



# 2020

Report of  
UAB "LTG Link"

# CONTENTS

CEO'S FOREWORD	3
BASIC INFORMATION ON THE COMPANY	4
MANAGEMENT OF THE COMPANY	7
STRATEGY	14
MAJOR EVENTS IN 2020	16
EVENTS AFTER THE REPORTING PERIOD	19
OVERVIEW OF THE KEY PERFORMANCE INDICATORS	20
ANALYSIS OF FINANCIAL AND PERFORMANCE RESULTS	21
OPERATING RESULTS	21
SPECIAL OBLIGATIONS	25
INVESTMENTS	26
EMPLOYEES	27
RISKS AND THEIR MANAGEMENT	32
INFORMATION ON THE COMPLIANCE WITH THE GUIDELINES ON THE TRANSPARENCY	33
CORPORATE SOCIAL RESPONSIBILITY REPORT	36
FINANCIAL STATEMENTS	43
INDEPENDENT AUDITOR'S REPORT	44
STATEMENT OF FINANCIAL POSITION	47
STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME	49
STATEMENT OF CHANGES IN EQUITY	50
STATEMENT OF CASH FLOWS	51
NOTES TO FINANCIAL STATEMENTS	52

## ABBREVIATIONS:

**LTG** – AB Lietuvos geležinkeliai

**LTG group, Group, company group** – AB Lietuvos Geležinkeliai and its subsidiaries

**LTG Cargo** – AB LTG Cargo

**LTG Infra** – AB LTG Infra

**LTG Link, Company** – UAB LTG Link

**GOV** – the Government of the Republic of Lithuania

**SOE** – a state-owned enterprise

# CEO'S FOREWORD

## Dear colleagues, partners, customers and like-minded people,

Looking back over the past year, we often think they were harder than ever. We do believe that the past year made us even stronger and in 2021 we will continue to create a new culture of travelling by train.

Whereas now we still remain on a standby. The pandemic taught us tough and yet valuable lessons: one should have not just one or two emergency plans in place, react promptly, focus, manage enormous flows of information and make necessary decisions in a firm manner. In fact, we enter this year a bit more calmly as we have managed to make it through. It was really rough at times but when you work for your country and its people you can never give up and say "one way or another", you cannot delay works for later or wait until things settle down.

Thus, as the pandemic struck, we rushed to help our people stranded abroad to come back home. Within one week we have managed to arrange two special international trains. As the passenger flows plummeted, we made a promise that despite the decrease in number of journeys the necessary interurban communication must remain. We have implemented all changes and safety requirements in real time, no matter what time it was.

When managing the pandemic, our other major projects were not suspended either. During 2020, we changed our trade mark and name: we became remarkable, bold LTG Link, showing its identity.

We made a huge step forward in digitalization as well: we have facilitated the daily life of our colleagues with smart devices, and have started to move important business processes from paper to digital space. In addition to our minds, we have been more active in employing technology.

In September, we signed a letter of intent with the Polish Railway Company PKP Intercity on the route Vilnius-Warsaw, and ended the year with announcing calls for tender for acquisition of new trains. We plan on purchasing about 30 electric trains, a part whereof is electric with batteries. We will be one of the first carriers at the European level, starting to operate electric-battery trains which are absolutely environmentally friendly.

We are also happy about our customers' assessment: the net promoter score has increased by as many as 10 percentage points – from 58% to 68%. In the light of the pandemic we sought to maintain the NPS indicator at the level of the year 2019, however we were well above it. This is how consistent and targeted improvements in the customer experience and proper crisis management pay off.



### LINAS BAUŽYS

Chief Executive Officer  
UAB LTG Link

We are well aware that the future depends on us, if we act on our own instead of waiting for what it holds. Thus, in 2021 we plan to complete the changes in the ticketing system on which we were intensively working: we will implement a new user friendly application and website, as well as ticket machines in the stations. We plan on continuing with digitalization and as soon as this year implement the project of the operational management centre, as well as sign a long-term contract of Public Service Obligation with the Ministry of Transport and Communications, also put signatures with our new manufacturers of trains, and, surely, invite you to travel from Vilnius to Warsaw by train.

It will be interesting, thus stay tuned.

# Basic information on the company

<b>Company name</b>	UAB LTG Link
<b>Legal address</b>	Geležinkelio g. 16, LT-03603, Vilnius
<b>Legal form</b>	Private Limited Liability Company
<b>Date and place of registration</b>	28/02/2019, the Register of Legal Entities of the Republic of Lithuania
<b>Company code</b>	305052228
<b>Phone</b>	(8 5) 269 3265
<b>E-mail</b>	<a href="mailto:ltglink@litrail.lt">ltglink@litrail.lt</a>
<b>Website</b>	<a href="http://www.litrail.lt/keleiviams">www.litrail.lt/keleiviams</a> ; <a href="http://www.traukiniobilietas.lt">www.traukiniobilietas.lt</a>
<b>Core business</b>	Passenger and luggage transport by rail and other related services
<b>Company's Chief Executive Officer</b>	Linas Baužys
<b>Shareholders</b>	100% of shares is owned by AB Lietuvos Geležinkeliai

## The Company's branches, representative offices abroad

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

## Activity of the company

### Operating model of the company

On 28 February 2019, UAB LG Keleiviams was registered with the Register of Legal Entities, to which the activity of the Passenger Transportation Directorate of AB Lietuvos Geležinkeliai was transferred from 1 September 2019. On 21 July 2020, a new company name was also registered – UAB LTG Link. For the purpose of this document, the new name of the company is used.

## The main activity and services rendered

---

The main activity of UAB LTG Link includes passenger transport on domestic and international transport routes. For the major part of the year 2020 the main activity of the Company was disrupted by the pandemic of COVID-19. In March-June and November-December the quarantine conditions were in force in Lithuania, restrictions were imposed on the movement between cities as well as the number of passengers on local trains, in order to ensure that passengers sat at a safe distance from each other, and the food sold on trains. The international train journeys were suspended from the middle of March, and only 6 transit journeys were resumed by the end of the year.

Services rendered by UAB LTG Link are as follows:

- domestic passenger transport services by rail;
  - international passenger transport services by rail;
  - -carriage of post and luggage within the territory of Lithuania and abroad;
  - -carriage of bicycles and animals within the territory of Lithuania;
  - arrangement of charter journeys;
  - lease and sale of rolling stock;
  - advertising services;
  - services in stations (luggage storage, carriage of parcels, sale of and services, sale of travel tickets);
  - services on trains (sale of travel tickets, sale of food and beverages).
- 

## Infrastructure

---

As at 31 December 2020, the carrying amount of vehicles (including rolling stock) of UAB LTG Link was EUR 128.3 million, while the carrying amount of the remaining immovable property (including the category of railway infrastructure) was EUR 4.5 million.

---

## Market

---

The main market of UAB LTG Link includes carriage services in the territory of the Republic of Lithuania and abroad. Passengers are carried on 21 domestic and 8 international transport journeys.

---

## Lithuanian market

---

Historically, passenger transport by railway competes with other modes of transport – road and air.

The market share of passenger transport by rail is small and, according to the data of 2019, accounted for as little as 1.4 per cent, while according to the data of Statistics Lithuania of the first three quarters of 2020, the market share of passenger transport by rail also accounted for 1.4 per cent<sup>1</sup>.

In 2020, 3.2 million passengers were transported on domestic routes, that is, 95.0% of all passengers transported by rail during that period. Due to the COVID-19 pandemic, in the end of March one third (76 out of 226) of domestic train journeys was temporarily suspended, later a part thereof was resumed, however in November, due to the second wave of COVID-19 in Lithuania, the Company repeatedly revised and optimized 25 journeys, frequency was changed for 14 journeys. By the end of 2020, 6 out of 32 international transit journeys were reopened.

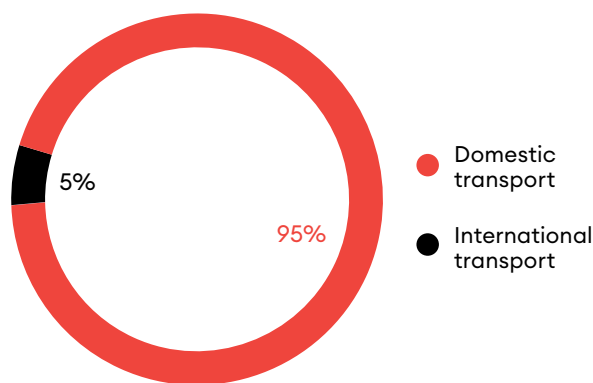
---

<sup>1</sup> Data of the Department of Statistics of Lithuania

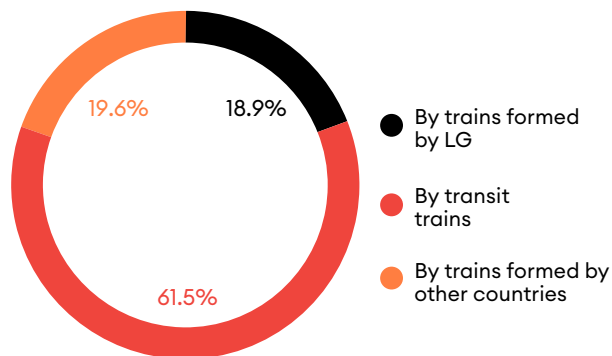
## International market

During 2020, 0.2 million passengers were transported on international routes, that is, 5.0% of all passengers transported by rail during that period. Passengers were transported to Minsk and Daugavpils by trains formed by UAB LTG Link. This segment accounted for 18.9% of all passengers transported on international routes. The remaining part consisted of passenger transportation by trains formed by other countries and transit trains through the territory of the Republic of Lithuania, mainly in communication with Kaliningrad region. Due to the corona virus (COVID-19) pandemic, from 16 March 2020 traffic of international trains was suspended, and from 6 April traffic of transit trains was suspended. In the end of 2020, 6 international transit journeys out of 32 were resumed.

Market segments of passenger transport by rail in 2020, %



Market segments of passenger transport on international routes in 2020, %

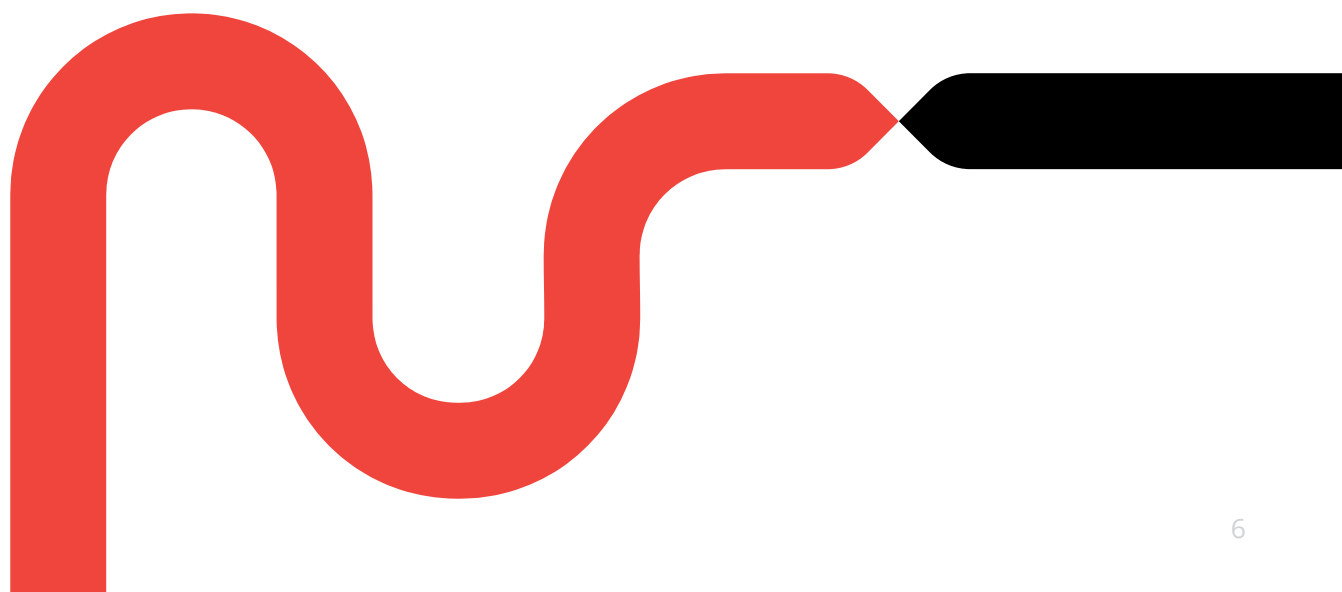


## Major customers

Residents of Lithuania and other countries use services rendered by the Company.

The Law on Transport Privileges provides for incentives encouraging socially disadvantaged groups, eligible for purchasing tickets with a discount of 80% and 50%, to travel by train. This activity is subject to grants from the state budget, by compensating the deprived income due to transporting passengers on domestic transport routes under privileged conditions.

Seeking to attract more customers, the Company extends service offers for various passenger groups: families, students, business representatives, lovers of active leisure time. In March-June 2020, due to the COVID-19 pandemic, the quarantine was introduced in Lithuania, during which the railway transport remained the most reliable mode of public transport for commuters or other necessities.



# Management of the company

## Information about shares as at 31 December 2020

Amount of authorized capital, Eur	Number of shares, pcs.	Par value per share, Eur
143,590	156,237	919.05

The Company is part of AB Lietuvos Geležinkeliai company group the sole shareholder whereof 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 Group companies.

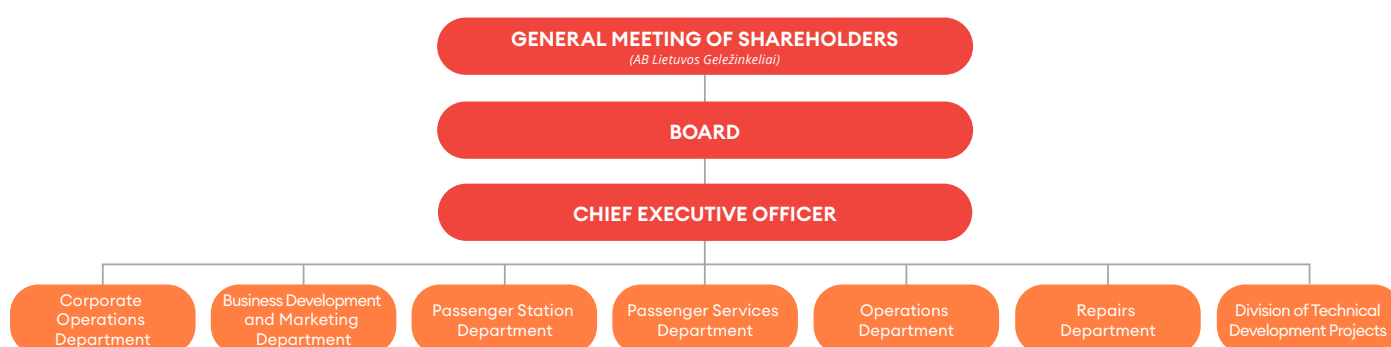
## Management and organisational structure of the Company

LTG Link is a company of AB Lietuvos Geležinkeliai company group, the sole shareholder whereof is the parent company AB Lietuvos Geležinkeliai. The shareholder of AB Lietuvos Geležinkeliai is the State which controls 100% of shares. The Shareholder's rights and obligations are implemented by the Ministry of Transport and Communications of the Republic of Lithuania.

In seeking for long-term growth in value of AB Lietuvos Geležinkeliai Group companies, rational and effective utilization of funds, assets and other resources as well as fulfilment of the shareholder's expectations and interests, the operating model of the Group is oriented towards refining the principal activities

and focusing thereof in subsidiaries. Being a part of the company group AB Lietuvos Geležinkeliai, LTG Link is responsible for implementation of principal activities and achievement of the set goals of operation. In order to implement the raised goals and ensure appropriate management, in its activities LTG Link is independent, it makes relevant decisions and ensures 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 governing bodies of the Company, and other legal acts of the Republic of Lithuania governing the activities of the Company including the activities of the state-owned enterprises.



## Articles of association of the company

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

During the reporting period the Articles of Association of LTG Link were amended twice:

- On 17 March 2020 a new version of the Articles of Association was registered whereby the authorized capital was reduced by EUR 12,647,000, by annulling 12,647 ordinary registered shares of the Company with the nominal value of EUR 1,000 each.

- On 20 July 2020 a new version of the Articles of Association was registered whereby the name of the Company was changed and the principles of activities of the Company in the company group of AB Lietuvos Geležinkeliai were specified.

The Articles of Association of LTG Link are available on the company's website at <https://www.litrail.lt/594>.

The Articles of Association of LTG Link 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 meeting of shareholders;
- Board of Directors;
- Chief Executive Officer – Director General.

**General meeting of shareholders** – is the supreme governing body of the Company. The competence of the general meeting of shareholders, the procedure of its convening as well as resolution-passing is established by the Law on Companies, other legislation as well as in the Articles of Association of the Company published on the website <https://www.litrail.lt/594>.

The sole shareholder of LTG Link 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, the voting right was not restricted.

In accordance with the Company's Articles of Association, an additional competence of the general meeting of shareholders is to endorse the decisions of the Board of LTG Link 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;
- the Company's non-current assets the carrying amount of which exceeds EUR 300 thousand:
  - investment in the Company's group companies or third parties, disposal or lease of those assets;
  - pledge or mortgage;
  - sureties or guarantees for fulfilment of other parties' obligations;
  - acquisition of non-current assets;
  - conclusion of other transactions.
- conclusion of a public service agreement on the passenger transportation and approval of the essential terms thereof;
- 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.

Key decisions of the general meeting of shareholders in 2020:

1. the Company's financial statements for the year 2019 were approved;
2. the Company's retained profit (loss) to be distributed for 2019 was distributed;
3. the Company's authorized capital was reduced by reducing the nominal value of each share;
4. the Company's name UAB LG Keleiviams was changed to UAB LTG Link.

**The Board** – is a collegial governing body, set out in the Articles of Association of the Company, consisting of 5 members. The members of the Board are elected by the general meeting of shareholders for a term of 4 years. The Management Board elects the chairman of the management Board from 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 meeting of shareholders.

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

Additional competence areas of the Board:

- to approve the operating strategy and long-term goals, investment and operational plans, and budget of LTG Link;
- to establish the performance indicators of LTG Link;
- to adopt decisions on 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;
- to adopt decisions on the Company's non-current assets the carrying amount of which exceeds EUR 300 thousand:
  - pledge or mortgage;
  - sureties or guarantees for fulfilment of third party's obligations;
  - acquisition of non-current assets;
  - conclusion of other transactions.

- to adopt decisions on participation or establishment of other legal entities;
- to adopt decisions on commencing activities of new nature or terminating the current activities of LTG Link;
- to approve the form of the employment contract of the Company's executive, conditions of remuneration and incentives;
- to approve the total amount of incentives to LTG Link employees for annual performance (in accordance with the Company's performance);
- to consider information on the Company's key operational risks and approval of the Company's plan of operational risk management;
- to consider information and reports on the Company's ongoing programmes;
- to analyse and assess other information on the most significant operational issues of the Company provided by the executive of LTG Link.

Office term of the Board – 25 February 2019 – 25 February 2023.

The Board of LTG Link has been composed in compliance with the effective legal regulation of the Railway Transport Code of the Republic of Lithuania, according to which only employees of the company group of vertical integration shall be elected members of collegial governing bodies of companies established by the public limited liability company Lietuvos Geležinkeliai (Article 24<sup>3</sup>(4)). In that regard, the Board of LTG Link consists of the employees of LTG Group.

