2022

AB Lietuvos Geležinkeliai

CONSOLIDATED ANNUAL REPORT,
SUSTAINABILITY REPORT,
CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT FOR THE YEAR 2022

CONTENTS

The reports presented below which are publicly available on the Company's website https://www.litrail.lt comprise the annual report for the year 2022.

CONSOLIDATED ANNUAL REPORT	SUSTAINABILITY REPORT	FINANCIAL STATEMENTS

CONSOLIDATED ANNUAL REPORT

CEO'S FOREWORD

Dear colleagues, clients and partners,

Last year will be remembered as the year of great teamwork and historic decisions for the Lithuanian railway sector. The year 2022 was full of upheavals: the brutal war launched by Russia against Ukraine, the energy crisis, instability in the construction market, the disruption of regionally important supply chains. We were witnesses to all these events, and had not only to observe but to act as well – quickly, confidently and efficiently to help war-torn Ukraine, Lithuanian businesses seeking to reorient their supply chains, and the LTG Group facing reduced freight volumes. Last year's results, which exceeded forecasts, prove that Lietuvos Geležinkeliai Group is strong and able to adapt and create value for Lithuania even in the year of historical turbulence.

In 2022, we took another – decisive and firm step towards the West. First, we have set ourselves the goal of full integration with Europe – in terms of business relations, technology and IT. To achieve this goal, last year we started to draw the outlines of the FREE Rail programme, and this year we have already been joined by rail companies from other countries.

LTG Cargo, the Group's rail freight company, has a key role to play in expanding its business relations to the West. Last year, regular intermodal transport from Kaunas Intermodal Terminal to Duisburg in Germany was launched, services on the Polish market are being consistently developed: last year LTG Cargo's subsidiary LTG Cargo Polska launched regular weekly services on the new Loconi-Sławków-Gdańsk route, and freight transport services for Cedrob – one of the largest poultry producers in Poland.

LTG Cargo also focuses on cargo transport towards Ukraine. In 2022, LTG Cargo made the first run from Kaunas Intermodal Terminal to Ukraine via Poland. This was the first time that cargo from Ukraine reached Lithuania by rail, bypassing Belarus. LTG Cargo now regularly transports agricultural produce from Ukraine to Klaipėda Sea Port via this route. Together with the subsidiary LTG Cargo Ukraine, LTG Cargo has started transporting to Ukraine oil products that are vital for the country.

LTG Infra, the LTG Group company that manages the public railway infrastructure, also focused its attention to the west, continuing intensive implementation of Rail Baltica, a project of great importance for Lithuania and the Baltic region. In October 2022, the concrete solutions for the Kaunas-Vilnius section were presented to the public. Territorial planning is also underway on other sections and Rail Baltica sites of regional importance.

In 2022, LTG Infra achieved a significant milestone in consolidating the practice common in the European Union - a long-term commitment by the state to balance the revenues and costs of the railway infrastructure manager. A five-year rail infrastructure financing agreement has been signed with the Ministry of Transport and Communications, allowing LTG Infrastructure to ensure infrastructure maintenance, improve the quality of its services and offer attractive tariffs to businesses.

Last year saw the start of important work on the electrification of the Vilnius-Klaipėda railway section, which will help ensure a traffic without a footprint on the environment: the Kaišiadorys-Šiauliai-Klaipėda section and the Vilnius railway junction are undergoing the contracting phase. This project will reduce air pollution of the country's transport system by 150,000 tonnes per year and will help the country and business to meet its social responsibility obligations.

In 2022, Lietuvos Geležinkeliai Group offered a new link to Europe for passengers as well – the passenger transport company LTG Link started regular services on the route Vilnius-Kaunas-Warsaw-Krakow.

In December, LTG Link took another important step towards more convenient travel. A more convenient way for passengers to use public transport – together with JUDU, a joint public transport ticket in Vilnius was introduced for Vilnius residents and visitors to the capital.

An extremely important goal in terms of strategy has also been achieved – in 2022, the historic contract was signed between LTG Link and the Ministry of Transport and Communications for the period 2023-2032. This contract will ensure clear funding of operations, planning for long-term projects and objectives, and provide the basis for the renewal of the train fleet.

In 2022, all Group companies paid great attention to help Ukraine and Ukrainians fleeing the war. The passenger transport company LTG Link started offering free train travel to Ukrainians in Lithuania in early March, and the initiative was renewed in the summer, offering free travel to all people fleeing the Russian war in Ukraine for three months after registration in Lithuania.

While assessing the results of the past year, I know that they have created a solid foundation for the development of LTG Group's activities and the implementation of strategic projects important for Lithuania and the Baltic region. We are ready to strengthen our competitive advantage, to improve our services and to be an indispensable partner for both Lithuanian and foreign clients.

EGIDIJUS LAZAUSKAS

CEO

AB Lietuvos Geležinkeliai

KEY HISTORICAL STEPS TOWARDS THE WEST OF THE LTG GROUP

- In 2019, the largest corporate governance transformation in the history of Lietuvos Geležinkeliai was launched. One by one, the main activities of AB Lietuvos geležinkeliai were transferred to the newly established subsidiaries: freight transport activities were transferred to AB LG Cargo (operates since 01-05-2019), passenger transport activities were transferred to UAB LG Keleiviams (operates since 01-09-2019), activities of the public railway infrastructure manager as well as maintenance and modernisation of the railway network were transferred to AB Lietuvos Geležinkelių Infrastruktūra (operates since 08-12-2019). The role of the controlling company remained with AB Lietuvos Geležinkeliai. This has created a modern Lietuvos Geležinkeliai Group, which meets the European Commission's liberal market indicators and is ready to compete in an open market both in Lithuania and in other countries.

- In July 2020, the Lietuvos Geležinkeliai Group introduced a new Group brand. Both, the logo of the parent company and the brands of all the companies of the Group were changed. The new image reflects the significant changes implemented over the last few years and the key priorities for the future – progress, sustainability and creating benefits for Lithuania. The name of the Company has remained unchanged but a new acronym – LTG – has been introduced to emphasise patriotism. It also unites the names of all the Group's main companies: the passenger transport company UAB LG Keleiviams became UAB LTG Link, the freight transport company AB LG Cargo became AB LTG Cargo, and the infrastructure development company AB Lietuvos Geležinkelių Infrastruktūra became AB LTG Infra.

- In response to the difficult geopolitical situation due to the military actions of the Russian Federation on the territory of Ukraine, a review of the long-term strategy was initiated in 2022, focusing on diversification and expansion into new markets, especially in Western Europe.

- To ensure full resilience of the rail sector and its integration into the European Union (EU) rail infrastructure, FREE Rail, a long term programme, was launched in 2023 to develop and implement a rail operating model tailored to the Baltic region by 2030, based on EU rail standards, best practices and aligned with the EU's Broad Gauge Specific (EU+).

- LTG Cargo, the LTG Group's freight transport company, aims to diversify its activities and expand its services to different markets, especially in Western Europe. LTG Cargo's rail freight subsidiary in Poland, LTG Cargo Polska, was established in 2020, and its subsidiary in Ukraine, LTG Cargo Ukraine, in 2021.

- In April 2022, LTG Cargo started regular intermodal transports to Duisburg, looking for opportunities to re-orient supply chains to Western Europe. In February 2023, LTG Cargo started intermodal container transport between Kaunas Intermodal Terminal and Slavkov in Poland. The terminal near Katowice is an important hub on the Polish broad gauge, connecting rail lines between Lithuania and Poland as well as Ukraine and Poland. Freight trains also run regularly from the terminal to Schwarzheide in Germany, Maddaloni in Italy, Koper in Slovenia and Gdansk in Poland.

- The Ministry of Transport and Communications and LTG Link, the passenger transport company of the Lietuvos Geležinkeliai Group, signed a Passenger Transport Contract at the end of 2022 for the period of 2023-2032, which commits to provide public passenger rail transport services and to facilitate train travel for all people, including those with individual needs, as well as to promote the use of a more sustainable public rail transport system, and to reduce the environmental impact of transport. The need to contract and finance rail routes that are essential to meet the public's need for intercity public transport but are not commercially viable is provided for in the Regulation of the European Parliament and of the Council on public passenger transport services by rail and by road, and is standard practice in the EU.

- In 2022, a new route was introduced running Vilnius-Warsaw-Kracow. It is offered by LTG Link, the passenger transport company of the Lietuvos Geležinkeliai Group.

- Over the last few years, the Rail Baltica project, which is being implemented by LTG Infra, has moved from the preparatory stage to the construction of the longest railway bridge over the Neris River in the Baltic States, the crossing and the approach roads; the construction of the substations and the overhead contact network of the electrification project of the line Vilnius – Klaipėda is underway, the total value of which will reach around EUR 200 million at the end of the current year. When completed in 2025, the project will allow carriers to transport passengers and freight between Vilnius and Klaipėda with zero emissions.

GROUP STRUCTURE AND GOVERNANCE MODEL

The group of companies of AB Lietuvos Geležinkeliai is a group of state-owned railway freight and passenger transport and public railway infrastructure management companies, consisting of the parent management company AB Lietuvos Geležinkeliai and its directly and indirectly owned subsidiaries, subsequent companies, public enterprises and the association.

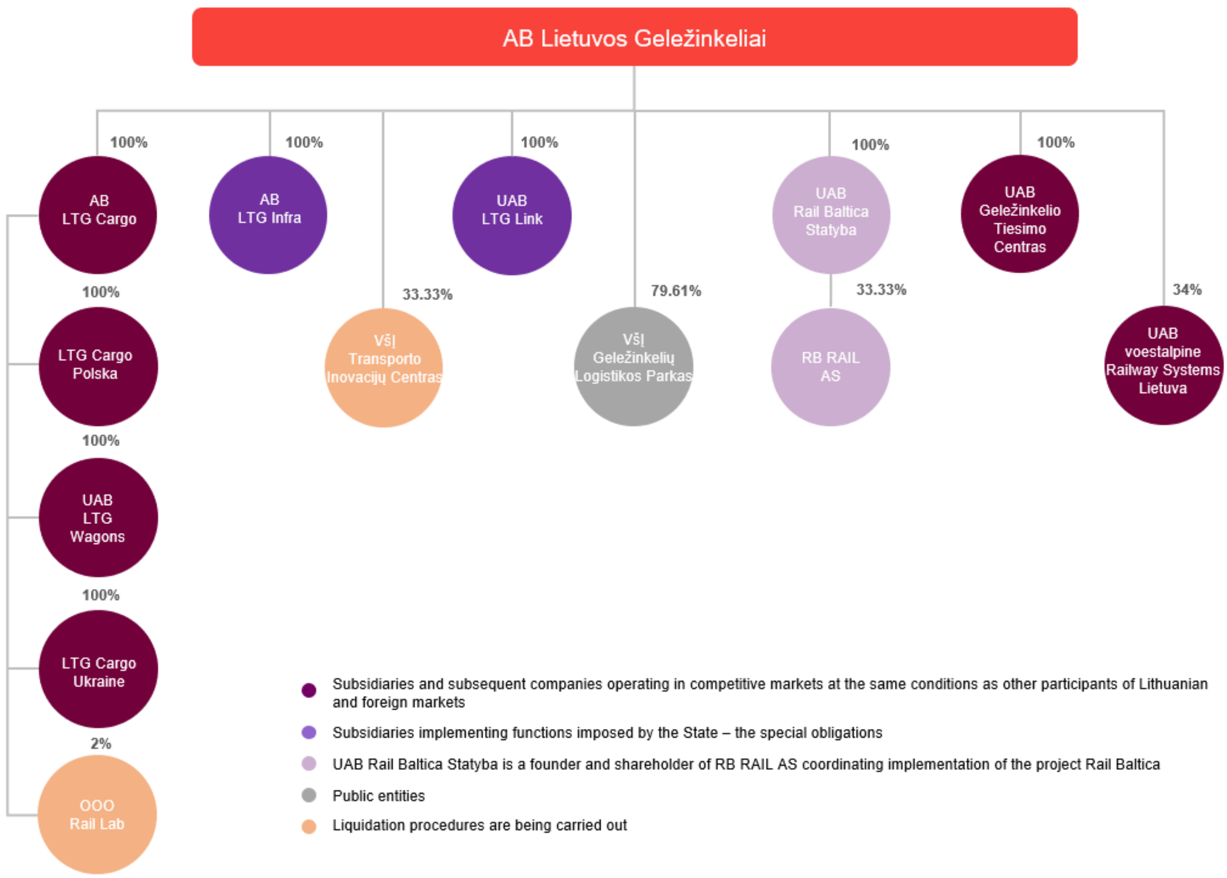
Taking into account the structural changes carried out in the LTG Group during 2018-2021 and the purification and separation of the activities of the carriers and the infrastructure manager into separate legal entities in accordance with EU requirements, preconditions are created for the companies providing transport services to operate in a competitive environment and ensuring the liberalisation of the rail market.

Following the structural changes implemented in the LTG Group, there is a clear dividing line according to the activities carried out by the companies: companies carrying out activities of a commercial nature (operating in a competitive market under the same conditions as other Lithuanian and foreign market participants); companies carrying out activities of public interest and ensuring the provision of services of public interest (performing functions entrusted to them by the state); and companies carrying out other kinds of activities.

In order to achieve the common goals of the LTG Group and the parent company, the LTG Group's governance model is based on the **LTG Group's consolidated business strategy** and functional leadership. The parent company's collegial management body considers and approves the LTG Group's consolidated operating strategy/budget, consolidated performance targets, their measurement indicators and target values, makes key management decisions within the Group, and oversees and controls the activities of subsidiaries.

As part of the LTG Group, LTG's subsidiaries are responsible for the execution of core activities and the achievement of defined performance targets. In order to achieve their objectives and to ensure proper management, the subsidiaries act independently in their activities, take appropriate decisions and ensure accountability and responsibility for performance.

LTG Group applies the **functional leadership** model which means that added value is created by centralising business support (corporate) functions, consolidating competencies and introducing functional excellence. The Parent Company coordinates the finance, legal, planning and monitoring, human resources, risk management, audit, technology, communication and other general areas of LTG Group companies through common policies, regulations and norms that apply to all LTG Group companies. Each corporate function or activity has an assigned function or activity owner who is responsible for the planning, organisation, implementation and control of the area under his/her responsibility.



(all amounts are in EUR million unless otherwise stated)

- On 25 February 2022, LUAB Gelsauga was deregistered from the Register of Legal Entities of the State Enterprise Centre of Registers.
- On 30 June 2022, LUAB Saugos Paslaugos was deregistered from the Register of Legal Entities of the State Enterprise Centre of Registers.
- Due to the military actions of the Russian Federation in Ukraine, the LTG Group's LLC LTG Cargo Ukraine service operations have been temporarily suspended from 1 March 2022 until 1 June 2022.
- During the reporting period, AB LTG Cargo, UAB Geležinkelio Tiesimo Centras and OOO Rail Lab entered into a sale and purchase transaction whereby AB LTG Cargo transferred 97% of its shares in OOO Rail Lab to the company Rail Lab itself, and UAB GTC transferred 1% of its shares in OOO Rail Lab to the company Rail Lab as well. AB LTG Cargo currently holds a 2% share in OOO Rail Lab. On 9 June 2022, the amended Articles of Association of OOO Rail Lab were registered with the competent authorities of Belarus.
- On 19 September 2022, LTG Cargo (a sharer of OOO Rail Lab) adopted the decision to liquidate the company. Procedures for liquidation of the company are currently ongoing.
- On 12 January 2023, sharers of VšĮ Transporto Inovacijų Centras adopted the decision to liquidate the company. Procedures for liquidation of the company are currently ongoing.

INFORMATION ON SHARES AS AT 31 DECEMBER 2022

Company	The amount of the authorised capital, thousand EUR	Number of shares, unit	Par value per share, EUR
Parent company			
AB Lietuvos Geležinkeliai	1,059,282	3,657,492	289.62
Subsidiaries of the Parent company			
AB LTG Cargo	44,087	209,299	210.64
AB LTG Infra	654,928	654,928	1,000
UAB LTG Link	143,590	156,237	919.05
UAB Geležinkelio Tiesimo Centras	30,897	109,748	281.53
UAB Rail Baltica Statyba	4,161	143,698	28.96
UAB voestalpine Railway Systems Lietuva	2,192	25,734	28.96
Subsidiaries and subsequent companies			
RB Rail AS	1,950	650,005	1
OOO Rail Lab (liquidated)	BYN 24 thousand	-	-
LTG Cargo Polska Sp.zo.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	-	-

- As at 31 December 2022, the sole shareholder of AB Lietuvos Geležinkeliai was the Republic of Lithuania, the property and non-property rights of which are exercised by the Ministry of Transport and Communications of the Republic of Lithuania.
- The shares of the Company and its subsidiaries are of a single class - ordinary registered shares. The shares are non-certified, and they are recorded in personal securities accounts in accordance with the legal procedure. The Company and its subsidiaries have not issued any preference shares.
- The Company and its subsidiaries did not acquire any of their own shares during the reporting period, with the exception of OOO Rail Lab, to which AB LTG Cargo and UAB Geležinkelio Tiesimo Centras transferred their shareholdings of 97% and 1%, respectively, in the reporting period. Currently, LTG Cargo holds 2% of shares in OOO Rail Lab; however, it is the sole shareholder and has full control.
- Subsidiaries and associates did not acquire any shares of the Company during the reporting period.

ACTIVITY OF THE LTG GROUP

The principal activity of the LTG Group comprises freight and passenger transportation by rail transport and management of the public railway infrastructure and railway service equipment. The LTG Group earns the major portion of revenue from provision of freight transportation services.

The LTG Group also carries out special obligations imposed by the State by providing public services of passenger transportation via railway transport, also in the activities of maintenance, modernisation and development of the public railway infrastructure, and providing services of the minimum access package. State funds are allocated for implementation of the special obligations. It is a significant contribution to sustainability of the LTG Group's financial flows.

Assets of railway transport concentrated within the LTG group exceeds the amount of EUR 2 billion. The major portion of the assets comprises the public railway infrastructure (rail tracks, security, electricity and telecommunication installations and structures), railway service installations (station buildings and other objects) owned as right-of-use assets and managed by the right of trust by the State of Lithuania, and assets used for their maintenance comprise 2/3 of the assets. Other assets consist of freight and passenger rolling stocks, their repair and maintenance bases, assets necessary to serve passengers and freights, information systems and their technical equipment.

As at 31 December 2022, 6.126 employees worked for the LTG Group companies, 785 of them worked for the parent company LTG.

PRINCIPAL ACTIVITIES OF THE LTG GROUP COMPANIES

Management of the Group companies

LTG is the parent management company. Besides the provision of management services of the LTG Group companies, the Company provides the following services to the Group companies: fuel resale, other services provided in railway service facilities, lease of property and vehicles.

Freight transportation by rail

LTG Cargo is a licenced railway company engaged in freight transportation by rail, also services of repair and technical maintenance of locomotives and wagons.

LTG Cargo Group companies – LTG Cargo Polska and LTG Cargo Ukraine – provide freight transportation services in Poland and Ukraine.

Passenger transportation by rail

LTG Link is a licenced railway company providing passenger transportation by rail services in Lithuania and on international routes. The Company also ensures transit trips from the Belarussian border to the Kaliningrad region.

Management of the public railway infrastructure

LTG Infra manages all the objects of the public railway infrastructure within the railway network of the Republic of Lithuania by the right of trust, exercises the duties of the public railway infrastructure management ensuring effective functioning, upgrading and development of the public railway infrastructure, organisation of railway transport traffic as well as providing indiscriminatory access to the public railway infrastructure for all railway undertakings legally operating in Lithuania.

Construction and repair of railway

GTC is a licenced railway company engaged in construction, repair and technical maintenance of railway infrastructure tracks, lease of specialised machinery, and provision of engineering services.

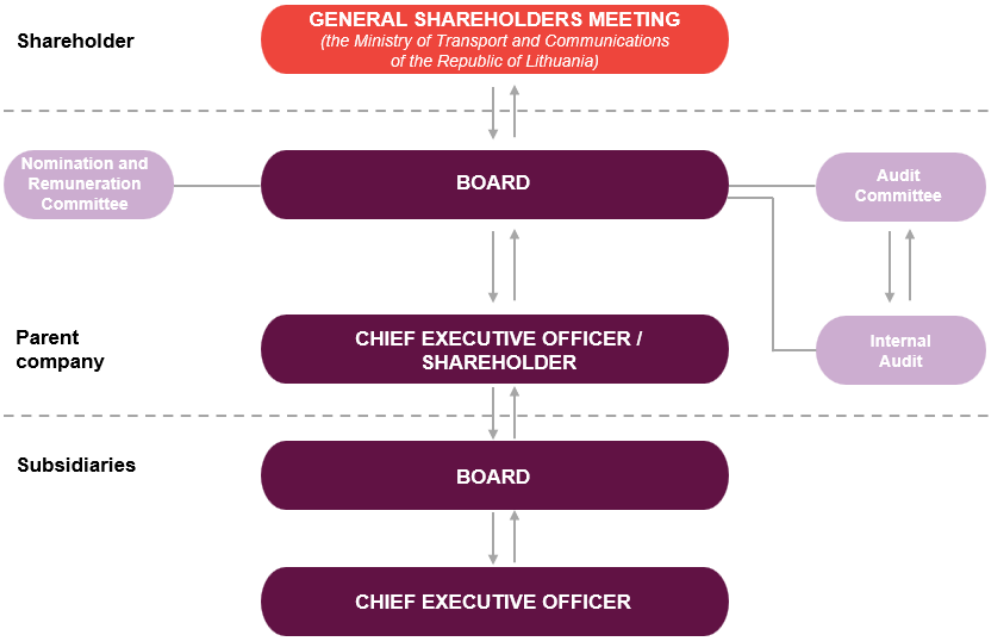
For more information on the services and performance of the LTG Group's companies, please refer to the *Performance of the main Group companies section of the Consolidated Annual Report*.

CORPORATE GOVERNANCE

The corporate governance of the LTG Group focuses on creation of a long-term value and ensures proper representation of the shareholder, alignment of interests of the parties concerned, refining of interaction among the management bodies and structural units of the LTG Group, implementation of management and control functions. Effective and well-balanced corporate governance establishes stable, clear and comprehensible mutual relations, increases attractiveness of the LTG Group to shareholders, customers, partners, employees, the society, and creates preconditions for growth of value and sustainable development of the LTG Group in a long-term perspective.

The corporate governance is seen as a set of common rules, policies, practices and processes applied within LTG Group for management and control of the LTG Group companies. The corporate governance of the LTG Group is implemented by LTG in performance of its functions as a parent company.

LTG GROUP'S MANAGEMENT STRUCTURE



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

THE CORPORATE GOVERNANCE OF THE LTG GROUP IS ORGANISED ACCORDING TO THE FOLLOWING PRINCIPLES:

- Openness and transparency of activities;
- Compliance of corporate governance with legal regulation and its effectiveness
- Meeting the expectations of the shareholders;
- Cooperation with stakeholders and their role;
- Effective and efficient risk management and internal control systems;
- Clarity and sustainability of goals;
- Responsibility and accountability of governance bodies.

