2020

Annual report of AB LTG Cargo

Contents

ABBREVIATIONS:

LTG, Lietuvos geležinkeliai – AB Lietuvos geležinkeliai
LTG group, Group, Group of companies – AB Lietuvos geležinkeliai and its subsidiaries
LTG Cargo, “LTG Cargo”, LG Cargo, “LG Cargo”, Company – AB LTG Cargo
LTG Cargo Polska – LTG CARGO POLSKA SP. Z.O.O
LTG Cargo Ukraine – TOB LTG Cargo Ukraine
LTG Wagons – UAB LTG Wagons
LoR - the Republic of Lithuania
EU - the European Union

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

Ceo's foreword

Ladies and Gentlemen,

The previous year has probably resembled a roller coaster ride to most of people. At the beginning of 2020, the progressed COVID-19 pandemic brought us the new reality that all of us had to rapidly adapt to.

Such factors as slow down of the industry, destabilisation of supply chains, congestion of logistics terminals, standstill in consumption and increased competition among carriers have been our constant companions over the year, which have significantly affected our activity.

The turmoil caused by the pandemic has been evident in all areas, and we had to rapidly adapt to new conditions, refocus and, most importantly, retain an uninterrupted movement of freights and goods. Therefore, first of all we have immediately taken all preventive measures to protect our front-line employees.

Reoriented to the new reality, at the beginning of the year we announced forecasts for 2020: according to a more optimistic scenario, we have expected the freight flow to decrease in 2020 by 7.5% and, according to a more pessimistic scenario - by 12%. By the end of summer, the freight flow has been decreasing and corresponding closely to the forecasts; yet, a break-even point was reached in August, and amounts higher than those in corresponding months in 2019 have been carried since that moment to the end of the year. Growth momentum has been reached as a result of freight flow diversification, and the greatest positive impact has been made by a record grain harvest in Lithuania.

Having carried 53.4 million tonnes in 2020, we reached the finish line and underachieved the result of 2019 only by 3%. Having concerned the uncertainty prevailing in the market, the significantly increased competition and geopolitical environment, such a result is a remarkable achievement to us. We have become leaders in the Baltic States, and rail carriers in other countries have recorded greater losses: the freight flow decreased by 43.4% in Latvia, by 14.8% in Estonia, by 14.1% in Belarus.

Despite the surprises brought by the previous year, we have continued focusing on activity diversification and enhancement of competitiveness. In implementing international development, we have established subsidiaries in Poland and Ukraine which will contribute to development of railway and will open up a new business prospect. We have also developed new services - we have conducted trial transportations of semi-trailers, which will soon become a regular service, and impetus thereto will be given by the development of the European gauge 'Rail Baltica' in Lithuania. It is also worth mentioning another decision of ours - the transfer of wagon lease activity to the subsidiary LTG Wagons, which will enable activity diversification and will enhance our competitiveness.

We are now entering the year 2021 being stronger, faster, and better prepared to deal with unexpected shocks. Special trust on railway has been established during the COVID-19 related crisis by delivering not only the essential goods but also the much-needed medical preventive and other critical equipment. The year 2021 has been announced as the year of railway in Europe - this is a way of encouraging more people to travel and carry goods by rail. A railway is green, safe and innovative transport, and we all may contribute to combating climate change by using it.

Sincerely,

EGIDIJUS LAZAUSKAS,

Chief Executive Officer of LTG Cargo

Background information on the Company

Name	AB „LTG Cargo"
Head office address:	Geležinkelio St. 12, LT-02100, Vilnius
Legal form	Joint Stock Company
Date and place of registration	28 December 2018, Register of Legal Entities of the Republic of Lithuania
Company code	304977594
Telephone	+370 5 269 2745
E-mail	cargo@litrail.lt
Website	http://cargo.litrail.lt/
Principal activity	Freight transportation and provision of related services
Chief Executive Officer	Egidijus Lazauskas
Shareholders	100% of shares are owned by AB Lietuvos Geležinkeliai

The Company's subsidiaries, associates and companies of subsequent levels

Name	**LTG Cargo Polska**	**LTG Wagons**	**LTG Cargo Ukraine**
Head office address	Rondo Organizacji Narodów Zjednoczonych St. 1, 12 floor, Warsaw	Geležinkelio St. 12, Vilnius	Pushkin St. 21, Kiev
Legal form	Limited liability company	Limited liability company	Limited liability company
Date and place of registration	21 July 2020, the Polish National Court Register	4 November 2020, the Register of Legal Entities of the Republic of Lithuania	9 December 2020, the United State Register of Legal Entities, Individual Entrepreneurs and Public Organisations
Company code	386573260	305651295	43987945
Telephone	+370 620 74020	+370 618 84991	+370 612 27634
E-mail	ltcargo.polska@litrail.lt	Vladas.Ambrozevicius@litrail.lt	Saulius.Stasiunas@litrail.lt
Website	http://cargo.litrail.lt/	http://cargo.litrail.lt/	http://cargo.litrail.lt/
Principal activity	Freight transportation and provision of related services in Poland	Lease of wagons used for freight transportation	Freight transportation and provision of related services in Ukraine
Portion of shares controlled by the Company	100% of shares are owned by AB LTG Cargo	100% of shares are owned by AB LTG Cargo	100% of shares are owned by AB LTG Cargo

The Company's branches, representative offices abroad

The Company did not have branches or representative offices established during the analysed period.

Company's business model

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

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

- On 25 January 2019, the first stage of the transfer of the activities of the LG Freight Transportation Directorate to LG Cargo was completed, during which the transfer of the rolling stock fleet was implemented. This action was approved by the shareholder of LG, i.e., the Ministry of Transport and Communications, as well as the main creditors of Lietuvos Geležinkeliai – the Nordic and European Investment Banks. During the first stage, the employees of the Rolling Stock Technology Department were transferred to LG Cargo, who continued ensuring the maintenance and the management of the rolling stock fleet.
- On 1 March 2019, the Lithuanian Transport Safety Administration (LTSA) completed the licensing procedures and issued a freight transportation licence to the Company. The licence entitles LG Cargo to engage in commercial business of rail transport in the territory of Lithuania. From 1 May 2019, the freight transportation activity has been fully transferred to LG Cargo.
- In 2020, the Company introduced a new brand. The logo and related styling features of AB LG Cargo have changed. A new abbreviation LTG which highlights patriotism has been introduced; thus LG Cargo has become LTG Cargo.

Main business activity and services

LTG Cargo provides with the following services:

- Transportation of freight on domestic and international routes: Lithuania has 1520mm and 1435mm gauges, thus there are no limitations on the lists of routes – the Company is able to carry freight to the required country according to the needs of the customer. LTG Cargo transports freight of all types, including containers. The latter type of carriages has been increasing in growth lately due to the safety of freight, lower transportation and security costs, and the optimal delivery deadlines.
- Transportation of semi-trailers by rail.
- Rental services of commercial wagons and containers in Lithuania and abroad.
- Loading and warehousing: freight may be stored in open or covered areas in the largest Lithuanian cities. We provide such services as warehousing, temporary safeguarding, loading/unloading, sorting, and weighting.
- Services related to the forwarding of freight as well as the services related to the carriage of freight, including by road and air transport.
- Customs brokerage services.
- Domestic and cross-border work and coordination of locomotives and locomotive crews.

Market

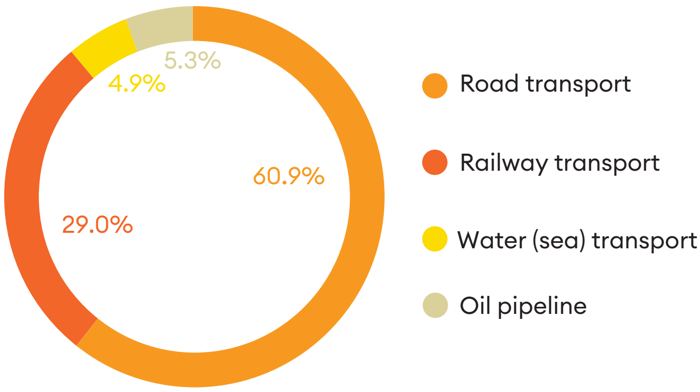
LTG Cargo is a licensed railway company that operates on a competitive market and is engaged in the transportation of local and foreign freight within the territory of the Republic of Lithuania according to the needs of its clients.

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

The data as of the Q III of 2020, collected by the Department of Statistics of the Republic of Lithuania, shows that, if evaluating the total amount of the freight of all types carried on local routes, the freight carried to Lithuania and outside its territory, as well as the transit freight transported through the territory of Lithuania (when measured in tonnes), the share of freight transported by railways was 29.0%.

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

Freight transported (tons) by all types of transport in the territory of Lithuania in 2020 Q III, %*



* Department of Statistics of the Republic of Lithuania

LTG Cargo, while participating in the common logistic chain along with the railways of the neighbouring countries, their freight terminals, and seaports, is competing not only locally, but also with the railway companies of other counties which carry freight on alternative routes, or even use other modes of transport, such as sea (water), road or air transport.

Management of the Company

Information on shares as of 31 December 2020

Company name	Amount of authorised capital, in thousand	Number of shares, items	Par value per share
Parent company			
AB LTG Cargo	43,936 EUR	208,584	210.64 EUR
Subsidiaries			
LTG CARGO POLSKA SP. Z.O.O	2,225 PLN	2,225	1,000 PLN
LTG Wagons	150 EUR	150	1,000 EUR
LTG Cargo Ukraine	17,027 UAH	-	-

The Company is part of AB Lietuvos geležinkeliai Group whose sole shareholder is the parent company AB Lietuvos Geležinkeliai.

All the shares are of the same class; i. e. ordinary registered shares. The shares are intangible, they are recorded in Personal Securities Accounts in accordance with the procedures established by legislation.

During the reporting period, the Company did not acquire its own shares or shares of other companies of the Group.

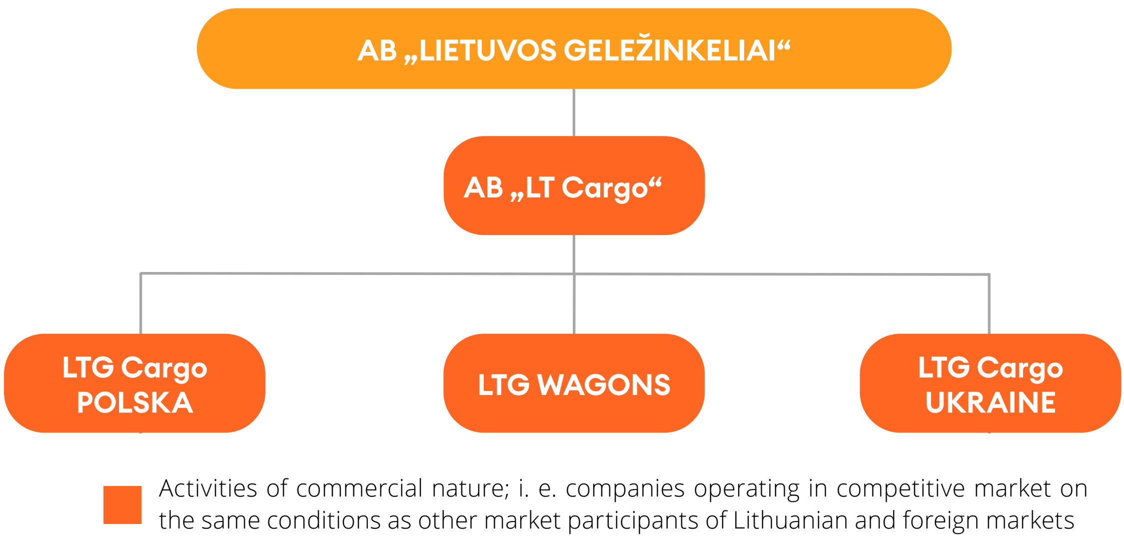
Management and organisational structure of the Company

In order to develop in the international market, during the reporting period LTG Cargo established the subsidiaries LTG Cargo Polska and LTG Cargo Ukraine which will develop the activity of freight transportation by rail in Poland and Ukraine, respectively.

In order to strengthen competitiveness of LTG Cargo, diversify services and generate higher returns on assets, the subsidiary LTG Wagons controlled by AB LTG Cargo was established during the reporting period; the activity of lease of wagons used for freight transportation will be transferred from AB LTG Cargo to LTG Wagons. Such a business model of wagon lease has been selected in order to facilitate the wagon lease activity which is subject to requirements applicable to this specific area so that other activities carried out by LTG Cargo would not be aggravated by excessive restrictions.

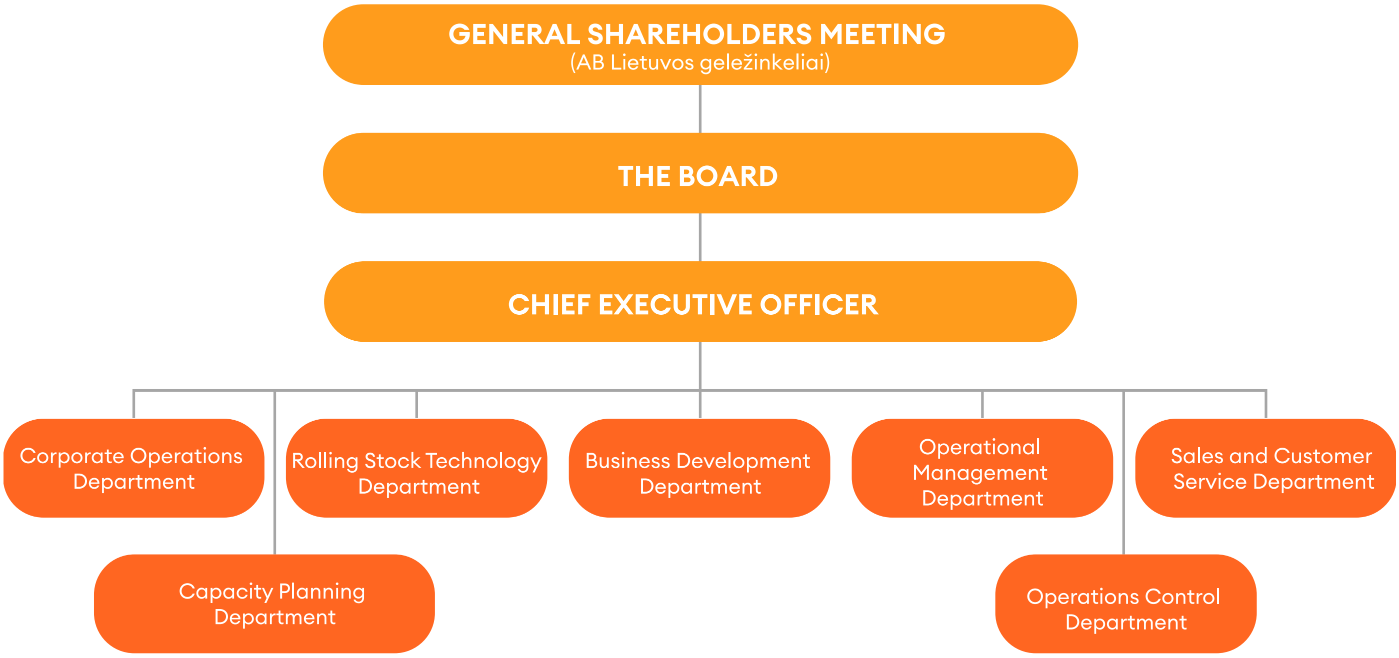
LTG Cargo and its subsidiary belong to AB Lietuvos Geležinkeliai Group. LTG Cargo is the sole shareholder of LTG Cargo Polska, LTG Cargo Ukraine and LTG Wagons.

The sole shareholder of LTG Cargo is the parent company AB Lietuvos Geležinkeliai. The shareholder of AB Lietuvos Geležinkeliai is the State which is controlling 100 per cent of shares. The Shareholder's rights and obligations are implemented by the Ministry of Transport and Communications of LoR.



In seeking for the long-term growth in value, rational and effective utilisation of funds, assets and other resources as well as fulfilment of the shareholder's expectations and interests of the companies of AB Lietuvos Geležinkeliai Group, the operating model of the Group is oriented towards purification of principal activities and their refocusing in subsidiaries and companies of subsequent levels. Being part of AB Lietuvos Geležinkeliai Group of companies, LTG Cargo and its subsidiaries are responsible for implementation of principal activities and achievement of the set operating goals. In order to implement the raised goals and ensure appropriate management, in their activities LTG Cargo and its subsidiaries are independent, they make relevant decisions and ensure reporting and responsibility for operating results.

In its activities the Company follows the Law on Companies of the Republic of Lithuania, the Company's Articles of Association, decisions of the bodies of the Company, and other laws and legal acts regulating the activities of the Company including the activities of State-owned enterprises.



The Company's articles of association

The Company's Articles of Association is the principal document the Company follows in its activities.

During the reporting period the Articles of Association of LTG Cargo were amended once:

On 20 July 2020, a new version of the Articles of Association was registered according to which the Company's name was changed, the Company's share capital was reduced by EUR 16,473,964.32 by reducing the nominal value of one ordinary registered share of the Company from EUR 289.62 to EUR 210.64. Also, the Company's operational principles within the AB Lietuvos Geležinkeliai Group of companies were revised.

The Articles of Association of LTG Cargo are available on the Company's website at https://cargo.litrail.lt/istatai.

The Articles of Association of LTG Cargo are amended under the decision of the general meeting of shareholders by a qualified majority of votes, which shall be at least 2/3 of votes conferred by all shares held by all the shareholders participating in the meeting.

Governing bodies of the Company

The following governing bodies of the Company are set out by Articles of Association:

- General shareholders meeting;
- The Board;
- Chief Executive Officer (the General Director).

The General shareholders meeting is the supreme body of the Company. The competence of the General shareholders meeting, the procedure of its convening as well as resolution-passing is established by the Law on Companies, other legislation and in the Articles of Association of the Company published on the website at https://cargo.litrail.lt/istatai.

The sole shareholder of LTG Cargo is AB Lietuvos Geležinkeliai which adopts the main decisions related to implementation of property rights and obligations.

The Company has not issued preference shares. During the reporting period, a voting right was not restricted.

In accordance with the Company's Articles of Association, an additional competency of the General shareholders meeting is to endorse the decisions of the Board of LTG Cargo regarding the following:

- Investment of the Company-owned property and facilities of importance to ensuring national security, conclusion of purchase or sale, or any other transfer of ownership, pledge or mortgage transactions.
- Approval of contracted tariffs of freight transportation or applicable discounts under essential conditions in case the intended contractual revenue might exceed EUR 10,000,000 over the entire contract period or the term of the contract exceeds 3 years.
- Participation or establishment of other legal entities;
- Commencing activities of new nature or terminating the Company's current activities if the respective decision has not been adopted in approving the Company's strategy;
- The Company's non-current assets the carrying amount of which exceeds EUR 300,000.
    - Investment in Group companies or third parties, disposal or lease of those assets;
    - Pledge or mortgage;
    - Sureties or guarantees for fulfilment of a third party's obligations;
    - Acquisition of non-current assets;
    - Conclusion of other transactions.

Key decisions of the General shareholders meeting in 2020:

1. The Company's financial statements for the year 2019 have been approved;
2. The Company's retained earnings (losses) of 2019 have been distributed;
3. The Company's share capital was decreased reducing the par value of each share;
4. The Company's name was changed from AB LG Cargo to AB LTG Cargo.;
5. The Company's head office address was changed from Mindaugo St. 12 Vilnius to Geležinkelio St. 12 Vilnius.