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

Ten Board meetings took place during the reporting period.

## Composition of the company's board



### **MANTAS BARTUŠKA**

Chairman of the Board  
Appointed from 29/11/2019

#### Education

- University of Southern Denmark, Bachelor's degree in Management and Business Administration;
- Vilnius University, Bachelor's degree in Management and Business Administration;
- Cambridge University, Business School, Leadership Studies;
- Baltic Institute of Corporate Governance, study programme for board members.

#### Main employer, position held

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

#### Other positions held

- Chairman of the Board of UAB LTG Cargo, Geležinkelio g. 12, Vilnius, company code 304977594;
- Board Member of AB Klaipėdos Nafta, Burių g. 19, Klaipėda, company code 110648893.



### **LINAS BAUŽYS**

Board member  
Appointed from 25/02/2019

#### **Education**

- Šiauliai University, Bachelor's degree in Business Management;
- Klaipėda University, Master's degree in Transport Engineering;
- Baltic Institute of Corporate Governance, study programme for board members, study programme for chairmen of boards;
- ISM University of Management and Economics, Executive MBA.

#### **Main employer, position held**

- Chief Executive Officer of UAB LTG Link, Mindaugo g. 12, Vilnius, 305052228.

#### **Other positions held**

- Chairman of the Board of UAB Geležinkelio tiesimo centras, Trikampio g. 10, Lentvaris, Trakai district municipality, company code 181628163.



### **DAIVA PIVORIŪNIENĖ**

Board member  
Appointed from 29/11/2019  
(Also held the office of the Board member from  
25/02/2019 until 25/03/2019)

#### **Education**

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

#### **Main employer, position held**

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

#### **Other positions held**

- Director of UAB Gelsauga, Prūsų g. 1, Vilnius, company code 125825125 (until 31/10/2020);
- Director of UAB Saugos paslaugos, Prūsų g. 1, Vilnius, company code 305186992.



### **DOVILĖ ALEKSANDRAIČIENĖ**

Board member  
Appointed from 25/03/2019

#### **Education**

- Vilnius University, Bachelor's degree in Sociology;
- Vilnius University, Master's degree in Information Society;
- ISM University of Management and Economics, Executive Studies.

#### **Main employer, position held**

- Director of Business Development and Marketing Department of UAB LTG Link Verslo, Mindaugo g. 12, Vilnius, 305052228.



### **MANTAS DUBAUSKAS**

Board member  
Appointed from 29/11/2019

#### **Education**

- Vilnius Gediminas Technical University, Bachelor's degree in Business Management;
- Vytautas Magnus University, Master's degree in Business Management;
- Baltic Management Institute, International Business Management Programme for Executives.

#### **Main employer, position held**

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

### **Changes in the composition of the board during the reporting period**

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

## Information about meetings of the board, the audit and appointment committees and participation in them

Name, surname of a member	Board meetings
<b>Number of meetings in 2020</b> (including away days, early-voting in writing)	10
<b>MANTAS BARTUŠKA</b>	10
<b>MANTAS DUBAUSKAS</b>	10
<b>LINAS BAUŽYS</b>	10
<b>DAIVA PIVORIŪNIENĖ</b>	10
<b>DOVILĖ ALEKSANDRAVIČIENĖ</b>	10

## Most important decisions adopted in 2020

- Approval of the Company's annual report for the year 2019;
- Approval of the financial statements of the Company for the year 2019;
- Establishment of the Company's principal performance indicators for 2019 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 organizational structure of the Company;
- Adoption of a decision on development of the system of qualification assessment of passenger train suppliers.

**Chief Executive Officer (Head of the Company)** – is the sole executive body who is responsible for organization of day-to-day business of the company and manages it. The competence areas of the CEO are defined by the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company available on the Company's website

<https://www.litrail.lt/594>. The CEO is elected for a term of 5 years by the Board of the Company to which the CEO is accountable. The same person may be elected as the Chief Executive Officer no more than for two consecutive office terms. The first term of five years of the CEO of LTG Link started from 28 February 2019.

## Management of the company, changes thereof

<b>LINAS BAUŽYS</b>	Chief Executive Officer	Holds the position from 28 February 2019
<b>GEDIMINAS ŠEČKUS</b>	Director of Corporate Operations Department of the Company	Holds the position from 1 April 2019
<b>DOVILĖ ALEKSANDRAVIČIENĖ</b>	Director of Business Development and Marketing Department of the Company	Holds the position from 1 September 2019
<b>AURELIJUS BOLDINOVAS</b>	Director of Operations Department of the Company	Holds the position from 1 September 2019
<b>MANTAS GIEDRAITIS</b>	Director of Repairs Department of the Company	Held the position from 6 January until 13 November
<b>ANDRIUS KEBLYS</b>	Deputy Director of Repairs Department of the Company acting as Director of the Department	Held the position from 30 October 2019 until 5 January 2020, and from 13 November 2020 until 7 January 2021
<b>KĘSTUTIS JASIULEVIČIUS</b>	Director of Passenger Services Department of the Company	Holds the position from 18 November 2019
<b>VAIVA BUDINAITĖ</b>	Director of Passenger Station Department of the Company	Holds the position from 11 May 2020
<b>GIEDRĖ PETRONĖ</b>	Head of Division of Kaunas Region Stations of Passenger Station Department acting as Director of the Department	Held the position from 1 September 2019 until 10 May 2020

As at the end of the reporting period, members of the Board, the CEO, managers of the Company have submitted declarations on private interests, 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 managers of the Company 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 8,200 as at the end of the reporting period. The Company's Chief Executive Officer's basic monthly salary 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 in addition to the basic monthly salary. Each year, the Board of the Company approves the structure of annual goals of the Company, 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 an 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 2,460. 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 2,054.

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

# Strategy

In response to geographical and economic changes in the market of transport services, leading to changing trade trends and passenger flows, LTG company group plans its activity not only in the short-term perspective but also in the long-term one. Seeking for a stronger focus of the strategic lines and goals of the long-

term corporate strategy of LTG Group for 2018-2030 on specific activities managed by LTG company group, long-term strategies of individual business units of LTG have been prepared. One of them is the **long-term strategy of LTG Link until 2030** which is reviewed and improved on the annual basis.



## Mission

**We connect people and businesses through creating new culture of train travel.**



## Vision

**To become travelers' first choice appreciated for high-quality services, efficiency and management of activity.**

### Strategic operational directions:

1. **Trains** – newer trains and more efficient use thereof.  
It is planned to purchase up to 30 new trains in order to increase the share of traction of environmentally friendly train fleet and ensure the implementation of the rights and obligations of passengers provided for by the EU legislation. The market consultations have been completed, it was announced about the stage of drawing up the system for evaluation of suppliers' qualifications. It is planned that the investments will exceed EUR 200 million.
2. **Improvement of customer experience**  
Holistic management of customer experience and business solutions based on surveys. The main highlights of 2021: the set of customer service guidelines (the former customer service standard) and smart ticketing system. Customers will be able to purchase tickets through a mobile app, ticket machines in stations and on the substantially updated website.
3. **Stations** as attraction spots connecting people and businesses.  
The project implementation plan for the modernization of Vilnius railway station as an attraction spot was approved. The concepts of interior of the station are being prepared, storage facilities are being renewed.
4. **Development of additional services**  
Development of more comfortable travelling, additional services on trains, combined transport.
5. **"From door to door"**  
Implementation and development of a travel planning tool integrating different transport modes.
6. **First choice for travellers**  
Increasing visibility of LTG Link, strengthening the image. Adaptation of services to the principles of universal design. Promoting green transport.
7. **Efficient partnership with the state**  
Conclusion of the long-term Public Service Obligation Contract with the institution authorized by the Government of the Republic of Lithuania.

### Implementation of goals in 2020

In the end of 2019, the Company's Board approved the **Strategic Operational Plan of LTG Link**, in the beginning of 2020 it approved the **annual goals**, the indicators for measurement of achievement thereof and guidelines for achievement of goals connected with the strategic directions of operation. In consideration of the approved annual goals, **personal goals were set for employees of LTG Link**. In such manner, the Company's employees are involved in the process of implementation of the strategy by connecting the achievement of goals with the plans of career and education of employees, payment of incen-

tives for performance and review of the basic remuneration.

The global coronavirus (COVID-19) pandemic, which started from March 2020, had a significant impact on the Company's operations and achievement of the set goals. In the light 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, the target guidelines for the achievement of goals have been adjusted.

Main goals	Indicators for measurement of achievement of goals	Measuring units	Guidelines for achievement of goals for 2020	Indicators of achievement of goals in 2020
Increase the value created by passenger carrier	Revenue	EUR million	36-41	49.7
Increase flows of transported passengers	Number of passengers transported	Millions of passengers	2.4-2.8	3.3
	Turnover of passengers transported	Kilometers of millions of passengers	197-229	260
Increase efficiency of passenger transport activity	Customer satisfaction (CSAT)	%	>78	88
Implementation of the project of adoption of railway services according to universal design principles	Places for passengers with disabilities were installed on trains / staff was instructed for work with passengers with disabilities	-	31/12/2020	Stages of the project were implemented as planned

### Major projects implemented in 2020:

- Ticketing system.** Public procurement procedures are being carried out, the contract terms are being coordinated with suppliers, the contract is planned to be signed in the first quarter of 2021.
- Public Service Obligations Contract.** Seeking to plan development and long-term investments in a consistent manner, the aim has been set to sign a 10-year contract under which the state would order passenger transport services from the carrier. The principal contractual clauses for establishing the need for public services of passenger transportation by rail transport and (or) combined transportation of passengers on domestic routes, and calculation of payments for these services are coordinated with the Ministry of Transport and Communications, the Communications Regulatory Authority, the Lithuanian Transport Safety Administration, the Ministry of Finance. In August 2020, the Resolution of the Government of the Republic of Lithuania on the formula of compensation for losses and the criteria for selection of routes was approved. The PSO contract is expected to be signed in 2021.
- Business development.** The letter of intent was signed with the largest Polish carrier PKP Intercity for development of the joint route Vilnius-Warsaw. The Latvian carrier was presented with the idea of developing Vilnius-Riga route and the realization possibilities. LTG Link initiated a dialogue between the Ministry of Transport and Communications of Lithuania and the Ministry of Transport of Latvia on creation of a joint route, emphasizing reduction of CO<sub>2</sub>.
- Operational efficiency.** The technical requirements of the integrated resource planning and operational management system were prepared and the procurement procedures were completed, a contract was concluded in the beginning of 2021.
- Purchase of electric trains.** Market consultations with train manufacturers were organized, the model of management of the train fleet was prepared, the stage of development of the evaluation system of suppliers' qualification was prepared and announced.
- Introduction of the trade mark of LTG Link.** The trade mark of LTG Link was created, the campaign of introduction of the new trade mark was carried out, passengers started to be transported by trains marked with symbols of LTG Link.
- Implementation of the project for adaptation of railway services according to the principles of universal design.** On trains of LTG Link places for fixing wheelchairs were arranged, the main information signs and inscriptions are presented in Braille, training materials on services for passenger with various disabilities have been prepared for all LTG Link staff related to passenger service, preparations were made for implementation of the international initiative "Sunflower" for people with hidden disabilities in the activity of LTG Link. The Company's projects and initiatives, related to implementation of adaptation of railway services according to the principles of universal design in the Company's services were introduced in the quarterly meetings organized with representatives of organizations of people with disabilities and public authorities. On 15-17 May 2020, the virtual 48-hour hackathon "Accessibility in Mobility", organized by LTG Group, Transport Innovation Centre and Vilnius City Municipality, took place during which the participants searched for innovative solutions how to make travelling as comfortable as possible for people with individual needs with the help of smart technology. Five different teams, which sought for solutions and to contribute to increasing the mobility by busses and trains, tested their strength in the hackathon. Participants of different age, both students and representatives from companies, tested their strength in the event which took 48 hours. The following partners contributed to implementation of the hackathon: Lithuanian Disability Organizations Forum, Lithuanian Association of the Blind and Visually Impaired, Lithuanian Foundation for the Deaf, Ministry of Transport and Communications, Municipal Enterprise Susisiekimo paslaugos, Vilnius City Municipality, Govtech Lab (MITA initiative) and Vilnius Tech Park.

# Major events in 2020

## January

- **01/2020** The first stage of public procurement of acquisition of a new ticketing system by lease was successfully completed. The new system will allow to buy train tickets through a modern mobile app, on a new website or from ticket machines in stations.
- **01/01/2020** The Company joined the partners of the Family Card established by the Law on the Family Card. UAB LTG Link started to apply the discount of 20% to holders of the Family Card for trips on domestic train routes in Lithuania.

## February

- **12/02/2020** A project on the adaptation of the urban and railway service infrastructure for the disabled was discussed with the representatives of Lithuanian municipalities.

## March

- **16/03/2020** Due to the COVID-19 pandemic, the Government of the Republic of Lithuania established a quarantine regime in Lithuania. The State Emergency Operations Center, together with the Ministry of Transport and Communications, has established the quarantine measures for organizing and carrying out passenger transport by busses, trolleybuses and shuttle taxis on regular, special and charter journeys, local (urban and suburban) and long-distance routes, domestic passenger trains, international passenger ferries, transfer of passengers across the Curonian Lagoon to (from) the Curonian Spit and chargeable taxi transport of passengers by car. In addition, the right to leave and enter Lithuania was restricted.
- **17/03/2020** By the decision of the sole shareholder of the company AB Lietuvos Geležinkeliai, it was decided to reduce the authorized capital by EUR 12,647,000 by canceling 12,647 ordinary registered shares of the company with a nominal value of EUR 1,000 each.
- **18/03/2020** The Lithuanian citizens, stranded abroad due to suspended movement across borders, were brought from Frankfurt (Oder) (Germany) through Poland to Kaunas by a special train arranged by the Company together with foreign partners.
- **19/03/2020** The Russian railways stopped the traffic of transit trains from Russia to the Kaliningrad region.
- **21/03/2020 – 22/03/2020** Together with partners in Latvia, Ukraine and Belarus the Company arranged a special train Kiev-Minsk-Vilnius-Riga, which transported the Lithuanian citizens through the closed state borders from Ukraine to Lithuania and the Ukrainian citizens were transported to Ukraine from the Baltic States.
- **21/03/2020** Due to the reduced number of flights at Vilnius Airport, trains of Vilnius-Airport-Vilnius route were stopped.
- **29/03/2020** One-third (76 out of 226) of domestic train journeys were suspended due to a sharp drop in passenger flows, but the necessary long-distance connections for commuters, passengers going to medical facilities or grocery stores were maintained.
- **03/2020** During March a number of preventive measures was taken on trains to control the spread of coronavirus: a limited number of passengers on local trains, ensuring that passengers sit at a safe distance from each other. Ticket sales on trains were temporarily suspended, passengers could buy them online and at the box offices (payment was only possible with bank cards, cash was temporarily not accepted). Sale of food on trains was also suspended.

## April

- **08/04/2020** In addition, 30 local train journeys were suspended, maintaining the necessary interurban connections.
- **08/04/2020** Stricter access conditions for trains: ticket checks started before boarding the train (at 10 stations), passengers had to wear a medical mask, scarf or sleeve.
- **24/04/2020** Updates to the service of shipment by train. The possibility to purchase a travel ticket on the train by paying with a bank card has been also restored. Preventive protection measures remained in force for both staff and passengers.

## May

- **11/05/2020** Having assessed the data of passenger flows and taking into account the easing of quarantine conditions in the country, the Company started to resume the domestic train journeys. 17 journeys were resumed.
- **21/05/2020** Following the assessment of passenger flows, the communicated need for increased traffic and the impact of seasonality on certain routes, another 13 domestic train journeys were resumed.
- **28/05/2020** Along with easing of the prevention of corona virus, the possibility to pay for tickets at box offices and trains in cash has been restored.

## June

- **05/06/2020** On trains running on the route Vilnius–Klaipėda–Vilnius, an updated range of menus has been provided to passengers.
- **15/06/2020** Taking into consideration wishes of passengers and flows of travelers, the schedule of trains running on the route Šiauliai Panevėžys–Rokiškis–Šiauliai was renewed.
- **26/06/2020** Having assessed the consistently increasing flows of passengers and wishes of travelers, another 15 domestic train journeys were resumed, in 7 of them the train schedule was changed.

## July

- **20/07/2020** The Articles of Association of the Company, where the name of the Company was changed and the principles of activity of the Company in the company group AB Lietuvos Geležinkeliai were specified, were amended.
- **07/2020** The authorized capital of the Company was reduced. The authorized capital decreased from EUR 156,237 thousand to EUR 143,590 thousand.
- **01/072020** A part of transit trains started running again.
- **03/072020** A new trade mark of the Company LTG Link and the visual identity were introduced. On 21 July, the new name of the company UAB LTG Link was registered.
- **14/07/2020** The initiation of market consultations on purchase of new trains was announced. Manufacturers will be invited to present innovations, share insights on new rolling stock, advise on refining technical specifications. Based on this information, a public procurement was formed and announced.
- **15/07/2020** It was announced about restoration of journeys to Poland on the route Kaunas–Białystok–Kaunas as of 31 July. This route was suspended after the quarantine had been announced in the country and the borders had been closed.
- **24/07/2020** The fourth round of restoration of domestic journeys, suspended during the quarantine, was announced. The journeys are gradually resumed from 11 May.
- **31/07/2020** The Resolution of Government that from 1 August in public indoor spaces and public transport masks must be worn again was announced. Right after the Government's resolution this message was communicated to passengers. They must cover their faces with masks, scarves or sleeves when traveling by train, as well as when present at train stations.

## August

- **08/2020** Installation of updated Wi-Fi equipment was completed on trains, all trains were equipped with external defibrillators (AID).
- **10/08/2020** Having taken into account the Government's decision to include Poland into the list of countries the arrivals whereof are subject to compulsory isolation, the Company suspended the route of Kaunas-Bialystok-Kaunas.
- **11/08/2020** The Company announced the initiation of public procurements for acquisition of the integrated system of resource planning and operational management. The new system will allow better planning of activities and be at the forefront of various, even complex situations, a more rapid management of incidents.

## September

- **17/09/2020** With the participation of the Prime Ministers of Poland and Lithuania, LTG Link signed a letter of intent with the Polish Railway Passenger Transport Company PKP Intercity, which establishes the commitment of the countries to connect Vilnius and Warsaw as soon as in the second half of 2021 with a comfortable train that meets the needs of modern travelers.
- **17/09/2020** A part of LTG Link employees started learning the guest language in special courses.

## October

- **10/2020** After a successful trial of sale of food and beverages on trains on the route Vilnius-Kaunas-Vilnius, the regular trade began.
- **26/10/2020** After the introduction of local quarantines in the Lithuanian municipalities, travel by train also changed - we started to apply the chess seating principle, keeping a distance of one meter among passengers; distances among passengers are also maintained at train stations – in the waiting areas and at box offices.

## November

- **09/11/2020** After the announcement of full-scale quarantine in Lithuania and the decrease in passenger flows by 50%, we optimized 25 train journeys and changed the train schedule in another 14; from November 20 we temporarily suspended journeys of the route Kaunas-Šiauliai-Kaunas.
- **11/2020** Surveys of NPS and CSAT were completed:
  1. In the NPS survey, showing the acceptance of customers, we recorded a change of 10%: from 58% to 68%. Taking into account the situation of corona virus, the goal was to maintain the NPS level of the previous year, however we were well above the level.
  2. In CSAT survey, showing the satisfaction of customers, our evaluation also went up from 7.9 to 8.8 points, which is a very high rating allowing us to compare ourselves to such global trade marks as Netflix.
- **18/11/2020** The company met with the Mirror group, initiated by the European Railway Association CER, to consult the International Rail Passengers Platform set up by the EU countries to promote international rail passenger transport and integrate it into the European green course.

