AB LTG CARGO
Annual Report

(all amounts are in EUR thousand unless otherwise stated)

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ABBREVIATIONS:

LTG – AB Lietuvos geležinkeliai
LTG Group – AB Lietuvos geležinkeliai and its subsidiaries
LTG Cargo, Company – AB LTG Cargo
LTG Cargo Group – AB LTG Cargo and its subsidiaries
LTG Cargo Polska – LTG Cargo Polska Sp. z.o.o.
LTG Cargo Ukraine – LLC LTG Cargo Ukraine
LTG Wagons – UAB LTG Wagons

Annual and interim reports as well as the financial statements are available publicly on the Company's website: http://ltgcargo.lt/

Dear colleagues, customers, partners and likeminded people,

The last year has brought many important changes for the Company as a whole: we have set up companies in Poland and Ukraine, we have started intermodal cargo transportation to Western Europe, we have adopted a renewed long-term strategy of the Company. Despite the protracted pandemic, market uncertainties and an increasing competition, we ended the year 2021 with 51.1 million tons of freight, just 4% less than in 2020. Based on the lessons learned from the first year of the pandemic, we worked to ensure that our logistics chains are operating at a higher level than ever before, and we have contributed to the regional security by carrying out complex transportation of defensive measures.

Just in the beginning of 2022, there were changes in the management team and I took up the challenge to continue to work confidently with all my colleagues to develop more sustainable rail freight solutions. The new responsibilities were motivated by the belief in the team and the desire to continue the changes that have been initiated in the Company, both in completing the digital transformation of our large-scale operations, and in implementing the diversification of our business activities envisaged in our strategy. In 2022, we have a lot of important work ahead that will further open up the pathways to Western Europe for us and our clients, with direction and motivation from all the projects we have completed in the past and the willingness of our clients to cooperate.

We started 2021 with the establishment of LTG Cargo Ukraine in Ukraine and later LTG Cargo Polska in Poland. These companies have already established the necessary teams to provide the planned services in the first year of operation and are successfully expanding them further in 2022. LTG Cargo Ukraine started to provide locomotive rental and shunting services, wagon rental services, and has become the operator of the international container train "Viking train" connecting Klaipėda, Odessa and Chernomorsk seaports. LTG Cargo Polska has started cooperation with PKP Cargo, the largest Polish railway company, and is working on development of projects to provide freight services on an international route linking two intermodal terminals. We have signed an important partnership agreement with a Kazakh company to strengthen multimodal transport logistics chains and intercontinental container transport.

In the summer, Kaunas Intermodal Terminal was connected to the European rail system by the railway Rail Baltica. The project has opened up long-awaited opportunities to transport containers and semi-trailers to Western Europe. Already on the opening day of the Rail Baltica section, a train from the Netherlands arrived in the country, and soon afterwards we started to transport containers and semi-trailers to Tilburg on a regular basis.

Throughout the year, we pursued the highest level of operational efficiency, focusing on digitisation projects and the optimisation and modernisation of our rolling stock. For the first time in the Baltics, we have overhauled an old locomotive, which today can be used for more sustainable freight transport. In two years, we have overhauled more mainline locomotives, saving over EUR 20 million. Recognition of *Transparency International* showed that we are making the right changes and that we are on the right track - we were awarded the maximum score in the Transparency Study of the largest companies operating in Lithuania.

We have launched a project that is particularly important for employees, called "Leaders of Change", which brings together the Company's active employees and empowers them to make positive change. One of the project's most notable success stories is the Cargo Initiatives platform, which gives all employees a tool to conveniently propose their ideas.

On 8 December, the US sanctions against Belarusian legal and natural persons, including Belaruskalij, a producer of potash fertilisers, came into force. They are not binding on Lithuanian entities and apply only if the transaction substantially meets the following conditions: the transaction involves a US person; the transaction is denominated in US dollars; and the transaction is conducted through a US correspondent bank. Under the contract, Belaruskalij paid for the services in euro. The services continued to be provided to the company for some time and were paid for in advance under the contract. On 12 January, the Government of the Republic of Lithuania approved the resolution of the Coordination Commission for the Protection of Objects of Importance for National Security, which declared the contract with the Belarusian company Belaruskalij to be inconsistent with the interests of the national security, and considered it null and void as of the date of the resolution's entry into force, i.e. as of 1 February. We were ready to comply with the Government's decision, and therefore stopped providing services as of 1 February. In 2022, we continue providing the authorities with the expert information and insights they need, within the limits of our competences. At the end of January 2022, the Board of Directors of LTG, based on the shareholder's approval, adopted a new procedure under which, the Coordination Commission for the Protection of Objects of Importance for National Security will be contacted each time a request for Belaruskali cargo transportation is received, and such requests will not be granted until the Commission's opinion is provided.

The past year was challenging and this year will continue to be challenging. However, I am confident that we will find solutions, we will become more efficient, expand into new markets, and through our daily operations contribute to more sustainable, safer and innovative freight transport in the region.

Sincerely,
EGLĖ ŠIMĖ
Chief Executive Officer of LTG Cargo

(all amounts are in EUR thousand unless otherwise stated)

BACKGROUND INFORMATION ON THE COMPANY

Name	AB „LTG Cargo“
Head office address:	Geležinkelio St. 12, LT-02100 Vilnius
Legal form	Joint Stock Company
Date and place of registration	28 December 2018, Register of Legal Entities
Company code	304977594
Telephone	(+370 5) 202 1515
E-mail	info@ltgcargo.lt
Website	http://ltgcargo.lt
Principal activity	Freight transportation and provision of related services
Chief Executive Officer	Eglė Šimė
Shareholders	100% of shares are owned by AB Lietuvos Geležinkeliai

Data about the Company is collected and stored by the Register of Legal Entities of the State Enterprise Centre of Registers.

THE COMPANY'S SUBSIDIARIES, ASSOCIATES AND COMPANIES OF SUBSEQUENT LEVELS

Name	LTG Cargo Polska Sp. z o.o.	UAB LTG Wagons	LLC LTG Cargo Ukraine	OOO Rail Lab
Head office address	Rondo Organizacji Narodów Zjednoczynych St. 1, 12 floor, Warsaw	Geležinkelio St. 12, Vilnius	Pushkin St. 21, Kiev	Internacionalnaja St. 36-1, office 423.3, Minsk,
Legal form	Private limited liability company	Private limited liability company	Private limited liability company	Limited liability company
Date and place of registration	21 July 2020, the Polish National Court Register	4 November 2020, the Register of Legal Entities of the Republic of Lithuania	9 December 2020, the United State Register of Legal Entities, Individual Entrepreneurs and Public Organisations	26 May 2020, Minsk City Executive Committee, State registration
Company code	386573260	305651295	43987945	192827267
Telephone	+370 620 74020	+370 618 84991	+370 612 27634	+375 29 312 23 52
E-mail	ltcargo.polska@litrail.lt	info@ltgwagons.lt	Contacts are available on the website: http://ltgcargo.ua	vladimir.dervenkov@ltg.lt
Website	http://ltgcargo.pl	http://ltgcargo.lt	http://ltgcargo.ua	-
Principal activity	Freight transportation and provision of related services in Poland	Lease of wagons used for freight transportation	Freight transportation and provision of related services in Ukraine	Manufacture of locomotives and rolling stocks, repair and maintenance of vehicles. Wholesale trade of other machinery and equipment
Portion of shares controlled by the Company, %	100% of shares are owned by AB LTG Cargo	100% of shares are owned by AB LTG Cargo	100% of shares are owned by AB LTG Cargo	99% of shares are owned by AB LTG Cargo

THE COMPANY'S BRANCHES, REPRESENTATIVE OFFICES ABROAD

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

COMPANY'S BUSINESS MODEL

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

Until 1 May 2019, AB LG Cargo carried out preparatory works, aimed at transferring the activities of the Freight Transportation Directorate of AB Lietuvos Geležinkeliai to AB LG Cargo.

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

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

In 2020, the Company introduced a new brand. The logo and related styling features of AB LG Cargo have changed. A new abbreviation LTG which highlights patriotism has been introduced; thus AB LG Cargo has become AB LTG Cargo.

In April 2021, in order to ensure competitiveness and efficiency of the Company in international markets, LTG Cargo acquired the business of UAB Vilniaus Lokomotyvų Remonto Depas which provides rolling stock repair and modernisation services. Thereafter, the Company provides rolling stock repair and modernisation services under a new brand – LTG Tech. The new and easily memorable identity is part of the LTG Group's renewal, and it marks a new stage by which it is aimed at strengthening positions when competing for orders of rolling stock maintenance in the Central and Eastern Europe.

MAIN BUSINESS ACTIVITY AND SERVICES

LTG Cargo provides the following services:

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

Services provided under the brand of LTG Tech:

- Manufacture of new locomotives, auto-drains and road machines of the infrastructure;
- Overhaul repair, servicing and maintenance of railway rolling stocks;
- Manufacture of freight wagons and depot repair, overhaul repair and servicing of freight wagons;
- Other types of repair and other activities (repair of junctions, containers, wholesale trade).

LTG Tech also provides services of access to railway service facilities and services provided in railway service facilities – maintenance of locomotives, large-scale maintenance of locomotives, detachable repair and upkeep of freight wagons.

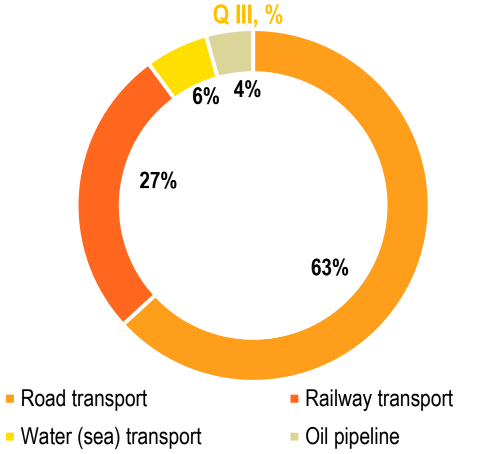
MARKET

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

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

The data as of the 1-9 months of 2021, collected by the Department of Statistics of the Republic of Lithuania, shows that, if evaluating the total amount of the freight of all types carried on local routes, the freight carried to Lithuania and outside its territory, as well as the transit freight transported through the territory of Lithuania (when measured in tonnes), the share of freight transported by railways was 27%.

Freight transported (tons) by all types of transport in the territory of Lithuania in 2021 Q III, %



The majority share of the freight carried by railways in the territory of Lithuania is comprised of international carriages. The freight transported in the direction of the Klaipėda Port prevail, also the direction to the Kaliningrad region remains significant.

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

In implementing the strategy of international development, the Company is developing the freight transport activities in the Western Europe. An important step towards development of LTG Cargo's activities to this direction is the connection of Kaunas Intermodal Terminal to the European rail system, which took place in July. LTG Cargo is working intensively on this strategic direction, is strengthening its positions in Poland. Also, the Company with its subsidiary LTG Cargo Polska and in cooperation with the Poland freight transportation company PKP Cargo, has organised a train of containers and semi-trailers travelling on a regular basis on the route Kaunas–Tilburg. The need for increase of the number of such trips is felt in the market. In Implementing the mentioned international strategic development, LTG Cargo has also started its operations in the Ukrainian market.

The Company provides **manufacture, maintenance and repair services of railway rolling stocks** to Lithuanian, Latvian, Estonian, Poland, Ukrainian and Georgia companies.

The main competitor of the Company in the field of locomotive and wagon repair services in Lithuania, Latvia and Estonia is the Daugavpils Locomotive Repair Plant which has huge manufacturing premises and enormous repair capacities. In Poland, it competes with such manufacturers as PESA, NEWAG and other private repair depots. In Ukraine, there are more than 100 repair depots which are owned by the Ukrainian railways and which carry out repair works of their fleet. Their repair bases are not renovated, there is a lack of investments therein. In addition, such private repair depots as Nikoalev Locomotive Repair Plant, Zaporizhia Locomotives Repair Plant, Ivano-Frankivsk Locomotive Repair Plant, Poltava Locomotive Repair Plant, etc. operate in Ukraine as well.

MANAGEMENT OF THE COMPANY

INFORMATION ON SHARES AS OF 31 DECEMBER 2021

Company name	Amount of authorised capital, in thousand	Number of shares, items	Par value per share
Parent company			
AB LTG Cargo	44,087	209,299	210.64
Subsidiaries			
LTG Cargo Polska Sp. z o.o.	PLN 2,225 thousand	2,225	PLN 1,000
UAB LTG Wagons	150	150	1,000
LLC LTG Cargo Ukraine	UAH 17,027 thousand	-	-
OOO Rail Lab	BYN 1,186 thousand	-	-

The Company is part of AB Lietuvos geležinkeliai Group whose sole shareholder is the parent company AB Lietuvos Geležinkeliai. The shareholder of AB Lietuvos Geležinkeliai is the State which is controlling 100% of shares, and rights and obligations of the shareholder are implemented by the Ministry of Transport and Communications of the Republic of Lithuania.

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

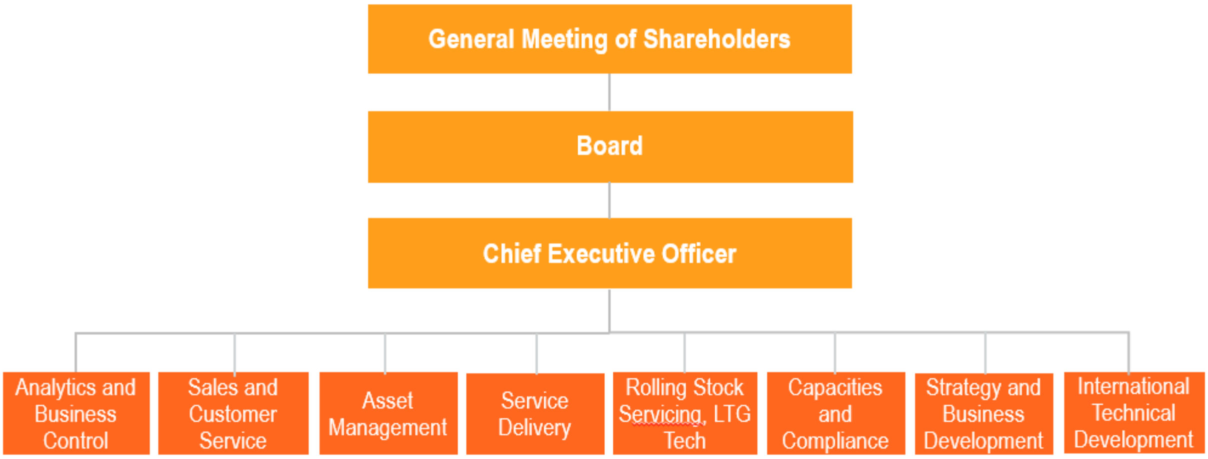
During the reporting period, the Company did not acquire its own shares or shares of other companies of the LTG Group.

MANAGEMENT STRUCTURE OF THE COMPANY

AB LTG Cargo and its subsidiaries belong to AB Lietuvos Geležinkeliai Group. LTG Cargo is the sole shareholder of its subsidiaries LTG Cargo Polska, LTG Cargo Ukraine and LTG Wagons. After LTG Cargo acquired the business of UAB Vilniaus Lokomotyvų Remonto Depas in April 2021, the subsidiary of this company - OOO Rail Lab - was included in the structure of LTG Cargo. Currently, LTG Cargo owns 99% of the shares of OOO Rail Lab.

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

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



THE COMPANY'S ARTICLES OF ASSOCIATION

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

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

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

- On 2 September 2021, an updated version of the Articles of Association of the Company was registered, whereby the Company's share capital was increased.
- On 30 November 2021, an updated version of the Articles of Association of the Company was registered, whereby the number of the Board members was reduced to 3, supervisory duties of head of the Board and the Board's competence to consider the most important activity issues of subsidiaries were enshrined.

The Articles of Association of the Company are available on the Company's website.

GOVERNING BODIES OF THE COMPANY

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

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

The General shareholders meeting is the supreme management body of the Company. The competence of the General shareholders meeting, the procedure of its convening as well as resolution-passing is established by the Law on Companies, other legislation and in the Articles of Association of the Company published on the website.

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

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

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

- taking of decisions regarding 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 in case the Company's assets had been listed as property and facilities of importance to ensuring national security.
- participation or establishment of other legal entities;
- approval of contracted tariffs of freight transportation or applicable discounts under essential conditions in case the intended contractual revenue might exceed EUR 10,000,000 over the entire contract period or the term of the contract exceeds 3 years.

- commencing activities of new nature or terminating the Company's current activities if the respective decision has not been adopted in approving the Company's strategy;
- the Company's non-current assets the carrying amount of which is equal to or exceeds EUR 300,000.
  - investment in Group companies or third parties, disposal or lease of those assets;
  - pledge or mortgage;
  - acquisition of non-current assets;
- guarantee or fulfilment of a third party's obligations, the amount of which is equal to or exceeds EUR 300,000;
- taking of decisions regarding approval for head of Company to conclude purchase transactions of goods, services, or works, the amount of which is equal to or exceeds EUR 300,000.

Key decisions of the General shareholders meeting in 2021:

- the Company's retained earnings (losses) of 2020 were distributed;
- the Company's share capital was increased by an additional non-monetary contribution;
- the Company's Articles of Association were amended, the number of Board members was reduced to three.

The Board is a collegial governing body consisting of 3 members as set out by the Company's Articles of Association. The members of the Board are elected by the General shareholders meeting for a term of 4 years. The Management Board elects the chairman of the management Board from among its members. The same person may be elected as a member of the Board no more than for two consecutive offices.

The Board is accountable to the General shareholders meeting.

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

Additional competence areas of the Board:

- approval of operating strategy and long-term goals, investment and operational plans, and annual budget of LTG Cargo;
- establishment of performance indicators of LTG Cargo;
- Adoption of decisions on investment of LTG Cargo property and facilities of importance to ensuring national security, conclusion of purchase or sale, or any other transfer of ownership, pledge or mortgage transactions.
- Approval of calculation of basic freight rates and arrangements for granting the discounts as well as adoption of decisions on indexation of the basic freight rates;
- Approval of the basic freight rates and the price list of additional services.
- adoption of decisions regarding non-current assets of LTG Cargo, the carrying amount of which equals to or exceeds EUR 300,000.
  - investment in Group companies or third parties, disposal or lease of those assets;
  - pledge or mortgage;
  - sureties or guarantees for fulfilment of a third party's obligations;
  - acquisition of non-current assets;
  - conclusion of other transactions (related to assets, works, services).
- adoption of decisions on participation or establishment of other legal entities;
- adoption of decisions on commencing activities of new nature or terminating the Company's current activities;
- approval of employment contract of the Company's executive, conditions of remuneration and incentives;
- approval of the total amount of incentives to the employees of LTG Cargo for annual performance results (in accordance with the Company's performance results);
- consideration of information on the Company's key operational risks and approval of the Company's plan of operational risk management.
- consideration of information and reports on the Company's ongoing programmes;
- analysis and assessment of other information on the most significant operational issues provided by LTG Cargo executive.

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

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

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

COMPOSITION OF THE COMPANY'S BOARD

MANTAS BARTUŠKA

Chairman of the Board
Held office from 19 November 2019 to 3 January 2022

Education

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

Main employer, position held

Chief Executive Officer of AB Lietuvos Geležinkeliai,
Geležinkelio St. 16, Vilnius, company code 110053842.

EGIDIJUS LAZAUSKAS

Board member
Appointed on
21 December 2018

Education

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

Main employer, position held

Chief Executive Officer of AB LTG Cargo, Geležinkelio St. 12, Vilnius, 3049775949 (until 3 January 2022).

Chief Executive Officer of AB Lietuvos Geležinkeliai, Geležinkelio St. 12, Vilnius, 110053842 (from 4 January 2022).

Other positions

Chairman of the Board of UAB Vilniaus Lokomotyvų Remonto Depas.
Mindaugo St. 39, Vilnius, company code 126280418 (until 16 December 2021).

LUKAS DANIELEVIČIUS

Board member
Held office from 21 December 2018 to 29 November 2021

Education

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

Main employer, position held

Head for Strategy and Business Development of AB LTG Cargo.
Geležinkelio St. 12, Vilnius, company code 304977594.

(all amounts are in EUR thousand unless otherwise stated)

BRIGITA VALENČIENĖ

Board member
Appointed on
29 November 2019

Education

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

Main employer, position held

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

Other positions

Member of the Board of UAB Geležinkelio Tiesimo Centras, Trikampio St. 10, Lentvaris, Trakai District, company code 181628163 (until 13 December 2021).

ROKAS JANUTĖNAS

Board member
Held office from 29 November 2019 to 29 November 2021

Education

- University of Glasgow, Economics

Main employer, position held

Head for the Strategy and Operational Efficiency of AB Lietuvos Geležinkeliai
Geležinkelio St. 12, Vilnius, company code 110053842.

CHANGES IN THE COMPOSITION OF THE BOARD DURING THE REPORTING PERIOD

The composition of the Board has changed following the decision of the General shareholders meeting to reduce the number of Board members to three and after the Board members Lukas Danielevičius and Rokas Janutėnas were removed from the Board on 30 November 2021. Mantas Bartuška has no longer held office as a Board member from 4 January 2022.

PARTICIPATION IN BOARD MEETINGS IN 2021

Name, surname of a member	Board meetings
Number of meetings in 2021 (including away days, early-voting in writing)	19
Mantas Bartuška	19
Egidijus Lazauskas	19
Lukas Danielevičius	15
Brigita Valenčienė	19
Rokas Janutėnas	14

(all amounts are in EUR thousand unless otherwise stated)

MOST IMPORTANT DECISIONS ADOPTED IN 2021

- Approval of the Company's annual management report for 2020.
- Approval of the Company's Financial statements of 2020.
- Establishment of the Company's principal performance indicators for 2021 and 2022 and Chief Executive Officer's goals.
- Endorsement of the Company's interim financial statements for a period of six months ended 30 June 2021.
- Change in the Company's governing structure.
- Approval of the changed Company's strategy.
- Approval of the business plan (budget) for 2022.
- Adoption of the decision to allow acquisition of electric locomotives with the purpose of concluding a purchase transaction of 1,520 mm track gauge electric locomotives with long-term supply of spare parts and maintenance.
- Adoption of the decision to agree that AB LTG Cargo concludes a business acquisition transaction of railway rolling stock repair and related services from UAB Vilniaus Lokomotyvų Remonto Depas.
- Adoption of the decision to acquire grain wagons and flat wagons.
- Adoption of the decisions to approve freight applications and the action plan upon adoption of the decision of the National Security Council.
- Adoption of the decisions to remove from office and elect new head of the Company.

Chief Executive Officer (Head of the Company is the sole executive body who is responsible for organisation of day-to-day business of the company and manages it. The competence areas of the CEO are defined in the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company available at the Company's website. The CEO is elected for a term of 5 years by the Board which the CEO is accountable to. The same person may be elected as a Chief Executive Officer no more than for two consecutive office terms.

THE COMPANY'S MANAGEMENT AND CHANGES THEREOF

EGIDIJUS LAZAUSKAS **EGLĖ ŠIMĖ**	Chief Executive Officer	Held position from 1 May 2019 to 3 January 2022 Holds position from 4 January 2022 (temporarily)
LUKAS DANIELEVIČIUS **MINDAUGAS SKUNČIKAS**	Head for Strategy and Business Development	Held position from 1 May 2019 to 6 December 2021 Holds position from 7 December 2021 (temporarily)
EGLĖ ŠIMĖ **INDRĖ KOLESNIKOVIENĖ**	Head for Service Delivery	Held position from 19 August 2019 to 3 January 2022 Holds position from 4 January 2022 (temporarily)
OLEGAS LUNYS	Head for Capacities and Compliance	Holds position from 1 May 2019
MINDAUGAS GUDAITIS	Head for Sales and Customer Service	Holds position from 1 May 2019
AUDRIUS PUKAS	Head for Asset Management	Holds position from 15 June 2020
ALBERTAS BAJORINAS **AUDRIUS PUKAS**	Head for Rolling Stock Servicing LTG Tech	Held position from 1 April 2021 to 14 July 2021 Holds position from 15 July 2021 (temporarily)
MINDAUGAS LIUTKUS	Head for Analytics and Business Control	Holds position from 1 May 2019
ALBERTAS BAJORINAS	Head for International Technical Development	Holds position from 15 July 2021

INFORMATION ON CHANGES IN THE MANAGEMENT

- Before being appointed as the SEO of AB Lietuvos Geležinkeliai on 4 January 2022, Egidijus Lazauskas has held the position as the CEO until 3 January 2022. Eglė Šimė has been appointed as Acting CEO of LTG Cargo on 4 January 2022.
- Eglė Šimė has held the position as Head for Service Delivery until 3 January 2022. On 4 January 2022, Indrė Kolesnikovienė was appointed as Acting Head for Service Delivery.
- Lukas Danielevičius has been Head for Strategy and Business Development until 6 December 2021. On 7 December 2021, Mindaugas Skunčikas was appointed as Acting Head for Strategy and Business Development.
- Albertas Bajorinas has been Head for Rolling Stock Servicing LTG Tech until 14 July 2021. On 15 July 2021, Audrius Pukas was appointed as Acting Head for Rolling Stock Servicing LTG Tech.

ADDITIONAL INFORMATION ON THE CEO

Before being appointed as the Acting CEO of LTG Cargo on 19 August 2019, Eglė Šimė was Head for Service Delivery of LTG Cargo. She has gained experience in company management by managing the company UAB Franmax of the Maxima group, the companies UAB Verslo Aptarnavimo Centras and Public Institution Energy Training Centre of the Ignitis group.

Eglė Šimė has a bachelor's degree in economics awarded by the Lithuanian University of Educational Sciences.

As at the end of the reporting period, members of the Board, the CEO and the Company's managers have submitted declarations on private interest, which can be found in the Register of Private Interests of the Chief Official Ethics Commission. There were no conflicts of interest between the members of the Board, the CEO and the Company's managers during the reporting period.

INFORMATION ON REMUNERATION OF BOARD MEMBERS AND THE COMPANY'S CHIEF EXECUTIVE OFFICER

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

1. **Basic monthly salary.** The Company's Chief Executive Officer's basic monthly salary set out in the employment contract amounted to EUR 8,600 as at the end of the reporting period. The basic monthly salary of the Company's Chief Executive Officer increased by 2.6% from EUR 8,380 to EUR 8,600 as at the end of the reporting period.
2. **Annual incentives.** The annual variable remuneration (annual incentive) directly related to achievement of annual goals and dependent on actual achievement of the established annual indicators **might be** paid to the Company's Chief Executive Officer next to the basic monthly salary. Each year, the Board of the Company approves the structure of annual goals of the Group, threshold values for their achievement and benchmarks, and after the end of year the Board of the Company approves the results of achievement of these objectives and the possibility of paying annual incentive.

The maximum amount of the variable annual incentive is up to 30% of the annual basic salary. The maximum monthly proportion (i.e. 1/12) of the annual incentive shall not exceed EUR 2,580. In 2021, a monthly portion (1/12) of the annual incentive to the Company's CEO for achievement of the goals of the year 2020 amounted to EUR 2,112.

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

STRATEGY

In response to the geopolitical and economic changes in the transport services market, which influence the changes in trade patterns and passenger flows, the LTG Group's activities are based on long-term strategic planning. In order the strategic directions and targets provided for in LTG Group's long-term sustainable growth strategy for 2040 would be as focused to the activities implemented by the LTG Group as possible, long-term strategies of separate companies of the LTG Group have been prepared. One of them is the long-term **LTG Cargo's strategy for 2021-2040** which is reviewed and improved every year, paying considerable attention to deployment of solutions of performance efficiency and diversification of activities.

MISSION – business combinations for a better future.

VISION – logistics leader in Central and Eastern Europe.

STRATEGIC DIRECTIONS

1. First choice for logistic services: by 2040, LTG Cargo group will transport 103 million tons of freights in the Baltic states, Poland and Ukraine.
2. Increase of performance efficiency of highest level: in order to increase profitability, it is focused on digitalisation projects, modernisation and optimisation of the rolling stock fleet, both on long-term and short-term planning (including establishment of operational management centre), application of the best asset management models, automation and digitalisation of daily operations.
3. Flow / revenue growth through business development: reorganisation of the principal services according to customers' needs, growth of intermodal transport services, lease and manufacture of rolling stocks, business development in foreign markets: Poland and Ukraine.
4. Responsible development in line with the Green Deal: sustainable, environmentally friendly solutions creating value to society are being developed, including the 'green' transformation of the traction park by reducing CO_2 emissions and energy consumptions of freight transportation.
5. Ensuring comprehensive safety through implementation of cyber security initiatives, increase in employees' competence regarding safety issues.
6. Increase in employees' satisfaction and productivity through development of competences, forming of organisational culture of high results.