The Board is a collegial governing body consisting of 5 members as set out by the Company's Articles of Association. The members of the Board are elected by the General shareholders meeting for a term of 4 years. The Management Board elects the chairman of the management Board from among its members. The same person may be elected as a member of the Board no more than for two consecutive offices.

The Board is accountable to the General shareholders meeting.

The competence of the Board meets the competencies of boards laid down in the Law of Companies of LoR and the additional competences of the Board set forth in the Articles of Association.

Additional competence areas of the Board:

- Approval of operating strategy and long-term goals, investment and operational plans, and annual budget of LTG Cargo;
- Establishment of performance indicators of LTG Cargo;
- Adoption of decisions on investment of LTG Cargo property and facilities of importance to ensuring national security, conclusion of purchase or sale, or any other transfer of ownership, pledge or mortgage transactions.
- Approval of calculation of basic freight rates and arrangements for granting the discounts as well as adoption of decisions on indexation of the basic freight rates;
- Approval of the basic freight rates and the price list of additional services.
- Adoption of decisions regarding non-current assets of LTG Cargo, the carrying amount of which equals to or exceeds EUR 300,000.
    - Investment in Group companies or third parties, disposal or lease of those assets;
    - Pledge or mortgage;
    - Sureties or guarantees for fulfilment of a third party's obligations;
    - Acquisition of non-current assets;
    - Conclusion of other transactions (related to assets, works, services).
- Adoption of decisions on participation or establishment of other legal entities;
- Adoption of decisions on commencing activities of new nature or terminating the Company's current activities;

- Approval of employment contract of the Company's executive, conditions of remuneration and incentives;
- Approval of the total amount of incentives to the employees of LTG Cargo for annual performance results (in accordance with the Company's performance results);
- Consideration of information on the Company's key operational risks and approval of the Company's plan of operational risk management.
- Consideration of information and reports on the Company's ongoing programmes;
- Analysis and assessment of other information on the most significant operational issues provided by LTG Cargo executive.

Office term of the Board: 21 December 2018 - 21 December 2022.

The Board of LTG Cargo was formed in accordance with the regulation effective at that time (i. e. 21 December 2018) - the Railway Transport Code of the Republic of Lithuania, which provided that "only employees of a group of vertically integrated companies may be elected as members of the collegial management bodies of companies established by AB Lietuvos Geležinkeliai" (Paragraph 4 of Article 24 (3)). Taking this into account, the Board of LTG Cargo consists of employees of the LTG Group.

Members of the Board do not own shares of Group companies.

Fifteen Board meetings took place during the reporting period.

Composition of the Company's board

MANTAS BARTUŠKA

Chairman of the Board
Appointed on
19 November 2019

Education

- University of Southern Denmark, Bachelor's degree in Management and Business Administration;
- Vilnius University, Bachelor's degree in Management and Business Administration;
- The Business School of the University of Cambridge, studies of Leadership;
- Baltic Institute of Corporate Governance, Board Member studies.

Main employer, position held

- Chief Executive Officer of AB Lietuvos Geležinkeliai, Mindaugo St. 12, Vilnius, company code 110053842.

Other positions

- Chairman of the Board of UAB LTG Link, Mindaugo St. 12, Vilnius, company code 305052228.
- Board member at AB Klaipėdos Nafta, Mindaugo St. 19, Vilnius, company code 110648893.

EGIDIJUS LAZAUSKAS

Board member
Appointed on
21 December 2018

Education

- Vilnius Gediminas Technical University, Bachelor's degree in Environmental Engineering.

Main employer, position held

- Chief Executive Officer of AB LTG Cargo, Geležinkelio St. 12, Vilnius, 304977594.

Other positions

- Chairman of the Board of UAB Vilniaus Lokomotyvų Remonto Depas. Mindaugo St. 39, Vilnius, company code 126280418.

LUKAS DANIELEVIČIUS

Board member
Appointed on
21 December 2018

Education

- Vilnius University, Bachelor's degree in Economics.
- University of Cambridge Judge Business School, Master's degree in Business management.

Main employer, position held

- Director of the Corporate Operations Department of AB LTG Cargo. Mindaugo St. 12, Vilnius, company code 304977594.

Other positions

- Board member at UAB Vilniaus Lokomotyvų Remonto Depas, Mindaugo St. 39, Vilnius, company code 126280418.
- Director of LTG Cargo Polska SP. Z.O.O.

BRIGITA VALENČIENĖ

Board member
Appointed on
29 November 2019

Education

- Kaunas University of Technology, Bachelor's degree in Business Management.

Main employer, position held

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

Other positions

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

ROKAS JANUTĖNAS

Board member
Appointed on
29 November 2019

Education

- University of Glasgow, Economics

Main employer, position held

- Director of the Strategy and Operational Efficiency Department of AB Lietuvos Geležinkeliai. Mindaugo St. 12, Vilnius, company code 110053842.

Other positions

- Board member at UAB Geležinkelio Tiesimo Centras. Trikampio St. 10, Lentvaris, Trakai District Municipality, company code 181628163;
- Board member at UAB Vilniaus Lokomotyvų Remonto Depas. Mindaugo St. 39, Vilnius, company code 126280418;
- Chairman of the Board at UAB Gelsauga. Mindaugo St. 1, Vilnius, company code 125825125. (until l 31/10/2020);
- Board member at UAB voestalpine Railway Systems Lietuva. Sostinės St. 18, Valčiūnai, Eldership of Juodšiliai., Vilnius District Municipality, company code 110709524.

Changes in the composition of the board during the reporting period

Composition of the Board did not change during the reporting period.

Information on meetings of the board, audit and nomination committees and participation therein

Name, surname of a member	Board meetings
Number of meetings in 2020 (including away days, early-voting in writing)	15
Mantas Bartuška	15
Rokas Janutėnas	15
Egidijus Lazauskas	15
Lukas Danielevičius	15
Brigita Valenčienė	15

Most important decisions adopted in 2020

- Approval of the Company's annual management report for 2019;
- Approval of the Company's Financial statements of 2019;
- Establishment of the Company's principal performance indicators for 2020 and Chief Executive Officer's goals;
- Endorsement of the Company's interim financial statements for a period of six months ended 30 June 2020;
- Change in the Company's governing structure;
- Approval of the decision that, after the fulfilment of procurement procedures, Head of AB LTG Cargo enters into the transaction of installation of freight transport operations management system.
- Adoption of the decision to establish a new private legal entity of limited civil liability - private limited liability company, the main activity goal of which is profitable business of freight wagon lease.
- Adoption of the decision to establish a new legal entity of limited civil liability, the main activity of which is freight transportation by rail in the territory of Ukraine.
- Approval of the establishment of a new private legal entity of limited civil liability, the proportional shareholding will be controlled by AB LTG Cargo, the subsidiary LTG Cargo Polska Sp.z.o.o. And PKP Cargo S.A., as well as the establishment of a joint venture and the conclusion of the shareholders contract.

CHIEF EXECUTIVE OFFICER (HEAD OF THE COMPANY) is the sole executive body who is responsible for organisation of day-to-day business of the company and manages it. The competence areas of the CEO are defined in the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company available at https://cargo.litrail.lt/istatai. The CEO is elected for a term of 5 years by the Board which the CEO is accountable to. The same person may be elected as a Chief Executive Officer no more than for two consecutive office terms. The Chief Executive Officer of LTG Cargo was appointed for the first term of five years on 1 May 2019.

The Company's management

EGIDIJUS LAZAUSKAS	Chief Executive Officer	Appointed on 1 May 2019
LUKAS DANIELEVIČIUS	Director of the Company's Corporate Operations Department	Appointed on 1 May 2019
EGLĖ ŠIMĖ	Director of the Company's Operational Management Department	Appointed on 19 August 2019
OLEGAS LUNYS	Director of the Company's Capacity Planning Department	Appointed on 1 May 2019
MINDAUGAS GUDAITIS	Director of the Company's Sales and Customer Service Department	Appointed on 1 May 2019
AUDRIUS PUKAS	Director of the Company's Rolling Stock Technology Department	Appointed on 15 June 2020
VIRGINIJUS JUŠKA	Director of the Company's Rolling Stock Technology Department	Held the position from 1 May 2019 to 14 June 2020.
MINDAUGAS LIUTKUS	Director of the Company's Operations Control Department	Appointed on 1 May 2019
SAULIUS STASIŪNAS	Director of the Company's Business Development Department	Appointed on 1 May 2019

Before being appointed as the CEO of LTG Cargo in 2017, Egidijus Lazauskas was Head of the Freight Transportation Directorate of AB Lietuvos geležinkeliai. Egidijus Lazauskas also holds the following managerial positions:
• Chairman of the Board of UAB Vilniaus lokomotyvų remonto depas (Švitrigailos St. 39, company code 126280418).

E. Lazaukas has a university degree in Environmental engineering awarded by the Vilnius Gediminas Technical University.

As at the end of the reporting period, members of the Board, the CEO and the Company's managers 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 Company's managers during the reporting period.

Information on remuneration of board members and the company's chief executive officer

Components of the Company's Chief Executive Officer's remuneration:

1. **Basic monthly salary.** The Company's Chief Executive Officer's basic monthly salary set out in the employment contract amounted to EUR 8,380 as at the end of the reporting period. The basic monthly salary of the Company's Chief Executive Officer did not change in 2020.

2. **Annual incentives.** The annual variable remuneration (annual incentive) directly related to achievement of annual goals and dependent on actual achievement of the established annual indicators might be paid to the Company's Chief Executive Officer next to the basic monthly salary. Each year, the Board of the Company approves the structure of annual goals of the Group, threshold values for their achievement and benchmarks, and after the end of year the Board of the Company approves the results of achievement of these objectives and the possibility of paying annual incentive.

The maximum amount of the variable annual incentive is up to 30% of the annual basic salary. The maximum monthly proportion (i.e. 1/12) of the annual incentive shall not exceed EUR 2,514. In 2020, a monthly portion (1/12) of the annual incentive to the Company's CEO for achievement of the goals of the year 2019 amounted to EUR 2,062.

Board members delegated by the shareholder AB Lietuvos Geležinkeliai as well as the chairman of the Board of do not receive remuneration for their activity at the Board.

Strategy

In response to the geographical and economic changes in the transport services market, which influence the changes in trade patterns and passenger flows, the LTG Group's activities are based on long-term strategic planning. In order the strategic directions and targets provided for in LTG's long-term corporate strategy for 2020-2030 would be as focused to the activities implemented by the LTG Group as possible, long-term strategies of separate companies of the LTG Group have been prepared. One of them is LTG CARGO's strategy for 2020-2030 which is reviewed and improved every year.

Mission

Business combinations for a better future

Vision

Logistics leader in Central and Eastern Europe

Strategic directions:

1. The largest railway carrier in the Baltic States: in 2030, LG CARGO will transport 70 million tonnes of freight.
2. Flow / revenue growth: reorganisation of the principal services according to customers' needs, growth of intermodal transport services, performance of freight forwarding activity and activity in other markets: Poland, Ukraine.
3. Increase in performance efficiency and profitability: optimisation and modernisation of the rolling stock park, both long-term and short-term planning (including establishment of operational management centre), production management, asset management and supervision, increase in employees' satisfaction and productivity, automation and digitalisation of daily operations.

Strategy projects until 2030:

- Purchase of new rolling stocks (acquisition of electric locomotives and wagons).
- Establishment of the operational centre of freight transportation.
- Optimisation of train document management.

Implementation of key goals in 2020

At the end of 2019, the Board of the Company approved the strategic **business plan of LTG Cargo** at the beginning of 2020, the annual objectives, the indicators for measuring their achievement and the guidelines for the achievement of the objectives, linked to the strategic directions of activity. In accordance with the approved annual goals, personal goals have been set for the employees of LTG Cargo. In this way, the Company's employees are involved in the strategy implementation process, linking the achievement of goals with the employees' career and education plans, payment of performance incentives and review of the basic salary.

From 2020 March, the global coronavirus (COVID-19) pandemic had a significant impact on the Company's operations and the achievement of the set goals. The target guidelines have been adjusted to take account of the consequences of the COVID-19 pandemic and the possible scenarios for the spread of the outbreak and the expected impact on ongoing activities.

Strategic activity goals	Strategic activity indicators	Measuring units	Goal achievement guidelines 2020	Goal implementation indicators 2020
Increase value created by a freight carrier	Revenue	EUR million	372 - 441	396
	ROE	%	0% - 22.2%	245%
Manage the decrease in turnover and amount of carried freight	The amount of carried freight	million tonnes	>46.8	53.4
	Turnover of carried freight	billion tkm	>13.7	15.9
Increase satisfaction of customers	Valuation of freight transportation services according to NPS	billion tkm	>27	46

Key projects in 2020

- The overhaul maintenance program of Siemens ER20CF locomotives has been continued; it will enable retaining high level of reliability and will ensure servicing of the existing and future freight flows.
- Customer service standard was introduced, customer service centre was established. It will facilitate ensuring high-level quality of services and quality customer service.
- It has been prepared for acquisition of electric locomotives.
- Subsidiaries in Poland and Ukraine were established, business development in these countries was started.

Most significant events in 2020

January

LTG Cargo continues its cooperation with Vakarų Medienos Grupė which is planning to start production in the chipboard factory under the final stages of construction from April. Currently, the volume of freight transported is not significant, however, with the acceleration of production, the volume of freight transported by railways is expected to reach up to 1 million tonnes per year.

February

The first test freight train passed the newly rebuilt railway section from Mažeikiai in Lithuania to Rengė in Latvia. LTG Cargo transported a freight of oil products of AB ORLEN Lietuva to Latvia.

During the days from 25 January to 17 February, LTG Cargo transported 86.9 Kt of crude oil (1,488 tanks) from Klaipėda seaport to Belarus which were carried by a tanker after a 3 years break. Oil was extracted in Norway and intended for a refinery plant in Belarus.

March

By the decision of the sole shareholder of LTG Cargo, AB Lietuvos Geležinkeliai, it was decided to reduce the authorised capital of LG Cargo by EUR 16,475,902.56 through the cancellation of 56,888 ordinary registered shares of the Company, the par value of each of which is EUR 289.62. The Company's creditors were informed about this decision.

April

For the first time in history, the first postal train from China arrived at the intermodal terminal in Vilnius, which travelled only nine days. A trainset of 42 wagons carried post consignments from China which were intended for the whole of Europe. LTG Cargo actively contributed to organisation of this train and participated in the supply chain.

The Polish freight transportation company PKP Cargo and LTG Cargo signed a letter of intent regarding the establishment of a joint venture.

May

For the first time, LTG Cargo and its partners transported truck semi-trailers by rail (on 14 May, a trainset with 22 semi-trailers arrived at the train station of Šeštokai in two days from Central Europe).

June

Lietuvos Geležinkeliai, AB LTG Cargo and the European Investment Bank (EIB) signed a Loan Restructuring Agreement which provides that creditor liabilities to EIB (a loan of EUR 29,590 thousand) will be transferred from AB Lietuvos Geležinkeliai to the subsidiary AB LTG Cargo.

July

The Articles of Association were amended, and the Company's name was changed therein, the Company's share capital was reduced by EUR 16,473,964.32 by reducing the nominal value of one ordinary registered share of the Company from EUR 289.62 to EUR 210.64. Also, the Company's operational principles within the AB Lietuvos Geležinkeliai Group of companies were revised.

The Company established the subsidiary LTG Cargo Polska which will be engaged in the activity of freight transportation by rail in Poland.

AB Lietuvos Geležinkeliai introduced new brands, the logo and related features were changed. The Company's name remains unchanged' yet, a new abbreviation highlighting patriotism was introduced - LTG. It will now unite the names of all the main companies of the Group: LG Keleiviams which is engaged in passenger transportation has become LTG Link, LG Cargo which is engaged in freight transportation has become LTG Cargo, and Lietuvos geležinkelių infrastruktūra which is engaged in infrastructure development has become LTG Infra. The names of these companies are changed in the Register of Legal Entities in the second half of the year.

Most significant events in 2020

August

- In order to reorganise the planning and operational management of freight transportation activity, the Company initiated implementation of the operational management centre project through certain advanced IT systems. The new system will enable to increase in efficiency of use of LTG Cargo rolling stocks, to plan freight transportation in a more quality and precise manner, to ensure control of freight transportation activity, to respond to changes and inform the Company's employees and customers about them faster.

September

- LTG Cargo's subsidiary in Poland LTG Cargo Polska and the Polish company PKP Cargo signed the partnership agreement and the shareholders contract to establish a joint venture which will develop transportation of intermodal freights.
- LTG Cargo performed a trial transportation of semi-trailers from the seaport of Klaipėda to the Vilnius Intermodal Terminal (VIT). During the trial transportation, a semi-trailer carried from Denmark by a ferry was loaded on a special train platform of LTG Cargo at the Central Klaipėda Terminal (CKT) and transported to the VIT. A freight was loaded in the semi-trailer in Vilnius, and it was carried back to the seaport of Klaipėda.

October

- LTG Cargo announced that the wagon lease activity is transferred to the newly established company LTG Wagons. It is aimed at strengthening competitiveness of LTG Cargo, diversifying services and generating higher returns on assets, and offering customers a transparent pricing by separating the services of transportation and wagon lease.

November

- Additional outdoor self-service document terminals were introduced in the train stations of Marijampolė and Pakruojis, the activity of which was started from 1 December.

December

- In order to implement the international development strategy and diversify the activity, LTG Cargo established the company in Ukraine - LTG Cargo Ukraine. It is expected that LTG Cargo Ukraine will develop its activities gradually - at the first stage of development, the company will offer lease, forwarding and other freight transportation services.

Events after the reporting period

- **January 2021** - Vilniaus Lokomotyvų Remonto Depas (VLRD) will be merged with LTG Cargo during 2021, and both companies will operate as one organisation - LTG Cargo. It is aimed at concentrating the competencies of the two activities, strengthening the activities of the strategic freight carrier and creating greater value to the AB Lietuvos Geležinkeliai Group (LTG). It is planned that VLRD will operate as a separate subdivision in the structure of LTG Cargo, the core of repair and maintenance will be retained. Due to this change, the number of employees of VLRD will also remain unchanged.

Impact of Covid-19 on the company's activity

This year, numerous business sectors in the country were affected by the global COVID-19 pandemic. There is no doubt that it affected the Company's activity and the achievement of results planned for 2020. Yet, as a prompt reaction to the changing situation, timely decisions were adopted in the Company's activity, which helped to manage this hard-to-forecast and unprecedented situation in a timely and successful manner. This enabled to achieve even better performance results than it was forecasted in the optimistic scenario of potential impact of COVID-19.

The Company continuously monitors the current situation and constantly reviews and plans new business continuity and collateral measures as a response to changing circumstances:

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

LTG Cargo also constantly assesses potential liquidity and credit risks as well as the measures to manage them:

- A possibility to borrow within the Group through cashpool; „cashpool");
- The adequacy of the limit for short-term borrowing within the Group from this account to ensure a sufficiency of working capital;
- Additional measures to strengthen payment control;
- Regular revisions of planned investments and assessment of the possibility of postponing part of the investment projects to the future.

Railway transport remains the most reliable means of transport during a pandemic. The major customers are large companies, which are included in a list of risk-free companies by the Company. The Company operates in one of the most strategic and secure sectors of the state and can expect state support or guarantees if necessary.

The management of LTG Cargo estimates that the cash flows from operating activities are likely to be sufficient to service existing loan agreements and liabilities to partners. Therefore, the Company identifies no additional liquidity or credit risk problems.