## December

- **03/12/2020** From December 13 the new annual timetables entered into force. They were improved according to customer preferences, by careful analysis of travel flows and modeling of future forecasts.
- **21/12/2020** Following the tightening of quarantine conditions in the country and the introduction of restrictions on movement between municipalities, LTG Link temporarily suspended 32 train journeys, and the train schedule was changed for another 5 journeys. The Company maintains the necessary inter-urban communication.
- **23/12/2020** The project of renewal of train fleet: LTG Link announced the first stage of public procurements – the requirements for suppliers' qualification were presented to the market. The ambitious plan of the Company is to acquire the most environmentally friendly electric trains, which could run on non-electrified sections powered by batteries.

## Events after the reporting period

### 2021

#### January

- **01/2021** The application of discount of the Family Card was maintained for the year 2021.
- **01/01/2021** LTG Link joined the POLA programme.
- **07/01/2021** Darius Sebeckis was appointed to the position of the Head of the Repair Department.
- **18/02//2021** A purchase agreement was concluded with the German company IVU Traffic Technologies on the basis whereof the operation of LTG Link is digitized, by implementing the integrated system of resource planning and operational management.

### Impact of COVID-19 on the company's activity

This year, a number of sectors in the country were affected by the ongoing global pandemic of corona virus (COVID-19). In March-June and November-December the quarantine conditions were in force in Lithuania, interurban movement was controlled, the number of passengers on trains of domestic routes was restricted by ensuring that passengers sat at a safe distance from each other, also the sale of food on trains was suspended. The journeys of international trains were suspended from the middle of March, only 6 transit journeys were resumed by the end of the year. In addition the Company ensured disinfection of trains and personal safety equipment for passengers and staff. This was reflected in the Company's activity and annual performance.

In 2020, the Company's activity plans were reviewed, updated activity forecasts were prepared, taking into consideration the impact of COVID-19 on the activity and planned results. Accordingly, the Company prepared cost optimization plans, the payment control was enhanced, the possibility of additional funding from the Government of the Republic of Lithuania was assessed and also additional borrowing possibilities within LTG group, seeking to mitigate the impact of the corona virus pandemic. These plans were introduced to the board, their implementation is being monitored by immediately responding to a changing situation. Also, the Company carried out a test for impairment of non-current assets after which no indications of impairment were detected. LTG Link assesses the situation in a positive manner and does not change its long-term strategic directions and goals, however it reviews the measures which should ensure the achievement of these goals.

# Overview of the key performance indicators

Indicators	Measurement unit	2019*	2020
Total passenger transport	Millions of passengers	1.7	3.3
Domestic transport	Millions of passengers	1.4	3.17
International transport	Millions of passengers	0.3	0.17
Passenger turnover	Km for millions of passengers	144.9	260.0
Domestic transport	Km for millions of passengers	105	234.1
International transport	Km for millions of passengers	39.9	25.9
Average losses of transportation of one passenger	km	83.6	77.9
A share of tickets sold without human intervention	%	25	32
Punctuality of train arrivals	%	95.8	96.6
Evaluation of passenger transportation services according to CSAT indicator	%	79	88

\*The data of September-December of 2019 is presented.

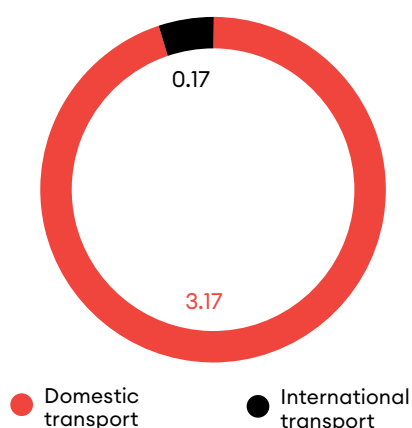
## Passenger transport by rail on domestic routes

In 2020, transportation on domestic routes accounted for 3.2 million passengers. In March-April 2020, due to COVID-19, almost half (106 out of 226) of domestic train journeys was suspended temporarily, and from 9 November, due to the second wave of COVID-19, 25 train journeys were optimized, frequency was changed for another 14 train journeys. In the

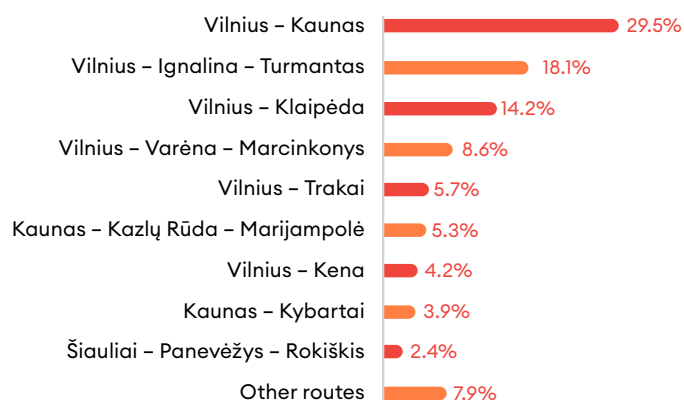
end of 2020, 103 out of 226 domestic train journeys were not resumed.

The route Vilnius–Kaunas remains among the most popular ones (29.5% of all domestic transportations), which was taken by 0.9 million passengers in 2020.

Volumes of passenger transportation, millions of passengers



Structure of domestic transportations in 2020, %



The number of tickets sold on the website <http://www.traukiniobilietas.lt> accounted for 31.6% in 2020.

## Passenger transport by rail on international routes

In 2020, transportation on international routes accounted for 0.2 million passengers. During the analyzed period, 0.1 million passengers were transported by transit trains through the territory of the Republic of Lithuania. Transit trains transport passengers to and from Kaliningrad to Russia.

By using the trains formed by the Company and other countries

passengers have a possibility to take international routes Vilnius–Minsk, Vilnius–Daugavpils, Kaunas–Bialystok, Kiev–Minsk–Vilnius–Riga. Due to the pandemic of corona virus (COVID-19), from 16 March 2020, traffic of international trains was suspended, whereas from 6 April traffic of transit trains was suspended. In the end of 2020, 26 out of 32 international train journeys were not resumed.

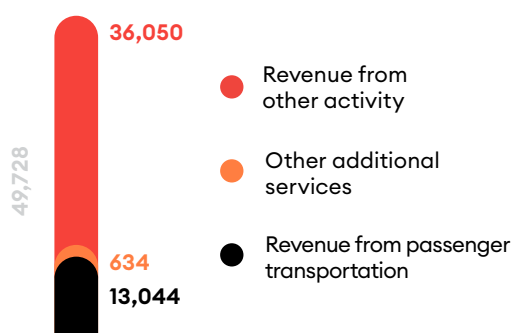
# Analysis of financial and performance results

## Operating results

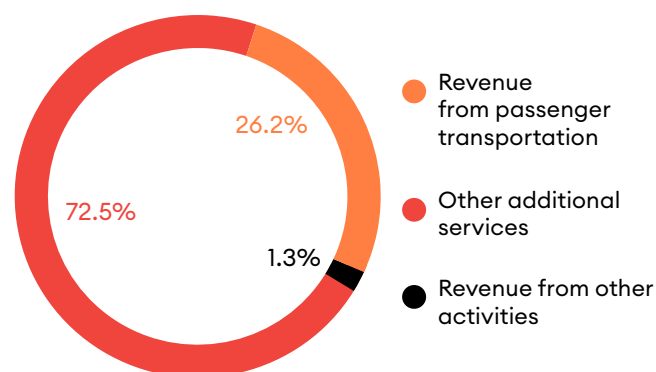
### Sales revenue

- **Revenue from passenger transport** in 2020 amounted to EUR 13 million. In the structure of the Company's revenue it accounted for 26.2% of generated revenue. Revenue generated from passenger transport on domestic routes accounts for 20.0% while revenue from the international routes accounts for 5.5%.
- The Company also provides **other additional services**: luggage storage, carriage of small parcels, issue of travel tickets, advertising services, sells travel tickets and food on trains. During the analyzed period, the revenue generated from this group of services amounted to EUR 0.6 million.
- **Revenue from other activity** amounted to EUR 36.0 million. Grants of EUR 35.98 million received from the state for compensation of losses, incurred due to transportation of passengers on domestic routes, accounted for the major part of this revenue.

Company's revenue in 2020, EUR thousand



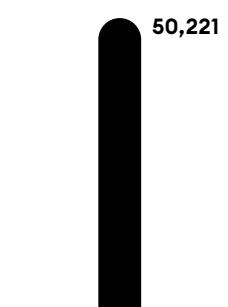
Structure of the Company's revenue in 2020, %



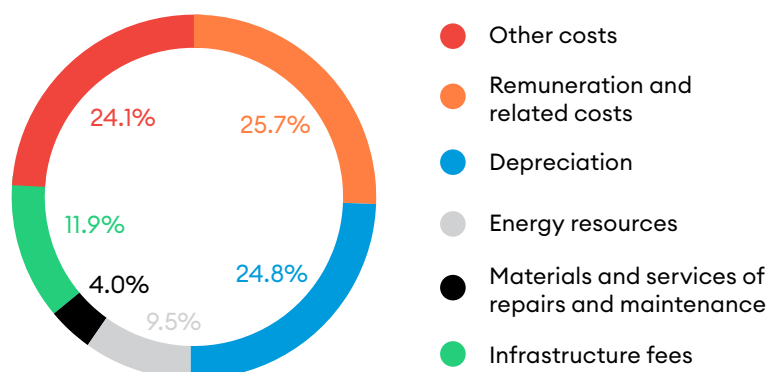
### Costs

- The Company's costs related to performance of the main and other activities amounted to EUR 50.2 million in 2020.
- Costs related to remuneration (25.7%), depreciation (24.8%), infrastructure fees (11.9%) and energy resources (9.5%) accounted for the major part of these costs.

Company's costs in 2020, EUR thousand



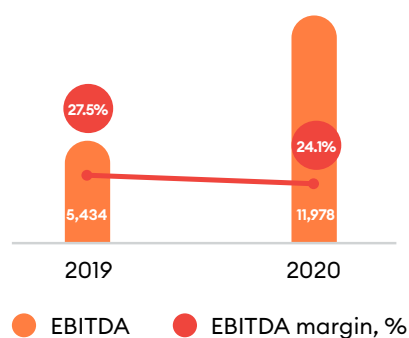
Structure of the Company's costs in 2020, %



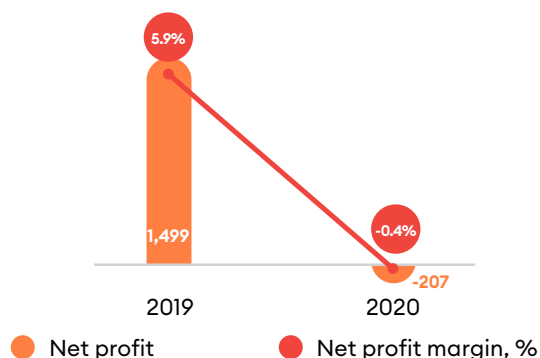
## Operating results

- In 2020, the Company's EBITDA was EUR 12.0 million (in 2019: EUR 5.4 million), and, accordingly, the EBITDA margin was 24.1 per cent (in 2019: 27.5%).
- In 2020, the Company's net loss amounted to EUR 0.2 million (in 2019: EUR 1.2 million), and, accordingly, the margin of net profit (loss) was -0.4%. (in 2019: 5.9%).

Company's EBITDA, EUR thousand



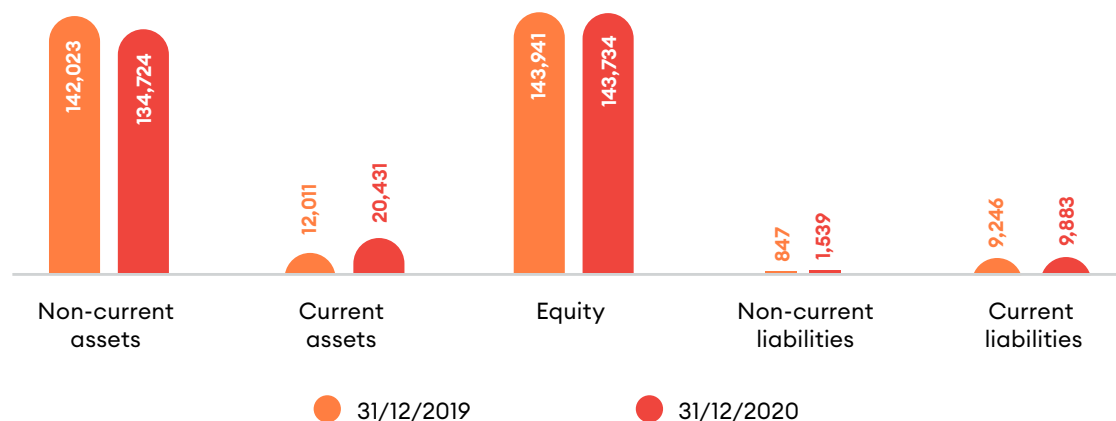
Company's net profit, EUR thousand



## Balance sheet changes

- During 2020, non-current assets were reduced by depreciation costs (EUR 12.5 million) and increased by investments (EUR 3.95 million), in comparison with 2019, current assets increased as a result of the increased balance of cash and cash equivalents due to the additional grant received (EUR 9.2 million).
- The amount of equity almost did not change during the year, this was determined by the reduced authorized capital and increased retained earnings.
- Non-current liabilities increased due to the increase in lease liabilities, whereas current liabilities were increased due to the increased trade and other payables, and lease liabilities. The Company does not have long-term debts to credit institutions.

Changes in the main balance sheet items, EUR thousand



## Key financial indicators\*

	Measuring units	2019**	2020
Sales revenue	EUR thousand	9,155	13,678
Other activity revenue	EUR thousand	10,571	36,050
Grant allocated by the state for compensation of losses related to the activity of passenger	EUR thousand	10,402	35,979
Total revenue	EUR thousand	19,726	49,728
Expenses	EUR thousand	18,362	50,221
EBITDA	EUR thousand	5,434	11,978
EBITDA margin	%	27.5%	24.1%
EBIT	EUR thousand	1,365	-494
EBIT margin	%	6.9%	-1.0%
Net profit	EUR thousand	1,163	-207
Net profit margin	%	5.9%	-0.4%
		<b>31/12/2019**</b>	<b>31/12/2020</b>
Non-current assets	EUR thousand	142,023	134,724
Current assets	EUR thousand	12,011	20,431
Total assets	EUR thousand	154,034	155,155
Equity	EUR thousand	143,941	143,734
Financial debt	EUR thousand	275	1,017
Net debt	EUR thousand	-7,013	-16,373
Return on Equity capital (ROE)	%	1.6%	-0.1%
Return on Assets (ROA)	%	1.5%	-0.1%
Return on Investment (ROI)	%	1.6%	-0.1%
Financial debt / EBITDA	times	0.1	0.1
Financial debt / Equity	%	0.002	0.007
Net debt / EBITDA	times	-1.3	-1.4
Equity ratio	%	93.4%	92.6%
Asset turnover ratio	times	0.1	0.3
Quick ratio	times	1.2	2.0
Total liquidity ratio	times	1.3	2.1

\* For definitions of the indicators see page 41 of the Report.

\*\* Data sample – September-December of 2019.

## Financing of the company

In the year 2020, the Company did not have any financial liabilities to credit institutions.

To balance the working capital, in 2020 the Company used the cash pool of LTG Group. The agreement on the Group cash pool is effective until 31 December 2021. The terms of the agreement are in line with normal market conditions.

## Dividend policies

The payment of dividends and the amount of profit contributions of state-owned enterprises is regulated by Resolution No. 20 of the Government of the Republic of Lithuania dated 14 January 1997 and its amendments ([https://www.e-tar.lt/portal/lt/legalactedititions/tar\\_b8e139a37ff0?faces-redirect=true](https://www.e-tar.lt/portal/lt/legalactedititions/tar_b8e139a37ff0?faces-redirect=true)).

Allocation and payment of dividends of the Group companies are regulated by the Dividend Policy of LTG group, prepared in consideration of provisions of the Resolution of the Government of the Republic of Lithuania.

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;

ROE of the company (%)	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

- The Company carries out or participates in carrying out an economic project recognized 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 LTG Group;
- The Company's equity after payment of dividends would become less than the amount of authorized capital, compulsory reserve, revaluation reserve and reserve for acquiring own shares of LTG Group company;
- The Company is insolvent or would become such after the payment of dividends.

In 2020, UAB LTG Link did not pay out dividends for 2019. The Company had not paid out dividends in the previous year.

## Special obligations

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

**Name of the special obligation** – public services of passenger transport by rail.

**Purpose of the special obligation** – to ensure public services of passenger transport by rail and (or) public combined passenger transport on domestic routes.

**Function** is carried out under the contract for use of the state budget funds allocated for implementation of the programme “Ensuring Rail Transport”, concluded between the Ministry of Transport and Communications and UAB LTG Link on a yearly basis, the subject matter whereof, among other obligations, is fulfilment of the obligation to provide public services. The state budget funds are allocated for fulfilment of the special obligation.

**Legislation by which the SOE is vested with fulfilment of this special obligation** – Article 12 of the Railway Transport Code.

**Legislation laying down the conditions for the fulfilment of this special obligation** – Article 12 of the Railway Transport Code Regulation (EC) No 1370/2007 of the European Parliament

and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) No 1191/69 and 1107/70 with last amendments made by Regulation (EU) 2016/2338 of the European Parliament and of the Council of 14 December 2016 amending Regulation (EC) No 1370/2007 concerning the opening of the market for domestic passenger transport services by rail, also Resolution No 944 of the Government of the Republic of Lithuania of 26 August 2020 “Regarding amendment of Resolution No 716 of the Government of the Republic of Lithuania of 7 June 2010 “Regarding approval of the description of procedure for compensation of losses incurred in fulfilment of the obligation of public services and amendment of Resolution No 1036 of the Government of the Republic of Lithuania of 19 August 2004 “Regarding delegation of powers””.

**Legislation regulating pricing** – Article 34(1) of the Railway Transport Code.

**The main KPI to be achieved under the obligation:**

- The number of passengers transported on domestic routes (million) – **3.2 million (2020), 3.3 million (2021)**.
- The number of passengers transported under preferential conditions (million) – **0.8 million (2020), 0.9 million (2021)**.

### Results of fulfilment of special obligations in 2020: Public services of passenger transport by rail

	2019*	2020
<b>Revenue from special obligation, EUR thousand</b>	4,431	9,963
<b>Grant, EUR thousand</b>	10,402	35,979
<b>Costs of special obligation, EUR thousand</b>	9,569	44,954
<b>Profit of special obligation before tax including grant, EUR thousand</b>	706	988
<b>Profit of special obligation before tax excluding grant, EUR thousand</b>	-9,696	-34,991
	<b>31/12/2019</b>	<b>31/12/2020</b>
<b>Assets, EUR thousand</b>	126,531	128,186
<b>Liabilities, EUR thousand</b>	7,572	10,220
<b>Equity, EUR thousand</b>	118,959	117,966

\*Data sample of September-December 2019.