STRATEGY PROJECTS UNTIL 2030:

- Establishment of the operational centre of freight transportation.
- Optimisation of train document management.
- Manufacture of freight wagons.
- Optimisation project of technological bases of LTG Cargo.
- Update projects of acquisition of electric locomotives, the wagon fleet (grain wagons, semi-trailers, cement wagons, etc.).
- Business development in foreign markets by commencing the activities of freight transportation, freight forwarding, rolling stock lease in Poland and Ukraine.

IMPLEMENTATION OF KEY GOALS IN 2021

Strategic activity goals	Strategic activity indicators	Measuring units	Goal achievement guidelines 2021	Goal implementation indicators 2020
Increase value created by LTG Cargo	Revenue	EUR million	374 - 426	390
	EBIDTA	%	12 – 17.2%	13.1%
Manage decrease in turnover of transported freight	Turnover of freight transported by LTG Cargo	billion tkm	15.2 – 16.0	14.6
Increase satisfaction of customers	Valuation of freight transportation services according to NPS	points	23 -39	26
Minimise environmental impact and climate change effects	Reduction of CO2 emission of the existing rolling sock fleet compared to road transport	CO2, million tons	1.98 – 2.13	1.89
Increase the level of occupational safety	Lost Time Injury Frequency Rate (LTIFR)	Occupational accidents *1 M / working hours	1.83 to 1.38	1.60
Increase employees‘ loyalty	Engagement of employees of LTG Cargo	%	46 – 54	58

KEY PROJECTS IN 2021

- For the implementation of train scheduling and train routing, as well as long- and short-term rolling stock planning provided for in the project for setting up the Operational Centre of freight transportation, a system installation and lease contract has been signed, and the operational process tree has been developed and validated.
- All document terminals have been installed to optimise management of train documentation and activities of the division. The project is scheduled for completion in the first half of 2022.
- The wagon manufacturing project is continuing to increase the Company's income from new activities. Testing of two semi-wagons was successfully completed and verification certificate obtained in Lithuania. Series production of the first wagons is scheduled in the second half of 2022.
- In the LTG Cargo technological base optimisation project, the formation of 3 plots was completed, the status of a project of regional importance was obtained and the procurement of design services was announced. In order to increase the efficiency of LTG Cargo's operations and use of its assets and to maximise its financial return, a modern and up-to-date traction rolling stock production base will be installed, adapted to the provision of new services and meeting the service standards of the renewed rolling stock fleet of LTG Group and other customers. The project is scheduled for completion in 2025.
- The re-motorisation project for a new product, the TEM2 shunting locomotive, has been completed. The locomotive will be handed over to the customer at the end of 2021. The results of the pilot product testing include: 15 years longer useful life, up to 25% reduction in fuel consumption, 10% increase in power. New revenues from TEM2 locomotive modernisation are expected as a result of the mentioned modernisation service offered to the market.

CLIMATE CHANGE RISK AND ITS IMPACT ON THE COMPANY'S ACTIVITIES

In fulfilment of the LTG Group's strategic goals and priorities of management of sustainability, established in **LTG Sustainable Growth Strategy 2040,** the Company is especially committed to environmental protection. One of the main strategic activity areas of the Group and its individual companies is the **Green Deal.**

In 2021, the LTG Group approved the **Environmental Protection Strategy 2030+,** which identifies the LTG Group's environmental priorities and areas in which the LTG Group companies have or may have an impact due to their activities and sets specific targets the achievement whereof would reduce this impact. The strategy is based on the national legislation, international agreements (Paris Agreement on Climate Change, the European Green Deal) on the environment, including climate change.

One of the goals set out in the **Environmental Strategy** especially important to the Company is **climate change mitigation and adaptation** - the LTG Group is committed to sustainable development, reducing CO_2 emissions and adapting to climate change. Until 2030 it is planned to reduce total CO_2e emissions from rail transport by 30% in 2005 and to reduce specific CO_2e emissions from freight and passenger transport by 50% compared to 2005. Until 2050 the LTG Group aims to become climate neutral in all of its activities.

Rail transport is recognised in the EU as one of the most environmentally friendly modes of transport. In the long run, the gradual increase in the preference of private and business customers for more sustainable and environmentally friendly products and services is likely to have a positive impact on the Company's operations. Stricter environmental and charging requirements may give rail transport a competitive advantage over other, less environmentally friendly modes of transport in the long run. An important step in improving the transportation of freight by rail to and from Europe was the opening of Kaunas Intermodal Terminal by the Company for commercial traffic on the European railway of Rail Baltica. The Company is actively working on this strategic direction, is strengthening its positions in Poland and is starting activities in the market of Ukraine.

The Company has not currently identified any assets used in its operations that may be affected by events or factors related to the climate change. The **Environmental Protection Strategy 2030+** also sets out the objective of assessing measures to adapt to climate change and its effects.

The main strategic provisions, directions and goals are also transferred to the Company's long-term strategy related to the implementation of the LTG Group's sustainability goals. Environmental goals are included in the annual goals of the Company's managers and employees, the implementation of indicators measuring them is monitored and it is significant in assessing the company's activities and performance.

According to the Company's long-term strategy, investments into "green" projects, which would significantly reduce the impact on the climate change and environment, are planned:

- Investment project related to electrification of the rail network (electric traction units reducing CO2 emissions – acquisition of electric locomotives: in 2021, preparation works were carried out, and potential qualified participants were selected, a public procurement is planned to be announced at the beginning of 2022, operation is planned to be started in 2024).
- other projects of assets' renovation to reduce pollution.

During the reporting period, the Company did not have any financial commitments related to ESG (Environmental, Social and Governance) indicators. It has also not been exposed to any legal proceedings or complaints related to climate change events and has not incurred any additional costs that have had a material impact on the financial statements.

Environmental activities on the LTG Group level are implemented by a centralised corporate Environmental Protection function, which, together with the Risk Management function, monitors changes in the regulatory framework. During the reporting period, no risks and uncertainties have been identified in relation to the changing legal framework (likely to result in stricter environmental requirements) and there is no doubt about the Company's ability to continue its operations.

KEY EVENTS IN 2021

JANUARY

- The process of merging the LTG entity Vilniaus Lokomotyvų Remonto Depas to the Company was started. The aim is to concentrate the competences of the two operations, to strengthen the activities of a strategic freight carrier and to create more value for the LTG Group.
- As part of the international development strategy and in order to diversify the activities, the Company established a subsidiary in Ukraine - LTG Cargo Ukraine. At the beginning of the year, the management team of LTG Cargo Ukraine was formed.

FEBRUARY

- The Company launched the "Leaders of Change" project. The aim of the project is to create a team of active and motivated employees, responsible for involving all employees in improving working conditions and operational efficiency and creating an organisational ideas bank.

MARCH

- A project to standardise traffic safety information was launched. The Company waives paper instructions and rules, and all the documents required for the job will be made available for train drivers at computerised workstations or on their mobile phones.
- The Company carried out a public market consultation on the renewal of its locomotive fleet and the purchase of electric locomotives. The plan is to substantially renew the rolling stock fleet and to purchase up to 55 electric locomotives in several stages. This will allow all freight to be transported on the electrified railway line in Lithuania without the emission of greenhouse gas.

APRIL

- On 1 April 2021, the Company purchased the business of Vilniaus Lokomotyvų Remonto Depas and has been operating as a single Company since then. Rolling stock repair and maintenance services are provided in the market under a new brand - LTG Tech. a new and easily memorable identity is part of the LTG Group's renewal, and it marks a new stage by which it is aimed at strengthening positions when competing for orders of rolling stock maintenance in the Central and Eastern Europe.
- The Company received a permission to set up a joint venture in Poland with PKP Cargo, Poland's largest freight forwarder. The joint venture in Poland was agreed last year and it will be engaged in intermodal freight transportation in Poland. The aim is to strengthen logistics chains and improve the mobility of large cargo between Lithuania and Poland.
- US sanctions imposed on 9 Belarussian companies including the customer of the LTG Group – a Belarussian producer of fertilisers Grodno Azot - came into effect in April 2021. After the sanctions came into force, cargos of this customer were no longer transported though the territory of Lithuania.

MAY

- In May 2021, an international tender for grain wagons and flat wagons has been launched for the purchase of up to 728 wagons - 500 grain wagons and 228 flat wagons for container transport.
- The network of document terminal was developed: 9 new document terminals were placed in the major stations of Marijampolė, Pakruojis, Vilnius, Paneriai, Rimkai, Šiauliai, Šilainiai, Panevėžys, Gaižiūnai, and Akmenė. Meanwhile, 50 outdoor self-service terminals of LTG Cargo available 24 hours a day have been already put into operation in freight stations.

JUNE

- The Company's rolling stock service division, operating under the brand of LTG Tech, has completely refurbished an old shunting locomotive, being the first such project in the Baltics. The unique refurbishment solution will ensure more sustainable use of locomotives in our country.
- A contract was signed with Ab Ovo, a digital solutions company, for the implementation of an integrated resource and freight management system. The cooperation with Ab Ovo is for a period of five years, with an option to extend it for another two years. The contract, worth EUR 6.4 million, covers the rental, maintenance and support of software and hardware, licenses, as well as configuration, integration, installation and training services.
- The first stage of overhaul of Siemens mainline locomotives used by LTG Cargo was completed - 44 locomotives were overhauled in less than 2 years by the Company's technical service unit LTG Tech. It is estimated that LTG Cargo saved EUR 20.5 million by working directly with component manufacturers and using the company's experts to carry out the work.
- At the end of June, the European Union imposed sectoral sanctions on imports of fertilisers and petroleum products from Belarus. These sanctions apply only to contracts concluded after 25 June 2021.

JULY

- LTG Cargo's new organisational structure was updated. The main changes include the consolidation of overlapping functions in different structural units, the creation of a new function - International Technical Development - and certain changes in function heads.
- Kaunas Intermodal Terminal was inaugurated and welcomed the first train from the Netherlands, loaded with containers and semi-trailers. The train arrived at the terminal by European-standard rail. Kaunas Intermodal Terminal officially becomes the easternmost point in the European rail system where freight trains can reach European-standard rolling stock.
- Container and semi-trailer train starts regular service between Kaunas and Tilburg.

AUGUST

- On 9 August, the USA announced new sanctions against Belarusian legal and natural persons, including Belaruskalij, a producer of potash fertilisers. As a result of the sanctions, banks will not be able to make or receive payments if they are linked (directly, indirectly or through intermediaries) to Belarusian legal or natural persons newly included on the US sanctions lists.

SEPTEMBER

- LTG Cargo Ukraine, a subsidiary of LTG Cargo, officially opened its office in Kiev.
- Delegations from transport companies from Kazakhstan and Uzbekistan visit Vilnius and Kaunas intermodal terminals.
- A partnership agreement was signed with KTZ Express, one of Kazakhstan's companies, to strengthen cooperation in the development of multimodal transport logistics chains and intercontinental container transport.

OCTOBER

- LTG Cargo Polska joins the Inland Transport Chamber of Commerce (IGTL). The IGTL is an economic self-governing organisation that defends the interests of its member companies and actively cooperates with national and European institutions that influence companies' activities. The Chamber brings together dozens of railway-related companies from all over Poland.

NOVEMBER

- The project Cargo Initiatives was launched. The tool developed for this project allows employees to conveniently and seamlessly propose their initiatives and ideas.

DECEMBER

- The certification process of operations in Poland, that lasted almost 2 years, was completed – LTG Cargo will now be able to operate in Poland with its own rolling stock and qualified staff.
- LTG Cargo Ukraine became the operator of the intermodal train Viking Train in Ukraine. The route is a joint railway project between Lithuania, Belarus, Ukraine, Moldova, Georgia and Azerbaijan, connecting the seaports of Klaipėda, Odessa and Chernomorsk.
- LTG Cargo Ukraine started cooperation with an agricultural concern Agro Region: an agreement of the lease of shunting locomotives was signed.
- According to the transparency assessment of the largest companies operating in Lithuania, performed by the Lithuanian branch of Transparency International, LTG Cargo was awarded the maximum score (100). This study assesses how much information the companies disclose about prevention of corruption, about shareholders, structure and finances.
- On 8 December, US sanctions imposed on legal and natural persons of Belarus, including potash fertiliser producer Belaruskalij came into force. The US sanctions on Belaruskalij are not binding on Lithuanian entities and only apply if the transaction substantially meets the following conditions: the transaction involves a US person; the transaction is in US dollars; and the transaction is conducted through a US correspondent bank. Under the contract, Belaruskali pays for services in euro.
- On 9 December, it was announced that LTG Cargo will continue to provide fertiliser transport services to Belaruskalij. Under the existing contract, the Belarusian company has paid for the services in advance.
- On 17 December, AB Lietuvos Geležinkeliai received an official statement from the US Treasury Department's Office of Foreign Asset Control (OFAC) on how the company should treat the sanctions imposed on Belarusian company Belaruskalij. The information contained in the letter sent to Lietuvos Geležinkeliai confirmed that the decisions taken by the company were in line with the regulations - in other words, the requirements of the US sanctions were not violated.

SUBSEQUENT EVENTS

- As of 4 January 2022, Egidijus Lazauskas, the CEO of LTG Cargo, became acting CEO of Lietuvos Geležinkeliai.
- As of 4 January 2022, Eglė Šimė became Acting CEO of LTG Cargo. Previously, she was head of the company's Service Delivery unit.
- On 12 January 2022, the Government of the Republic of Lithuania approved the decision of the Coordination Commission for the Protection of Objects of Importance for National Security, according to which the contract between AB Lietuvos Geležinkeliai and the Belarusian company Belaruskalij is not in the interests of national security. The government decision will consider the contract invalid from the date of the decision's entry into force - 1 February.
- On 12 January 2022, AB Lietuvos Geležinkeliai announced that, taking into account decisions on threats to national security, it is ready to comply with the Government's decision regarding the contract with Belaruskalij and to discontinue the provision of services from 1 February.
- On 28 Jaunuary 2022, OAO Belaruskalij brought an action before the Vilniaus apygardos administracinis teismas against the Government of the Republic of Lithuania and the Commission for Coordination of Protection of Objects of Importance to Ensuring National Security (hereinafter – Commission) requesting for annulment of the decision of the Government regarding the contract with Belaruskalij and the conclusion of the Commission. LTG and LTG Cargo are involved in this litigation as third parties.
- On 20 January 2022 and 28 January 2022, OAO Belaruskalij submitted letters indicating that it might be required from the companies to compensate the loss caused by non-performance of contractual obligations. No claims including the defined requirement to compensate the loss have been received by LTG and LTG Cargo.
- On 24 February 2022, the Russian Federation started active military actions in the territory of Ukraine. Operation of the Company's subsidiary LLC LTG Cargo Ukraine has been suspended.
- LTG Cargo Polska strengthens its position in Poland. The company has leased two locomotives for its international operations, which will be used to increase the volume of intermodal freight transport from Kaunas Intermodal Terminal to the Netherlands

IMPACT OF COVID-19 ON THE COMPANY'S ACTIVITY

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

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

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

- a possibility to borrow within the LTG Group through cash pool;
- the adequacy of the limit for short-term borrowing within the LTG Group from this account to ensure a sufficiency of working capital;
- additional measures to strengthen payment control;
- regular revisions of planned investments and assessment of the possibility of postponing part of the investment projects to the future.

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

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

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

THE IMPACT OF BELARUS ON THE COMPANY'S OPERATIONS

In April 2021, the US sanctions against 9 Belarusian companies, including Grodno Azot, a Belarusian fertiliser producer and a client of LTG Group, came into force. As a result of these sanctions, cargoes of this client are no longer transported on Lithuanian territory.

At the end of June 2021, the European Union imposed sectoral sanctions on imports of fertilisers and petroleum products from Belarus. These sanctions apply only to contracts concluded after 25 June 2021. As these shipments are carried out on the basis of long-term contracts, the LTG Group has estimated that the sanctions imposed by the EU will only affect the LTG Group's operations and performance from 2023 onwards. This would affect around 20% of the total volume of fertilisers and half a million tons of petroleum products shipped.

9 August 2021 The US announces new sanctions against Belarusian legal and natural persons, including Belaruskalij, a producer of potash fertilisers. The new sanctions prohibit the commencement of new transactions and allow for the completion of existing transactions with Belarusian potash fertiliser producer Belaruskalij by 8 December 2021. LTG has consulted and is consulting with the relevant Lithuanian and US governmental authorities to ensure compliance with the sanctions, and Lithuanian and US lawyers have been retained to clarify the situation. LTG has received an official statement from the US Treasury Department's Office of Foreign Asset Control (OFAC) on how LTG should treat the sanctions imposed on Belarusian company Belaruskalij. The information contained in the letter sent to AB Lietuvos Geležinkeliai confirmed that the decisions taken by the LTG were in compliance with the regulations - in other words, the requirements of the US sanctions were not violated. The US sanctions on Belaruskalij are not binding on Lithuanian entities and are only applicable if the transaction substantially complies with the following conditions: the transaction involves a US person; the transaction is in US dollars; and the transaction is executed through a US correspondent bank. Under the contract, Belaruskalij pays for the services in euros.

In mid-January 2022, the Government of the Republic of Lithuania endorsed the decision of the Coordination Commission for the Protection of Objects of Importance to National Security, which stipulates that the LTG contract with Belaruskalij is a threat to national security and that the transit of fertilisers through Lithuania must be suspended as of 1 February 2022. In accordance with the decision of the Government of the Republic of Lithuania, the provision of services under the contract was suspended as from 1 February 2022. LTG Cargo used to earn an average annual income of approximately EUR 60 million, transporting around 11 million tons of Belaruskalij cargoes.

At the beginning of February 2022, AB Lietuvos Geležinkeliai received an official notification from the Railway Transport Council (RTC) of the CIS countries, Estonia, Latvia, Lithuania and Bulgaria about the ban imposed by Belarusian railways on the transit of oil products and fertilisers from Lithuania through Belarus from 7 February 2022.

These decisions and circumstances will have an impact on operations and results of LTG Cargo.

Given the geopolitical situation, the LTG Group's long-term corporate strategy, approved by the LTG Board of Directors at the end of 2021, is based on the assumption that Belaruskalij will have zero cargo traffic starting from 2022. The LTG Group's budget for 2022, approved by the LTG Board, is planned without cargoes of Belaruskalij.

LTG Group has always considered Belarusian freight activities to be extremely high-risk and has previously focused on diversification solutions. LTG Cargo has established subsidiaries in Poland and Ukraine, and intermodal projects to Western Europe are being intensively developed.

LTG Cargo carries out its activities through the subsidiary LLC LTG Cargo Ukraine, the operation of which has been suspended due to the military actions of the Russian Federation in Ukraine. As a result, LTG Cargo is affected by the Ukrainian economy and financial market. In February 2022, when the Russian Federation declared independence of the "Republics" of Donetsk and Lugansk and invaded Ukraine, the military conflict escalated and expanded to other regions of the country. It is likely that the military conflict will have adverse impact on the political and business environment of Ukraine and ability of numerous entities to continue as a going concern. As at the date of the financial statements the situation in Ukraine is very unstable and essentially uncertain. According to the management, as military operations are changing and dynamic, currently, it is impossible to reliably estimate their financial impact.

KEY PERFORMANCE INDICATORS

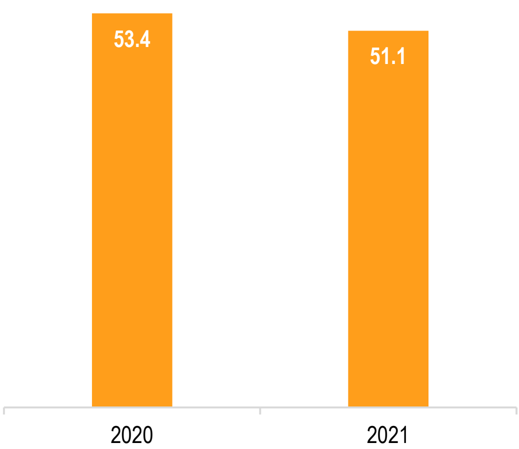
OVERVIEW OF KEY PERFORMANCE INDICATORS

Items	Unit of measure	2020	2021
Turnover of freight transportation	billion tonnes-kilometres	15.9	14.6
Average distance travelled per tonne	km	297	285
Total freight transportation	Million tons	53.4	51.1
Segments of freight transportation			
Domestic transportation	Million tons	15.6	14.7
International transportation	Million tons	37.8	36.4
Transit	Million tons	10.5	11.5
Export from Lithuania	Million tons	5.4	4.9
Import to Lithuania	Million tons	21.9	20.0

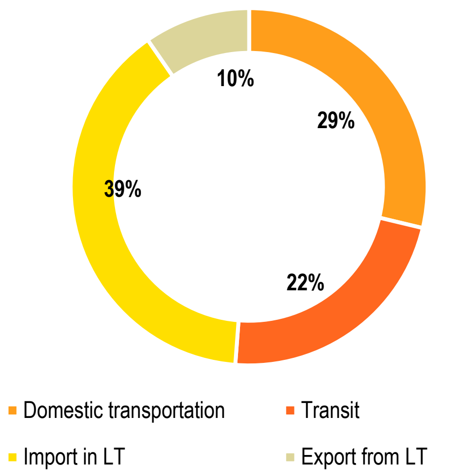
51.1 million tons of freight were transported by railway in 2021; i .e. a decrease by 4.4% compared to 2020. The railway transportation was continuously dominated by 'heavy' freights - chemical and mineral fertilisers as well as oil and its products. These types of freight comprised more than a half of total freight volume carried by rail.

During the period under analysis, the decrease in transportation was mainly influenced by significantly decreased transportation of oil products and transportation of grain due to reduced harvests. Volumes of oil products decreased when the Belarussian company BNK stopped transporting oil products through the Klaipėda port.

Freight transport volumes (in million tons)



Segments of freight transportation in 2021, %



Within the overall structure of transported freight, **international transportation** comprised 71.3% and, compared to 2020, decreased by 3.7% and was equal to 36.4 million tons.

During 2021, the quantity of freights incoming and outgoing through Klaipėda Seaport in transit decreased by 16.5%. Such decrease has mainly been influenced by the fact that Belarussian oil products have no longer been transported through the port since February 2021 that has caused a decrease in total quantity of Belarussian freight transported through the port by 13.6%.

During the period under analysis, the flow of freight carried in transit through the territory of the Republic of Lithuania increased by 10.1%. The increase in transit volumes has been mainly affected by the increase of transportation flows of construction materials, ferrous metals, and products of food industry towards the direction of Kaliningrad region.

Compared to 2020, **domestic transportation** decreased by 6.1% and comprised 14.7 million tons. The decrease was influenced by reduced transportation of grain, fertilisers and construction materials, which has been partially compensated by the increase in transportation of oil products.

Freight volumes of **containers** transported from China continue to increase. TEU 139 thousand (unit of measurement, the equivalent of a container of 20 feet length) were transported in 2021 which is 2.7 times more than in 2020.

Total volume of intermodal transportation increased by 70.5% in 2021 and equals to TEU 255 thousand. It is forecasted that the demand of this type of transportation will continue to increase. Kaunas intermodal terminal opened for the commercial traffic and connected to the European standard gauge railway will have a positive impact on the increase.

The level of the risk of geopolitical changes influenced by events in Belarus is currently especially high; thus, it is focused on international development in Western Europe and Ukraine as well as on freight flow diversification and development of new services.

ANALYSIS OF FINANCIAL AND PERFORMANCE RESULTS

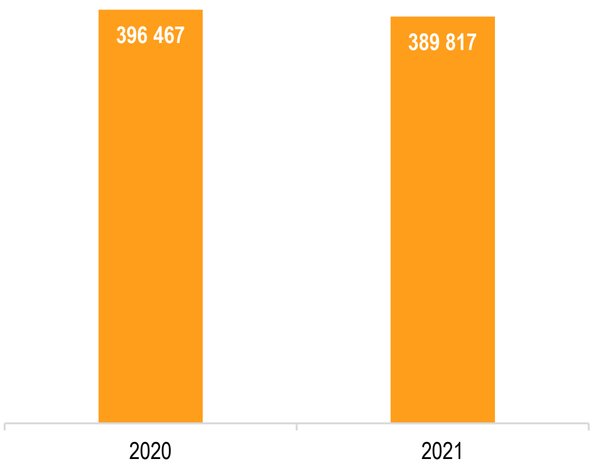
PERFORMANCE RESULTS

SALES REVENUE

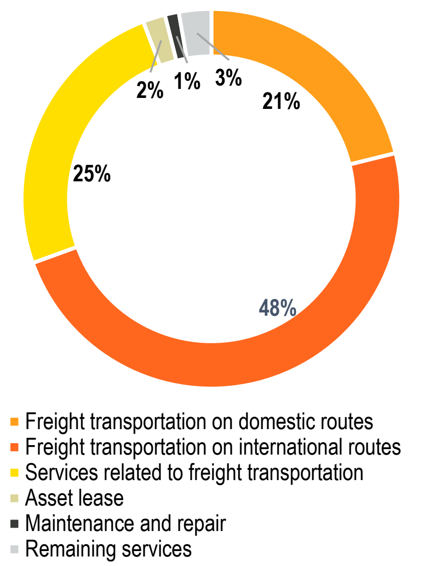
In 2021, the Company's sales revenue amounted to EUR 389,817 thousand; i. e. a decrease by 1.7% compared to 2020. The major portion thereof – EUR 270,976 or 69.5% comprised revenue from freight transportation.

- **Revenue from freight transportation on domestic routes** amounted to EUR 82,394 thousand in 2021 and, compared to 2020, decreased by EUR 2,867 thousand (3.4%). The main reason for the decrease in revenue – the decrease of freight transportation turnover by 6.1%. The decreased volumes of freight transportation were mainly caused by reduced grain harvest in Lithuania as compared to 2020.
- **Revenue from freight transportation on international routes** amounted to EUR 188,582 thousand in 2021 and, compared to 2020, they decreased by EUR 7,665 thousand or 3.9%. The main reason for the decrease – the decreased of freight transportation turnover by 3.7%. The decreased volumes of freight transportation were mainly caused by geopolitical changes influenced by events in Belarus. Also, discrepancies in supply chains affected by the pandemic COVID-19 and reduced grain harvest in Lithuania had their effects.
- **Revenue from services related to freight transportation** amounted to EUR 96,030 thousand in 2021 and, compared to 2020, they decreased by EUR 2,272 thousand or 2.3%. The main reason for the decrease in this type of revenue was the change in pricing - in 2021, revenue from services of wagon interchange at the border from railways of other countries are included in the transportation rates.
- **Revenue from lease of assets** amounted to EUR 7,411 thousand in 2021 and, compared to 2020, decreased by EUR 617 thousand or 7.7%. The decrease in revenue was influenced by reduced revenue from lease of wagons.
- **Revenue from maintenance and repair** amounted to EUR 4,646 thousand in 2021, and compared to 2020, increased by EUR 3,768 thousand, i. e. by more than 4 times. This resulted from business acquisition of rolling stock repair and maintenance services from UAB Vilniaus Lokomotyvų Remonto Depas on 1 April 2021.
- **Revenue from remaining services** amounted to EUR 10,754 thousand and, compared to 2020, increased by EUR 3,003 thousand or 38.7%. The increase of revenue resulted from traction services of passenger wagons of LTG Link, the provision of which was started in 2021, as well as increased revenue related to sale of scrap metal.