In the opinion of the Company's management, the circumstances mentioned above and sensitivity analysis performed substantiate all assumptions for sufficient resources and empower the Company to continue the Company's activities under the adverse circumstances related to the virus and do not change the Company's long-term business plans and goals.

Key performance indicators

Items	Unit of measure	May - December 2019	2020
Freight turnover	**billion tonnes-kilometres**	**10.8**	**15.9**
Average distance travelled per tonne	**km**	**291.0**	**296.9**
Total freight transportation	**Million tonnes**	**37.2**	**53.4**
Segments of freight transportation			
Domestic transportation	Million tonnes	11.0	15.6
International transportation	Million tonnes	26.2	37.8
Transit	Million tonnes	7.7	10.5
Export from Lithuania	Million tonnes	3.5	5.4
Import to Lithuania	Million tonnes	15.0	21.9

AB LTG Cargo performs the activity of freight transportation since 1 May 2019.

In 2020, the freight flow amounted to 53.5 million. The decrease in transportation volumes was affected by the coronavirus pandemic (COVID-19), the decrease in raw material prices in international markets and the increased regional competition.

The railway transportation was dominated by 'heavy' freights - chemical and mineral fertilisers as well as oil and its products. These types of freight comprise more than a half of total freight volume carried by rail.

International transportation in the total structure of the transported freight accounted for 70.8% and amounted to 37.8 million tonnes.

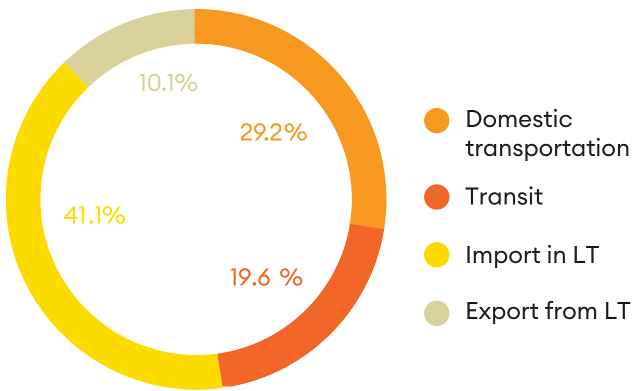
Freight flow to the Kaliningrad region decreased, which was mainly affected by reduced transportation of coal and food.

In 2020, the quantity of freights imported and exported through the port of Klaipėda mainly to/from Belarus increased when transportation of crude oil carried to the port of Klaipėda by tankers and intended for refinery plants in Belarus was started during the first half of this year. Recently, a low quantity of crude oil was carried through Lithuania to Belarus in 2017. Also, a higher quantity of Belarus fertilisers was transported through the port. The quantity of Russian freights, especially ferrous metals and crude oil and its products, decreased.

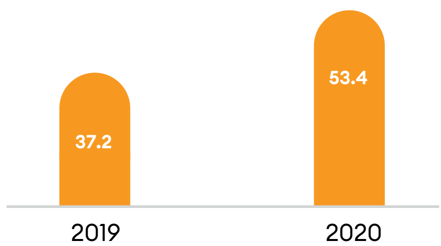
The volumes of domestic transportation during 2020 comprised 15.6 million tonnes. Due to a complex situation in crude oil market, transportation of crude oil and its products decreased; it was partially compensated by transportation of food products and mineral substances.

** the provided data on freight transportation includes data as of May - December 2019*

Segments of freight transportation in 2020, %



Freight transport volumes * (in million tonnes)



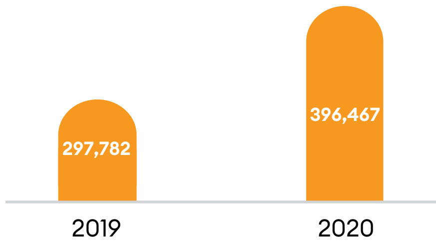
Analysis of financial and performance results

Performance results

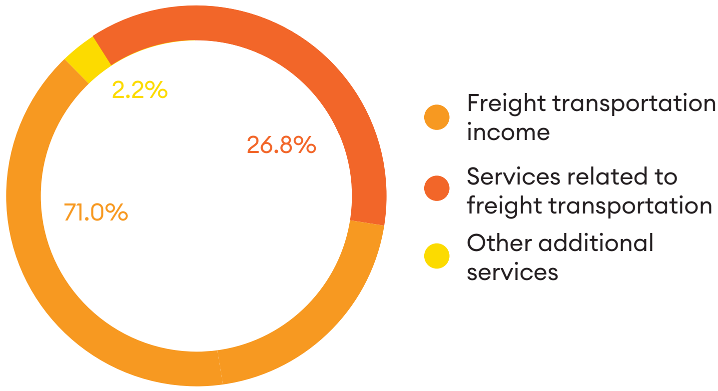
Sales revenue

- The Company's sales revenue amounted to EUR 396.467 thousand.
- In 2020, in freight transportation activity, LTG Cargo earned revenue from freight transportation and provision of related services amounting to EUR 387,842 thousand.
- Revenue from other additional services rendered by LTG Cargo amounted to EUR 8,625 thousand in 2020.
- Decrease in volumes of transportation has been affected by the COVID-19 virus as well as decrease in the price of raw materials (crude oil and its products, and others) in international markets and increased regional competition.

The Company's sales revenue*, EUR thousand



Freight transport volumes * (in million tonnes)

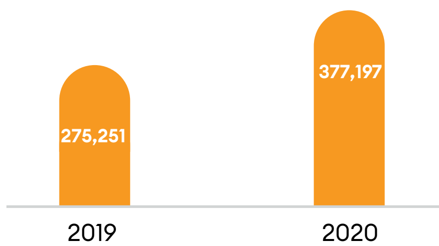


**data of AB LTG Cargo is provided for the period of May - December 2019*

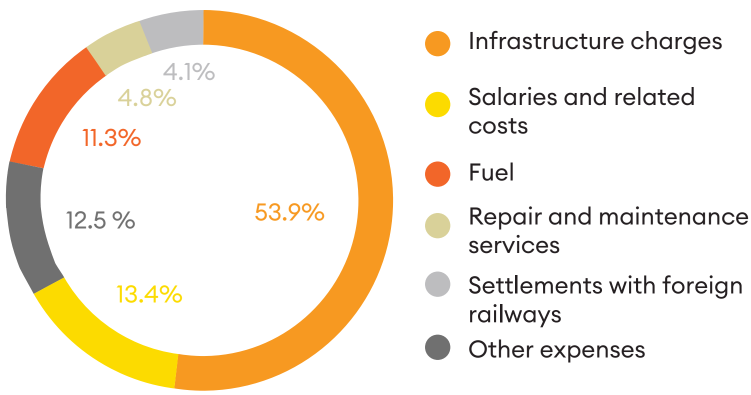
Expenses

- The Company's costs incurred for operating and other activities amounted to EUR 377,197 thousand in 2020.
- The larger proportion of the Company's expenses is constituted by the infrastructure charges (53.9% – EUR 203,542 thousand), labour costs (13.4% - EUR 50,347 thousand), fuel (11.3% - EUR 42,790 thousand).

Thw Company's expenses*, EUR thousand

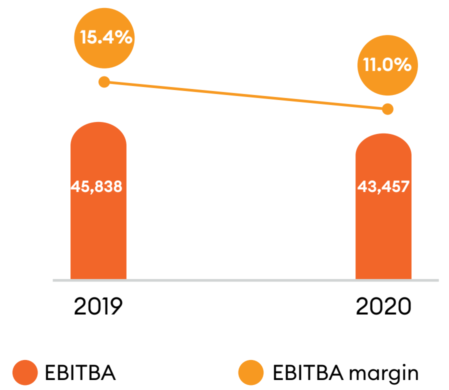


The Company's expense structure in 2020, %

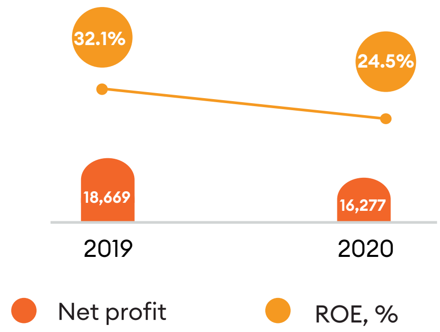


Operating results

The Company's EBITDA, EUR thousand



The Company's net profit, EUR thousand



**performance results of AB LTG Cargo are provided for the period of May - December 2019*

Key financial indicators*

	Unit of measure	2018	2019**	2020
Sales revenue	EUR thousand		297,782	396,467
Other operating income	EUR thousand		49	1,027
Total income	EUR thousand		297,831	397,494
Expenses	EUR thousand		275,251	377,197
EBITDA	EUR thousand		45,838	43,457
EBITDA margin	%		15.4%	11.0%
EBIT	EUR thousand		22,580	20,297
EBIT margin	%		7.6%	5.1%
Net profit	EUR thousand		18,669	16,277
Net profit margin	%		6.3%	4.1%
		31/12/2018	31/12/2019	31/12/2020
Non-current assets	EUR thousand		191,276	210,369
Current assets	EUR thousand	30	94,252	76,570
Total Asset	EUR thousand	30	285,528	286,939
Equity	EUR thousand	30	58,190	74,467
Financial debt	EUR thousand		158,718	149 143
Net debt	EUR thousand		133,575	127 785
Return on equity (ROE)	%		32.1%	24.5%
Return on assets (ROA)	%		6.5%	5.7%
Return on investment (ROI)	%		9.8%	8.1%
Financial debt / EBITDA	In times		3.5	3.4
Financial debt / Equity	%		2.9	2.9
Net debt / normalised EBITDA	In times		2.7	2.0
Loan servicing ratio	In times		24.8	2.9
Equity ratio	%		20.4%	26.2%
Asset turnover ratio	In times		1.0	1.4
Quick ratio	In times		1.2	1.2
Total liquidity rate	In times		1.2	1.2

* For definitions of the indicators see page 39 of the Report.

** The ratios of the year 2019 reflect activity of AB LTG Cargo carried out in the period of May - December 2019

Financing of the company

The loan portfolio of AB LTG Cargo amounted to EUR 145,669 thousand as at 31 December 2020 (31 December 2019 - EUR 157,034 thousand). The weighted average interest rate of the Company's loan portfolio was 1.3% as at 31 December 2020 (0.8% as at 31 December 2019).

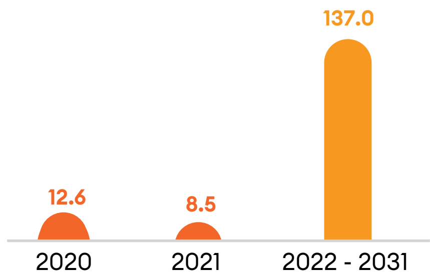
The longest repayment term of a financial debt is 11 years, and the last repayment term is in 2031.

Ratio*	Unit of measure	2020	Value set by the bank
Net debt / normalised EBITDA	In times	0.2	Not higher than 4.0
Equity ratio	%	68.4	Not lower than 35%
Loan servicing ratio	In times	2.9	Not lower than 2

* exemptions are applied to calculation of ratios regarding subordination of the loan of LTG Cargo received from LTG in respect of the EIB loan.

To balance the working capital the Company used the cash pool of LTG Group in 2020. The cash pool agreement is effective until 31 December 2021. The terms of the agreement are in line with normal market conditions. As at 31 December 2020, the Company did not have any borrowings.

Repayment of the Company's loans, EUR million



Dividend policy

The payment of dividends and the amount of profit contributions of state-owned enterprises is regulated by the Lithuanian Government Resolution No. 20, dated 14 January 1997, and its amendments (reference).

The allocation and payment of dividends by the Group companies is regulated by the Dividend Policy of LTG Group, prepared taking into account the provisions of the Resolution of the Government of the Republic of Lithuania.

Indicator of the Company's ROE (%)	Portion of distributed profit allocated to dividends (%)
≤1	≥85
>1 ir ≤3	≥80
>3 ir ≤5	≥75
>5 ir ≤10	≥70
>10 ir ≤15	≥65
>15	≥60

Allocation of dividends for the financial year or a shorter period than the financial year is planned taking into consideration the level of return on equity, net profit earned, financial ability to pay dividends, implementation of economic projects of state importance, as well as other circumstances and conditions as set out in the Dividend Policy. The dividend pay-out ratio, calculated on retained earnings, depends on ROE at the end of the reporting period.

The Board of the Company may propose a higher share of profit to be distributed for dividends taking into account the implementation of financial plans, significant financial ratios (net profit, EBITDA, financial debt to EBITDA ratio, financial debt to equity ratio) at the end of the reporting period, if the payment of such higher share of profit would not have a negative effect on the implementation of the Company's long-term strategy.

The Board of the Company may propose a lower profit share to be allocated for dividends or no allocation at all, if at least one of the following conditions is met:

- The Company incurred a net loss for the reporting period;
- The Company's performance as monitored by institutional creditors at the end of the reporting period for which

dividends are proposed would not be in line with contractual values or the size of the indicators would adversely affect the credit rating;

- The Company carries out or participates in carrying out an economic project recognised as of state importance by resolutions of the Government of the Republic of Lithuania or the Seimas of the Republic of Lithuania, or a particularly important project that has an impact on the long-term strategy implemented by the LTG Group;

the Company's equity after payment of dividends would become less than the amount of authorised capital, compulsory reserve, revaluation reserve and reserve for acquiring own shares of the LTG Group company;

- The Company is insolvent or would become such after the payment of dividends.

In 2020, AB LTG Cargo did not pay out dividends for the year 2019. The Company did not pay out dividends in the previous year.

Investments

In 2020, investments of LTG Cargo amounted to EUR 41.9 million. All the investments (100%) have been financed with the Company's own funds. Most of the investments were intended for overhaul repairs (94%).

Investments, EUR million	2019*	2020
Expanding to new markets	0	0.5
Overhaul repair of freight wagons and locomotives	19.1	39.2
Other investments	0.5	2.2
Total	**19.6**	**41.9**

* The ratios of the year 2019 reflect activity of AB LTG Cargo carried out in the period of May - December 2019.

Major investment projects / directions

Investments in asset renewal

- Overhaul repair programs of the rolling stock park are carried out. Works for the amount of EUR 39.2 million were performed in 2020:

  i) 1,529 freight wagons were repaired;

  ii) 58 "Siemens" freight locomotives underwent repairs (26 of which underwent overhaul repairs).

Development and modernisation projects

- In order to reduce dependency on traditional types of freight, LTG Cargo has commenced freight transportation service development in Poland and Ukraine. The subsidiary company LTG Cargo Polska has been established in Poland, and European gauge locomotives have been acquired. Registration procedures of the subsidiary company of LTG take place in Ukraine.

- Evaluating the development perspectives of freight transportation by rail and intentions of the State to promote freight transportation by the greener transport, new projects to develop intermodal freight transportation have been launched:

  i) The project of Acquisition of Technological Equipment for Transportation of Semi-trailers has been commenced: purchasing procedures are currently in progress. Implementation of the project will enable the Company to provide new services within the network of the broad-gauge railway - i. e. to transport semi-trailers by trains;

  ii) To prepare for transportation of intermodal freights on European gauge (in connection with the Kaunas intermodal terminal), the European gauge locomotives have been acquired.

- As electrification of infrastructure is in progress, the electric freight wagons have been acquired: Preparation work took place in 2020, and it is intended to announce a public procurement in 2021. Exploitation of the new locomotives is planned to be started in 2024.

- Having assessed the challenges in the market of freight wagons, LTG has initiated the project of Installation of Production Line of Freight Wagons, after the implementation whereof the production of some type of wagons will take place in Lithuania. In 2020, the installation works of production bases were carried out, and the agreement of certification of wagons was concluded, certificates of semi-wagons were received, equipment for production of wagons was acquired, the procurements for acquisition of components were initiated. Production of the new wagons is planned to be started in 2021.

- In 2020, in order to improve the efficiency of rolling stocks, LTG Cargo:

  i) Carried out the purchasing procedures for Establishment of the Operational Management Centre. Upon implementation of the project, planning and management of freight transportation activities will be carried out according to the same business processes, precisely defined policy and methods, the activity will be automated and digitalised, data exchange with relevant LG systems will be ensured.;

  ii) Carried out the procedures of 3 (out of 5) locotractors to be taken into operation, registration documents of 2 locotractors, addressed the issues of shortcomings. Shunting movements at railway stations where the flow of served wagons is low will be performed by locotractors in a more effective (cheaper) way. Locotractors may travel from one station to another by roads - traffic load of railway infrastructure is reduced in such a way.

Employees

In order to successfully implement the strategy, efficiently conduct daily activities, create a competitive advantage and adapt to changing business needs, the Company follows the personnel management principles based on good personnel management practices. Focusing on employees is a strategic direction, primarily implemented through the development of corporate culture.

The whole LTG Group pursues the culture of high results based on the existing LTG values:

We are ambitious

We work for our clients

We respect each other

We act with integrity

We are responsible

Initiatives and significant events of 2020:

- During the pandemic special focus was given to working conditions of employees by providing all the necessary safety equipment to those who can perform their functions only in their workplace and expeditiously providing those, who are able work remotely, with conditions to work from home. All employees of LTG Group hold COVID-19 insurance providing with an additional financial support in cases of serious illnesses. In case of unavoidable downtime, the salary of at least 50%t is guaranteed to employees.

- In fostering a change in organisational culture, in February 2020 for the first time in the history of LTG Group an extended survey of the factors influencing the organisational culture "Voice of Employees" took place. All the employees were able to participate in the survey and the actual participation rate of the Company's employees was 63%. During the survey, the indicators of employees' involvement, satisfaction, loyalty were assessed, as well as other highly important areas influencing the corporate culture, such as: cooperation, career and education, organisational values, activity management, client focus, leadership, diversity management, empowerment, work-place and occupational safety. On the basis of the results of the survey, the areas which need most improvement have been identified, and both long-term and short-term initiatives are implemented at the organisational level and also in local individual structural units. The majority of improvement initiatives of this year is aimed at strengthening of mutual communication and cooperation.

- Deployment of technologies and digitalisation has been continued: the processes have been adjusted through digitalisation, employees have been provided with mobile devices that will have innovative solutions facilitating performance of everyday operations installed.

- The procedure for determination of the class of drivers based on an employee's competencies has been established.

The number of employees of the Company was 2,261 as at 31 December 2020. Comparing to the data as of 31 December 2019, the number of the Company's employees decreased by 94 or by 4%.

The average monthly salary changed from EUR 1,640 to EUR 1,728 as compared to the year 2019. An increase in the average monthly salary was mainly affected by the employees' salary revision conducted in April 2020.

The total remuneration fund amounted to EUR 47.3 million. In addition, in April 2020, the annual incentives for performance in the amount of EUR 1.58 million were paid to the Company's employees as well as to the employees of other companies of the LTG Group.