OPERATING POLICIES

In order to increase operational efficiency and to ensure the achievement of long-term and short-term strategic objectives, the activities of the LTG Group are organised and implemented in accordance with the operating policies for corporate functions adopted by the parent company LTG.

Policies for priority areas are approved by the LTG Board and the rest by the CEO of LTG.

In 2022, the Company's Board considered and approved the policies for Strategic Planning and Governance, Sustainability, and Internal Audit, and in 2023, the policies for Corporate Governance and for the implementation and control of Sanctions.

The Articles of Association of the Company

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

During the reporting period, the Articles of Association were not amended.

The effective version of the Articles of Association of LTG is available at the Company's website https://www.litrail.lt/istatai.

The Articles of Association of LTG 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.

Bodies of the Company

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

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

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

The sole shareholder of LTG is the Republic of Lithuania the rights and obligations whereof are implemented by the Ministry of Transport and Communications, which adopts the main decisions related to implementation of the ownership rights and obligations.

The following property rights are conferred upon the owner of an ordinary registered share (shareholder):

- receive a portion of the Company's profit (dividend);
- receive the Company's funds when the capital of the Company is reduced with a view to paying out the company's funds to the shareholders;
- receive shares without payment if the capital is increased out of the company funds with exceptions specified by the Law on Companies of the Republic of Lithuania;
- the pre-emptive right to acquire the shares issued by the Company, except for the case when the General Shareholders Meeting decides to revoke the pre-emptive right of all shareholders in accordance with the procedure established by the Law on Companies of the Republic of Lithuania;
- lend to the Company in the manner prescribed by laws; however, when borrowing from its shareholders, the Company may not pledge its assets to the shareholders. When the Company borrows from a shareholder, the interest may not be higher than the average interest rate offered by commercial banks of the locality where the lender has his place of residence or business, which was in effect on the day of conclusion of the loan agreement. In such a case, the company and shareholders shall be prohibited from negotiating a higher interest rate;
- receive a part of assets of the Company in liquidation;
- other property rights established by other laws of the Republic of Lithuania.

The following non-property rights are conferred upon the owner of an ordinary registered share (shareholder):

- attend general meetings of shareholders;
- submit to the company in advance the questions related to the issues on the agenda of the general meeting of shareholders;
- vote at general meetings of shareholders according to voting rights carried by their shares; the shareholder's voting right is not restricted;
- receive information on the company according to the procedure and terms specified by the Articles of Association;
- refer to the court with a claim requesting to redress damage incurred on the Company resulting from nonfeasance or malfeasance by the manager of the Company and members of the board of their duties prescribed by the Articles of Association, the Law on Companies of the Republic of Lithuania and other laws, as well as in other cases laid down by laws;
- other non-property rights established by laws of the Republic of Lithuania.

The competence of the General Shareholders Meeting is provided for by the Law on Companies, also in the Articles of Association of LTG, published on the Company's website https://www.litrail.lt/istatai.

Main competences of the general meeting of shareholders are as follows:

- amend the articles of association of the Company;
- elect/remove the board and (or) its members; establish a remuneration for independent board members;
- elect and remove an auditor or an audit firm for the carrying out of the audit of a set of the annual financial statements and consolidated financial statements, establish conditions for payment for audit services;
- approve the annual management report and the consolidated annual management report;
- take a decision on profit/loss distribution;
- approve a set of interim financial statements prepared in order to take a decision on the allocation of dividends for a period shorter than the financial year;
- to take a decision on the allocation of dividends for a period shorter than the financial year;
- take a decision on issuing of bonds;
- take a decision on increase / reduction of the authorised capital;
- take a decision on reorganisation, conversion, restructuring, liquidation of the company;
- approve decisions of the Company's board on the investment, disposal or lease, pledge or mortgage of non-current assets the carrying amount, price or amount whereof is equal to or exceeds 1/20 of the authorised capital of the Company; suretyship or guarantee for the discharge of obligations of third parties; the acquisition of non-current assets.

Major decisions of the shareholder in 2022:

- the Company's sets of the financial statements and consolidated financial statements for the year 2021 were approved
- the Company's profit (loss) for the year 202 to be distributed was distributed.
- new remuneration was established for the members of the Company's Board and Committees of the Board.

The shareholder's expectations

Following the Description of the Procedure for Implementation of Property and Non-Property Rights of the State in State-Owned Enterprises approved by Resolution No 665 of the Government of the Republic of Lithuania of 6 June 2012, the authority representing the state shall prepare and submit the letter to the state-owned enterprise regarding the objectives that the state pursues and raised expectations in the state-owned enterprise at least every 4 years.

In this regard, the letter regarding the objectives that the state pursues and raised expectations in the Company was approved by the Order of the Minister of Transport and Communications of 4 October 2022. The letter of expectations of the shareholder is available on the Company's website https://www.litrail.lt/veiklos-strategija.

According to the letter of expectations, the priorities of the state in the activity of LTG Group are as follows:

- Carrying out of special obligations:
  - provision of public services of passenger transportation by rail and public services of combined passenger transportation on domestic routes;
  - provision of services for maintenance, renovation and development of the public railway infrastructure, organisation of railway transport traffic and services of the minimum package of access to the public railway infrastructure.
- development of freight transportation by rail activities;
- transparent distribution of capacities of the public railway infrastructure and effective use of the railway network;
- implementation of strategic and intermodal projects.

Non-financial expectations:

- Planning and development of the public railway infrastructure.
- Implementation of the project Rail Baltica.
- Integrity of the transport system.
- Quality of customer service.
- Leadership and increasing competitiveness.
- Innovation, digitalisation, sustainability.
- Social responsibility and employee engagement.
- Transparency and risk management.
- Good Governance.

Financial expectations:

- Long-term profitability of the LTG Group must be in line with that set by the government;
- Dividends are calculated in accordance with the legislation governing the determination of the share of profits to be distributed as dividends;
- The LTG Group must ensure that the optimal capital structure ratio complies with that set by the government.

Key financial performance indicators of state-owned enterprises for the period 2022-2024 are approved by the Resolution No 509 of the Government of the Republic of Lithuania of 18 May 2022 (link).

In order to ensure the development of the business in the directions outlined in the shareholder's letter of expectations, the strategies of the LTG Group and its subsidiaries are being updated, which currently focus on **diversification and expansion into Western European markets, prioritisation of investments (including the projects of Rail Baltica, greening, safety, digitalisation, and improvement attractiveness to passengers), improvement of operational efficiency, resilience of the business, and strengthening of organisational culture**. Shareholder expectations are linked to the targets set in the strategies and the means for implementation of the strategy.

The Board is a collegial governing body consisting of 7 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 in accordance to the legislation of the Republic of Lithuania. The Board elects the chairman of the Board from among its members. More than a half of Board members shall not have employment relationships with the Company. The number of terms of office of the Board Member is not limited.

During the reporting period, the Board of the Company consisted of 7 members, thereof 5 members are independent, and 2 members are delegated representatives of the shareholder.

Independent board members are elected following the Description for Selection of Candidates to the Board of the State-Owned or Municipality-Owned Enterprise and to the Collegial Supervisory or Management Body Elected by the General Meeting of Shareholders of the State-Controlled or Municipality-Controlled Enterprise (the Description for Selection), approved by Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015 (with subsequent amendments). When forming the Board, the provisions of the Description for Selection regarding versatility of competences of the Board members, requirements for compliance with general and special requirements are followed.

According to the Articles of Association of the Company, a person who is not eligible for serving as the Board member according to the legislation shall not be elected as the Board member. Each candidate to the Board member shall inform the General Shareholders Meeting electing him of his title and place of employment, how his other activity is related to the company and other legal entities related to the company.

The Board is accountable to the General Shareholders Meeting.

On 4 April 2023, the Board of LTG approved the competency matrix of the Board members, which established the competence areas, independence and special requirements for the Board members. The competence of the Board is in line with the competence of the Board provided for by the Law on Companies and other laws, additional competence of the Board is established in the Articles of Association of the Company.

The main functions of the Board:

- approve the strategy of the Company and consolidated strategy of the LTG Group companies, set goals, their measurement indicators and target values;
- approve the budget of the Company and the consolidated budget of the LTG Group;
- adopt decisions regarding strategic matters of setting the lines of activities of the LTG Corporate Group;
- adopt decisions regarding conclusion of major transactions;
- adopt decisions regarding participation or establishment of other legal entities;
- monitor and control top-priority projects;
- consider and approve the Company's and consolidated annual and interim reports the LTG Group companies;
- review consolidated, and annual, and interim financial statements of the Company and the LTG Group companies;
- elect/remove the head of the Company;
- supervise the activities of the CEO.

The term of office of the Board is 20/07/2021–20/07/2025.

During the reporting period, neither member of the Board held shares of the LTG Group companies.

During the reporting period 27 meetings of the Board took place.

COMPOSITION OF THE BOARD

KĘSTUTIS ŠLIUŽAS

Chairman of the Board, Independent Board Member
Holds the position from 20 July 2021

Education

– Vilnius University, Master's degree;
– IMD Business School (Lausanne, Switzerland), Leadership, Strategy, Innovations;
– London Business School, Leadership programme;
– BICG (Vilnius, Lithuania), Corporate management;
– MCE Management Centre Europe (Belgium).

Main employer, position

CEO of IPI srl/COESIA Group (Perugia, Italy).

Other positions held

– Supervisory Board member and Audit Committee member of PayRay Bank, UAB, Lvivo g. 25, Vilnius, company code 304862948;
– Member of the council of Kaunas University of Technology, K. Donelaičio g. 73, Kaunas, company code 111950581 (held the position until September 2022).

EUGENIJUS PREIKŠA

Independent Board Member
Holds the position from 20 July 2021

Education

– Stockholm University, Master's degree in social sciences (banking);
– Vilnius University, Bachelor's degree in economics (banking and finance);
– INSEAD (Fontainebleau, France), Leadership programme.

Main employer, position

Board Member, Head of Risk Management at UAB European Merchant Bank.

Other positions held

Adviser to the Board of UAB Imlitex Holdings.

DR. AURIMAS VILKELIS

Independent Board Member
Holds the position from 20 July 2021

Education

– Vilnius Gediminas Technical University, Doctor's degree in Technology;
– ETH Zurich (Switzerland), Post-doctorate in areas of transport and logistics.

Main employer, position

Head for Transport at Swiss Post (Switzerland).

Other positions held

Independent Supervisory Board Member of AB Klaipėdos Valstybinio Jūrų Uosto Direkcija, J. Janonio g. 24, Klaipėda, company code 240329870.

BERNARD GUILLELMON

Independent Board Member
Holds the position from 20 July 2021

Education

– Ecole Polytechnique Fédérale de Lausanne, Microtechnology engineer and Master's degree in energy;
– INSEAD (Fontainebleau, France, Master's degree in Business Administration, Leadership Challenge Course;
– Trigon, Master's degree in Organisational Development;
– Management Institute (London), certificate in corporate governance.

Main employer, position

– Owner of consulting Company Bridge The Gap Ltd with focus on senior advisory in energy / mobility / real estate and sparring / coaching for personal and organisational development;
– Various qualifications and authorisations in the transport sector (Nexxiot, Hupac, Rail Logistics Europe, etc.).

Other positions held

– JJM (real estate company owned by family) Vice President and Board Member;
– Camerata Bern (professional chamber orchestra) member of the Board of Trustees.

DALIA ANDRULIONIENĖ

Independent Board Member
Holds the position from 20 July 2021

Education

– Vilnius University, Master's degree in economics and management;
– ISM University of Management and Economics, Master's degree in management;
– BI Norwegian Business School, Master's degree in management.

Main employer, position

– CEO of UAB Omberg group, Gynėjų g. 16, Vilnius, company code 303566387.

Other positions held

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ROMAS ŠVEDAS

Board Member
Holds the position from 20 July 2021

Education

– Vilnius University, Master's degree in law;
– Umea University (Sweden), the course on political democracy;
– The World Trade Organisation (Geneva, Switzerland), Foreign Trade Policy Course;
– International Law Institute (Washington D.C., USA), the course on international trade;
– Baltic Institute of Corporate Governance (Vilnius, Riga, Tallinn, Stockholm), trainings for Board Members and Chairmen of the Board.

Main employer, position

– Head of the Governance Department at VšĮ Valdymo Koordinavimo Centras (State-delegated Board Member), Žalgirio g. 92, Vilnius, company code110068011;
– Head of MB Romas Švedas ir partneriai, Nemenčinės pl. 10-10, Vilnius, company code 303150481.

Other positions held

– Supervisory Board member of RB Rail AS, Satekles iela 2B, Riga, the Republic of Latvia, company code 40103845025;
– Lecturer at the Vilnius University, Institute of International Relations and Political Science, Universiteto g. 3, Vilnius, Company code 211950810;
– Board member of the European Movement Lithuania (non-governmental organisation);
– Facilitator at Business Executive Training Centre.

AGNĖ AMELIJA MIKALONĖ

Board Member
Holds the position from 20 July 2021

Education

– Mykolas Romeris University, Bachelor's degree in law, Master's degree in international law;
– Baltic Institute of Corporate Governance (Vilnius, Riga, Tallinn), trainings for Board Members.

Main employer, position

Principal adviser at the Ministry of Transport and Communications of the Republic of Lithuania, Gedimino ave. 17, Vilnius, company code 188620589.

Other positions held

– Board member of AB Kelių priežiūra, Savanorių Ave. 321C, Kaunas, company code 232112130;
– Board member at State Enterprise Lithuanian Road Administration, J. Basanavičiaus g. 36, Vilnius, company code 188710638.

The composition of the Board did not change over the reporting period.

Major decisions adopted by the Board of the Company in 2022:

- a decision adopted regarding establishment of the LTG Group's objectives, the indicators measuring them and target values as well as objectives of the Company's CEO (due to the Russia's war against Ukraine and the impact of sanctions on the activities of the LTG Group, annual objectives were reviewed during the year and the decision was adopted to update them taking into consideration the aforementioned circumstances);
- decisions adopted in respect of approval/update of the Company's policies (Implementation controls for sanctions and restrictive measures, Compliance and prevention policy, Sustainability policy, Strategy and operational efficiency policy, Internal audit policy);
- a decision adopted regarding re-assessment of the Electrification project;
- a decision adopted in respect of aid provision for entities affected by the war in Ukraine;
- decisions adopted regarding termination of activities and closing of representative offices of AB Lietuvos Geležinkeliai in the Russian Federation, the People's Republic of China and the Republic of Belarus;
- decisions adopted in respect of concluding an agreement for design and supervision services for construction of separate sections of the Rail Baltica railway line;
- the annual report for 2021 and the Company's interim and consolidated reports for 2022 were approved;
- a decision adopted regarding election of the Company's CEO;
- a decision adopted for approval of the Company's organisational structure;
- a decision adopted for the Company to become a member of the BICG (Baltic Institute of Corporate Governance);
- decisions adopted regarding approval to conclude transactions in the investment project „Major Railway Track Upgrade Program" (2023);
- decisions adopted regarding approval to conclude transactions on installation of a railway railbed, engineering structures and connecting vehicle roads or their re-development contract works and purchase of materials in separate sections of the Rail Baltica railway line.

SELF-ASSESSMENT OF THE BOARD AND ITS RESULTS

In line with the Board's rules of procedure, and in line with good governance practices, on 21 February 2023 the Board carried out a self-assessment of its performance in 2022.

The results of self-assessment were discussed at the Board Meeting where areas for improvement and necessary measures were identified for respective areas. The Company's shareholder was informed about the self-assessment of the Board and its results.

The Board's self-assessment index rose from 4.35 to 4.58, compared to the previous year. The only area where the score was lower was strategic planning. This is related to the control over the implementation of the strategy, particularly in a rapidly changing geopolitical and business environment. The Board has identified key areas for improvement - Strategic Planning, Organisation of the Board Meetings, Relationship between the Board and the CEO - and has identified actions to be taken in these areas.

During the reporting period, the Board went beyond a self-assessment: governance assessments were also carried out by the State Coordination Centre (SCC) and the Baltic Institute of Corporate Governance (BICG). The BICG also audited the Company's corporate governance and made recommendations. It should be noted that, compared to the previous year, the SCC scored higher in the indicators of sustainability, independence/composition of collegiate bodies, selection, functions, remuneration and achievement of the objectives of a state-owned enterprise.

COMMITTEES OF THE BOARD

According to the Articles of Association of LTG, seeking for efficient fulfilment of its functions and duties the Board adopts decisions to set up committees which are advisory bodies of the Board for relevant matters falling within the competence of the Board. In accordance with their competence the committees submit their conclusions, opinions and proposals to the Board of LTG, and the Nomination and Remuneration Committee also submits them to the Chief Executive Officer of LTG.

The committee shall consist of no less than 3 members. The Board members and other persons, who are not the Board members, can be appointed as members of the committee. Chairman of the committee shall be an independent member of the Board.

Where non-members of the Board are appointed as members of the committee, they shall comply with the general selection requirements and independent criteria of collegial bodies, elected by the General Shareholders Meeting of the Company, provided for by legislation of the Republic of Lithuania.

Members of committees are appointed and removed by the Board. Chairmen of committees are elected by members of committees. A committee is set up and its members are appointed for a period no longer than the term of office of the Board. The number of terms of office of committee members is not limited.

During the reporting period, the following committees of the Board were set up in the Company:

- Audit Committee;
- Nomination and Remuneration Committee.

If necessary other committees, provided for by legislation of the Republic of Lithuania or in accordance with the *ad hoc* principle (e.g. for resolution of special matters, preparation, supervision or coordination of strategic projects etc.) may be set up by a decision of the Board.

AUDIT COMMITTEE, ITS COMPOSITION AND ACTIVITY

The Audit Committee operates as an advisory body of the LTG Group, the main objective of which is to submit conclusions, proposals regarding functioning of external and internal audit, risk management and control systems in the LTG and its subsidiaries to the Board of LTG.

The main functions of the Audit Committee are to:

- supervise financial reporting and auditing processes of the LTG Group;
- ensure compliance with the principles of independence and objectivity of auditors and audit companies of the LTG Group;
- supervise the effectiveness of the LTG Group's internal control, risk management and internal audit systems and business processes;
- provide recommendations to the relevant governing bodies of the LTG Group on the selection of the audit firm and the proposed fee;
- provide recommendations to the Board of the Company on the appointment and dismissal of the head of the structural unit performing the Company's internal audit functions, on promotion, on the application of liability for non-performance or inadequate performance of the rights and duties set out in the Labour Code of the Republic of Lithuania, and on the approval of the terms of reference;
- inform the Board of the Company of problematic issues related to the audit of the LTG Group companies, in particular where significant deficiencies in internal control over financial reporting have been identified, and recommend on how to remedy these deficiencies and improve the systems for their prevention;
- provide the Board of the Company with summarised information on the independence of audit firms auditing the LTG Group companies, as defined in the Law on Audit of Financial Statements of the Republic of Lithuania and other applicable legislation, as well as on the non-audit services rendered by such auditors (audit firms) to the LTG Group;
- prepare and present material for meetings of the relevant governing bodies of the LTG Group on matters within its competence;
- inform the Company's Board about the audits carried out in the Company and the LTG Group companies by the State Audit Authority of the Republic of Lithuania, the Ministry of Transport and Communications of the Republic of Lithuania or other institutions, and to provide information on the monitoring of the implementation of the recommendations made by the above mentioned institutions;
- execute the functions of the audit committee of the subsidiaries.

During the reporting period, the Committee consisted of 4 members. The term of office of the Audit Committee started on 23 August 2021. All members of the Audit Committee are members of the LTG Board.

None of the members of the Audit Committee had shares of the LTG Group companies.

During the reporting period, 12 meetings of the Audit Committee were held.

COMPOSITION OF THE AUDIT COMMITTEE

EUGENIJUS PREIKŠA

Chairman of the Audit Committee
Holds the position from
23 August 2021
Independent Board member

DR. AURIMAS VILKELIS

Committee Member
Holds the position from
23 August 2021
Independent Board Member

BERNARD GUILLELMON

Committee Member
Holds the position from
23 August 2021
Independent Board Member

ROMAS ŠVEDAS

Committee Member
Holds the position from
23 August 2021
Board Member

The composition of the Committee did not change over the reporting period.

The main matters and proposals considered by the Audit Committee in 2022:

- got acquainted with the financial statements for 2021 and the audit results, prepared by the management of AB Lietuvos Geležinkeliai and audited by KPMG Baltics, UAB, and found that no material circumstances were identified which would provide grounds for an assumption that the Board of AB Lietuvos Geležinkeliai could not submit these financial statements to the General Shareholders Meeting for approval;
- recommended to the Board of AB Lietuvos Geležinkeliai to approve amendments to the 2022 Internal Audit Plan;
- made proposals on the implementation of the results of the external evaluation of the Internal Audit function and recommended to the Board of AB Lietuvos Geležinkeliai to approve an action plan for the implementation of the external auditors' recommendations;
- got acquainted with the set of financial statements of AB Lietuvos Geležinkeliai and the Group for the first half of 2022 and the draft interim report and submitted them to the Board of AB Lietuvos Geležinkeliai for consideration and approval;
- agreed on the selection criteria/requirements and evaluation procedure for the external audit firm;
- recommended to the Board of AB Lietuvos Geležinkeliai to approve the Internal Audit Plan for 2023;
- recommended to the Board of AB Lietuvos Geležinkeliai to approve the new version of the Internal Audit Policy;
- approved quarterly reports on Internal Audit activities and submitted them to the Board of AB Lietuvos Geležinkeliai for consideration.

The Committee's role in ensuring reliability of financial reporting

In 2022, the Committee and the Company's management discussed the process of preparing the consolidated financial statements, information on ongoing litigation, transactions with subsidiaries and their disclosure in the financial statements, as well as the draft financial statements for the first quarter and half year of 2022.

The Committee discussed with the auditor of the financial statements the audit plan and process, the risks of fraud, the impact of the war on the loss of revenue and the subsequent impairment of assets and the continuity of the company's operations, the impact of the new accounting standards on the financial statements.

Improving the internal control environment

The audits carried out by Internal Audit have had a tangible impact on internal control. The main added value of the internal audit function in achieving the LTG Group's strategic objectives is to provide independent assessment and advice on the maturity of the audited areas, internal control and compliance with external and internal legislation.

Monitoring internal and external audit recommendations

The Committee continuously monitors the implementation of the recommendations made by Internal Audit and external competent authorities.

Supervision of the internal audit system

In 2022, the Committee discussed the results of the external evaluation of the internal audit function and the action plan to implement the recommendations made. The Audit Committee reviewed changes to the Internal Audit Policy, Internal Audit Methodology, Internal Audit Processes and provided input to the Internal Audit Plan 2023.