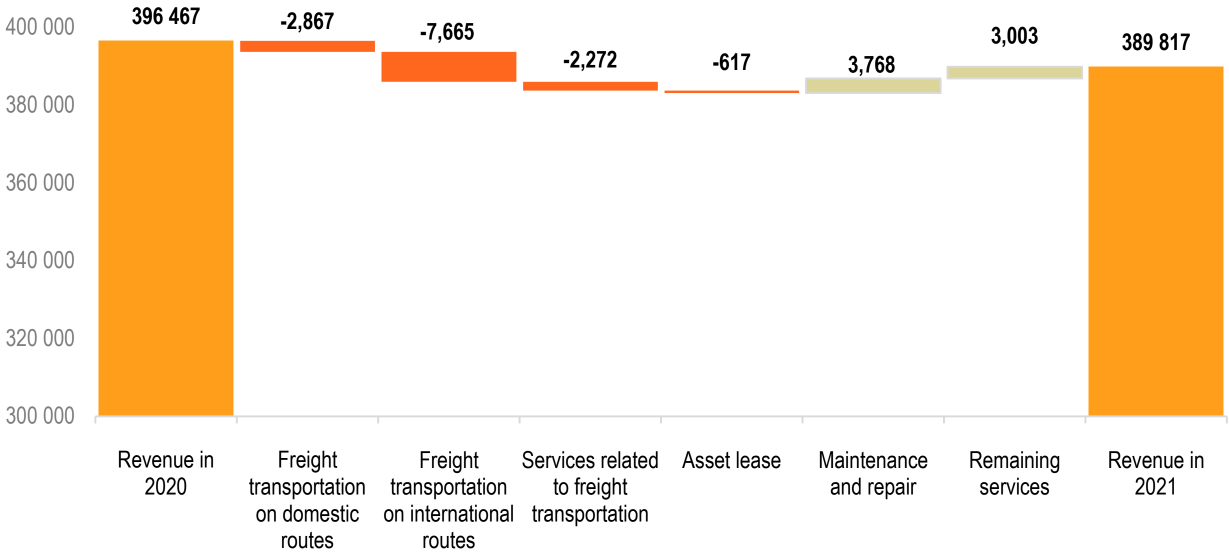
The Company's sales revenue, EUR thousand



The Company's revenue structure in 2021, %



Change in the Company's revenue, EUR thousand

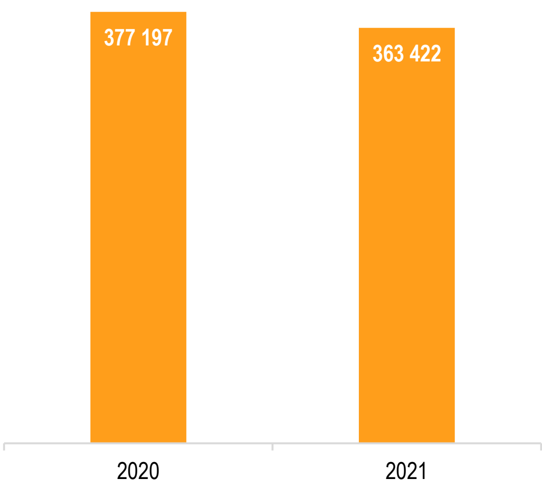


Expenses

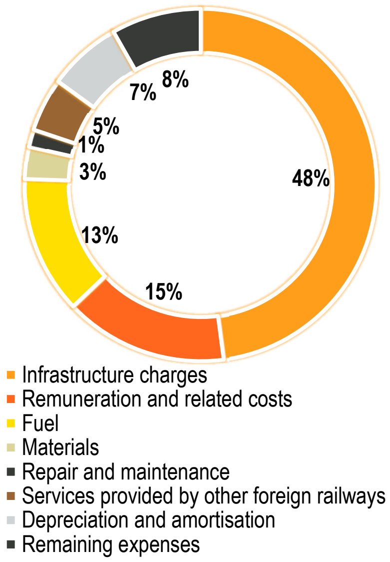
The Company's costs incurred for operating and other activities amounted to EUR 363,422 thousand in 2021; i. e. less than in 2020 by 3.7%.

In 2021, the larger proportion of the Company's expenses was constituted by the infrastructure charge (47.9%), labour costs (15.0%), and fuel (12.6%).

The Company's expenses, EUR thousand

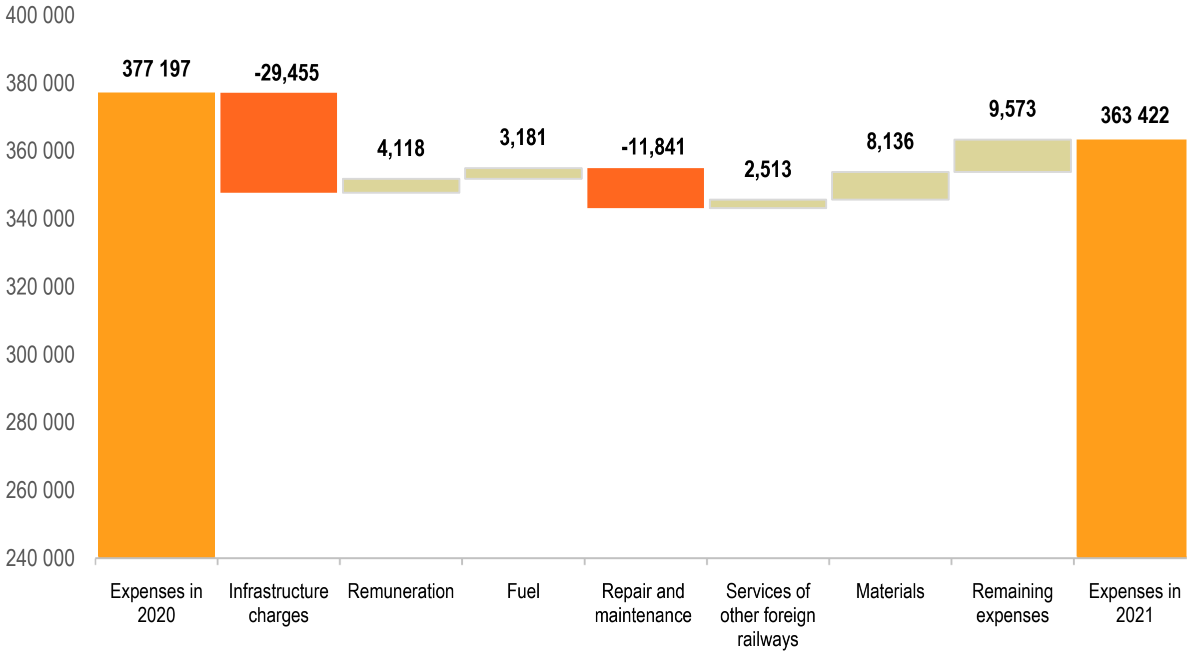


The Company's expense structure in 2021, %



- **Infrastructure charges** amounted to EUR 174,086 thousand in 2021 which is a decrease by EUR 29,455 thousand (14.5%) as compared to 2020. The main reason for the decrease in expenses is the decrease in freight turnover by 8.2%.
- **Remuneration expenses** amounted to EUR 54,465 thousand and, compared to 2020, increased by EUR 4,118 thousand or 8.2%. The growth of expenses has mainly been influenced by the increase in number of employees after the Company acquired the business of UAB Vilniaus Lokomotyvų Remonto Depas on 1 April 2021. As at 31 December 2021, the number of employees of LTG Cargo was equal to 2,802 which and, compared to the data as of 31 December 2020, it increased by 541 employees. As every year, the regular employee salary revision was carried out in April 2021.
- **Fuel costs** amounted to EUR 45,971 in 2021 and, compared to 2020, they increased by EUR 3,181 thousand or 7.4%. The changes have been influenced by increased fuel prices, especially at the end of the year.
- **Expenses of repair and maintenance** amounted to EUR 5,831 thousand in 2021. Compared to 2020, they decreased by 3 times. A significant decrease of expenses related to these external services has been mainly affected by the acquisition of the business of UAB Vilniaus Lokomotyvų Remonto Depas and, as a result, the fact that repair of rolling stocks has been started to be performed at the Company since 1 April 2021.
- **Expenses related services provided by other foreign railways** amounted to EUR 17,809 thousand and, compared to 2020, they increased by EUR 2,513 thousand or 16.4%. The expenses reflect the volumes of international transportation and work in the border area. The increase in expenses has been affected by the increased container flow from China and higher work volumes of locomotives of other railways and locomotive crews in Lithuania.
- **Expenses related to materials** amounted to EUR 10,692 thousand in 2021 and, compared to 2020, increased by 3 times. The main cause of the increase has been the acquisition of the business of UAB Vilniaus Lokomotyvų Remonto Depas and, as a result, the fact that repair of rolling stocks has been started to be performed at the Company since 1 April 2021.
- **Remaining expenses** amounted to EUR 54,568 thousand and, compared to 2020, increased by EUR 9,573 thousand or 21.3%. During the analysed period, expenses related to depreciation, amortisation, lease of premises and computer equipment, management fee have been increasing. The increase has resulted from the acquisition of the business of UAB Vilniaus Lokomotyvų Remonto Depas.

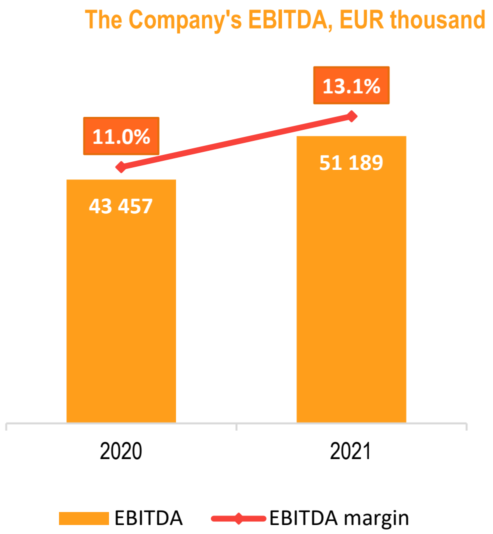
Change in the Company's expenses, EUR thousand

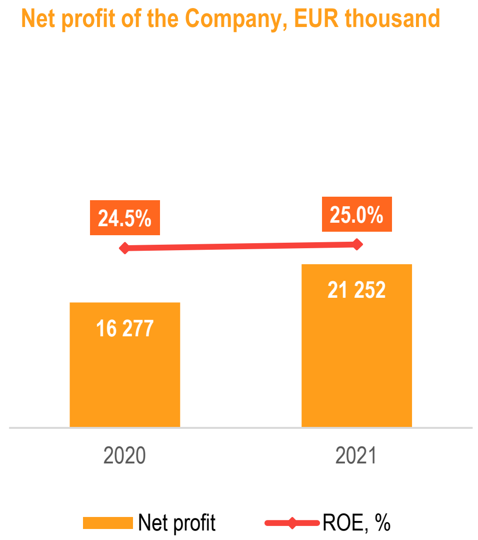


OPERATING RESULTS

In 2021, the Company's EBITDA amounted to EUR 51,189 thousand and increased by 17.8% as compared to 2020.The increase in EBITDA was caused by the decrease in expenses related to infrastructure charge by EUR 29,455 thousand as compared to 2020. EBITDA margin increased to 13.1 in 2021.

The Company's net profit increased by 30.6% and amounted to EUR 21,252 thousand in 2021. As the volume of equity was increasing due to the earned profit and amounted to 25.0%, ROE indicator remained essentially unchanged in 2021.





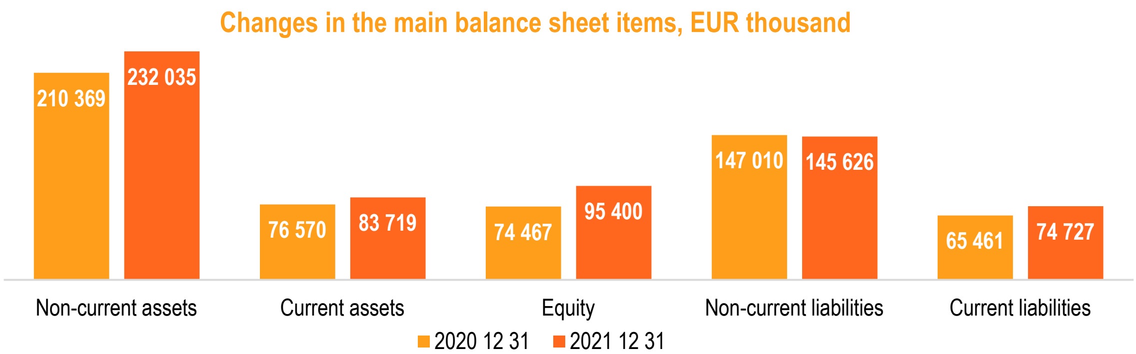
BALANCE SHEET CHANGES

As at 31 December 2021, the Company's assets amounted to EUR 315,754 thousand and, compared to as of 31 December 2020, increased by 10.0%. Non-current assets, comprising 73.4% in the overall asset structure, increased by 10.3% and amounted to EUR 232,035 thousand upon the acquisition of the business of UAB Vilniaus Lokomotyvų Remonto Depas on 1 April 2021.

As at 31 December 2021, current assets amounted to EUR 83,719 thousand and increased by 9.3% compared to as of 31 December 2020 due to increase inventory upon the acquisition of the business of UAB Vilniaus Lokomotyvų Remonto Depas. Cash balance was equal to EUR 4,970 thousand as at the end of the period.

During the analysed period, share capital increased by EUR 151 thousand and amounted to EUR 44,087 thousand. Equity increased by 28.1% and amounted to EUR 95,400 thousand as at 31 December 2021.

During the period under analysis, financial debt (including financial / operating lease) remained at the level as of 31 December 2020 and amounted to EUR 149,469 thousand. The effect of repayment of non-current loans was set-off by the increase in lease liabilities. No loans were taken out during the reporting period.



KEY FINANCIAL INDICATORS*

	Unit of measure	2019	2020	2021
Sales revenue	EUR thousand	297,782	396,467	389,817
Other operating income	EUR thousand	49	1,027	158
Total income	EUR thousand	297,831	397,494	389,975
Expenses	EUR thousand	275,251	377,197	363,422
EBITDA	EUR thousand	45,838	43,457	51,189
EBITDA margin	%	15.4%	11.0%	13.1%
EBIT	EUR thousand	22,580	20,297	26,553
EBIT margin	%	7.6%	5.1%	6.8%
Net profit	EUR thousand	18,669	16,277	21,252
Net profit margin	%	6.3%	4.1%	5.5%
		31/12/2019	31/12/2020	31/12/2021
Non-current assets	EUR thousand	191,276	210,369	232,035
Current assets	EUR thousand	94,252	76,570	83,719
Total Asset	EUR thousand	285,528	286,939	315,754
Equity	EUR thousand	58,190	74,467	95,400
Financial debt	EUR thousand	158,718	149,143	149,469
Net debt	EUR thousand	133,575	127,786	144,499
Return on equity (ROE)	%	32.1%	24.5%	25.0%
Return on assets (ROA)	%	6.5%	5.7%	7.1%
Return on investment (ROI)	%	9.8%	8.1%	9.6%
Financial debt / EBITDA	In times	3.5	3.4	2.9
Financial debt / Equity	In times	2.7	2.0	1.6
Net debt / normalised EBITDA	In times	2.9	2.9	2.8
Loan servicing ratio	In times	24.8	2.9	4.3
Equity ratio	%	20.4%	26.0%	30.2%
Asset turnover ratio	In times	1.0	1.4	1.2
Quick liquidity ratio	In times	1.2	1.2	1.0
Total liquidity rate	In times	1.2	1.2	1.1

** For definitions of the indicators see page 37 of the Report.*

FINANCING OF THE COMPANY

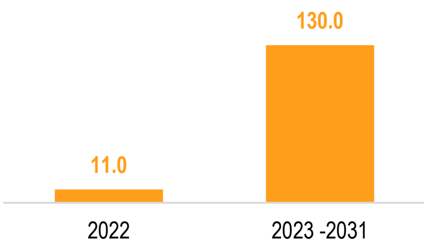
The loan portfolio of LTG Cargo amounted to EUR 140,827 thousand as at 31 December 2021 (31 December 2020 - EUR 145,466 thousand). The weighted average interest rate of the Company's loan portfolio was 1.26% as at 31 December 2021 (1.3% as at 31 December 2020).

The longest repayment term of a financial debt is 10 years, and the last repayment term is in 2031.

To balance the working capital, the Company used the cash pool of the LTG Group. Parent company of the LTG Group has concluded a contract with a credit institution regarding service provision of account of the LTG Group. Accordingly, the Company has entered into a mutual lending agreement for the period of one year. The terms of the agreement are in line with common market conditions.

Ratio*	Unit of measure	2021	Value set by the bank
Net debt / normalised EBITDA	In times	0.5	Not higher than 4.0
Equity ratio	%	68.3	Not lower than 35%
Loan servicing ratio	In times	4.3	Not lower than 2

Repayment of the Company's loans, EUR million



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

DIVIDEND POLICY

The payment of dividends and the amount of profit contributions of state-owned enterprises is regulated by Resolution No. 665 of the Government of the Republic of Lithuania dated 6 June 2012 *On the Approval of the Description of the Procedure for the Implementation of the Property and Non-property Rights of the State in State-owned Enterprises* and its amendments (link). The summary version has been valid since 28 December 2021.

Allocation and payment of dividends of the Group companies are regulated by the Dividend Policy of LTG group.

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.

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

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

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

- The Company incurred a net loss for the reporting period;
- The Company's performance as monitored by institutional creditors at the end of the reporting period for which dividends are proposed would not be in line with contractual values or the size of the indicators would adversely affect the credit rating;
- The Company carries out or participates in carrying out an economic project recognised as of state importance by resolutions of the Government of the Republic of Lithuania or the Seimas of the Republic of Lithuania, or a particularly important project that has an impact on the long-term strategy implemented by the LTG Group; the Company's equity after payment of dividends would become less than the amount of authorised capital, compulsory reserve, revaluation reserve and reserve for acquiring own shares of the LTG Group company;
- The Company is insolvent or would become such after the payment of dividends.
- In 2021, AB LTG Cargo did not pay out dividends for the year 2020. The Company did not pay out dividends in the previous year.

PERFORMANCE RESULTS OF SUBSIDIARIES

The key financial indicators of subsidiaries of LTG Cargo in 2021 are as follows:

Indicator, EUR thousand	LTG Cargo Polska	LTG Wagons	LTG Cargo Ukraine	OOO Rail Lab
Revenue	1,164	0	0	17
Expenses	1,949	109	275	35
Net profit / loss	-785	-109	-275	-18
Asset	2,118	77	340	308
Equity	-315	41	276	307
Liabilities	2,433	36	64	1

INVESTMENTS

In 2021, investments of LTG Cargo amounted to EUR 37.6 million. All the investments (100%) have been financed with the Company's own funds. Most of the investments were intended for overhaul repairs of locomotives (51.7%).

Investments, EUR million	2019	2020	2021	2021/2020 Δ, %
Overhaul repair of locomotives	13,965	35,348	19,432	-45.0%
Overhaul repair of wagons	5,161	3,847	6,106	58.7%
Development in new markets and modernisation projects		507	1,572	210.1%
Other investments	506	2,193	10,447	376.4%
Total	**19,632**	**41,895**	**37,557**	**-10.4%**

MAJOR INVESTMENT PROJECTS IMPLEMENTED IN 2021 AND INVESTMENT DIRECTIONS PLANNED

Investments in asset renewal

- Overhaul repair programs of the rolling stock fleet are carried out. Works for the amount of EUR 25.5 million were performed in 2021:
  - 2,110 freight wagons were repaired;
  - 97 freight locomotives underwent repairs (11 Siemens locomotives thereof underwent overhaul repairs).

Strategic development and modernisation projects

- In order to reduce dependency on traditional types of freight, LTG Cargo has commenced freight transportation service development in Poland and Ukraine. The subsidiary company LTG Cargo Polska has been established in Poland, and European gauge locomotives have been acquired. A long-term lease contract regarding wagons T-3000 and platforms for transportation of semi-trailers has been concluded. The subsidiary company of LTG Cargo has been registered in Ukraine. Currently, negotiations regarding lease of LTG Cargo's unused locomotives in Ukraine have been taking place.

- Evaluating the development perspectives of freight transportation by rail and intentions of the State to promote freight transportation by the greener transport, new projects to develop intermodal freight transportation have been launched:
  - the project of Acquisition of Technological Equipment for Transportation of Semi-trailers has been commenced: technical project of loading equipment of semi-trailers has been prepared. Also, prototype production contract has been concluded. Implementation of the project will enable the Company to provide new services within the network of the broad-gauge railway - i. e. to transport semi-trailers by trains;
  - to prepare for transportation of intermodal freights on European gauge (in connection with the Kaunas intermodal terminal), the European gauge locomotives have been acquired.
- As electrification of infrastructure is in progress, the electric locomotives have been acquired: preparation work took place in 2021, and potential qualified participants were selected. At the beginning of 2022, it is intended to announce a public procurement. Exploitation of the new locomotives is planned to be started in 2024.
- Having renewed the existing fleet of freight wagons, acquisition of new platform wagons (100 units of 60-feet, and 128 units of 80-feet) and 500 units of grain wagons.
- On 1 April 2021, LTG Cargo acquired the business of UAB Vilniaus Lokomotyvų Remonto Depas. In the market, services of rolling stock repair and modernisation are provided under the new brand – LTG Tech. During the reporting period, investment projects initiated by UAB Vilniaus Lokomotyvų Remonto Depas were continued at the level of LTG Cargo:
  - the project of Installation of Production Line of Freight Wagons is carried out, after the implementation whereof the production of some type of wagons will take place in Lithuania. The works that were started in 2020 were continued in 2021: installation of bases, equipment was produce and delivered. Manufacture of semi-wagons is planned to be started in 2022.
  - In order to enhance efficiency of locomotives repair by transferring the activities of locomotives repair in the Vaidotai station instead of the deteriorated repair bases in Vilnius city centre, the optimisation project of production bases is carried out.
  - Remotorisation project of the shunting locomotive TEM2 was completed. The modernised locomotive helps solving the issue of using locomotives in the market, which are old and non-compliant with modern needs. The remotorised locomotive enables reducing fuel expenses to up to 30% and significantly reduces the amount of harmful nitrogen oxides (NOx).
- In 2021, in order to improve the efficiency of rolling stocks, LTG Cargo carried out the installation of the Operational Management Centre. Upon implementation of the project, planning and management of freight transportation activities will be carried out according to the same business processes, precisely defined policy and methods, the activity will be automated and digitalised, data exchange with relevant LG systems will be ensured.

EMPLOYEES

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

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

(all amounts are in EUR thousand unless otherwise stated)

INITIATIVES AND SIGNIFICANT EVENTS OF 2021:

- The year 2021 remained fraught with pandemic challenges; therefore, continued emphasis was placed on adequate working conditions and the provision of all protective equipment in operational activities, and the administrative functions switched to a hybrid working model.
- Continued refinement of functions, reducing redundant and overlapping activities, with a strong focus on customer service functions to improve customer experience.
- In 2021, the focus was on developing organisational culture. The expanded "Employees' Voice" survey of factors influencing organisational culture was repeated and actions were taken to improve areas for improvement. The process has also moved away from the usual definitions of structural units such as 'department', 'centre', 'unit', towards unit names that reflect the functions of the units. The titles of managerial positions have also abandoned differentiating definitions such as "Director of a Department" or "Head of Unit", while retaining a single designation of the head of a specific function.
- Continued deployment and digitisation of technology: processes are being digitised, new innovative solutions are being introduced, and a large part of the workforce is equipped with mobile devices also in production activities.
- A new initiative project was launched in 2021 to increase the involvement of every employee in improving day-to-day operations, promoting leadership, motivation and inspiration.

The number of employees in the LTG Cargo group as at 31 December 2021 was 2,822. Compared to 31 December 2020, the number of the Company's employees increased by 561 employees or by 24.8%. The change in the employee number resulted from the transfer of employees in 2021 from the company of the LTG Group - UAB Vilniaus Lokomotyvų Remonto Depas – which is in liquidation.

Group companies	31/12/2021 Actual number of employees as at the end of the period
AB LTG Cargo	2,802
UAB LTG Wagons	2
LTG Cargo Polska Sp. Z o.o.	11
LLC LTG Cargo Ukraine	5
OOO Rail Lab	2
Total	**2,822**

The average monthly salary of the Company's employees changed from EUR 1,728 to EUR 1,772 compared to 2021. The change in remuneration was mainly influenced by salary revision which took place in the LTG Group in April as well as the transfer of employees from UAB Vilniaus Lokomotyvų Remonto Depas to LTG Cargo.

The total remuneration fund amounted to EUR 57.3 million. Compared to 2020, the remuneration fund increased by EUR 10 million due to increased number of employees (from EUR 47.3 million to EUR 57.3 million). The growth was caused by the increase in the number of employees - the transfer of employees from UAB Vilniaus Lokomotyvų Remonto Depas to LTG Cargo. In April 2021, just as in other companies of the LTG Group, the annual incentives for performance in the amount of EUR 2.3 million were paid to the Company's employees.

(all amounts are in EUR thousand unless otherwise stated)

NUMBER OF EMPLOYEES OF THE COMPANY AND AN AVERAGE SALARY

Employee groups by position	2019 12 31		2020 12 31		2021 12 31**					
	The actual number of employees as at the end of the reporting period	Average salary, in EUR	The actual number of employees as at the end of the reporting period	Average salary, in EUR	The actual number of employees as at the end of the reporting period			Average salary, in EUR		
					Total	Women	Men	Total	Women	Men
Chief Executive Officer*	1	8,380	1	8,380	1	-	1	8,600	-	-
Top-level managers*	7	6,370	7	6,429	8	1	7	5,981	-	-
Senior managers and specialists in exceptional fields	11	3,505	12	3,856	22	6	16	4,169	4,248	4,132
Middle-level managers and individual experts	36	2,740	42	2,875	85	19	66	2,708	2,464	2,777
Team leaders and experienced specialists	249	1,871	251	1,929	450	159	291	1,916	1,839	1,961
Specialists and experienced operational/ service staff	773	2,052	786	2,096	811	224	587	2,073	1,454	2,293
Operational/service staff, qualified workers	1,218	1,279	1,162	1,348	1,425	394	1,031	1,421	1,268	1,491
Total	2,355	1,640	2,261	1,728	2,802	803	1,999	1,772	1,479	1,898

** A fixed remuneration as of the end of the period is provided.*

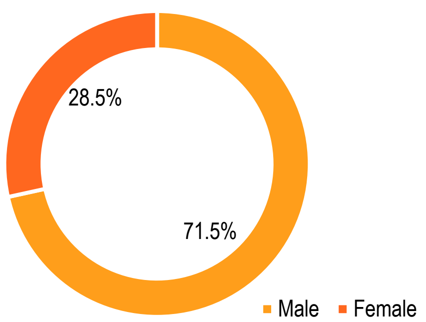
*** In 2021, the Company started to publicly announce remuneration data according to gender. For confidentiality reasons, if a particular function group includes less than 5 employees of the same gender, the information on the average wage and the difference of the average wage are not disclosed.*

The monthly remuneration set for the Company's CEO of the Company as at 31 December 2021 was EUR 8,600, and the average actual salary, taking into account the annual incentive for performance, amounted to EUR 10,286.

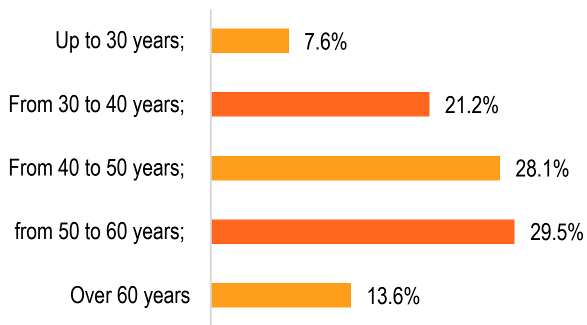
The average monthly salary of high-level executives established in their employment contracts as at 31 December 2021 amounted to EUR 5,981 and the average actual salary of this group of employees, taking into account the annual incentive, amounted to EUR 7,015.

EMPLOYEE DISTRIBUTION BY AGE, GENDER, LENGTH OF SERVICE AND EDUCATION 2021 12 31

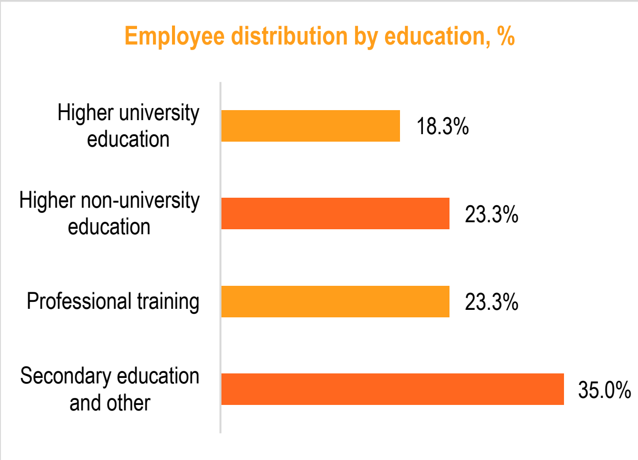
Employee distribution by gender,%

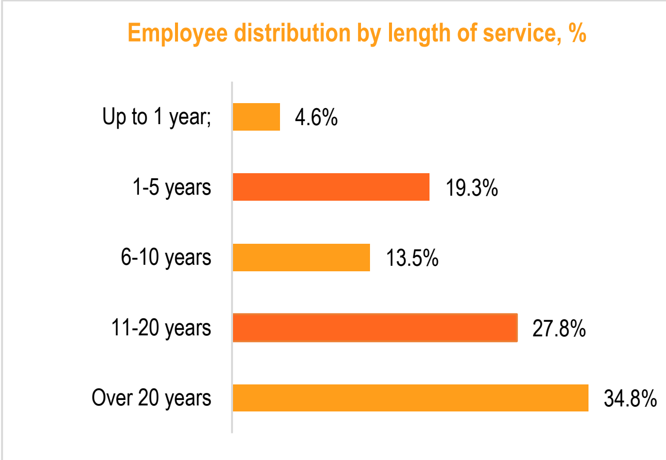


Employee distribution by age group,%



(all amounts are in EUR thousand unless otherwise stated)





Age group	Average length of service, in years
Up to 30 years	2.9
From 30 to 40 years	8.2
From 40 to 50 years	15.5
From 50 to 60 years	20.9
> 60 years old	23.8
Average length of service	**15.6**

RISKS AND THEIR MANAGEMENT

LTG Cargo implements and continuously improves the unified risk management system of the LTG Group, on the basis of which risks are periodically reviewed, control over the implementation of management measures is performed, and quarterly risk management status reports are prepared and submitted to the top management.