Number of employees of the company and an average salary

Employee groups by position	2019 12 31**		2020 12 31	
	The actual number of employees as at the end of the reporting period	Average salary, in EUR	The actual number of employees as at the end of the reporting period	Average salary, in EUR
Chief Executive Officer*	1	8,380	1	8,380
Top-level managers*	7	6,370	7	6,429
Senior managers and specialists in exceptional fields	11	3,505	12	3,856
Middle-level managers and individual experts	36	2,740	42	2,875
Team leaders and experienced specialists	249	1,871	251	1,929
Specialists and experienced operational/service staff	773	2,052	786	2,096
Operational/service staff, qualified workers	1,278	1,279	1,162	1,348
Total	**2,355**	**1,640**	**2,261**	**1,728**

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

**data of AB LTG Cargo is provided for the period of May - December 2019.

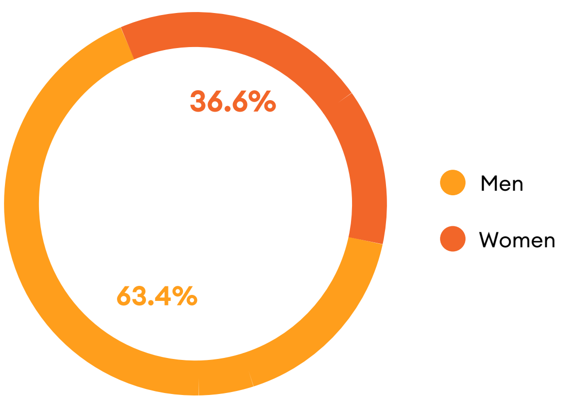
In 2020, when corporate levels of functions were introduced, the number of employees and the average salary are disclosed by groups of corporate levels of functions. The data of the previous periods was recalculated according to the updated methodology.

The monthly remuneration set for the Company's CEO of the Company as at 31 December 2020 was EUR 8,380, and the average actual salary, taking into account the annual incentive for performance, amounted to EUR 10,456 in 2020.

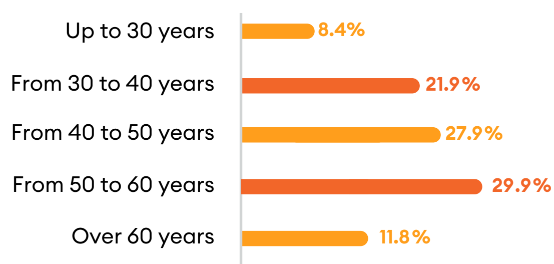
The average monthly salary of high level executives established in their employment contracts as at 31 December 2020 amounted to EUR 6,429 and the average actual salary of this group of employees, taking into account the annual incentive, in 2020 amounted to EUR 7,451.

The charts below show distribution of employees by age, gender, length of service and education as at 31 December 2020.

Employee distribution by gender, %

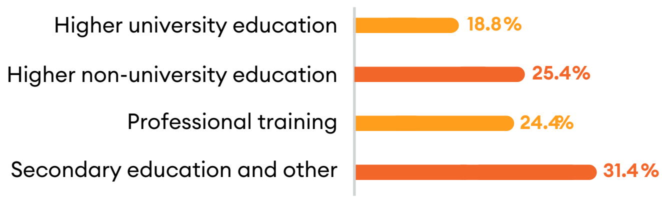


Employee distribution by age group, %

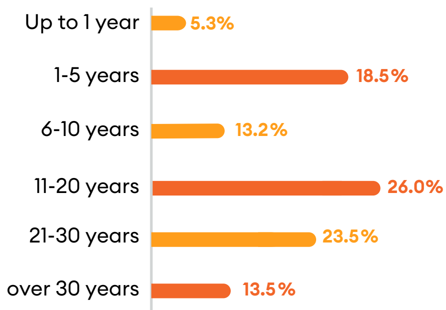


Age group	Average length of service, in years
Up to 30 years	2.9
From 30 to 40 years	8
From 40 to 50 years	15.6
From 50 to 60 years	21.6
> 60 years old	27.3
Average length of service	**16.0**

Employee distribution by education, %



Employee distribution by length of service, %



Social partnership

Seeking to strengthen the Company's social dialogue with representatives of employees and implementing the provisions of industry collective agreement, the LTG company group organised training for chairmen of the trade unions regarding improvement of skills in company management, communication and cooperation.

In September 2020, a regular provision of information and consultation was performed to the employees' representatives during which the information regarding the Company's condition, structure, changes, which took place and are planned, was introduced. The development plans of the Company and its departments, changes in remuneration and expected trends thereof, the results of implementation of occupational safety and health, which help to improve the working environment were introduced and fulfilment of the collective agreement for the year 2019 was reported.

In September 2020, the representatives of LTG company group together with social partners reviewed the industry collective agreement of the company group of Lietuvos Geležinkeliai, which is currently in force, and agreed on extending it for another period of 2 years, until 31 December 2022.

In order to establish an active social partnership, there is regular development of communication and cooperation with the representatives of the trade unions existing in the Company, periodic meetings to discuss issues of arrangement of daily work and to resolve matters that are important to employees and affect their social and economic situation. In accordance with the procedure established by legal acts, relevant information is provided to trade unions and consultations are carried out in adopting decisions regarding changes in the Company.

Management of remuneration and of efficiency of activities

The general principles of the remuneration package are developed for:

- Attraction, motivation and retention of highly qualified and competent employees;
- Encouragement for improvement of employees;
- Adherence to the principle of internal justice in rewarding for work and efforts of employees;
- A continuous improvement of working conditions in order to increase productivity;
- Motivation of employees by granting a package of additional benefits;
- Contribution to the efficiency management of staff costs.

In order to achieve the specified objectives, classical elements of remuneration management are used: methodological evaluation of functions; periodic comparison of internal remuneration data with the market and implementation of the review; direct connection of the possibility of change of remuneration with the efficiency of the employee's activity - the results of achieving the annual goals.

Despite of uncertainties due to the pandemic, in the spring of 2020 the regular review of remuneration was implemented and the annual incentive was paid to employees for the results of 2019. From the second half of 2020, the evaluation results of all functions were expressed in corporate levels, they are published and available to all employees of the Company. In such manner, the principles of transparency, internal justice and open culture are consistently assessed, the internal culture is encouraged. In April 2020, the package of additional benefits to employees was quickly supplemented by the employees' COVID-19 insurance, guaranteeing additional financial support in cases of serious illnesses. During the emergency (quarantine) downtown, full salary was guaranteed to employees whose salary did not exceed EUR 1,300, and the salary of 50%, however not lower than EUR 1,300, was guaranteed to employees whose salary was higher.

Trainings and competence development

To encourage the employees to use their potential and career opportunities to full extent, LTG Cargo motivates continuous professional and personal improvement of its staff. The Company prioritises self-education, learning at workplace, internal trainings. Internal training and periodic certifications are organised for employees on a regular basis in order for employees to acquire or update professional knowledge, improve the necessary skills and maintain a high professional level. In 2020, 2,437 employees of the company participated in internal and external mandatory professional and in-service trainings. Employees performing high-risk work, working with and maintaining potentially hazardous equipment have been trained for safe working methods. According to the internal professional learning programmes regarding traffic safety and occupational safety and health (prepared in accordance with provisions of the Law on Railway Transport Traffic Safety of the Republic of Lithuania and the European regulations), 2,364 employees were trained, 31 employees took courses in external education institutions.

Strengthening of leadership is one of the priority axes of the LTG Group. In 2020, the Leaders Academy was introduced, the purpose of which is to strengthen particular leadership competences, responding to individual educational needs of managers in the fields of operational efficiency, team leadership, operational infrastructure, individual efficiency, working with clients. The internal training programme LTG Leader's Standard, concerning the main principles and standards of team leading, is continued and taken by each new manager of LTG Cargo. In organisation much attention is given to the culture of feedback. For the third year in a row, a 360-degree feedback survey on managerial competencies is conducted, during which managers are provided with comprehensive and high-quality feedback on their leadership competencies from the immediate work environment – direct supervisor, colleagues and subordinates, they identify their strengths and areas for improvement and create individual self-development plans. In 2020, 59 managers of LTG Cargo participated in the feedback programme.

This year, the Company's employees were offered webinars that focused on remote working, which facilitated adaptation of managers and employees to the changed working principles. Also, training on personal effectiveness at work covering such subjects as time management, creativeness at work and communication were offered. And not only professional competencies but also personal effectiveness have been improved, including organisational skills, emotional intelligence, stress management, psychological resilience. The latter subject has been especially important due to the essentially changed working conditions to the majority of employees and due to greater stress suffered by employees.

Risks and their management

LTG Cargo introduces and continuously improves the **unified risk management** system of the Group companies. It is defined in the risk management policy of the LTG group of companies and developed taking into account the international ISO 31000 (International Organisation of Standardisation) and COSO ERM (Committee of Sponsoring Organisations of the Treadway Commission, Enterprise Risk Management) risk management standards and examples of best risk management practices. The policy sets out the regulations, principles and main areas of responsibility for carrying out these activities. The mission of risk management activities is to ensure a consistent and common risk management system of LTG group of companies. The Vision is an effective risk management system that helps maintain and increase the value of the LTG group of companies.

In practice, the risk management policy guidelines are followed according to the Three Lines of Defence Model. According to it: Level 1 risk management activities are carried out by the LTG group companies and structural subdivisions of LTG administration, which identify, assess and manage risks. Level 2 risk management activities are performed by the LTG Risk Management Division, which performs the risk management coordination and control function in the LTG group of companies. This department develops and improves the risk management system of the LTG group of companies, performs monitoring; the Level 3 risk management activities are performed by the Internal Audit Division of the LTG, which performs an independent assessment of the effectiveness of the risk management Levels 1 and 2, provides comments and recommendations on possible improvement of the overall risk management system.

Risks of LTG group companies are managed in stages, each of which involves employees with different roles, individuals and collegial bodies. The risk management cycle consists of the following main steps: 1 Identification of risk appetite, 2. Identification and assessment of risks, 3. Systematisation and calibration of risks, 4. Development of risk management plans, 5. Implementation of risk management plans, 6. Monitoring of risk management.

The level of risks arising in activity of LTG group companies **is assessed by determining their likelihood and potential impact** (assessing financial, legal and reputational impact) and is assigned to one of the four risk categories recorded in the risk management policy:

Strategic risks are risks related to changes in the environment and the ability of LTG group companies to properly use these changes in its operations or to prepare for them. Strategic risks are relevant to most companies of the LTG group companies and may have a direct impact on the achievement of the goals set in the corporate strategy of the LTG group or the LTG group companies;

Operational risks are possible events or circumstances that may affect the operations of the LTG Group or the pursued objectives of the LTG group companies and the structural subdivisions of LTG administration, that may endanger the safety and health of people, the assets of the LTG Group, the continuity of operations or the environment;

Financial risks are risks, related to changes in credit, liquidity, exchange rates, interest rates and capital;

Compliance risks are possible events or circumstances that may lead to non-compliance of LTG Group with external legal requirements and those of LTG Group.

Taking into account the history, particularity and current activity context of LTG Cargo, the following key risks relevant in 2020 have been identified:

Name of the risk	Risk level	Description of the risk and its impact	Main risk management measures
Loss of the market share due to reduced competitiveness	High	• Occurrence of risk may have an adverse effect on the Company's financial performance and implementation of the long-term strategy.	• Search for new markets; • Deployment of new products;
Decrease in freight flows due to the COVID-19 pandemic	Moderate	• Occurrence of risk may have an adverse effect on the Company's financial performance.	• Market analysis and search for new markets; • Deployment of new products;
Decrease in freight flows due to geopolitical reasons	Highest	• Occurrence of risk may have an adverse effect on the Company's financial performance and implementation of the long-term strategy.	• Constant communication with partners; • Search for new customers and market;

Information on compliance with the provisions of the transparency guidelines

The Company adheres to the requirements approved by the Lithuanian Government Resolution No. 1052 „Description of Guidelines for Ensuring Transparency in the Activities of State-Owned Enterprises“ (hereinafter – the Description), dated 14 July 2010, disclosing the required information in the annual and interim reports and own internet website https://cargo.litrail.lt/

Structured information on compliance with the transparency guidelines

Point of Description	Description provision Disclosure of the Company‘s information	Yes/No
5.	The following data and information must be announced in the internet website of a state-owned enterprise:	-
5.1.	Name;	Yes
5.2.	Code and register, where data about the company is filed and stored;	Yes
5.3	headquarters (address;)	Yes
5.4.	legal status, if a state-owned enterprise is under reformation, reorganisation (indicate the way of reorganisation), liquidation, is becoming or has become bankrupt;	Legal status not registered
5.5.	the name of the institution representing the State and a link to its website;	Yes
5.5.	operating goals, vision and mission;	Yes
5.7.	structure;	Yes
5.8.	data about the head of the enterprise;	Yes
5.9.	data about the chairman and members of the Board, if formed according to the Articles of Association;	Yes
5.10.	data about the chairman and members of the Supervisory Council, if formed according to the Articles of Association;	Not formed
5.11.	names of committees, if formed; data about their chairmen and members;	Disclosed in the website of the parent company LTG
5.12.	the sum of the nominal values of the state-owned shares (in euro to the nearest euro cent) and the share (in percentage) in the authorised capital of the state-owned enterprise;	Yes
5.13.	the performed special obligations that are determined as to recommendations approved by the Minister of Economics and Innovations of the Republic of Lithuania: the purpose of the special obligations, state budget appropriations allocated their implementation in the current calendar year and the legal acts entrusting the state-owned enterprise with the performance of the special obligation, the conditions for fulfilment of the special obligations and (or) regulatory pricing;	The Company does not fulfil any special obligations
5.14.	information on social responsibility initiatives and measures, important ongoing or planned investment projects.	Yes
6.	in order to ensure publicity regarding the professionalism of the management and supervisory bodies as well as the members of the committees, formed in a state-owned enterprise, the following data of the persons referred to in sub-points 5.8 – 5.11 of the Description shall be published: name, surname, commencement date of current duties, other current managerial positions in other legal bodies, education, qualification, professional experience. If the person stated in sub-points 5.9 – 5.11 of the Description has been elected or appointed as an independent member, this information should be additionally disclosed under his data.	Yes
7.	The following documents shall be announced in the website of a state-owned enterprise:	-
7.1.	Articles of Association;	Yes
7.2	statement from an institution representing the State regarding the establishment of the goals and expectations of the State in a state-owned enterprise;	Yes

Point of Description	Description provision Disclosure of the Company's information	Yes/No
7.3	the business strategy or a summary thereof in cases where the business strategy contains confidential information or information which is considered a commercial (industrial) secret;	Yes
7.4	document establishing the remuneration policy, setting out the remuneration of the head of a state-owned enterprise and the remuneration of members of collegial bodies and committees formed in a state-owned enterprise, as detailed in the Code of Corporate Governance;	Yes
7.5	annual and interim reports of a state-owned enterprise, annual and interim activity reports of a state-owned enterprise for a period of at least five years;	Yes
7.6	annual and interim financial statements and auditor's reports on annual financial statements for a period of at least five years;	Yes
8	When a state-owned enterprise is a parent company, the structure of the group of companies is to be published on its website as well as the information of its subsidiaries and further subsidiaries as specified in Clauses 5.1–5.3 of the Description, the website addresses, the share (percentage) of the share capital owned by the parent company in their authorised capital, and consolidated annual reports.	Yes
9.	When a state-owned enterprise is a participant of legal entities other than those specified in Clause 8, the details of these legal entities specified in Clauses 5.1–5.3 of the Description as well as their website addresses must be posted on its website.	Yes
10.	If details specified in Clauses 5, 6, 7.1–7.4, 8 and 9 of the Description change or are found to be false, information and documents must also be immediately corrected on the website.	Yes
11.	A set of annual financial statements of a state-owned enterprise, an annual report of a state-owned enterprise, an auditor's report on the annual financial statements of a state-owned enterprise must be posted on the website of the state-owned enterprise within 10 business days after their approval.	Yes
12.	Sets of interim financial statements of a state-owned enterprise, interim reports of a state-owned enterprise must be posted on the website of the state-owned enterprise within 2 months after the end of the reporting period.	Yes
13.	Documents specified in Clause 7 of the Description must be posted in the PDF format with the option of printing.	Yes
	Preparation of sets of financial statements and reports	
14.	State-owned enterprises maintain their accounts in a manner that ensures the preparation of financial statements in accordance with international accounting standards.	Yes
15.	In addition to a set of annual financial statements, a state-owned enterprise must prepare a set of interim financial statements for periods of 6 months.	Yes
16.	A state-owned enterprise, considered to be a public interest company in accordance with the Law on the Audit of Financial Statements of the Republic of Lithuania, apart from the annual report must additionally prepare a 6-month interim report.	Yes
17.	The following additional details must be provided in an annual report of a state-owned enterprise or an annual activity report of a state enterprise:	Yes
17.1.	a short description of the operating model of the state-owned enterprise;	Yes
17.2.	information about major events, which had occurred during a fiscal year and later (prior to the preparation of the annual report or the annual activity report) and which were of primary importance to the activities of the state-owned enterprise;	Yes
17.3.	the results of implementation of the targets specified in the established business strategy of the state-owned enterprise;	Yes
17.4.	the profitability, liquidity, assets negotiability, and debt indicators;	Yes

	Preparation of sets of financial statements and reports	
17.5.	the fulfilment of the specific obligations;	The Company does not fulfil any special obligations
17.6.	the implementation of the investment policy, planned investment projects and investments as well as those under implementation during the reporting year;	Yes
17.7.	the implementation of the risk management policy applicable at the state-owned enterprise;	Yes
17.8.	the implementation of the dividend policy at state-owned enterprises;	Yes
17.9.	the implementation of the remuneration policy;	Yes
17.10.	the total annual payroll fund, the average monthly salaries according to the positions held and (or) divisions;	Yes
17.11.	information on the compliance with the provisions of Chapters II and II of the Description, including the information on how they are being implemented, what provisions have not been complied with and why.	Yes
18.	State-owned enterprises, which are not imposed a duty to prepare a social responsibility report, are recommended to respectively provide information in their annual reports on the issues of environment protection, social and personnel-related issues, the protection of human rights, anti-corruption and anti-bribery measures.	Yes
19.	If the information specified in Clause 17 of the Description is considered a commercial (industrial) secret or confidential information of a state-owned enterprise, the state-owned enterprise is entitled not to disclose such information; however, it must specify in its annual report or the annual activity report that this information is not being disclosed and specify reasons for nondisclosure.	Yes
20.	Other information not specified in the Description may be provided in an annual report of a state-owned enterprise.	Yes
21.	A state-owned enterprise, which is a parent company, must provide the structure of the group of companies, the details of each subsidiary specified in Clauses 5.1–5.3 of the Description, the equity interest in the subsidiary (the percentage share), the financial and non-financial performance results of a fiscal year in its consolidated annual report, and if it is not obliged to prepare a consolidated annual report, in its annual report. If a state-owned enterprise, which is a parent company, prepares a consolidated annual report, the requirements of Clause 17 of the Description apply to it mutatis mutandis.	Yes
22.	An interim report of a state-owned enterprise or an interim activity report of a state enterprise must contain a short description of the operating model of the state-owned enterprise, the analysis of financial performance for a reporting period, information on major event, which had occurred during the reporting period, and also profitability, liquidity, assets negotiability, debt indicators and their changes in comparison with the respective period of the previous year.	Yes

Information on external audit

Audit of the Company's financial statements is conducted in accordance with International Standards on Auditing.

The public procurement tender for the audit of the Company's financial statements, prepared as to International Financial Reporting Standards for the years 2020 – 2022, was won by KPMG Baltics, UAB.

Application of the auditors was confirmed by the LTG Audit Committee, it was approved by the Board of LTG and the confirmation of the shareholder has been received. The audit contract was signed on 23 June 2020.

A fixed fee to the audit company for the audit of the financial statements for 2020 amounted to EUR 44.0 thousand (excl. VAT).

During the reporting period, the auditor has provided additional translation services for the financial statements of the Company.

Social responsibility report

Safety and health of employees

- The main objectives in ensuring the occupational safety and health in AB LTG Cargo is strengthening leadership and culture of employees and improvement of processes and measures regulating the occupational safety and health seeking to reduce the risk of damage to health and occurrence of incidents.
- Seeking for development of independent safety culture in AB LTG Cargo, the activity is standardised and organised by applying the **PACI elements (plan, act, check, improve)**, in addition by implementing leadership of each employee and ensuring social dialogue, distribution of duties, rights and responsibilities in the field of safety.