## Investments

---

In 2020, the investments of LTG Link amounted to EUR 3.95 million. All investments (100%) were funded by using the Company's own funds and were aimed at capital repairs of passenger rolling-stock.

### Major investment projects implemented in 2020 and works completed

---

#### Renewal of non-current assets

In 2020, **the programmes of repair of rolling stock fleet** were implemented: 31 passenger rolling stocks were repaired.

#### Projects of development and modernization

**The project of Implementation of Smart Ticketing System** is being carried out: in 2020, public procurement procedures took place, it is planned to conclude the contract in the beginning of 2021. Having implemented the new ticket sale system, train passengers will be able to buy tickets on an up-to-date mobile app, new website and ticket machines located at stations. The ticketing system will be adapted to all customers, including those with disabilities. This system will increase attractiveness of passenger rail transport and, also will allow decreasing costs of LTG Link.

**The process of acquisition of new passenger trains** was commenced. The company plans to purchase the most environmentally friendly electric trains instead of the old diesel trains, some of which would be equipped with batteries, which would ensure ecological transportation of passengers on non-electrified sections. Trains will be adapted to the needs of the disabled. In 2020, the market consultations were performed and the first stage of public procurement was announced (requirements for supplier qualification), signing of the contract with the value of over EUR 200 million is expected to take place in 2021. The first new trains are expected to run in 2024-2025.

During 2020, the technical requirements for the integrated system of resource planning and operational management were prepared and the procurement procedures were completed. In 2021, the purchase agreement was signed with the German company IVU Traffic Technologies. The integrated system of resource planning and operational management will allow the automation of a significant part of day-to-day works: planning of route and train schedules, allocation of trains, preparation of schedules for service personnel etc.

## Employees

In order to succeed in implementation of its strategy, efficiently conduct daily operation, create competitive advantage and adopt to changing business needs, the Company follows the principles of personnel management based on the best practices of personnel management. Focus on the employees makes a strategic direction, and is primarily implemented through the development of the corporate culture.

The entire LTG Group strives for a high-performance culture based on the existing values of LTG:



**We are ambitious**



**We work for our clients**



**We respect each other**



**We act with integrity**



**We are responsible**

### Initiatives and material events in 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 per cent is guaranteed to employees.
- In fostering a change in organizational culture, in February 2020 for the first time in the history of LTG Group an extended survey of the factors influencing the organizational 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 at 85 per cent. During the survey, the indicators of employees' involvement, satisfaction, loyalty were assessed, as well as other highly important areas influencing the organizational culture, such as: cooperation, career and education, organizational 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 organizational 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.
- An internal survey of administration employees' well-being at work was conducted (80% of respondents participated), covering issues related to working remotely and expectations for the new office in 2021, as well as measuring the indicator of employees' satisfaction and loyalty - NPS. The recorded NPS of employees amounted to 58%. The well-being indicator reached as much as 87%.
- Internal communication was actively strengthened. An initiative has been launched: presentations of quarterly results during which all employees of the company are presented with performance results, projects, challenges, future plans, also the best employees of the quarter are announced. The Leaders' Day initiative, which started in the previous year and unites all managers of the Company into a joint event of performance review and development of leadership competency, was successfully moved to a remote format that ensures employees' safety. A weekly newsletter has been launched for the employees of the Passenger Service Department, and all employees of the company receive the Company's Manager's letter by e-mail once a week and, recently, in a video format as well.
- Active digitization of documents and processes took place, mobile devices were provided to conductor controllers and train drivers. These steps made it easier to share information, give up paper documents, perform daily work much more efficiently, and improve qualification. As early as at the beginning of the year smartphones were distributed to 100% of conductors for smoother operation and communication, and at the end of the year the same devices reached the majority (80%) of train drivers.
- In order to ensure the quality of work performed, motivate employees to pursue higher qualifications by strengthening their knowledge and developing skills, the procedure for awarding the qualification class of conductors-controllers was approved, an interim evaluation was performed, and the plans of competence development were developed for employees who need improvement most of all. The procedure for awarding the qualification class of train drivers was also approved, on the basis of which the assessment for results of 2020 started in January 2021.

As at 31 December 2020, the number of employees in the Company was 675. As compared to the data as at 31 December 2019, the number of employees in the Company decreased by 35 employees or by 5%.

The average monthly salary changed from EUR 1,571 to EUR 1,661 as compared to the year 2019. The increase of the average salary was mainly due to the revision of the remuneration which took place in April 2020.

The total remuneration fund amounted to EUR 13.2 million. In addition, in April 2020, the annual incentives for performance in the amount of EUR 0.53 million were paid to the Company's employees as well as to the employees of other companies of LTG Group.

### Number of employees of the company and an average salary

Function groups	31/12/2019**		31/12/2020	
	Actual number of employees as of the end of the period	Average salary, EUR	Actual number of employees as of the end of the period	Average salary, EUR
CEO*	1	8,200	1	8,200
High-level executives*	3	5,387	4	5,173
Senior executives and specialists in exceptional fields	7	3,744	8	3,811
Middle-level managers and individual experts	24	2,536	33	2,583
Team leaders and experienced specialists	90	1,790	104	1,824
Specialists and experienced operational/ service staff	244	1,775	288	1,840
Operational/service staff, qualified workers	341	1,172	237	1,235
<b>Total</b>	<b>710</b>	<b>1,571</b>	<b>675</b>	<b>1,661</b>

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

\*\* data of UAB LTG Link of September-December 2019 was presented.

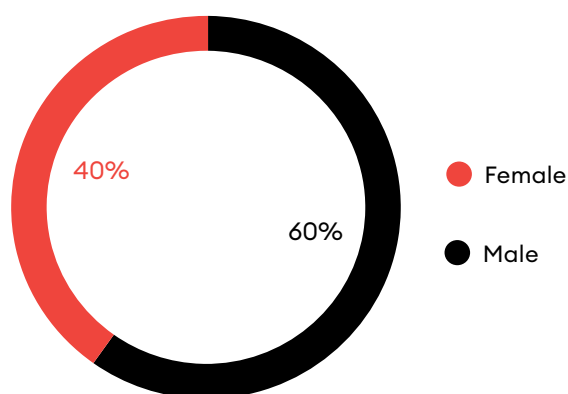
*In 2020, when corporate levels of functions were introduced, the number of employees and the average salary are disclosed by groups of corporate levels of functions. The data of the previous periods was recalculated according to the updated methodology.*

The monthly remuneration set for the Company's CEO of the Company as at 31 December 2020 was EUR 8,200, and the average actual salary, taking into account the annual incentive for performance, amounted to EUR 10,264 in 2020. The average monthly salary of high level executives established in their employment contracts as at 31 December 2020 amounted

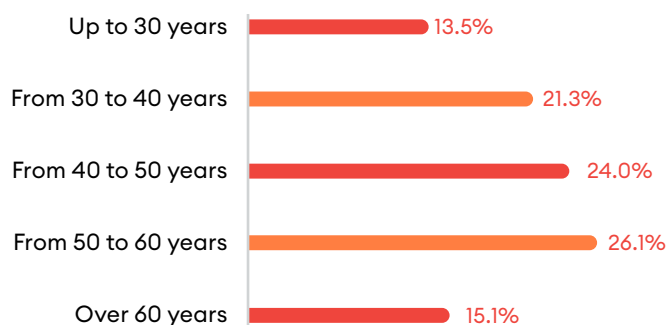
to EUR 5,173, and the average actual salary of this group of employees, taking into account the annual incentive, in 2020 amounted to EUR 5,849.

The charts below show distribution of employees by age, gender, length of service and education:

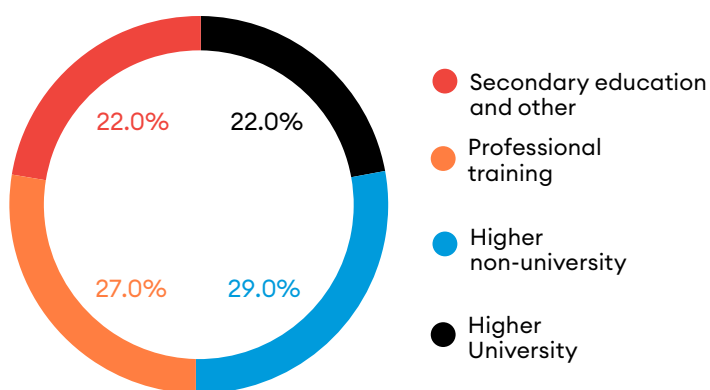
**Distribution of employees by gender, %**



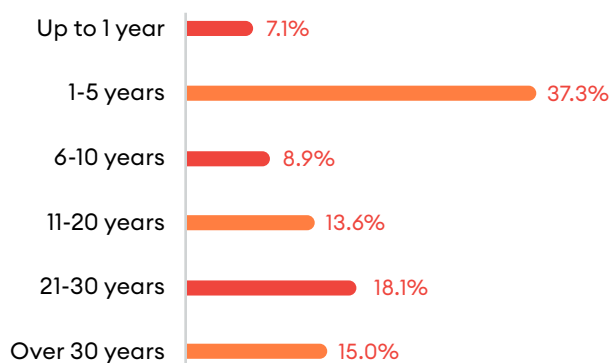
**Distribution of employees by age groups, %**



**Distribution of employees by education, %**



**Distribution of employees by length of service, %**



Age group	Average length of service, years
Up to 30 years	2.6
From 30 to 40 years	6.1
From 40 to 50 years	13.8
From 50 to 60 years	18.6
Over 60 years	23.6
<b>Average length of service</b>	<b>13.4</b>

## Social partnership

Seeking to strengthen the Company's social dialogue with representatives of employees and implementing the provisions of industry collective agreement, LTG company group organized 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 position, 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 measures, 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 operational efficiency

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 periodic 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.

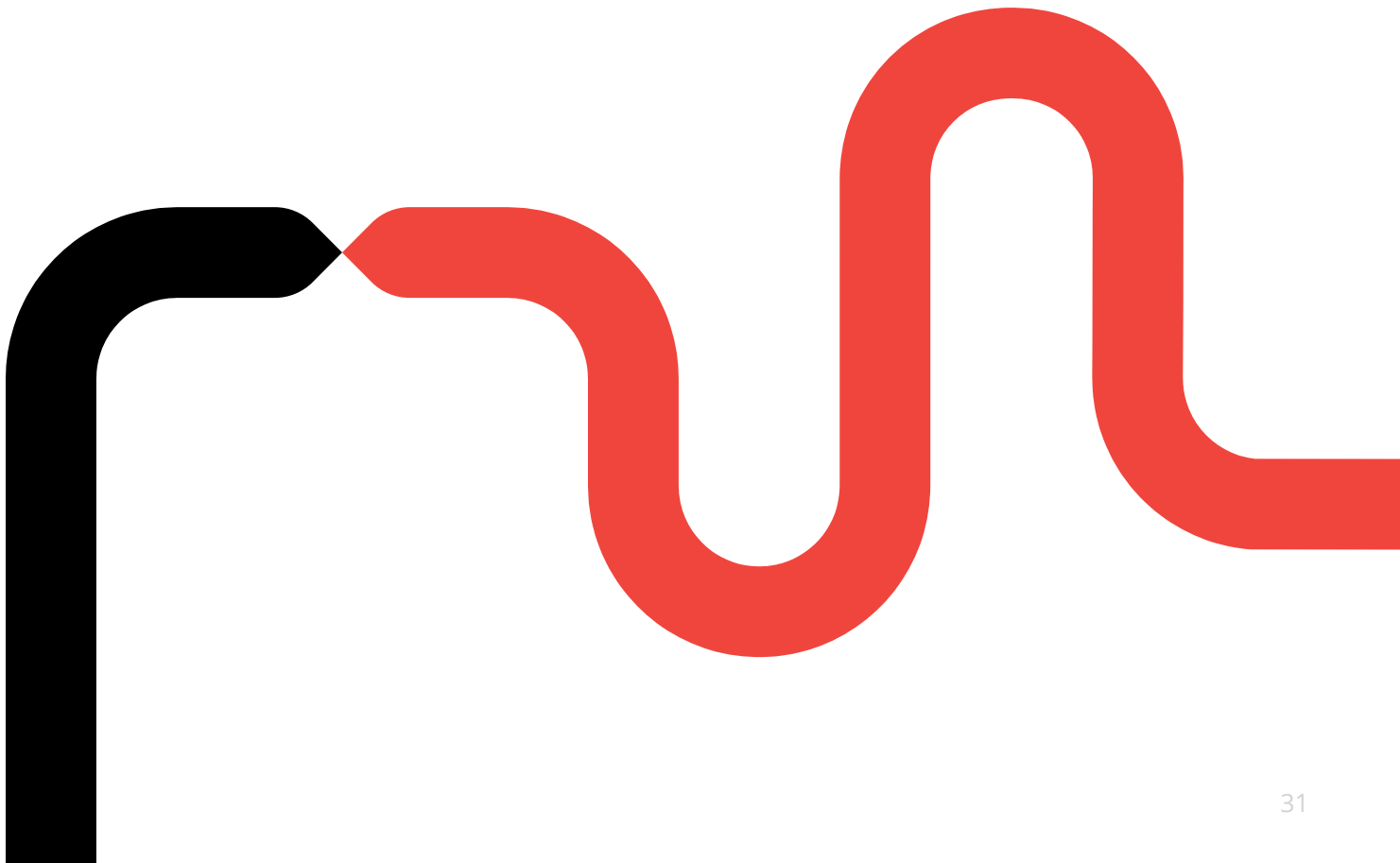
## Trainings and competence development

To encourage the employees to use their potential and career opportunities to full extent, LTG Link promotes continuous professional and personal improvement of its staff. The Company prioritises self-education, learning at workplace, internal trainings. Internal trainings and periodic certifications are organized 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, 396 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 and regulations of the European Union), 390 employees were trained.

Strengthening of leadership is one of the priority axes of 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 Link. In organization much attention is given to the culture of feedback. For the third year in 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, 29 managers of LTG Link participated in the feedback survey.

This year, the company's employees were offered webinars focused on remote work, which helped managers and employees to adapt more easily to the changed principles of work. Also trainings on personal efficiency at work covered topics of time planning, creativity at work, communication. We strengthened not only professional competencies but also competencies of personal efficiency, which included organizational skills, emotional intelligence, stress management, and psychological resilience. The latter topic was particularly important as for many the working conditions changed fundamentally and workers undergo stress more frequently.



# Risks and their management

LTG Link operates and continuously improves the **unified risk management system of the group of entities**. It is defined in the risk management policy of LTG company group developed taking into account the international ISO 31000 and COSO ERM 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 company group. Vision is an effective risk management system that helps maintain and increase the value of LTG company group.

**In practice, the risk management policy guidelines are followed according to the 3-line defense model.** According to it: Level 1 risk management activities are carried out by the companies of LTG group and the structural units of LTG administration, which identifies, assesses and manages risks. Level 2 risk management activities are performed by LTG Risk Management Division, which performs the risk management coordination and control function in LTG company group. This department develops and improves the risk management system of LTG company group, performs monitoring; the Level 3 risk management activities are performed by the LTG Internal Audit Division, 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.

**The level of risks in LTG company group 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 LTG company group's ability to properly use these changes in its operations or to prepare for them. Strategic risks are relevant to the majority of companies of LTG group and can have a direct impact on the achievement of the goals set in the strategy of LTG company group or companies of LTG company group;

**Operational risks** are possible events or circumstances that may affect the operations of LTG company group or the objectives pursued by companies of LTG group and the structural units of administration of LTG, may endanger the safety and health of people, the assets of LTG company 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 company group's activity with LTG company group's and external legal requirements.

Taking into account the history, specificity and current context of activity of LTG Link, the main risks, relevant in the year 2020, are identified and presented below.

Name of the risk	Risk level	Description of the risk and its impact	Main risk management measures
Decreased passenger flows due to the COVID-19 pandemic	High	<ul style="list-style-type: none"> <li>Financial losses;</li> <li>Failure in achieving the annual goals</li> </ul>	<ul style="list-style-type: none"> <li>Optimization of routes;</li> <li>Ongoing implementation of additional safety measures in stations and on trains;</li> <li>Revision of internal processes.</li> </ul>
Lack of financial resources for implementation of strategic initiatives under normal and pandemic conditions	High	The risk of lack of financial resources for implementation of strategic initiatives exists in the activity of LTG Link. There exists a risk that sustainable and long-term funding is not secured for fulfilment of special obligations entrusted by the decision of the state. The impact of the pandemic on the number of train routes, passenger flows.	<ul style="list-style-type: none"> <li>Conclusion of the long-term Public Service Obligation with the Government.</li> <li>Consistent creation of the national, long-term strategy for transport development;</li> <li>Improving efficiency of activity;</li> <li>Grants allocated by the Government of the Republic of Lithuania and a possibility to borrow within the Group.</li> </ul>

# Information on the compliance with the guidelines on the transparency

In disclosing the required information in annual and interim reports and on its website <https://www.litrail.lt/594>, the Company follows the requirements of the Description of the Guidelines for Ensuring Transparency of State-Owned Enterprises approved by Resolution No 1052 of 14 July 2010 of the Government of the Republic of Lithuania (the Description).

## Structured information on compliance with the transparency guidelines

Point of Description	Description provision	Yes/No
Disclosure of the Company's information		
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, reorganization (indicate the way of reorganization), 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 authorized 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;	Yes
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;	
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
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

Point of Description	Description provision	Yes/No
Disclosure of the Company's information		
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 authorized capital, and consolidated annual reports.	Structure of LTG company group is disclosed on the website of LTG. LTG Link does not have subsidiaries
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.	LTG Link is not a member of other legal entities
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:	-
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
17.5.	The fulfilment of the specific obligations;	Yes
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 III of the Description, including the information on how they are being implemented, what provisions have not been complied with and why.	Yes

Point of Description	Description provision	Yes/No
<b>Preparation of sets of financial statements and reports</b>		
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.	Taip
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.	Taip
20.	Other information not specified in the Description may be provided in an annual report of a state-owned enterprise.	Taip
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 <i>mutatis mutandis</i> .	LTG Link is not a member of other legal entities
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

## Audit information

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 statements of UAB LTG Link, prepared as to International Financial Reporting Standards, adopted in the EU, for the year 2020–2022, was won by KPMG Baltics, UAB. The candidacy of auditors was confirmed by the LTG Audit Committee, it was approved by the Board of

LTG and the confirmation of the shareholder was obtained. The contract for audit services was signed on 23 June 2020.

The fee for the audit of the financial statements for the year 2020 established to the audit firm was EUR 36 thousand (without VAT).

During the reporting period, the auditor provided additional financial statement translation services to the Company.