INTERNAL AUDIT

The LTG Group has established a centralised Internal Audit function, which acts as a third line and covers all LTG Group companies. The Internal Audit function had 6 auditors as at 31 December 2022. The purpose of Internal Audit is to provide independent, objective assurance and advisory services in order to contribute to the achievement of the LTG Group's strategic objectives and to preserve and enhance value. The activity of the division is organised on the basis of the guiding principles set out in the International Standards for the Professional Practice of Internal Auditing. Audit provides risk-based assurance services, advice/consultation and insight, and carries out necessary investigations as required. It also regularly monitors the implementation of recommendations made and the correction of other internal control weaknesses identified by external auditors and supervisory authorities.

The division reports directly to the Board, thus ensuring the independence and objectivity of internal audit and enabling it to identify weaknesses and areas for improvement in operational efficiency. In 2022, Internal Audit worked closely with the Audit Committee, presenting to the Audit Committee issues related to audit activities, on the basis of which the Audit Committee recommended to the Board the appropriate decisions.

The activities of the Internal Audit division in 2022 were planned on the basis of an independent risk assessment and the prioritisation of activities and processes to be assessed. The assessment, among other matters, covered the following areas:

- Evaluation of the procurement process;
- Organisation of rolling stock maintenance;
- Supply chain management;
- Sanctions management;
- Organising emergency preparedness;
- Corporate culture management;
- IT asset management.

Each audit assesses the probability of fraud occurrence. Recommendations have been made on areas for improvement identified during the audit. The findings of the audits carried out and the follow-up of the recommendations were reported to the heads of the responsible departments, the Company's senior management, as well as to the Audit Committee and the Board.

In 2022, Internal Audit focused on the implementation of the Quality Assurance and Improvement Programme. In addition, for the first time, a comprehensive external evaluation of the internal audit function was carried out. The evaluation report concluded that LTG Internal Audit is in substantial compliance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics. It also identified a number of areas for improvement, for which an action plan has been drawn up and is being implemented in line with the recommendations made.

NOMINATION AND REMUNERATION COMMITTEE, ITS COMPOSITION AND ACTIVITY

The Nomination and Remuneration Committee is an advisory body of the LTG Board, the main objective of which is to submit conclusions, opinions, recommendations and proposals to the Board of LTG, in respect of such issues as election of the LTG CEO and establishment of the LTG remuneration policy as well as selection of members of governance bodies of the Group's subsidiaries.

Essential functions of the committee:

- organize and coordinate the selection process of the head of LTG, participate in the selection of the head of LTG;
- submit an opinion, recommendations, proposals to the Board regarding the nomination of the most suitable candidate as the head of LTG, as well as the selection procedures;
- make an assessment, provide an opinion, proposals to the Board of LTG regarding the terms and conditions of the employment contract of the head of LTG, including the remuneration;
- make an assessment of candidates to positions of the board member, the head of a subsidiary of LTG, and provide an opinion, recommendations, proposals to the shareholder of these subsidiaries – the head of the parent LTG in respect of selection of the most suitable candidate;
- make an assessment, provide an opinion to the Board regarding the principles and criteria for assessment of activity of the head of LTG;
- make an assessment, provide an opinion, proposals to the Board of LTG regarding the remuneration policy.

During the reporting period, the committee consisted of 3 members. The term of office of the members of the LTG Nomination and Remuneration Committee started on 23 August 2021. All members of the Nomination and Remuneration Committee are members of the LTG Board.

Neither member of the Nomination and Remuneration Committee held any shares of the LTG Group companies.

During the reporting period 14 meetings of the Nomination and Remuneration Committee took place.

COMPOSITION OF THE NOMINATION AND REMUNERATION COMMITTEE

DALIA ANDRULIONIENĖ

Chairwoman of the Nomination and Remuneration Committee
Holds the position from 23 August 2021
Independent Board member

KĘSTUTIS ŠLIUŽAS

Committee member
Holds the position from 23 August 2021
Chairman of the LTG Board, independent Board member

AGNĖ AMELIJA MIKALONĖ

Committee member
Holds the position from 23 August 2021
Board member

There were no changes in the composition of the committee during the reporting period.

(all amounts are in EUR million unless otherwise stated)

The main matters and proposals considered by the Nomination and Remuneration Committee in 2022:

- The role of the Committee in the appointment of the LTG CEO and top management.

The election of the LTG CEO took place in the first half of 2022. The Committee was actively involved in developing a transparent and efficient selection process, discussing the list of key competences of the CEO, and coordinating the process with the selected recruitment agency. Committee members met with the shortlisted candidates and presented the top 3 candidates to the LTG Board with their reasoning. The shortlist was made up of both external and internal candidates. After a meeting with the Board, a new LTG CEO was elected – Egidijus Lazauskas, former CEO of LTG Cargo AB. In addition to this selection, the selection process and the selected candidates were discussed in relation to the nomination of the CEO of LTG Cargo AB, the LTG Director for Business Resilience, LTG Director for Administration, and the LTG Director for Technology.

- Selection of the Boards of subsidiaries.

In line with best practices in corporate governance, a decision was taken as early as in 2021 to adjust the composition of the Boards of subsidiaries to include independent Board members. In 2022, a selection process was organised, the Nomination and Remuneration Committee received information on the selected independent Board members and the successful civil servants, and endorsed the nominations of the members delegated by the parent company. The Nomination and Remuneration Committee approved the remuneration of the parent company's delegates for serving on the Boards of the subsidiaries.

- The Committee's role in approving key corporate and employee governance policies.

The Committee discussed the update of the Corporate Governance Policy, the HR Strategic Directions, the Policy on the Replacement of Key Positions, the Policy on Vehicle Management and others. During the discussions regarding the comparability of the Company's remuneration with the market, the major discrepancies and identified risks were assessed and proposals for solutions were discussed.

- Key performance assessments and follow-up actions.

The Committee discussed the results of the Corporate Governance Assessment, the Employee Engagement Survey and the LTG Group Reputation Survey. Group culture, employee engagement and the desire to create value are key areas in achieving the organisation's strategic objectives. During the discussion of the results of both the employee engagement survey and the reputation survey, areas for improvement were identified and action plans discussed. The Committee assessed the results of the achieved annual targets by the AB Lietuvos Geležinkeliai CEO for 2021 and discussed the targets for 2022 as well as made recommendations before submitting them to the Board for approval.

- Changes in the Company's governance structure to strengthen the management team.

The updated structure of the LTG with the addition of new posts of Director for Business Resilience, Director for Administration, Director for Technology was approved. These C-level executives are expected to make a significant contribution to the Group's operational efficiency and strategy implementation.

INFORMATION ON THE ATTENDANCE OF THE MEETINGS OF THE BOARD, OF THE AUDIT COMMITTEE AND OF THE NOMINATION AND REMUNERATION COMMITTEE IN 2022

Name and surname of the member	Board meetings	Audit Committee meetings	Meetings of Nomination and Remuneration Committee
Number of meetings (including external meetings, written vote in advance)	27	12	14
Kęstutis Šliužas	26	-	14
Eugenijus Preikša	24	11	-
Dr. Aurimas Vilkelis	27	12	-
Bernard Guillelmon	25	11	-
Dalia Andrulionienė	26	-	14
Romas Švedas	27	12	-
Agnė Amelija Mikalonė	26	-	14

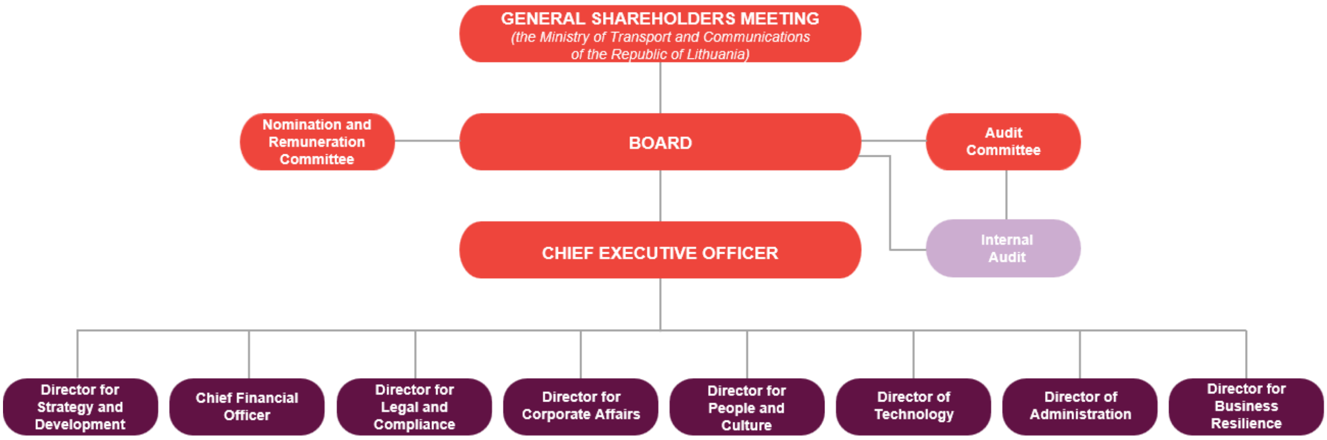
(all amounts are in EUR million unless otherwise stated)

The Chief Executive Officer (CEO) – of the company is a one-person management body of the Company who organises and manages daily operation of the Company in accordance with his/her powers. Obligations and competences of the CEO are defined in the Law on Companies, the Articles of Association of the Company available at the Company's website https://www.litrail.lt/istatai. Based on the Law on Companies, the CEO is elected for a 5-year term office by the Board of the Company, to which he/she is accountable. The same person may be appointed as the CEO for no more than 2 consecutive terms of office.

The essential functions and competences of the CEO:

- Responsible for arrangement of the activity, achievement of operational objectives and implementation of the set goals of LTG;
- Responsible for the preparation of consolidated documents of LTG Group, the annual financial statements and the interim financial statements of the Company;
- Implements the rights and duties of the shareholder in respect of the subsidiaries of LTG.

CORPORATE GOVERNANCE AND ORGANISATIONAL STRUCTURE



In order to clearly separate the strategic management and control functions from the operational service delivery activities, the LTG Board of Directors approved a new governance structure for the management company by decision of 22 June 2022. LTG has been strengthened with three new functions and competences - **Operations and Services, Business Resilience and Risk Prevention, Technology**. The changes were implemented in order to achieve greater flexibility across the LTG Group, a higher quality of service and the appropriate speed of decision and execution necessary to succeed in the new context.

MANAGEMENT OF THE COMPANY

EGIDIJUS LAZAUSKAS*	Chief Executive Officer	Acting CEO from 4 January 2022 to 22 June 2022. Appointed on 23 June 2022.
VYTAUTAS RADZEVIČIUS	Director for Strategy and Development	Held position from 5 April 2022 to 10 April 2022. Appointed on 11 April 2022
ANDREJ KOSIAKOV	Chief Financial Officer	Appointed on 2 October 2017
IRMANTAS BERŽAUSKAS	Director for Legal and Compliance	Appointed on 22 February 2022
IRENA JANKUTĖ-BALKŪNĖ	Director for People and Culture	Appointed on 10 July 2017
MANTAS DUBAUSKAS	Director for Corporate Affairs	Held position from 8 February 2017 to 30 December 2022
LAURA GABRILAVIČIŪTĖ		Acting director from 31 December 2022
EDVINAS KERZA	Director for Business Resilience	Appointed on 22 November 2022
VYTAUTAS BITINAS	Director for Technology	Appointed on 21 November 2022
IEVA LAURAITYTĖ	Director for Administration	Appointed on 21 November 2022

* Based on the decision of the LTG Board of 22 June 2022, Egidijus Lazauskas was appointed to the position of the Chief Executive Officer (CEO) of LTG. The first term of office of the CEO of LTG started on 23 June 2022.

Before being appointed as the CEO of LTG, Egidijus Lazauskas has acted as the CEO of AB LTG Cargo – the subsidiary of the LTG – from 1 May 2019.

Egidijus Lazauskas has a university degree in environmental engineering gained at Vilnius Gediminas Technical University.

MANAGEMENT OF INTERESTS

As at the end of the reporting period, members of the LTG Board, the CEO and the Company's managers have submitted declarations on private interests, 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, COMMITTEE MEMBERS AND THE COMPANY'S CHIEF EXECUTIVE OFFICER

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

In 2022, the remuneration of the independent members of the Board and Committees, including the independent members delegated by the shareholder, was determined in accordance with the Order of the Minister of Transport and Communications of the Republic of Lithuania of 20 August 2018 No. 3-420 "On Approval of the Description of the Procedure for Determination of Remuneration of Members of the Boards and Committees of Public Limited Liability Companies of which the Ministry of Transport and Communications is the Manager of the State-owned Shares, and of the Members of the Boards and Committees of the State-Owned Enterprises Assigned to the Regulatory Sphere of the Ministry of Transport and Communications and Communications and State-Owned Enterprises" (with subsequent amendments) and the Order of the Minister of Transport and Communications of the Republic of Lithuania No. 3-154 "On the Activities of the Members of the Board and Members of the Committees of the public limited liability company Lietuvos Geležinkeliai", dated 18 March 2021 (with subsequent amendments).

Based on the provisions of the mentioned orders, the **Board Member's** annual remuneration including all taxes paid for the actual activities as the Board Member did not exceed 1/4 of the total annual remuneration (the annual amount consisting of the fixed and variable components, annual bonus and salary related taxes) of the General Manager of a respective Company, in case of the **Chairperson of the Board** - did not 1/3 of the total annual remuneration (the annual amount consisting of the fixed and variable components, annual bonus and salary related taxes) of the General Manager of the respective Company. The **Committee Member's** annual remuneration including all taxes paid for the actual activities as the Committee Member did not exceed 1/15 of the total annual remuneration (the annual amount consisting of the fixed and variable components, annual bonus and salary related taxes) of the General Manager of the respective Company, in case of the **Chairperson of the Committee** – could not exceed 4/45 of the total annual remuneration (the annual amount consisting of the fixed and variable components, annual bonus and salary related taxes) of the General Manager of the respective Company. The members of the Board and Committees who are classified as civil servants and are delegated by the shareholder, the Ministry of Transport and Communications, have not been paid for their activities in the Board and Committees.

Amendments to the Resolution of the Government of the Republic of Lithuania No 1092 "On Approval of the Procedure for Payment of Remuneration to Members of Collegial Bodies of State-Owned Enterprises and Municipally-Owned Enterprises and on the Civil Liability Insurance of Members of Collegial Bodies of State-Owned Enterprises and Municipally-Owned Enterprises" were adopted on 5 August 2022.

The provisions of this Resolution stipulate that the monthly remuneration of an independent member of a company's collegiate body and of a member of the collegiate body who is another person chosen by the entity initiating the selection should be at least 1/4 of the average monthly salary of the company's CEO and no more than the average monthly salary of the company's CEO. For a civil servant holding a position as a member of a collegiate body of a state-owned company or a municipally-owned company, the remuneration should be at least 1/8 and not more than 1/4 of the average monthly salary of the company's CEO. It is recommended that the remuneration of the chairman of a collegiate body of a state-owned company should be at least 1/3 of the average monthly salary of the company's manager.

In order to implement the provisions of the aforementioned Resolution, the Order of the Minister of Transport and Communications of the Republic of Lithuania of 2 December 2022 approved the updated regulation on remuneration of the members of the Company's Board and the Committees.

The Order sets the remuneration of the members of the Company's Board the Committees, providing that the monthly remuneration of the Chairman of the Company's Board shall be EUR 3,742, the monthly remuneration of the Company's independent member of the Board and of the member of the Board, who is another person selected by the Ministry of Transport and Communications of the Republic of Lithuania, shall be EUR 2,807, the monthly remuneration of the member of the Board of the Company, who is a civil servant shall be EUR 1,403. At the same time, the rule is laid down that if individual members of the Board are elected, their remuneration shall be set at the same level as that of the members of the existing Board. The monthly remuneration of a member of a committee set up by the Board of the Company is EUR 1,403 and that of the chairman of a committee set up by the Board of the Company is EUR 2,105; a member of a committee who is a civil servant is not remunerated for his/her activity on the committee.

In the light of the above changes in the legal framework, the Company's Board and Committee Agreements with the members of the Company's Board and the Company's Committee Agreements are being updated and amended.

(all amounts are in EUR million unless otherwise stated)

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

Name, Surname of the Member	Remuneration for the activities of the Board Member in 2022, EUR	Remuneration for the activities of the Audit Committee Member in 2022, EUR	Remuneration for the activities of the Nomination Committee Member in 2022, EUR
Kęstutis Šliužas	39,813	-	7,863
Eugenijus Preikša	20,416	9,149	-
Dr. Aurimas Vilkelis	24,000	4,960	-
Bernard Guillelmon	24,379	4,793	-
Dalia Andrulionienė	20,416	-	9,149
Romas Švedas	19,914	4,596	-
Agnė Amelija Mikalonė	1,403	-	-

* the remuneration is shown inclusive of all payable taxes and charges.

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 10,450 as at the end of the reporting period. During the reporting period, the basic monthly salary of the Company's Chief Executive Officer increased by 7% from EUR 9,770 to EUR 10,450.
2. Annual incentives. The annual variable remuneration (annual incentive) **might be** paid to the Company's Chief Executive Officer in addition to the basic monthly salary. The scheme of the annual incentives shall be approved by the Company's Board. According to the scheme, the level of achievement of the annual goals of the LTG Group and team leadership and personal achievements account for 90% and 10% of the payment of the annual incentives, respectively. Each year, the Board of the Company approves the structure of annual goals of the LTG Group and team leadership and personal achievements of the CEO of the Company, their achievement thresholds 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 incentives.

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 for 2021 could not exceed EUR 2,931.

A monthly portion (1/12) of the annual incentive paid to the Company's CEO in 2022 for achievement of the implemented goals of the year 2021 amounted to EUR 1,612.

Information on the Remuneration Policy guidelines, remuneration of the members of the Board of Directors, the members of the Committee and the Company's CEO is also available on the Company's website https://www.litrail.lt/atlygis.

STRATEGY

The LTG Group of entities builds its activities on rational strategic planning and governance. The long-term corporate strategy of LTG, encompassing all the activities of the LTG Group was approved in 2018: transportation of freight and passengers and provision of related services in domestic and international markets, railway infrastructure management, implementation of top-priority investment projects. A detailed review of the strategy is carried out annually to take account of changes in the transport services market and the evolving operating environment.

In response to the complex geopolitical situation resulting from the military actions of the Russian Federation on the territory of Ukraine, as well as economic and technological changes in the transport services market leading to changing trade routes and passenger flows, a review of the approved **Sustainable Growth Strategy 2040** has been initiated for the year 2022, which will include a review of the existing strategic objectives and priorities, the directions of investment, the need for, and the sources of, funding and the introduction of *ad-hoc* measures to deal with the situation and the risks arising from it.

Given that in Autumn 2022:

- there was lack of certainty regarding state funding for projects of startegic mporantce, icluding therein electrification, the Rail Baltica project;
- in response to additional sanctions and restrictions imposed, short-term performace forecasts of the LTG Group were continuosuly updated;
- the complex macroeconomic environment required additional time to assess economic reality;

the updating of the LTG Group strategy was extended and completed in March 2023. The deadlines for updating were aligned with the shareholder, the Ministry of Transport and Communications, and VšĮ Valdymo Koordinavimo Centras.

In the strategy of the LTG Group, the focus is currently on:

- **ensuring Business resilience** of the LTG Group**, including therein smooth integration into the European railway system**, interoperability within the LTG Group as well as independence, thus preventing cyber threats.
- Rapid **implementation of diversification solutions**: intermodal transport activities are being actively developed, looking for new destinations in Western Europe and semi-trailer transport opportunities in the Baltic States; following the imposition of economic sanctions on Russia and Belarus by the European Union and the United States of America, the forecast of cargo flows is being continuously evaluated and revised.
- Quality **solutions for operational efficiency**: the LTG Group is working on projects to streamline business processes, modernise the ERP business accounting system, establish operational control centres and other projects, enabling cost optimisation in the short term. LTG Group-wide cost saving and asset optimisation initiatives have been approved and are being implemented.
- **Developing a greener orientation**, efficient use of energy and natural resources, and initiatives to reduce the impact on the environment and climate change.
- **Strengthening organisational culture**, contributing to employee well-being and empowering employees to contribute to organisational change.
- **Investment review,** with an emphasis on operational efficiency and value for money.
- **Updating the LTG Group's vision and values** by involving all LTG Group employees in the values review process.
- Given the significant contribution and impact of the LTG Group's activities on the national level, **the expressed initiative to show leadership regarding progress towards sustainability and promotion of organisational changes in this area.**

In April 2022, the LTG Group Board approved the Group's **Sustainability Policy**, a document setting out the organisation's seven sustainability priorities in the environment, social and governance areas. The key policy guidelines have already been taken into account in the development of the previously approved **Sustainable Growth Strategy 2040**, and the chosen sustainability priorities continue to provide an important foundation for the organisation's activities, regardless of the changing political and economic environment.

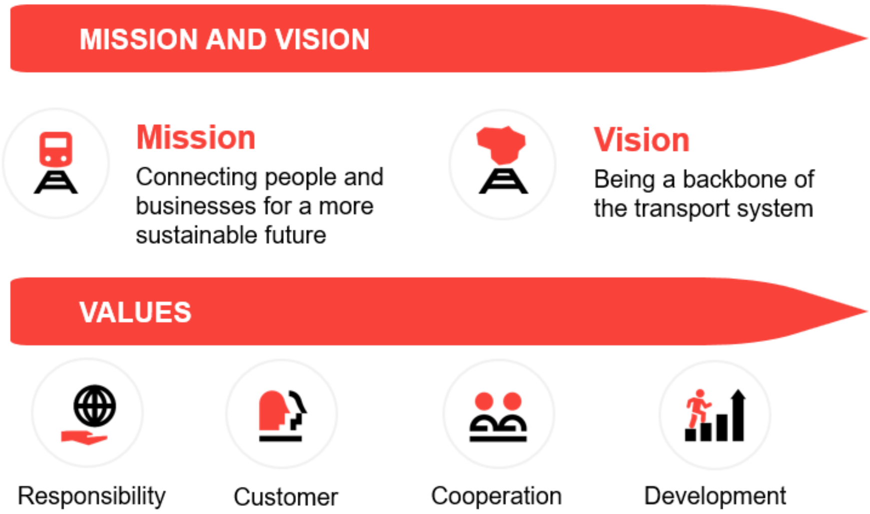
At the end of 2022, the LTG Group Board approved an updated LTG Group **Strategic Planning and Governance Policy**, which:

- specified the responsibilities and roles, clarifying the responsibilities of the LTG Group Board and LTG management and ensuring good corporate governance practices;
- defined responsibilities for the preparation of long-term function development plans;
- highlighted integration and synergies with the LTG Operational Efficiency function.