OHS risk management in 2020

01 Raising occupational safety competences	**02** COVID-19 prevention and provision of related PPE	**03** Updating instructions and legislation
04 OHS digitalization	**05** Occupational risk assessment, management of psychosocial risks	**06** Taking care of worker's health

- Taking into account the standard ISO 45001:2018 "Occupational Health and Safety Management Systems. Requirements with Guidance for Use" and management guidelines set therein, implementation of **Occupational health and safety ensuring methods, processes** regulating the creation of safe and healthy conditions (instructing, occupational risk assessment, provision of for employees with personal protective equipment, sobriety testing, internship, etc.) in daily activities, compliance of occupational safety and health legislation of AB LTG Cargo employees with the established requirements.

- In developing a social dialogue between employer and employees, the election of representatives on occupational safety and health was initiated in 2020, participation in internal trainings carried out by occupational safety and health specialists was enabled. A group of representatives on occupational safety and health was formed for remote collaboration through the 'Teams' channel used for sharing relevant information on occupational safety and health.

- At the end of 2020, the **Committee of Occupational Safety and Health** of AB LTG Cargo was approved; it develops health culture improving occupational safety and health at the Company, analyses indicators of occupational safety and health and implementation of preventive measures and recommendations.

- The **Safety Day** takes place on the first business day of every month when Heads of departments discuss the provided information with employees. In 2020 the Safety Days covered such issues as competences of occupational safety, personal protective working equipment, recommendation regarding COVID-19, safe workplace, first aid in case of heat exhaustion, musculoskeletal disorders and their prevention, general instructing and other relevant issues.

- Seeking to ensure competence of employees in performance of works delegated to them, the matrix of competence management has been updated; thus Heads of departments can quickly assess what trainings are needed for a new employee.

- In 2020, 7 (compulsory first aid, manual handling of loads, work at height, occupational safety and health of heads of departments, representatives of employees, etc.) remote training of occupational safety and health programmes, programme tests 'Moodle' were developed.

- In order to ensure employees have the necessary qualifications to perform works involving high risk, **The Process of Practical Skills in the Workplace (Traineeship) and the Matrix** have been developed, which establishes how much time is allocated for practice subsequent to the acquired qualification.

- AB LTG Cargo implements the prevention of work-related incidents, accidents at work and commuting to work, health and occupational diseases, and investigates all occurred accidents. All employees are a**dditionally insured against accidents** at the employer's expense.

- The **General Instructing Project** was implemented in 2020 which establishes an agreed period of compulsory regular instructing on the working positions and eliminates the risk of non-instructed work, enabling testing of employees' knowledge through the 'Moodle' system, remote instructing and electronic signing. An intensive amendment of related legislation has been performed, the process of instructing on the working positions has been updated enabling the option of remote instructing of employees.

- Given the supply of influenza vaccination services on the market, the service of influenza vaccination has been organised, and given the risk factors at a workplace - the service of tick-borne encephal vaccination has been organised.

- In 2020, much attention was paid to the assessment and management of psychosocial risks of employees: digitised **psychosocial risk** assessment questionnaires were developed; psychosocial risk assessments of 610 employees were updated.

- In order to prevent musculoskeletal disorders, assessment of **ergonomic risk factors** at work positions of shunting operators and wagon inspectors (569employees) was updated in 2020.

- Employees have access to free-of-charge **psychological help** to deal with psychological trauma after an accident or incident.

- **The COVID-19 situation was managed**: the opportunity to work remotely was ensured in consideration of professional risk of remote work, the occupational conduct was regulated; leaflets, posters of safe behaviour as well as information on mano.litrail.lt were prepared; employees are fully provided with personal safety equipment for COVID-19 prevention; an additional insurance service was acquired for those infected with the COVID-19 virus, causing serious health disorders; the training on safe conduct was organised by the National Public Health Centre to employees who are in contact with customers; periodic inspections were carried out on implementation of COVID-19 prevention; the prevention is ensured by the extended emergency management group formed out of responsible employees of LTG Group. Risk assessment of biological agents has been carried out.

    - Having assessed the risks posed by COVID-19 and seeking to improve communication with personnel, ensure the least possible contact with a colleague the following has been completed:

    - A channel was created on 'Teams' program in which members of the occupational safety and health committee and representatives were involved. All relevant information is shared on the channel, related legislation is coordinated, consultations take place;

- A channel was created on 'Teams' program where non-compliances in the departments are expeditiously presented to their heads, as well as plans for prevention;
- Seeking for a timely improvement of qualification of employees, remote training related to OSH matters;
- The initial instructing process was updated on the basis whereof a remote instructing process is carried out.

- All employees are provided with quality collective and **personal protective equipment** by ensuring working clothes rental services with periodic laundry and repair, acquisition of working footwear and other personal protective equipment; lists of personal protective equipment of AB Cargo have been updated; performance of public procurements has been ensured continuing constant provision of employees with personal protective equipment. Employees take part in application of decisions regarding selection and acquisition of more convenient personal and other protective equipment.
- **Regulation of ccontractual relationship** with contractors, customers, providers of goods and services was updated: safety provisions were updated, penalties were established in the contracts for provision of goods and services. The Code of Conduct of Suppliers was established, which sets out the compliance with provisions regulating occupational safety and health. **A leaflet** about risk factors and compulsory compliance with safety requirements in provision of services/goods in the territory of the Lietuvos Geležinkeliai Group companies was prepared **for contractors, suppliers** of goods and services, a questionnaire of inspection of safe activity was prepared for contractors.
- Seeking to provide clear and integrated information, documents related to the occupational safety and health to all employees, a column of the Occupational Safety and Health was created on the internal group website of Lietuvos Geležinkeliai (mano.litrail.lt).

Traffic safety

- AB LTG Cargo implements technical and organisational measures to ensure that the managed railway infrastructure and rolling-stock, as well as the railway traffic participants, are protected from railway catastrophes, accidents and incidents and their consequences.
- The vision of AB LTG Cargo in the field of traffic safety is simple and all-encompassing - 0 (zero) incidents, i.e. safe society and company without any railway catastrophes, accidents and incidents. It should be noted, that in 2020 no railway catastrophes, accidents and incidents occurred due to the fault of AB LTG Cargo.
- In 2020, in order to ensure a high level traffic safety of railway transport, AB LTG Cargo:
    - Identified relevant safety objectives focused on the highest operational risks, developed and implemented a comprehensive plan of measures to achieve them;
    - Fosters an integrated safety culture model that raises safety awareness among workers.
- AB LTG Cargo manages the risks related to railway traffic safety by implementing measures to eliminate or reduce the risks to the lowest acceptable level, performs targeted traffic safety inspections and periodic audits of the elements of the traffic safety management system, ensures continuous monitoring of the state of road safety based on safety indicators, which allows to proactively prevent railway accidents, traffic accidents, incidents and their consequences.
- Additionally, in 2020, AB LTG Cargo:
    - Implemented technical and organisational measures to improve the system of maintenance of the managed rolling stocks;
    - Updated part of the normative technical documentation related to management and repair of rolling stocks;
    - Improved qualifications and competences of employees related to rail traffic;
    - Initiated establishment of the standardised system to introduce traffic safety documentation to employees concerned with rail traffic;
    - Ensured proper learning of employees from accidents by organising re-training or through spread of information by e-instructors.

Prevention of corruption and bribery

- AB LTG Cargo follows the principle of zero tolerance for corruption, which means that the Company does not tolerate any form of corruption. AB LTG Cargo in its activity implements a set of measures and processes aimed at forming a transparent and smoothly functioning company of impeccable reputation. Fair and responsible behaviour in the company is also expected from its employees; therefore, all employees of AB LTG Cargo in their daily work follow the ethical principles and standards provided for in the Code of Ethics for Employees, which was approved in 2020.

- AB LTG Cargo is committed to ensuring the declaration of public and private interests and the management of conflicts of interest. Therefore, employees, who are obliged, submit declarations of private interests in accordance with the procedure established by the Law on the Coordination of Public and Private Interests of the Republic of Lithuania, employees, who do not have this obligation, declare private interests in the employee self-service module Manolitrail. For the purpose of objectivity and transparency in decision-making, procedures for preparation, consideration or adoption of decisions on the removal of employees and removal from decisions that may cause a conflict of interest are addressed. Employees may withdraw from decisions that cause a conflict of interest by electronic functionality introduced in 2020.

- AB LTG Cargo follows the legal requirements by checking the compliance of the recruited persons with the legal requirements and assessing them from the aspect of impeccable reputation. At the same time, the Company is strict towards its partners - the solvency and reputation of business partners are analysed and assessed, thus identifying potential risks arising from activities of business partners.

- To promote responsibility and activity of employees and other persons, AB LTG Cargo enables them to report anonymously about violations of corruptive nature through the following reporting channels (tel. No. (8 5) 269 3600, e-mail prevencija@bekorupcijos.lt report on the website www.litrail.lt/korupcijos-prevencija

- Pursuant to the provisions of the Law on the Protection of Objects of Importance to Ensuring National Security of the Republic of Lithuania, inquiries are submitted to the Commission for Coordination of Protection of Objects of Importance, the Ministry of National Defence of the Republic of Lithuania regarding compliance of initiated procurements, intended transactions or adjustments of already concluded essential transactions with the national security interests

- The Company conducts a targeted survey of employees' resistance to corruption every year - the opinion of each employee is important, which helps to strengthen the transparency of the Company's activities. The results of the survey performed in 2018 – 2020 show that the level of honesty and awareness of employees not to give illegal remuneration/gifts is extremely high and employees rarely face corruption in their activities. Employee involvement in the corruption prevention activities is improved by other means as well – employees are familiarised with the most important documents regulating these activities, trainings are organised in cooperation with STT and other institutions, other educational measures are implemented.

Data protection

- AB LTG Cargo takes care of the protection of personal data and cherishes the information, entrusted to the Company by its employees and customers. In doing so, the Company strictly follows the requirements of the EU General Data Protection Regulation and other data protection legal acts for the protection of data subjects. To implement the requirements of the EU General Data Protection Regulation in 2020, the Company did the following in the sphere of data protection:
    - Took care of employees awareness of personal data protection issues; therefore, data protection trainings were provided to employees;
    - In order to have impeccable personal data protection documentation, the data protection risks have been identified and, as a result, recommendations to persons in-charge of data protection have been made, and a plan with measures to mitigate these risks has been provided;
    - Additional attention was paid to analysis of the Company's personal data documentation and the legal basis of personal data processing;
    - The Group enforced the most important personal data processing document – the Personal Data Processing Methodology, which also replaced the personal data processing rules in the Company.

- During the reporting period, the Company did not receive any requests from data subjects on the exercise of their rights; however, two legitimate interest assessments regarding monitoring of drivers' work and one data protection impact assessment regarding the intended recording of conversations in the customer support department were conducted. During 2020, there were two unintentional accidents of breach of data safety due to an employee error.

Environmental protection

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

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

- As part of the LT Group, the Company assumed the updated railway climate responsibility pledge of the worldwide Railway Organisation (UIC) at the end of 2019, which is aimed at the strengthening of the targets in the combat against climate change: by 2030, to reduce the amount of CO2e emitted from freight transportation by 30%, and to reduce specific CO2e emissions by 40% by 2020, and by 50% until 2030 compared to 2005. The Company is consistently approaching the implementation objectives in its efforts while renewing and modernizing its traction rolling stock and applying energy-saving measures. In 2020, 179 thousand tonnes of CO2e were emitted from the freight transportation operations – almost a third less than in 2005, and specific freight transportation emissions CO2e were reduced by 40% to 11.265 gCO2e/tkm.

- In order to continue reducing impact on the environment and climate change, the Company intends to start exploiting electric traction rolling stocks for freight transportation from 2025, which will operate using electricity produced from renewable energy sources. It is planned that gradual increase in use of electric traction for freight transportation and decrease in use of diesel traction will reduce CO2 emissions by half until 2030.

- At present, only diesel traction rolling stock is used for freight transportation; thus, the use of renewable energy sources is related to the use of biodiesel only. In 2020, the share of bio-additives in diesel fuel, increased from 3.74% to 4.9% on average as compared to the previous year. This helped the Company to reduce CO2 emissions.

- The Company also seeks to protect natural and energy resources through the rational use of materials and raw materials, proper maintenance of rolling stock and thus prolonging its service life. The generated waste is sorted to ensure high recycling potential. As much as 99% of the waste generated by the Company was sent for recycling. The Company is also involved in the LTG group-wide 'No Paper' Project, which focuses on more efficient document management and elimination of paper documents.

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

Collaboration with educational institutions

- In 2020, LTG Cargo was actively seeking to attract the young talents in order to ensure sufficient future resources. Actively participating in activities of universities and colleges that prepare the needed professionals, the Company promoted the sector of railway as an attractive and perspective workplace ensuring long-term career opportunities. In cooperation with educational institutions, 15 students were recruited for internship during this year. The internship programme Growing Leaders which took place in summer for two consecutive years allowing students from Lithuanian and foreign universities to develop not only their professional but also leadership skills attracted 3 students from Lithuanian and foreign universities. In addition to performance of their functional tasks in daily activities, the youth in separate groups created remote studying programmes for improvement of digital literacy contributing value to employees in such a way. After the summer internship, two students joined the team as permanent employees.

- This year, LTG Cargo together with Vilnius College of Technology and Design updated the non-formal training program of a train driver so that the College would be able to prepare students according to the up-to-date tendencies and technologies used by the LTG Group.

- Every year, LTG Cargo participates in largest Career Day events. Unfortunately, these events were organised in a slightly different manner due to the pandemic - for the first time in history, Kaunas University of Technology has organised a virtual Career Day event. Over 10 thousand participants watched the event. Also, LTG Cargo participated in the study fair 'Studies 2020' as a future employer. This fair had even 30,200 participants. Both during the event and over the year, social campaigns encouraging students to choose railway professions were carried out.

[1] *CO2e - Greenhouse gas, expressed in carbon dioxide equivalent.*

Innovations

Modern Operational Management Centre

- In order to reorganise the planning and operational management of freight transportation activity, the Company has initiated implementation of the operational management centre project through certain advanced IT systems.
- Upon implementation of the project, the whole LTG Cargo allocation of work of trunk road transportation co-workers, including the use of wagons and locomotives, will be conducted as efficiently as possible. The new system will enable to increase in efficiency of use of LTG Cargo rolling stocks, to plan freight transportation in a more quality and precise manner, to ensure control of freight transportation activity, to respond to changes and inform the Company's employees and customers about them faster.
- According to the Company's intentions, installation of the new resource planning and management system should start in the first quarter of 2021. Value of the system installation, configuration, maintenance, support, training, and purchase of additional information technology services will amount to more than EUR 6 million over the next 5-7 years.

24/7 self-service document terminals

- In order to improve the quality of customer service, in April 2020 LTG Cargo introduced an innovation - self-service document terminals.
- Such terminals operating as post terminals have allowed customers to take and leave freight transportation documents independently and safely - at a convenient time and without direct contact with employees as terminals operate 24 hours. In the meantime, all freight transportation documents used to be handed over to LTG Cargo employees directly, and customers could only deliver documents during business hours - from 8 AM to 5 PM. This was inconvenient to customers, and, in the event of outbreak of the COVID-19 pandemic in spring, an outdoor terminal solution also helped in protection of employees by reducing the number of direct contacts. As at 31 December 2020, terminals were established in 44 stations in Lithuania.

Robotic process automation (RPA)

- In order to improve performance efficiency and the Company's competitiveness, the Company started robotic process automation (RPA) in 2020. Robotic process automation facilitates to save employees' time, significantly reduce repetitive routine activities, purify processes in detail, identify business and system gaps. During 2020, the Company already automated the processes of documentary check, implementation of applications, statistical data collection, and other processes.

Equal opportunities

- We believe that diversity adds value, promotes development and creativity, helps to better understand clients and meet their needs and extend the possibilities to adapt to environmental changes. Therefore, we promote diversity and equal opportunities to everyone, during trainings and in implementing communication instruments, we introduce to and enhance the understanding of diversity and engagement, we endeavour to involve employees and encourage them to share their experience.
- We create diversity-conducive environment in accordance with the approved Policy of Equal Opportunities. Principles of non-discrimination and equal opportunities as well as other fundamental principles of equal opportunities are defined in the values and ethical principles of LTG Group of companies which provide for intolerance of discrimination, pursuing of the course of truthfulness, openness and integrity, application of uniform principles, non-discrimination of any person or society group regardless of their sex, race, nationality, language, origin, social status, age, sexual orientation, disability, ethnicity, membership in a political party or association, religion, beliefs or views, and taking lawful measures to prevent the perceived discrimination. These principles are enshrined in internal legislation setting out the internal processes of the Company; e. g. recruitment, performance assessment, remuneration review, ensuring social security, etc. The Company does not tolerate any forms of direct or indirect discrimination, nor instructions to discriminate and any form of harassment, psychological violence, bullying or abuse of authority.
- The Trust Line (telephone and email) has been launched for several years for employees to report on experience of discrimination or harassment or inform on such breaches.