Considering the specifics of the Company's activity, external context and the history, the following main risks relevant to the Company in 2021 are presented below.

Name of the risk	Level of risk	Description of the risk and its effects	Basic risk management measures
Loss of the market share due to reduced competitiveness	**High**	- Occurrence of the risk may have an adverse effect on the Company's financial performance and implementation of the long-term strategy.	- Search for new markets; - Deployment of new products;
Sudden decrease in freight flows	**Highest**	- Dynamics of the risk may be caused by external factors: geopolitical changes, sanctions, crises. - Occurrence of the risk may have an adverse effect on the Company's financial performance and implementation of strategy.	- Search for new customers and markets;
Delay of works due to discrepancies in supply chain	**Moderate**	- Discrepancies in the global supply chain caused by the pandemic may result in delay of acquisition of goods and services. - Occurrence of the risk may cause discrepancies in the Company's processes and work performance.	- Communication with existing suppliers; - Stock accumulation upon need.

INFORMATION ON EXTERNAL AUDIT

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

The public procurement tender for the audit of the consolidated financial statements of AB Lietuvos Geležinkeliai and financial statements of separate subsidiaries, prepared in accordance with International Financial Reporting Standards, adopted by 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.

During the reporting period the auditor provided services of translation of the financial statements. Any other additional services not related to the audit of the financial statements were not provided to the Company by the auditor.

The fee for the audit of the financial statements for the year 2021 established to the audit firm was EUR 52.5 thousand (without VAT).

DEFINITIONS

Revenue	Sales revenue + Other operating income excluding income from financial activities
Sales revenue	Revenue, excluding income from other activities and income from financial activities
Expenses	Expenses, excluding the corporate tax and income from financial activities
Financial debt	Interest-bearing financial debt, including finance leases
Net debt	Interest-bearing financial debt, including finance leases, less cash, and cash equivalent investments
Return On Equity (ROE)	Net profit/loss for the period of the last 12 months / average equity as at the beginning and the end of the reporting period
Return On Assets (ROA)	Net profit/loss for the period of the last 12 months / average assets as at the beginning and the end of the reporting period
Return On Investment (ROI)	Net profit/loss for the period of the last 12 months / (average assets as at the beginning and the end of the reporting period - average short-term liabilities as at the beginning and the end of the reporting period)
EBIT	Profit (loss) before the corporate tax – the result of financial activities
EBITDA	Profit (loss) before the corporate tax – the result of financial activity + depreciation and amortisation
Normalised EBITDA	Profit (loss) before the corporate tax + interest expenses – interest income + depreciation and amortisation + (decrease) increase in the value of non-current assets, inventories and investments + (decrease) increase in the value of amounts receivable and contract assets + costs of provisions not related to operating activities
EBIT margin	EBIT/sales revenue
EBITDA margin	EBITDA/sales revenue
Normalised EBITDA margin	Adjusted EBITDA / sales revenue
Net profit margin	Net profit (loss) / sales revenue
Equity ratio	Equity at the end of the reporting period / assets at the end of the reporting period
Loan servicing ratio	(Net profit/(loss) for the period of the last 12 months + amortisation, depreciation and grant costs of the last 12 months + interest expenses of the last 12 months (adjusted considering the non-monetary items)) / (debt for interest amortisation + interest payable for the last 12 months)
Asset turnover ratio	Sales revenue for the period of the last 12 months / assets at the end of the reporting period
Quick liquidity rate	(Current assets at the end of the reporting period – inventories at the end of the reporting period) / current liabilities at the end of the reporting period
Total liquidity rate	Current assets at the end of the reporting period / current liabilities at the end of the reporting period
Turnover of freight transportation (ton/km)	Freight transport indicator, which is the product of the amount of transported freight (tonnes) and the distance travelled (kilometres)
Train operational volume (gross-gross ton/km)	Unit of measure representing by multiplying the gross weight of the train, including the weight of the running locomotive, by the distance travelled
Number of employees	The number of listed active employees as of the end of the period (excluding the employees on parental leave, military service, long-term incapacity)
Average salary	Average gross salary per employee

AB LTG CARGO
FINANCIAL STATEMENTS, PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

KPMG Baltics, UAB
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Independent Auditor's Report

To the Shareholders of AB LTG Cargo

Opinion

We have audited the separate financial statements of AB LTG Cargo ("the Company"), set out on pages 42-82. The Company's separate financial statements comprise:

- the separate statement of financial position as at 31 December 2021,
- the separate statement of profit or loss and other comprehensive income for the year then ended,
- the separate of changes in equity for the year then ended,
- the separate of cash flows for the year then ended, and
- the notes to the separate financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the non-consolidated financial position of the Company as at 31 December 2021, and of its non-consolidated financial performance and its non-consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, 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, set out on pages 3-37, but does not include the separate financial statements and our auditor's report thereon. Management is responsible for the other information.

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

Company code: 111494971
VAT code: LT114949716

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

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

On behalf of KPMG Baltics, UAB

Rūta Kupinienė
Certified Auditor

Vilnius, the Republic of Lithuania
2 March 2022

SEPARATE STATEMENT OF FINANCIAL POSITION

	Notes	31/12/2021	31/12/2020
NON-CURRENT ASSETS			
Property, plant and equipment	7	219,952	205,515
Buildings and constructions		430	485
Machinery and plant		5,365	1,310
Vehicles		205,575	202,135
Other equipment, fittings and tools		1,263	343
Construction in progress and prepayments		7,319	1,242
Right-of-use assets	8	8,418	3,401
Intangible assets	9	1,260	325
Financial assets	10	1,385	1,128
Prepayments	13	1,020	-
Total non-current assets		**232,035**	**210,369**
CURRENT ASSETS			
Inventories	11	11,648	1,309
Trade and other receivables	12	58,280	48,834
Prepayments	13	8,821	5,069
Cash and cash equivalents	14	4,970	21,358
Total current assets		**83,719**	**76 570**
TOTAL ASSETS		**315,754**	**286,939**

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

(all amounts are in EUR thousand unless otherwise stated)

SEPARATE STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	31/12/2021	31/12/2020
EQUITY			
Share capital		44,087	43,936
Legal reserve	15	814	-
Other reserves		29,717	-
Retained profit (losses)	16	20,782	30,531
Total equity		**95,400**	**74,467**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	17	130,293	136,981
Lease liabilities	18	5,148	2,430
Employee benefits	19	2,958	3,265
Deferred income tax liabilities	25	7,228	4,335
Total non-current liabilities		**145,627**	**147,011**
Current liabilities			
Loans and current portion of long-term loans	17	10,668	8,688
Lease liabilities	18	3,360	1,044
Employee benefits	19	9,946	8,527
Trade and other payables	20	50,599	47,165
Provisions	21	154	37
Total current liabilities		**74,727**	**65,461**
TOTAL EQUITY AND LIABILITIES		**315,754**	**286,939**

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

The financial statements and the explanatory notes on pages 42-82 were approved and signed on 2 March 2022:

Chief Executive Officer — Eglė Šimė

AB Lietuvos Geležinkeliai
Finance Controller for Accounting,
Financial Reporting and Control
Acting under Power of Attorney
No [G(CARGO)-124 — Asta Stalauskienė

(all amounts are in EUR thousand unless otherwise stated)

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2021	2020
Revenue	22	389,817	396,467
Other income		158	1,027
Total income		389,975	397,494
Infrastructure services		(174,086)	(203,542)
Depreciation and amortisation	7;8;9	(24,636)	(23,160)
Employee benefits costs	23	(54,465)	(50,347)
Fuel		(45,971)	(42,790)
Repairs and maintenance	22	(5,831)	(17,672)
Services rendered by other foreign railway companies		(17,809)	(15,295)
Management services		(14,399)	(9,643)
Materials	22	(10,692)	(2,556)
Electricity		(669)	(486)
Impairment (increase) of investments		(205)	-
Impairment (increase) of inventories		(331)	(128)
Impairment (increase) of receivables		91	26
Change in provisions		91	197
Other		(14,510)	(11,801)
Operating profit (loss)		26,553	20,297
Finance income	24	349	279
Finance costs	24	(2,426)	(2,004)
Profit (loss) before taxation		24,476	18,572
Income tax	25	(3,224)	(2,295)
Net profit (loss)		**21,252**	**16,277**
Other comprehensive income (expenses)		-	-
Total comprehensive income (expenses)		**21,252**	**16,277**

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

(all amounts are in EUR thousand unless otherwise stated)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings (loss)	Total
Balance as at 31 December 2019		**60,410**	**-**	**-**	**-**	**(2,220)**	**58,190**
Net profit (loss)		-	-	-	-	16,277	16,277
Other comprehensive income, after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	16,277	16,277
Decrease in share capital		(16,474)	-	-	-	16,474	-
Transfers between reserves		-	-	-	-	-	-
Dividends		-	-	-	-	-	-
Total transactions with owners of the Company		-	-	-	-	-	-
Balance as at 31 December 2020		**43,936**	**-**	**-**	**-**	**30,531**	**74,467**
Net profit (loss)	16	-	-	-	-	21,252	21,252
Other comprehensive income, after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	21,252	21,252
Increase in share capital by a non-monetary contribution		151	-	-	-	-	151
Unrecognised profit (loss) in the statement of profit or loss and other comprehensive income	16	-	-	-	-	(470)	(470)
Transfers between reserves	15	-	-	814	29,717	(30,531)	-
Dividends		-	-	-	-	-	-
Total transactions with owners of the Company		-	-	-	-	-	-
Balance as at 31 December 2021		**44,087**	**-**	**814**	**29,717**	**21,252**	**95,400**

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

(all amounts are in EUR thousand unless otherwise stated)

SEPARATE STATEMENT OF CASH FLOWS

	Notes	2021	2020
Cash flows from operating activities			
Net profit (loss)		**21,252**	**16,277**
Adjustment to non-cash items			
Depreciation and amortisation	7, 8, 9	24,636	23,160
(Gain) loss from disposal / write-off of non-current assets		87	9
(Reversal) of impairment losses		444	102
Change in accumulated income / costs		4,384	1,623
Interest income (costs)		1,866	1,610
Lease liability interest		13	115
Increase (reduction) in provisions		(91)	(197)
Effect of currency exchange fluctuations		31	(45)
Income tax expenses (income)	25	3,224	2,295
Cash flows from operating activities after adjustment to non-cash items		55,846	44,949
Changes in working capital			
Decrease (increase) in inventories		4,062	617
Decrease (increase) in trade and other receivables and prepayments		(17,023)	15,248
Increase (decrease) in current and non-current trade payables and received prepayments		(4,199)	(5,039)
Increase (decrease) in employment related liabilities		(1,996)	(434)
Increase (decrease) in other non-current and current payables		456	(5,021)
Net cash from operating activities		37,149	50,320
Cash flows from investing activities			
(Acquisition) disposal of non-current assets		(38,702)	(52,324)
Change in prepayments for non-current assets		108	285
Sale (acquisition) of business	16	(13,739)	-
Net cash from investing activities		(52,333)	(52,039)
Cash flows from financing activities			
Cash pool		2,503	-
Interest (paid)		(650)	(1,013)
Payment of lease liability interest		(13)	(115)
Payment of lease liabilities		(3,044)	(938)
Net cash flows from financing activities		(1,204)	(2,066)
Net increase (decrease) in cash and cash equivalents		**(16,388)**	**(3,785)**
Cash and cash equivalents at the beginning of the period		**21,358**	**25,143**
Cash and cash equivalents at the end of the period	14	**4,970**	**21,358**

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

(all amounts are in EUR thousand unless otherwise stated)

EXPLANATORY NOTES

1. General information

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

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

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

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

As at 31 December 2021 and 31 December 2020, the sole shareholder of the Company was the parent company AB Lietuvos Geležinkeliai. As at 31 December 2021, the sole shareholder of AB Lietuvos Geležinkeliai was the Republic of Lithuania, the property rights of which are exercised by the Ministry of Transport and Communications of the Republic of Lithuania (100% of shares).

The Company has no branches and representative offices.

As of 31 December 2021, the listed number of active employees at the end of the period (excluding the employees on parental leave, employees doing military service, long-term incapacity) was 2,261 (as of 31 December 2020 – 2,261 employees).

Investments in subsidiaries are as follows:

Company	Head office address	Owned share, %		Main activity
		2021	2020	
LTG Cargo Polska Sp. Zo.o	Rondo St. 1, Warsaw	100	100	Freight transportation and provision of related services in Poland
UAB LTG Wagons	Geležinkelio St. 12, Vilnius	100	100	Lease of wagons used for freight transportation
LLCLTG Cargo Ukraine	Puškino St. 21, Kiev	100	100	Freight transportation and provision of related services in Ukraine
OOO Rail Lab	Internacionalnaja St. 36-1, office 423.3, Minsk	99	-	Production of locomotives and rolling stocks. Repair and maintenance of vehicles. Wholesale trade of other machinery and plant

2. Significant accounting policies

Basis of preparation. The Company's financial statements have been prepared in accordance with the International Accounting Standards (hereinafter referred to as the IAS) and the International Financial Reporting Standards (hereinafter referred to as the IFRS) as adopted within the European Union. The main accounting policies applied during preparation of these financial statements of the Company are presented below. The said accounting policies are applied for all reporting periods presented in the financial statements unless stated otherwise.

The financial statements are prepared on the historical cost basis.

These financial statements are separate financial statements (hereinafter - financial statements). The Company does not prepare consolidated financial statements using the exemption provided for in paragraph 4(a) of IFRS 10, when the consolidated financial statements in accordance with IFRS are prepared by its parent entity.

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

2. Significant accounting policies (continued)

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

Going concern. These financial statements of the year ended 31 December 2021 have been prepared in accordance with an assumption made by the Company's management that the Company would continue its activities.

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

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

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

Property, plant and equipment are classified as tangible non-current assets and are carried at cost less accumulated depreciation and impairment losses. The initial cost of property, plant and equipment comprises the acquisition cost, including non-refundable acquisition taxes, capitalised borrowing costs and any directly attributable costs incurred in preparing the asset for use or bringing it to the place of use. Costs incurred after the property, plant and equipment was taken into use are generally charged to the Statement of Profit or Loss and Other Comprehensive Income in the period in which they are incurred.

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

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

The repair costs are added to the carrying amount of property, plant and equipment when the work performed extends the useful life of the asset and they can be measured reliably. The carrying amount of the replaced part is written off. All other repair and maintenance costs are expensed as incurred.

A gain or a loss on the sale of property, plant and equipment is determined by the comparison of the proceeds from asset sale with its carrying amount and is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

2. Significant accounting policies (continued)

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

Groups of property, plant and equipment	Useful life
Buildings and structures	10-80
Machinery and plant	5-20
Road transport/vehicles	4-10
Rolling stock (including railway wagons)	12-42
Computers and hardware	8-11
Other equipment, fittings and tools	4-12

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

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

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

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

Intangible assets are amortised on a straight-line basis over their estimated useful lives, which can be from 3 to 10 years for software and from 3 to 4 years for other intangible assets. The amortisation period shall be reviewed at the end of each financial year.

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

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

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

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

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

2. Significant accounting policies (continued)

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

Lease

A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

The Company as a Lessee

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

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

The Company shall recognise the right to use the asset and the lease liability in the Statement of Financial Position at the commencement of the lease.

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

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

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

Subsequent assessment of right-of-use assets. Subsequent to the commencement date, the Company shall assess the right-of-use assets applying the cost method. By applying the cost method, the Company assesses the right-of-use assets less any accumulated depreciation and any accumulated impairment losses; and by adjusting for reassessment of the lease liability. In calculating the depreciation of rights-of-use assets, the Company shall apply the depreciation requirements of 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 that rate cannot be readily determined, the interest rate to be charged by the Company is determined by calculating the weighted average cost of capital (WACC) from the most recent audited annual financial statements and using the cost of debt component.

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

The Company as a Lessor

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

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

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

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

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

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

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

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

A financial asset is measured at amortised cost if both of the following criteria are met: a) the financial asset is held according to s business model, an objective of which is to hold the financial asset to collect its contractual cash flows; and b) due to contractual conditions of the financial asset cash flows may occur on set dates, which represent solely payments of principal and interest.

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

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

Writing down is an event of derecognition.

Financial liabilities. The Company's financial liabilities comprise loans and other borrowings, trade and other payables. At the time of initial recognition, financial liabilities are recognised when the Company becomes party to the contractual terms of the instrument. Financial liabilities are divided into two groups according to their measurement:

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

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

A financial liability, measured at fair value through profit or loss, is measured at fair value, and any net profit and loss, including any interest costs, is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

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

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

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

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 realise the asset to offset the liability.

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

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

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 90 days overdue and the likely case of bankruptcy of the customer.

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

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

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 recognised in the statement of profit or loss and other comprehensive income, unless those taxes are recognised in other comprehensive income or directly in equity as they are related to transactions that are also recognised in other comprehensive income or directly in equity in the same or a different period.

The income tax rate applicable for the companies of the Republic of Lithuania in 2021 and 2020 was 15%.

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

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

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

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

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

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

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

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

On an annual basis, evaluation of inventory is carried out at the end of the year. Spare parts which are intended to be used in overhaul repairs or essential spare parts of non-current assets are reclassified as construction in progress of non-current assets.

2. Significant accounting policies (continued)

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

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

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

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

a) share capital - The share capital is equity paid in by shareholders and is stated at nominal value in accordance with the Parent company's articles of association and the entry in the Centre of Registers;
b) share premium - Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs;
c) 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;
d) other reserves - Other reserves are formed according to the decision of the shareholder for specified purpose;
e) retained profit (loss).

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

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

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

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

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

2. Significant accounting policies (continued)

Step 1 - Identify the contracts with a customer.

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

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

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

Step 2 - Identify the performance obligations in the contract.

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

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

Step 3 - Determine the transaction price.

The transaction price may be fixed, variable or both.

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

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

The Company's revenue is classified as follows:

Type of the Company's revenue;

- revenue earned from freight and services related to freight transportation;
- lease revenue;
- revenue from repair and maintenance;
- Wholesale trade (scrap metal);
- Work of locomotives and locomotive crews.

Nature of revenue recognition:

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

Operating revenue generated by the Company includes the following:

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

- **Income earned from freight and services related to freight transportation**

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

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

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

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

- **Repair and maintenance income.**

The Company recognises income when the goods are transferred to the customer; income from services rendered is recognised at the end of the month when the percentage of completion is estimated, or when the services are rendered and the transfer- acceptance act of the work is signed.

(all amounts are in EUR thousand unless otherwise stated)

2. Significant accounting policies (continued)

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

- **Lease revenue**

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

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

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

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

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

Lease revenue is accounted for in accordance with the requirements of IFRS 16.

- **Wholesale trade.**

Revenue is recognised immediately upon loading of goods from the warehouse.

- **Work of locomotives and locomotive crews**

Revenue is recognised immediately after the services are rendered.

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

2. Significant accounting policies (continued)

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

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

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

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

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

Business combinations. The business combinations were carried out by applying the principles of a jointly controlled business combination. IFRS 3 is not applicable to jointly controlled entities in a business combination. The transfer of the business to the Company was performed at residual values.

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

3. Significant accounting estimates and judgements

Significant judgements

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

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

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

Significant estimates and assumptions

Information on significant estimates and assumptions is provided below:

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

3. Significant accounting estimates and judgements (continued)

Duration of the lease period. In determining the lease term, management considers all the facts and circumstances that give rise to the economic incentive to exercise the option to extend the contract or not to exercise the option to terminate it. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated). Lease contracts of premises which are connected by rail tracks or are in the service provision area are estimated as concluded due to assets of specific purpose located in a special area. Termination of such contracts is unlikely because the leased objects or infrastructure next to those objects is adapted specifically to railway activities. It is assumed that such contracts shall be extended until an infrastructure manager obtains the right to use assets-under-trust (pursuant to the provisions of the Railway Transport Code, the term is 20 years).

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

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

Write down of inventories to net realisable value. The Company reviews its inventory list at least annually to determine the net realisable value of inventories. Inventories acquired earlier than a year ago are reviewed to determine whether they can be realised in the future. For slow-moving spare parts and other materials, impairment is recognised based on detailed operating plans for each item of inventory, their potential realisation period and estimated realisation price.

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

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

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

Rail transport remains the most reliable means of transport during a pandemic. The main customers are large companies, which the Company classifies as risk-free. The Company operates in one of the most strategic and secure sectors of the State and can count on State support or guarantees if required.

Management of LTG Cargo estimates that the cash flow generated by operating activities is likely to remain sufficient to service existing loan agreements and commitments to partners. Therefore, the Company does not currently identify any additional liquidity or credit risk issues as a result of the impact of COVID-19.

In the opinion of the Company's management, the above reviewed circumstances and the sensitivity analysis performed justify all the assumptions for sufficient resources and enable the Company to continue operations in the face of the adverse virus-related circumstances, and do not change the Company's long-term plans and objectives for its operations and development.

3. Significant accounting estimates and judgements (continued)

Influence of Belarus on the Company's operations

In April 2021, US sanctions against 9 Belarusian companies, including Grodno Azot, a Belarusian fertiliser producer and a client of LTG Group, came into force. As a result of these sanctions, cargoes of this client are no longer transported on Lithuanian territory.

At the end of June 2021, the European Union imposed sectoral sanctions on imports of fertilisers and oil products from Belarus. These sanctions apply only to contracts concluded after 25 June 2021. As these shipments are carried out on the basis of long-term contracts, the LTG Group has estimated that the sanctions imposed by the EU will only affect the LTG Group's operations and performance from 2023 onwards. This would affect around 20% of the total volume of fertilisers and half a million tons of oil products shipped.

9 August 2021, the US announced new sanctions against Belarusian legal and natural persons, including Belaruskalij, a producer of potash fertilisers. The new sanctions prohibit the start of new transactions and allow the completion of existing transactions with Belarusian potash fertiliser producer Belaruskalij by 8 December 2021. On 9 December, it was announced that LTG Cargo will continue to provide fertiliser transport services to Belaruskalij for a certain period of time (refer to Note 28).

Given the geopolitical situation, the long-term corporate strategy of LTG Group, approved by the LTG Board of Directors at the end of 2021, is based on the assumption that Belaruskalij will have zero cargo traffic starting from 2022. The budget for 2022 of LTG Group, approved by the LTG Board, is planned without cargoes of Belaruskalij.

These decisions and circumstances did not have any impact on the financial statements for the financial year, but will have an impact on operations and future results of LTG Cargo.

LTG Group has always considered Belarusian freight activities to be extremely high-risk and has previously focused on diversification solutions. LTG Cargo has established subsidiaries in Poland and Ukraine, and intermodal projects to Western Europe are being intensively developed.

Climate change management measures and impact on the Company's activities.

The Company pays particular attention to environmental protection as part of the strategic objectives and sustainability management priorities set out in the LTG Sustainable Growth Strategy 2040 of LTG Group. One of the key strategic activities of the LTG Group and its individual companies is the Green Deal.

In 2021, the LTG Group adopted the Environmental Strategy 2030+, which sets out the LTG Group's environmental priorities and areas that are or could potentially be affected by the activities of LTG Group, and sets specific targets to reduce these impacts. The strategy has been developed in the light of national legislation, international agreements (Paris Agreement on Climate Change, European Green Deal) related to the environment protection, including climate change.

One of the objectives identified in the Environmental Strategy and of particular importance to the Company is climate change mitigation and adaptation - LTG Group is committed to sustainable development, reducing CO2 emissions and adapting to climate change. By 2030, the plan is to reduce total CO2e emissions from rail transport by 30% and specific CO2e emissions from freight and passenger transport by 50% compared to 2005.

The Company has not currently identified any assets used in its operations that may be affected by climate-related events or factors. The Environmental Strategy 2030+ also includes an objective related to the assessment of measures to adapt to climate change and its impacts.

3. Significant accounting estimates and judgements (continued)

During the reporting period, the Company did not have any financial commitments related to ESG (Environmental, Social and Governance) indicators. It has also not been exposed to any legal proceedings or complaints related to climate change events and has not incurred any additional costs that have had a material impact on the financial statements.

4. New standards and interpretations not yet adopted

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

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

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

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

4. New standards and interpretations not yet adopted (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 recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

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

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

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

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

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

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

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

When carrying out the annual improvements process to IFRS standards 2018–2020, the International Accounting Standards Board published Amendments to IFRS 9 Financial Instruments. The amendments clarify the fees an entity includes when 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 reporting periods beginning on or after 1 January 2022. Early application in permitted.

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

IFRS 17 Insurance Contracts

Applicable for annual periods beginning on 1 January 2023 on a comparable basis. Earlier application is permitted if an entity also applies IFRS 9 and IFRS 15 on or before the effective date of IFRS 17. IFRS 17 replaces IFRS 4, which gave entities the option to continue to apply 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 single principles-based standard that sets out accounting requirements for all types of insurance contracts, including reinsurance contracts held by an insurer. The standard requires groups of insurance contracts to be recognised and measured at (i) the risk-adjusted present value of future cash flows (the performance cash flows), which includes all available information about the performance cash flows that is consistent with observable market data, plus (if that value is a liability) or minus (if that value is an asset) (ii) an amount representing the unearned profit (the contractual service margin) on the group of contracts. Insurers will recognise the profit earned on a group of insurance contracts over the period of coverage and at the time the risk is released. If a group of contracts is or becomes loss-making, the entity recognises the loss immediately.

These amendments to the standard will not have an impact on the Company's financial statements as it does not carry on insurance business.

4. New standards and interpretations not yet adopted (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 reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

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

Reference to the Conceptual Framework (Amendments to IFRS 3)

In May 2020, the International Accounting Standards Board published amendments to IFRS 3 'Business Combinations – Reference to Conceptual Framework'. These amendments replace the reference to 'Framework for the Preparation and Presentation of Financial Statements', issued in 1989, with a reference to 'Conceptual Framework for Financial Reporting', issued in 2018, without significant change in their requirements. The Board has also supplemented IFRS 3 with an exception to the recognition principle in order to avoid '2nd day' potential gains or losses from liabilities and contingent liabilities that are accounted for in accordance with IAS 37 or IFRIC 21 'Levies', if they have been incurred separately. At the same time, the Board decided to revise the current guidance on contingent assets in IFRS 3, which will not be affected by the amendment to the reference to 'Framework for the Preparation and Presentation of Financial Statements'.

The amendments are effective for annual periods beginning on or after 1 January 2022 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.

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021, the International Accounting Standards Board published amendments to IAS 8, which introduced the definition of accounting estimates. The amendments helps to distinguish changes in accounting estimates from changes in accounting policies and correction or errors. Furthermore, they also explain how economic operators use measurement methods and a contribution to preparation of the accounting estimates.

The amendments shall be applied to the reporting periods from 1 January 2023 and to changes of the accounting estimates, accounting policies, which are present as at the date of the beginning of this period or later.

Earlier application is permitted only provided that it was disclosed in the financial statements.

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.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

In February 2021, the International Accounting Standards Board published amendments to IAS 1 and IFRS 2 Practice Statement 2 'Making Materiality Judgements' with guidance and examples to help economic operators to apply materiality judgments to accounting policy disclosures. The purpose of amendments is to help economic operators to prepare accounting policy disclosures which would be more useful as an entity is now required to disclose its 'material' accounting policy information instead of its 'significant' accounting policies, by adding guidance on how entities should apply the concept of materiality when adopting a decision on accounting policy disclosures.

The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted.

As guidance on application of the concept of materiality for information of accounting policy, presented in amendments to IFRS 2 'Practice Statement', are not compulsory, the date when they come into effect is not compulsory.

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.

(all amounts are in EUR thousand unless otherwise stated)

5. Significant changes in accounting policy

The standards and amendments effective as of 1 January 2021 did not have a significant impact on the financial statements for 2021.

6. Financial instruments and risk management

Financial instruments. Fair value

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

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

The Company's financial instruments according to their types:

	2021	2020
Financial assets		
Trade and other receivables	52,464	44,663
Cash and cash equivalents	4,970	21,358
Total	**57,434**	**66,021**

	2021	2020
Financial liabilities		
Loans and other financial debts	140,827	145,669
Lease obligations	8,508	3,474
Trade and other payables	29,861	42,006
Total	**179,196**	**191,149**

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3 – original inputs for the asset or liability that are not based on observable market data (unobservable original inputs).