To ensure continuous improvement of operational efficiency across the LTG Group, an updated LTG Group **Performance Management Policy** was approved at the end of 2022, which includes:

- short-term (one-year) and medium-term (three-year) objectives linked to specific goals, targets and targets for key performance indicators (KPIs) identified in the strategic planning documents, in order to make the KPI framework more flexible, specific and of higher quality;
- the revised KPIs review and setting cycle;
- updated methodology for determining the KPI based on the SMARTER principle;
- highlighted integration with LTG's Strategic Planning and Management function.

MISSION, VISION, VALUES AND STRATEGIC DIRECTIONS



To ensure the viability of the organisation and successful adaptation, the LTG Group's vision and values have been updated in the second half of 2022:

- The priorities of the LTG Group – to re-orient its activities from East to West, to achieve integration into Europe, and to contribute to the implementation of the national goals of the Green Deal – have led to the development of a **new vision** – "Being the backbone of the transport system". The Group's renewed vision describes the LTG Group's ambition to further strengthen the importance of railways, to be seen as the backbone of Lithuania's transport system, which forms the basis for the necessary connections within the country and for integration with other European countries. Once the national transport system is in place, rail will become the main transport axis to which other modes of passenger and freight transport connect without duplication.
- In 2022, as part of the review of the LTG Group's strategic directions, particular attention was paid to the review and clarification of values, to verify that the existing values are those that the Group's employees believe in and follow. The aim was to involve all employees in the dialogue and to ensure that values are born from within the organisation. The Values Review project was carried out using an internationally recognised methodology to link what is important to our employees, what our organisation lives by now and what values we should base our actions on in the future to ensure the success of the organisation. Group employees actively participated in a survey and workshops to identify **the new LTG Group values of Responsibility, Customer, Cooperation,** and **Development**. The next step is to incorporate the new organisational values into day-to-day operations, creating and reinforcing a high-performance culture.

STRATEGIC DIRECTIONS

1. **ESG** – to use energy and natural resources efficiently, to initiate measures enabling reduction of the impact on the environment and climate change, increasing awareness of employees and the society on safety, to develop best corporate governance practice and to manage risks in the most efficient way possible. The main objective is to become a benchmark for greenness and sustainability in freight and passenger transport in Lithuania and abroad, thus contributing to the EU and LR's climate neutrality objectives.
2. **Operational efficiency** – to ensure financial stability by improving operational efficiency, operating in line with international corporate standards of the highest level and optimising the use of assets.
3. **Business development** – Increasing capacity and expanding abroad, while continuously looking for solutions to diversify. The aim is to ensure greater competitiveness and independence in the market, and to drive LTG Group's revenue growth.
4. **A culture of sustainable mobility for travellers** – to become the first choice of passengers, valued for its high level of service, operational efficiency and governance. Ensuring optimal interaction with other modes of transport, improving people's perception of rail passenger transport, and ensuring that rail services are adapted according to the principles of universal design, i.e. making rail services accessible to all people as widely as possible, without any special adaptations.
5. **The first choice for logistics services** is to increase freight flows, competitiveness and partnerships with other railway companies, potential new entrants, water and road transport companies, facilitating the transfer of freight from road to rail.
6. **Infrastructure for smooth movement** – creating a convenient, attractive and accessible rail infrastructure for all, increasing connectivity, accessibility and the attractiveness of rail as a travel choice.
7. **Business resilience** – applying the "safety first" principle, ensuring high levels of road safety, occupational safety and business safety, business resilience, state security interests; ensuring interoperability within LTG and independence of the LTG Group.
8. **Strong organisational culture** – to become one of the most attractive employers in Lithuania, to develop a respectful and transparent corporate culture, and to increase the maturity of the organisation to ensure the successful implementation of the strategy.

MEASURES FOR STRATEGY IMPLEMENTATION

In line with LTG's long-term and short-term strategic goals and objectives, **strategic initiatives have been developed** and are being implemented across all LTG Group companies and across LTG's key strategic thrusts: the Green Deal, Operational Efficiency, Business Development, Strengthening Organisational Culture, and Ensuring Total Safety.

KEY ACHIEVEMENTS OF STRATEGIC INITIATIVES IN 2022

Modernisation of ERP: standardisation of processes in one of the largest LTG Group companies, preparation for standardisation of processes and data in other companies

In order to continuously improve the efficiency of LTG Group's resource use, automate resource planning and management processes, the ERP business management system is being modernised, extended and upgraded to the latest version:

- UKG Dimensions, a time and attendance system, will be rolled out across the LTG Group in 2022.
- LTG Cargo's SAP S/4Hana has been overhauled and launched in 2022, standardising a wide range of business processes applicable to the entire LTG Group based on global best practices.

SAP S/4HANA

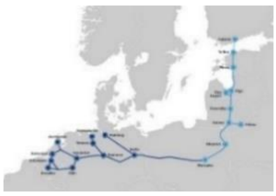
LTG Group is continuing its systems modernisation work and in 2023 plans to apply LTG Group's standardised global practices to LTG Infra's business processes, to standardise data structures for more efficient business management, and to prepare for further development of systems, processes and data in the remaining businesses.

Financing agreements: support for infrastructure maintenance and electrification

1. In 2022, the Ministry of Transport and Communications of the Republic of Lithuania and LTG Infra signed an agreement **to ensure the quality and financing of public railway infrastructure**. State funding allows LTG Group to ensure infrastructure maintenance, maintain and improve the quality of its services, and offer attractive tariffs to businesses.
2. In order for Lithuania to step up its efforts to meet the European Green Deal targets, a **financing agreement for the electrification** of the Kaišiadorys-Klaipėda section of the main railway artery was signed in 2022, which will allocate more than EUR 158 million from the European Union's Cohesion Fund for this section. In a major breakthrough, due to the geopolitical situation, an agreement was reached with the Ministry of Transport and Communications of the Republic of Lithuania to cover the remaining part of the project (over EUR 210 million) from the national budget.

1435 mm gauge expansion: greener, safer, solutions to diversify operations

Implementation of the Rail Baltica project is becoming increasingly important for achieving the European Green Deal objectives, creating new opportunities for citizens and businesses: passenger train speeds of up to 249 km/h; shifting freight transport from road to rail, thus reducing environmental impacts and accidents. Recent geopolitical events (the war in Ukraine) have highlighted the importance of this project in contributing to the geopolitical security of the region: a platform for the unloading of military equipment has been opened at the Palemonas loading terminal, which is accessible via a European rail link, and at the end of May 2022, for the first time, military equipment arrived and was loaded in Kaunas on the 1435 mm track.

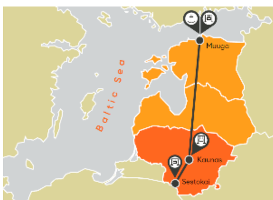


As part of the search for diversification solutions, a strong focus is being placed on the development of freight transport on the 1435 mm gauge in the west and southbound direction, with semi-trailer traffic between Kaunas Intermodal Terminal (KIT) and Duisburg and vice versa gathering momentum. This is the first international freight route to the West to be implemented by LTG Group companies in three different countries: the LTG Cargo team in Lithuania and LTG Cargo Polska in Poland and Germany. As part of the extension of the intermodal route Kaunas - Duisburg, which is becoming the backbone of sustainable international transport, pilot **semi-trailer transports were carried out as far as Trieste (Italy).** This pilot route was launched following a Memorandum of Cooperation signed in September 2022 between LTG and Italian logistics companies and a visit to Trieste by the Minister of Transport and Communications of the Republic of Lithuania, Marius Skuodis, and a Lithuanian delegation. Intermodal freight will be able to be transported both to logistics centres in northern Italy and, via the country's ports, to Turkey and other surrounding countries, with an intermediate stop at the Duisburg terminal.

As part of the reinforcement of the operations in Poland, a container train on the Kaunas-Slawkow-Kaunas route started in February 2023. The twice-weekly train offers further connections to Italy, Ukraine, Turkey, Romania, Slovenia and can carry up to 44 intermodal containers with a variety of goods per train. The possibility of connecting this train to the Amber Train North route in the future is being assessed, as some of the containers are destined for the Estonian market. LTG Cargo will be responsible for transport in Lithuania and LTG Cargo Polska in Poland ".

In 2022, the first two trains **carrying grain from Ukraine** reached Lithuania; by the end of the year, 70,000 tonnes of containerised grain had been transported between Ukraine and Klaipėda Port. Together with our Polish partners, we started operating by **organising trains from Ukraine to Lithuania and back**.

Northbound pilot semi-trailer services have been organised on the Muuga-Kaunas-Muuga (Amber Train) and Vilnius-Klaipėda-Vilnius (Baltic Gates Train) routes, and preparations are underway for regular services. In the Baltic market, the Amber Train connecting Kaunas and Tallinn will be an extension to the Kaunas – Duisburg – Trieste route. LTG Cargo's semi-trailer loading and transport equipment, as well as wagons adapted for the transport of semi-trailers, have been manufactured to enable this project. The process of patenting the technology has been initiated, ensuring the intellectual property and protection of the equipment.



(all amounts are in EUR million unless otherwise stated)

Production and innovation: the freight wagon project

In order to renew LTG Cargo's fleet of wagons and expand the range of services provided by the LTG Group, LTG Cargo aims to start manufacturing wagons in Lithuania. Production lines have been set up in Vilnius and Radviliškis and a certificate of verification in Lithuania has been obtained. In view of the need to diversify to the West, the **possibility of reorienting wagon production to the 1435 mm market** is being assessed.

Closer to the customer: the LTG Link ticketing system

At the end of March 2022, a new, modern online ticketing system was launched. "LTG Link installed the system within a year of signing the contract with Fortevento UAB and Turnit SIA. In June, the system was launched on the Android APP mobile app and an iOS version is in the pipeline. The new system makes it easier to inform customers about the trip or changes to each route, to analyse travel data, and to purchase tickets more conveniently and quickly. Plans are underway to integrate other modes of transport into the mobile app, allowing customers to plan their journey from door-to-door with a single ticket.

GOALS ACHIEVED IN 2022

In February 2022, the LTG Board approved the **annual goals**, their measurement indicators and target values which are linked to the strategic strands. In line with the approved annual goals, personal goals were set for the LTG Group employees. In this way, the LTG Group employees are involved in the process of implementing the LTG Group strategy by linking achievement of goals to employee career and training plans, performance incentive pays and review of base salary.

Due to the impact of the Russian war against Ukraine and the impact of sanctions on the LTG Group's activities, in the middle of 2022 the annual objectives and targets were reviewed and a decision was taken to revise them in the light of the above circumstances. The LTG Board approved the updated annual goals and indicators aimed at ensuring the continuity of the LTG Group's operations until the end of 2022 and to facilitate the further growth of the Company.

Main goals	Goal achievement measures	Units	Planned to be achieved in 2022	2022 goal implementation ratios
FINANCE				
Ensuring the implementation of the Operational Optimisation Plan	Reduction of the number of the LTG Group employees	Number of employees	5,900 – 5,500	6,126 (higher transport volumes taken into account)
Securing funding for business continuity	Financial situation of the LTG Group at the end of 2022	Balanced cash flows and performed mandatory current payments. Adequate funding is secured for approved projects		Exceptionally exceeded
Ensuring the implementation of key investment projects	Scope of implementation of infrastructure projects financed by the state budget in 2022	million EUR	100 – 122	95 (based on actual funding allocated)
CORPORATE GOVERNANCE				
Increase in efficiency of corporate governance	The most appropriate governance model for LTG Holding has been identified and proposed to the LTG Board, and a new structure has been established to enable the implementation of the model	Approved structure and governance model		Achieved
	New Boards formed at LTG Cargo, LTG Infra, LTG Link, including selected independent board members according to the plan agreed with the LTG Board	New Boards fully formed		Exceptionally exceeded
BUSINESS DEVELOPMENT				
Expanding westbound freight activities	Revenue of LTG Cargo Polska	million EUR	10 – 14	13
ORGANISATIONAL CULTURE				
Strengthening organisational culture	Involvement of employees	%	47 – 58	48

THE RISK OF CLIMATE CHANGE AND ITS IMPACT ON THE GROUP ACTIVITIES

In fulfilment of the strategic goals and priorities of management of sustainability, established in **LTG Sustainable Growth Strategy 2040,** the LTG Group 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. One of the goals set out in the Environmental Strategy is climate change mitigation and adaptation – the LTG Group is committed to climate neutrality and climate change adaptation.

The main strategic provisions, directions and goals have been transferred to the strategies of the individual companies of the LTG Group, and their implementation will contribute to implementation of the common EU and national sustainability goals. Environmental goals are included in the annual goals of the LTG Group companies' managers and employees, the implementation of indicators measuring them is monitored and it is significant in assessing the company's activities and performance.

The LTG Group's Risk Management Model continuously assesses all risks identified at LTG Group level, including risks related to climate change.

The LTG Group currently assesses the physical climate risks as insignificant, as no assets in use were identified during the reporting period that could be significantly affected by climate-related events or factors. Due to the geographical location of the operations, the likelihood of extreme weather events and natural disasters is not high, and the potential consequences associated with the usual more serious local natural phenomena such as torrential rain, snow, heat or cold do not pose a serious and long-term risk to the railway infrastructure and the overall operations, and short-term disruptions are dealt with in an operational manner. The Environmental Strategy 2030+ sets the objective of assessing measures to adapt to climate change and its impacts and to increase the resilience of rail infrastructure to climate change.

The level of climate transition risks that arise as the European Union and Lithuania move towards a lower greenhouse gas (GHG) emitting economy is assessed as low. Rail transport is considered one of the most environmentally friendly transport modes in the EU due to its extremely low GHG emissions. Increasing environmental and tax requirements are likely to lead to a growing competitive advantage of rail transport over other less environmentally friendly modes in the future, in particular road transport, currently the main competitor to trains in passenger and freight transport.

The LTG Group-wide environmental activities are implemented by a centralised corporate Environmental function, which, together with the Risk Management function, monitors changes in the legal framework. During the reporting period, no risks and uncertainties were identified as a result of the changing legal framework (possibly increasing environmental requirements).

The LTG Group's long-term strategy is to invest in "green" projects that will help to significantly reduce the impact on climate change and the environment, and further contribute to national climate change reduction targets:

- investment projects related to the electrification of the rail network (infrastructure, rolling stock) to reduce CO2 emission;
- rail development projects (Rail Baltica, intermodal terminals, etc.) to attract and shift freight and passengers away from the autobahn and towards the much more environmentally friendly rail transport;
- other projects for the renewal and optimisation of con-current and current assets to reduce pollution.

In addition, LTG Group only uses green energy purchased from reliable suppliers to meet its electricity needs. In the future, the possibility of generating its own energy from renewable sources is being considered. Projects are being put in place to optimise energy consumption and to increase the share of renewable energy in total consumption. The LTG Group is continuously improving the efficiency of its operations and internal processes through digitalisation and innovative technologies. In this way, potential technological, market or reputational risks are reduced.

During the reporting period, the LTG Group companies had no financial commitments related to ESG (environmental, social and governance) indicators. Also, they were neither exposed to any legal proceedings or complaints regarding climate change related events, nor incurred any additional costs that would materially affect the financial statements.

MOST SIGNIFICANT EVENTS IN 2022

JANUARY

- On 4 January, Egidijus Lazauskas, formerly the General Director of LTG Cargo, takes up the position of acting CEO of AB Lietuvos Geležinkeliai.
- On 4 January, Eglė Šimė who previously headed the company's service delivery unit, takes up the position of acting CEO of LTG Cargo.
- On 12 January, the Government of the Republic of Lithuania approved the decision of the Coordination Commission for the Protection of Objects of Importance for National Security, based on which the contract between AB Lietuvos Geležinkeliai and the Belarusian company Belaruskalij is not in the interests of national security. According to the decision of the Government of the Republic of Lithuania, the contract will be considered invalid as of the enforcement date of the decision – 1 February.
- On 12 January, AB Lietuvos Geležinkeliai announced that, taking into account the decisions on threats to national security, it is ready to comply with the decision of the Government of the Republic of Lithuania concerning the contract with Belaruskalij and to discontinue the provision of services from 1 February.
- LTG Cargo Polska, a subsidiary of LTG Cargo, 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.

FEBRUARY

- LTG Group received a notification from the council for rail transport of CIS countries, Estonia, Latvia, Lithuania and Bulgaria about the decision adopted by Belarus to ban the transit of oil products and fertilizers by rail from Lithuania as of 7 February.
- LTG Cargo Polska, the subsidiary of the cargo freight company LTG Cargo, planned investments in Poland for expansion to Western Europe, development of existing and new services and acquisition of machinery. To this end, the investment of over EUR 47 million is projected to be made within two-three years.
- Irmantas Beržauskas took office of Director for Law and Compliance of LTG, and Marius Staponas became Director of LTG Digital, the centre of information technology of LTG Group.
- On 25 February 2022, LUAB Gelsauga was deregistered from the Register of Legal Entities of the State Enterprise Centre of Register.

MARCH

- On 24 February 2022, Russia began active military operations on Ukrainian territory. Due to the military actions of the Russian Federation in Ukraine, service operations of the LTG Group company LTG Cargo Ukraine have been temporarily suspended from 1 March 2022.
- As of 1 March, LTG Link, the passenger carrier, offered free transport for domestic routes in Lithuania to citizens of Ukraine.
- LTG is prepared to offer a stay in the former holiday dwellings of the company in Klaipėda, Radviliškis, Lentvaris, Šilėnai and Ignalina to the Ukrainian people fleeing from war. In total about 300 places have been prepared for this purpose.
- In response to the war of the Russian government against Ukraine and having considered new sanctions imposed by the European Union, LTG Cargo, the company of cargo freight of the LTG Group, suspends the freight of production of companies under sanctions to Klaipėda Seaport.
- In response to the war of the Russian government against Ukraine, LTG Cargo, the cargo freight company of LTG Group, suspended the rent of platform wagons. As of 7 March, the company's platform wagons must not be carried directly to both Russia or Belarus and by transit to other countries, except for Latvia and Estonia. The aim of this decision is to limit possibilities to use platform wagons in Russia and Belarus for military purposes. A bit later in March, LTG Cargo suspended the supply of all wagons for common use owned by it for loading and carriage to both Russia and Belarus and also other countries by transit through those countries. The Company also terminated the transport of wagons leased to customers to Russia, which means that movement of the entire wagon fleet of LTG Cargo to Russia has been suspended.
- On 18 March, AB Lietuvos Geležinkeliai announced a selection for the office of Chief Executive Office.
- On 30 March, LTG Link, the passenger carrier, introduced a new ticketing system – it is now available to plan a trip, purchase a ticket and find all relevant information on the new website at www.ltglink.lt.
- On 31 March, LTG Infra that is responsible for implementation of the Rail Baltica project in Lithuania signed a construction agreement with an Italian company Rizzani de Eccher for construction of Rail Baltica railway bridge over the Neris river near Jonava.

APRIL

- LTG Cargo, the freight carrier of the LTG Group, has started transportation of intermodal cargoes to Duisburg, Germany, the first regular train left on 4 April.
- On 6 April, the public railway infrastructure manager LTG Infra and the Ministry of Transport and Communications of the Republic of Lithuania concluded a contract for quality assurance and financing of public railway infrastructure and state-owned railway service facilities (MAC – Multi-annual Contract). State funding of the company of the LTG Group will allow ensuring maintenance of the infrastructure, improving service quality and offering attractive price tariffs to businesses. Long-term commitment of the State to balance revenues and expenses of the infrastructure manager has been enshrined in the EU and Lithuanian legislation. State funding of the company of the LTG Group will allow ensuring maintenance of the infrastructure, improving service quality and offering attractive price tariffs to businesses. Long-term commitment of the State to balance revenues and expenses of the infrastructure manager has been enshrined in the EU and Lithuanian legislation.
- LTG Infra is reducing tariffs for Railway Service Facilities (RSF) up to 3 times for business from April 7. The lower tariffs for RSF will allow to increase the transport of local freight and intermodal freight in the western direction.
- The LTG Board has decided to close the LTG representative offices in Russia and Belarus, which were set up around a decade ago. As at the date of the financial statements, the representative offices were closed.
- LTG Cargo, the LTG Group's freight carrier, continues to actively diversify its activities and starts offering intermodal freight services from Kaunas Intermodal Terminal to terminals in Poland.
- On 27 April, LTG Cargo, the freight transport company of LTG Group, launched a test run from Kaunas Intermodal Terminal to Ukraine via Poland. This is the first time in LTG's history that freight from Ukraine reached Lithuania by rail bypassing Belarus.
- The LTG Group has completed a consultation process with employee representatives, during which different scenarios were proposed and analysed, and a plan of action agreed. Taking into account the impact of the Russian war in Ukraine, the sanctions imposed on Belarus and Russia, as well as the forecasts for this year's activity and the ongoing strategic projects, LTG Group is forced to give up about 2,000 employees: about 1,200 of them work for LTG Cargo, about 500 for LTG Infra and about 300 for LTG. The LTG Group will be parting with around a quarter of its managers at different levels. Their severance payments will amount to EUR 6 million. The Group has planned a package of support measures for employees to ensure that team members affected by the changes have the necessary information about the opportunities offered by the labour market: cooperation with the Employment Service, career fairs, etc.

MAY

- The renewed Railway Museum reopens its doors to visitors. The interactive and modern museum is located in the passenger building of Vilnius Railway Station. The modernisation of the museum's exhibition took about 2.5 years. During this period, the exposition and the interior were renovated, exhibition furniture and interactive tools were installed, and the necessary equipment was installed. The total investment in the renovation and modernisation of the Museum is around EUR 800 000. Around EUR 565 000 was financed by the European Union and the rest by LTG.
- The LTG Link mobile app for train travellers has been launched. Passengers can store their tickets, view their travel information and receive instant notifications of important changes. The app is now available for download for Android users. The new app is part of the new LTG Link ticketing system launched earlier.

JUNE

- As of 1 June, the management and development of the LTG Group's terminals has been transferred to LTG Infra, the LTG Group's company that manages the railway infrastructure network. This decision was taken due to the rapid growth in intermodal traffic and further business development. LTG Infra owns the intermodal terminals in Vilnius and Kaunas, while the LTG Group owns 244 terminals and yards.
- LTG Infra, the company that manages Lithuania's public railway infrastructure network, has launched an international tender to procure an automatic rolling stock control system that reduces infrastructure maintenance costs and helps prevent rolling stock accidents.
- LTG Cargo Ukraine, a subsidiary of LTG Cargo, has resumed services in Ukraine. This decision was taken following a significant increase in demand from business customers in Ukraine for grain and other cargo from the country. The company will provide freight forwarding services in Ukraine and will assist customers in organising rail freight transport through Ukraine, Poland and Lithuania.
- LTG Infra, the company that manages Lithuania's public railway infrastructure network, has modernised its radio communication system for EUR 16 million (excluding VAT) and purchased technical support services for nine years. This GSM-R system is used for train traffic management in Lithuania.
- LTG Cargo, the LTG Group's freight carrier, continues to diversify its activities and has signed its first international cooperation agreements with Kazakhstan companies. At the same time, it will aim to strengthen the intermodal Trans-Caspian logistics corridor and enable new alternatives for transporting freight from Asia to Klaipėda Seaport.