Definitions

Revenue	Sales revenue + other operating income, excluding income from financial activities
Sales revenue	Revenue, excluding income from financial and other activities
Expenses	Costs, excluding the corporate tax and financial activities expenses
Financial debt	Interest-bearing financial debt, including financial / operating lease
Net debt	Interest-bearing financial debt including financial lease / operating lease, less net cash and cash equivalent investments
Return on equity (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 investments (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	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 amortisation
Normalised EBITDA	Profit (loss) before taxation + Interest expenses - Interest income + Depreciation and amortisation + Increase (decrease) in the value of non-current assets, inventories and investments + Increase (decrease) in the value of amounts receivable and contract assets + Expenses of provisions not related to typical activities
EBIT margin	EBIT / sales revenue
EBITDA margin	EBITDA / sales revenue
Normalised EBITDA margin	Normalised EBITDA / sales revenue
Net profit margin	Net profit (loss) / sales revenue
Equity ratio	Equity at the end of period / All assets at the end of period
Debt servicing ratio	Net profit (loss) of the last 12 months + Depreciation, amortisation and grants expenses of the last 12 months+ Interest of the last 12 months (adjusted for non-monetary balance sheet articles) / Amortisation of debt for interest and interest payable for past 12 months
Asset turnover ratio	Sales revenue of the past 12 months / All assets at the end of period
Quick ratio	Current assets at the end of period - inventories / Current liabilities at the end of period
Total liquidity rate	Current assets at the end of period / Current liabilities at the end of period
Turnover of freight transportation (tonnes- kilometres)	Freight transport indicator, which is the product of the amount of transported freight (tonnes) and the distance travelled (kilometres)
Volume of train work (tonnes- kilometres, gross)	An indicator calculated by multiplying the gross weight of the train, including the weight of the operating locomotive, by the travelled distance
Number of employees	The number of listed active employees as of the end of the period (excluding the employees on parental leave, military service, long-term incapacity)
Average salary	The average gross salary per employee

AB LTG Cargo

Financial statements

Prepared in accordance with international financial reporting standards, as adopted by the European Union,presented together with the independent auditor's report

For the financial year ended 31 December 2020

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Independent Auditor's Report

To the Shareholders of AB "LTG Cargo"

Opinion

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

- the separate statement of financial position as at 31 December 2020,
- the separate statement of profit or loss and other comprehensive income for the year then ended,
- the separate statement of changes in equity for the year then ended,
- the separate statement of cash flows for the year then ended, and
- the notes to the separate financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the non-consolidated financial position of the Company as at 31 December 2020, and of its non-consolidated financial performance and its non-consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate 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 separate financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 separate financial statements are prepared is consistent with the separate 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 separate 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 separate financial statements are prepared is consistent with the separate 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 Separate Financial Statements

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

In preparing the separate 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 Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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

Rūta Kupinienė
Certified Auditor

Vilnius, the Republic of Lithuania
8 March 2021

(all amounts are in EUR thousand unless otherwise stated)

Separate statement of financial position

	Notes	2020	2019
NON-CURRENT ASSETS			
Property, plant and equipment	7	205,515	189,198
Buildings and constructions		485	540
Machinery and plant		1,310	1,651
Vehicles		202,135	186,186
Other equipment, fittings and tools		343	354
Construction in progress and prepayments		1,242	467
Right-of-use assets	8	3,401	1,666
Intangible assets	9	325	412
Software		322	405
Other intangible assets		3	7
Investment property		-	-
Financial assets	10	1,128	-
Deferred tax assets	24	-	-
Total non-current assets		**210,369**	**191,276**
CURRENT ASSETS			
Inventories	11	1,309	2,053
Trade and other receivables	12	48,834	58,916
Prepayments	13	5,069	8,140
Cash and cash equivalents	14	21,358	25,143
Total current assets		**76,570**	**76 570**
TOTAL ASSETS		**286,939**	**285,528**

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

(all amounts are in EUR thousand unless otherwise stated)

Separate statement of financial position (continued)

	Notes	2020	2019
EQUITY			
Share capital	15	43,936	60,410
Legal reserve		-	-
Other reserves		-	-
Retained profit (losses)		30,531	(2,220)
Total equity		**74,467**	**58,190**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	16	136,981	143,380
Lease liabilities	17	2,430	906
Employee benefits	18,22	3,265	3,629
Deferred income tax liabilities	24	4,335	1,434
Total non-current liabilities		**147,011**	**149,349**
Current liabilities			
Loans and current portion of long-term loans	16	8,688	13,655
Lease liabilities	17	1,044	777
Income tax liability		-	1,307
Employee benefits	18,22	8,527	8,578
Trade and other payables	19	47,165	53,438
Provisions	20	37	234
Total current liabilities		**65,461**	**77,989**
TOTAL EQUITY AND LIABILITIES		**286 939**	**285 528**

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

The financial statements and the explanatory notes on pages 46-89 were approved and signed on 8 March 2021:

Chief Executive Officer — Egidijus Lazauskas

Head of the Statement Preparation Team
Accounting Services Centre
AB Lietuvos Geležinkeliai
Acting under Power of Attorney
No JG(CARGO)-47 of 18/03/2020 — Svetlana Pupeikienė

(all amounts are in EUR thousand unless otherwise stated)

Separate statement of profit or loss and other comprehensive income

	Notes	2020	2019
Revenue	21	396,467	297,782
Other income		1,027	49
Total income		397,494	297,831
Infrastructure services		(203,542)	(141,245)
Depreciation and amortisation	7,8,9	(23,160)	(23,258)
Employee benefits costs	22	(50,347)	(33,384)
Fuel		(42,790)	(35,528)
Repairs and maintenance		(17,672)	(16,122)
Services rendered by other foreign railway companies		(15,295)	(10,212)
Management services		(9,643)	(6,481)
Materials		(2,556)	(566)
Electricity		(486)	(329)
Impairment (increase) of inventories		(128)	(85)
Impairment (increase) of receivables		26	(886)
Change in provisions	20	197	(234)
Other		(11,801)	(6,921)
Operating profit (loss)		20,297	22,580
Finance income	23	279	138
Finance costs	23	(2,004)	(1,294)
Profit (loss) before taxation		18,572	21,424
Income tax	24	(2,295)	(2,755)
Net profit (loss)		**16,277**	**18,669**
Other comprehensive income (expenses)		-	-
Total comprehensive income (expenses)		**16,277**	**18,669**

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

(all amounts are in EUR thousand unless otherwise stated)

Separate statement of changes in equity

	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings (loss)	Total
Balance as at 31 December 2018		30,000	-	-	-	(80)	29,920
Net profit (loss)		-	-	-	-	18,669	18,669
Other comprehensive income, after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	18,669	18,669
Unrecognised profit (loss) for the reporting year		-	-	-	-	-	-
Increase in share capital	15	30,410	-	-	-	(20,809)	9,601
Formation of reserves		-	-	-	-	-	-
Use of reserves		-	-	-	-	-	-
Dividends		-	-	-	-	-	-
Total transactions with owners of the Company		30,410	-	-	-	(20,809)	9,601
Balance as at 31 December 2019		**60,410**	**-**	**-**	**-**	**(2,220)**	**58,190**
Net profit (loss)		-	-	-	-	16,277	16,277
Other comprehensive income, after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	16,277	16,277
Decrease in share capital	15	(16,474)	-	-	-	16,474	-
Formation of reserves		-	-	-	-	-	-
Use of reserves		-	-	-	-	-	-
Dividends		-	-	-	-	-	-
Total transactions with owners of the Company		(16,474)	-	-	-	16,474	-
Balance as at 31 December 2020		**43,936**	**-**	**-**	**-**	**30,531**	**74,467**

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

(all amounts are in EUR thousand unless otherwise stated)

LTG CARGO

Separate statement of cash flows

	Notes	2020	2019
Cash flows from operating activities			
Net profit (loss)		**16,277**	**18,669**
Adjustment to non-cash items			
Depreciation and amortisation	7,8,9	23,160	23,258
(Gain) loss from disposal/write-off of non-current assets		9	198
(Reversal) of impairment losses		102	971
Change in accumulated income/costs		1,623	1,170
Interest income (costs)		1,610	1,049
Lease liability interest		115	51
Increase (reduction) in provisions		(197)	234
Effect of currency exchange fluctuations		(45)	(21)
Income tax expenses (income)	24	2,295	2,755
Cash flows from operating activities after adjustment to non-cash items		44,949	48,334
Changes in working capital			
Decrease (increase) in inventories		617	345
Decrease (increase) in trade and other receivables and prepayments		15,248	(44,883)
Increase (decrease) in current and non-current trade payables and received prepayments		(5,039)	45,257
Increase (decrease) in employment related liabilities		(434)	2,945
Increase (decrease) in other non-current and current payables		(5,021)	1,883
Net cash from operating activities		50,320	53,881
Cash flows from investing activities			
(Acquisition) disposal of non-current assets		(52,324)	(57,203)
Change in prepayments for non-current assets		285	(466)
Net cash from investing activities		(52,039)	(57,669)
Cash flows from financing activities			
Interest (paid)		(1,013)	(437)
Payment of lease liability interest		(115)	(51)
Payment of lease liabilities		(938)	(581)
Net cash flows from financing activities		(2,066)	(1,069)
Net increase (decrease) in cash and cash equivalents		(3,785)	(4,857)
Cash and cash equivalents at the beginning of the period		25,143	30,000
Cash and cash equivalents at the end of the period		**21,358**	**25,143**

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

(all amounts are in EUR thousand unless otherwise stated)

Explanatory notes

1. General information

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

The Company is a private legal entity of limited civil liability, independently organising economic, financial, organisational, and legal activities. AB LTG Cargo is the company of the AB Lietuvos Geležinkeliai Group. AB Lietuvos Geležinkeliai is its sole shareholder. The Company's code: 304977594, VAT code: LT100012103918, legal (registration) address: Geležinkelio St. 12, LT-02100 Vilnius.

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

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

As of 31 December 2020 and 2019, the parent company AB Lietuvos Geležinkeliai was the sole shareholder of the Company. The Ministry of Transport and Communications of the Republic of Lithuania holds 100 percent of shares of AB Lietuvos Geležinkeliai.

The Company has no branches and representative offices.

As of 31 December 2020 the listed number of active employees at the end of the period (excluding the employees on parental leave, employees doing military service, long-term incapacity) was 2,261 (as of 31 December 2019 – 2,355 employees).

Investments in subsidiaries are as follows:

Company	Head office address	Owned share, %		Main activity
		2020	2019	
LTG Cargo Polska Sp. Zo.o	Rondo St. 1, Warsaw	100	-	Freight transportation and provision of related services in Poland
UAB LTG Wagons	Geležinkelio St. 12, Vilnius	100	-	Lease of wagons used for freight transportation
LTG Cargo Ukraine	Puškino St. 21, Kiev	100	-	Freight transportation and provision of related services in Ukraine

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 main accounting policies applied during preparation of these financial statements of the Company are presented below. The said accounting policies are applied for all reporting periods presented in the financial statements unless stated otherwise. The financial statements are prepared on the historical cost basis.

These financial statements are separate financial statements (hereinafter – financial statements). The Company does not prepare consolidated financial statements based on the exemption in paragraph 4 (a) of IFRS 10 when consolidated financial statements according to IFRS are prepared by its parent company.

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

2. Significant accounting policies (continued)

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

Going concern. These financial statements of the year ended 31 December 2020 have been prepared in accordance with an assumption made by the Company's management that the Company would continue its activities.

All currently available information on threats posed by COVID-19 has been considered during the assessment. It should be noted that the ultimate impact of the COVID-19 pandemic on the Company's activities cannot yet be assessed; however, the Company's management did not determine threats to the Company's business continuity when assessing the possible impact of the key factors related to the COVID-19 pandemic on the Company's ability to continue as a going concern. The Company has taken actions to manage the risk.

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

Foreign currency. Transactions in foreign currency are measured in functional currency applying the currency exchange rate applicable during transactions. Monetary assets and monetary liabilities in foreign currency are revaluated in functional currency on the date of preparation of the financial statements applying reference exchange rates set and published by the European Central Bank. A positive or a negative effect of change in the exchange rate is accounted for as profit or losses in the Statement of Profit or Loss and Other Comprehensive Income. Non-monetary assets and liabilities, denominated in foreign currency and measured at fair value, are revaluated in functional currency at exchange rates valid on the date of determination of the fair value. Non-monetary assets 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; 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; b) the asset possesses a cost or other value that can be measured reliably.

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

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

Subsequent to their recognition property, plant and equipment are 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 recognised in the Statement of Profit or Loss and Other Comprehensive Income.

2. Significant accounting policies (continued)

Groups of property, plant and equipment	Useful life
Buildings and structures	10-80
Machinery and plant	5-20
Road transport/vehicles	4-10
Rolling stock (including railway wagons)	12-42
Computers and hardware	4-15
Other equipment, fittings and tools	5-10

Depreciation. Depreciation on land plots is not calculated. Depreciation on other articles of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

reduced to their fair value.

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

Impairment of property plant and equipment, and intangible assets. On every date of the 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.

The Company tests intangible asset for potential impairment comparing its recoverable value with its carrying amount at least once a year and whenever there is an indication that the intangible asset may be impaired. In the event of impairment of the intangible asset, the carrying amount of the intangible asset is reduced to its fair value.

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 recognised immediately in the statement of profit or loss and other comprehensive income.

Lease

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.

The Company as a 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. Payments related to short-term lease or lease of low-value property are directly recognised as costs in the statement of profit or loss and other comprehensive income. 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 recognise the right to use the asset and the lease liability in the Statement of financial position at the commencement of the lease. On the commencement date the Company shall measure the right-of-use asset at cost. Subsequent to initial recognition, right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses and adjusted due to any revaluation of the liability. On the commencement date the Company shall measure a lease liability at the present value of the lease payments outstanding at that date. Lease fees shall be discounted using the interest rate provided for in the lease contract, if that rate can be readily determined. If that rate cannot be readily determined, the Company shall use the borrowing rate charged by the lessee. The borrowing rate to be charged by the lessee shall be recorded by the Company at the beginning of each year and used for all new contracts signed in that year and for contracts the terms of which (not all but only for which the lease liability must be reassessed) have changed during that year. A reassessment of a lease liability occurs when the cash flows change from the original conditions of the lease, for example, when changes in the lease term or lease payments change based on an index or interest rate. Changes that were not part of the original lease contract are considered to be lease changes.

Initial assessment of right-of-use assets. On the lease commencement date, the Company shall measure the right-of-use asset at cost. The cost of the right-of-use assets consists 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

2. Significant accounting policies (continued)

asset to the condition required by the lease conditions, unless those costs are incurred in producing the stocks. The Company shall assume a liability relating to these costs on the start commencement date or after using the leased assets for a specific period. The Company shall recognise these costs as part of the cost of the right-of-use assets when a liability is incurred for these costs.

Initial assessment of right-of-use assets. The Company shall assess the right-of-use assets applying the cost method: less any accumulated depreciation and any accumulated impairment losses; and by adjusting for reassessment of the lease liability. In calculating the depreciation of rights-of-use assets, the Company shall apply the depreciation requirements of IFRS 16 Property, Plant and Equipment.

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

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

The Company as a Lessor

Every lease of a lessor is classified either as a finance lease or an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form.

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

Financial instruments

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

Trade receivables are recognised initially upon occurrence. During initial recognition all other financial assets are recognised 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 recognised at transaction price.

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

b) due to contractual conditions of the financial asset cash flows may occur on set dates, which represent solely payments of principal and interest.

The financial asset which does not include cash flows that are solely payments of principal and interest on the principal amount outstanding is measured at fair value recognising the change in fair value as profit or loss in the statement of profit or loss and other comprehensive income.

The financial asset, which is subsequently measured at amortised cost, is measured by using the effective interest method. The amortised 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 is accounted for through profit (loss).

The effective interest method is the method used to calculate the amortised 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 recognised 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:

a) the right to receive cash flows from the asset has expired;

b) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement;

c) the Company transfers its right to receive the cash flows and/or:

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

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

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

Writing down is an event of derecognition.

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 realise the asset to offset the liability.

Impairment of financial assets due to credit risk. 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 categorised into separate groups according to credit risk characteristics. The amounts for each group are analysed by the number of days past due.

2. Significant accounting policies (continued)

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:

a) The counterparty experiences a significant financial difficulty as evidenced by financial information it provides;

b) A breach of contract such as default or payment delay;

c) The counterparty considers bankruptcy or intends to take measures for financial reorganisation;

d) 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;

e) The value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Losses on financial assets measured at amortised cost are recognised as provisions affecting the net carrying amount of such assets.

The gross carrying amount of a financial asset is written down when the Company has no reasonable expecta¬tions 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 comple¬ted 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.

Write-off of financial assets. Impairment for financial assets is formed in consideration of provisions of IFRS 9, the Company's accounting policies and by carrying out the assessment of possible risks according to the possibility of their occurrence, taking into consideration the likely internal and external factors which include significant financial difficulties of customers, liabilities more than 120 days overdue and the likely case of bankruptcy of the customer.

Gross carrying amount of financial assets is written off when the Company does not have reasonable expectations to recover all assets or a part thereof. Unrecoverable assets are written off according to the recognised impairment if all necessary actions were taken to recover the assets and the amount of losses has been determined.

For financial assets which are written off and are also subject to the activity of securing fulfilment, the Company takes actions related to legal regulation so that the amounts were recovered to the maximum extent.

The amounts previously written off and recovered during subsequent periods are accounted for under the item of depreciation losses of the statement of profit or loss and other comprehensive income.

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

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

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

Borrowings. Borrowings are recognised initially at fair value less the incurred transaction costs and subsequently measured at amortised cost using the effective interest method.

Financial guarantees. Financial guarantee con¬tract 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 ins¬trument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by due amounts received.

Income taxes. Income taxes have been provided for in the fi¬nancial statements in accordance with legislation 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 comprehen¬sive 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.

2. Significant accounting policies (continued)

The income tax rate applicable for the companies of the Republic of Lithuania in 2020 and 2019 was 15%.

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

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

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

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

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

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

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

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

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 in¬cludes:

a) Share capital - The share capital is equity paid in by sharehol¬ders and is stated at nominal value in accordance with the Parent company's articles of association and the entry in the Centre of Registers;

b) Share premium - Share premium is created by the surplus of the issuance value in excess of the nominal value of shares de-creased by issuance costs;

c) Legal reserve - According to Lithuanian legislation an annual trans¬fer of 5% of net profit to the legal reserve

2. Significant accounting policies (continued)

is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover fu¬ture losses;

d) Other reserves - Other reserves are formed according to the decision of the shareholder for specified purpose;

e) 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.

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 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 in profit (loss) 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 statements of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial profit and losses are recognised in other comprehensive income. Therefore, provisions are formed for the possible benefits. Actuarial estimates are carried out in order to assess the liability of such retirement payments. The liability is accounted for at present value discounted using the market interest rate.

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

Revenue recognition. The Company recognises revenue to depict transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company takes into account the terms of the contract and all relevant facts and circumstances. For that purpose the Com¬pany'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 recognised 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 ser¬vices which will be transferred to a customer.

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

Step 2 - Identify the performance obligations in the contract.

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

2. Significant accounting policies (continued)

- Goods and/or a service is dis¬tinct;

- 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 (calendar month).

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.

Type of the Company's revenue;

- Revenue earned from freight and services related to freight transportation;

- Lease revenue;

- Revenue from repair and maintenance.

Nature of revenue recognition:

- Immediately after rendering of services;

- For an ongoing period (calendar month) when services are rendered under contractual service fees, and revenue is recognised at the end of the month based on stage of completion of carried out works or after the service has been rendered, and the deed of acceptance and delivery of works has been signed.

Revenue is recognised 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 recognised 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 recognised after deducting the VAT and discounts, including accrued probable discounts for a reporting year.

Company's revenue is recognised in accordance with provisions of IFRS 15, i.e. 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.

Under IFRS 15, revenue is recognised when a customer receives the control of goods or services. A judgement is required in determining the timing whether control is transferred over period of time or at a certain point of time.

Operating revenue generated by the Company includes the following:

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

- Other income from operating activities.

Income earned from freight and services related to freight

2. Significant accounting policies (continued)

transportation

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

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

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

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

Lease income. Rail wagon rent income.

Repair and maintenance income.

2. Significant accounting policies (continued)

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

2. Significant accounting policies (continued)

Lease revenue

Revenue is recognised every month or over a period of time when services are rendered. The amount of recognised revenue is estimated based on signed deeds of rendered services.

The amount of revenue from lease of wagons is calculated on the basis of registered recording cards measuring the number of leased wagons and lease period.

If services under the same agreement are rendered at different reporting periods, the remuneration is then distributed according to their relative independent selling prices. A separate selling price is determined based on the contractual service prices.

Invoices are issued after services have been rendered or the deed of acceptance and delivery of works has been signed. Standard invoice payment term is 30 days.

Payments for uncoupling repair of private wagons are subject to a settlement period of 10 days, and a cash deposit might be additionally applied.

Recognition of expenses. Expenses are recognised on the basis of accrual and matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred. In financial reporting expenses are recognised in the event of decrease in assets or increase in liabilities which cause a decrease in equity, except for decreases related to allocations to the owners of the shares.

Expenses are usually estimated by the amount of money paid or payable, excluding VAT. In cases where a long settlement period and interest are not allocated, the expenses are estimated by discounting the settlement amount at the market interest rate.

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

Contingent assets and liabilities. Contingent liabilities are not recognised 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 recognised in the financial statements but are disclosed when it is probable that future economic benefits or service potential will flow to the entity.

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

Offsetting. When preparing financial statements, assets and liabilities, as well as revenue and expenses are not offset, except for the cases when a certain standard specifically permits or requires such settlement.