# Corporate social responsibility report

## Occupational safety and health

- The main objectives in ensuring the occupational safety and health in UAB LTG Link 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 incidents.
- Seeking to develop independent safety culture in the group of Lietuvos Geležinkeliai the activity is standardized and organized by applying the **PACI elements (plan, act, check, improve)**, in addition by developing leadership of each employee, ensuring social dialogue and 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** Instrukcijų ir teisės aktų atnaujinimas

**04** OHS digitalization

**05** Occupational risk assessment, management of psychosocial risks

**06** Taking care of worker's health

- Seeking to ensure **competence** of employees in safe performance of works delegated to them, the matrix of competence management has been prepared and updated, which includes trainings necessary for the position regarding matters of occupational safety and health. In 2020, 7 remote training of occupational safety and health programmes (compulsory first aid, manual handling of loads, work at height, occupational safety and health of heads of departments, employee representatives etc.) were developed, programme tests Moodle were created.
- In order to ensure the employees' qualification for performance of works involving high risk, the process of **practical skills in the work place (traineeship)** and the matrix, which establishes minimum time limits for acquisition of practical skills, have been prepared.
- All employees are involved in **Safety days** which take place on the first day of each month (regarding competences for safe work, sobriety prevention, personal protective equipment at work, recommendations during the COVID-19 virus, safe work place, first aid for heat exhaustion, musculoskeletal disorders and their prevention and other relevant topics).
- UAB LTG Link carries out the prevention of work-related incidents, accident at work and on the way to and from work, health disorders and occupational diseases, all accidents are investigated. Employees of UAB LTG Link are **additionally insured against accidents** at the employer's expense.
- Given the current supply of service of influenza **vaccination** in the market, the service of influenza vaccination was arranged.
- In 2020, much attention was paid to the assessment and management of **psychosocial risks of employees:** digitized psychosocial risk assessment questionnaires were developed; at the initiative of the Occupational Safety and Health Team, about 20 employees of the Lietuvos Geležinkeliai group participated in the project-training to increase the mental health competencies of corporate employees implemented by the Vilnius Public Health Bureau. The assessment of psychosocial risk was carried out for 140 conductors controllers.
- In three cities, employees have access to **psychological help** after a psychological trauma incurred at work, an accident or incident.
- The assessment of ergonomic risk was carried out for 140 employees, the results whereof were introduced to the employees.
- **Risk assessment of biological factors** was performed to all employees (726) of UAB LTG Link.

- **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 behavior as well as information on [mano.litrail.lt](http://mano.litrail.lt) were prepared; employees are fully provided with personal safety equipment for COVID-19 prevention; an additional insurance service is provided for those infected with the COVID-19 virus, causing serious health disorders; the training on safe conduct was organized 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 was ensured by the emergency management group of extended composition, formed by all responsible employees of Lietuvos Geležinkeliai
- 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 incompliances 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 OSH trainings are carried out;
  - The initial instruction process was updated on the basis whereof a remote initial instruction process is carried out.
- In 2020, **Full-scale instruction project** was implemented at the level of Lietuvos Geležinkeliai group, by establishing the same periodicity for compulsory instruction at a work place and eliminating the risk of work without instruction, also providing with a possibility to test the employees' knowledge in the Moodle system and instruct remotely. An intensive amendment of related legislation took place: the process of instruction at a work place was updated providing with a possibility to confirm the fact of instruction in the DVS system; optimizing the outdated legislation 26 instructions of occupational safety and health were approved.
- All employees are provided with high-quality collective and **personal protective equipment**, ensuring rental services of work clothing with periodical cleaning and repairing, acquisition of work footwear and personal protective equipment. In 2020, the lists of personal protective equipment of UAB LTG Link were updated, performance of public procurement was ensured guaranteeing an uninterrupted provision of personal protective equipment to employees. Employees are involved in decision making with regard to selection and procurement of more convenient personal and other protective equipment.
- **Regulation of contractual 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, provisions regulating occupational safety and health were included in the Code of Conduct of Suppliers, a leaflet about risk factors and compulsory compliance with safety requirements in provision of services and goods in the territory of Group companies of Lietuvos Geležinkeliai 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 AB Lietuvos Geležinkeliai ([mano.litrail.lt](http://mano.litrail.lt)).

## Traffic safety

UAB LTG Link implements technical and organizational measures to ensure that the railway traffic participants, are protected from railway catastrophes, accidents and incidents and their consequences.

The vision of UAB LTG Link in the field of traffic safety is zero incidents, i.e. safe society and company without any railway catastrophes, accidents and incidents. It should be noted, that in 2020 no catastrophes or accidents occurred in the railway infrastructure and train traffic, managed by UAB LTG Link.

In 2020, in order to ensure high level of the railway traffic safety, UAB LTG Link:

- 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.

## Prevention of corruption and bribery

UAB LTG Link follows the principle of zero tolerance for corruption, which means that the Company does not tolerate any corruption. In its activity UAB LTG Link 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 UAB LTG Link in their daily work follow the ethical principles and standards provided for in the Code of Ethics for Employees, which was approved in 2020.

UAB LTG Link 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.

UAB LTG Link 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 analyzed and assessed, thus identifying potential risks arising from activities of business partners.

UAB LTG Link 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.

In addition, UAB LTG Link in 2020 placed a special focus on:

- improvement of the system of maintenance of controlled railway rolling stock;
- improvement of normative technical documents;
- improvement of competences of workers whose occupation is related to traffic of railway transport.

To promote responsibility and activity of employees and other persons, UAB LTG Link enables them to report anonymously about violations of corruptive nature through the following reporting channels (phone (8 5) 269 3600, e-mail [prevencija@bekorupcijos.lt](mailto:prevencija@bekorupcijos.lt), report form on the website [www.litrail.lt/korupcijos-prevencija](http://www.litrail.lt/korupcijos-prevencija)).

In compliance with provisions of the Law on the Protection of Objects of Importance to Ensuring National Security, inquiries are submitted to the Commission for Coordination of Protection of Objects of Importance to Ensuring National Security, the Ministry of National Defense regarding compliance of initiated procurements, intended transactions or significant changes to the transactions, which were already concluded, with the interests of national security.

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 consideration and (or) 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 familiarized with the most important documents regulating these activities, trainings are organized in cooperation with the Special Investigation Service and other institutions, other educational measures are implemented.

## Data protection

UAB LTG Link takes care of the protection of personal data and cherishes the information, entrusted to the Company by its employees, customers and partners. 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 legislation of data protection, in 2020 the Company did the following in the sphere of data protection:

- took care of employees' awareness of personal data protection issues; therefore, leaflets of data protection were being sent to employees, providing the basic information about data protection, which should be known to employees of the Company;
- the company group of Lietuvos Geležinkeliai enforced the most important personal data processing document – the Personal Data Processing Methodology, which also replaced the Personal data processing rules which were in effect in the company group of Lietuvos Geležinkeliai;
- much attention was paid to reviewing and updating the records of the Company's management activity of compulsory data, in the process of which the Company's responsible employees were also involved;
- in order to meet the requirements of the General Data Protection Regulation as much as possible, the risks of data protection and measures to mitigate these risks were identified.

## Environmental protection

The Company has a goal to double the number of transported passengers by 2030, as compared to 2017. UAB LTG Link seeks to achieve this goal by complying with common obligations of the company group of AB Lietuvos Geležinkeliai to environmental protection: efficiently uses energy and natural resources, seeks solutions to reduce the negative impact of its activities on the environment and climate change.

In the Company, the performance of environmental protection functions is centralized. In order to comply with the requirements of environmental legislation, internal environmental inspections are carried out, periodic control of pollutants released and discharged into the environment is performed, and reports on the impact of activities on the environment are submitted.

The Company attaches great importance to environmental commitments, including that of the International Union of Railways (UIC) - the commitment of responsibility of railways to climate renewed in 2019, whereby the climate change mitigation objectives were strengthened: by 2030, CO<sub>2</sub>e<sup>2</sup> emissions from passenger transport must be reduced by 30%; by 2020 specific emissions of CO<sub>2</sub>e must be reduced by 40% and by 2030 it must be reduced by 50% compared to 2005. In 2020 the total amount of CO<sub>2</sub> emitted was 14.5 thousand tons and it is less by 47% than in 2005. The specific CO<sub>2</sub>e emissions from passenger transport in 2020 amounted to 61 gCO<sub>2</sub>e/pkm t, and compared to 2005 it was reduced by 7%. This was mainly due to the decrease in passenger flows due to COVID-19.

The reduction of air pollution is significantly influenced by the renewal of the passenger train fleet and the fact that from 2018 electric traction uses electricity produced only from renewable energy sources. In 2020 green energy use for electric traction allowed to reduce emissions by as much as 4,320 t CO<sub>2</sub>e.

In order to further reduce the impact on the environment and climate change, in 2024–2025, after the electrification of the railway section Kaišiadorys – Klaipėda, the Company plans to expand the fleet of electric trains that will use electricity produced from renewable energy sources. In addition, electric battery-powered trains for servicing the non-electrified sections are planned to be purchased, which will replace the diesel vehicles currently in use. It is planned that by gradually increasing passenger transport by electric traction and reducing the use of diesel trains, by 2030 CO<sub>2</sub> emissions will be reduced by about 70%.

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 its recycling. As much as 96% of the waste generated during the previous year was suitable for recycling, i. e. more by 9% than in 2019. In 2020, seeking to improve the conditions for sorting waste and secondary raw materials during the journey, sorting containers made of recycled plastic have been installed in all electric trains.

The Company also participates in the project "No paper" implemented throughout LTG group of companies, which moves to more efficient document management and abandons the use of paper documents. Also, passengers are provided with conditions to buy tickets on the Internet and present digital copies thereof during ticket checks in order to avoid printing them.

In response to growing public concern about climate change and pollution, the Company remains committed to reducing the environmental impact of its operations, using natural and energy resources sustainably, meeting climate change mitigation goals and providing the most environmentally friendly services of passenger transportation by trains.

<sup>2</sup> CO<sub>2</sub>e is greenhouse gas expressed in carbon dioxide equivalent.

## Cooperation with educational institutions

In 2020, UAB LTG Link was actively seeking to attract the young talents. By 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. During this year, in cooperation with educational institutions, 8 students were recruited for internship by LTG Link.

In LTG group the internship programme Growing Leaders, to which LTG Link also contributes, took place in summer for two consecutive years, during which students from the Lithuanian and foreign universities could develop not only their professional but also leadership skills, attracted 7 students studying in universities in Lithuanian and abroad. In addition to performance of their tasks in daily activities, the youth in separate groups created remote studying programmes for improvement of digital literacy contributing value to our employees in such a way. After the summer internship, as many as 5 students joined the team as permanent employees.

## Openness to the society

In spring, as the borders were closed one after the another due to the pandemic, LTG Link together with its partners arranged as many as two special trains within one week, which allowed people trapped abroad to return home. Throughout the pandemic, the Company ensured the necessary interurban communication in Lithuania even when the passenger flows fell by more than 80%; for some time, during the peak of the first wave, LTG Link was the only operating interurban carrier.

## Innovations

In 2020, LTG Link made great progress with the project of the ticketing system. The new ticketing system will allow passengers to purchase train tickets on a mobile app, an updated website or from ticket machines in stations. The system will be adapted to passengers with different needs. In 2020, suppliers were selected according to the set criteria, it is planned to sign a contract with one of them in the beginning of 2021 and start the implementation works. The new ticketing system is expected to launch in the second half of 2021.

After an intensive year of preparations and conclusion of the agreement with the supplier it is prepared for the launch of the project of the integrated system of resource planning and operational management. The intention is to fundamentally reorganize the planning and operational management of key activities using modern information technology tools. Advanced

Every year LTG Link participates in the biggest Career Day events. Unfortunately, in 2020 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 Link as a future employer participated in the fair for high school students "Studies 2020". As many as 30,200 visitors attended this fair.

In 2020, as for several years in a row, LTG Link became a partner of the programme "Renkuosi Mokyti" ("I choose to teach"). On the occasion of the Teachers' Day, some educators moved their lessons from the classroom to the trains to show how interesting and creative the teaching profession is and to remind them that learning is not limited to the classroom bench. The Company also participated in the project „Students to the Government“, introducing students to the activities, challenges and future plans of rail passenger transport.

The Company regularly and promptly carried out active, civic coronavirus communication, providing passengers with analysis of the current situation, reviews, changes and constantly emphasizing the need for preventive measures.

Throughout the year 2020, the Company participated in the Family Card program, and joined the POLA program at the end of the year (discounts started on 1 January 2021).

rail passenger companies in the European Union cannot imagine their work without them. With the new system in place the Company will be able to plan its activities more efficiently and be at the forefront of various, even complex situations, manage incidents more quickly.

On 15-17 May 2020, the virtual 48-hour hackathon "Accessibility in Mobility", organized by LTG Group, Transport Innovation Centre and Vilnius City Municipality, took place during which the participants searched for innovative solutions how to make travelling as comfortable as possible for people with individual needs with the help of smart technology. Five different teams, which sought for solutions and to contribute to increasing the mobility by busses and trains, tested their strength in the hackathon. Participants of different age, both students and representatives from companies, tested their strength in the event which took 48 hours.

## Equal opportunities

We believe that diversity adds value, promotes development and creativity, helps to get a better understanding of clients and meet their needs and extend the possibilities to adapt to environmental changes. Therefore, LTG Link promotes diversity and equal opportunities to everyone, during trainings and in implementing communication instruments, introduces and enhances the understanding of diversity and engagement, endeavors to involve employees.

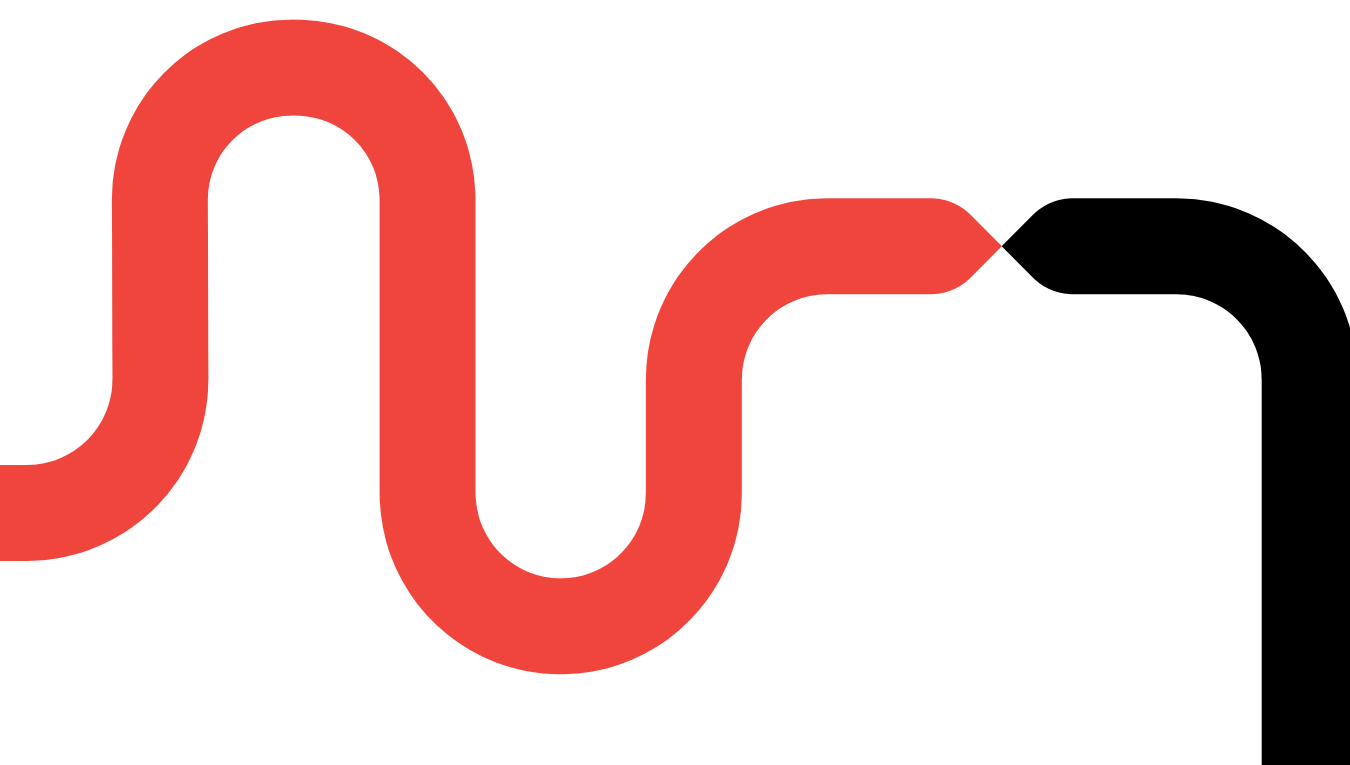
By creating diversity-conducive environment the Company follows the approved Policy of Equal Opportunities. Principles of non-discrimination and equal opportunities as well as other fundamental principles of equal opportunities are defined in the values and ethical principles of the company group of LTG 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 a society group regardless of their gender, race, nationality, language, origin, social status, age, sexual preferences, 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 (by phone and email), by which employees can report on experience of discrimination or harassment or inform on such breaches, has been in place for several years.

LTG company group have initiated the project "Adaptation of railway services according to the principles of universal design",

the purpose whereof is to implement the requirements of Regulation (EC) No 1371/2007 of the European Parliament and of the Council of 23 October 2007 on rail passengers' rights and obligations by 2024, and formulate long-term goals and the direction for universal adaptation of railway services to passengers. In 2020, LTG group companies LTG Link, LTG Infra and representatives of municipalities united by the Lithuanian Association of Municipalities and representatives of the Forum of Lithuanian Disability Organizations, Lithuanian Union of People with Disabilities, Lithuanian Association of the Disabled, Lithuanian Association of the Blind and Visually Impaired of the Lithuanian Foundation for the Deaf and other organizations, representing people with special needs, during meetings discussed the interim results of the project "Adaptation of Railway Services to Universal Design Principles" and shared insights on how to best adapt the environment to make rail travel easily accessible and convenient for all passengers, including people with special needs, seniors, families with young children etc.

On a regular basis, every quarter the representatives of the Company and other LTG Group companies meet with representatives of disability organizations to discuss the projects of adaptation of railway services according to the principles of universal design, their progress, new initiatives.

In cooperation with the Association of People with Disabilities „Independent Living“, LTG Link has developed training materials for staff of passenger service. The main goal of the training is to introduce how to best serve a person with individual needs, so that train journeys are comfortable to him and give only a good experience. Also in 2020, the training on sign language was arranged for colleagues serving passengers, and stickers on trains indicating the functional sign became legible in Braille.



