9,065	-
Recognized over an ongoing period	90	-
Total	**9,155**	**-**

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes

21. Other income

In 2019, the Company's income from other activities amounted to EUR 10,571 thousand. A major part of other operating income in the amount of EUR 10,402 thousand consisted of loss compensation for the transportation of passengers by train on domestic transport routes.

22. Employee benefits

Employee benefits expenses by type:

	2019	2018
Wages and salaries	4,775	-
Social security contributions	85	-
Accrued vacation reserve	7	-
Pensions and similar liabilities	(45)	-
Total	**4,822**	**-**

23. Result of financing activities

The result of the Company's financing activities consisted of:

	2019	2018
Total finance income	22	-
Currency exchange gain	2	-
Penalties and default interest for overdue trade receivables	20	-
Total finance costs	(7)	-
Interest	(2)	-
Penalties and interest for delays in passenger trains	(5)	-
Total	**15**	**-**

24. Income tax and deferred tax

Income tax was calculated at a rate of 15 percent.

	2019	2018
Income tax for the reported year	396	-
Deferred tax expenses**	(180)	-
Total income tax expense (benefit) recognized in profit or loss	**216**	**-**

**On 1 September 2019, the passenger and luggage transportation activities together with the deferred tax assets owned by the Passenger Transportation Directorate of AB Lietuvos Geležinkeliai, which amounted to EUR 674 thousand, were transferred to the Company.

(all amounts are in EUR thousand unless otherwise stated)

24. Income tax and deferred tax (continued)

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

	2019	2018
Profit or loss before tax	1,379	-
Income tax	207	-
Non-deductible expenses	10	-
Income tax deductible income	(1)	-
Total corporate income tax expenses (income)	**216**	**-**
Effective rate	15.66%	-

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

The Company's deferred tax movement was:

	31 December 2018	Effect of reorganization	Change in 2019	Balance as at 31 December 2019
Deferred tax assets:				
Difference in the value of non-current assets with tax value	-	372	117	489
Impairment of receivables and write-off of bad debts	-	-	1	1
Write-off of inventories	-	-	7	7
Accrued vacation reserve and bonuses	-	195	58	253
Long-term employee benefits liability	-	107	(7)	100
Accrued costs	-	-	4	4
Deferred tax assets	-	674	180	854
Deferred income tax liability	-	-	-	-
Deferred tax asset (liability), net	**-**	**674**	**180**	**854**

25. Related party transactions

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

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

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

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

- The government that controls, has joint control over, or

(all amounts are in EUR thousand unless otherwise stated)

25. Related party transactions (continued)

has significant influence over, the reporting entity; and

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

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

Related party transactions of the Company:

	2019		2019	
	Purchases	**Sales**	**Receivables**	**Payables**
AB Lietuvos Geležinkeliai	7,405	3,417	1,240	3,004
AB LG CARGO	13	97	36	22
AB Lietuvos Geležinkelių Infrastruktūra	486	28	30	1,133
UAB Geležinkelio Tiesimo Centras	-	4	1	3
UAB Vilniaus Lokomotyvų Remonto Depas	445	19	23	270
UAB Gelsauga	5	-	-	1
Total	**8,354**	**3,565**	**1,330**	**4,433**

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

	2019	
	Accrued receivables	**Accrued payables**
AB Lietuvos Geležinkeliai	117	540
AB Lietuvos Geležinkelių Infrastruktūra	236	91
Total	**353**	**631**

In 2019, the management fee based on the calculation of the Management Services Fee of the shareholder AB Lietuvos Geležinkeliai amounted to EUR 2,036 thousand.

According to the methodology of the AB Lietuvos Geležinkeliai Group, all transactions with related parties are carried out under market conditions and comply with the arm's length principle.

Management remuneration and other benefits

As at 31 December 2019, the number of executives was 5 people, i.e. 1 Chief Executive Officer, 1 Director of Business Development and Marketing Department, 1 Director of Corporate Operations Department, 1 Director of Operations Department, 1 Director of Passenger Services Department.

(all amounts are in EUR thousand unless otherwise stated)

25. Related party transactions (continued)

	2019	2018
Management remuneration	120	-
Incentives***	4	-
Number of executives	5	-
Allowances for members of the Board	-	-
Number of Board members	5	-

***Incentives are performance bonuses and lump sums.

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

26. Contingent assets and liabilities

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

Legal cases

During 2019, The Company has not been involved in any litigation.

27. Events after the reporting period

In February 2020, the Company's shareholder decided to reduce the Company's share capital by EUR 12,647 thousand in order to eliminate the difference in the balance sheet as at 31 October 2019 due to reorganization and cancellation of 12,647 ordinary registered shares of the Company with a nominal value of EUR 1 thousand each.

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

The coronavirus (COVID-19) pandemic has created a difficult to predict and unprecedented situation not only in Lithuania, but also around the world, effect of which has been felt by 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.