Business combinations. The Company accounts for business combinations applying the acquisition method when the acquired integrated set of activities and assets constitutes a business. When determining whether a certain integrated set of activities and assets constitutes a business the Company assesses whether the integrated set of activities and assets comprises, at the very least, an input and a substantive process that together significantly contribute to the ability to create outputs. The Company can apply a 'concentration test' in order to facilitate assessment whether the acquired set of activities and assets is not a business. A concentration test is positive when substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets. 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

2. Svarbios apskaitos politikos priemonės (tęsinys)

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 recognise and measure the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree;

d) To recognise 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 recognise 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 recognised at the acquisition date for the following items: identification of the assets acquired (including contingent assets or assets not recognised 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 residual values.

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

3. Significant accounting estimates and judgements

Significant judgements

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

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

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

Significant estimates and assumptions

Information on significant estimates and assumptions is provided below:

Useful lives of intangible assets and property, plant and equipment. The useful lives of assets are reviewed annually and adjusted if necessary to reflect the current assessment of the remaining useful lives, taking into account technolo-

3. Significant accounting estimates and judgements (continued)

gical 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.

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

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

Impairment losses of amounts receivable. The Company assesses receivables for impairment at least quarterly. In order to determine whether it is necessary to recognise 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.

Write down of inventories to net realisable value. The Company reviews its inventory list at least annually to determine the net realisable value of inventories. Inventories acquired earlier than a year ago are reviewed to determine whether they can be realised in the future. In the case of slow-moving spare parts and other materials, impairment is recognised 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 recognising 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.

Impact of COVID-19 on key accounting estimates, assumptions and estimation uncertainties

When assessing the possible impact of the factors related to the COVID-19 pandemic on the Company's activities and results, the Company's management assessed potential difficulties to attract cash flows and financing sources, COVID-19 infection risk for the employees in charge of critical functions and the risk of delays of ongoing projects. The Company's management has also assessed the impact of COVID-19 on key accounting estimates, assumptions and estimation uncertainties.

Management of the risk regarding employees exposure to COVID-19. It would be impossible to manage the Company's infrastructure in the event of a significant number of employees being exposed to COVID-19, which is one of the main risks. It may cause a decrease in amount of performed work or loss of customers and, subsequently, a decrease in income and profit. During the quarantine period, the Company is in strict compliance of all recommendations provided by the Government of the Republic of Lithuania regarding management of potential threat related to COVID-19. Conditions for an effective remote work are introduced in the Company, and no direct and significant discrepancies in performance of primary functions of employees are incurred. Manufacturing employees are provided with additional personal protective equipment and personal care supplies, actions to ensure employee shifts are prepared and implemented, etc.. As at the date of the financial statements, there were no major discrepancies related to performance of these functions incurred by the Company due to COVID-19.

Discrepancies in supply chains. Supply chain discrepancies comprise supply of IT and telecommunication services which are essential to ensure proper remote work and functioning of IT systems as well as supply of goods and services, which are essential to implement projects in a timely manner. The Company's management constantly communicates with suppliers to monitor the situation and assess their ability to fulfil their liabilities on time. As at the date of the financial statements, there were no indications that would affect the Company's financial statements for the year 2020.

Compliance with contracts and potential losses. The Company has properly evaluated information on loss arising

3. Significant accounting estimates and judgements (continued)

from compliance with lease, sale and other similar contracts, especially when the loss was caused by decrease in business capacity as a result of the pandemic. As at the date of preparation of the financial statements, the amount of inevitable losses arising from compliance with contracts effective as at the end of the financial statements was calculated, and it was evaluated whether any provisions should have been formed for the mentioned losses. Past events, the Company's current activity conditions and the expected economic situation were taken into consideration by the Company in assessing the potential losses. It should be noted that additional expenses expected to be incurred in the future due to the announced quarantine do not comply with criteria for provisions; therefore, as at the end of the financial statements, the Company does not form provisions for business recovery expenses to be possibly incurred in the future.

Useful life intangible assets and property, plant and equipment. The Company reviewed the useful life of non-current assets to evaluate whether they comply with the intended nature of use and purpose of non-current assets taking into consideration potential impact of COVID-19 on that asset. The review of useful life was based on expected events and economic conditions which may be created by the COVID-19 pandemic in the future. The review carried out by the management did not lead to identification of any use discrepancies of intangible assets and property, plant and equipment both in a long-time and short-time periods.

Write-off of inventories to net realisable value. Taking into account COVID-19, the Company's management carried out an assessment regarding the write-off of inventories to net realisable value. More information is disclosed in Note 11.

Impairment losses of amounts receivable. When estimating expected credit losses due to the impact of COVID-19, the Company's management assessed past events, current and future economic conditions known as at the date of these financial statements. The Company's management has identified that future economic condition related to COVID-19 does not significantly change loss rates used for calculation of expected credit losses.

Provisions, contingent liabilities and the lease term. The Company's management has assessed the impact of COVID-19 on provisions and the lease term as at the date of the annual financial statements and did not identify any indications that would affect the Company's financial statements for 2020.

4. New standards and interpretations not yet adopted

The new standards, amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 2021 and have not been applied in the preparation of these financial statements are set out below:

Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments apply for contracts which are effective as at the initial application date of these amendments. As at the date of initial application, the overall impact of the amendments is recognised as an adjustment of retained earnings (losses) or other appropriate equity components at the beginning of the period. Comparative information is not recalculated.

Based on the currently available information, according to the assessment of the Company's management, the new amendments, after initial application, will not have a significant impact on the Company's financial statements.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments are effective as of 1 January 2021. Early application is permitted. The amendments address the effects of the interest rate benchmark reform on financial statements, including changes to contractual cash flows or hedging relationships that arise when an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate. The amendments offer relief from certain requirements of IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 related to:

- Change of the basis for determining the contractual cash flows of a financial asset, financial or lease liability;
- Hedge accounting.

Based on the currently available information, according to the assessment of the Company's management, the new amendments, after initial application, will not have a significant impact on the Company's financial statements.

Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)

In May 2020, the International Accounting Standards Board published Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16) which prohibit an entity to deduct from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

Based on the currently available information, according to the assessment of the Company's management, the new amendments, after initial application, will not have a significant impact on the Company's financial statements.

First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-time Adopter (Amendments to IFRS 1)

When carrying out the annual improvements process to IFRS standards 2018–2020, the International Accounting Standards Board published First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-time Adopter (Amendments to IFRS 1). These amendments permit a subsidiary which has chosen to apply the provisions of IFRS 1 (16), to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to IFRS Standards. These amendments are also applied to associates and joint ventures.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Early application in permitted.

Based on the currently available information, according to the assessment of the Company's management, the new amendments, after initial application, will not have a significant impact on the Company's financial statements.

Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9)

When carrying out the annual improvements process to IFRS standards 2018–2020, the International Accounting Standards Board published Amendments to IFRS 9 Financial Instruments. The amendments clarify the fees an entity includes when as-

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

sessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only the fees paid, or received from, the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

An entity applies the amendments to financial liabilities which are modified or adjusted at the beginning of the period of initial application of the financial period.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Early application in permitted.

Based on the currently available information, according to the assessment of the Company's management, the new amendments, after initial application, will not have a significant impact on the Company's financial statements.

IFRS 17 Insurance Contracts

Effective for annual reporting periods beginning on 1 January 2023 with regard to the principle of comparability. Early application is permitted if an entity also applied IFRS 9 and IFRS 15 as at the date of IFRS 17 application or earlier. IFRS 17 replaces IFRS 4, which has allowed entities to continue using current practice for accounting for insurance contracts. This made it difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a general principles-based standard setting accounting requirements for all types of insurance contracts, including reinsurance contracts held by an insurer. The standard requires groups of insurance contracts to recognise and measure: (i) future cash flows (cash flows arising from the performance of the contract) at risk-adjusted present value, which includes all available information about the cash flows arising from the performance of the contract consistent with observable market data; by adding (if this value is a liability) or subtracting (if this value is an asset) (ii) an amount representing the unearned profit from the group of contracts (the contractual service margin). The profits generated by a group of insurance contracts will be recognised by insurers during the period when the insurance cover is granted and at the time of the risk exemption. If a group of contracts is or becomes unprofitable, the entity recognises the loss immediately.

These amendments to the standard will not affect the Company's financial statements as it does not carry out insurance activities.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On 1 January 2020, the International Accounting Standards Board published amendments to Articles 69 and 75 of IAS 1 Presentation of Financial Statements by specifying the requirements for classification of liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

Based on the currently available information, according to the assessment of the Company's management, the new amendments, after initial application, will not have a significant impact on the Company's 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.

Other standards

COVID-19-Related Rent Concessions (Amendment to IFRS 16)

On 28 May 2020, the International Accounting Standards Board published COVID-19-Related Rent Concessions (Amendment to IFRS 16). The amendments provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. As a practical expedient, a lessee may elect not to assess whether a rent concession, occurring as a direct consequence of the COVID-19 pandemic, is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this standard if the change were not a lease modification.

The amendments are effective for annual reporting periods beginning after 1 June 2020. Early application is permitted.

The amendments have no impact on the Company's financial statements.

(all amounts are in EUR thousand unless otherwise stated)

5. Significant changes in accounting policy

The standards and amendments effective as of 1 January 2020 did not have a significant impact on the financial statements for 2020.

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 according to their types:

Financial assets	2020	2019
Trade and other receivables	44,663	32,433
Cash and cash equivalents	21,358	25,143
Total	**66,021**	**57,576**

Financial assets	2020	2019
Loans and other financial debts	145,669	157,035
Lease obligations	3,474	1,683
Trade and other payables	42,006	49,169
Total	**191,149**	**207,887**

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

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

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

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

(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 2020	Net carrying amount 2020			Carrying amount 2019	Net carrying amount 2019		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets								
Trade and other receivables	44,663	-	-	44,663	32,433	-	-	32,433
Cash and cash equivalents	21,358	21,358	-	-	25,143	25,143	-	-
Total	**66,021**	**21,358**		**44,663**	**57,576**	**25,143**		**32,433**
Financial liabilities								
Loans and other financial debts	145,669	-	-	145,669	157,035	-	-	157,035
Lease obligations	3,474	-	-	3,474	1,683	-	-	1,683
Trade and other payables	42,006	-	-	42,006	49,169	-	-	49,169
Total	**191,149**	**-**	**-**	**191,149**	**207,887**	**-**	**-**	**207,887**

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

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

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

Risk management

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

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

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

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

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

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

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

The Company did not incur a significant increase in credit risk due to the COVID-19 pandemic. Customers did not apply for extension of the payment period. However, due to the continuing COVID-19 pandemic, the situation in the market is closely monitored, the Credit Control Policy is applied in the Company, and procedures and processes are revised.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

	2020	2019
Customer A	5,379	2,060
Customer B	930	1,811
Customer C	825	1,576
Customer D	544	545
Customer E	446	1,171
Customer F	390	277
Others	5,099	7,241
Total	**13,613**	**14,681**

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

The Company's exposure to credit risk and ECLs for trade and other receivables as at 31 December 2020:

	Gross carrying amount	Expected credit losses, %	Provision	Net carrying amount
Low risk	44,535	0.04%	(17)	44,518
Fair risk	115	1.32%	(2)	113
Increased risk	18	12.24%	(2)	16
High risk	1,315	98.81%	(1,299)	16
Total	**45,983**		**(1,320)**	**44,663**

The Company's exposure to credit risk and ECLs for trade and other receivables according to individual external customers as at 31 December 2019:

	Gross carrying amount	Expected credit losses, %	Provision	Net carrying amount
Low risk	31,112	0.02 %	(6)	31,106
Fair risk	889	3.50 %	(31)	858
Increased risk	322	52.02 %	(167)	155
High risk	1,542	79.64 %	(1,228)	314
Total	**33,865**		**(1,432)**	**32,433**

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

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

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

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

The Company uses a simplified method to calculate the expected maturity credit losses over the period of validity and use a provisioning matrix for all trade and other recei-

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

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

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables as at 31 December 2020:

	Expected credit losses, %	Gross carrying amount	Provision	Net carrying amount
Not past due	0.04%	44,535	(17)	44,518
1-30 days past due	1.32%	115	(2)	113
31-60 days past due	7.17%	6	-	6
61-120 days past due	14.80%	12	(2)	10
More than 120 days past due	98.81%	1,315	(1,299)	16
Total		**45,983**	**(1,320)**	**44,663**

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

	Expected credit losses, %	Gross carrying amount	Provision	Net carrying amount
Not past due	0.02%	31,961	(6)	31,955
1-30 days past due	14.63%	339	(50)	289
31-60 days past due	72.47%	99	(72)	27
61-120 days past due	85.67%	199	(170)	29
More than 120 days past due	89.50%	1,267	(1,134)	133
Total		**33,865**	**(1,432)**	**32,433**

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

The Company's movement of provision of doubtful trade and other receivables:

	2020	2019
Balance at the beginning of the period	(1,432)	-
Provision of receivables carried forward during the reorganisation	-	(546)
Change in provision of trade and other receivables	26	(886)
Impairment for written down debts	86	-
Balance at the end of the period	**(1,320)**	**(1,432)**

The change in provision of trade and other receivables at the Company has been reflected in the statement of profit or loss and other comprehensive income, in receivables and contract asset value (reduction) increase items.

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

	2020	2019
Aa2,AA credit rating	3,386	3,695
Aa3,AA credit rating	9,392	9,365
Baa1 credit rating	8,580	12,083
Total	**21,358**	**25,143**

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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 recognised 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 COVID-19 pandemic did not have a significant adverse impact on the Company's liquidity. The Group has significant balance of cash and cash equivalents in the course of the year and ensured liquidity of all Group companies through the Cash pool platform. In addition, in order to proactively respond to threats caused by the COVID-19 pandemic, credit institutions were applied to ascertain the possibilities of obtaining a binding credit line or overdraft for a period of at least 12 months. Propositions containing beneficial pricing were received; yet, no contract was concluded with any of the credit institutions as there was no need for borrowing.

The Company did not incur liquidity issues as at the date of the financial statements.

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

	Total	Within one year	From one to five years	After five years
Loans and other financial debts	155,302	9,020	48,543	97,739
Lease liabilities	4,870	1,085	3,785	-
Trade and other payables	42,006	42,006	-	-
Total	**202,178**	**52,111**	**52,328**	**97,739**

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

	Total	Within one year	From one to five years	After five years
Loans and other financial debts	164,686	14,906	58,500	91,280
Lease liabilities	1,792	808	984	-
Trade and other payables	49,169	49,169	-	-
Total	**215,647**	**64,883**	**59,484**	**91,280**

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 2020 and 2019 the Company did not enter into derivative financial transactions to manage the risk of exchange rate fluctuations with servicing banks. Most transactions are made in euros; impact of exchange rate fluctuations is low.

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

Long-term loans mostly affect increase in the interest rate risk. As of 31 December 2020 the value of the Company's long-term loan portfolio was EUR 145,466 thousand (as of 31 December 2019 – EUR 157,034 thousand).

6. Financial instruments and risk management (continued)

If interest rate goes up by 0.5 percentage point during the year 2020, annual interest costs will increase by EUR 616 thousand.

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

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

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

During 2020 and 2019, the Company complied with the requirements of the abovementioned provisions of the Law on Companies of the Republic of Lithuania.

(all amounts are in EUR thousand unless otherwise stated)

7. Property, plant and equipment

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

	Land	Buildings and structures	Machinery and equipment	Vehicles	Other equipment fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
31 December 2018	-	-	-	-	-	-	-
- acquisitions per year	-	-	42	19,126	-	470	19,638
- acquisition of assets due to reorganisation *	-	-	462	188,067	256	-	188,785
- receipt of assets due to reorganisation **	-	592	1,562	1,447	215	471	4,287
- assets sold, written off, disposed	-	-	-	(445)	(2)	(471)	(918)
- reclassifications	-	-	(7)	11	(1)	(3)	-
31 December 2019	-	592	2,059	208,206	468	467	211,792
- acquisitions per year	-	-	61	40,620	146	775	41,602
- assets sold, written off, disposed	-	-	(22)	(3,377)	(43)	-	(3,442)
- reclassifications	-	-	-	-	-	-	-
31 December 2020	-	592	2,098	245,449	571	1,242	249,952
Accumulated depreciation and impairment losses							
31 December 2018	-	-	-	-	-	-	-
- depreciation	-	(52)	(408)	(22,022)	(116)	-	(22,598)
- impairment during the year	-	-	-	-	-	-	-
- assets sold, written off, disposed	-	-	-	2	2	-	4
- reclassifications	-	-	-	-	-	-	-
31 December 2019	-	(52)	(408)	(22,020)	(114)	-	(22,594)
- depreciation	-	(55)	(402)	(21,478)	(145)	-	(22,080)
- impairment during the year	-	-	-	-	-	-	-
- assets sold, written off, disposed	-	-	22	184	31	-	237
- reclassifications	-	-	-	-	-	-	-
31 December 2020	-	(107)	(788)	(43,314)	(228)	-	(44,437)
Carrying amount							
31 December 2018	-	-	-	-	-	-	-
31 December 2019	-	540	1,651	186,186	354	467	189,198
31 December 2020	**-**	**485**	**1,310**	**202,135**	**343**	**1,242**	**205,515**

Depreciation and amortisation expense included in the statement of profit or loss and other comprehensive income amounted to

EUR 23,160 thousand (2019 – EUR 23,258 thousand). This amount includes EUR 22,080 thousand (2019 – EUR 22,598 thousand) of depreciation of property, plant and equipment, EUR 994 thousand (2019 – EUR 598 thousand) of depreciation of right-of-use assets and EUR 86 thousand (2019 – EUR 62 thousand) of amortisation of intangible assets.

The cost of the Company's fully depreciated but still used property, plant and equipment amounted to EUR 11,637 thousand (2019 – EUR 10,374 thousand). Vehicles comprised for the majority of fully depreciated property, plant and equipment.

(all amounts are in EUR thousand unless otherwise stated)

8. Right-of-use assets

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.

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

	Buildings and structures	Other assets	Total
Acquisition cost			
31 December 2018	-	-	-
- acquisitions per year	1,777	487	2,264
- disposed assets	-	-	-
- reclassifications	-	-	-
31 December 2019	1,777	487	2,264
- acquisitions per year	4,820	801	5,621
- disposed assets	(3,566)	(199)	(3,765)
- reclassifications	-	-	-
31 December 2020	3,031	1,089	4,120
Accumulated amortisation and impairment losses			
31 December 2018	-	-	-
- depreciation	(390)	(208)	(598)
- disposed assets	-	-	-
- reclassifications	-	-	-
31 December 2019	(390)	(208)	(598)
- depreciation	(630)	(364)	(994)
- disposed assets	676	197	873
- reclassifications	-	-	-
31 December 2020	(344)	(375)	(719)
Carrying amount			
31 December 2018	-	-	-
31 December 2019	1,387	279	1,666
31 December 2020	**2,687**	**714**	**3,401**

(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	-	-	-
- acquisitions per year	-	-	-
- receipt of assets due to reorganisation	464	11	475
- assets sold, written off, disposed	-	(1)	(1)
- reclassifications	-	-	-
31 December 2019	464	10	474
- acquisitions per year	-	-	-
- assets sold, written off, disposed	-	(1)	(1)
- reclassifications	-	-	-
31 December 2020	464	9	473
Accumulated amortisation and impairment losses			
31 December 2018	-	-	-
- depreciation	(59)	(3)	(62)
- assets sold, written off, disposed	-	-	-
- reclassifications	-	-	-
31 December 2019	(59)	(3)	(62)
- depreciation	(83)	(3)	(86)
- assets sold, written off, disposed	-	-	-
- reclassifications	-	-	-
31 December 2020	(142)	(6)	(148)
Carrying amount			
31 December 2018	-	-	-
31 December 2019	405	7	412
31 December 2020	**322**	**3**	**325**

The Company does not have internally generated intangible assets. Amortisation costs of the Company's intangible assets, which made up EUR 86 thousand in 2020 (2019 – EUR 62 thousand), are accounted for in the statements of profit or loss and other comprehensive income, under depreciation and amortisation.