- The selection of the CEO has been finalised – by decision of the LTG Board on 22 June 2022, LTG will continue to be headed by Egidijus Lazauskas.
- On 30 June 2022, LUAB Saugos Paslaugos was deregistered from the Register of Legal Entities of the State Enterprise Centre of Register.

JULY

- Passenger train company LTG Link is resuming international train services to Poland in cooperation with Polish carrier Polregio. Trains on the route Kaunas – Bialystok – Kaunas resume from 1 July.
- Passenger transport company LTG Link is temporarily shortening the train route Šiauliai – Radviliškis – Panevėžys – Rokiškis from 1 July. This decision was taken after an analysis of the declining passenger flows and the impact of the Russian war in Ukraine and the impact of international sanctions imposed on the aggressors on the supply of spare parts needed for the maintenance of part of the trains.
- The search for the Chief Executive Officer of rail freight company LTG Cargo was launched on 1 July.
- LTG Group has launched a tender for a selection agency to select independent members of the boards of LTG's subsidiaries LTG Link, LTG Cargo and LTG Infra.
- Oil products are transported by rail from a terminal in Lithuania to Ukraine. LTG Cargo transports petroleum products by tankers between the terminals in Mockava (Lithuania) and Trakiski (Poland). The oil products are then transported by tanker via Poland to Yagodzin in Ukraine.
- In the first half of the year, passenger train company LTG Link transported more than 2 million people on local routes, an increase of 35% compared to the same period last year. According to the company, the number of customers transported in June was record high. In the first month of summer, 14% more people travelled by train in Lithuania than in the record-breaking month of June 2019.
- Rail Baltica is heading towards Latvia – on 21 July, a symbolic sign marking the start of construction of the Rail Baltica railway bridge over the Neris River was buried near Jonava. The complex engineering structure, which will have no supports in the water to protect the Natura 2000 site, will be the longest railway bridge in the Baltic States. Construction is expected to take 2.5 years.
- On July 22, LTG Cargo, a freight company of the LTG Group, informed its customers about the updated procedure for transit from Russia to Kaliningrad in accordance with the European Commission's (EC) guidance. According to the guidance on the Council Regulation to the Member States of the European Union (EU) published on 13 July 2022 (the EC guidance), the transit of essential sanctioned goods between the mainland of the Russian Federation and Kaliningrad region through the territory of the European Union is only possible within the framework of the restrictions imposed. In accordance with the relevant EU Council Regulation and the EC guidance, as well as clarifications from the competent authorities, and in compliance with the conditions for strengthening the transit control of goods as set out in the EC guidance, LTG Cargo has resumed such shipments as of 22 July. They are carried out in accordance with the conditions for strengthening the transit control of goods laid down in the EC guidance.
- Upon completion of public procurement procedures on 29 July, the Vilnius Connect project for the transformation of the Vilnius Station area has reached an important milestone: the London-based company Zaha Hadid Architects has been officially announced as the first prize winner of the architectural competition for the railway station area.
- Passenger transport company LTG Link has continued its initiative, launched in March, to provide free train travel to people fleeing the Russian war in Ukraine. From 1 September, the free essential local train travel initiative will be available for three months from the date of issue of the registration card to all people fleeing the Russian war in Ukraine to Lithuania.

AUGUST

- LTG Group completed the selection process for the General Director of LTG Cargo, Eglė Šimė has been appointed to head the company.
- Almost EUR 30 million was allocated for the LTG Infra's terminal expansion in Palemonas. The implemented projects will allow a threefold increase in capacity.
- LTG has received and examined a clarification from the Financial Crimes Investigation Service (FCIS) on transit settlements between the Russian Federation and the Kaliningrad Region. This clarification is necessary for banks operating in the country to take decisions on settlement services. The document covers aspects such as the transit of passengers and sanctioned and non-sanctioned goods between the Russian Federation and the Kaliningrad Region.

SEPTEMBER

- LTG became a member of the Baltic Institute of Corporate Governance (BICG).
- LTG has started the selection process for the Board members of its subsidiaries LTG Cargo, LTG Infra and LTG Link.
- The first Amber train, a pilot freight train, arrived in Lithuania from Estonia and will run through three Baltic countries.

- A new car and pedestrian viaduct has been built over the railway in Vilnius, near Rudamina. The modernisation of the level crossing is one of the projects that LTG Infra is using to ensure traffic safety by eliminating single level crossings between rail and car traffic. LTG Infra implemented the project for the new transport hub near Rudamina together with the Lithuanian Road Administration and Vilnius City Municipality.
- A Rail Park was opened in Naujininkai, next to LTG's headquarters. In an authentic space, guests will be able to see historical rolling stock: locomotives, railcars, a tanker, a steam locomotive, a restaurant-car, and various equipment used for track maintenance.

OCTOBER

- The newest and one of the most advanced X-ray train inspection systems in Europe is officially launched at the Kena Customs Railway Station. LTG Infra was responsible for the main infrastructure needed to operate the X-ray system.
- LTG's Board took the decision to close the company's representative office in China, after assessing the company's clear strategic direction.
- LTG Cargo Polska, a subsidiary of LTG Cargo, the LTG Group's freight transport company, starts to provide freight services to Cedrob, one of the largest Polish poultry meat producers.
- LTG Infra completed repairs of the Lyduvėnai railway bridge, the longest (599 m) and the highest (42 m) in Lithuania, at a cost of almost EUR 2.6 million.
- LTG Infra, the company responsible for the implementation of the Rail Baltica project in Lithuania, is launching three tenders for the preparation and implementation of land acquisition projects for public needs.
- LTG Infra is implementing a digital infrastructure analysis system for more than EUR 2.36 million (excluding VAT). The tender issued by the company was awarded to the German company Erdmann-Softwaregesellschaft mbH, which will carry out the installation work and provide maintenance services for five years.
- Lithuania's greenest solutions recognised at the Transport Innovation Forum in Vilnius. The Green Transport Awards, established by the Ministry of Transport and Communications and the LTG for sustainable logistics solutions and initiatives, featured six nominations – Municipality of the Year, Start-up of the Year, Ambassador of the Year, Business Enterprise, Partnership and Institutional Cooperation.
- Around 2.5 thousand people who are supplied with electricity by LTG Infra, the company that manages the railway infrastructure, are already being compensated by the state for the electricity they consumed in October.

NOVEMBER

- LTG Cargo is expanding its international transport network and preparing for the launch of regular services to Italy – the company launched its first test run to the port of Trieste.
- LTG Infra and Energy Distribution Operator (ESO) signed a letter of intent for the sale of electricity distribution networks. In the letter of intent, the companies agree on the scope of the assets to be taken over, the principles for the valuation and the main obligations to be fulfilled before the signing of the contract for the sale of the electricity distribution networks operated by LTG Infra.
- LTG Infra has completed the reconstruction of the railway bridge over the Neris River in Jonava. The reconstruction of one of the most important railway bridges in the country, which connects Klaipėda Seaport with Vilnius, Kaunas and other important destinations, has a value of almost EUR 12.5 million.
- On 17 November, a freight train collided with special equipment for railway repair works on the Vievis-Žasliai section, damaging the contact network of one track and the gauge of the other, which led to the complete suspension of LTG Link trains on the Vilnius-Kaunas-Vilnius and Vilnius-Klaipėda-Vilnius routes for some time. Traffic was restored on one track at midday on 18th and on the other at night on 19th. Transportation of passengers on the cancelled trains was organised by buses.
- Edvinas Kerza joins the LTG management team as LTG Director for Business Resilience, Vytautas Bitinas as LTG Director for Technology and Ieva Lauraitytė as LTG Director for Administration.
- LTG has been awarded the international ISO certification (ISO 37001: 2016) for its anti-corruption governance. This certificate recognises that LTG's governance meets the stringent requirements of the ISO standard on corruption resistance.

DECEMBER

- Passenger transport company LTG Link and JUDU have introduced a single ticket for Vilnius residents and visitors. The joint public transport ticket is available to all passengers planning to travel by train, with the starting and ending stops of their chosen route being Vilnius Railway Station. This is the first step towards the increasing integration of train travel with other modes of transport.
- LTG Cargo has revised the tariffs for services provided to customers. The significant cost increases of more than 25% due to changes in the macroeconomic environment are being mitigated by the operational efficiency projects implemented by the company. As a result, tariffs will change by around 10% on average with effect from 5 January 2023.

- LTG Infra has announced the tariffs for Railway Service Facilities (RSF) services for 2023. The company is delivering on its commitment to market participants to avoid sudden changes in tariffs and to change them gradually each year. In 2023, the average increase in tariffs for GPU services is 13%.
- LTG Infra, the company managing Lithuania's public railway infrastructure network, has launched an international tender for a feasibility study for the assessment of the impact of railways in the central part of Klaipėda.
- The first train of a joint international route departs from Vilnius to Warsaw and Krakow. For the convenience of passengers, the services, organised jointly with Polish carrier PKP Intercity, will run daily.
- LTG signed a EUR 1.8 million contract with DP Group for the renovation of the interior of the Vilnius railway station building. It is estimated that the investment in the renovation of the station will pay for itself in less than four years. The renovation of the station will include changes to the layout of the station's spaces. This will allow them to be used even more efficiently: the commercial space for rent will increase more than sixfold from 260 m² to 1 686 m².
- LTG Group, which is implementing a cost reduction plan, plans to save more than EUR 1.3 million by 2022. This will be achieved by disposing of redundant real estate, heating buildings more intelligently and replacing lighting with more modern and sustainable LED lighting.
- LTG Infra continues its operational efficiency and digitalisation initiatives, with the launch of a smart diagnostic vehicle to assess the condition of railway tracks. The first in the Baltics to be equipped with such a device, it will contribute to improved railway safety and reduce repair costs.
- The construction company Švykai, which won the public tender issued by LTG Infra, will carry out the contract works for the adaptation of the Lyduvėnai railway bridge, the longest (599 m) and highest (42 m) in Lithuania, to visitors. The estimated value of the contract works is EUR 1.46 million.
- LTG Link has changed the organisation of train routes in Radviliškis, Šiauliai, Akmenė, Mažeikiai and Panevėžys districts from 2 January 2023. From the beginning of the next year, a common train route Panevėžys-Siauliai-Mažeikiai will operate in this part of Lithuania.
- Due to a technical infrastructure failure on the Jonava-Gaižiūnai railway section, on 25 December the train traffic on the Vilnius-Klaipėda-Vilnius, Vilnius-Siauliai-Vilnius and Kaunas-Siauliai-Kaunas routes was temporarily re-organised until 21:00. In order to minimise the impact on customers' plans for the festive weekend and to ensure the necessary connections while infrastructure repairs were carried out, trains were running on the Vilnius-Gaižiūnai-Vilnius and Klaipėda-Jonava-Klaipėda and Šiauliai-Jonava-Siauliai sections, while on the Gaižiūnai-Jonava-Gaižiūnai and Kaunas-Jonava-Kaunas sections passengers were transported by specially ordered buses.
- LTG Cargo's subsidiary – LTG Cargo Ukraine and the Polish freight company PKP Cargo signed a cooperation agreement. Upon signing the agreement, LTG Cargo Ukraine became the operator of freight transport between Lithuania and Ukraine via the territory of Poland.
- On 29 December, the Ministry of Transport and Communications and LTG Link signed a Public Service Obligation Contract (PSO – Public Service Obligation) for the period 2023-2032, which commits to provide public rail passenger transport services and to facilitate rail travel for all people, including those with individual needs, and to promote more sustainable public rail transport and reduce the environmental impact of transport. The average annual co-financing for passenger transport is expected to amount to EUR 40 million, which will not only provide the necessary funding but also allow the renewal of the train fleet.
- Mr. Mantas Dubauskas, Director for Corporate Affairs of LTG, has ended his career in the Company. Ms. Laura Gabrilavičiūtė has been assigned the position of the Acting Director for Corporate Affairs until the selection process for this position is completed.

SUBSEQUENT EVENTS

JANUARY

- A repeated announcement for selection of a civil servant – a member of the LTG Cargo Board has been launched. The Board member's area of expertise is regional and national transport policy.
- LTG Cargo has started transporting coal for a Polish state coal importer. This international project is expected to help Poland meet its demand for solid fuels.
- It has been announced that due to the electrification works underway on the Kaišiadorys-Radviliškis railway section, there will be a significant restriction of train traffic from 6 February until May. While work on a major railway infrastructure project is underway, some train services on the Vilnius-Klaipėda, Vilnius-Siauliai and Kaunas-Siauliai routes organised by the passenger transport company LTG Link will be temporarily shortened or cancelled.
- On 17 January 2023, the Articles of Association of LTG Cargo AB, LTG Link UAB, LTG Infra AB were amended to add new powers to the Board and to change the limits of transactions approved by the Board.
- The new Management Boards of the subsidiaries of AB Lietuvos Geležinkeliai - LTG Cargo, LTG Infra and LTG Link – were approved and started their activities. Arnoldas Ūkeniekas and Vitalij Rakovski will take up the positions of independent Board members of the freight transport company LTG Cargo; Vytautas Radzevičius, Director for strategy and business development of LTG, and Irena Jankutė-Balkūnė, Director for people and culture, will also serve on the Board. Gediminas Almantas and Haroldas Nausėda will be independent members of the Board of LTG Infra. Ramūnas Rimkus will be a civil servant member of the Board of LTG Infra. The Board will also include LTG's Director for Administration Ieva Lauraitytė and LTG's Project and Investment Management expert Sigitas Kubilis. Aurelija Kazlauskienė and Viktoras Bachmetjevas will be independent members of the Board of LTG Link. Aistė Gasiūnienė will join LTG Link as a civil servant member of the Board, while LTG's Legal and Governance Director Irmantas Beržauskas and Finance Director Andrej Kosiakov will also join the Board.
- In January, the winding-up procedures of the Public Enterprise Transporto Inovacijų Centras were launched. The decision to dissolve the institution was taken by its founders - Lietuvos Geležinkeliai (LTG), Lietuvos Paštas and Kelių Priežiūra. In order to use the available resources more efficiently, from now on, the transport sector companies that have established the public institution will concentrate their resources on technological development, the search for and application of modern solutions within the companies.

FEBRUARY

- Electrification works on the Kaišiadorys – Radviliškis section started on 6 February. The overhead contact line construction works on the 125 km long section are expected to continue until the first quarter of next year. The investment in this phase of the project amounts to EUR 136.5 million.
- On 8 February 2023, the updated version of the Articles of Association of AB Lietuvos Geležinkeliai was registered with the Register of Legal Entities, which provides for additional competences of the Board – to assess the Company's risks, prioritise them and approve their management strategies; to make decisions on loan or other financing transactions with a value of EUR 3 million or more; to approve the decisions of the boards of subsidiary companies on transactions with a value of EUR 6 million or more.
- The Board of LTG and the Board of LTG Cargo have agreed that LTG Cargo, as the sole shareholder of LTG Cargo Polska Sp. z o.o., would increase the authorised capital of LTG Cargo Polska Sp. z o.o. by EUR 7.2 million. It also approved LTG Cargo Polska Sp. z o.o.'s decision to enter into a long-term credit facility of EUR 8,2 million to finance investments for the acquisition of a fleet of machinery.
- Following the completion of the selection procedures, and based on the shareholder's decision, Justas Vyžintas was appointed as the new CEO of UAB Geležinkelio Tiesimo Centras, a subsidiary of LTG Group.
- On 21 February 2023, the Board of LTG decided to sell terminal related assets of LTG, approved LTG Infra's decision to acquire them for EUR 10,839,141 and agreed to LTG Cargo's sale and LTG Infra's acquisition of the cargo handling business for EUR 438,000. This decision was taken as a continuation of the centralisation of the LTG Group's terminals and cargo handling activities and the growing impact of the terminals' activities on the achievement of the LTG Group's strategic objectives, as well as in order to optimise operations and increase efficiency. On 31 March 2023, the assets related to the terminal business and on 1 May 2023, the cargo handling business were successfully transferred to LTG Infra.

MARCH

- On 10 March 2023, LTG Infra launched a procurement procedure for the purchase of X-ray equipment for the Stasyliai and Kybartai sections. The system will contribute to more efficient control of sanctioned goods.
- On 20-21 March, the LTG Board held a strategic session to present the strategies of the LTG Group and LTG subsidiaries. Based on the comments of the LTG Board and having made adjustments, the strategies of the subsidiaries were approved by the respective Boards, and on 4 April the LTG Board approved the LTG Group Strategy 2027: Integration into Europe.
- On 22 March 2023, based on the LTG Board's Decision, the Sanctions Enforcement and Control Policy was approved. The Sanctions Enforcement and Control Policy establishes a unified Sanctions Enforcement and Control model and principles for the LTG Group in order to ensure compliance with the United Nations Security Council, the European Union, and national sanctions regulations, and to ensure alignment with the requirements of the sanctions regimes of the United States of America and the United Kingdom of Great Britain and Northern Ireland.
- The LTG Group has developed and is implementing the “FREE Rail” programme to help achieve the goal of full integration of business relations, technology and IT with Europe by 2030.
- LTG Cargo has developed and delivered a methodology for capturing CO2 savings for intermodal freight and introduced certificates for customers to prove it.
- LTG Infra has completed the installation of foundations and supports in single tracks for the second phase of electrification on the Kaišiadorys-Radviliškis section. Works on the third phase Radviliškis-Klaipėda (Draugystės St.) are still in progress.
- The LTG Cargo's Board has been expanded by one more member – a civil servant. Natalija Baranauskienė, a Senior Adviser to the Ministry of Transport and Communications of the Republic of Lithuania, won the selection and took up the position.
- Mr. Karolis Sankovski, after almost six years as the CEO of LTG Infra, the infrastructure management company of LTG Group, retired in March. As of April, he will be replaced by Rūta Jakubauskienė, currently Head of Strategy and Management. She will act as interim CEO until a permanent CEO is appointed.

APRIL

- LTG Infra has launched a tender for the construction of a military and civilian site in Palemonas. After the implementation of the project, the capacities of the loading site will be expanded, three additional railway tracks will be installed and the covering of the military and loading sites will be reconstruct/refurbish. The construction of the site will contribute to the country's better readiness to host NATO troops.

MAY

- Lietuvos Geležinkeliai, which seeks full integration with Europe, on 9 May – Europe Day – signed a Memorandum with the Ukrainian Railways in Munich. In the Memorandum, the companies agreed to cooperate in the implementation of the “FREE Rail” programme, initiated by LTG, which aims to develop a railway operating model based on EU railway standards and best practices, which will be aligned with the specifics of broad gauge (EU+).
- LTG Infra has finalised the procurement of the Station Management Tool, its implementation, development, support and training services. The new station management tool will make traffic management more efficient and modern.

INFORMATION ON THE IMPACT ON THE ACTIVITIES OF THE LTG GROUP OF RUSSIA'S WAR AGAINST UKRAINE AND SANCTIONS AGAINST RUSSIA AND BELARUS

Geopolitical changes that had significant impact on the activities and results of the LTG Group companies continued in the year 2022.

Sanctions on Belarusian fertiliser and oil producers, as well as on fertiliser and oil products, came into force as early as 2021.

In mid-January 2022, the Government of the Republic of Lithuania approved the decision of the Coordination Commission for the Protection of Objects Critical 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 should 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, a group company, used to earn an average annual income of around EUR 60 million from transporting around 11 million tonnes of Belaruskalij cargo.

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

Following the military actions started by the Russian Federation on 24 February 2022, the US, the UK and the European Union have announced additional sanctions against Russia and Belarus as a Russian military ally, which include punitive measures against the financial, energy and transport sectors of the Russian Federation and Belarus, as well as trade restrictions on dual-use goods, exports and their financing.

In response to the Russian government's war against Ukraine and in view of the sanctions imposed on both Belarus and Russia, LTG Cargo has suspended shipments of sanctioned goods and companies. In accordance with the relevant EU Council Regulation and the EC guidelines, as well as clarifications from the competent authorities, LTG Cargo has resumed as of 22 July only the transit of necessary sanctioned goods between the mainland of the Russian Federation and the Kaliningrad region through the EU territory. These transports are carried out in accordance with the conditions and quotas set out in the EC guidelines for the reinforcement of transit controls on goods.

LTG Cargo operates in Ukraine through its subsidiary LLC LTG Cargo Ukraine, the operations of which were temporarily suspended as of 1 March 2022 due to the Russian Federation's military action in Ukraine. However, the company resumed services in June and operations were ongoing at the time of the reporting was authorised for issue.

The Company's management, together with the heads of LTG Group companies, are closely monitoring and analysing the geopolitical situation in Eastern Europe, cooperating with Lithuanian authorities, sharing information and being ready to react promptly by taking the necessary decisions.

These decisions and the above-mentioned circumstances have had a significant impact on the operations and results of the LTG Group and its companies – LTG Cargo, the freight carrier, and LTG Infra, the infrastructure manager:

- A significant portion of LTG Cargo's revenue from freight carriage consists of import / export from / to Russia, Belarus, China, Kazakhstan, Ukraine and other countries as well as transit (2021: EUR 207 million; 2022: EUR 111 million). In 2022, the major portion of Belarussian cargo, i. e. Belaruskalij cargo, was already excluded from the budget of the LTG Group in 2022. With a 49% decrease in cargo turnover in 2022, LTG Cargo's sales revenue decreased from EUR 389.8 million in 2021 to EUR 293.7 million in 2022, or by EUR 96.1 million. In addition, as a result of disruption on the supply chains, the Company encountered difficulties with the supply of spare parts needed for repairs of locomotives and wagons and had to take additional measures to search for alternatives and shorten procurement procedures. Moreover, the Company had to account for impairment for wagons located in the war-zone of Ukraine (EUR 0.5 million) and for liabilities of the sanctioned companies, arising from restrictions on bank settlements (EUR 1.0 million).