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

	Carrying amount 2021	Net carrying amount 2021			Carrying amount 2020	Net carrying amount 2020		
Financial assets	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Trade and other receivables	52,464	-	-	52,464	44,663	-	-	44,663
Cash and cash equivalents	4,970	4,970	-	-	21,358	21,358	-	-
Total	**57,434**	**4,970**	**-**	**52,464**	**66,021**	**21,358**		**44,663**
Financial liabilities								
Loans and other financial debts	140,827	-	-	140,827	145,669	-	-	145,669
Lease obligations	8,508	-	-	8,508	3,474	-	-	3,474
Trade and other payables	29,861	-	-	29,861	42,006	-	-	42,006
Total	**179,196**	**-**	**-**	**179,196**	**191,149**	**-**	**-**	**191,149**

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

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

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

Risk management

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

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

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

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

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

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

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

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

	2021	2020
Customer A	6,699	5,379
Customer B	2,470	930
Customer C	2,255	825
Customer D	1,391	544
Customer E	1,203	446
Customer F	451	390
Others	4,528	5,099
Total	**18,811**	**13,613**

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

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

The Company's exposure to credit risk and ECLs for trade and other receivables according to individual external customers as at 31 December 2021:

	Gross carrying amount	Expected credit losses, %	Provision	Net carrying amount
Low risk	52,253	0.00%	(3)	52,250
Fair risk	176	0.02%	-	176
Increased risk	7	11.28%	(1)	6
High risk	1,324	97.60%	(1,292)	32
Total	50,392		(1,296)	52,464

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

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

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

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

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

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

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

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

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables as at 31 December 2021:

	Expected credit losses, %	Gross carrying amount	Provision	Net carrying amount
Not past due	0.00%	48,811	(2)	48,809
1-30 days past due	0.02%	2,589	(1)	2,588
31-60 days past due	0.02%	1,042	-	1,042
61-120 days past due	15.77%	6	(1)	5
More than 120 days past due	98.49%	1,312	(1,292)	20
Total		53,760	(1,296)	52,464

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

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

The impairment recorded by the Company reflects the estimated losses on doubtful trade receivables. Impairment of receivables - expected credit losses - is recognised on an aggregate basis. The Company uses a loss ratio matrix to calculate the expected credit losses. The loss ratio matrix is based on historical data on customer settlements over the life of the trade receivables and is adjusted to reflect future projections. The Company applies the principle of leverage to the oldest customer debt when calculating expected credit losses. This results in an individual assessment of the customer's debt in objective circumstances.

Provision measurement methods are revised on an ongoing basis in order to minimise differences between estimated losses and actual losses.

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

	2021	2020
Balance at the beginning of the period	(1,320)	(1,432)
Provision of receivables carried forward during the reorganisation	(325)	-
Change in provision of trade and other receivables	91	26
Impairment for written down debts	258	86
Balance at the end of the period	**(1,296)**	**(1,320)**

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

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

	2021	2020
Aa2,AA credit rating	4,924	3,386
Aa3,AA credit rating	16	9,392
Baa1 credit rating	30	8,580
Total	**4,970**	**21,358**

The carrying amount of cash and cash equivalents approximates their fair value. Expected credit losses are not recorded due to the insignificant risk of expected changes in their value.

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

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

The COVID-19 pandemic did not have a significant negative impact on the Company's liquidity. The Group had significant cash and cash equivalent balances throughout the year and ensured the liquidity of all Group companies through the Group’s cash pool.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

The Company used the LTG Group's cash pool to balance its working capital. The parent company of the LTG Group has an agreement with a credit institution for servicing the Group's account and, accordingly, the Company has an inter-lending agreement for one year. The terms and conditions of the agreement are in line with normal market conditions. The agreement was renewed after the balance sheet date.

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

Repayment terms of the Company's financial liabilities using the undiscounted flow method as at 31 December 2021:

Financial liabilities	Total	Within one year	From one to five years	After five years
Loans and other financial debts	140,961	10,668	52,917	77,376
Lease liabilities	8,508	3,360	5,148	-
Trade and other payables	29,861	29,861	-	-
Total	**179,330**	**43,889**	**58,065**	**77,376**

Repayment terms of the Company's financial liabilities using the undiscounted flow method as at 31 December 2020:

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

Specification of the Company's loans and other financial liabilities, including interest, as at 31 December 2021:

Financial liabilities	Up to 2 months	From 2 months to 1 year	From 1 to 5 years	From 5 years
Loans and other financial liabilities	2 738	8 128	60 978	79 537
Total	**2 738**	**8 128**	**60 978**	**79 537**

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 2021 and 2020, the Company did not enter into derivative financial transactions to manage the risk of exchange rate fluctuations with servicing banks. Most transactions are made in euros; impact of exchange rate fluctuations is low.

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

Long-term loans mostly affect increase in the interest rate risk. As of 31 December 2021, the value of the Company’s long-term loan portfolio was EUR 138,323 thousand (as of 31 December 2020 – EUR 145,466 thousand).

If interest rate goes up by 0.5 percentage point during the year 2022, annual interest costs will increase by EUR 611 thousand.

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

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

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

During 2021 and 2020, the Company complied with the requirements of the provisions of the Law on Companies of the Republic of Lithuania.

(all amounts are in EUR thousand unless otherwise stated)

7. Property, plant and equipment

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

	Buildings and structures	Machinery and equipment	Vehicles	Other equipment fittings and tools	Construction in progress and prepayments	Total
Acquisition cost						
31 December 20219	592	2,059	208,206	468	467	211,792
- acquisitions	-	61	40,620	146	775	41,602
- assets sold, written off, disposed	-	(22)	(3,377)	(43)	-	(3,442)
- reclassifications	-	-	-	-	-	-
31 December 2020	592	2,098	245,449	571	1,242	249,952
- acquisitions	-	1,692	26,319	214	5,328	33,553
- acquisition of assets due to reorganisation	-	3,025	1,736	485	3,105	8,351
- assets sold, written off, disposed	-	(46)	(4,091)	(52)	(1,092)	(5,281)
- reclassifications	-	-	796	468	(1,264)	-
31 December 2021	592	6,769	270,209	1,686	7,319	286,575
Accumulated depreciation and impairment losses						
31 December 20219	(52)	(408)	(22,020)	(114)	-	(22,594)
- depreciation	(55)	(402)	(21,478)	(145)	-	(22,080)
- impairment	-	-	-	-	-	-
- assets sold, written off, disposed	-	22	184	31	-	237
- reclassifications	-	-	-	-	-	-
31 December 2020	(107)	(788)	(43,314)	(228)	-	(44,437)
- depreciation	(55)	(652)	(21,719)	(235)	-	(22,661)
- impairment	-	-	-	-	-	-
- assets sold, written off, disposed	-	36	399	40	-	475
- reclassifications	-	-	-	-	-	-
31 December 2021	(162)	(1,404)	(64,634)	(423)	-	(66,623)
Carrying amount						
31 December 2019.	540	1,651	186,186	354	467	189,198
31 December 2020	485	1,310	202,135	343	1,242	205,515
31 December 2021	**430**	**5,365**	**205,575**	**1,263**	**7,319**	**219,952**

(all amounts are in EUR thousand unless otherwise stated)

7. Property, plant and equipment (continued)

Depreciation and amortisation expense included in the Statement of Profit or Loss and Other Comprehensive Income amounted to EUR 24,636 thousand (2020 – EUR 23,160 thousand). This amount includes EUR 22,661 thousand (2020 – EUR 22,080 thousand) of depreciation of property, plant and equipment, EUR 3,287 thousand (2020 – EUR 994 thousand) of depreciation of right-of-use assets and EUR 69 thousand (2020 – EUR 86 thousand) of amortisation of intangible assets. Capitalised depreciation amounted to EUR 1,381 thousand (in 2020 – EUR 0).

The major portion of construction in progress and prepayments (EUR 6,652 thousand) consists of inventories transferred for carrying out of regular and overhaul repairs (including EUR 6,526 thousand of spare parts).

The cost of the Company's fully depreciated but still used property, plant and equipment amounted to EUR 12,319 thousand (2020 – EUR 11,637 thousand). Vehicles comprised for the majority of fully depreciated property, plant and equipment.

8. Right-of-use assets

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

	Buildings and structures	Other assets	Total
Acquisition cost			
31 December 2019	1,777	487	2,264
- acquisitions	4,820	801	5,621
- disposed assets	(3,566)	(199)	(3,765)
- reclassifications	-	-	-
31 December 2020	3,031	1,089	4,120
- acquisitions	8,523	209	8,732
- acquisition of assets due to reorganisation	2,226	-	2,226
- assets sold, written off, disposed	(2,745)	(365)	(3,110)
- reclassifications	-	-	-
31 December 2021	11,035	933	11,968
Accumulated amortisation and impairment losses			
31 December 2019	(390)	(208)	(598)
- depreciation	(630)	(364)	(994)
- disposed assets	676	197	873
- reclassifications	-	-	-
31 December 2020	(344)	(375)	(719)
- depreciation	(2,990)	(297)	(3,287)
- assets sold, written off, disposed	189	267	456
- reclassifications	-	-	-
31 December 2021	(3,145)	(405)	(3,550)
Carrying amount			
31 December 2019	1,387	279	1,666
31 December 2020	2,687	714	3,401
31 December 2021	**7,890**	**528**	**8,418**

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.

(all amounts are in EUR thousand unless otherwise stated)

9. Intangible assets

The Company's intangible assets consisted of:

	Software	Other intangible assets	Total
Acquisition cost			
31 December 2019	464	10	474
- acquisitions	-	-	-
- assets sold, written off, disposed	-	(1)	(1)
- reclassifications	-	-	-
31 December 2020	464	9	473
- acquisitions	-	796	796
- acquisition of assets due to reorganisation	61	147	208
- assets sold, written off, disposed	(1)	-	(1)
- reclassifications	-	-	-
31 December 2021	524	952	1,476
Accumulated depreciation and impairment losses			
31 December 2019	(59)	(3)	(62)
- depreciation	(83)	(3)	(86)
- assets sold, written off, disposed	-	-	-
- reclassifications	-	-	-
31 December 2020	(142)	(6)	(148)
- depreciation	(62)	(7)	(69)
- assets sold, written off, disposed	1	-	1
- reclassifications	-	-	-
31 December 2021	(203)	(13)	(216)
Carrying amount			
31 December 2019	405	7	412
31 December 2020	322	3	325
31 December 2021	**321**	**939**	**1,260**

The majority of intangible assets acquired in 2021 were intangible asset projects in progress.

The Company's fully amortised intangible assets still in use amounted to EUR 60 thousand (2020 – 48 thousand). The main part of fully amortised assets consisted of software.

10. Investments

Movement of investments in subsidiaries and other companies consisted of:

Company		Controlled share, %	31/12/2021 Investment value	31/12/2021 Provision accounted	31/12/2021 Carrying value	31/12/2020 Investment value	31/12/2020 Provision accounted	31/12/2020 Carrying value
Shares of subsidiaries								
LTG Cargo Polska Sp. Zo.o.	a)	100	484	-	484	489	-	489
UAB LTG Wagons	b)	100	150	(96)	54	150	-	150
LLC LTG Cargo Ukraine	c)	100	549	-	549	489	-	489
OOO Rail Lab	d)	99	407	(109)	298	-	-	-
Total			**1,590**	**(205)**	**1,385**	**1,128**	**-**	**1,128**

In 2021, investment in OOO Rail Lab was acquired. In 2020, the following subsidiaries were established: LTG Cargo Polska Sp. Zo.o., UAB LTG Wagons and LTG Cargo Ukraine.

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

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

(all amounts are in EUR thousand unless otherwise stated)

10. Investments (continued)

c) On 9 December 2020, the company LLC LTG Cargo Ukraine was registered and the capital amounting to UAH 17,027 thousand

d) On 1 April 2021, following the acquisition of share of business of UAB Vilniaus Lokomotyvų Remonto Depas, OOO Rail Lab was also acquired, the share capital of which amounts to BYN 1,175 thousand.

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

	Investment value
Acquisition value as at 31 December 2019	-
Increase (+)	1,128
Decrease (-)	-
Acquisition value as at 31 December 2020	**1,128**
Increase (+)	462
Decrease (-)	(205)
Acquisition value as at 31 December 2021	**1,385**

Financial position of the subsidiaries:

31/12/2021	Non-current asset	Current asset	Non-current liabilities	Current liabilities	Equity
LTG Cargo Polska Sp. Zo.o.	189	1,929	9	2,424	(315)
UAB LTG Wagons	2	75	-	36	41
LTG Cargo Ukraine	9	331	-	64	276
OOO Rail Lab	14	294	-	1	307

31/12/2020	Non-current asset	Current asset	Non-current liabilities	Current liabilities	Equity
LTG Cargo Polska Sp. Zo.o.	3	485	-	14	474
UAB LTG Wagons	-	150	-	-	150
LTG Cargo Ukraine	-	489	-	-	489

The Statement of Profit or Loss and Other Comprehensive Income of the subsidiaries:

	2021			2020		
	Income	(Expenses)	Profit (loss)	Income	(Expenses)	Profit (loss)
LTG Cargo Polska Sp. Zo.o.	1,164	(1,949)	(785)	-	(14)	(14)
UAB LTG Wagons	-	(109)	(109)	-	-	-
LTG Cargo Ukraine	-	(275)	(275)	-	-	-
OOO Rail Lab	17	(35)	(18)	-	-	-

(all amounts are in EUR thousand unless otherwise stated)

11. Inventories

The Company's inventories consisted of:

	31/12/2021	31/12/2020
Fuel	1,091	679
Spare parts	7,118	152
Materials	2,086	153
Other	1,212	185
Total raw materials, supplies and components	11,507	1,169
Purchased goods for resale	138	140
Purchased goods for resale, total	138	140
Non-current assets held for sale	3	-
Non-current assets held for sale, total	3	-
Total	11,648	1,309

EUR 12,313 thousand carrying amount (2020 – EUR 1,522 thousand) of the Company's inventories was reduced by EUR 665 thousand (2020 – EUR 213 thousand) to the net realisable value as at 31 December 2021. The change in the write-down of the Company's inventories to net realisable value is reflected in the expense item in the statement of Profit (loss) and other comprehensive income.

During 2021, the inventories of EUR 10,692 thousand (2020 – EUR 2,556 thousand) (without fuel) were written off at cost of sales.

12. Trade and other receivables

The Company's trade and other receivables included:

	31/12/2021	31/12/2020
External trade receivables, gross value	20,107	14,933
Impairment (-)	(1,296)	(1,320)
Total external trade receivables	**18,811**	**13,613**
Receivables from related parties	1,788	7,084
Impairment (-)	-	-
Total receivables from related parties	**1,788**	**7,084**
VAT receivable	5,136	3,727
Other receivables from the budget	680	444
Accrued income from related parties	30,962	23,128
Accrued income	893	761
Other receivables	10	77
Impairment (-)	-	-
Total other receivables	**37,681**	**28,137**
Total	**58,280**	**48,834**

Other accrued receivables from related parties include unissued credit notes for infrastructure services.

13. Prepayments

The Company's prepayments consisted of:

	31/12/2021	31/12/2020
Prepayments to external suppliers	233	18
Prepayments to related parties	5,653	2,196
Guarantees paid to external suppliers	17	-
Guarantees paid to related parties	1,928	373
Deferred charges	2,010	2,482
Total	**9,841**	**5,069**

The guarantees paid to related parties consist of a non-current part of EUR 1,020 thousand and a current part of EUR 908 thousand

(all amounts are in EUR thousand unless otherwise stated)

14. Cash and cash equivalents

The Company's cash and cash equivalents consisted of:

	31/12/2021	31/12/2020
Cash in bank	4,970	21,358
Total	**4,970**	**21,358**

As at 31 December 2021, the Company had no current deposits. Money was not pledged.

15. Reserves

Legal reserve

Legal reserve is compulsory in accordance with the 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. As at 31 December 2021, the legal reserve amounted to EUR 814 thousand (which is currently 1.84%), the legal reserve was not formed as at the end of 2020.

Other reserves

As at 31 December 2021, other reserves amounted to EUR 29,717 thousand. No other reserves were formed as at the end of 2020.

16. Retained earnings (loss)

EUR 470 thousand of unrecognised loss for the reporting year was accounted for in the Company's retained earnings (losses), which occurred due to the difference between the net assets purchased from UAB Vilniaus Lokomotyvų Remonto Depas (VLRD) and the market value of the business.

Balance sheet as at 1 April 2021 for the acquisition of the business from VLRD (at carrying amount):

ASSETS		EQUITY AND LIABILITIES	
Property, plant and equipment	8,333	Lease liabilities	808
Right-of-use assets	2,226	Employee benefits	655
Intangible assets	208	**Total non-current liabilities**	1,463
Financial assets	381	Loans and current part of long-term loans	16,235
Total non-current assets	**11,148**	Lease liabilities	1,501
Inventory	14,731	Employee benefits	2,473
Trade and other receivables	11,192	Trade and other payables	3,215
Prepayments	1,275	Provisions	208
Total current assets	**27,216**	**Total current liabilities**	**23,632**
TOTAL ASSETS	**38,364**	**TOTAL LIABILITIES**	**25,095**
		Paid	**13,739**
		Reorganisation result	**(470)**

On 1 April 2021, the Company acquired the rolling stock repair business from VLRD, which includes the assets, liabilities, contracts and employees related to the rolling stock repair services. The fair market value of the transferred business was determined by an independent valuer and amounted to EUR 13,739 thousand. The net asset value of the business transferred amounted to EUR 13,269 thousand and the difference of EUR 470 thousand between the market and the carrying values was recorded in the Company's profit (loss) as a reorganisation loss. The paid amount is reflected under investing activities in the Statement of Cash Flows.

(all amounts are in EUR thousand unless otherwise stated)

17. Loans and other financial debts

The Company's financial debts consisted of:

	2021	2020
Long-term loans	130,293	136,981
Short-term loans	10,534	8,485
Interest	134	203
Total	140,961	145,669

The Company's loans consisted of:

	31/12/2021	31/12/2020
Bank EIB – 3	1,364	3,182
Bank EIB – 4	14,000	20,667
AB Lietuvos geležinkeliai	122,960	121,617
Cash pool loan	2,503	-
Interest	134	203
Total	140,961	145,669
Long-term loans	130,293	136,981
Short-term loans	10,668	8,485
Total	140,961	145,699

EIB-4 is the loan for the procurement of new railway rolling stock. During 2021, the Company repaid EUR 6,667 thousand of the loan and paid EUR 476 thousand of interest.

EIB-3 is the loan for the procurement of new railway rolling stock. During 2021, the Company repaid EUR 1,818 thousand of the loan and paid EUR 59 thousand of interest.

The loan agreement of EUR 163,862 thousand value was made with AB Lietuvos Geležinkeliai (LTG) on 12 March 2019. The purpose of the loan – purchase of railway rolling stocks – rail cars, containers and locomotives under asset sale and purchase agreement of 25 January 2019 made between LTG and the Company. The loan was awarded as non-current asset, repayment term until the year 2031. Interest has been established by applying a variable interest rate that consists of 6-month EURIBOR and the margin established by a market survey.

After the restructuring of the loans in 2020, the loan of LTG and the Company is considered subordinated in respect of the EIB loans, i.e. both loan and interest payments are not possible until the EIB loan repayment maturity date in 2024; consequently, neither loan nor interest repayments were made during 2021.

No breaches of fulfilment of financial and non-financial terms of the loan agreements were identified as at 31 December 2021.

In 2021, order to manage funds more effectively and ensure liquidity of the Group companies, under market terms, the Company used the Group account (Cash-pool) in accordance with the agreement signed with AB Swedbank. As at 31 December 2021, the Company had liabilities amounting to EUR 2,503 thousand.

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

	2021	2020	Value set by the bank
Net debt/adjusted EBITDA*	comply	comply	Not higher than 4.0
Equity ratio**	comply	comply	Not lower than 35%
Loan servicing ratio	comply	comply	Not lower than 2

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

18. Lease liabilities

The Company rents out buildings and other assets (vehicles and dredgers). Building rental agreements are usually concluded for a fixed 36-month period with a possibility to extend them not more than for 20 years. Vehicle rental agreements are concluded for 36 months without a possibility to extend them. When determining the rental period, the management evaluates all facts and circumstances, which give rise to economic incentives to avail themselves of the possibility to extend or terminate the contract. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated). Possible future cash payments were not included in the lease obligations as there is no reason to be certain that the leases will be extended (or not terminated).

(all amounts are in EUR thousand unless otherwise stated)

18. Lease liabilities (continued)

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

The discount rate applied for lease agreements in 2021 comprises 6-month EURIBOR and market research, market margin determined under the current market conditions.

Impact on the statement of financial position (increase / (decrease)) as at 31 December 2021:

	2021	2020
Assets:		
Right-of-use assets	8,418	3,401
Non-current liabilities:		
Lease liabilities	(5,148)	(2,430)
Current liabilities:		
Lease liabilities	(3,360)	(1,044)
Impact on the Statement of Profit or Loss and Other Comprehensive Income of the previous year	**(56)**	**(17)**
Impact on the Statement of Profit or Loss and Other Comprehensive Income	**(34)**	**(56)**

Impact on the statement of profit or loss and other comprehensive income (increase / (decrease)) as at 31 December 2021:

	2021	2020
Depreciation costs	(3,287)	(994)
Lease expenses	3,266	1,053
Operating profit (loss)	**(21)**	**59**
Financing activity costs:		
Interest	**(13)**	**(115)**
Profit (loss) of the reporting period	**(34)**	**(56)**

Impact on the statement of comprehensive income and the statement of cash flows (increase / (decrease) as at 31 December 2021:

	2021	2020
Net profit (loss)	**(34)**	**(56)**
Depreciation costs	3,287	994
Interest on lease liability	13	115
Cash flows from investing activity		
Payments of lease liability	(3,100)	(938)
Interest on lease liability	(13)	(115)
Net increase (decrease) in cash flows	**(153)**	**-**

If the discount rate applied by the Company increased or decreased by 1%, the amount of lease liabilities at 31 December 2021 would be EUR 8,847 thousand or EUR 8,169 thousand, respectively.

19. Employee benefits

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

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

	31/12/2021	31/12/2020
Discount rate	0.76%	0.40%
Employee turnover rate	8.94%	5.49%
Salary increase rate	1.80%	1.80%

(all amounts are in EUR thousand unless otherwise stated)

19. Employee benefits (continued)

Employee benefits by type:

	31/12/2020	Charged to the Statement of Profit or Loss and Other Comprehensive Income	Capitalised costs calculated	Transferred from VLRD during the reorganisation	Paid	31/12/2021
Non-current liabilities						
Provisions for pensions and similar liabilities	3,265	(909)	-	655	(53)	2,958
Total non-current liabilities:	**3,265**	**(909)**	**-**	**655**	**(53)**	**2,958**
Current liabilities						
Accumulated leave	2,877	6,226	-	1,162	(6,725)	3,540
Wages and salaries payable	2,021	22,632	7,543	550	(30,256)	2,490
Social security contributions payable	963	13,754	133	-	(13,638)	1,212
Personal income tax payable	700	11,668	-	-	(11,572)	796
Other employment-related liabilities	1,966	1,094	-	761	(1,913)	1,908
Total current liabilities:	**8,527**	**55,374**	**7,676**	**2,473**	**(64,104)**	**9,946**
Total	**11,792**	**54,465**	**7,676**	**3,128**	**(64,157)**	**12,904**

20. Trade and other payables

The Company's trade and other payables consisted of:

	31/12/2021	31/12/2020
Trade accounts payable	4,295	469
Trade accounts payable to related parties	16,121	34,358
Prepayments received	5,476	4,616
Prepayments received from related parties	14,553	-
Cash guarantees received	1,355	1,526
Other taxes payable to the budget	709	543
Accumulated costs of foreign railway services	1,437	1,335
Accumulated payables to related parties	1,088	2,177
Accumulated costs	5,540	1,631
Other accounts payable and liabilities	25	510
Total	**50,599**	**47,165**

The Company accounted for EUR 53 thousand liability for audit services in the accrued costs.

21. Provisions

The Company's provisions consisted of:

Balance as of 31 December 2019	**234**
Formed	37
Used	(234)
Balance as of 31 December 2020	**37**
Acquired through the business purchase transaction	208
Used	(91)
Balance as of 31 December 2021	**154**

On 1 April 2021, following the acquisition of share of business of UAB Vilniaus Lokomotyvų Remonto Depas, the accrued provision for warranty repair services was also transferred.

(all amounts are in EUR thousand unless otherwise stated)

22. Revenue

The Company's revenue consisted of:

	2021	2020
Revenue from domestic freight transportation	82,394	85,261
Revenue from international freight transportation	188,582	196,247
Provision of services related to freight transportation	96,030	98,302
Locomotives and work of locomotive crews abroad	4,283	4,197
Maintenance and repair	4,646	878
Wholesale trade	2,552	1,556
Property lease	7,411	8,028
Other services	3,919	1,998
Total	**389,817**	**396,467**

The acquisition of the VLRD in April 2021 resulted in an increase of income from maintenance and repair, thereby reducing the maintenance and repair costs, but an increase in material costs.

Wholesale trade consisted mainly of scrap metal sales: EUR 2,271 thousand in 2021 (EUR 893 thousand in 2020).

The increase in other income from services in 2021 was determined by the services to passenger transport provided by locomotives and locomotive crews.

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

	2021	2020
Recognised immediately	377,760	387,561
Recognised over an ongoing period	12,057	8,906
Total	**389,817**	**396,467**

23. Employee benefits costs

Employee benefits costs by type:

	2021	2020
Wages and salaries	54,930	49,979
Social security contributions	943	884
Accrued vacation reserve	(499)	(153)
Pensions and similar liabilities	(909)	(363)
Total	**54,465**	**50,347**

24. Net finance income

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

	2021	2020
Total finance income	349	279
Penalties and default interest for overdue trade receivables	317	279
Impact of currency exchange fluctuations	32	-
Total finance costs	(2,500)	(2,004)
Impact of currency exchange fluctuations	-	(1,610)
Interest	(1,865)	(45)
Other costs	(560)	(349)
Total	**(2,077)**	**(1,725)**

(all amounts are in EUR thousand unless otherwise stated)

25. Income tax and deferred tax

Income tax was calculated at a rate of 15 percent.

	2021	2020
Income tax for the reported year	-	1
Adjustment of income tax of the previous year	331	(606)
Deferred tax expenses (benefit)	2,893	836
Total income tax expense (benefit) recognised in profit or loss statement	**3,224**	**231**

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

	2021	2020
Profit or loss before tax	24,475	18,572
Income tax	3,671	2,786
Non-allowable (+) additional allowable (-) deductions	(37)	467
Non-taxable income	(741)	(352)
Income tax adjustments of the previous year	331	(606)
Total income tax expenses (income)	**3,271**	**2,295**
Effective rate	13.17%	12.36%

The Company's deferred tax calculation is given below:

	2021	2020
Deferred tax assets:		
Accrued tax loss	7,342	2,979
Impairment of inventories	100	32
Impairment of receivables	194	129
Accrual of leave and bonuses	817	726
Long-term employee benefits liabilities	444	-
Accrued costs	23	-
Deferred tax assets	8,920	3,866
Deferred income tax liability:		
Difference in the value of non-current assets with tax	(12,125)	(8,201)
Accrued receivables	(4,023)	-
Deferred income tax liability	(16,148)	(8,201)
Deferred tax asset (liability), net	**(7,228)**	**(4,335)**

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

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 AB LTG Cargo;
- Companies or institutions are managed by the Government of the Republic of Lithuania;
- Parent company AB Lietuvos Geležinkeliai;
- Subsidiaries of the parent company AB Lietuvos Geležinkeliai;
- AB Lietuvos Geležinkeliai related, non-consolidated associated and joint ventures;
- Board members and their close relatives.

(all amounts are in EUR thousand unless otherwise stated)

26. Related party transactions (continued)

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:

	2021		31/12/2021	
	Purchases	Sales	Receivables	Payables
AB Lietuvos geležinkeliai	79,336	75,343	6,404	147,088
AB LTG Infra.	190,492	925	401	12,827
UAB LTG LINK	422	3,910	1,508	23
UAB Geležinkelio tiesimo centras	-	1,904	28	-
UAB Gelsauga	1	-	-	-
UAB Vilniaus lokomotyvų remonto depas	14,033	347	-	-
LTG Cargo Ukraine	-	38	8	-
LTG Cargo Polska SP. Zo.o.	414	55	-	-
UAB LTG Wagons	-	1	-	-
UAB voestalpine VAE Legetecha	-	36	-	-
Total	**284,698**	**82,559**	**8,349**	**159,938**

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

The Company's accrued receivables and payables with related parties accounted for in the Statement of financial position as at 31 December 2021:

	31/12/2021	
	Accrued receivables	Accrued payables
AB Lietuvos geležinkeliai	4,124	615
AB LTG Infra	26,838	59
LTG Cargo Polska SP. Zo.o.	-	414
Total	**30,962**	**1,088**

	31/12/2020	
	Accrued receivables	Accrued payables
AB Lietuvos geležinkeliai	8,947	154
AB LTG Infra	14,181	32
UAB Vilniaus lokomotyvų remonto depas	-	2,023
Total	**23,128**	**2,209**

(all amounts are in EUR thousand unless otherwise stated)

26. Related party transactions (continued)

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

Management remuneration and other benefits

As of 31 December 2021, the number of executives was 8 people, i.e. Chief Executive Officer, Head for Strategy and Business Development, Head for Service Delivery, Head for Capacities and Compliance, Head for Sales and Customer Service, Head for Asset Management, Head for Rolling Stock Servicing LTG Tech, Head for Analytics and Business Control, Head for International Technical Development.