The Company's fully amortised intangible assets still in use amounted to EUR 48 thousand (2019 – 3 thousand). The main part of fully amortised assets consisted of software.

(all amounts are in EUR thousand unless otherwise stated)

10. Investments

Movement of investments in subsidiaries and other companies consisted of:

Company	Controlled share, %	2020 Investment value	2020 Provision accounted	2020 Carrying value	2019 Investment value	2019 Provision accounted	2019 Carrying value
Shares of subsidiaries							
LTG Cargo Polska Sp. Zo.o.	a) 100	489	-	489	-	-	-
UAB LTG Wagons	b) 100	150	-	150	-	-	-
LTG Cargo Ukraine	c) 100	489	-	489	-	-	-
Total		**1,128**	**-**	**1,128**	**-**	**-**	**-**

In 2020 the following subsidiaries were established: LTG Cargo Polska Sp. Zo.o., UAB LTG Wagons and LTG Cargo Ukraine.

a) On 20 July 2020, the company LTG Cargo Polska Sp. Zo.o. was established issuing 2,225 ordinary registered shares with par value of PLN 1,000.00, the formed and paid share capital amounted to PLN 2,225 thousand.

b) On 4 November 2020, the company UAB LTG Wagons was established issuing 150 ordinary registered shares with par value of EUR 1,000.00, the formed and paid share capital amounted to EUR 150 thousand.

c) On 9 December 2020, the company LTG Cargo Ukraine was registered and the capital amounting to UAH 17,027 thousand was formed but not paid yet.

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

	Investment value
Acquisition value as at 31 December 2019	
Increase (+)	-
Decrease (-)	1,128
Acquisition value as at 31 December 2020	-
Iš viso	**1,128**

Financial position of the subsidiaries:

2020	Non-current asset	Current asset	Non-current liabilities	Current liabilities	Equity
LTG Cargo Polska Sp. Zo.o.	3	485	-	14	474
UAB LTG Wagons	-	150	-	-	150
LTG Cargo Ukraine	-	489	-	-	489

The statement of profit or loss and other comprehensive income of the subsidiaries:

	2020 Income	2020 (Expenses)	2020 Profit (loss)
LTG Cargo Polska Sp. Zo.o.	-	(14)	(14)
UAB LTG Wagons	-	-	-
LTG Cargo Ukraine	-	-	-

(all amounts are in EUR thousand unless otherwise stated)

11. Inventories

The Company's inventories consisted of:

	2020	2019
Fuel	679	801
Spare parts	152	106
Materials	153	116
Other	185	209
Total raw materials, supplies and components	1,169	1,232
Purchased goods for resale	140	726
Total goods purchased for resale	140	726
Non-current assets held for sale	-	95
Non-current assets held for sale, total	-	95
Total	**1,309**	**2,053**

EUR 1,522 thousand carrying amount (2019 – EUR 2,138 thousand) of the Company's inventories was reduced by EUR 213 thousand (2019 – EUR 85 thousand) to the net realisable value as at 31 December 2020. The change in the write-down of the Company's inventories to net realisable value is reflected in the expense item in the statement of Profit (loss) and other comprehensive income.

During 2020 the inventories of EUR 2,556 thousand (2019 – EUR 566 thousand) (without fuel) were written off at cost of sales.

12. Trade and other receivables

The Company's trade and other receivables included:

	2020	2019
External trade receivables, gross value	14,933	16,101
Impairment (-)	(1,320)	(1,420)
Total external trade receivables	13,613	14,681
Receivables from related parties	7,084	6,177
Impairment (-)	-	-
Total receivables from related parties	7,084	6,177
VAT receivable	3,727	26,439
Other receivables from the budget	444	44
Accrued income from related parties	23,128	10,264
Accrued income	761	1,108
Other receivables	77	215
Impairment (-)	-	(12)
Total other receivables	28,137	38,058
Total	**48,834**	**58,916**

The change in provision is disclosed in Note 6.

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

In order to show the Company's income earned as at 31 December 2020 as accurately as possible and in accordance with the accrual principle, income for international freight transportation that will be reconciled in 2021 but are related to services provided by the Company in 2020 are recognised as accrued income as at 31 December 2020.

(all amounts are in EUR thousand unless otherwise stated)

13. Prepayments

The Company's prepayments consisted of:

	2020	2019
Prepayments to external suppliers	18	134
Prepayments to related parties	2,196	7,281
Guarantees paid to external suppliers	-	5
Guarantees paid to related parties	373	185
Deferred charges	2,482	535
Total	**5,069**	**8,140**

14. Cash and cash equivalents

The Company's cash and cash equivalents consisted of:

	2020	2019
Cash in bank	21,358	25,143
Total	**21,358**	**25,143**

As at 31 December 2020, the Company had no current deposits. Money was not pledged.

15. Share capital

The nominal value per share of the Company is EUR 210.64. The change in the share capital is presented in the following table:

	Share capital	Number of shares, units
Subscribed share capital		
31 December 2018	30,000	103,585
Increase	30,410	104,999
Decrease	-	-
31 December 2019	60,410	208,584
Increase	-	-
Decrease	16,474	-
31 December 2020	43,936	208,584
Capital structure at the end of the reporting period		
By type of shares		
Ordinary shares	43,936	208,584
Privileged shares	-	-
Total	**43,936**	**208,584**

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

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

The Articles of Association of UAB LTG Cargo were registered in the Register of Legal Entities on 20 July 2020 and the Company's share capital was reduced by EUR 16,474 thousand. The share capital was reduced by reducing the nominal value of one ordinary share of the Company from EUR 289.62 to EUR 210.64.

(all amounts are in EUR thousand unless otherwise stated)

16. Loans and other financial debts

The Company's financial debts consisted of:

	2020	2019
Long-term loans	136,981	143,380
Short-term loans	8,485	13,655
Interest	203	-
Total	**145,699**	**157,035**

The Company's loans consisted of:

	Loan currency	31/12/2020	31/12/2019
Bank EIB - 3, total [2]	EUR	3,182	-
Bank EIB - 4, total [1]	EUR	20,667	-
AB Lietuvos Geležinkeliai, total [3]	EUR	121,617	157,035
Interest	EUR	203	-
Total		**145,699**	**157,035**

On 30 June 2020 restructuring of LTG long-term loans was completed. LTG transferred its long-term credit liabilities to the European Investment Bank (EIB) to the Company – EUR 29,591 thousand and signed a guarantee contract with EIB, based on which the Company's obligations arising from disposed and adjusted financing contracts are guaranteed.

From the moment when adjustments of agreements signed between LTG, AB LTG Cargo and the EIB and when the Arrangement on transfer and adjustment of agreements signed between LTG, LTG Cargo and the EIB came into force, the unpaid loan under the loan agreement concluded on 12 March 2019 was reduced by the amount of the accounts payable by LTG to the EIB. After the restructuring of the loans, the loan of LTG and the Company is considered subordinated in respect of the EIB loans, i.e. both loan and interest payments are not possible until the EIB loan repayment maturity date in 2024. The terms of the loan agreement concluded on 12 March 2019 revised after the loan restructuring comply with the market conditions.

[1] EIB-4 is the loan for the procurement of new railway rolling stock. During 2020 the Company repaid EUR 3,333 thousand of the loan and paid EUR 301 thousand of interest.

[2] EIB-2 and EIB-3 are the loans for the procurement of new railway rolling stock. During 2020 the Company repaid EUR 2,409 thousand of the loan and paid EUR 70 thousand of interest. During 2020, the EIB-2 loan was fully repaid.

[3] The loan agreement of EUR 163,862 thousand value was made with AB Lietuvos Geležinkeliai (LTG) on 12 March 2019. The purpose of the loan – purchase of railway rolling stock – rail cars, containers and locomotives under asset sale and purchase agreement of 25 January 2019 made between LTG and the Company. The loan was awarded as non-current asset, repayment term until the year 2031. During 2020 the Company had repaid EUR 6,828 thousand of the loan and paid EUR 437 thousand of interest according to the agreed schedule.

Interest has been established by applying a variable interest rate that consists of 6-month EURIBOR and the margin established by a market survey.

No breaches of fulfilment of financial and non-financial terms of the loan agreements were identified as at 31 December 2020.

In 2020, order to manage funds more effectively and ensure liquidity of the Group companies, under market terms, the Company uses the Group account (Cash-pool) in accordance with the agreement signed with AB Swedbank. The Company did not have liabilities as at 31 December 2020.

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

	2020	2019	Value set by the bank
Net debt/adjusted EBITDA*	comply	comply	Not higher than 4.0
Equity ratio	comply	comply	Not lower than 35%
Loan servicing ratio	comply	comply	Not lower than 2

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

(all amounts are in EUR thousand unless otherwise stated)

17. Lease liabilities

The Company rents out buildings and other assets (vehicles and dredgers). Building rental agreements are usually concluded for a fixed 36-month period with a possibility to extend them. Vehicle rental agreements are concluded for 36 months without a possibility to extend them. When determining the rental period, the management evaluates all facts and circumstances, which give rise to economic incentives to avail themselves of the possibility to extend or terminate the contract. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated). Possible future cash payments were not included in the lease obligations 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 recognised directly in the Statement of income (loss) and other comprehensive income. In 2020, the related expenses comprised of EUR 545 thousand (2019 – EUR 491 thousand).

The discount rate applied for lease agreements in 2020 comprises 6-month EURIBOR and market research, market margin determined under the current market conditions.

Impact on the statement of financial position (increase / (decrease)) as at 31 December 2020:

	2020	2019
Assets:		
Right-of-use assets	3 401	1,666
Non-current liabilities:		
Lease liabilities	(2,430)	(906)
Current liabilities:		
Lease liabilities	(1,044)	(777)
Impact on the statement of profit or loss and other comprehensive income of the previous year	(17)	-
Impact on the statement of profit or loss and other comprehensive income	(56)	(17)
Depreciation costs	(994)	(598)
Lease expenses	1,053	632
Operating profit (loss)	59	34
Financing activity costs:		
Interest	(115)	(51)
Profit (loss) of the reporting period	(56)	(17)

Impact on the statement of comprehensive income and the statement of cash flows (increase / (decrease) as at 31 December 2020:

	2020	2019
Net profit (loss)	**(56)**	**(17)**
Depreciation costs	994	598
Interest on lease liability	115	51
Cash flows from investing activity		
Payments of lease liability	(938)	(581)
Interest on lease liability	(115)	(51)
Net increase (decrease) in cash flows	**-**	**-**

In case the discount rate applied by the Company increased or decreased by 1%, the amount of lease liabilities would be equal to EUR 3,644 thousand or EUR 3,284 thousand as at 31 December 2020, respectively.

(all amounts are in EUR thousand unless otherwise stated)

18. Employee benefits

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

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

	2020	2019
Discount rate	0.40%	0.56%
Employee turnover rate	5.49%	5.17%
Salary growth rate	1.80%	3.00%

Change in employee benefits during 2020 by type:

	31 December 2019	Calculated	Paid	Balance as at 31 December 2020
Non-current liabilities				
Provisions for pensions and similar liabilities	3,629	(322)	(42)	3,265
Total non-current liabilities:	**3,629**	**(322)**	**(42)**	**3,265**
Current liabilities				
Accumulated leave	3,029	5,238	(5,390)	2,877
Wages and salaries payable	2,112	22,549	(22,640)	2,021
Social security contributions payable	923	11,339	(11,299)	963
Personal income tax payable	725	9,667	(9,692)	700
Other employment-related liabilities	1,789	1,876	(1,699)	1,966
Total current liabilities:	**8,578**	**50,669**	**(50,720)**	**8,527**
Total	**12,207**	**50,347**	**(50,762)**	**11,792**

19. Trade and other payables

The Company's trade and other payables consisted of:

	2020	2019
Trade accounts payable	469	424
Trade accounts payable to related parties	34,358	43,499
Prepayments received	4,616	3,915
Cash guarantees received	1,526	1,597
Other taxes payable to the budget	543	354
Accumulated costs of foreign railway services	1,335	1,220
Accumulated payables to related parties	2,177	2,186
Accumulated costs	1,631	-
Other accounts payable and liabilities	510	198
Total	**47,165**	**53,438**

The Company accounted for EUR 44 thousand (2019 – EUR 45 thousand) liability for audit services in the payable amounts and liabilities item. Liabilities for an access package made the most part of trade payables to related parties in the amount of EUR 19,759 thousand (2019 – EUR 24,175 thousand). Accumulated costs were mostly made of: accumulated costs for foreign railway services, for which invoices have not been issued – EUR 1,335 thousand (2019 – EUR 1,220 thousand).

(all amounts are in EUR thousand unless otherwise stated)

20. Provisions

The Company's provisions consisted of:

Balance as of 31 December 2018	**-**
Additionally formed	234
Used	-
Balance as of 31 December 2019	**234**
Additionally formed	37
Used	(234)
Balance as of 31 December 2020	**37**

21. Revenue

The Company's revenue consisted of:

	2020	2019
Revenue from domestic freight transportation	85,261	60,624
Revenue from international freight transportation	196,247	141,999
Provision of services related to freight transportation	98,302	82,420
Property lease	8,028	7,330
Locomotives and work of locomotive crews abroad	4,197	2,930
Maintenance and repair	878	596
Wholesale trade	1,556	163
Other services	1,998	1,720
Total	**396,467**	**297,782**

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

In 2020 the Company accounted for EUR 761 thousand (2019 – EUR 1,307 thousand) transportation discount accruals under contracts with customers, amount of which varies depending on quantity of freight transported during the reporting period.

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

	2020	2019
Recognised immediately	387,561	289,856
Recognised over an ongoing period	8,906	7,926
Total	**396,467**	**297,782**

(all amounts are in EUR thousand unless otherwise stated)

22. Employee benefits costs

Employee benefits costs by type:

	2020	2019
Wages and salaries	49,979	32,955
Social security contributions	884	589
Accrued vacation reserve	(153)	(220)
Pensions and similar liabilities	(363)	60
Total	**50,347**	**33, 384**

23. Net finance income

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

	2020	2019
Total finance income	279	138
Penalties and default interest for overdue trade receivables	279	138
Total finance costs	(2,004)	(1,294)
Interest	(1,610)	(1,049)
Negative impact of currency exchange fluctuations	(45)	(21)
Other costs	(349)	(224)
Total	**(1,725)**	**(1,156)**

24. Income tax and deferred tax

Income tax was calculated at a rate of 15 percent.

	2020	2019
Income tax for the reported year	-	1,307
Adjustment of income tax of the previous year	(606)	-
Deferred tax expenses (benefit)	2,901	1,448
Total income tax expense (benefit) recognised in profit or loss statement	**2,295**	**2,755**

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

	2020	2019
Profit or loss before tax	18,572	21,424
Income tax	2,786	3,214
Costs reducing income tax	-	(574)
Costs increasing income tax	467	138
Income (reducing) tax deductible income	(352)	(23)
Income tax adjustments of the previous year	(606)	-
Total income tax expenses (income)	**2,295**	**2,755**
Effective rate	12.36%	12.86%

(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:

	2020	2019
Deferred tax assets:		
Accrued tax loss	2,979	-
Impairment of inventories	32	13
Impairment of receivables	129	133
Accrual of leave and bonuses	726	639
Long-term employee benefits liabilities	-	9
Accrued costs	-	7
Deferred tax assets	3,866	801
Deferred income tax liability:		
Difference in the value of non-current assets with tax	(8,201)	(2,235)
Deferred income tax liability	(8,201)	(2,235)
Deferred tax asset (liability), net	**(4,335)**	**(1,434)**

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

25. Related party transactions

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

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

- The Government of the Republic of Lithuania acts as the owner of all shares of AB LTG Cargo;
- Companies or institutions are managed by the Government of the Republic of Lithuania;
- Parent company AB Lietuvos Geležinkeliai;
- Subsidiaries of the parent company AB Lietuvos Geležinkeliai;
- Subsidiaries of the parent company AB LTG Cargo;
- AB Lietuvos Geležinkeliai related, non-consolidated associated and joint ventures;
- Board members and their close relatives.
- Persons who are key management personnel of the reporting entity, and their relatives.

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

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

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

(all amounts are in EUR thousand unless otherwise stated)

25. Related party transactions (continued)

	2020		31/12/2020	
	Purchases	Sales	Receivables	Payables
AB Lietuvos Geležinkeliai	76,473	10,248	6,936	129,043
AB LTG Infra	217,294	482	395	19,759
UAB Vilniaus Lokomotyvų Remonto Depas	54,642	1,990	2,199	6,628
UAB LTG Link	458	26	6	56
UAB Geležinkelio Tiesimo Centras	-	2,786	117	
UAB Gelsauga	5	-	-	
UAB Voestalpine VAE Legetecha	-	4	-	
LTG Cargo Polska SP. Zo.o.	-	9	9	-
LTG Cargo Ukraine	-	-	-	489
Total	**348,872**	**15,545**	**9,662**	**155,975**

	2019		31/12/2019	
	Purchases	Sales	Receivables	Payables
AB Lietuvos Geležinkeliai	385,572	19,668	5,899	166,304
AB LTG Infra	13,892	32	128	25,436
UAB Vilniaus Lokomotyvų Remonto Depas	34,954	693	7,459	10,063
UAB LTG Link	98	13	22	36
UAB Geležinkelio Tiesimo Centras	-	2,399	140	-
UAB Gelsauga	15	-	-	-
UAB Voestalpine VAE Legetecha	-	1	-	-
Total	**434,531**	**22,806**	**13,648**	**201,839**

The Company's accrued receivables and payables with related parties accounted for in the Statement of financial position as at 31 December 2020:

	2020	
	Accrued receivables	Accrued payables
AB Lietuvos Geležinkeliai	8,947	154
AB LTG Infra	14,181	32
UAB Vilniaus Lokomotyvų Remonto Depas	-	2,023
Total	**23,128**	**2,209**

(all amounts are in EUR thousand unless otherwise stated)

25. Related party transactions (continued)

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

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

Management remuneration and other benefits

As of 31 December 2020, the number of executives was 8 people, i.e. Chief Executive Officer, Corporate Activities Director, Director of the Operative Management Department, Director of the Capacity Planning Department, Director of the Sale and Customer Service Department, Director of the Rolling Stock Technologies Department, Director of the Performance Monitoring Department, Director of the Business Development Department.

	2020	2019
Management remuneration	656	401
Incentives*	145	5
Accumulated long-term benefits	11	15
Number of executives	8	8
Allowances for members of the Board	-	-
Number of Board members	5	5

* Incentives are performance bonuses and lump sums.

** Accumulated long-term benefits are provisions for pensions and similar liabilities accrued as at the end of the reporting period.

As of 31 December 2020 no loans, guarantees, or other disbursements or accruals or disposals of assets were made to the Company's management other than as set forth above.

26. Events after the reporting period

During 2021, UAB Vilniaus lokomotyvų remonto depas will be merged to the Company, and both companies will operate as one company – LTG Cargo. The merger was approved by LT Cargo board and shareholder.

After the end of the reporting period, there were no other significant events that should be recognised or disclosed in the financial statements for the year 2020.