- A substantial part of LTG Infra's revenues is the remuneration from the provision of the minimum access package to the public railway infrastructure, paid by railway undertakings (carriers) (around 85% of sales revenues in 2021, with LTG Cargo accounting for the majority of the remuneration). This collected remuneration is used to run the activities of the public railway infrastructure manager. As a result of the 45 % decrease in train working volumes (in gross tkm) in 2022, LTG Infra's sales revenue, excluding the subsidies granted by the State to balance revenues and costs, decreased from EUR 191.9 million in 2021 to EUR 129.2 million in 2022, or by EUR 62.7 million. LTG Infra's revenues from the use of railway service facilities also decreased during the analysed period;

- LTG Link's revenues are partly derived from passenger transit trains to/from the Kaliningrad region (around 30% of sales revenues in 2021). The sanctions imposed on Russia did not have a significant impact on LTG Link's operations in the reporting period and did not affect transit train passenger traffic, but they did affect the development of international routes – the Kiev-Vilnius-Riga route was not launched in 2022, the pre-pandemic Vilnius-Minsk route was not resumed. In addition, uncertainty remains over the continuation of transit trains. Also, the war in Ukraine caused by Russia has disrupted supply chains, in particular for the necessary components and spare parts for the old LTG Link trains, and an intensive search is underway for alternative solutions to ensure the proper operation of part of the fleet. LTG Link's sales revenue, unlike other LTG Group companies, increased from EUR 19.5 million in 2021 to EUR 35.5 million in 2022, or by EUR 16.0 million, due to the fact that operations were severely constrained by the coronavirus (COVID-19) pandemic in previous periods.

The LTG Group's total sales revenue, excluding the impact of subsidies, decreased over the reporting period from EUR 420.7 million in 2021 to EUR 336.7 million in 2022, i.e. by EUR 84.0 million or 20.0%.

In view of the current situation, the Company's management is responsibly assessing the main risks and threats related to the continuity of operations and the impact on the operations of the LTG Group and its companies, and, in cooperation with the management of the LTG Group companies, has taken and continues to take actions to manage the situation:

- During the reporting period, the Crisis Management Committee coordinated the activities of seven working groups and took decisions on the following issues: Business Continuity and Planning, Cost Control, Sanctions and Inter-Agency Coordination National Threat Management, Governance and Business Risk Assessment, Communications, Staff Support, and Accommodation, Shelter and Logistics for Ukrainians fleeing the war.
- The implementation of the Operational Optimisation Project continues, covering three areas: improving operational efficiency, cost reduction, diversification and expansion into new markets, in particular Western Europe. During the reporting period, the necessary decisions were taken regarding the LTG Group's management model and the optimal number of employees, optimisation of the assets used in the operations and the ongoing repairs.
- On a quarterly basis, business continuity plans are reviewed in light of the sanctions imposed and business forecasts are updated on a LTG Group-wide basis, with a focus on the business outlook and cash flow balancing of the LTG Group's freight company LTG Cargo and the public railway infrastructure manager LTG Infra.
- Decisions have been taken on the LTG Group's strict cost control, and the portfolio of investment projects was reviewed, with some planned investment projects postponed to later periods. However, investment projects were continued and the necessary investments were made to renew assets.
- Decisions on the optimal number of employees in LTG Group companies. During the reporting period, the number of LTG Group employees decreased by 1,678, including 873 in LTG Cargo, 508 in LTG Infra and 295 in LTG. Wage and salary costs for the LTG Group decreased by EUR 14 million in the period under review, and by more than EUR 19 million excluding the impact of severance payments and compensations.
- The focus is now on diversification and expansion into new markets, particularly in Western Europe. For more information on the decisions related to the diversification of activities, please refer to the *Most significant events in 2022* and *LTG Group KPI Review / Rail Freight* sections of the *Consolidates Annual Report*.
- In order to manage the LTG Group's liquidity risks, during the reporting period, state subsidies and additional financing were secured for LTG Group companies – LTG Link and LTG Infra:
  - Public passenger transport services are fully financed, covering all losses incurred by this activity. The long-term contract for the outsourced services and their financing by Public Service Obligations (PSOs) with the Government of the Republic of Lithuania signed in December 2022 for a period of 10 years (2023-2032) ensures the continuity of the operation. The average annual co-financing for passenger transport will amount to EUR 40 million, which will not only provide the necessary funding but also allow the renewal of the train fleet. The public passenger services are fully financed, covering all the losses incurred by this activity. Loans are currently being negotiated with institutional banks for the renewal of the train fleet. It is planned to obtain a State guarantee to secure the loans.
  - Given the EU Directive 2021/34/EU and the provisions of the GTK, on 6 April 2022, the Ministry of Transport and Communications of the Republic of Lithuania and LTG Infra, the company managing the country's public railway infrastructure network, signed a Quality and Financing Agreement for railway service facilities owned by the Lithuanian State, which is publicly available on LTG Infra's website (link). The agreement will allow LTG Group to ensure stable maintenance of the infrastructure and a high level of safety of rail traffic, as well as to improve the quality of services provided. The contract will run for five years. The State's long-term obligation to balance the revenues and costs of the infrastructure manager is enshrined in both EU and Lithuanian legislation. Under the contract, LTG Infra subsidy revenue accounted to EUR 60.0 million in 2022.
  - Additional funding is also available for strategic investment projects in public rail infrastructure. During the reporting period, additional funding of EUR 91.6 million was provided for the implementation of electrification and other important projects carried out by LTG Infra.
- In addition, a EUR 30.0 million short-term financing agreement (overdraft) was signed in the second half of 2022 with one of the commercial banks serving the LTG Group.
- A review of the LTG Group's long-term strategy has been initiated, including a review of existing strategic objectives and priorities, investment directions, funding needs and sources, and the way forward. At the end of 2022, the timing of the strategy update was reviewed and, due to the uncertainty of the situation, it was decided to postpone the approval phase of the strategy to Q2 of 2023. On 4 April 2023, the LTG Board approved the updated LTG Group's Strategy 2027: Integration into Europe.

Given the current political situation and its further dynamics and impact on the operations of LTG Group and its companies, the management of LTG Group will continue to optimise its operations by reducing its cost base and diversifying its activities. As at the date of these financial statements, the situation in Ukraine is highly volatile and inherently uncertain. According to management, as military operations are fluid and dynamic, their financial impact cannot be reliably assessed at this time.

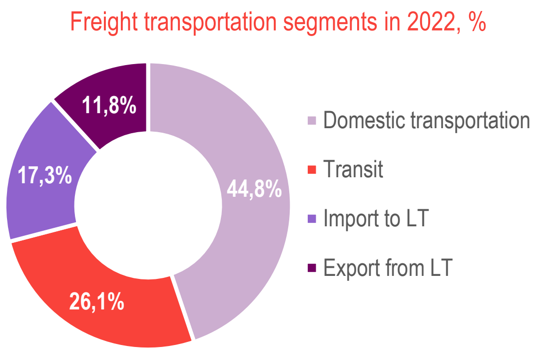
In the opinion of the LTG Group's management, the above measures and actions, together with the additional public funding, will enable the LTG Group to balance the cash flows necessary to ensure the continuity of its operations and to service its existing loan agreements and commitments to partners.

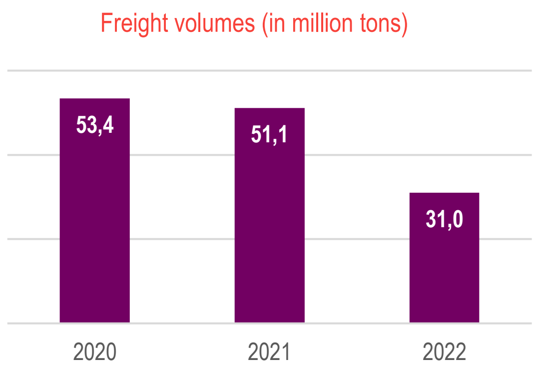
OVERVIEW OF THE LTG GROUP'S KPIs

Transportation volumes		2020	2021*	2022	2022/2021 Δ, %
Freight turnover	**in billion tons km**	**15.9**	**14.6**	**7.4**	**(49.4%)**
Average distance travelled per ton	**km**	**297**	**285**	**238**	**(16.5%)**
Freight carried	**in million tons**	**53.4**	**51.1**	**31.0**	**(39.4%)**
Freight transportation segments					
Domestic transportation	in million tons	15.6	14.7	13.9	(5.3%)
International transportation	in million tons	37.8	36.4	17.1	(53.1%)
Transit	in million tons	10.5	11.5	8.1	(29.7%)
Export from Lithuania	in million tons	5.4	4.9	3.6	(25.8%)
Import to Lithuania	in million tons	21.9	20.0	5.4	(73.2%)
Passenger turnover	**in million passenger km**	**260.0**	**301.3**	**432.6**	**43.6%**
Average distance travelled by passenger	**km**	**78**	**87**	**92**	**6.7%**
Passengers carried	**in millions of pass.**	**3.338**	**3.483**	**4.688**	**34.6%**
Domestic	in millions of pass.	3.171	3.298	4.460	35.2%
International	in millions of pass.	0.167	0.185	0.228	23.5%
Train operational volume	**in billion tkm gross**	**32.6**	**29.0**	**15.9**	**(45.2%)**

* having re-conducted data analysis and identified a discrepancy between the number of fixed-term tickets for local transport sold in 2021 actually and the ones recorded automatically in the data system, LTG Link adjusted the results of passenger transport on local routes for 2021, and the quality of the collected data was started to be ensured both by new automated IT solutions and additional specialist supervision. Data for the year 2022 was recorded properly.

Freight transportation by rail





The activities of freight transport have been carried out by the Group company LTG Cargo.

In 2022, the freight flow amounted to 31.0 million tons and was 39.4% lower than during 2021. Railway transportation is dominated by the transportation of "heavy" loads – chemical and mineral fertilizers, oil and its products, construction materials. These types of loads accounted for more than half of the total volume of freight transported by rail during the analysed period.

The Russian government's war in Ukraine and the wide range of sanctions imposed on Belarus and Russia by the United States of America and the European Union have reduced freight flows by more than a third (from 51.1 million tons in 2021 to 31.0 million tons in 2022) and turnover of freight transportation almost in half (from 14.6 billion tkm in 2021 to 7.4 billion tkm in 2022) during 2022. Particularly large declines were recorded in the chemical and mineral fertilizers, ferrous metals and solid mineral fuels segments.

The volumes of domestic freight transportation, which accounted for 44.8% of the total volumes of freight transportation, decreased during 2022 by 5.3%, and comprised 13.9 million tons. The decline was mostly caused by a decrease in transportation of fertilizers where transportation of Lifosa constituted a significant part. The flows were partially covered by increased transportation of oil, mineral products and plant products.

International transportation that represented 55.2% in the total transported freight reduced by 53.1% during 2022 and amounted to 17.1 million tons. LTG Cargo, the LTG Group's freight carrier, in response to the situation and in view of the sanctions, has suspended the transport of products of the sanctioned companies to the Klaipėda Sea Port. The total volume of cargo transported through the Port of Klaipėda during 2022 decreased significantly by 78.9% – significant decrease was in the volume of fertilizer and ferrous metal transportation.

The flow of transit freight traffic in the direction of the Kaliningrad region in 2022 decreased by 29.7% to 8.1 million tons compared to 2021. The most significant fall was in the volume of solid mineral fuels transported in this direction.

Intermodal transport becomes more and more important in international transportation. Although total intermodal container trains volumes decreased by 36.7% to 162,000 TEU[1] in 2022 compared to 2021 due to declining shipments from China, intermodal transport by semi-trailer trains volumes are growing rapidly. These transports have been organised since the second half of 2021 and have increased by a factor of more than 4 compared to this period. Intermodal demand is forecast to continue to grow as a result of diversification solutions.

In order to adapt to the changed business environment, the focus is now on **diversification and expansion into new markets, especially in Western Europe**:

- LTG's Board has taken decisions to expand its business into Western Europe, with significant investments in Poland for the development of new and existing services and the acquisition of a technical fleet by LTG Cargo Polska;
- LTG Cargo started intermodal transport to Germany on the route Kaunas Intermodal Terminal – Duisburg;
- the Company has launched intermodal freight services from Kaunas Intermodal Terminal to terminals in Poland;
- first international cooperation agreements were signed with companies from Kazakhstan. The aim is to strengthen the intermodal Trans-Caspian logistics corridor and to develop new alternatives for transporting freight from Asia to the Klaipėda Sea Port;
- during the reporting period, pilot trains were organised for the shipment of cereals and sunflower oil from Ukraine to the port of Klaipėda. The freight was transported from Ukraine to Lithuania bypassing Belarus. From July 2022, oil products are transported by rail from a terminal in Lithuania to Ukraine;
- at the end of the year, LTG Cargo's subsidiary LTG Cargo Ukraine and the Polish freight company PKP Cargo signed a cooperation agreement on freight transport between Lithuania and Ukraine – LTG Cargo Ukraine became a freight transport operator between Lithuania and Ukraine (through Poland), PKP Cargo became the carrier in the territory of Poland. LTG Cargo Ukraine will organise full freight transportation services: carriage of freight, concentration of wagon fleets for standard (European) and wide gauge, customs declarations, transhipment services and forwarding. Planned carriages are 3-4 times per week, freights will be transported in bigger 60-container sets.

[1] unit of measurement equivalent to 20-foot container.

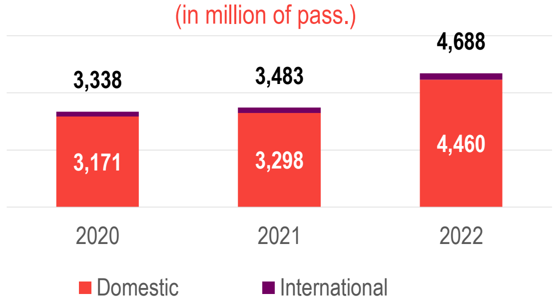
PASSENGER TRANSPORTATION BY RAIL

The activities of passenger transportation have been carried out by the Group company LTG Link.

In 2022, the total number of railway passengers increased by 34.6% compared with 2021.

There has been a significant increase in rail travel, especially in the domestic transport market, which in previous periods was severely constrained by the coronavirus (COVID-19) pandemic.

Passenger transportation volumes (in million of pass.)



Transportation on domestic routes, compared to 2021, increased by 35.2% and amounted to 4.460 million passengers and almost reached pre-pandemic volumes. At the end of 2022, passengers were carried on 193 domestic passenger trains. In addition to the increase in the number of local journeys, the growth in the number of travellers has also been positively influenced by the ongoing marketing campaigns and other measures to increase the attractiveness of travelling by train.

At the end of March 2022, a new, modern and user-friendly train ticketing system, Smart ticketing, was launched. A mobile app was subsequently launched. It allows passengers to create a personal account to buy tickets faster, store them conveniently, view travel information and receive notifications of important changes to their journey.

The Vilnius- Kaunas route (34.7% of total transport on domestic routes) that carried 1.5 million passengers in 2022, remains among the most popular routes. The summer season's hit the Seaside Express offers train travel to the country's seaside resorts. Passengers can travel to Palanga, Nida and other seaside resorts on the combined train – bus itineraries.

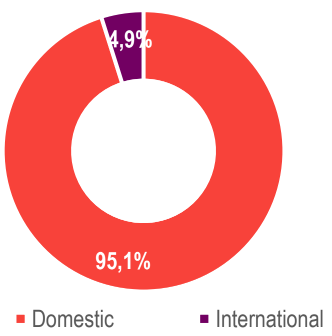
Transportation on international routes accounted for the transit trains through the territory of the Republic of Lithuania to and from the Kaliningrad region to Russia and passenger trains to Poland over the reporting period. At the end of December 2022, there were 8 international trains 6 of which were transit trains. The number of passengers in this segment, as compared to 2021, increased by 23.5% and accounted for 0.228 million passengers.

While the military actions of Russia allows to continue passenger transit between the Russian Federation and the Kaliningrad region, uncertainties remain high. Geopolitical factors also influenced the development of international routes – the route Kiev – Vilnius – Riga was not launched in 2022, and passenger transportation on pre-pandemic route Vilnius – Minsk was not re-opened.

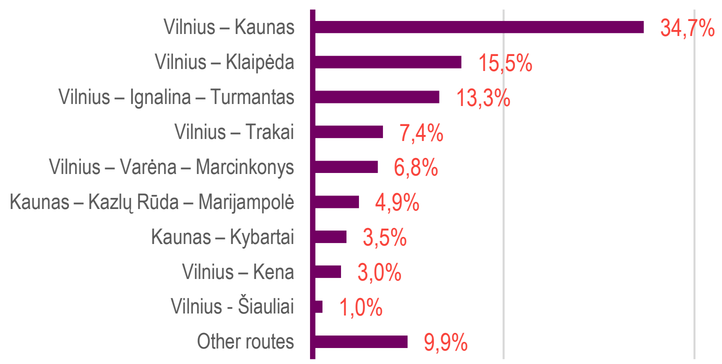
From 1 July 2022 to 10 December 2022, in cooperation with the Polish carrier Polregio, international routes to Poland on the route Kaunas – Bialystok – Kaunas were re-opened. A combined train on international route organised together with the Polish carrier PKP Intercity which carries passengers every day from Vilnius to Warsaw and Krakow started running on 11 December.

Changes in the international transportation segment significantly influenced the structure of passenger transportation. During 2022, 95.1% of travellers by rail and 4.9% of travellers of international routes were transported, whereas during 2019, the share of domestic and international transportation accounted approximately for 82.8% and 17.2%, respectively.

Passenger market segments in 2022, %



Structure of domestic transportation in 2022, %



SERVICES OF THE PUBLIC RAILWAY INFRASTRUCTURE MANAGER

The functions of management, use and disposal by the right of trust and of the public railway infrastructure manager have been carried out by LTG Group company LTG Infra.

The functions of the public railway infrastructure manager are set out in the Railway Transport Code of the Republic of Lithuania and other legal acts regulating railway transport activities.

In performing the functions of the public railway infrastructure manager, LTG Infra provides the services within the minimum access package applied for the public railway infrastructure, the services of access to rail service facilities and services provided in rail service facilities, commercial services.

Total length of the railway

3,462.7 km

Of which the length of overhead contact lines

317.5

The public railway infrastructure network is used by railway undertakings (carriers) carrying passengers, luggage and goods by railway transport, as well as repair undertakings having the right to use the public railway infrastructure. Railway undertakings (carriers) are charged for the minimum access package that is necessary for railway undertakings (carriers) if they provide the services of passenger, luggage and/or freight transport on domestic and/or cross-border routes. This charge is also paid by repair undertakings.

The manager of public railway infrastructure LTG Infra sets the rates of charges and they are available on the company's website (link). The set charges were calculated based on the rules for the calculation and payment of charges for the access to the public railway infrastructure as part of the minimum access package and calculation and payment rules of the fee for allocated but not used public railway infrastructure capacities, approved by the Government of the Republic of Lithuania by Resolution No 610 of 19 May 2004 "Regarding Payment for the Minimum Access Package, and Approval of Calculation and Payment Rules of the Fee for Allocated but not Used Public Railway Infrastructure Capacities" (version of the Resolution No 356 of 8 April 2020 of the Government of the Republic of Lithuania) which set the components of the charge for the minimum access to public railway infrastructure package and the procedure for payment and calculation of tariffs comprising this charge, charge for the minimum access package fee for allocated but not used public railway infrastructure capacities.

In 2022, railway undertakings (carriers) and repair undertakings paid contributions of the charge for the minimum access package (traffic of trains; passenger, luggage transport by transit; market segment of freight transport by transit, freight transportation by rail transport in which mark-up may be imposed; use of overhead contact line) and fee for allocated but not used public railway infrastructure capacities.

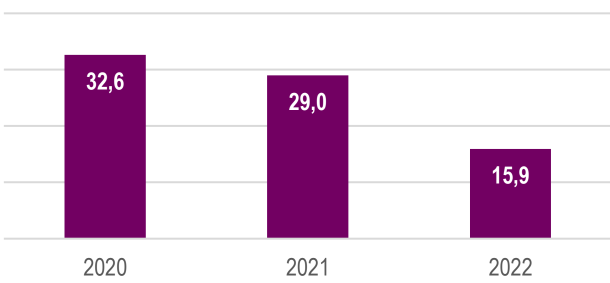
LTG Infra also carries out the activities of an operator of railway service facilities, i.e. manages, uses and disposes of state-owned railway service facilities and the ones owned by LTG Infra by the right of trust. The tariff rates of charge for the use of railway service facilities managed by the railway service facilities operator, railway tracks available in them and the basic and additional rail-related services supplied in those facilities shall be set by LTG Infra in observance of the Railway Transport Code of the Republic of Lithuania. The list of access to railway service facilities and services supplied in those facilities are available on LTG Infra website (link).

The activities carried out by LTG Infra are monitored by the railway transport market regulator whose functions, since the start of 2017, have been performed by the Communications Regulatory Authority of the Republic of Lithuania.

LTG Infra holds and maintains the assets with the value of EUR 1.7 billion.

The company implements high-value investment projects, some of which are recognised as economic projects of national significance. The implementation of the Rail Baltica project is moving forward, the project on electrification of the transport Corridor IX B is continued, the projects on doubling lines of the transport Corridor IX B are underway, as well as the installation of noise reduction panels, etc. More information about ongoing investment projects are provided in the section *Investments* of the report.

Train operational volume (in Bn tkm gross gross)



ANALYSIS OF FINANCIAL AND OPERATIONAL PERFORMANCE

LTG GROUP PERFORMANCE RESULTS

LTG GROUP REVENUE

In 2022, the revenue of the Group amounted to EUR 434.1 million, and compared to the revenue of 2021, it decreased by EUR 31.0 million or 6.7%. Freight transportation operations represent a major share of revenue generated by the Group, i.e. 63.7%.

- **Operating revenue of the Group**, compared to 2021, was reduced by EUR 84.0 million or 20.0% due to significant changes in operating conditions and freight volumes and amounted to EUR 336.7 million. Significant losses in freight transportation operations were compensated by higher revenue from passenger transport operations, operation optimisation measures and assistance by the government. Specification of the revenue is also disclosed in *Note 27 of the Explanatory notes to the financial statements*:

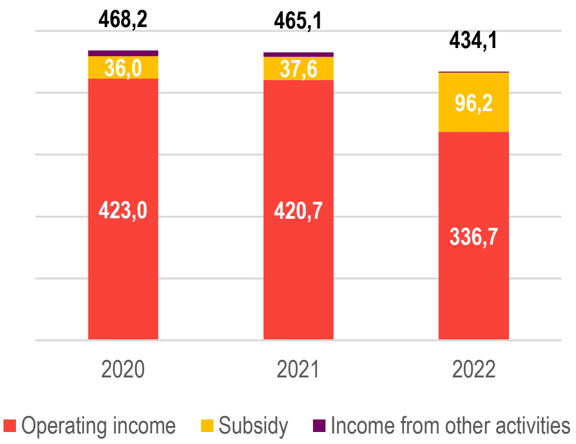
– **The freight transportation revenue**, compared to 2021, decreased by EUR 96.2 million or 25.8% and amounted to EUR 276.7 million. In the analysed period, the freight turnover was reduced by 49.4% due to the sanctions imposed and reduced ties with Russia and Belorussia freight, and higher decrease in sales was compensated by increased tariffs on certain freight groups;

– **The passenger transportation revenue** in 2022 increased by EUR 15.8 million or 84.7% and amounted to EUR 34.5 million. This revenue accounted for 7.9% of generated income in the total Group income structure. Revenue growth was boosted by the rapid recovery of domestic rail passenger traffic, which had been limited in previous periods by the coronavirus (COVID-19) pandemic. Increases in fares and various marketing campaigns that increase sales were also a factor;

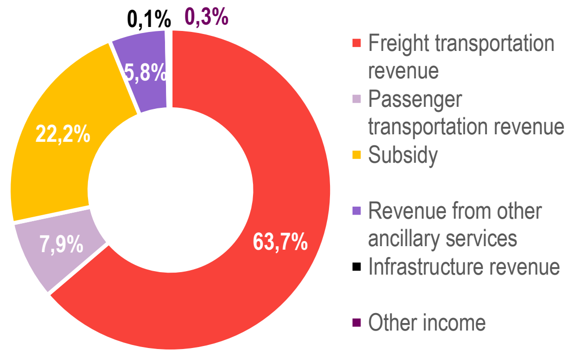
– **Revenue generated from the use of the public railway infrastructure** not of the Group companies are insignificant within the total revenue structure and amounted to EUR 0.4 million in 2022 (EUR 0.5 million in 2021). Taking into consideration obligations imposed by the railway market regulator – Communications Regulatory Authority of the Republic of Lithuania – tariffs for services (rolling stock propulsion, shunting and formation) provided in certain railway service facilities applied during the period of validity of the official train schedule for 2021-2022 were recalculated in 2022, as a result of which an income-adjusting provision was formed;

– The Group also provides **other ancillary services**, including maintenance and repair of rolling-stock, property lease, sale of scrap metal, and other services. The revenue generated from this group of services accounted for 5.8% of the total income structure and, during the analysed period, were reduced by EUR 3.5 million or 12.2% to EUR 25.1 million. This was affected by reduced volumes of work abroad of locomotives and their teams as freight transportation on international routes was reduced.