## Definitions

<b>Revenue</b>	Revenue + Income from other activities after assessment of grants intended for compensation of losses due to passenger transportation activities, excluding income from financial activities
<b>Sales revenue</b>	Revenue, excluding income from financial and other activities
<b>Costs</b>	Costs, excluding the corporate tax and financial activities costs
<b>Financial debt</b>	Interest-bearing financial debt, including financial / operating lease
<b>Net debt</b>	Interest-bearing financial debt including financial lease / operating lease, less net cash and cash equivalent investments
<b>Return on equity (ROE)</b>	Net profit/loss for the period of the last 12 months / average equity for the reporting period
<b>Return on assets (ROA)</b>	Net profit/loss for the period of the last 12 months / average assets for the reporting period
<b>Return on investments (ROI)</b>	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)
<b>EBIT</b>	Profit (loss) before the corporate tax – the result of financial investment activities
<b>EBITDA</b>	Profit (loss) before the corporate tax – the result of financial investment activity + depreciation and amortization
<b>EBIT margin</b>	EBIT / total revenue
<b>EBITDA margin</b>	EBITDA / total revenue
<b>Net profit margin</b>	Net profit (loss) / total sales
<b>Equity ratio</b>	Equity at the end of the period / total assets at the end of the period
<b>Asset turnover indicator</b>	Revenue for the period of the last 12 months / total assets at the end of the period
<b>Quick ratio</b>	(Current assets at the end of period) - inventories / current liabilities at the end of period
<b>Total liquidity ratio</b>	Current assets at the end of period / current liabilities at the end of period
<b>Passenger turnover (passenger kilometers)</b>	Passenger transportation indicator, calculated by multiplying the trip of each transported passenger by the travelled distance
<b>Number of employees</b>	The number of listed active employees as of the end of the period (excluding the employees on parental leave, military service, long-term incapacity)
<b>Average salary</b>	The average gross salary per employee



**UAB LTG Link**

# **Financial statements**

prepared in accordance with international financial reporting standards as adopted by the European Union and the independent auditor's report

For the financial year ended  
31 December 2020

# Independent Auditor's Report

To the Shareholders of UAB LTG Link

## Opinion

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

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

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

## Basis for Opinion

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

## Other Information

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

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

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

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

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

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

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

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

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

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

On behalf of KPMG Baltics, UAB



Rūta Kupinienė  
Certified Auditor

Vilnius, the Republic of Lithuania  
8 March 2021

## Statement of financial position

	Notes	2020	2019
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	132,752	140,784
Buildings and constructions		3,128	3,580
Machinery and plant		354	502
Vehicles		128,286	136,162
Other equipment, fittings and tools		407	540
Construction in progress and prepayments		577	-
Right-of-use assets	8	988	262
Intangible assets	9	-	123
Software		-	107
Other intangible assets		-	16
Investment property		-	-
Financial assets		-	-
Deferred tax assets	25	984	854
<b>Total non-current assets</b>		<b>134,724</b>	<b>142,023</b>
<b>CURRENT ASSETS</b>			
Inventories	10	951	1,133
Trade and other receivables	11	1,895	3,298
Prepayments	12	160	112
Cash and cash equivalents	13	17,389	7,288
Non-current assets held for sale	14	36	180
<b>Total current assets</b>		<b>20,431</b>	<b>12,011</b>
<b>TOTAL ASSETS</b>		<b>155,155</b>	<b>154,034</b>

Statement of financial position (continued)

	Notes	2020	2019
<b>EQUITY</b>			
Share capital	15	143,590	156,237
Legal reserve		-	-
Other reserves		-	-
Retained profit (loss)	16	144	(12,296)
<b>Total equity</b>		<b>143,734</b>	<b>143,941</b>
<b>LIABILITIES</b>			
<i>Non-current liabilities</i>			
Loans and borrowings		-	-
Lease liabilities	17	869	179
Employee benefits	18	670	668
<b>Total non-current liabilities</b>		<b>1,539</b>	<b>847</b>
<i>Current liabilities</i>			
Loans and borrowings		-	-
Lease liabilities	17	148	95
Income tax liability	25	-	396
Employee benefits	18	2,341	2,778
Trade and other payables	20	7,389	5,388
Prepayments received	19	4	589
<b>Total current liabilities</b>		<b>9,882</b>	<b>9,246</b>
<b>Total liabilities</b>		<b>11,421</b>	<b>10,093</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>155,155</b>	<b>154,034</b>

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

The financial statements and the explanatory notes on pages 47-90 were approved and signed on 8 March 2021:

Chief Executive Officer



Linus Baužys

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



Svetlana Pupeikienė

## Statement of profit or loss and other comprehensive income

	Notes	2020	2019
Revenue	21	13,678	9,155
Other income	22	36,050	10,571
<b>Total income</b>		<b>49,728</b>	<b>19,726</b>
Employee benefits	18,23	(12,910)	(4,822)
Depreciation and amortization		(12,473)	(4,070)
Management service		(7,548)	(2,036)
Infrastructure services		(5,970)	(2,535)
Fuel		(3,800)	(1,882)
Materials		(1,016)	(585)
Services rendered by other foreign railway companies		(339)	(315)
Electricity		(961)	(343)
Repairs and maintenance		(976)	(440)
Increase (decrease) in inventories		29	(50)
Increase (decrease) in non-current assets held for sale		(144)	-
Increase (decrease) in receivables		1	(1)
Other		(4,114)	(1,283)
<b>Operating profit</b>		<b>(493)</b>	<b>1,364</b>
Finance income	24	171	22
Finance costs	24	(19)	(7)
<b>Profit (loss) before taxation</b>		<b>(341)</b>	<b>1,379</b>
Income tax	25	134	(216)
<b>Net profit (loss)</b>		<b>(207)</b>	<b>1,163</b>
Other comprehensive income (expenses)		-	-
<b>Total comprehensive income (expenses)</b>		<b>(207)</b>	<b>1,163</b>

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

## Statement of changes in equity

	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained (profit) losses	Total
Balance as at 31 December 2018		-	-	-	-	-	-
Net profit (loss)		-	-	-	-	1,163	1,163
Other comprehensive income, after tax		-	-	-	-	-	-
<b>Total comprehensive income (expenses)</b>		-	-	-	-	<b>1,163</b>	<b>1,163</b>
Increase in share capital		150	-	-	-	-	150
Increase in share capital by an asset contribution		156,087	-	-	-	(13,459)	142,628
<b>Total transactions with owners of the Company</b>		<b>156,237</b>	-	-	-	<b>(13,459)</b>	<b>142,778</b>
Balance as at 31 December 2019		156,237	-	-	-	(12,296)	143,941
Net profit (loss)		-	-	-	-	(207)	(207)
Other comprehensive income, after tax		-	-	-	-	-	-
<b>Total comprehensive income (expenses)</b>		-	-	-	-	<b>(207)</b>	<b>(207)</b>
Increase in share capital		-	-	-	-	-	-
Reduction in share capital	16	(12,647)	-	-	-	12,647	-
<b>Total transactions with owners of the Company</b>		<b>(12,647)</b>	-	-	-	<b>12,647</b>	-
<b>Balance as at 31 December 2020</b>		<b>143,590</b>	-	-	-	<b>144</b>	<b>143,734</b>

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

# Statement of cash flows

	Notes	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit (loss)		(207)	1,163
<b>ADJUSTMENT TO NON-CASH ITEMS</b>			
Depreciation and amortization	7,8,9	12,473	4,070
(Gain) loss from disposal/write-off of non-current assets		(61)	(159)
(Reversal) of impairment losses		114	51
Change in accrued income/expenses		3,240	540
Interest (income) expenses		1	-
Lease liability interest		16	1
Effect of currency exchange fluctuations		29	2
Income tax expenses (income)		(134)	216
<b>Cash flows from operating activities after adjustment to non-cash items</b>		<b>15,471</b>	<b>5,884</b>
<b>CHANGES IN WORKING CAPITAL</b>			
Decrease (increase) in inventories		212	347
Decrease (increase) in trade and other receivables and prepayments		(36,464)	(15,074)
Increase (decrease) in current and non-current trade payables and received prepayments		(2,168)	3,586
Increase (decrease) in employment related liabilities		(435)	907
Increase (decrease) in other non-current and current payables		(1,418)	636
<b>Net cash from operating activities</b>		<b>(24,802)</b>	<b>(4,254)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(Acquisition) disposal of non-current assets		(2,776)	(423)
<b>Net cash used in investing activities</b>		<b>(2,776)</b>	<b>(423)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Grants received		37,790	11,825
Payment of lease liabilities		(95)	(9)
Payment of lease liability interest		(16)	(1)
Cash flows related to owners		-	150
<b>Net cash flows from financing activities</b>		<b>37,679</b>	<b>11,965</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>10,101</b>	<b>7,288</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>7,288</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>17,389</b>	<b>7,288</b>

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

# Explanatory notes

## 1. General information

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

The Company is a private legal entity of limited civil liability, independently organizing economic, financial, organizational, and legal activities. UAB LTG Link is the company of AB Lietuvos Geležinkeliai Group. AB Lietuvos Geležinkeliai is its sole shareholder. The Company's code: 305052228, VAT code: LT100012462811, legal (registration) address: Geležinkelio g. 16, LT-03603 Vilnius. The main activities of the Company are passenger and luggage transportation by rail and provision of related services.

The Company follows the established strategy and strategic strands of the Group of companies, as well as the approved po-

licies 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.

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

The Company has no branches and representative offices.

As of 31 December 2020, the listed number of active employees at the end of the period (excluding the employees on parental leave, military service, long-term incapacity) was 675 (as at 31 December 2019: 710).

## 2. Significant accounting policies

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

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

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

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

**Functional and presentation currency.** The amounts in these financial statements have been presented in euro, 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 as insignificant in the financial statements.

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

Explanatory notes (continued)

## 2. Significant accounting policies (continued)

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

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

Property, plant and equipment are attributed to non-current tangible assets and accounted for at cost less accumulated depreciation and impairment loss. The initial value of noncurrent tangible assets comprises their acquisition cost, including unrecoverable taxes of acquisition, capitalized 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 capitalized only if it is probable that economic benefits will be derived from that part, and the cost of a new constituent part can be measured reliably. The residual value of the old constituent part is written off. The costs of the day-to-day servicing of property, plant and equipment are accounted for as profit or loss as incurred.

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

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

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

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

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

Groups of property, plant and equipment	Useful life
Buildings and structures	5–80
Machinery and plant	5–19
Road transport	4
Rolling stock (including wagons)	5–26
Computers and hardware	4–7
Other equipment, fittings and tools	4–7

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

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

**Investment property.** Investment property, including part of buildings and structures, is held for earning rentals and/or for capital appreciation rather than for use in the production, provision of services, or for administration purposes or sale. Investment property is stated at historical cost less accumulated depreciation and impairment loss, if any. Depreciation is calculated by applying the straight-line method during estimated useful life. Transfers to and from investment property are made only when there is an obvious change in intended use of assets. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value of investment property at the date of change in use. If owner-occupied property becomes an investment property the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The deemed cost for subsequent investment property accounting is the carrying value at the time of assets' transfer.

Explanatory notes (continued)

## 2. Significant accounting policies (continued)

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

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

Groups of intangible assets	Useful life
Development work	4
Software	3
Concessions, patents, licenses, brands	3
Other intangible assets	4

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

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

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

### Financial instruments

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

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

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

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

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

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

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

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

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

## Explanatory notes (continued)

### 2. Significant accounting policies (continued)

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

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

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

- the right to receive cash flows from the financial asset has expired;
- the Company retains the right to cash flows, but has assumed an obligation to pay the full amount to the third party under an assignment agreement within a short period of time;
- the Company transfers its right to receive the cash flows and/or:
  - a) transfers substantially all risks and benefit related to ownership to the financial asset,
  - b) neither transfers nor retains risks and benefit related to ownership to the financial asset, but transfers control of the asset.

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

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

Writing down is an event of derecognition.

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

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

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

- a) financial liabilities which are measured at amortized cost in subsequent periods;
- b) financial liabilities that are subsequently measured at fair value through profit or loss.

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

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

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

**Derecognition of financial liabilities.** A financial liability is derecognized 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 recognized 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 recognized as profit or loss in the statement of profit or loss and other comprehensive income.

## Explanatory notes (continued)

### 2. Significant accounting policies (continued)

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

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

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

At the end of each reporting period, the Company assesses whether the value of financial assets carried at amortized 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 loss has occurred due to credit risk:

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

Losses on financial assets measured at amortized cost are recognized as provisions having impact on the gross carrying amount of such assets.

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

**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 recognized 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 maximum extent.

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

**Derivative financial instruments.** During 2020 the Company had no derivative financial instruments.

**Trade and other receivables.** Trade and other receivables are initially recognized at transaction price and subsequently at amortized cost.

## Explanatory notes (continued)

### 2. Significant accounting policies (continued)

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

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

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

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

#### Lease

Lease means a contract or part of a contract that gives the right to use the asset (leased property) for a certain period of time for consideration.

##### *Lessee*

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

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

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

At the commencement date, the Company shall measure the

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 an adjustment to any revaluation of the liability.

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

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

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

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

## Explanatory notes (continued)

### 2. Significant accounting policies (continued)

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 recognize 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 recognize 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.

#### *Lessor*

**Operating lease.** The Company shall recognize the lease fees related to operating lease as income on a linear basis. Costs (including depreciation) incurred in earning lease related income are recognized 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 recognized as an expenditure during the lease period on the same basis as the lease income. The Company shall account for the change in the operating lease as a new lease from the date of the change's entry into force and shall treat the lease fees paid or accrued in advance in relation to the original lease as part of the new lease.

Income from investment property and other assets is accounted for on a linear basis during the lease period.

**Income taxes.** Income taxes have been provided for in the financial 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 recognized in the statement of profit or loss and other comprehensive income, unless those taxes are recognized in other comprehensive income or directly in equity as they are related to transactions that are also recognized in other comprehensive income or directly in equity in the same or a different period.

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

Taxes for the reporting period are the amount expected to be paid to or recovered from the taxation authorities, considering a taxable profit or losses for the reporting and prior

periods. The taxable profit or losses are based on estimates if financial statements are approved prior to filing relevant tax returns. Taxes other than income tax are recorded in operating expenses.

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

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 realized, 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 recognized in the statement of financial position to the extent the management believes they will be realized in the foreseeable future based on taxable profit forecasts. When it is probable that a portion of deferred tax will not be utilized, this portion of deferred tax is not recognized in the financial statements.

## Explanatory notes (continued)

### 2. Significant accounting policies (continued)

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

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

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

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

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

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

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

- share capital - The share capital is equity paid in by shareholders and is stated at nominal value in accordance with the Company's articles of association and the entry in the Centre of Registers;
- share premium - Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs;

- legal reserve - According to Lithuanian legislation an annual transfer of 5% of net profit to the legal reserve is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses;
- other reserves - Other reserves are formed according to the decision of the shareholder for specified purpose;
- retained profit (loss).

**Provisions.** Provisions are accounted for only when the Company has a legal or irrevocable obligation resulting from the past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Company re-evaluate provisions at each balance sheet date and adjust them in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses which are expected to be incurred to settle the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized 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 recognized 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 recognized as expenses in the statement of profit or loss and other comprehensive income immediately after the assessment of such liability. Any profit or losses which have appeared as a result of a change in benefit conditions are recognized immediately. The above-mentioned employment benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. The obligation is recorded in the Statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is determined 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 recognized 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.

## Explanatory notes (continued)

## 2. Significant accounting policies (continued)

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

**Revenue recognition.** The Company recognizes revenue to depict transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company takes into account the terms of the contract and all relevant facts and circumstances. For that purpose the Company's revenue is recognized 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 recognized as a contract. A contract is only recognized if the following criteria are satisfied:

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

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

### *Step 2 - Identify the performance obligations in the contract.*

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

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

### *Step 3 - Determine the transaction price.*

The transaction price may be fixed, variable or both.

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

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

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

### *Step 5 - Recognize revenue when (or as) the Company satisfies performance obligations.*

The Company recognize 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 recognized 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.

The Company relies on historical results, taking into account the customer type, the transaction type and the characteristics of each agreement.

Explanatory notes (continued)

## 2. Significant accounting policies (continued)

### Revenue is recognized by using the methods described below:

#### *Service sales revenue*

Revenue from sales of the services is recognized based on the moment when the services was rendered. The major part of payments for train tickets is made in cash. At the end of the period revenue, for which invoices have not been issued, but the services have been provided, is accrued based on the accrual principle.

#### *Goods sales revenue*

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

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

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

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

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

### Operating revenue generated by the Company includes the following:

- Passenger transportation revenue;
- Lease revenue;
- Other revenue.

#### *Passenger transportation revenue*

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

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

Sales revenue from advance sale of tickets is attributed to the future periods of provision of services.

#### *Other revenue*

Other revenue consist of: wholesale trade and other revenue.

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

- Recognized immediately;
- Recognized during the continuous period.

Explanatory notes (continued)

## 2. Significant accounting policies (continued)

Type of services	Nature, timing and payment conditions of operating liabilities	Revenue recognition
<b>Income from passenger and luggage transportation</b>	<p>Passenger and luggage transportation services are provided on the basis of train tickets sold. Most train ticket sales coincide with the date of carriage.</p> <p>Most of the revenue is paid immediately upon purchase of the ticket.</p> <p>Invoices for the carriage of passengers and related ancillary services shall be issued at the intervals agreed with the buyer in the contract, formed from the documents of the primary carriage of passengers and ancillary services after the provision of the service.</p> <p>The term for payment of invoices is usually 15 calendar days, for individual customers – 30 calendar days.</p>	<p>Revenue from the carriage of passengers, luggage and mail shall be recognized at a certain moment, as once the carriage is completed, the control of the service is transferred to the customer. The customer acquires the control over the service when he receives all benefit related to the carriage service.</p> <p>Revenue is recognized when the services have been provided, on arrival at the place agreed in the transport document or at the end of the period of validity of the transport document.</p> <p>Advance ticket sales represent a small portion of total ticket sales revenue, and the date of ticket purchase usually coincides with the date the service is provided.</p>
<b>Other income</b>	<p>Invoices for additional services provided are issued immediately after the services are provided. Income from the sale of goods is recognized when the goods are loaded from the warehouse. The normal payment term is 30 days.</p>	<p>Income is recognized at a certain moment, as the customer acquires the control over goods and services once the goods have been removed from the warehouse, and the services have been rendered. Services are considered provided when the deed of acceptance-transfer of the performed works is signed. The customer acquires the control over the good and service when he receives all benefit related to the good and service.</p>

### Lease revenue

Revenue is recognized on a monthly basis when services are rendered. The amount of recognized revenue is determined on the basis of the signed deeds of services rendered. The amount of revenue from the lease of wagons is calculated in accordance with the issued accounting cards where the number of leased wagons and the lease period are determined. In cases where services under a single agreement are rendered during different reporting periods the consideration is allocated according to their relative individual selling prices. An individual selling price is determined on the basis of prices of services indicated in the agreement. Invoices are issued after the service has been rendered and the deed of transfer-acceptance of the performed works has been signed. The regular term for payment of invoices is 30 days.

**Recognition of expenses.** Expenses are recognized in the financial accounting in existence of reduction in assets or increase in liabilities due to which the reduction in equity occurs, except for reductions related to allocations to the owners of shares.

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

## Explanatory notes (continued)

### 2. Significant accounting policies (continued)

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

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

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

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

**Business combinations.** The Company 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 is a transaction or other event in which the acquirer obtains control of one or more businesses. When the Company is the acquirer, it shall determine the acquisition date at which it acquires control of the acquiree. A business combination may be grouped in a variety of ways for legal, tax or other reasons. In a business combination that occurs primarily by transferring cash or another asset or incurring a liability, the acquirer is usually the entity that transfers the cash or another asset or incurs a liability. In a business combination that is primarily an exchange of shares the acquirer is usually the entity that issues its shares. In a business combination that involves an exchange of ownership, other relevant facts and circumstances also need to be considered in identifying the acquirer.

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

- a) to identify the acquiring entity;
- b) to set the acquisition date;
- c) to recognize and measure the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree;
- d) to recognize and measure goodwill or a gain on a purchase below market price.

In accordance with IFRS, before acquiring a gain arising on a purchase below the fair value of the net assets of the acquiree, the acquirer shall reassess whether it has correctly identified all the assets acquired and all the liabilities assumed, and shall recognize any additional assets or liabilities identified during such a review. The acquirer shall then review the procedures used to measure the amounts that IFRS requires to be recognized at the acquisition date for the following items: identification of the assets acquired (including contingent assets or assets not recognized in the balance sheet of the acquiree)

## Explanatory notes (continued)

### 2. Significant accounting policies (continued)

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.

### 3. Significant accounting estimates and decisions

#### Significant decisions

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

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

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

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

#### Significant estimates and assumptions

Information on significant estimates and assumptions is provided below:

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

#### Revision of the remaining useful lives and liquidation values of non-current assets

As at 31 December 2020, the Company had rolling stock with the value of EUR 23,911 thousand and which were not in compliance with the requirements set forth in the EU legislation as from 2025. The EU Directive No 1300/2014 provides for technical specifications for suitability of wagons for passengers with disabilities. The management is of the opinion that this rolling stock can be potentially used in less busy sections.