	2021	2020
Management remuneration	610	656
Incentives*	141	145
Accumulated long-term benefits	5	11
Number of executives	8	8
Allowances for members of the Board	-	-
Number of Board members	3	5

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

As of 31 December 2021, no loans, guarantees, or other disbursements or accruals or disposals of assets were made to the Company's management other than as set forth above.

27. Contingent assets and liabilities

The Tax Authorities have not performed full-scope tax investigations at the Company. The Tax Authorities may inspect accounting, transaction and other documents, accounting records and tax returns for the current and previous 3 calendar years at any time, and where appropriate, for the current and previous 5 or 10 calendar years and impose additional taxes and penalties. Management of the Company is not aware of any circumstances which would cause calculation of additional significant liabilities due to unpaid taxes.

Legal disputes

During 2021, The Company was not involved in any litigation.

28. Events after the reporting period

January 2022: Egidijus Lazauskas - the CEO of LTG Cargo - has been appointed as Acting CEO of Lietuvos Geležinkeliai from 4 January.

January 2022: from 4 January, Eglė Šimė has been appointed as Acting CEO of LTG Cargo. Previously, she has held the position of head for Service Delivery.

On 12 January 2022, the Government of the Republic of Lithuania adopted a Resolution, based on which the transportation handling agreement between Lietuvos geležinkeliai AB and Belaruskalij OAO, concluded on 16 March 2018, the supplementary agreement concluded between the same parties on 16 March 2018 and the amendment to this supplementary agreement, dated 18 May 2020, are acknowledged as not being in force as of 1 February 2022, and on 21 October 2021, the supplementary agreement between Lietuvos Geležinkeliai AB and Belaruskalij OAO was declared void from the moment of its conclusion. Accordingly, LTG Cargo ceased transporting the products of OAO Belaruskalij from 1 February 2022.

On 28 January 2022, Belaruskalij OAO appealed to the Vilnius Regional Administrative Court against the Government of the Republic of Lithuania and the Coordination Commission for the Protection of Objects of Importance for National Security (the 'Commission'), seeking annulment of the abovementioned decision and the Commission's conclusion. Lietuvos Geležinkeliai AB and LTG Cargo AB are involved as third parties in this case.

Following the recommendations adopted by the Commission on 21 January 2022 and 2 February 2022, the Board of Lietuvos Geležinkeliai AB on 29 January 2022 approved the Policy on Sanctions and Restrictive Measures Implementation Control, Compliance and Prevention, and on 14 February 2022 approved the amendments. Drafts of the Policy on Sanctions and Restrictive Measures Implementation Control, Compliance and Prevention were adopted by the orders of the Minister of Transport and Communications of the Republic of Lithuania. There orders are equated to the decisions of the general shareholder meetings of Lietuvos Geležinkeliai AB.

28. Events after the reporting period (continued)

There is a risk of claims for damages by clients in relation to the above-mentioned Resolution and the Commission's recommendations not to approve (not to co-ordinate) the applications for the freight of Belaruskalij OAO and Belaruskali Migao OOO through the territory of the Republic of Lithuania. This regulation applies to all, irrespective of the entity submitting the applications or of the way in which they are submitted, while the Commission is conducting an examination of the transactions planned or already concluded in relation to these applications for compliance with national security interests. On 20 and 28 January 2022, Belaruskalij OAO submitted letters to Lietuvos Geležinkeliai AB and LTG Cargo AB indicating that it may claim damages from the companies for non-performance. No claims with a defined requirement for damages were received by Lietuvos Geležinkeliai AB and/or LTG Cargo AB.

At the beginning of February 2022, AB Lietuvos Geležinkeliai received an official notification from the Railway Transport Council (RTC) of the CIS countries, Estonia, Latvia, Lithuania and Bulgaria about the ban imposed by Belarusian railways on the transit of oil products and fertilisers from Lithuania through Belarus from 7 February 2022.

Information about the impact of the military actions of the Russian Federation in the territory of Ukraine on the Company's operations

On 24 February 2022, the Russian Federation started active military actions in Ukraine. The military actions in Ukraine have led to a situation that is difficult to predict not only in Ukraine but also in many countries, and that will affect all business sectors.

A decree of the President of the Republic of Lithuania imposes a state of emergency on the entire territory of Lithuania for the period from 24 February 2022 to 10 March 2022. The Government is proposed to take a decision to deploy the State Reserve and to ensure enhanced protection, including cyber protection, of significant enterprises, installations and assets of national security importance, as well as of objects of national importance and risk.

On 24 February 2022, the United States, the United Kingdom and the European Union imposed sanctions against Russia. The European Union sanctions include punitive measures against the financial, energy and transport sectors of the Russian Federation, as well as trade restrictions on dual-use goods, export and its financing.

A significant portion of the Company's revenue consists of income from freight transportation of the Russian Federation and the Republic of Belarus (in 2021, it comprised 40% of the Company's revenue) as well as freight transportation to the eastern direction to Kazakhstan and other countries. The announced plans of the USA and the European Union to disconnect the Russian Federation and the Republic of Belarus from international settlement system SWIFT as well as the uncertain political situation may affect LTG Cargo's freight transportation flows, financial results and liquidity.

In the opinion of the Company's management, the operating cash flow is likely to be sufficient to service existing loan agreements and commitments to partners. However, they cannot deny the possibility that this uncertain political situation will not have adverse impact on the Company, its financial position and performance results in a medium-term and long-term. The Management constantly monitors the situation closely and will take action to mitigate the impact of such events and circumstances

Given the political situation, its further dynamics and impact on freight transportation to the directions of the Russian Federation and the Republic of Belarus, upon need, the Company, in the future, will review the investment plan, will increase the control of expenses and will optimise its activities.

The Group carries out its activities through the subsidiary LLC LTG Cargo Ukraine (the financial information on the company is presented in Note 10), the operation of which has been suspended due to the military actions of the Russian Federation in Ukraine. Therefore, the Group is affected by the Ukrainian economy and financial market. In February 2022, when the Russian Federation declared independence of the "Republics" of Donetsk and Lugansk and invaded Ukraine, the military conflict escalated and expanded to other regions of the country. It is likely that the military conflict will have adverse impact on the political and business environment of Ukraine and ability of numerous entities to continue as a going concern. As at the date of the financial statements the situation in Ukraine is very unstable and essentially uncertain. According to the management, as military operations are changing and dynamic, it is impossible to reliably estimate their financial impact.

AB LTG CARGO
Sustainability Report of 2021
(unaudited)

SUSTAINABILITY REPORT

ABOUT SUSTAINABILITY AT LTG CARGO

The global transport system and supply chains are undergoing major changes due to the rapidly changing demographic, social, macroeconomic and geopolitical environment. The European Commission's target of crucial importance is to become the first climate-neutral continent until 2050, which requires major changes and transport. Railways are the transport of the future, and their importance in Europe will only increase with the change in the concept of mobility, as the era of fossil fuels gives way to clean power and the attraction of other renewable energy sources. Fostering sustainable performance will help organisations build a competitive advantage in the transport sector, encourage a range of stakeholders to choose more sustainable modes of transport.

For these reasons, LTG Cargo, as part of the LTG Group, the operation whereof is based on environmental protection, social partnership, good governance and economic progress, as well as the creation of value for the state, seeks to contribute to a more sustainable future through its actions. To achieve this goal, in 2021 the LTG Group started to develop the Sustainability Policy – a document aimed at setting the goals and objectives of the LTG Group's sustainability activities, sustainability principles and priorities, governance model, defining key sustainability-related activities and procedures. This policy sets out the priorities for the relevant areas of sustainability in which the LTG Group has the greatest impact on the environment and seeks to create the biggest value. Given the significant contribution and impact of LTG Cargo's activities at the national level, sustainable activities aim to contribute not only to organisation of LTG Cargo's or the Group's activities but also to the state's progress in the field of sustainability.

Sustainable activities in the LTG Cargo as well as in the entire LTG Group are based on the principles of the United Nations Global Compact, the resolutions of the Paris Agreement, the European Union Strategy Papers (the European Commission's Communication on Promoting Corporate Social Responsibility, the Green Paper), the International Labour Organisation Declaration on Fundamental Principles and Rights at Work and recommendations of the Governance Coordination Centre, established by the Government of the Republic of Lithuania to ensure the implementation of principles of good governance in state-owned enterprises, and other recommendations in the field of sustainability.

STAKEHOLDERS

Main stakeholders in the activity of LTG Cargo:

- Employees
- Parent company (LTG)
- State authorities, regulators
- Non-governmental, international institutions, associations;
- Corporate clients
- Suppliers
- Partners
- Communities
- Media

Sustainability management throughout the entire LTG Group is centralised and equally important for all the LTG Group companies and activities. Close and proactive communication and cooperation with stakeholders is a high priority in the activities of LTG Cargo. LTG Cargo identifies 9 key stakeholders in its activities and bases its sustainability activities on their expectations, assessing potential impacts.

LTG Cargo companies carry out activities which are of interest to the society and the whole country: ensure smooth freight transportation by environmentally friendly transport, while the LTG Group is one of the country's largest employers and taxpayers. Due to the nature of its activities and its impact on the society, it is particularly important for LTG Cargo to identify, assess and respond to the expectations of all stakeholders.

LTG Group plans to conduct regular reviews of its environmental, economic and social impacts and priorities, taking into account stakeholders' expectations and the latest available scientific information. Also, based on the good practice and recommendations, LTG Cargo and the LTG Group are committed to regularly improving its performance and compliance with sustainability standards.

The information presented in this report details a wide-ranging impact of the LTG Group's activities on all environmental, social and governance stakeholders in the identified priority areas for sustainability.

SUSTAINABLE DEVELOPMENT GOALS AND OTHER INTERNATIONAL AGREEMENTS

LTG Cargo implements its strategic goals and sustainability management priorities, seeks to make a direct contribution to implementation of the global Goals for Sustainable Development established by the United Nations Global, with a particular emphasis on:

- Good health and well-being (goal 3),
- Decent work and economic growth (goal 8),
- Industry, innovation and infrastructure (goal 9),
- Sustainable cities and communities (goal 11),
- esponsible consumption and production (goal 12),
- Climate change mitigation (goal 13) priorities.

In addition to the stated goals, LTG Cargo also contributes to other global priorities by making a positive impact on the efficient use of energy and natural resources, gender equality, in order to ensure access to education of high quality etc.

Through its actions and initiatives, the LTG Group contributes to the implementation of the European Green Deal and the Paris Agreement, committing itself to reduce the net CO2 emissions to zero by 2050. The aim is to gradually reduce CO_2 and particulate emissions, therefore the goal has been set to reduce overall CO_2 emissions from rail transport by 30% and reduce specific CO_2 emissions by 50% through freight and passenger transport by the year 2030, compared to 2005.

LTG Cargo is committed to the principles of the Global Compact in the areas of human rights, employee rights, non-discrimination, environmental protection, the development of environmentally friendly technologies and the fight against corruption.

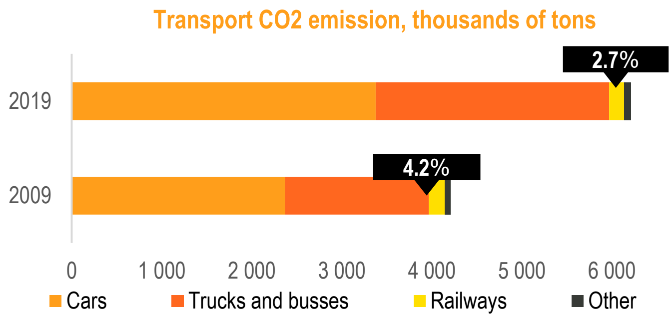
ENVIRONMENTAL AREA

The Company has a goal to double the number of transported passengers by 2030, as compared to 2017. The Company seeks to achieve this goal by complying with common obligations of the LTG Group of companies 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 centralised. 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.

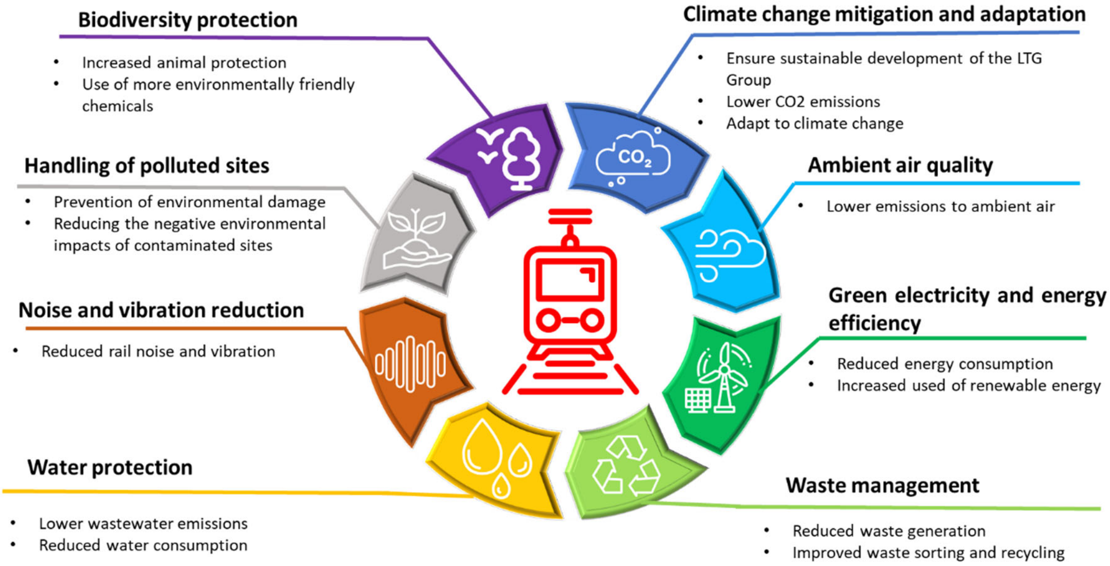
Rail transport is one of the environmentally friendliest modes of transport, consuming up to ten times less fuel for freight and passengers than road transport. Together with the constantly improved legal framework of the European Union and balanced financial support, this creates preconditions for the development of environmentally friendlier railway transport business, improving the technical-technological and organisational mechanisms of railway transport interaction with other modes of transport. In this context, LTG can be proud of its successful development results.

The modern economy is inseparable from the transport sector. Railways are one of the greenest modes of transport and have not lost their relevance and importance for many years. However, transportation by different vehicles leaves a different footprint in nature. For example, when traveling on the route Vilnius-Kaunas by an electric train, CO2 emission per passenger seat is 0 kg, by a bus – 1.57 kg, by a car – 3.49 kg. According to the data of the Lithuanian Department of Statistics, trains accounted for only 2.7% of the total greenhouse gas emissions of transport in Lithuania in 2019, even though this way of transportation comprises about 67% of freight turnover according to the data of Eurostat.



REDUCTION OF CLIMATE IMPACT

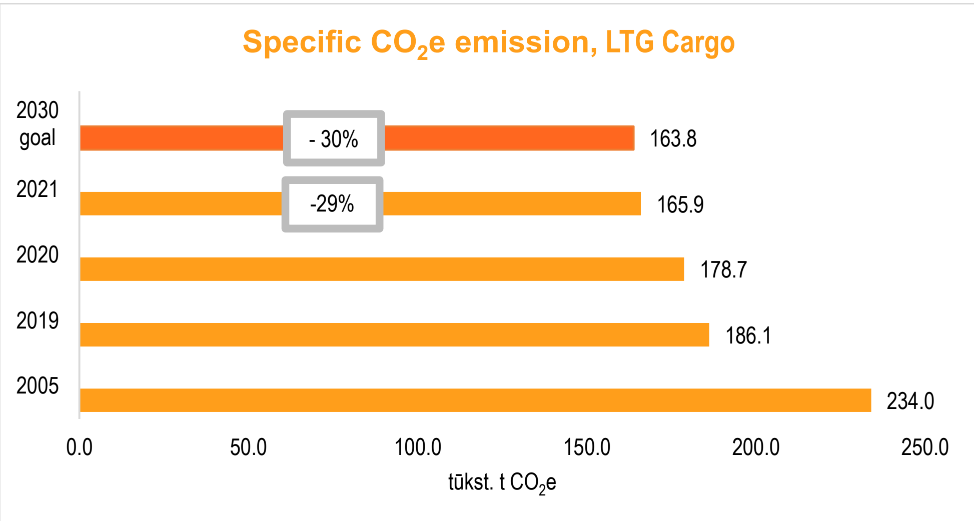
As a socially responsible company, LTG Cargo, as well as the entire LTG Group, operates in compliance with its environmental obligations: it uses energy and natural resources efficiently and seeks solutions to reduce the negative impact of its activities on the environment and climate change. In this context, in 2021 the Environmental Protection Strategy 2030+ of LTG Group (hereinafter referred to as "the Strategy") was prepared and approved, the essence of which is to set the environmental protection objectives of LTG Group until 2030, and provide for measures to implement them in order to reduce the negative effects on the environment and climate change in a targeted manner and become a climate-neutral organisation by 2050. The strategy specifies 8 main priorities of LTG Group:



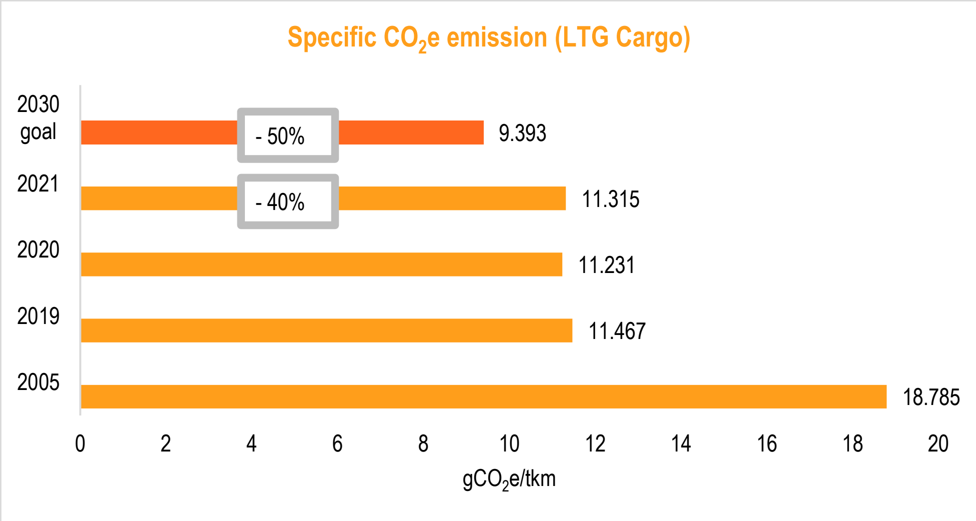
CLIMATE CHANGE MITIGATION

The climate change mitigation objectives of LTG Cargo, as set out in the Strategy, are as follows:

By 2030, reduce the total greenhouse gas emissions (CO2e) from rail transport by 30%, compared to 2005.



By 2030, reduce specific CO2e emissions (emissions directly related to such activity volumes as passenger or freight turnover) by 50% for freight and passenger transport, compared to 2005.



In 2021, the total CO2e emissions from freight transport by rail were 165.9 thousand tons CO2e, showing a 29% decrease compared to 2005 and 7% compared to 2020. Specific CO2e emissions have decreased by 40% to 11,315 gCO2e/pkm for freight transportation compared to 2005. However, specific CO2e emissions have increased by 1% compared to 2020. The increase has been mainly affected by the changing freight flows.

To achieve these goals, LTG Group is developing projects that will significantly contribute to climate change mitigation and to LTG Group's ambition to become a climate-neutral organisation by 2050:

- Electrification projects (electrification of the Kaišiadorys - Klaipėda (Draugystės station) line, the Vilnius railway junction and the Kaunas - Kybartai (Kaišiadorys - Palemonas - Kybartai) line);
- Acquisition of electric locomotives;
- Preparation of freight rolling stock management strategy.

In 2021, a strong emphasis was put on the vehicle management policy and its update, with clear guidelines for fleet electrification and the development of a fleet renewal program. Taking into account the goals of purchasing electric vehicles, the development of their charging infrastructure is also being assessed. A focus is also placed on encouraging employees to use car-sharing services to ensure efficient vehicle use and reduce environmental pollution.

GREEN POWER AND ENERGY EFFICIENCY

The Strategy defines the following energy efficiency targets:

- to reduce energy consumption in passenger and freight transport by 50% by the year 2030, and to reduce energy consumption by 40%, by the year 2050, compared to the year 2005.
- by the year 2030, to achieve 30% of rail transport energy consumption from RES.

Energy efficiency of freight transport was equal to 0,044 kWh/tkm in 2021 and increased by 37% compared to 2005. Changes in freight flows reduced energy efficiency of freight transport by 3% compared to 2020. In 2021, RES energy comprised only 7% of total energy necessary for freight transport. LTG Cargo does not have electric locomotives in its fleet yet; thus, RES comprises only the part of bio-additives in diesel fuel.

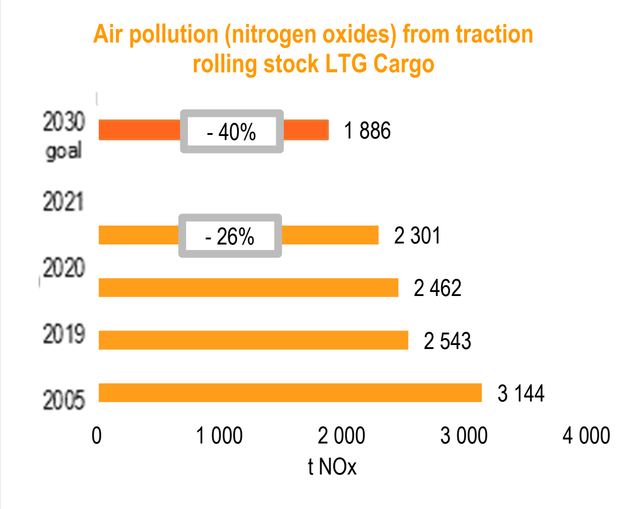
The following projects are being carried out to achieve the energy efficiency objectives:

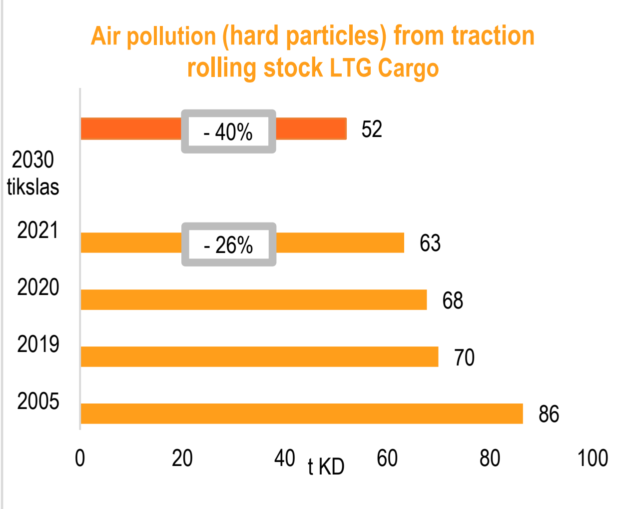
- Establishing a performance appraisal system for drivers;
- Preparation of train control maps to maintain fuel rates;
- Structuring and improving the motivational system and training programme for drivers;

Projects to achieve climate change mitigation objectives will also make a significant contribution to improving energy efficiency, in particular the acquisition and operation of electric traction rolling stock on the extended electrified rail network.

AMBIENT AIR QUALITY

In addition to mitigating the impact of its activities on climate change, the LTG Group's Strategy commits to improving the quality of ambient air and has set a target to ensure that the LTG Group's emissions of pollutants to ambient air from traction rolling stock in 2030 are 40% lower than in 2005. The main pollutants emitted by traction vehicles are hard particles and nitrogen oxides. These pollutants are particularly harmful to public health and the environment, and can form toxic smog under unfavourable dispersion conditions. Emissions to ambient air will be reduced through the renewal of the traction rolling stock through the acquisition of electric traction rolling stock, the timely implementation of electrification projects and the increased use of renewable energy sources.

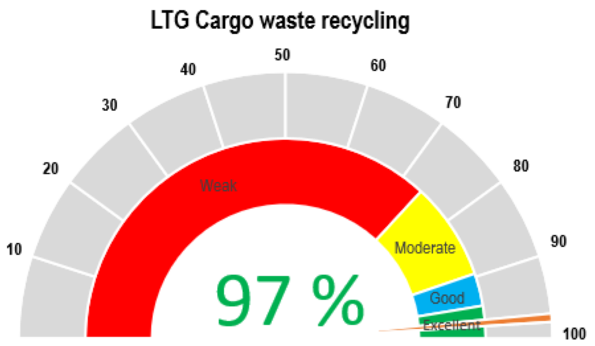




In 2021, rail freight transport emitted 2,301 tons of nitrogen oxides and 63 tons of hard particles, a reduction of 7% compared to 2020. The change was influenced by reduced fuel consumption due to decreased freight transport volumes. The quantity of air pollutants decreased by 27% compared to base one.

WASTE MANAGEMENT AND THE CIRCULAR ECONOMY

The priorities of the LTG Group's waste management are to reduce the amount of waste generated, to ensure safe management of waste for human health and the environment, and the rational use of material and energy resources, thus reducing the use of natural and other resources and landfilling. The target is to achieve by 2030 that 98% of the waste generated by LTG Group was suitable for recycling or generation of energy. In 2021, the amount of recyclable and energy-efficient waste of LTG Cargo increased by 5% and was equal to 97%.



The growing focus on the circular economy has contributed to the excellent results. Used oil, scrap metal, batteries, paper and cardboard and plastic waste and packaging are sorted and collected separately and sold to waste managers for reuse or recycling. Also, one of the important factors to improve waste sorting and recycling is the education of employees: in 2021, the Environmental Protection organised trainings for all employees of LTG Group, also the heads of the divisions had an opportunity to find out about the waste management process in the hazardous waste incineration company UAB Toksika

Since 2019, reusable industrial wipes and oil-absorbent floor coverings have been introduced in manufacturing which have replaced disposable wipes. The use of reusable industrial wipes allows reducing the quantity of hazardous waste. Every year, deployment of this tool is increasing. This has contributed to employees' awareness regarding waste sorting, also production rate has increased because up to 5 times more of soiled surfaces is cleaned using reusable wipes as compared to the use of disposable ones.

DIGITALISATION AND PROMOTION OF INNOVATION

As well as the entire LTG Group, LTG Cargo is undergoing digital transformation, which helps to use the LTG Group's resources more efficiently, reduces the amount of waste and pollutants generated and directly contributes to environmental protection and lower pollution. Digitisation also provides a wider opportunity to enter new areas of activity, increase and diversify revenue flows and make a significant contribution to increasing productivity and efficiency. The aim is to ensure smooth delivery of services, essential business processes and the competence of employees and enable the development of an innovation ecosystem, especially in the fields of the environment and the circular economy.

A modern company is able grow, improve and remain competitive in an ever-changing market only through a modern process management, therefore LTG Cargo implements and develops innovative technologies, modern operational and management processes, strengthens employees' competencies, which allows to increase operational efficiency and improve customer service. By moving many day-to-day complex processes to the digital space it is aimed to make the most of resources, increase the speed and validity of decisions, reduce the likelihood of errors and strengthen security.

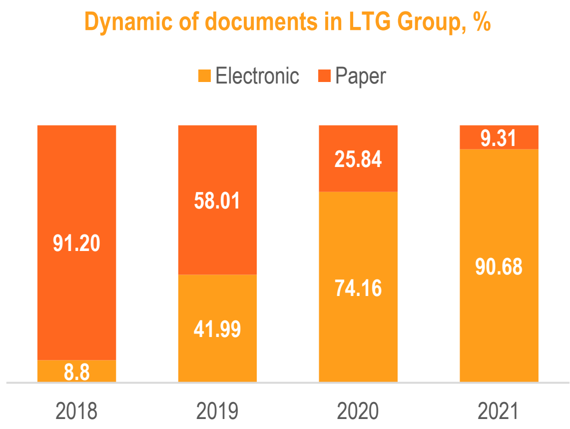
Examples of projects:

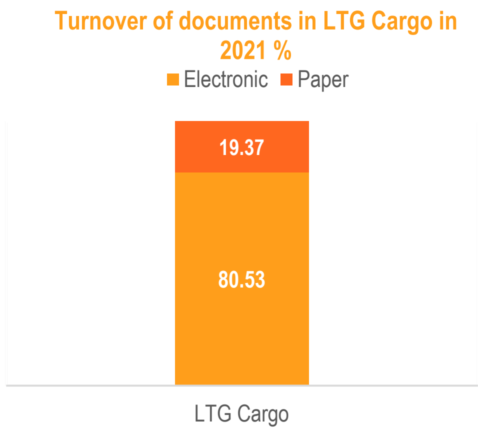
"Move" (formerly SAP ERP Modernisation Programme) is the largest change program in the LTG Group launched in 2021, helping to implement the principles of modern work: it will be the backbone, connecting all operations from sales, customer management, to assets, production, finances. This programme is necessary due to the current fragmented business processes, the absence of a single correct source of information, the limited capabilities of the current system, and will provide operations with efficiency, integrity, flexibility, and a competitive advantage in the market. In 2021, the SAP/Move change has been launched in LTG HR and is focused on facilitating the use of HR services, such as taking leave or reviewing work schedules. In addition, SAP / Move has been launched in the company LTG Cargo as well, where one of the most important change areas is the supply chain management which is one of the biggest challenges of the organisation (for continuous operation it is necessary to have working locomotives, wagons, loading equipment, and maintained infrastructure in time and in place). Planned achievements are in the areas of quality management, inventory planning and procurement. Changes are also planned for LTG Link by the end of 2023.