LTG Group income, EUR million

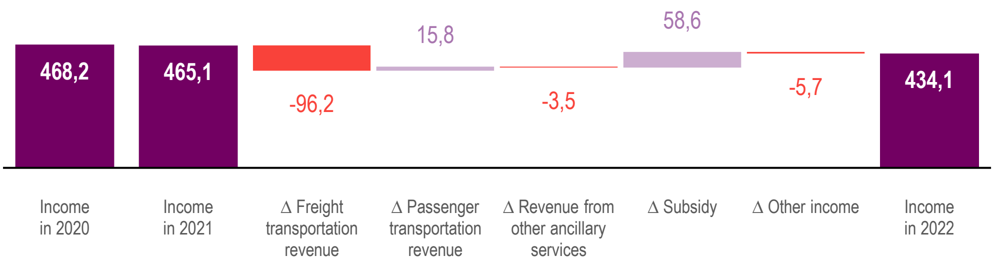


LTG Group income structure in 2022, %



- **The Group's other operating income** in 2022 was EUR 1.2 million. In 2021, this income amounted to EUR 6.8 million, a major share of which comprised the amount received for disposal of real estate objects in Giruliai and Vilnius owned by the Company.
- **Subsidy** revenue in the reporting period amounted to EUR 96.2 million (EUR 37.6 million in 2021). State budget funds compensate LTG Link for losses incurred in providing public passenger rail transport services – in 2022, subsidy revenue amounted to EUR 36.2 million (EUR 37.6 million in 2021). Funds are also allocated to balance the revenues and costs of the public railway infrastructure manager LTG Infra, with EUR 60.0 million accrued in 2022.

Change in LTG Group's income, EUR million



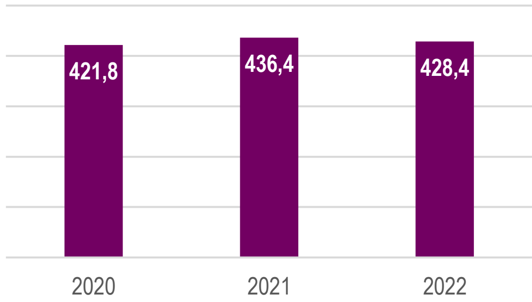
LTG GROUP COSTS

In 2022, the Group's costs related to operating and other activities amounted to EUR 428.4 million. If compared to 2021, the costs decreased by EUR 8.0 million or 1.8%. Due to the war in Ukraine and changed operating conditions LTG companies group carried out the Project of Operational Optimisation throughout the year and one of the directions is reduction of costs. Applied measures allowed to control the costs and avoid bigger losses. However the costs were also affected by energy crisis and general inflation in the country.

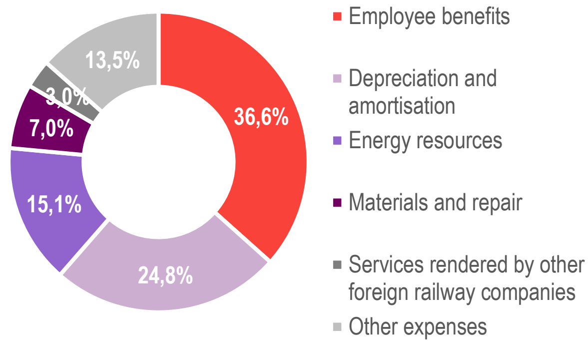
The larger part of the Group's costs comprises personnel expenses (36.6%), depreciation (24.8%) and energy resources (15.1%).

- In 2022, **expenses of employee benefits** amounted to EUR 156.8 million and, if compared to 2021, decreased by EUR 12.8 million or 7.6%. The decrease in expenses was influenced by the decrease in the number of the Group's employees. As at 31 December 2022, the Group companies had 6,126 employees (31 December 2021: 7,804). The cost for the period was also impacted by severance payments and compensations for outgoing employees and, as is the case every year, by the salary review carried out in April in the Group companies. Changes in average salaries are disclosed in the *Employees* section of the report.
- In 2022, **depreciation expenses** amounted to EUR 106.4 million and, if compared to 2021, decreased by EUR 1.7 million or 1.6%. In addition to the volume of investment in previous periods, the decrease in depreciation costs was influenced by the review and adjustment of the useful lives of the Group's fixed assets in 2022. This revision was made due to the significant reduction in freight flows from Belarus and other countries.
- In 2022, **expenses for energy resources** (fuel, electricity) amounted to EUR 64.5 million and, if compared to 2021, increased by 3.3 million or 5.4%. As a result of decreased freight transportation volumes fuel expenses reduced by EUR 7.6 million or 14.4% to EUR 45.0 million, but electricity expenses increased by EUR 10.9 million or 126.1% up to EUR 19.5 million due to significantly increased prices of electricity.
- In 2022, **expenses of materials, repair and technical maintenance** amounted to EUR 29.9 million and, if compared to 2021, decreased by EUR 9.2 million or 23.5%. To manage the crisis and reduce expenses, only the repairs required for operation and safe traffic were financed during the reporting period.

LTG Group costs, EUR million

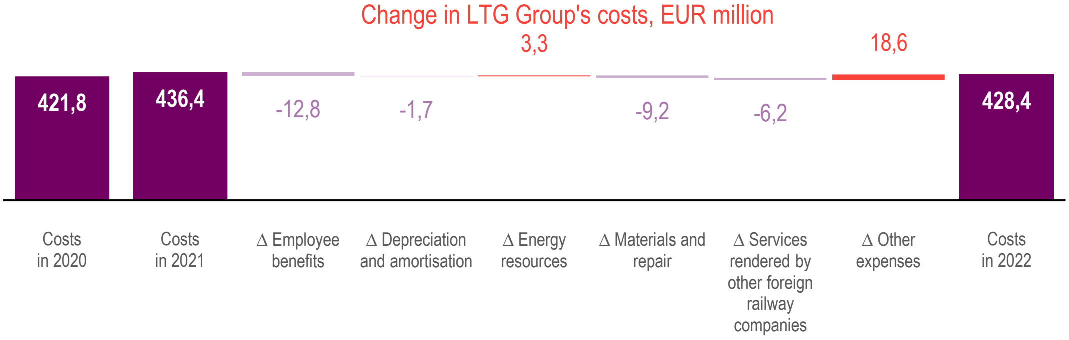


LTG Group costs structure in 2022, %



- In 2022, **expenses for services rendered by other foreign railway companies** amounted to EUR 13.0 million and, if compared to 2021, decreased by EUR 6.2 million or 32.2%. Expenses decreased due to the changes in operation related to Russia's military actions in Ukraine and applied sanctions. As transportation volumes from Belarus and Russia dropped down, respectively the use of railway wagons and other services in these states was reduced.
- In 2022, **other expenses** amounted to EUR 57.8 million and, if compared to 2021, increased by EUR 18.6 million or 47.5%. In 2022, operating results were significantly affected by the geopolitical situation and related events, as a result of which significant impairment of non-current assets managed by the LTG Group, inventoriess, construction in progress, receivables and other impairment and changes in provision thereof, the most material of which were LTG Infra, were accounted for at the end of the year. Such unusual expenses not related to normal operations significantly increased the Group costs in 2022.

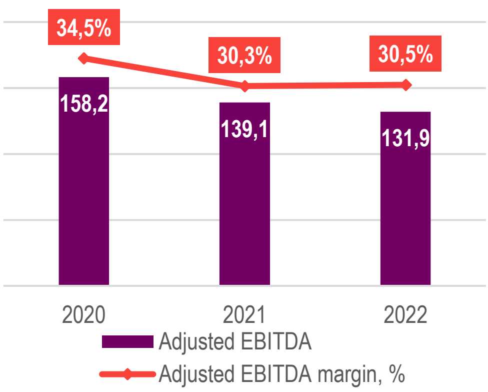
Change in LTG Group's costs, EUR million



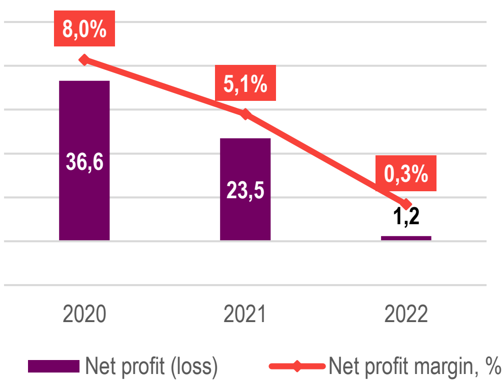
LTG GROUP PERFORMANCE RESULTS

Significant loss of freight transportation volumes, high energy costs and growing inflation had the biggest negative affect on LTG Group performance results in 2022. Optimisation of operations in LTG Group companies allowed to manage costs and avoid bigger losses. The Group's adjusted EBITDA in 2022, compared to the respective period in 2021, decreased by 5.2% and amounted to EUR 131.9 million, net profit amounted to EUR 1.2 million.

LTG Group adjusted EBITDA, EUR million



LTG Group net profit (loss), EUR million



CHANGES IN THE STATEMENT OF FINANCIAL POSITION OF LTG GROUP

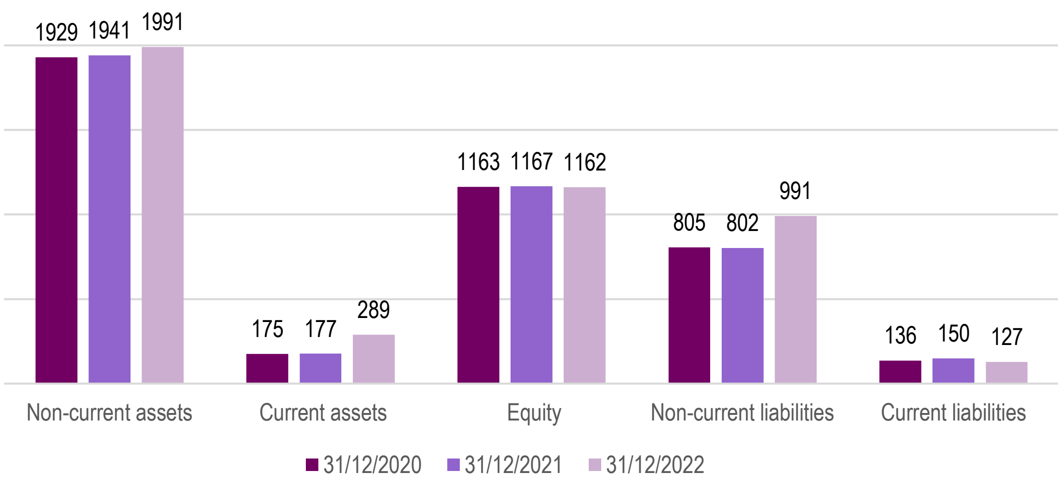
As at 31 December 2022, the Group's assets comprised EUR 2,280.3 million and, compared to 31 December 2021, increased by 7.7%. Non-current assets, which accounted for 87.3% of total asset structure, increased by 2.6% and amounted to EUR 1,991.3 million. The most significant changes in the asset group of buildings and structured have resulted from the implementation of investments.

As at 31 December 2022, current assets amounted to EUR 289.0 million and, if compared to 31 December 2021, increased by 62.9%. Changes in current assets resulted from the decrease of the Group's cash balance accounting for EUR 213.4 million at the end of the period. The increase at the end of the year was mainly due to subsidies received from the state budget to compensate for losses on passenger transport activities (LTG Link) and to balance the revenues and costs of the public railway infrastructure manager (LTG Infra). Also, additional state financing for the implementation of strategic investment projects.

During the reporting period, the authorised share capital remained unchanged and amounted to EUR 1,059.3 million. Equity decreased by 0.4%, and amounted to EUR 1,161.5 million as at 31 December 2022. The changes resulted from the decrease in the Group's performance results for the reporting period and because of dividends paid out to the shareholder from distributable profit for the year 2021.

The increase in non-current liabilities by 23.7% to EUR 991.4 million arose from the increase in grants at the LTG Group's company LTG Infra. During the period, financial debt (including lease) decreased by 11.2% and amounted to EUR 159.9 million. The decrease in financial debt was caused by the repayment of long-term loans, no new loans were taken out during the reporting period.

Changes in the main items of the LTG Group statement of financial position, EUR million



(all amounts are in EUR million unless otherwise stated)

MAIN FINANCIAL INDICATORS*

		LTG Group			Company		
		2020	2021	2022	2020	2021	2022
Sales income	million EUR	423.0	420.7	336.7	95.0	102.1	96.2
Subsidies	million EUR	36.0	37.6	96.2	-	-	-
Other income	million EUR	9.2	6.8	1.2	(0.1)	6.5	0.2
Total income	million EUR	468.2	465.1	434.1	94.9	108.6	96.4
Costs	million EUR	421.8	436.4	428.4	103.4	109.2	101.9
EBITDA	million EUR	157.6	136.9	112.1	0.6	7.4	3.0
Adjusted EBITDA**	million EUR	158.2	139.1	131.9	25.8	11.0	4.9
EBITDA margin	%	34.3%	29.9%	25.9%	0.7%	7.2%	3.1%
Adjusted EBITDA margin	%	34.5%	30.3%	30.5%	27.2%	10.8%	5.1%
EBIT	million EUR	46.3	28.7	5.7	(8.5)	(0.6)	(5.5)
EBIT margin	%	10.1%	6.3%	1.3%	(9.0%)	(0.6%)	(5.7%)
Net profit	million EUR	36.6	23.5	1.2	17.3	3.4	(3.1)
Net profit margin	%	8.0%	5.1%	0.3%	18.2%	3.4%	(3.2%)

		31 12 2020	31 12 2021	31 12 2022	31 12 2020	31 12 2021	31 12 2022
Non-current assets	million EUR	1,929.1	1,940.6	1,991.3	1,086.1	1,080.4	1,069.1
Current assets	million EUR	175.1	177.3	289.0	79.1	84.7	63.1
Total assets	million EUR	2,104.2	2,117.9	2,280.3	1,165.2	1,165.1	1,132.2
Equity	million EUR	1,163.0	1,166.6	1,161.5	1,114.8	1,108.3	1,099.0
Financial debt	million EUR	207.3	180.1	159.9	8.4	10.4	8.8
Net debt	million EUR	137.8	95.4	(53.5)	(12.2)	(27.5)	4.2

Return on equity (ROE)	%	3.1%	2.0%	0.1%	1.5%	0.3%	(0.3%)
Return on assets (ROA)	%	1.8%	1.1%	0.1%	1.5%	0.3%	(0.3%)
Return on investment (ROI)	%	1.9%	1.2%	0.1%	1.5%	0.3%	(0.3%)
Financial debt / EBITDA	times	1.3	1.3	1.4	13.3	1.4	2.9
Financial debt / Equity (D/E)	times	0.2	0.2	0.1	0.0	0.0	0.0
Net debt / EBITDA	times	0.9	0.7	(0.5)	(19.2)	(3.7)	1.4
Net debt / Adjusted EBITDA	times	0.9	0.7	(0.4)	(0.5)	(2.5)	0.9
Debt servicing ratio	times	4.3	4.7	3.6	-	-	-
Equity ratio	%	55.3%	55.1%	50.9%	95.7%	95.1%	97.1%
Asset turnover rate	times	0.2	0.2	0.2	0.1	0.1	0.1
Quick liquidity ratio	times	1.1	1.0	2.0	1.7	1.7	1.7
Total liquidity ratio	times	1.3	1.2	2.3	1.9	1.8	2.4

* For definitions of the indicators, see page 72 of the Report;

** Next to redundancy payments and compensations to dismissed employees in the course of implementation of the *Performance Optimisation Project,* provision costs unrelated to ordinary activities, were taken into account in the calculation of Adjusted EBITDA.

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* (with subsequent amendments) (link).

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

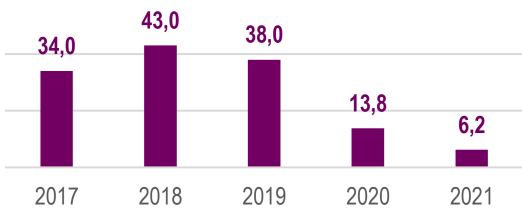
Allocation of dividends for the financial year or a shorter period than the financial year is planned taking into consideration the level of return on equity, net profit earned, financial ability to pay dividends, implementation of economic projects of state importance, as well as other conditions and circumstances set in the Dividend Policy.

Dividend payment ratio calculated on the Company's retained earnings depends on the Return on Equity (ROE) ratio at the end of the reporting period.

Company's ROE (%)	Portion of profit for distribution allocated to dividends (%)
≤ 1	≥ 85
> 1 and ≤ 3	≥ 80
> 3 and ≤ 5	≥ 75
> 5 and ≤ 10	≥ 70
> 10 and ≤ 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.

LTG allocated dividends, EUR million



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

The procedure for calculation and payment of dividends of AB LTG Infra, which performs the functions of the Public Railway Infrastructure Manager, is additionally regulated by the *Description of the Procedure for Calculation and Use of the Public Railway Infrastructure Manager's Performance Results*, approved by Order of the Minister of Transport and Communications of the Republic of Lithuania No. 3-289 of 6 June 2022, which has been drawn up in accordance with the provisions of Article 24^1 paragraph 9 of the Railway Transport Code of the Republic of Lithuania (link).

Under the Order No. 3-264 "Regarding Approval of a Set of Financial Statements of 2021 and a Set of Consolidated Financial Statements of 2021 of the public limited liability company Lietuvos Geležinkeliai and Allocation of Profit (Loss)" of the Minister of Transport and Communications dated 24 May 2022, the annual financial reporting of AB Lietuvos Geležinkeliai for the year 2021 was approved, and profit (loss) of 2021 was distributed. EUR 6.2 million of the Company's distributable profit of 2021 were allocated to dividends.

LTG GROUP FUNDING

As at 31 December 2022, the loan portfolio of the LTG Group to credit institutions, after evaluating accrued interest on loans, amounted to EUR 148.5 million (31/12/2021: EUR 174.0 million). Long-term loans are used to finance the acquisition of rolling-stock and investment projects related to public railway infrastructure of the LTG Group companies.

As at 31 December 2022, the weighted interest rate of the Group's loan portfolio was 1.3%. The longest debt repayment period reached 10 years, and the last deadline for the repayment is year 2032.

As at 31 December 2022, the parent company AB Lietuvos Geležinkeliai did not have any long-term debt liabilities to external credit institutions; however, it has surety agreements concluded with the European and the Nordic investment banks for the liabilities of the LTG Group companies to creditors.

During 2022, the LTG Group repaid EUR 25.5 million of loans and paid EUR 2.1 million of interest. During the reporting period, the LTG Group did not enter into any new long-term financing agreements.

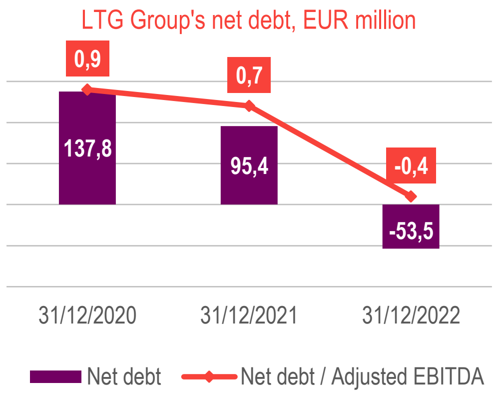
In 2022, in order to ensure liquidity management, the Company had a short-term overdraft agreement for the amount of EUR 30.0 million signed with SEB bank. As at the end of the year, the Company did not have any outstanding liabilities according to this agreement.

As at 31 December 2022, the net debt of the LTG Group was negative and amounted to (EUR 53.5 million). If compared to 31 December 2021, upon increase in cash of the LTG Group, the net debt rate decreased by EUR 148.9 million.

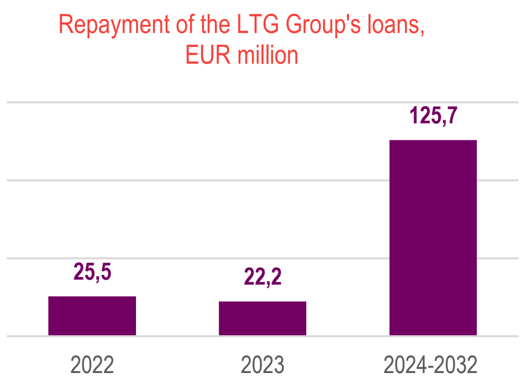
As at 31 December 2022, the Group's financial debt to equity (D/E) ratio amounted to 0.1. The debt level of the Group remains low.

During the reporting period, the indicators monitored by the institutional creditors were met, the LTG Group companies did not breach any financial and non-financial obligations.

LTG Group, seeking to ensure financing efficiency and to manage liquidity risk, has ensured the possibility for the companies to borrow from each other through cash-pool. The Parent company AB Lietuvos Geležinkeliai has entered into one Group's cash-pool agreement with a commercial bank and, accordingly, all LTG group companies have concluded borrowing arrangements. The Group companies sign borrowing arrangements on an annual basis. The arrangement conditions comply with usual market conditions.