In 2020, further possibilities for use of this rolling stock were assessed and their remaining useful life was established. For a part of rolling stock, which will not be used at all after 2025, the depreciation rates were reduced. A part of the rolling stock will be used in less busy sections, their quantity and the remaining useful life, accordingly established for them, were assessed.

In 2020, the revision of these wagons was performed, which is done on an annual basis, for liquidation or selling valuations, that is, an expert evaluation. Upon the moment of sale (before auctions), the valuation of assets is performed with assistance of external experts.

The impact of change in the remaining useful life of non-current assets and liquidation values on the statement of profit or loss and other comprehensive income amounted to EUR 1,458 thousand of depreciation costs additionally accounted for.

#### Impairment losses on property, plant and equipment.

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

Explanatory notes (continued)

### 3. Significant accounting estimates and decisions (continued)

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

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

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

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

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

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

## Explanatory notes (continued)

### 3. Significant accounting estimates and decisions (continued)

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

When preparing these financial statements the management assessed accounting estimates the uncertainty of which has increased due to the COVID-19 pandemic and which the Company's management took into consideration when assessing the impact of COVID-19:

**Business continuity.** 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 in the services provided. All of the currently available information on the threats posed by COVID-19 was taken into consideration during the assessment. The ultimate impact of the COVID-19 pandemic on the Company's activities cannot be assessed yet; however, the Company's management did not determine threats to the Company's business continuity when assessing the possible impact of the factors related to the COVID-19 pandemic on the Company's activities and results. The Company has taken actions to manage the incurred risk.

Due to the pandemic of coronavirus (COVID-19) not only Lithuania but also the whole world have faced a situation which is hardly predictable, the consequences whereof fall on almost all sectors. On 11 March 2020, the World Health Organization declared the outbreak of coronavirus as pandemic, and as of 16 March 2020 the Government of the Republic of Lithuania announced the quarantine and restrictions on public life related thereto. The restrictions are related to movement of foreign nationals, cross-border movement, activity of entities and organizations of public and private sector, arrangement of work of education and healthcare institutions, as well as other areas of economic and social life.

In response to the counter-measures, announced by the Republic of Lithuania, the Company stopped the traffic of international trains as of 16 March 2020 and the traffic of transit trains as of 6 April. In March-April 2020, temporarily almost a half of local train services was stopped (106 out of 226), however the Company's activity was ongoing. On 7 November 2020, due to the second wave in COVID-19 pandemic, Lithuania went for a quarantine again due to which passenger flows went down by up to 50 per cent and from 9 November 25 train routes were optimized, intervals were changed for another 14 train routes. As of 20 November, the route of Kaunas–Šiauliai–Kaunas was temporarily suspended. In the end of 2020, as many as 103 out of 226 local train routes were not reopened, while 26 out of 32 international train routes were not reopened.

In view of the situation in 2020, the Ministry of Transport and Communications was addressed in respect of possible higher compensation for losses of local transportation, and by

agreement Regarding Amendment to the Agreement No 1F-74 on Use of the State Budget Funds for Implementation of the Programme of UAB LG Keleiviams "Ensuring Rail Transport" of 4 May 2020 the amount of EUR 35,987 thousand was allocated for compensation of costs, that is, EUR 9,178 thousand more than planned.

Taking into account the forecast of management of the pandemic, in planning of the budget of 2021 the Company used the assumption that indicators of number of passengers and turnover will begin to recover from the second quarter. The Company has also taken into consideration the possible liquidity and credit risks:

- assessed the possibility of receiving an additional grant from the Government of the Republic of Lithuania;
- assessed whether the cash-pool within the Group is sufficient in order to ensure the current solvency;
- took additional measures for reinforced payment control;
- took additional measures for enhanced cost control.

The Company operates in one of the strategic and most secure state sectors and it can expect for the state support and guarantees when necessary. Following the draft strategic action plan for the management areas of the Minister of Transport and Communications of the Republic of Lithuania for the year 2021-2023, appropriations for implementation of programme "Ensuring Rail Transport" has been approved for the Company for the year 2021. The objective of the programme is to ensure passenger transportation on preferential conditions and provision of services by the routes which are not commercially viable to carriers, and yet necessary for the public.

According to the programme, for implementation the measure of applying the discounts of 80 per cent and 50 per cent for the socially disadvantaged groups, established by the Law on Provision of Passenger Transport Services, the amount of EUR 1,772 thousand is allocated in 2021. Also, according to the programme, for the measure of provision of passenger transportation services by railway by the established local routes, which are loss-making to carriers but necessary for the public, the amount of EUR 28,963 thousand is allocated in 2021. As at the date of these financial statements, the agreement with the Ministry of Transport and Communications of the Republic of Lithuania on appropriations allocated for the Company for the year 2021 was still in negotiations for provision of additional appropriation to the Company to reduce the negative risk of COVID-19 pandemic. According to the draft strategic action plan for the management areas of the Minister of Transport and Communications of the Republic of Lithuania for the year 2021-2023, for implementation the measure of applying the discounts of 80 per cent and 50 per cent for the socially disadvantaged groups, established by the Law on Provision

## Explanatory notes (continued)

### 3. Significant accounting estimates and decisions (continued)

of Passenger Transport Services, the amounts of EUR 2,335 thousand and EUR 2,500 thousand were allocated for the years 2022 and 2023, respectively. While for the measure of provision of passenger transportation services by railway by the established local routes, which are loss-making to carriers but necessary for the public, the amounts of EUR 26,896 thousand and EUR 27,723 thousand were allocated for the years 2022 and 2023, respectively. As at the date of these financial statements, the Ministry of Transport and Communications of the Republic of Lithuania has informed the European Commission of its intention to enter with the Company into the long-term (10 years) agreement on the Public Service Obligation and the wording of this agreement was being coordinated.

The management of the Company has also assessed the cash-pool capacities within the Group, which would ensure the sufficiency of cash flows for carrying out its activities and in case if the Ministry of Transport and Communications of the Republic of Lithuania did not allocate additional appropriations for the Company. As at the time of preparation of the financial statements, settlements were carried out in a regular manner, and there are no indications in the Company that liquidity or credit risks increased, or that, through the aforementioned measures the Company's management would not be able to manage them. According to the assessment of the Company, present negative circumstances related to the virus do not cast any doubts as to business continuity of the Company and alter any long-term plans and objectives of the Company's activity.

The Company complied with all recommendation for

prevention of COVID-19: as of announcement of the quarantine all employees, who do not to deal with clients directly, were working from home, schedules of drivers and conductors were managed and rearranged in order to minimize contacts. Given that situation related to the outbreak of COVID-19 is very dynamic, at this stage it is complicated to reliably assess the potential impact on performance of the next year. However, the management expects that the appropriations allocated by the Government of the Republic of Lithuania and abilities to borrow within the Group will allow management of the activity and liquidity risks. Yet, the management cannot deny the probability that long "lockdown" periods, increasing stringency of measures or adverse impact of such measures on the economic environment where the Company operates will not have adverse impact on the Company, the financial position and performance thereof in the medium term. The management closely monitors the situation on a continuous basis and will take measures to mitigate the effect and such events and circumstances.

#### **Impairment losses of property, plant and equipment.**

The Company's management assessed internal and external indicators for impairment of assets and estimated potential impairment losses due to COVID-19.

**Impairment losses of amounts receivable due to credit risk.** 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.

### 4. Standards and interpretations of standards not yet effective

The new standards, amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 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 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 recognized 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.

## Explanatory notes (continued)

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

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 recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are effective for annual 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 periods beginning on or after 1 January 2022. Early application is 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 assessing 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 periods beginning on or after 1 January 2022. Early application is 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 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 recognize and measure: (i) future cash flows (cash flows arising from the performance of the contract) at risk-adjusted present value, which includes all available information about the cash flows arising from the performance of the contract consistent with observable market data; by adding (if this value is a liability) or subtracting (if this value is an asset) (ii) an amount representing the unearned profit from the group of contracts (the contractual service margin). The profits generated by a group of insurance contracts will be recognized by insurers during the period when the insurance cover is granted and at the time of the risk exemption. If a group of contracts is or becomes unprofitable, the entity recognizes the loss immediately.

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

## Explanatory notes (continued)

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

#### *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 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 periods beginning after 1 June 2020. Early application is permitted.

The Company did not use this practical measure.

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

### 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.

Explanatory notes (continued)

## 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 residual values of these financial instruments are close to their fair values because the borrowing costs are linked to the interbank borrowing rate EURIBOR, while other financial assets and liabilities are short-term and therefore their fair value fluctuation is not significant.

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

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

Financial assets	2020	2019
Trade and other receivables	691	2,584
Cash and cash equivalents	17,389	7,288
<b>Total</b>	<b>18,080</b>	<b>9,872</b>

Financial liabilities	2020	2019
Lease liabilities	1,017	274
Trade and other payables	7,052	5,237
<b>Total</b>	<b>8,069</b>	<b>5,511</b>

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

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

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

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

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

	Carrying amount 2020				Carrying amount 2019			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Trade and other receivables	691	-	-	691	2,584	-	-	2,584
Cash and cash equivalents	17,389	17,389	-	-	7,288	7,288	-	-
<b>Total</b>	<b>18,080</b>	<b>17,389</b>	<b>-</b>	<b>691</b>	<b>9,872</b>	<b>7,288</b>	<b>-</b>	<b>2,584</b>
<b>Financial liabilities</b>								
Lease liabilities	1,017	-	-	1,017	274	-	-	274
Trade and other payables	7,052	-	-	7,052	5,237	-	-	5,237
<b>Total</b>	<b>8,069</b>	<b>-</b>	<b>-</b>	<b>8,069</b>	<b>5,511</b>	<b>-</b>	<b>-</b>	<b>5,511</b>

Explanatory notes (continued)

## 6. Financial instruments and risk management (continued)

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

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

### Risk management

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

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

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

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

The COVID-19 pandemics did not lead to a significant increase in credit risk of the Company. Clients did not request the

extension of payment terms. However, as the COVID-19 pandemics is ongoing, the Company actively monitors the situation in the market, applies credit control policies, revises procedures and processes.

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

The majority of trade and other receivables amounting to EUR 354 thousand are receivables from related parties, receivables from external customers amount to EUR 17 thousand.

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

### The Company's trade and other receivables subject to credit risk and expected credit loss as at 31 December 2020 amounted to:

	Initial value	Expected credit losses, %	Impairment	Carrying amount
Low risk	687	0.00%	-	687
Fair risk	3	0.18%	-	3
Increased risk	1	15.27%	-	1
High risk	1	100%	(3)	-
<b>Total</b>	<b>694</b>	<b>-</b>	<b>(3)</b>	<b>691</b>

### The Company's trade and other receivables subject to credit risk and expected credit loss as at 31 December 2019 amounted to:

	Initial value	Expected credit losses, %	Impairment	Carrying amount
Low risk	2,574	0.00%	-	2,574
Fair risk	-	1.8%	-	-
Increased risk	7	3.1%	-	7
High risk	7	58.3%	(4)	3
<b>Total</b>	<b>2,588</b>		<b>(4)</b>	<b>2,584</b>

Explanatory notes (continued)

## 6. Financial instruments and risk management (continued)

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

Fair risk – the buyer has at least one past due invoice of 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 expected life credit losses over its life and uses a provision matrix for

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

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

### The Company's information on credit risk applicable to trade and other receivables and expected credit loss as at 31 December 2020 included:

	Expected credit losses, %	Initial value	Impairment	Carrying amount
Not past due	0.00%	687	-	687
1-30 days past due	0.18%	3	-	3
31-60 days past due	3.67%	-	-	-
61-120 days past due	7.49%	1	-	1
More than 120 days past due	100%	3	(3)	-
<b>Total</b>		<b>694</b>	<b>(3)</b>	<b>691</b>

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

	Expected credit losses, %	Initial value	Impairment	Carrying amount
Not past due	0.00%	2,575	-	2,575
1-30 days past due	1.80%	-	-	-
31-60 days past due	3.60%	7	-	7
61-120 days past due	10.00%	-	-	-
More than 120 days past due	61.70%	6	(4)	2
<b>Total</b>		<b>2,588</b>	<b>(4)</b>	<b>2,584</b>

Explanatory notes (continued)

## 6. Financial instruments and risk management (continued)

### The Company's downward movement in the value of doubtful receivables from buyers was:

	2020	2019
<b>Balance at the beginning of the period</b>	<b>(4)</b>	-
Impairment of receivables carried forward during the reorganization	-	(3)
Change in impairment of trade receivables	1	(1)
<b>Balance at the end of the period</b>	<b>(3)</b>	<b>(4)</b>

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

	2020	2019
Aa2; AA	753	400
Aa3; AA-	8,546	6,836
Baa1; BBB+	8,035	10
Baa2; BBB	38	2
Cash on hand	17	40
<b>Total</b>	<b>17,389</b>	<b>7,288</b>

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

**Liquidity risk.** Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. Risk management ensures that the Company will always have sufficient liquid assets and will be able to meet its obligations on time. Liquidity and solvency risk management involves the planning and control of cash flows and the forecasting of unforeseen events that may adversely affect cash flows and pose a threat to solvency and liquidity. Liquidity and solvency risk is assessed by monitoring and analyzing 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.

COVID-19 had no significant adverse effect on the liquidity of the Company. The Company had significant cash and cash equivalents balances throughout the year. The liquidity of the Company was guaranteed through the group cash pool. Also, seeking to respond proactively to threats of the pandemic, in April enquires were made to the credit institutions, with which AB Lietuvos Geležinkeliai group companies were engaged, about a possibility of obtaining a committed credit line with a maturity of at least 12 months or overdraft. Proposals with favorable pricing were received, however in absence of a need for borrowing, no agreement was concluded with either credit institution.

As at the date of the financial statements, the Group and its companies did not face liquidity problems.

Explanatory notes (continued)

## 6. Financial instruments and risk management (continued)

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

	Trade and other payables		Lease liabilities	
	2020	2019	2020	2019
Within one year	7,052	5,237	183	103
From one to five years	-	-	338	185
After five years	-	-	832	-
<b>Total</b>	<b>7,052</b>	<b>5,237</b>	<b>1,353</b>	<b>288</b>

Pursuant to the provisions of the financing agreements signed between AB Lietuvos Geležinkeliai and the European Investment Bank (EIB) and the Nordic Investment Bank (NIB), the split-off of AB Lietuvos Geležinkeliai business activities was possible only with the consent of the banks. For this reason, the Company has entered into guarantee agreements for securing liabilities – first call guarantees, thus ensuring the fulfilment of all obligations of AB Lietuvos Geležinkeliai under financing agreements before completion of the restructuring process. As of 31 December 2019 those obligations amounted to EUR 181,106 thousand. As at 31 December 2020, the Company did not guarantee any loans.

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

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

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

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

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

Explanatory notes (continued)

## 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
<b>ACQUISITION COST</b>							
<b>31 December 2018</b>	-	-	-	-	-	-	-
- acquisition of assets due to reorganization*	-	3,733	572	139,537	581	-	144,423
- acquisitions per year	-	-	-	371	-	-	371
- transferred from current assets	-	-	-	55	-	-	55
- assets sold, written off, disposed	-	-	-	(70)	(2)	-	(72)
- reclassifications	-	-	-	-	-	-	-
<b>31 December 2019</b>	-	<b>3,733</b>	<b>572</b>	<b>139,893</b>	<b>579</b>	-	<b>144,777</b>
- acquisitions per year	-	5	-	3,930	-	-	3,935
- transferred from current assets	-	-	-	-	-	577	577
- transferred to current assets	-	-	(38)	-	(34)	-	(72)
- assets sold, written off, disposed	-	-	(11)	(343)	(28)	-	(382)
- reclassifications	-	-	-	-	-	-	-
<b>31 December 2020</b>	-	<b>3,738</b>	<b>523</b>	<b>143,480</b>	<b>517</b>	<b>577</b>	<b>148,835</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>							
<b>31 December 2018</b>	-	-	-	-	-	-	-
- depreciation	-	(153)	(70)	(3,737)	(39)	-	(3,999)
- impairment during the year	-	-	-	-	-	-	-
- assets sold, written off, disposed	-	-	-	6	-	-	6
- reclassifications	-	-	-	-	-	-	-
<b>31 December 2019</b>	-	<b>(153)</b>	<b>(70)</b>	<b>(3,731)</b>	<b>(39)</b>	-	<b>(3,993)</b>
- depreciation	-	(457)	(143)	(11,486)	(130)	-	(12,216)
- impairment during the year	-	-	-	-	-	-	-
- transferred to current assets	-	-	38	-	35	-	73
- assets sold, written off, disposed	-	-	6	23	24	-	53
- reclassifications	-	-	-	-	-	-	-
<b>31 December 2020</b>	-	<b>(610)</b>	<b>(169)</b>	<b>(15,194)</b>	<b>(110)</b>	-	<b>(16,083)</b>
<b>CARRYING AMOUNT</b>							
<b>31 December 2018</b>	-	-	-	-	-	-	-
<b>31 December 2019</b>	-	<b>3,580</b>	<b>502</b>	<b>136,162</b>	<b>541</b>	-	<b>140,784</b>
<b>31 December 2020</b>	-	<b>3,128</b>	<b>354</b>	<b>128,286</b>	<b>407</b>	<b>577</b>	<b>132,752</b>

Explanatory notes (continued)

## 7. Property, plant and equipment (continued)

The sum of the depreciation and amortization costs included in the statement of profit or loss and other comprehensive income was EUR 12,473 thousand. This amount includes EUR 12,169 thousand of depreciation of property, plant and equipment, EUR 196 thousand of depreciation of right-of-use assets and EUR 108 thousand of amortization of intangible assets. Capitalized depreciation and amortization amounted to EUR 52 thousand. The cost of the Company's fully depreciated but still used property, plant and equipment amounted to EUR 401 thousand. Vehicles comprised for the majority of fully depreciated property, plant and equipment.

In preparing the financial statements, the Company's management calculated the recoverable amount of property, plant and equipment. Estimation was performed discounting the expected future cash flows from the Company's activity. The

forecast of the Company's operating results was made on the basis of the following key assumptions:

- a long-term growth rate equal to 2% was used to calculate the recoverable amount;
- weighted capital costs ratio was estimated referring to the WACC model and comprised 5.22%;
- cash flows are forecasted for the period of 4 years (2021–2024). The average revenue growth of 14.9% is forecasted over the period of 4 years.

The performed test for impairment did not show impairment of property, plant and equipment.