Wider effects of those events include:

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

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

As the Company operates in the transport business sector and in order to promptly respond to changed business environment, the Company's Management has carried out a comprehensive assessment of the existing situation and identified principal near-term threats that might affect the Company's activities:

- malfunctioning of the Company's operations caused by existing restrictions in Lithuania and countries, where main partners are located;
- effect of movement restrictions in the territory of Lithuania, other countries, where the Company's activities are carried out;

27. Events after the reporting period (continued)

- possible malfunctioning of supply from foreign and local partners;
- decrease in demand;
- possible impact of temporary disruptions in other business lines on the Company's operations;
- impact of the business relief package of the Government of the Republic of Lithuania on further activities of the Company;
- the Company's operating results, which will change in 2020 and their impact on business continuity.

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

- COVID-19 realistic scenario – reduction of domestic and international train journeys, decrease in ridership and revenues by up to 30 percent;
- COVID-19 conservative scenario – domestic and international train journeys are reduced for a longer period (until the end of 2020); ridership and revenues are expected to fall by up to 50 percent;
- COVID-19 pessimistic scenario – suspension of all domestic and international trains from April to October 2020; passenger and operating revenues are expected to fall to 70 percent.

In response to the countermeasures announced by the Government of the Republic of Lithuania, the Company suspended international train traffic from 16 March 2020 and transit train traffic from 6 April. The Company 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. Bus fleets interrupted long-distance travel, so trains remained the only long-distance and necessary means of transportation for some people.

Based on the possible scenarios the Company is not planning to withdraw from investment projects, as it has provided sufficient resources to reduce costs.

The Company has also assessed potential liquidity and credit risks and possible scenarios:

- has estimated whether borrowing possibilities inside the Group (cashpool) are sufficient to ensure current solvency;
- has estimated the possibility of receipt of the subsidy from the Government of the Republic of Lithuania;
- has taken additional measures to strenghen payment control;
- has taken additional measures to strengthen cost control.

According to the analysis performed by the Company's management, the Company suspended almost 50% of passenger transportation in the first quarter of 2020, but its operations were uninterrupted. The Company's revenue fluctuations are related to the virus-induced changes in the passenger transportation market and do not exceed the forecast scenarios. Railway transport remains the most reliable means of transport during the pandemic period. The Company operates in one of the most strategic and secure sectors of the state and can expect state support or guarantees if necessary.

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 Company. The task of the program 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.

Based on the program EUR 3,630 thousand are allocated to implement the measure for provision of passenger transportation services to disadvantaged groups established by law by applying 80 percent and 50 percent discounts. On 31 December 2019 the Company signed a contract for compensation (reimbursement) of Company's costs (unearned income) related to application of transport benefits with the Lithuanian Transport Safety Administration.

EUR 26,810 thousand are also allocated in 2020 for provision of rail passenger transportation services unprofitable for the carrier but necessary for society according to the program to implement the measure for transportation on local communication routes. At the date of issue of these financial statements, the contract with the Ministry of Transport and Communications of the Republic of Lithuania on the appropriations allocated to the Company for 2020 for this measure was further negotiated to provide additional appropriations to the Company to reduce the negative impact of the COVID-19 pandemic.

According to the Strategic Action Plan of Control Areas

27. Events after the reporting period (continued)

of the Minister of Transport and Communications of the Republic of Lithuania for 2020-2022, EUR 3,956 thousand and EUR 4,312 thousand have been foreseen to allocate to the disadvantaged groups established in the Law of Provision of Passenger Transportation services by applying 80 percent and 50 percent discounts to implement the measure in 2021 and 2022 accordingly; and EUR 24,219 thousand and EUR 23,786 thousand have been foreseen for provision of rail passenger transportation services unprofitable for the carrier but necessary for society established by the measure for transportation on local communication routes in 2021 and 2022 accordingly.

On the date of release of these financial statements the Ministry of Transport and Communications of the Republic of Lithuania has informed the European Commission about its intention to sign a long-term (ten-year) PSO Agreement and the text of that agreement has been discussed.

The Company Management has also estimated borrowing possibilities inside the Group (cashpool) to ensure sufficiency of cash flows to the Company for performance of its activities and in case if the Ministry of Transport and Communications of the Republic of Lithuania fails to grant the additional allocations to the Company.

At the moment of preparation of the financial statements payments had been made as usual; and the Company identifies no increase in liquidity or credit risks or loss of control over them by the Company management due to application of the measures mentioned above. According to the Company's Management, the negative circumstances related to the virus do not raise doubts about the Company's business continuity and do not change the Company's long-term business plans and goals.

As the situation 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 on this stage. However, the Company believes that subsidies granted by the Government of the Republic of Lithuania and the possibilities to borrow inside the Group (cashpool) will allow controlling operational and liquidity risks. 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 Company operates, will have adverse effect on the Company, its financial position and performance results in the medium and long term. The Management is continuously monitoring the situation carefully and will take measures to mitigate effects of such events and circumstances.