LTG Tech has implemented unique modernisation of a locomotive - the first project of such type in the Baltics that potential foreign customers are already interested in. LTG Tech has essentially modernised the locomotive TEM2UM-1000 (hereinafter – TEM2), belonging to a popular series of shunting locomotives: the frame of the locomotive was modified to make it possible to install components and assemblies, a new diesel engine was installed, mechanical gears were converted into electric ones, a remote fuel metering system, video cameras, etc. were installed. This has proved that having invested about 60% of the price of a new diesel locomotive, it is possible to have a vehicle which is compliant with current requirements and has modern equipment and a new economical diesel engine. The project is significant because an increasing number of locomotive fleet managers are facing the issue that the existing older locomotives do not meet the modern needs – they are polluting, and their operational and maintenance costs are high; therefore, it has been concerned how to prolong their useful life and reduce environmental impact at the same time. Modernisation of the TEM2 is an excellent example of how to solve such issues – it is not only financially beneficial but also allows to reduce fuel consumption by up to 30% and significantly decrease the amount of hazardous nitrogen oxides.

In 2021, the optimisation project of train document management (TDM) – "Cargomachines" - was completed. The main goal of this project is the more convenient and expeditious customer service which leads to uninterrupted work with train documents. Special out-door self-service document terminals – "Cargomachines" – where customers can leave and take transport documents have been installed in 50 stations. Project results: customer service 24/7; contactless customer service which is especially relevant during a pandemic; 50 centralised stations; 2 station service centres in Klaipėda and Kaunas; increased turnover of electronic documents; increase in the share of electronic transport documents from 19% to 47%; increased performance efficiency; decreased operational expenses.

The implementation of the project "No Paper" is continued throughout the LTG Group, the aim whereof is reduction of paper costs, sustainable use of natural resources as well as streamlining of work processes in the organisation. After optimisation of business processes and a careful review of the turnover of all documents, it has already been achieved that the main business documents were mostly signed electronically by managers and employees, and in 2021 the share of paper documents decreased to as much as 9% of the total document turnover.





Successful and timely implementation of the project "Modern Team" of the entire LTG Group is the first of the Mobile-first cloud-first strategy projects. 2.5 years after the start of the project, aspirations have become a reality: all old e-mail systems were turned off, all data were transferred to the cloud, all employees have access to the Microsoft 365 platform. The implementation required the transfer of 8,071 employee accounts to the cloud, replacement of 4,000 laptops and desktops, and more than 5,400 Microsoft Teams-enabled phones. Now employees have the opportunity to work comfortably and efficiently from all devices at any time, easily reach colleagues, schedule meetings, organise video conferences. The result: 2,474 teams were created on Teams, an average of 20,000 virtual meetings take place per month, 125,000 calls and 5,000,000 minutes are spent in virtual meetings.

In order to ensure centralised and efficient management, administration and control of IT services at the level of the LTG Group, the unified IT service management tool ServiceNow implemented in the Technology Centre during the ITSM project carried out by LTG Digital and used ever since 2020, continues to be successfully developed in the stages planned for 2021. Based on this tool, ITC services are provided to the entire LTG Group and it provides an opportunity to take the management of IT services to a new level by using one of the best rated products on the market. The main goal and the biggest benefit is a unified system that combines the management of IT services into one ServiceNow interface. This allows IT services to be provided in accordance with the best practices in the world, based on the ITIL methodology. This project addresses the lack of specialised tools or the management of IT services in different tools.

As of 1 January 2022 LTG has renounced the status of a fixed line operator and the wired connection is no longer working (as many as 3,400 wired connection points were smoothly switched off). The service has been provided since 2005, i.e. for more than 17 years. LTG communication was not only used by employees, it was also provided to other companies and individuals. This initiative has led to the abandonment of another indirect non-railway activity, while allowing a greater focus on the Company's core activities.

SOCIAL AREA

The Company strives to be such a company that generates great economic benefits, and that the employees of the Company are proud of and realise that only transparent, open, efficient activities based on modern management principles promote the progress of the state economy. As a result, responsibility is felt not only in respect of the shareholders but also in respect of the employees and society as a whole.

LTG Cargo's goal of sustainable growth is unimaginable without sustainable integration into society, so social partnership is an area to which a special attention is paid. Considerable investments are made in education, social initiatives and campaigns and communication with the public is based on the principles of equal opportunities, social welfare, security and human rights.

ENSURING WELL-BEING OF EMPLOYEES AND DEVELOPING AN ORGANISATIONAL CULTURE OF HIGH PERFORMANCE

LTG Cargo pays a special attention to ensuring the well-being and functional competencies of its employees, as well as to raising human capital and encouraging employees to become engaged in the activities of LTG Cargo. The aim is to develop an effective social dialogue with employees and create more comfortable working conditions by implementing advanced technological solutions and providing employees with the necessary work tools and benefits. The leadership of employees and managers is encouraged and the importance of digital competencies for both current and potential employees is actively promoted through educational initiatives with social and educational partners. A high-performance organisational culture is formed and maintained, the aim is to create the employee behaviour based on the values of LTG Cargo and the LTG Group in daily activities, increase employees' engagement and loyalty and develop employees' honesty and respect for people.

SOCIAL PARTNERSHIP

The Company has 17 trade unions**.** Just as in the entire LTG Group, the Company applies the collective agreement of the branch of the LTG Group, and the general procedure of additional benefits for employees is in force: for example, employees are provided with voluntary complementary health insurance service, insurance against accidents, a possibility of commuting or travelling in free-time by trains free-of-charge is provided to employees, medical examination costs are compensated, etc.

At the beginning of 2021, information on the Company's position, structure, past and planned changes was presented to representatives the employees' trade unions, the Company's business plans, wage changes and expected trends, the results of the implementation of occupational safety and health measures, helping to improve the working environment, were discussed and the fulfilment of the collective agreement in 2020 was reported.

In order to strengthen the social dialogue with the employees' representatives and implement the provisions of the collective agreement of the branch, LTG Group organised trainings for the chairmen of the trade unions on the topics of remuneration and feedback.

Meetings with employees' representatives are held on a regular basis to discuss issues of importance to employees. The Company's planned projects and projected changes are introduced to employees' representatives, and issues affecting the social and economic situation of employees are discussed.

REMUNERATION AND PERFORMANCE MANAGEMENT

The general principles of remuneration formation are focused on:

- attracting, motivating and retaining highly qualified and competent employees;
- encouraging employees to improve;
- ensuring internal justice in remuneration for work and employees' efforts;
- continuous improvement of employees' conditions;
- motivating employees through a package of added benefits;
- effective personnel cost management.

Classical elements are used to achieve the identified tasks through remuneration management: methodological appraisal of positions; periodic comparison of internal remuneration data with the market and implementation of the review; the direct link between the possibilities of the change in remuneration and the efficiency of the employee's activities - the results of achieving the annual goals.

A local scale of corporate levels is used to publish the results of methodological job evaluation in the organisation. Each employee is given the opportunity to see the corporate levels of their position and other positions in the organisation. At the same time, information on the remuneration levels of each corporate level is available to each employee. In this way, the principles of transparency are established in the organisation and preconditions for self-assessment and planning of internal career opportunities are created.

Every year, a periodic review of remuneration is conducted, which is linked to the comparison of the existing remuneration of employees with the market, the Company's financial results and the budget allocated for the review, as well as the assessment of the annual performance of each employee. The periodic review of remuneration generally takes effect on April 1 of each year.

At the end of the financial year and after evaluating the results achieved by the Company, an annual incentive fund is allocated to employees. Such fund is an incentive for employees at the initiative of the employer for a job well performed and positive results of the Company, as specified in Article 139(2)(6) of the Labour Code of the Republic of Lithuania. This incentive is also forward-looking as an incentive for employees, and individual annual incentive opportunities are linked to the corporate levels of positions and the evaluation of each employee's annual performance.

The decision on both the budget for the periodic review of remuneration and the annual incentive fund is adopted by the Board of the Company after a detailed assessment of all the circumstances.

The package of additional benefits includes one-off benefits for the birth of an employee's child or death of a close family member, support in the event of a natural disaster, loyalty benefits for employees leaving the organisation at the retirement age, additional leave and other benefits provided for by the Sectoral Collective Agreement and the Remuneration Methodology. Employees are also provided with accident insurance and additional voluntary health insurance, which compensates employees for outpatient and inpatient treatment and diagnostics, preventive health check-ups and vaccinations, prescription drugs and medical aids. In addition, staff can choose between dental, rehabilitation or optician services. Each year about 80% of employees choose to take out supplementary voluntary health insurance.

Remuneration principles and additional benefits are defined in the Sectoral Collective Agreement, Personnel Policy, Remuneration Methodology. The principles of formation of the remuneration of the top management are defined in the Remuneration Policy for Top Level Employees approved by the Board of the Company.

The process of managing and evaluating the performance of employees remains focused on establishing a culture of high performance, personal responsibility and continuous feedback, and the principle of "the best are rewarded the most".

TRAINING AND DEVELOPMENT OF COMPETENCES

LTG Cargo promotes professional and personal development of its employees by creating a work environment that promotes continuous professional growth and a culture of continuous learning. In the organisation, priority is given to self-education, learning at a workplace, and internal training.

In 2021, seeking for implementation of this methodology and administration of training within the LTG Group, the platform SAP SuccessFactors virtual learning management system, based on global best practices, was launched. By applying the standards of international organisations, each employee is encouraged to independently plan the timeliness of mandatory training, independently register for the published training in the virtual training library. Each manager has the tools to monitor their team's training plans, the progress of each employee and a plan for the future competencies of individual employees and their development. We have supported and improved the qualification of employees with digitised solutions - e-learning, remote case studies etc.

Throughout the LTG Group, qualification of employees is supported and improved by digitalised solutions - electronic-based learning, remote case analyses, etc. For this purpose, almost one third of training compulsory material was digitalised in 2021. More than 2,000 employees have independently completed e-training on the use of the most popular MS programs Word, Excel, PowerPoint, and Outlook, on remote working for managers and employees in Moodle learning platform.

In order to ensure effective development, LTG Group has changed presentation of compulsory training programs: individual training plans for positions have been drawn up, providing only that training material which is relevant to the specific position.

The Company regularly organises internal and external training and periodic certifications in order for the employees to acquire or update professional knowledge, strengthen the required skills and maintain a high professional level. In 2021, 3,113 employees of the company participated in mandatory professional and in-service training. Workers performing high-risk work, working with and maintaining potentially hazardous equipment have been trained in safe working methods. According to internal mandatory vocational training programmes on traffic safety and occupational safety and health (prepared in accordance with the provisions of the Law on Railway Safety of the Republic of Lithuania and European regulations), 2,979 employees participated in training and 134 employees studied at external training institutions.

The LTG Internal Lecturers' Club, established in 2019, brings together employees who want to share their knowledge, experience, value the benefits of knowledge sharing and create and nurture a culture of knowledge sharing in our organisation. In 2021, employees learned from each other the basics of feedback, strategic planning and management, change and project management, performance management, and more. Over 300 LTG Cargo employees took part in these trainings.

LTG Group cares about safety and competence of their partners. Employees of other organisations who are working in the territory of LTG are provided with training on safe behaviour in the protection zones of railway tracks and their facilities. A total of 1,448 employees of construction companies completed internal safe traffic programs in 2021.

Strengthening leadership is one of LTG Group's priorities. Managers strengthened their leadership competencies in the training of LTG Management Academy, which has been operating since 2019, in the areas of operational efficiency, team leadership, operational infrastructure, personal efficiency, and work with clients. In 2021, the academy received 119 participants from LTG Cargo. The internal training programme "LTG Manager Standard" on the basic principles and standards of team leadership, which is taken by each new manager, continues. It was attended by 15 new executives of the company.

Much attention is paid to the feedback culture in the organisation. For the third year in a row, a 360-degree feedback survey of leadership competencies has been conducted, during which each leader receives comprehensive and high-quality feedback on their leadership competencies from the immediate work environment - immediate supervisor, colleagues and subordinates, identifies strong and improved behaviours and develops individual learning plans. In 2021, 93 LTG Cargo executives participated in the feedback survey.

Not only professional competencies but also social, emotional competencies and abilities are strengthened. Training programmes for personal effectiveness at work have been supplemented with current topics on feedback, emotional intelligence, creative thinking, innovation, adaptability to change (adaptability) and lifelong learning. More than 300 employees of LTG Cargo took part in this training. In 2021, the Company's employees were offered remote lectures focused on strengthening well-being at work, psychological resilience, psychological and physical health.

DEVELOPMENT OF ORGANISATIONAL CULTURE

Focus on employees and the development of organisational culture is one of the strategic directions of the LTG Group, primarily implemented through the development of organisational culture. In March of this year, LTG Group Management Committee reviewed and approved 5 priority cultural goals of the LTG Group organisation: leadership, openness and trust, talents and career, focus on high results, physical work environment.

Every year LTG Group conducts an extended survey of the factors influencing the culture of the organisation – Employees' Voice. The survey evaluates 3 key indicators: employees' engagement, satisfaction, loyalty (eNPS). In addition, other critical areas influencing organisational culture, such as collaboration, careers and education, organisational values, performance management, customer orientation, leadership, diversity management, empowerment, the workplace, and occupational safety are evaluated.

In 2021, more than 7,700 LTG Group employees (87 percent) participated in the Employee's Voice survey. The extremely high activity rate shows the willingness of employees to talk about how satisfied they are at work and what they would like to change. Such high activity ensures the reliability of the test results.

We were delighted by the results of the survey:

- Employees' engagement: 58%. Employees' engagement increased by 12 percentage points over the year. This indicator shows what proportion of employees is confidently proud of their workplace, constantly and proactively striving to do more for the company than is required and is true ambassadors of their organisation. Employees' engagement in excess of 60% is generally considered to be extremely high in companies. Therefore, a significantly increased participation rate of LTG Cargo in recent years has brought it closer to the best organisations.
- Employees' satisfaction: 76%. Employee satisfaction increased by 12 percentage points over the year. This result is also extremely positive, as it is higher by 9% than the average of Lithuanian companies and shows that more than 1,300 LTG Cargo employees are completely satisfied with their organisation.
- Employees' Loyalty (eNPS): +6. The employer's NPS indicator (net promoter score) shows how likely it is that employees will recommend the organisation to others as a place of employment. This indicator increased by 22 points compared to last year.

Based on the results of the Employees' Voice Survey, individual priorities for the development of the organisation's culture that are significant for specific activities have been identified. In summary, most of this year's initiatives focus on improving collaboration, internal communication, preparing for change and internal career development.

EQUAL OPPORTUNITIES

The Company, just as the entire LTG Group, follows the Equal Opportunities Policy, the LTG Group's Rules of Procedure and the Code of Ethics, which define the principles of ensuring equal opportunities and diversity and the measures for their implementation.

We value a person's uniqueness by paying a special attention to his or her competencies and experience, therefore we promote diversity and the implementation of equal opportunities in order to create a work environment in which everyone has equal opportunities to succeed. We strive to treat all existing and potential employees fairly and respectfully at all stages of their employment, to ensure that no employees are discriminated against in any way, and that all employees have equal opportunities to contribute and realise their potential, regardless of personal differences.

The LTG Group does not tolerate direct or indirect discrimination, instructions to discriminate, any form of harassment, psychological violence, bullying or abuse of position.

Reports of equal opportunities or other violations may be submitted to Personnel Management employees by e-mail manrupi@ltg.lt or through the hotline channels - phone (8 5) 269 3600 or e-mail prevencija@bekorupcijos.lt.

COOPERATION WITH EDUCATIONAL INSTITUTIONS

In 2021, successful cooperation with Kaunas University of Technology has been continued; the following events took place: KTU WANTed, presentation of LTG Group activities to students, announcement of the LTG internship program "Growing Leaders". During the virtual KTU WANTed Career Day, we presented career opportunities in the LTG Group, transformation projects and paid great attention to the largest railway infrastructure project Rail Baltica. The broadcast was watched live by almost 9,000 people in the KTU academic community

In 2021, we have maintained close relationship with Vilnius Tech University. Meetings with freshmen who chose to study Transport Engineering were organised, a lot of attention was paid to the railway sector and promising career opportunities in the LTG Group.

We communicated with Vilnius College of Technologies and Design by willingly accepting trainees in our organisation, who are seeking to apply the theoretical knowledge gained at the university in practice.

In July-August 2021, project of paid internship "Growing Leaders" was held for the third time. During the project, the young specialists had the opportunity to apply the theoretical knowledge gained at the university in practice, contribute their ideas and real work to the LTG Group processes, participate in interesting excursions to get acquainted with LTG Group activities and work in groups to develop LTG strategic goals.in 2021, we received 136 applications from candidates out of which we selected 29 most talented and motivated interns. Most of the selected interns are students of Kaunas University of Technology (13) and Vilnius University (6). The most popular areas are transport engineering and information technologies – even 8 interns were accepted in each of them. At the end of the internship project, 16 project participants – more than half of total interns participated in the project - remained in the LTG Group to continue the works that were started.

We have cooperated with an education and higher education magazine "Reitingai" and have prepared an article on the topic "Future Career: What It Is Important to Know before Choosing It?". We talked to employees of LTG about their chosen careers and discussed on the extent to which knowledge and skills acquired at university are useful in their everyday work and reviewed what future competences are necessary for the young specialists.

In 2021, 18 students participated in an internship in the LTG Group. Most of internships were compulsory; yet we had one student who participated in a voluntary internship. Most interns we accepted to the areas of engineering and HR.

Ambassadors' Club

At the beginning of 2021, the LTG Ambassadors' Club, which invites every active employee to join it and jointly create and organise various initiatives for the benefit of the entire LTG Group and colleagues, was restored. The main goal of this club is to increase employees' involvement and promote employees' commitment to the collective goals of the LTG Group, strengthen internal communication in LTG Group companies and individual divisions, promote employee feedback and cooperation between divisions and volunteering. The club had a significant challenge during quarantine and pandemic to find ways to surprise, cheer and engage LTG colleagues. However, the Club can enjoy many successful projects in LTG Group:

- lectures were organised that promoted physical and psychological health (12 lectures on health were organised together with the Vilnius Public Health Bureau, 2 lectures by E. Laurinaitis responding to psychological health, 2 lectures by I. Bakėjus responding to physical health) and 300 interactive sports programmes with books were given to our employees;
- In cooperation with the organisers of the walk15 initiative, an unprecedented campaign was prepared in LTG Group – "Step with LTG". The Group's employees have stepped almost 340 million steps thereby "growing" 1,500 virtual trees;
- the club organised the LTG Summer Festival;
- 7 competitions were also organised, children's drawings exhibitions at the railway station passenger hall, 6 "Meeting on the Platform" events during which employees had the opportunity to get to know the leaders of the LTG Group better. "LTG train of minds", in which as many as 239 teams registered and other initiatives.

OPENNESS TO SOCIETY AND COOPERATION WITH THE COMMUNITIES

LTG Cargo considers the proactive, timely information and involvement of communities and concerned community groups in the activities, sustainability, transparency and other initiatives to be an important priority. LTG Cargo undertakes to periodically educate and acquaint the public and the communities with the activities of railways and sustainable transport, ongoing and planned projects, and actively develops a mutual dialogue. The accountability of all forms to all stakeholders is constantly strengthened, and the aim is to make all relevant information public in the most acceptable ways and formats. A culture of openness and transparency is fostered within the Company.

The Company realises that only transparent, open, efficient activities based on modern management principles promote the progress of the state economy. Therefore, the Company feels responsible not only towards the shareholder with whom the financial return on activities is shared through dividends, but also towards the society as a whole.

Promoting sustainable logistics

Railways are recognised in the European Union as the environmentally friendliest mode of transport with the lowest GHG emissions from passenger and freight transport. That is why 2021 has been declared the European Year of Railways in Europe. In 2021, LTG Group contributed to the promotion of more sustainable, ecological travel and freight transport vehicles by actively communicating the green and environmental friendliness of trains.

The International Transport Innovation Forum presented awards of the competition "Towards the Green Communication" aimed at sustainable logistics solutions and initiatives. During the awards initiated by LTG, Lithuanian companies, public sector, creative and public organisations that chose the green course were rewarded. The awards were presented in six categories: "Greenest Municipality", "Greenest Startup for Mobility", "Green Exports", "Design Solutions for Better Connectivity and Intersectoral Cooperation", "Promoting Sustainable Mobility" and "Digital Transport and Logistics Solution".

Customer satisfaction

LTG Cargo aims at meeting customer needs; thus, it proactively measured the Net Promoter Score (NPS) and the Customer Satisfaction Score (CSAT). The aim of those surveys is to directly receive customers' needs and expectations.

By measuring Net Promoter Score, LTG Cargo improves and meets customer needs. In 2021, the Company maintained a stable measurement rate of 7.9 points, and the re-selection rate is equal to even 8.6 points. In implementing its activities, the Company educates customers about the alternatives of more sustainable freight transportation. In the range of 10-7 points, 48% of customers acknowledge the fact that freight transportation by rail is perceived as an environmentally friendly solution. Culture and thoughtfulness of employees, freight transportation safety, service quality of customs brokers, competence of supporting staff and user-friendliness of the system "E-Cargo" dominate among the best-rated aspects of customer experience.

COMPREHENSIVE SAFETY

LTG Cargo as well as the LTG Group aim to eliminate accidents through sustainable, digitisation and other appropriate measures, and various training programmes are carried out. The aim is to preserve the capacity, health and life of employees at work and protect employees from existing or potential risks to the protection of professional and personal data. A priority shall be given to the road safety in order to protect road users, rolling stock, and freight, from rail traffic accidents, unauthorised interference and related consequences; this results in centralised safety management, audits of elements of the management system, road safety inspections and other measures that meet the highest standards. An important part of full security is timely identification and management of the protection of objects important to the national security and the risk factors that may pose a threat. As a result, LTG Cargo and the LTG Group seek to ensure the transparency of transactions and their compliance with the national security interests, responsibly manage critical information systems and ensure data security. All this is done through the dissemination of information and educational, organisational, technical measures to prevent cyber incidents.

DATA PROTECTION

LTG Cargo cares about protection of personal data and values the information that it is entrusted with by its employees, customers and partners. In doing so, the Company strictly follows the requirements of the General Data Protection Regulation and other data protection legislation for the protection of data subjects.

In order to implement the requirements of data protection legislation, in 2021 in the field of data protection the Company:

- was concerned with employees' awareness of personal data protection issues. Data protection training was organised for the Company's employees and data protection memos were sent, which provided essential information on data protection;
- prepared new and updated internal legal acts, process standards, privacy notices of the Company and the LTG Group, related to the field of personal data protection applied by it;
- paid a lot of attention to the review and updating of its mandatory data processing activity records, involving the responsible employees of the Company in the ongoing processes;
- in order to comply as far as possible with the requirements of the General Data Protection Regulation, identified data protection risks and put measures in place to mitigate these risks;
- in order to ensure compliance with the requirements of the General Data Protection Regulation, data processing operations of the LTG Group and the Company were subject to data protection impact assessments, balances of legitimate interests, conclusions, identified risks and risk mitigation measures, as appropriate.
- enters into standard data processing and data transfer agreements with data controllers and co-controllers;
- provided recommendations and consultations to its employees regarding the performed data processing operations, legal acts, agreements, compliance with the General Data Protection Regulation and other legal acts regulating the protection of personal data;
- there were no requests for the exercise of rights under the General Data Protection Regulation.
- There were no records of personal data breaches in the Company.

OCCUPATIONAL SAFETY AND HEALTH

The main objectives in ensuring the occupational safety and health (hereinafter - OSH) in LTG Cargo is strengthening leadership and culture of employees and improvement of processes and measures regulating the occupational safety and health seeking to reduce the risk of damage to health and occurrence of incidents.

Seeking for development of independent safety culture in LTG Cargo, the activity is standardised and organised by applying the PACI elements (plan, act, check, improve), in addition by implementing leadership of each employee and ensuring social dialogue, distribution of duties, rights and responsibilities in the field of safety.

(all amounts are in EUR thousand unless otherwise stated)

Management of OSH risks in 2021

01 Management of employees' safety competences and implementation of safety culture	02 COVID-19 prevention and provision of personal safety equipment	03 Update of manuals and legislation
04 Digitalisation in OHS area	05 Update of professional risk assessment, management of psychosocial risk	06 Protection of employees' health

Following the management guidelines 'Occupational safety and health management systems. Requirements and application instructions' contained in standard ISO 450001:2018, we ensured the implementation in daily activities of the Methodology for ensuring occupational safety and health, along with the processes ensuring safe and healthy conditions (instructing, occupational risks assessment, selection and provision of personal protection measures for employees, alcohol testing, management of accounts-permissions etc.), also ensured the compliance of legislation of LTG Group companies on occupational safety and health with the set requirements.

For the development of a social dialogue between the employer and employees, employees' representatives for safety and health elected by the Group companies are cooperated with on the Microsoft Teams platform, as well as are the members of the Committees of employees' safety and health – they are notified of employees' safety and health indicators, the progress of implementation of preventive measures and recommendations.

In 2021, the Management's handbook for safety was prepared for the practical use of LTG Cargo's unit managers, and Safety forums took place, Safety academies were held with the participation of all the Group's employees where the following topics were introduced: hearing protection and exposure to noise, respiratory protection, protection against falls from a height, head protection and the importance of wearing PPE (Personal Protective Equipment), eye and face protection, management of psychosocial risks, prevention of suicide in the immediate environment and other relevant topics.

Management and improvement of employee safety competencies has been ensured, the Safety Competence Matrices of each company of the LTG Group have been updated. LTG occupational safety and health specialists periodically taught 7 occupational safety and health training programmes in a remote manner (compulsory first aid, manual handling, work height, department heads, occupational safety and health representatives, etc.). In 2021, employees participated in safety trainings for 8,092 times (whereof, trainings for unit managers – 283 times, for employees' representatives for safety and health – 14 times, before starting precarious works – 1,958 times, and other trainings on occupational safety and health issues – 5,678 times).

Prevention of work-related incidents, accidents at work and on the way to and from work, health disorders and occupational diseases is carried out by LTG Cargo, and all incidents are investigated. Employees of the LTG Group are additionally insured against accidents at the employer's expense.

In order to create safe and healthy conditions, a sufficient number of occupational safety and health and occupational health specialists is ensured, plans for occupational risk assessment, inspection of departments, contractors and clients are drawn up, and after their implementation, preventive measures are implemented and monitored. Standardisation and digitisation of inspection questionnaires has ensured proper data management and analysis.

In 2021, LTG Cargo implemented the Global Instruction, during which employees were mandatorily instructed periodically at workplaces, thus eliminating the risk of work without being instructed, enabling them to instruct remotely and sign electronically. Changes were actively made to the relevant legislation: the initial instruction process, the instruction assignment matrices created by each company of the LTG Group were renewed, 128 instructions on occupational safety and health at work, technological instructions, and instructions on the work equipment were updated, ensuring their compliance with the Machinery Directive.

The process of preventive periodic health examinations of employees and candidates was ensured. After taking over this function from the Personnel Management, the legal acts regulating the process were amended accordingly, the conclusion of new preventive health examination contracts was initiated. Depending on the influenza vaccination service available on the market, an influenza vaccination service (384 employees were vaccinated) and a tick-borne encephalitis vaccination service (1,356 employees were vaccinated) were organised.

Upon preparation of all necessary documents for the procurement, the update of sobriety testing process and the principles of work, acquisition of new alco-testers with the function of biometric dentification has been initiated.

In 2021, a strong focus on assessing and managing the psychosocial risks of workers: an assessment of the psychosocial risks of 2,356 workers has been updated.

Employees have a free access to psychologists at work in case of a psychological trauma after an accident or incident.