Explanatory notes (continued)

## 8. Right-of-use assets

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

	Buildings and structures	Vehicles	Other equipment, fittings and tools	Total
<b>ACQUISITION COST</b>				
<b>31 December 2018</b>	-	-	-	-
- acquisitions per year	209	70	4	283
- assets sold, written off, disposed	-	-	-	-
- reclassifications	-	-	-	-
<b>31 December 2019</b>	<b>209</b>	<b>70</b>	<b>4</b>	<b>283</b>
- acquisitions per year	2,196	12	-	2,208
- assets sold, written off, disposed	(1,398)	-	-	(1,398)
- reclassifications	-	-	-	-
<b>31 December 2020</b>	<b>1,007</b>	<b>82</b>	<b>4</b>	<b>1,093</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>				
<b>31 December 2018</b>	-	-	-	-
- depreciation	(12)	(9)	-	(21)
- impairment during the year	-	-	-	-
- assets sold, written off, disposed	-	-	-	-
- reclassifications	-	-	-	-
<b>31 December 2019</b>	<b>(12)</b>	<b>(9)</b>	<b>-</b>	<b>(21)</b>
- depreciation	(162)	(33)	(1)	(196)
- impairment during the year	-	-	-	-
- assets sold, written off, disposed	112	-	-	112
- reclassifications	-	-	-	-
<b>31 December 2020</b>	<b>(62)</b>	<b>(42)</b>	<b>(1)</b>	<b>(105)</b>
<b>CARRYING AMOUNT</b>				
<b>31 December 2018</b>	-	-	-	-
<b>31 December 2019</b>	<b>197</b>	<b>61</b>	<b>4</b>	<b>262</b>
<b>31 December 2020</b>	<b>945</b>	<b>40</b>	<b>3</b>	<b>988</b>

Explanatory notes (continued)

## 9. Intangible assets

The Company's intangible assets consisted of:

	Software	Other intangible assets	Total
<b>ACQUISITION COST</b>			
<b>31 December 2018</b>	-	-	-
- acquisition of assets due to reorganization*	159	20	179
- acquisitions per year	-	-	-
- assets sold, written off, disposed	-	-	-
- reclassifications	-	-	-
<b>31 December 2019</b>	<b>159</b>	<b>20</b>	<b>179</b>
- acquisitions per year	-	-	-
- assets sold, written off, disposed	(1)	(20)	(21)
- reclassifications	-	-	-
<b>31 December 2020</b>	<b>158</b>	-	<b>158</b>
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES</b>			
<b>31 December 2018</b>	-	-	-
- amortization	(52)	(4)	(56)
- impairment during the year	-	-	-
- assets sold, written off, disposed	-	-	-
- reclassifications	-	-	-
<b>31 December 2019</b>	<b>(52)</b>	<b>(4)</b>	<b>(56)</b>
- amortization	(107)	(6)	(113)
- impairment during the year	-	-	-
- assets sold, written off, disposed	1	10	11
- reclassifications	-	-	-
<b>31 December 2020</b>	<b>(158)</b>	-	<b>(158)</b>
<b>CARRYING AMOUNT</b>			
<b>31 December 2018</b>	-	-	-
<b>31 December 2019</b>	<b>107</b>	<b>16</b>	<b>123</b>
<b>31 December 2020</b>	-	-	-

\*On 1 September 2019, the activity of passenger and luggage together with non-current assets owned by the Passenger Transportation Directorate of AB Lietuvos Geležinkeliai were transferred to the Company.

Explanatory notes (continued)

## 10. Inventories

### The Company's inventories consisted of:

	2020	2019
Fuel	63	78
Spare parts	704	486
Other	91	102
<b>Total raw materials, supplies and components</b>	<b>858</b>	<b>666</b>
Purchased goods for resale	93	467
<b>Total goods purchased for resale</b>	<b>93</b>	<b>467</b>
<b>Total</b>	<b>951</b>	<b>1,133</b>

The carrying amount of the Company's inventories of EUR 972 thousand (in 2019: EUR 1,183 thousand) was reduced by EUR 21 thousand (in 2019: EUR 50 thousand) to the net realizable value as at 31 December 2020. The change in the write-down of the Company's inventories to net realizable value is reflected under the item of expenses of write-down

to the net realizable value in the statement of profit or loss and other comprehensive income.

During 2020 inventories of EUR 4,816 thousand were written off at cost of sales.

## 11. Trade and other receivables

### The Company's trade and other receivables included:

	2020	2019
External trade receivables, gross value	20	31
Impairment (-)	(3)	(4)
<b>Total external trade receivables</b>	<b>17</b>	<b>27</b>
Receivables from related parties	354	1,311
Impairment (-)	-	-
<b>Total receivables from related parties</b>	<b>354</b>	<b>1,311</b>
VAT receivable	868	681
Other receivables from the budget	336	33
Accrued income from related parties	3	353
Accrued income	312	889
Other receivables	5	4
Impairment (-)	-	-
<b>Total other receivables</b>	<b>1,524</b>	<b>1,960</b>
<b>Total</b>	<b>1,895</b>	<b>3,298</b>

The change in impairment is disclosed in Note 6.

Explanatory notes (continued)

## 12. Prepayments

### The Company's prepayments consisted of:

	2020	2019
Prepayments to external suppliers	8	55
Prepayments to related parties	-	1
Guarantees paid to related parties	44	19
Deferred expenses	108	37
<b>Total</b>	<b>160</b>	<b>112</b>

## 13. Cash and cash equivalents

### The Company's cash and cash equivalents consisted of:

	2020	2019
Cash in the bank	17,372	7,248
Cash on hand	17	40
<b>Total</b>	<b>17,389</b>	<b>7,288</b>

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

In order to ensure more efficient fund management and the liquidity of the Group companies, on 21 December 2018 the Group's cash-pool agreement was signed with AB Swedbank. On 29 August 2019, UAB LTG Link signed an agreement to join

the Group's account. Under this agreement, the members of the Group may borrow and lend funds to the members of the Group on a mutual borrowing platform for a maximum period of one year under market conditions. As at 31 December 2020, the Company had no receivables or liabilities under this agreement.

## 14. Non-current assets held for sale

	2020	2019
Non-current assets held for sale	36	180
<b>Total</b>	<b>36</b>	<b>180</b>

In 2020, the Company's management was actively carrying out the sale by auction of the diesel locomotive with the carrying amount of EUR 180 thousand. Due to the announced global pandemic of COVID-19, there were no possibilities to perform the transfer of such assets to the customer. As at 31 December 2020, the Company's management adopted

a decision on write-down of assets to the net realizable value. The impairment of non-current assets held for sale, amounting to EUR 144 thousand, was accounted for in the statement of profit or loss and other comprehensive income, with a purpose to reduce the carrying amount of the assets.

Explanatory notes (continued)

## 15. Share capital

The nominal value per share of the company is EUR 919.05. The change in the share capital is presented in the following table:

	Share capital	Number of shares, units
<b>SUBSCRIBED SHARE CAPITAL</b>		
31 December 2018	-	-
Increase	156,237	156,237
Decrease	-	-
31 December 2019	156,237	156,237
Increase	-	-
Decrease	12,647	-
31 December 2020	143,590	156,237
<b>CAPITAL STRUCTURE AT THE END OF THE REPORTING PERIOD</b>		
By type of shares		
Ordinary shares	156,237	156,237
Privileged shares	-	-
<b>Total</b>	<b>156,237</b>	<b>156,237</b>

The Articles of Association of UAB LTG Link were registered with the Register of Legal Entities on 20 July 2020, and the Company's share capital was reduced by EUR 12,647

thousand. The share capital was reduced by reducing the nominal value of one ordinary share of the Company from EUR 1,000 to EUR 919.05.

## 16. Retained earnings

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

During the implementation of the LG Changes programme, on 1 September 2019, AB Lietuvos Geležinkeliai fully completed the reorganization related to rail passenger and luggage transportation business and related services and transferred the business of the Passenger Transportation Directorate as a property complex to the Company. The business transferred to the Company includes assets related to passenger and luggage transportation activities, liabilities and employees. The fair market value of the business, determined by the independent assessor, made up EUR 156,087 thousand.

Accordingly, on 11 October 2019 the Company's share capital was increased by EUR 156,087 thousand with a non-monetary property contribution. Business relocation based on the selected reorganization policy is treated as business transfer and has been accounted for at carrying values. Difference between the assets received and liabilities accepted by the Company and the business market value in the amount of EUR 13,459 thousand loss is considered the reorganization result that has been accounted for in the Company's retained earnings (losses).

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

On 20 July 2020, the shareholder of the Company decided to reduce the Company's share capital by EUR 12,647,385.15 in order to eliminate the difference in the balance sheet as of 31 October 2019 caused by reorganization, by reducing the nominal value of one ordinary share of the Company from EUR 1,000 to EUR 919.05.

Explanatory notes (continued)

## 17. Lease liabilities

	2020	2019
Non-current part	869	179
Current part	148	95
<b>Total</b>	<b>1,017</b>	<b>274</b>

The lease contracts consist of vehicle and premises lease agreements. Vehicle contracts are concluded for a period of 3 years without the possibility of contract extension. Leases of buildings are usually concluded for a period of 20 years with the possibility of extending the lease. When determining the lease period, the Company's management evaluates all facts and circumstances, which give rise to economic incentives to avail themselves of the possibility to extend or terminate the contract. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated). Possible

future cash payments were not included in the lease liabilities as there is no reason to be certain that the leases will be extended (or not terminated).

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

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

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

	2020	2019
<b>ASSETS:</b>		
Right-of-use assets	988	262
<b>NON-CURRENT LIABILITIES:</b>		
Lease liabilities	(869)	(179)
<b>CURRENT LIABILITIES:</b>		
Lease liabilities	(148)	(95)
Impact of previous year to the income of profit or loss and other comprehensive income	(12)	-
Impact on the statement of profit or loss and other comprehensive income	(17)	(12)

### Impact on the statement of profit or loss and other comprehensive income (increase / (decrease)) as at 31 December 2020:

	2020	2019
Depreciation costs	(112)	(21)
Lease costs	111	10
Operating profit (loss)	(1)	(11)
Financial operating costs:		
Interest	(16)	(1)
Profit (loss) for the reporting period	(17)	(12)

Explanatory notes (continued)

## 17. Lease liabilities (continued)

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

	2020	2019
Net profit (loss)	(17)	(12)
Depreciation costs	112	21
Interest on the lease liability	16	1
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Lease liability payments	(95)	(9)
Interest on lease liability	(16)	(1)
Net cash flow increase (decrease)	-	-

If the discount rate applicable at the Company increased or decreased by 1 per cent, the amount of lease liabilities as of 31 December 2020 would accordingly make up EUR 950 thousand or EUR 1,091 thousand.

Costs of short-term and low-value lease, accounted for in the statement of profit or loss and other comprehensive income, amounted to EUR 206 thousand.

## 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-month salary. In addition, under a valid collective agreement, an employee with 25 years of service is paid a benefit of up to 1-month average salary.

Provisions for pensions and similar liabilities also include anniversary benefits. According to the collective agreement in force in the Company, a benefit of EUR 300 is paid to the members of the trade union at the age of 50 and 60.

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

	2020	2019
Discount rate	0.4%	0.57%
Employee turnover rate	5.5%	9.18%
Salary accrual rate	1.9%	3.00%

Explanatory notes (continued)

## 18. Employee benefits (continued)

### Change in employee benefits during 2020 by type:

	31 December 2019	Calculated to the statement of profit or loss and other comprehensive income	Capitalized costs	Paid	Balance as of 31 December 2020
<b>NON-CURRENT LIABILITIES</b>					
Provisions for pensions and similar liabilities	668	14	-	(12)	670
Total non-current liabilities:	668	14	-	(12)	670
<b>CURRENT LIABILITIES</b>					
Accumulated leave	1,047	1,753	-	(2,079)	721
Wages and salaries payable	606	4,746	835	(5,656)	531
Social security contributions payable	269	3,208	14	(3,218)	273
Personal income tax payable	211	2,596	-	(2,621)	186
Other employment-related liabilities	645	593	-	(608)	630
Total current liabilities:	2,778	12,896	849	(14,182)	2,341
<b>Total</b>	<b>3,446</b>	<b>12,910</b>	<b>849</b>	<b>(14,194)</b>	<b>3,011</b>

In 2020, the Company benefited from tax aid measures for social security due to COVID-19. Contributions for the period

from March until July 2020 were paid in August 2020. The amount of deferred contributions was EUR 13,814 thousand.

## 19. Prepayments received

### The prepayments received by the Company consisted of:

	2020	2019
Prepayments received	3	586
Prepayments received from related parties	1	3
<b>Total</b>	<b>4</b>	<b>589</b>

In 2019 most of the prepayments received, amounting to EUR 571 thousand, was from the state budget to compensate for losses in passenger transport by train on local transport routes. In July 2020, the state budget funds of EUR 405 thousand, allocated for compensation of losses related to passenger transport via local transport routes, were returned to the state budget. The balance of the grant received as advance payment, amounting

to EUR 166 thousand, was offset with the state budget funds, amounting to EUR 5 thousand, allocated for compensation of provision of passenger transport services for the established socially advanced groups, applying the discounts of 80 per cent and 50 per cent. In December 2020, the state funds received in advance, amounting to EUR 161 thousand were offset under the tripartite agreement on offset of claims.

Explanatory notes (continued)

## 20. Trade and other payables

### The Company's trade and other payables consisted of:

	2020	2019
Trade accounts payable	566	175
Trade accounts payable to related parties	2,390	4,318
Cash guarantees received	2	3
Cash guarantees received from related parties	16	3
Other taxes payable to the budget	74	31
Accumulated costs	4,096	744
Deferred income	239	
Other accounts payable and liabilities	6	5
Other accounts payable and liabilities to related parties	-	109
<b>Total</b>	<b>7,389</b>	<b>5,388</b>

The Company recorded a liability of EUR 36 thousand for audit services under accrued expenses.

Geležinkeliai, in accordance with the management services agreement of 20 July 2019.

The major part of trade payables to related parties consists of the management fee, based on the calculation of the management service fee of the shareholder AB Lietuvos

The major part of accrued expenses, i. e. EUR 3,126 thousand, is to related parties.

## 21. Revenue

### The Company's revenue consisted of:

	2020	2019
Revenue from passenger transportation:	13,044	8,769
Revenue from domestic passenger transportation	9,965	4,431
Revenue from international passenger transportation	2,733	4,216
Revenue from services related to passenger transportation	346	122
Other revenue:	634	386
Leased assets	223	90
Other income	411	296
<b>Total</b>	<b>13,678</b>	<b>9,155</b>

In 2020, the Company accounted for EUR 1,670 thousand of income compensation for the provision of passenger

transportation services to established socially disadvantaged groups by applying discounts of 80 per cent and 50 per cent.

Explanatory notes (continued)

## 21. Revenue (continued)

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

	2020	2019
Recognized immediately	13,455	9,065
Recognized over an ongoing period	223	90
<b>Total</b>	<b>13,678</b>	<b>9,155</b>

## 22. Other income

In 2020, the Company's income from other activities amounted to EUR 36,050 thousand. A major part of other operating income in the amount of EUR 35,979 thousand consisted of

loss compensation for transportation of passengers by train on domestic transport routes.

## 23. Employee benefits expenses

Employee benefits expenses by type:

	2020	2019
Wages and salaries	13,001	4,775
Social security contributions	233	85
Accrued vacation reserve	(326)	7
Pensions and similar liabilities	2	(45)
<b>Total</b>	<b>12,910</b>	<b>4,822</b>

## 24. Net finance income

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

	2020	2019
Total finance income	171	22
Currency exchange gain	28	2
Penalties and default interest for overdue trade receivables	143	20
Total finance costs	(19)	(7)
Interest	(16)	(2)
Penalties and interest for delays in passenger trains	(3)	(5)
<b>Total</b>	<b>152</b>	<b>15</b>

Explanatory notes (continued)

## 25. Income tax and deferred tax

Income tax was calculated at a rate of 15 per cent.

	2020	2019
Income tax of the previous year	(4)	-
Income tax for the reported year	-	396
Deferred tax expenses**	(130)	(180)
<b>Total income tax expense (benefit) recognized in profit or loss</b>	<b>(134)</b>	<b>216</b>

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

	2020	2019
Profit or loss before tax	(341)	1,379
Profit tax of previous year	(51)	207
Income tax	(74)	10
Income tax deductible expenses	(5)	(1)
Income tax (deductible) income	(4)	-
<b>Total corporate income tax expenses (income)</b>	<b>(134)</b>	<b>216</b>
Effective rate	(39.30)%	15.66%

Deferred tax assets and deferred income tax liabilities are offset to the extent that the deferred income tax liability is realized at

the same time as the deferred income tax assets. In addition, they are affiliated with the same tax administration authority.

The Company's deferred tax movement was:

	31 December 2019	Change in 2020	Balance as at 31 December 2020
<b>DEFERRED TAX ASSETS:</b>			
Difference in the value of non-current assets with tax value	489	(434)	55
Impairment of receivables and write-off of hopeless debts	1	-	1
Write-off of inventories	7	69	76
Accrued vacation reserve and bonuses	253	(49)	204
Long-term employee benefits liability	100	-	100
Accrued costs	4	(4)	-
Tax losses	-	548	548
Deferred tax assets	854	130	984
Deferred income tax liability	-	-	-
<b>Deferred tax asset (liability), net</b>	<b>854</b>	<b>130</b>	<b>984</b>

Explanatory notes (continued)

## 26. Related party transactions

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

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

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

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

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

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

### Related party transactions of the Company:

	2020		2020	
	Purchases	Sales	Receivables	Payables
AB Lietuvos Geležinkeliai	12,215	3,824	273	1,405
AB LTG CARGO	26	458	56	6
AB LTG Infra	6,317	411	47	567
UAB Geležinkelio tiesimo centras	-	7	-	3
UAB Vilniaus lokomotyvų remonto depas	2,377	50	22	426
UAB Gelsauga	31	-	-	-
UAB Saugos paslaugos	-	2	-	-
<b>Total</b>	<b>20,966</b>	<b>4,752</b>	<b>398</b>	<b>2,407</b>

Explanatory notes (continued)

## 26. Related party transactions (continued)

	2019		2019	
	Purchases	Sales	Receivables	Payables
AB LTG Lietuvos geležinkeliai	7,405	3,417	1,240	3,004
AB LTG CARGO	13	97	36	22
AB LTG Infra	486	28	30	1,133
UAB Geležinkelio tiesimo centras	-	4	1	3
UAB Vilniaus lokomotyvų remonto depas	445	19	23	270
UAB Gelsauga	5	-	-	1
<b>Total</b>	<b>8,354</b>	<b>3,565</b>	<b>1,330</b>	<b>4,433</b>

### The Company's accrued income and expenses with related parties accounted for in the statement of profit or loss and other comprehensive income as at 31 December 2020:

	2020		2019	
	Accrued receivables	Accrued payables	Accrued receivables	Accrued payables
AB Lietuvos geležinkeliai	45	3,126	117	540
AB LTG Infra	-	909	236	91
UAB Vilniaus lokomotyvų remonto depas	3	-	-	-
<b>Total</b>	<b>48</b>	<b>4,035</b>	<b>353</b>	<b>631</b>

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

Explanatory notes (continued)

## 26. Related party transactions (continued)

### Management remuneration and other benefits

As at 31 December 2020, the number of executives was 7 people, i.e. 1 Chief Executive Officer, 1 Director of Business Development and Marketing Department, 1 Director of Corporate Operations Department, 1 Director of Operations

Department, 1 Director of Passenger Services Department, 1 Director of Passenger Station Department, 1 Director of Repairs Department.

	2020	2019
Management remuneration	439	120
Incentives**	77	4
Accrued long-term benefits***	3	2
Number of executives	7	5
Allowances for members of the Board	-	-
Number of Board members	5	5

\*\*Incentives are performance bonuses and lump sums.

\*\*\*Accrued long-term benefits are provisions for pensions and other similar liabilities, accrued as at the end of the year of the reporting period.

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

## 27. Contingent assets and liabilities

As at 31 December 2020, the Company did not have contingent assets and liabilities.

### Legal cases

During 2020, The Company was not involved in any litigation.

## 28. Events after the reporting period

There were no significant events after the end of the reporting period which should be recognized or disclosed in the financial statements for the year 2020.