COVID-19 RELATED SITUATION UNDER MANAGEMENT

- The prevention of COVID-19 is ensured by the Group of Management of Emergencies formed by LTG;
- The possibility to work remotely considering the professional risks of remote work (remote work was organised for 2,331 employees, business continuity ensured) was ensured;
- Vaccination of employees from COVID-19 in cooperation with vaccination busses was organised, the general level of immunisation of LTG Group's employees is around 94%;
- a risk assessment of biological factors has been performed;
- The behaviour of employees was regulated, isolation was ensured, leaflets, posters, information on safe behaviour were prepared and are available on internal website of LTG;
- Employees were given personal protection measures for COVID-19 prevention, thermometers and thermovisors were acquired to measure the body temperature of employees and third persons;
- Periodic inspections were carried out on implementation of COVID-19 prevention.
- seeking to improve communication with personnel and heads of units, consultations on vaccination, testing and work organisation are carried out through specially designed channels on the Microsoft Teams platform, which includes members of the Occupational Safety and Health Committee and representatives.

All employees are provided with high-quality collective and personal protection measures, ensuring rental services of work clothing with periodical cleaning and repairing, acquisition of work footwear and other personal protection measures. In 2021, the LTG Group companies' lists of personal protection measures were updated, performance of public procurement was ensured guaranteeing an uninterrupted provision of personal protection measures to employees. Employees are involved in decision making with regard to selection and procurement of more convenient personal and other protection measures.

We cooperate with contractors, customers, suppliers of goods providing information on risk factors and ensuring mandatory safety requirements when providing services/goods in the territory of LTG Group companies, we control the implementation of safety provisions provided for by the agreements. An instruction for safe work of contractors in the catenary network has been prepared, which sets out the documents defining the limits of liability of LTG and the contractors.

Seeking to provide clear and relevant information and documents related to the occupational safety and health to all employees, a column of the Occupational Safety and Health was created on the Group's internal LTG website.

TRAFFIC SAFETY

The vision of AB LTG Cargo in the field of traffic safety is simple and all-encompassing – 0 (zero) incidents, i.e. safe society and the LTG Group without any railway catastrophes, accidents and incidents.

- In 2021, in order to ensure high level of the railway traffic safety, AB LTG Cargo identified relevant safety objectives focused on the highest operational risks, developed and implemented a comprehensive plan of measures how to achieve them.
- In 2021, LTG Cargo paid much attention to raising the safety awareness of employees, thus fostering an integrated safety culture model. A safety culture reflects the interaction between the requirements of a safety management system and how people make sense of them and implement them based on their attitudes, values and beliefs, how they behave and what decisions they make in their daily activities. A positive safety culture is characterised by a shared commitment by all employees to behave safely at all times.
- For the first time, LTG Cargo employees had the opportunity to participate in the survey on the level of safety maturity of all railway companies (carriers), infrastructure managers, safety authorities and other companies / institutions / organisations involved in railway transport in the European Union, organised by European Union Agency for Railway. Taking into account the results of the survey on the maturity level of safety culture carried out, the elements of the safety culture to be improved were identified and an action plan was prepared for further fostering of the safety awareness of the employees.

In addition, in order to foster a positive safety culture, in 2021 LTG Cargo:

- organised security academies on a quarterly basis, during which educational meetings were held with LTG security experts and guest speakers to present safety advice and solutions to the most important safety-related issues, discussing security issues for employees - from cyber security to health assurance;
- developed a safety ambassadorship, during which employees are consulted rather than inspected, dangers related to traffic safety in structural units are analysed and the aim is to reduce them;
- Prepared a safety book for managers, which summarises the functions of managers in the field of safety, providing what each manager must know in each safety area, together with relevant references to the most important safety documents;
- Rewarded employees who made the greatest contribution to improving safety through their personal contributions.

In 2021 LTG Cargo also paid a lot of attention to standardisation and improvement of activities and procedures related to traffic safety:

- the traffic safety management system and related procedures has been updated;
- traffic organisation instructions of access roads have been updated and standardised;
- traffic organisation instructions of access roads of customers have been digitalised;
- technical maintenance activities of railway rolling stocks have been certificated, updating of technical maintenance system has been started;
- employees have been unanimously introduced to documentation related to traffic safety;
- update of the train Driver's Rule Book has been carried out.

In order to ensure the compliance of LTG Cargo's activities with the established requirements and continuous improvement, other measures were implemented to eliminate or reduce the greatest threat to road safety risks to the lowest acceptable level (ensured competence of employees and organised periodic training, employees are regularly informed about events and trained on how to avoid them, etc.), targeted inspections of railway traffic safety and periodic audits of the elements of the railway traffic safety management system are carried out, continuous, based on safety indicators, monitoring of the state of growth took place in order to proactively prevent railway accidents, railway traffic accidents, railway traffic incidents and their consequences, and investigate them in order to prevent the recurrence of similar events in the future.

GOVERNANCE AREA

As a subsidiary of LTG Group, LTG Cargo forms governance in accordance with the general policies and principles of LTG Group. LTG Group has successfully transformed the corporate governance of the Group companies and is constantly striving to improve its governance. In order to achieve long-term value growth, rational and efficient use of funds, assets and other resources, fulfilment of shareholder's expectations and interests of LTG Group companies, the corporate operating model is focused on refining and concentrating core activities in subsidiaries. The LTG Group follows a clear and transparent operating architecture aimed at the implementation of long-term and short-term strategic goals of LTG, interoperability and possible synergies. The company receives positive assessments of its management from the Management Coordination Centre and is constantly responding to recommendations on how it can further improve its performance in this area. State capital and a strong relationship with the state reduce the risk of LTG Cargo's or the LTG Groups defaulting.

CREATING LONG-TERM VALUE FOR THE STATE AND SOCIETY

LTG Cargo is focused on creation of vale for the state and the society in accordance with the principles of the LTG Group. T The Company aims to be a competitive, growing company that generates sustainable returns for its shareholder and creates long-term value for the society. In LTG Group, investments are focused on creation of long-term value, sustainable borrowing resources are used for strategic projects and the aim is to ensure the necessary financial resources, the financial ratios required for borrowing at the lowest cost and stable financing for long-term projects. LTG Group also pays much attention to creation of socio-economic value for the society: following the principles of sustainability, measures are consistently implemented to promote sustainable mobility of citizens, increase convenience and use more sustainable means of transport, constantly reduce the negative impact on the environment and society.

The corporate governance of LTG Group is focused on creating sustainable, long-term value and ensures proper shareholder's representation, compatibility of the interests of stakeholders, refinement of the interaction between the management bodies, as well as the LTG Group's structural units, implementation of management and control functions. Effective and balanced corporate governance establishes stable, clear and understandable relationships, increases the LTG Group's attractiveness to the shareholder, customers, partners, employees, society and creates preconditions for value growth and sustainable development of the LTG Group in the long run.

Corporate governance is understood as a set of general rules, principles, practices and processes applied in LTG Group, according to which the LTG Group companies, including LTG Cargo, are managed and controlled. The corporate governance of the LTG Group is exercised by LTG as a parent.

In order to achieve long-term value growth, rational and efficient use of funds, assets and other resources, fulfilment of shareholder's expectations and interests, the LTG Group's operating model focuses on refining and concentrating the core activities in subsidiaries (such as LTG Cargo) and streamlining, standardizing and providing centralised services to the LTG Group companies.

The aim is to obtain a high investment credit rating, which would help to ensure better financing conditions for operations. To meet its strategic commitments the organisation uses other financial resources responsibly as well, including those from the EU and other international donors. LTG Group pays a considerable attention to creation of social return to the society: in accordance with the principles of sustainability, measures are consistently implemented to facilitate citizens' mobility, increase convenience and promote more sustainable modes of transport, constantly reduce the negative impact on the environment and society, thereby contributing to increasing welfare of the society and strengthening of citizenship.

LTG Cargo, just like the LTG Group, sets ambitious investment goals in its Strategy. By the year 2030, the Company plans to make significant investments in the businesses it is developing and aims to become one of the leaders in sustainability in the region, thus making a significant contribution to achieving the goals of the European Green Agreement. The financial sustainability of the Company also enables us to set ambitious goals. Not only strong financial performance but also the investment programme focused on greenery and sustainable investment direction contribute to the opportunity of cheap borrowing. For the past 5 years, LTG Cargo has not invested in projects that would worsen the climate situation or pose risks related to climate change in the future. In the future, the LTG Group plans to receive additional financing, the terms whereof depend on green goals and investments in sustainable technologies. The LTG Group is planning a number of investment projects that will further significantly reduce the impact on the climate and the environment in the future (acquisition of electric trains, renovation of other assets).

All relevant information specified in the Guidelines for Ensuring the Transparency of the Activities of State-Owned Enterprises is made public.

ENSURING BUSINESS CONTINUITY AND RISK MANAGEMENT

LTG Cargo pays special attention to preventive and timely risk identification and management, therefore a unified and standardised risk management system and processes are implemented, which are integrated into key activities and decision-making. The importance of LTG Cargo and the entire TG Group activities for the state and society is recognised, therefore complex business continuity assurance mechanisms (business continuity plans, exercises, testing etc.) are being developed and applied to ensure continuous operations. Focus is placed on the organisation-wide ability to apply risk management practices and sharing the best practices with other organisations.

PREVENTION OF CORRUPTION AND BRIBERY

LTG Cargo applies the principle of zero tolerance for corruption, which means that the company does not tolerate any form of corruption. In its activities, LTG Cargo implements a set of measures and processes aimed at forming a transparent and smoothly functioning company with an impeccable reputation. In order to create an environment resilient to corruption, internal legal acts are constantly reviewed, which are synchronised with international and national legal acts, as well as the legal basis of the Ministry of Transport and Communications of the Republic of Lithuania (hereinafter – MoTC). The expectation of MoTC, as a shareholder, to act in a transparent manner, is adhered to.

According to the SOE Good Governance Index, LTG actions taken for prevention of bribery were rated with the highest A + index. It has been constantly moving towards this achievement for several years, systematic measures to create a corruption-resistant environment have been anticipated, international transparency standards are being implemented.

After performing a Security Test in the end of 2021, the level of resistance to corruption in the area of management of the Minister of Transport and Communications in LTG Group was 70 points (maximum number of points - 70).

On 25 May 2021 a cooperation agreement was signed with Special Investigation Service (hereinafter - SIS) of the Republic of Lithuania, which provides for methodological assistance in strengthening the anti-corruption environment of LTG Group.

In addition to the existing legal base, in 2021 the following targeted legislation was prepared / updated:

- Principles of working in LTG Group;
- Description of the procedure for the administration of the LTG Group's internal information channel on violations (protection of whistle-blowers);
- Procedure for performing probability of corruption in LTG;
- Rules for the administration of the trust line of the LTG Group;
- Standard of the process of verification and/or investigation of the received information;
- Standard for the process of administering gifts received, delivered, or refused by employees;
- Methodology of giving and receiving gifts of the LTG Group.

(all amounts are in EUR thousand unless otherwise stated)

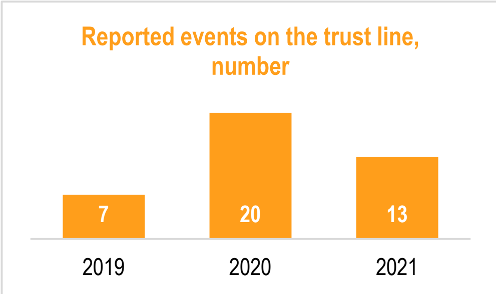
Fair and responsible behaviour in the company is expected of all employees. In their daily work, everyone is introduced to the targeted legislation governing the development of a resilient environment, and it is important for employees to adhere to the ethical principles set out in the approved Code of Ethics for Employees. Transparency requirements are also imposed on business partners who are acquainted with the provisions of the approved Supplier Code of Conduct. The internal or individual chain of internal anti-corruption audits is carried out periodically. In 2021 an internal audit of the fraud investigation was carried out.

The LTG Group 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 employees' self-service module "ManoLTG". In the interest of objectivity and transparency in decision-making, the procedures for preparing, considering or adopting decisions on the removal and removal of staff from decisions which may give rise to a conflict of interest shall be addressed. Employees can opt out of decisions that are in conflict with their interests using the operational electronic functionality installed in 2020 and operating onwards.

In 2021, the LTG Group approved the Gift Acceptance and Delivery Methodology, which obliges to adhere to the zero gift policy, and the provision and/or acceptance of gifts is allowed only in the cases provided for by this methodology. The application of the Methodology is aimed at strengthening the resilience of the LTG Group and its employees to corruption, ensuring the legitimacy of the actions of employees, and the consistency of public and private interests. All received and delivered gifts are entered in the Gift Register created in 2021 in accordance with the provisions of the standard of the process of administration of gifts received, delivered and refused by employees. The LTG Group paid much attention to communication to all employees of the LTG Group regarding the treatment of gifts. A memorandum with practical examples for employees of how to behave having received, given or refused gifts was also prepared.

The LTG Group complies with the legal requirements for checking the compliance of recruited persons and assessing them in terms of good reputation. At the same time, the company is demanding of its partners - the solvency and reputation of the business partners are analysed and assessed, in order to identify the risks that may arise due to the business partners. Actions to minimise potential risks are analysed periodically.

To promote responsibility and activity of employees and other persons, LTG enables them to report anonymously about violations of corruptive nature through the following reporting channels (tel. No. (8 5) 269 3600, e-mail prevencija@bekorupcijos.lt, report on the website https://www.litrail.lt/en/korupcijos-prevencija). In 2021 a new whistle-blower protection channel praneseju.apsauga@ltg.lt.was introduced. Furthermore, in accordance with Directive of the European Parliament and of the Council on the protection of whistle-blowers and the Law on the protection of whistle-blowers of the Republic of Lithuania, the internal legal framework was developed.



Pursuant to the provisions of the Law on the Protection of Objects Important for Ensuring National Security of the Republic of Lithuania, inquiries are submitted to the Coordination Commission for Protection of Objects Important for National Security and the Ministry of National Defence of Lithuania regarding compliance of initiated procurements, intended transactions or significant amendments to the transactions which have already been concluded with the interests of national security.

On a yearly basis, the Company conducts a targeted employee survey on resistance to corruption - the opinion of each employee matters and helps to strengthen the transparency of the company's activities. The purpose of the survey is to determine the attitude of employees towards corruption, find out their position on possible occurrence of corruption in the LTG Group, identify employees' knowledge about the measures taken by the LTG Group to prevent corruption. The results of surveys conducted in 2018-2021 show that the level of integrity and awareness of employees not to offer illegal remuneration/gifts is extremely high and employees rarely face corruption in their activities.

	2018	2019	2020	2021
Respondents, number	569	757	1299	1285
Employees who consider their workplace as not affected by corruption, %	86.1%	91.0%	91.5%	93.5%
Employees who are aware of how to report a case of corruption, %	70.8%	71.2%	72.1%	80.1%

Involvement of employees in corruption prevention activities is also improved by other means, such as educating them about corruption prevention - employees actively participate in trainings organised by the Security Academy, independently strengthen their knowledge in e-trainings, the most important documents regulating this activity are periodically introduced to them, trainings are organised in cooperation with the Special Investigation Service, the Prosecutor General's Office of the Republic of Lithuania and other institutions, and other educational measures are implemented. Representatives of the LTG Group participate in the events of the Transparency Academy of the Special Investigation Service (teach, mentor etc.), in 2021 a great deal of attention was paid to internal communication seeking to notify employees of innovations and implemented functionalities.

In 2021, attention was also paid to the provisions of the new Law on the Prevention of Corruption of the Republic of Lithuania. There was a structural change in respect of direct subordination of the unit, responsible for creating a resilient environment, to the CEO of LTG; the drafting of new legislation in line with the amendments to the said law was started; the introduction of new elements of a corruption-resistant environment was planned.

In 2021, LTG Group completed the necessary steps to implement the Standard and it will seek ISO 37001: 2016 certification after receiving an external evaluator's assessment of the measures of the implemented anti-corruption management system.

More information on the prevention of corruption and bribery of the LTG Group is available in the LTG Group's report on the prevention of corruption in 2021, which is prepared annually.

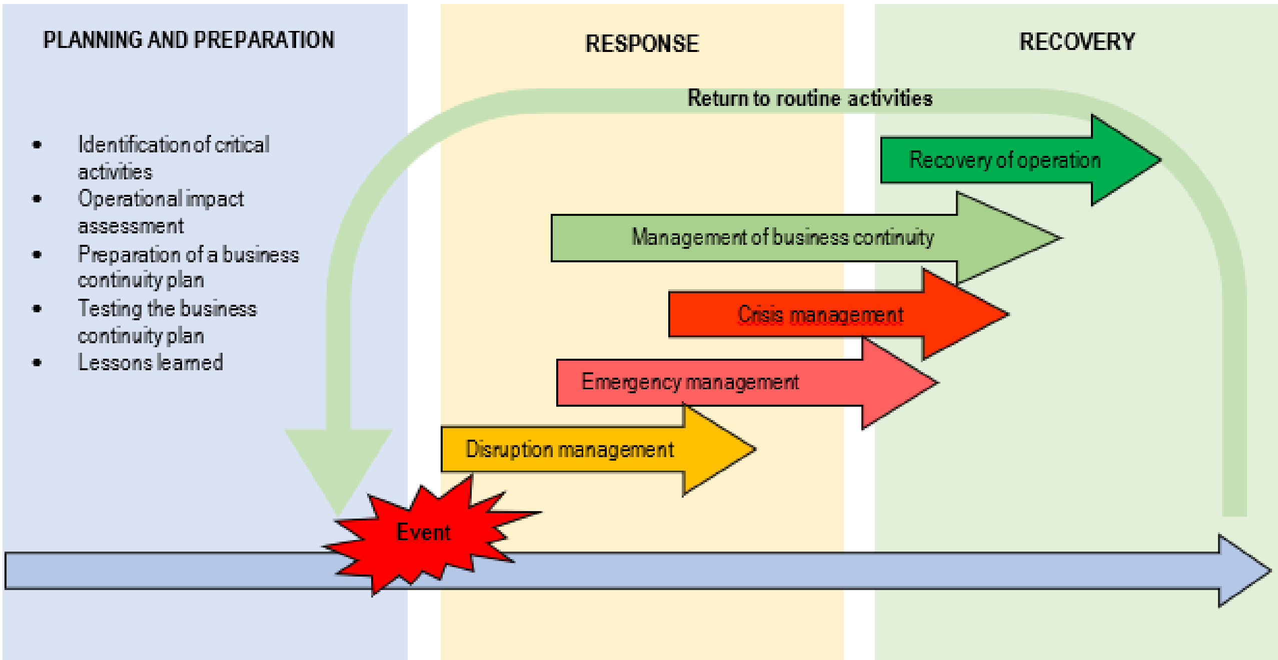
PRINCIPLES OF WORK ETHIC

As a result of the pandemic, new living and working habits were shaped for many people, so the employees of LTG Cargo quickly learned to work flexibly, often remotely, trusting each other and organising their work to achieve their goals effectively. In order to respond to the changes in the rules of procedure, in 2021 the rules of procedure of LTG Cargo and the LTG Group previously in force were revised, which are to come into effect as of 1 January 2022, and they are called Work Principles in LTG. The Work Principles in LTG are a document defining the daily behaviour of employees, the principles of work ethic, safety and health requirements, other rights and responsibilities, and liability for improper performance of duties, which will guide all employees of the LTG Group in their work.

GOING CONCERN

Management of business continuity is one of the risk management subsystems of LTG Cargo, the purpose whereof is to ensure that regardless of the scale of the event (disruption, emergency, crisis) during which operations may be disrupted or completely suspended, LTG Cargo was able to meet its obligations to customers and to the shareholder.

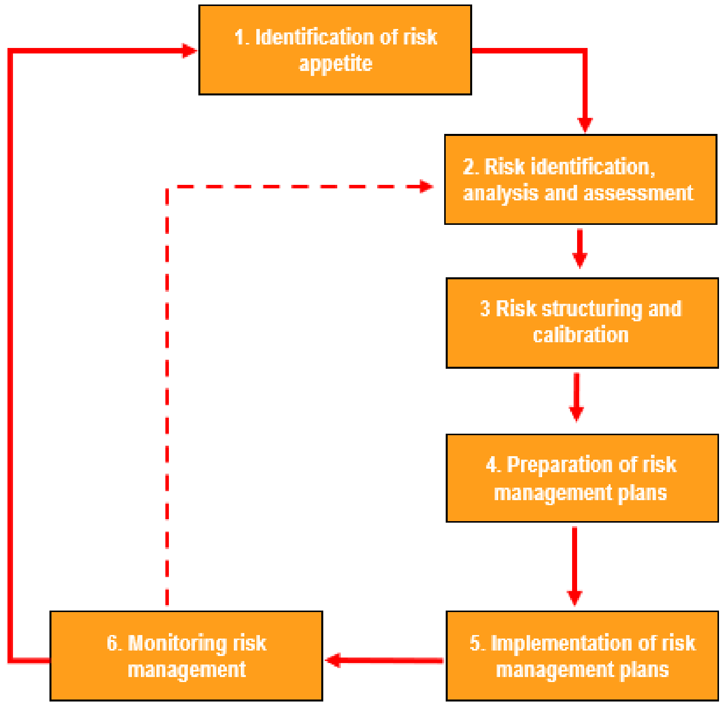
In order to achieve this goal, LTG Cargo and the LTG Group are implementing a consistent, systematic and standardised business continuity management model. It consists of three integral stages: planning and preparation (preparation of plans, implementation of preventive measures), response (response to disruption) and recovery (return to routine activities)



The business continuity model is established in the Business Continuity and Crisis Management Methodology developed in 2021 and detailed in procedure standards, which are based on the international standard ISO 22301 applicable to these activities and good practices of large companies.

RISK MANAGEMENT

LTG Cargo implements and continuously improves the unified risk management system of LTG Group. It is defined in LTG Group's risk management policy, methodology and procedure standards, which are based on the international standards ISO 31000 and COSO ERM (Committee on Sponsoring Organisations of the Treadway Commission, Enterprise Risk Management) and best practices.



Risks of LTG Group are managed in stages. The overall periodic cycle consists of the following steps:

1 Identification of risk appetite;
2 Risk identification, analysis and assessment;
3 Risk structuring and calibration;
4 Preparation of risk management plans;
5 Implementation of risk management plans;
6 Monitoring risk management.

The level of identified risks is assessed by determining their likelihood and potential impact (assessing financial, legal and reputational impact) and assigning them to one out of four risk categories (strategic, operational, financial, compliance risk). In this context, risk owners are selected for each of the risks and management/mitigation actions are required. The dynamics of risks and the progress in implementing the measures are monitored periodically on a quarterly basis.

In LTG Cargo and within the LTG Group, risk management responsibilities are divided according to the Three Lines of Defence model. According to it:

- 1st line risk management activities are performed by LTG Group companies (including LTG Cargo) and LTG corporate functions, which identify, assess and manage risks;
- 2nd line risk management activities are performed by the LTG Risk Management, which develops and improves the overall system and performs coordination and control activities;
- 3rd line risk management is performed by LTG Internal Audit division, which carries out an independent assessment of the effectiveness of risk management level 1 and 2, and provides comments and recommendations.

It is important to emphasise that both managers at various levels and collegial bodies are actively involved in risk management practices. The LTG Group has the Risk Management Committee, which calibrates risks and refines risks that are relevant at the LTG Group level.

The periodic and timely dissemination of risk-related information is ensured by a well-established reporting system. The risk management status of each of the companies is reviewed on a quarterly basis in reports submitted to the boards of the companies and the LTG Group. The Board of the LTG Group is informed on a monthly basis about the risks exceeding the appetite. Such a cyclical system not only helps to monitor the status of identified risks, but also provides with an opportunity to discuss the occurrence of new ones.

Risk management activities are receiving increasing attention and importance. One of the important steps to ensure this was a change in the structure of the risk management function implemented in 2021. The function is now reporting directly to the LTG Group's CFO, thus ensuring direct reporting channels. The risk management team (line 2 of defence) is also strengthened by competent experts.

CONTROL SYSTEM AND INTERNAL AUDIT

In order to ensure transparent and efficient operation of LTG Cargo and the entire LTG Group and an appropriate internal control system, a centralised Internal Audit Division has been established in the Company. In the LTG Group, internal audit acts as the third "line of defence". The division reports directly to the Board, thus ensuring the independence and objectivity of the internal audit, and thereby facilitating the identification of weaknesses and areas for improvement.

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

In 2021, the activities of the Internal Audit division covered areas selected on the basis of a risk assessment and the identification of priority activities and processes to be audited. The conclusions of the performed audits were presented to the heads of the responsible divisions and the top management of the Company, as well as to the Audit Committee and the Board of LTG and LTG Cargo.

(all amounts are in EUR thousand unless otherwise stated)

INFORMATION ON COMPLIANCE WITH THE PROVISIONS OF THE TRANSPARENCY GUIDELINES

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

Structured information on compliance with the transparency guidelines

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

(all amounts are in EUR thousand unless otherwise stated)

Point of Description	Description provision	Yes/No
	Disclosure of the Company's information	
7.	The following documents shall be announced in the website of a state-owned enterprise:	-
7.1.	Articles of Association;	Yes
7.2.	Statement from an institution representing the State regarding the establishment of the goals and expectations of the State in a state-owned enterprise;	Yes
7.3.	The business strategy or a summary thereof in cases where the business strategy contains confidential information or information which is considered a commercial (industrial) secret;	Yes
7.4.	Document establishing the remuneration policy, setting out the remuneration of the head of a state-owned enterprise and the remuneration of members of collegial bodies and committees formed in a state-owned enterprise, as detailed in the Code of Corporate Governance;	Yes
7.5.	Annual and interim reports of a state-owned enterprise, annual and interim activity reports of a state-owned enterprise for a period of at least five years;	Yes
7.6.	Annual and interim financial statements and auditor's reports on annual financial statements for a period of at least five years;	Yes
8.	When a state-owned enterprise is a parent company, the structure of the group of companies is to be published on its website as well as the information of its subsidiaries and further subsidiaries as specified in Clauses 5.1–5.3 of the Description, the website addresses, the share (percentage) of the share capital owned by the parent company in their authorised capital, and consolidated annual reports.	Yes
9.	When a state-owned enterprise is a participant of legal entities other than those specified in Clause 8, the details of these legal entities specified in Clauses 5.1–5.3 of the Description as well as their website addresses must be posted on its website.	-
9^1.	When a company is a subsidiary or a subsequent subsidiary of a state-owned enterprise, the details of its parent company specified in Clauses 5.1–5.3 of the Description as well as the link to the parent company's website must be published on its website.	Yes
10.	If details specified in Clauses 5, 6, 7.1–7.4, 8, 9 and 9^1 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	Yes

(all amounts are in EUR thousand unless otherwise stated)

Point of Description	Description provision Disclosure of the Company's information	Yes/No
	of the state-owned enterprise;	
17.4.	The profitability, liquidity, assets negotiability, and debt indicators;	Yes
17.5.	The fulfilment of the special obligations;	The Company does not perform special obligations
17.6.	The implementation of the investment policy, planned investment projects and investments as well as those under implementation during the reporting year;	Yes
17.7.	The implementation of the risk management policy applicable at the state-owned enterprise;	Yes
17.8.	The implementation of the dividend policy at state-owned enterprises;	Yes
17.9.	The implementation of the remuneration policy;	Yes
17.10.	The total annual payroll fund, the average monthly salaries according to the positions held and (or) divisions;	Yes
17.11.	Information on the compliance with the provisions of Chapters II and II of the Description, including the information on how they are being implemented, what provisions have not been complied with and why.	Yes
18.	State-owned enterprises, which are not imposed a duty to prepare a social responsibility report, are recommended to respectively provide information in their annual reports on the issues of environment protection, social and personnel-related issues, the protection of human rights, anti-corruption and anti-bribery measures.	Yes
19.	If the information specified in Clause 17 of the Description is considered a commercial (industrial) secret or confidential information of a state-owned enterprise, the state-owned enterprise is entitled not to disclose such information; however, it must specify in its annual report or the annual activity report that this information is not being disclosed and specify reasons for nondisclosure.	Yes
20.	Other information not specified in the Description may be provided in an annual report of a state-owned enterprise.	Yes
21.	A state-owned enterprise, which is a parent company, must provide the structure of the group of companies, the details of each subsidiary and secondary subsidiary specified in Clauses 5.1–5.3 of the Description, the equity interest in the subsidiary (the percentage share), the financial and non-financial performance results of a fiscal year in its consolidated annual report, and if it is not obliged to prepare a consolidated annual report, in its annual report. If a state-owned enterprise, which is a parent company, prepares a consolidated annual report, the requirements of Clause 17 of the Description apply to it *mutatis mutandis.*	Yes
22.	An interim report of a state-owned enterprise or an interim activity report of a state enterprise must contain a short description of the operating model of the state-owned enterprise, the analysis of financial performance for a reporting period, information on major event, which had occurred during the reporting period, and also profitability, liquidity, assets negotiability, debt indicators and their changes in comparison with the respective period of the previous year.	Yes