Ratios observed by the LTG Group's institutional creditors	Measu-rement	2022	Established value
Net debt / Adjusted EBITDA	times	(0.4)	< 4.0
Equity ratio	%	50.9%	≥ 35%
Debt servicing ratio	times	3.6	≥ 2



(all amounts are in EUR million unless otherwise stated)

SPECIAL OBLIGATIONS

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

The relevant list of special obligations performed by SOEs and their subsidiaries was approved on 16 March 2021 under the Order No 4-193 of the Minister of Economy and Innovation of the Republic of Lithuania (link).

Special obligations performed by LTG Corporate Group:

1. Public rail passenger services – the special obligation is performed by the company UAB LTG Link.

2. Maintenance, modernisation and development of public railway infrastructure and provision of services of the minimum access package – the special obligation is performed by the company AB LTG Infra.

The purposes of the special obligations:

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

1. PUBLIC RAIL PASSENGER SERVICES

Legislation entrusting SOEs with this special obligation: Article12 of the Railway Transport Code of the Republic of Lithuania.

Legislation establishing the conditions for the performance of this special obligation: Article 12 of the Railway Transport Code of the Republic of Lithuania, Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) No 1191/69 and 1107/70, as last amended by Regulation (EU) 2016/2338 of the European Parliament and of the Council of 14 December 2016 amending Regulation (EC) No 1370/2007 concerning the opening of the market for domestic passenger transport services by rail, as well as the Resolution No 716 of 7 June 2010 of the Government of the Republic of Lithuania "Regarding the Approval of the Description of the Procedure for Compensation for Losses incurred in the Execution of Public Service Obligations" and Resolution No 1036 of 19 August 2004 of the Government of the Republic of Lithuania "Regarding the Amendment of the Granting of Obligations" (the recast and its subsequent amendments to the Resolution No 944 of 26 August 2020 of the Government of the Republic of Lithuania in respect of the Resolution No 716 of 7 June 2010 of the Government of the Republic of Lithuania "Regarding the Approval of the Description of the Procedure for Compensation for Losses incurred in the Execution of Public Service Obligations" and Resolution No 1036 of 19 August 2004 of the Government of the Republic of Lithuania "Regarding the Amendment of the Granting of Obligations").

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

The function is performed in accordance with the annual agreement on the use of state budget funds concluded between the Ministry of Transport and Communications of the Republic of Lithuania and UAB LTG Link. State budget appropriations are allocated for the implementation of the special obligations.

In December 2022, the Ministry of Transport and Communications of the Republic of Lithuania and UAB LTG Link signed a long-term contract for passenger transportation for 2023–2032, whereby it is undertaken to provide services of public passenger transport by rail and create more comfortable conditions to travel by trains for everyone, including those with individual needs, as well as promote using more sustainable public rail transport and reduce environmental impact of transport. Average annual subsidised amount will not exceed EUR 40 million, total subsidised amount within the whole period of the contract will not exceed EUR 400 million. Thus, necessary funding for the implementation of the special obligation, including renewal of the train fleet, will be ensured.

Indicators of implementation of special obligations harmonised with the manager of appropriations (Ministry of Transport and Communication of the Republic of Lithuania)	Measurement units	2022	To be achieved in 2023
The number of passengers carried on local routes	million	4.5	4.5
The number of passengers carried on local routes on preferential conditions	million	1.2	1.1

(all amounts are in EUR million unless otherwise stated)

2. PROVISION OF SERVICES OF THE MINIMUM ACCESS PACKAGE AND MAINTENANCE, MODERNISATION AND DEVELOPMENT OF PUBLIC RAILWAY INFRASTRUCTURE

Legislation entrusting SOEs with the following special obligation:

- Provision of minimum access package services: Article 3 (51), Article 23 (1) and item 6 of Article 24 (1) of the Railway Transport Code of the Republic of Lithuania;
- Maintenance, modernisation and development of public railway infrastructure: Article 3 (51), Article 23 (1), and items 1, 3 and 4 of Article 24 (1) of the Railway Transport Code of the Republic of Lithuania.

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

- Provision of services of the minimum access package: state budget appropriations are allocated in accordance with the agreement on ensuring quality and funding of the public railway infrastructure and state-owned railway service facilities concluded between the Ministry of Transport and Communications of the Republic of Lithuania and the manager of the public railway infrastructure AB LTG Infra on 6 April 2022 and the annual agreement on the use of state budget funds for performance of the programme "Implementation of Transport and Communications Policy" concluded by the Ministry of Transport and Communications of the Republic of Lithuania and AB LTG Infra. The pricing is regulated by Articles 25 – 25^2 of the Railway Transport Code of the Republic of Lithuania and the Rules for the Setting and Publication of Charges for the Minimum Access Package, and for the Calculation and Payment of Calculating the Fee for Allocated but not Used Public Railway Infrastructure Capacities approved by Resolution No. 610 of the Government of the Republic of Lithuania of 19 May 2004 "Regarding Payment for the Minimum Access Package, and Approval of Calculation and Payment Rules of the Fee for Allocated but not Used Public Railway Infrastructure Capacities";

- Maintenance, modernisation and development of public railway infrastructure: the function is performed in accordance with the annual agreement on the use of state budget funds for performance of the programme "Implementation of Transport and Communications Policy" concluded by the Ministry of Transport and Communications of the Republic of Lithuania and AB LTG Infra, the European Structural and Investment Funds (ESIF) and the Connecting Europe Facility funds are allocated and the own funds of LTG infra are used. Pricing is not regulated.

Indicators of implementation of special obligations harmonised with the manager of appropriations (Ministry of Transport and Communication of the Republic of Lithuania)	Measurement units	2022	To be achieved in 2023
Length of electrified tracks	km	317.5	317.5
Length of noise barrier walls	km	18.1	12.6
Traffic organisation and safety measures implemented	units	2	3
Length of new 1,520 mm gauge railway tracks (including second railway tracks)	km	0	11
Minutes of passenger train delays due to the actions of the manager of infrastructure	min. / thousand train km	5.37	7
Customer satisfaction with the services of the minimum access package provided by the manager of infrastructure (assessment of quality of service provision)	%	85.7	52
Customer satisfaction with the services of the railway service facilities provided by the manager of infrastructure (assessment of quality of service provision)	%	63	52

RESULTS OF THE LTG GROUP'S SPECIAL OBLIGATIONS (UNAUDITED)

Results of special obligations	Public rail passenger services		Services of the minimum access package and maintenance, modernisation and development of public railway infrastructure	
	2021	2022	2021**	2022
The Statement of Profit or Loss, EUR million				
Revenue*	49.8	57.3	164.8	166.1
Expenses	46.3	54.6	163.1	163.8
Results of financing activity	-	(0.0)	(2.9)	(2.6)
Profit (loss) before tax	3.5	2.7	(1.2)	(0.2)
Income tax	0.5	0.4	(0.5)	(0.0)
Net profit (loss)	3.0	2.3	(0.7)	(0.2)
Balance, EUR million				
Total assets	150.5	160.3	1,407.6	1,553.4
Equity	120.6	122.9	597.2	590.2
Grants	-	-	554.7	769.3
Liabilities	29.9	37.4	255.7	193.9
Total equity and liabilities	150.5	160.3	1,407.6	1,553.4

* Revenue of LTG Link from the special obligation is presented with the state subsidy accounted for and aimed for compensation of the losses incurred while providing public passenger transportation services (the amount of subsidy revenue was EUR 36.0 million in 2020, EUR 37.6 million in 2021 and EUR 36.2 million in 2022); Revenue of LTG Infra from the special obligation is presented with the state subsidy accounted for and aimed to balance the revenues and costs of the public railway infrastructure manager (the amount of subsidy revenue was EUR 60.0 million in 2022).

** The Special Obligation results of LTG Infra for 2021 have been adjusted retrospectively by adjusting the comparative figures of the previous period in the Statement of Financial Position of LTG Infra for 2022, and by redistributing the performance results of the manager of the public railway infrastructure among the carried out activities, in line with the appropriation manager's requirements.

PERFORMANCE OF THE MAIN GROUP COMPANIES

AB LTG Cargo

The Board	Position	Appointed on	Main employer, position
Egidijus Lazauskas	Chairman	Held the position from 21/12/2018 to 23/01/2023	CEO of AB Lietuvos Geležinkeliai, Geležinkelio g. 16, Vilnius, company code 110053842.
Brigita Valenčienė	Board Member	Held the position from 29/11/2019 to 23/01/2023	Head of HR Business Partner Group of AB Lietuvos Geležinkeliai, Geležinkelio g. 16, Vilnius, company code 110053842.

The composition of the Board did not change over the reporting period.

Changes in the composition of the Board after the reporting period – Arnoldas Ūkeniekas, who currently holds the position of a Head of Business Development at the logistics company Hegelmann Group, and Vitalij Rakovski, who currently holds the position of a CEO of Novaturas Corporate Group, were appointed as independent members of the Board of AB LTG Cargo on 23 January 2023. In addition, Director for Strategy and Development of LTG Vytautas Radzevičius and Director for People and Culture of LTG Irena Jankutė–Balkūnė have also been delegated to the Board by the parent company. Selection for the position of a Board member – civil servant has been re-announced, and it was Natalija Baranauskienė, Senior Advisor for the Ministry of Transport and Communications, who was the successful candidate and took the position.

CEO – Eglė Šimė, appointed on 4 January 2022.

Core business:

- Domestic and international freight transportation services.
- Transportation of semi-trailers by rail.
- Rental services of commercial wagons and containers in Lithuania and abroad.
- Loading and warehousing.
- Services related to the forwarding of freight as well as the services related to the carriage of freight.
- Customs brokerage services.
- Domestic and cross-border work and coordination of locomotives and locomotive crews.
- Services of repair and maintenance of railway rolling stocks, manufacture of locomotives and freight wagons (from 1 April 2021, after reorganisation of UAB Vilniaus lokomotyvų remonto depas).

Indicators, EUR million	2020	2021	2022
Sales income	396.5	389.8	293.7
Costs	377.2	363.4	279.9
EBITDA	43.5	51.2	37.8
EBITDA margin, %	11.0%	13.1%	12.9%
Adjusted EBITDA	43.6	51.4	43.6
Adjusted EBITDA margin, %	11.0%	13.2%	14.8%
Net profit/losses	16.3	21.3	10.1
	31/12/2020	31/12/2021	31/12/2022
Assets	286.9	315.8	325.6
Equity	74.5	95.4	105.5
Financial debt	149.1	149.5	161.0
Net debt	127.8	144.5	108.0
Net debt/EBITDA	2.9	2.8	2.9
Return on equity, %	24.5%	25.0%	10.1%
Equity/Assets, %	26.2%	30.2%	32.4%

The annual and interim reports and financial statements of AB LTG Cargo are publicly available on the website http://ltgcargo.lt.

Subsidiaries of LTG Cargo:

- LTG Cargo Polska Sp.zo.o. (controlled share – 100%);
- LLC LTG Cargo Ukraine (controlled share – 100%);
- UAB LTG Wagons (controlled share – 100%);
- OOO Rail Lab under liquidation (controlled share – 2%).

UAB LTG Link

The Board	Position	Appointed on	Main employer, position
Mantas Dubauskas	Chairman	Held the position from 29/11/2019 to 30/12/2022	Director for Corporate Affairs of AB Lietuvos Geležinkeliai, Geležinkelio g. 16, Vilnius, company code 110053842.
Daiva Pivoriūnienė	Board Member	Held the position from 29/11/2019 to 10/01/2023	Head for the Asset Management Services Centre of AB Lietuvos Geležinkeliai, Geležinkelio g. 16, Vilnius, company code 110053842.

The composition of the Board did not change over the reporting period.

Changes in the composition of the Board after the reporting period – Aurelija Kazlauskienė, who currently holds the position of a Director for Strategy and Commerce in the company Lietuvos draudimas, and Viktoras Bachmetjevas, who currently holds the position of a Chairman of the Board of SĮ Susisiekimo paslaugos, were appointed as independent members of the Board of UAB LTG Link on 23 January 2023. In addition, Director for Legal and Compliance of LTG Irmantas Beržauskas and Chief Financial Officer of LTG Andrej Kosiakov have also been delegated to the Board by the parent company. The position of a Board member – civil servant will be taken by Aistė Gasiūnienė who currently works at the Ministry of Transport and Communications of the Republic of Lithuania as a Senior Advisor of the Future Mobility Policy Group.

CEO – Linas Baužys, appointed on 28 February 2019.

Core business:

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

Indicators, EUR million	2020	2021	2022
Sales income	13.7	19.5	35.5
Subsidy	36.0	37.6	36.2
Costs	50.2	52.6	63.6
EBITDA	12.0	17.4	21.8
EBITDA margin, %	24.1%	30.4%	30.4%
Adjusted EBITDA	12.3	17.5	24.9
Adjusted EBITDA margin, %	24.7%	30.6%	34.7%
Net profit/losses	(0.2)	3.9	7.1
	31/12/2020	31/12/2021	31/12/2022
Assets	155.2	162.3	170.7
Equity	143.7	147.7	154.8
Financial debt	1.0	2.3	4.0
Net debt	(16.4)	(26.8)	(38.2)
Net debt/EBITDA	(1.4)	(1.5)	(1.7)
Return on equity, %	(0.1%)	2.7%	4.7%
Equity/Assets, %	92.6%	91.0%	90.7%

The annual and interim reports and financial statements of UAB LTG Link are publicly available on the website https://ltglink.lt.

AB LTG Infra

The Board	Position	Appointed on	Main employer, position
Andrej Kosiakov	Chairman of the Board	Held the position from 27/11/2019 to 23/01/2023	CFO of AB Lietuvos Geležinkeliai, Geležinkelio str. 16, Vilnius, company code 110053842.
Irena Jankutė-Balkūnė	Board Member	Held the position from 19/06/2019 to 23/01/2023	Director for People and Culture of AB Lietuvos Geležinkeliai, Geležinkelio str. 16, Vilnius, company code 110053842.

The composition of the Board has not changed over the reporting period.

Changes in the composition of the Board after the reporting period – Gediminas Almantas, who currently holds the position of an independent Board member of the companies Lietuvos Oro Uostai, Oro Navigacija, EPSO-G, and ACI Europe, and Haroldas Nausėda, who currently holds the position of a Board member of the companies Ignitis Eesti OU and Ignitis and is a chairman of the Board of the company Ignitis Suomi Oy, were appointed as independent members of the Board of AB LTG Infra on 23 January 2023. In addition, Head of Administration of LTG Ieva Lauraitytė and Projects and Investments Management Expert of LTG Sigitas Kubilis have also been delegated to the Board by the parent company. The position of a Board member – civil servant has been taken by Ramūnas Rimkus who currently works at the Department of the Budget and Investment Department of the Ministry of Transport and Communications of the Republic of Lithuania as Head of the Strategic Planning Division.

CEO – Karolis Sankovski held the position from 1 July 2019 to 31 March 2023. The public selection of the Chief Executive Officer of LTG Infra has been announced.

Core business:

- Management, use and disposal of public railway infrastructure under the right of trust;
- Upgrade, maintenance and development of public railway infrastructure;
- Organisation of rail traffic;
- Provision of a minimum package of access services to the public railway infrastructure, provision of access to and services in railway service facilities, provision of commercial services.

Indicators, EUR million	2020	2021	2022
Sales income	222.6	191.9	129.2
Subsidy	-	-	60.0
Costs	196.9	195.0	198.8
EBITDA	103.1	65.0	52.8
EBITDA margin, %	46.3%	33.9%	27.9%
Adjusted EBITDA	103.5	67.1	62.0
Adjusted EBITDA margin, %	46.5%	35.0%	32.8%
Net profit / loss	27.6	(2.9)	(11.5)
	31/12/2020	31/12/2021	31/12/2022
Assets	1 548.6	1 554.1	1,704.4
Equity	679.8	670.9	659.3
Financial debt	179.6	160.2	143.1
Net debt	175.0	149.3	31.1
Net debt / EBITDA	1.7	2.3	0.6
Return on equity, %	4.1%	(0.4%)	(1.7%)
Equity / assets, %	43.9%	43.2%	38.7%

The annual and interim reports and financial statements of AB LTG Infra are publicly available on the website https://ltginfra.lt/.

UAB Geležinkelio Tiesimo Centras

The Articles of Association of GTC does not provide for a collegial governance body – the Board.

CEO:
- Vytautas Žirgutis – held the position from 5 April 2022 to 2 January 2023.
- Vilius Mitkevičius – held the position from 3 January 2023 to 19 February 2023.
- Justas Vyžintas – appointed on 20 February 2023.

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

Indicators, EUR million	2020	2021	2022
Sales	28.7	30.9	19.9
Costs	29.5	30.6	24.5
EBITDA	2.5	3.1	(2.1)
EBITDA margin, %	8.6%	10.0%	(10.8%)
Adjusted EBITDA	2.7	3.1	(2.0)
Adjusted EBITDA margin, %	9.3%	10.1%	(10.0%)
Net profit / loss	(0.4)	0.4	(4.9)
	31/12/2020	31/12/2021	31/12/2022
Assets	39.8	35.7	31.1
Equity	30.5	30.8	25.9
Financial debt	0.8	0.4	0.4
Net debt	(0.9)	0.4	0.4
Net debt / EBITDA	(0.4)	0.1	(0.2)
Return on equity, %	(1.4%)	1.2%	(17.3%)
Equity / assets, %	76.7%	86.4%	83.4%

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

UAB Rail Baltica Statyba

The Articles of Association of RBS does not provide for a collegial governance body – the Board.

CEO – Karolis Sankovski, held the position from 1 June 2017 to 31 March 2023.

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

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

The specific object of the Company's activities leads to the fact that the Company does not have operational activities; i. e. entry-exit logistics, market and sales, after-sale service, etc. UAB Rail Baltica does not participate in the market and competitive environment. Because of the nature of the activities carried out, profitability and return indicators are not calculated.

Indicators, EUR million	2020	2021	2022
Sales	0.05	0.06	0.06
Costs	0.08	0.08	0.07
EBITDA	(0.03)	(0.02)	(0.01)
Net profit / loss	(0.03)	(0.10)	0.00
	31/12/2020	31/12/2021	31/12/2022
Assets	2.39	2.30	2.30
Equity	2.37	2.28	2.28
Financial debt	-	-	-
Net debt	(0.07)	(0.05)	(0.04)
Equity / assets, %	99.1%	99.0%	99.1%

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

INVESTMENTS

LTG Group's investments amounted to EUR 188.9 million in 2022. Investments were mainly dedicated to upgrade and expand the railway infrastructure (81.4%).

The investments have been financed by the EU and the State budget funds as well as by own funds of the LTG Group. In addition to the own funds, EUR 206.6 million of the EU support and the State budget funds were utilised over the reporting period, EUR 40.6 million whereof is a compensation granted by the Cohesion Fund to reimburse payments made from the LTG Group's own funds to implement the EU-funded projects (electrification of the Corridor IX, construction of the second track in the Livintai-Gaižiūnai section) in the previous periods.

In the implementation of the Performance Optimisation Plan, investment projects expected to be implemented in 2022 by all the companies of the LTG Group have been reviewed during the reporting period in a manner of rating and prioritising thereof. Having assessed financing options, part of the investment projects have been postponed; yet, implementation of investment projects to ensure the safe and uninterrupted movement of trains and proper functioning of the LTG Group companies has been continued.

Following an assessment of the LTG Group's capacity to execute projects of strategic importance in 2022 the Government of the Republic of Lithuania provided for additional funding of EUR 91.6 million for investment projects of public railway infrastructure.

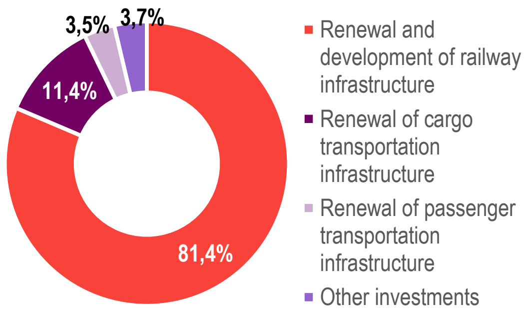
Group's investments (works completed and advances paid), EUR million	2020	2021	2022
Renewal and development of railway infrastructure	174.1	108.6	153.9
Renewal of assets related to cargo transportation	41.4	30.2	21.5
Renewal of assets related to passenger transportation	3.9	5.6	6.6
Other investments (IT, etc.)	9.5	11.0	7.0
Total	**228.9**	**155.4**	**188.9**

KEY INVESTMENT PROJECTS IN 2022

INVESTMENTS INTO ASSET RENEWAL

The LTG Group, to ensure smooth and safe continuity of principal activities, is investing into the renewal of non-current assets.

Investments structure of LTG Group in 2022, %



1. The projects / programmes for upgrading the public railway infrastructure in progress:

- Major Railway Track Upgrade Programme. In 2022, two projects were implemented, the scope of the track repair whereof was 79.6 km and 35.6 km, accordingly and the value of the completed works amounted to EUR 20.5 million.
- Railway bridge renovation. During the reporting period, in order to ensure safe rail traffic, two major bridge reconstruction projects have been implemented – the reconstruction project of the longest (200 km) Jonava railway bridge in the Vilnius – Klaipėda corridor for EUR 12.5 million and the reconstruction project of the Lyduvėnai bridge for EUR 2.6 million.
- Upgrade of GSM-R cores. During the reporting period, installation works have been completed – new equipment has been installed into the entire railway network to ensure the connectivity required for safe train traffic.
- Other infrastructure renewal works are in progress: renewal of railway level crossings, railroad switches, culverts, ramps, and other facilities.

2. Overhaul programme for the railway rolling stocks. During the reporting period, works for the value of EUR 20.6 million have been performed.

- 1,458 freight wagons have been repaired;
- 89 freight locomotives have been repaired;
- 44 passenger vehicles have been repaired.

Seeking to ensure uninterrupted safe railway traffic, the upgrade programmes of railway infrastructure and rolling stocks will be continued in the year 2023.

KEY DEVELOPMENT AND MODERNISATION DIRECTIONS OF THE LTG GROUP

Priority areas of modernisation and development of public railway infrastructure:

- **Green projects** – electrification programme;
- **Safety projects** – modernisation of level crossings, repairs of railroad switches;
- **Projects to increase attractiveness to passengers** – repairs of footbridges at railway stations, adaptation of the barrier-free routes for people with disabilities in the station areas, installation of the Station Information System;
- **Rail Baltica project**;
- **Digitalisation projects** – modernisation of station management and tools, traffic management efficiency, maintenance digitalisation.

Development of railway infrastructure

1. Rail Baltica project, the largest railway infrastructure project aimed at connecting the Baltic States with the European-gauge track network dominating in the EU countries, has been further continued. Progress of the project in 2022 is as follows:

- *In Kaunas – LT/ LV state border section*:
  - technical design of the railway line is ongoing;
  - preparations for specific calls for tender for the contracting works of the installation of the section earthwork and engineering structures; potential suppliers have already been selected;
  - A works contract for the construction of the bridge over the River Neris near Jonava has been concluded , the construction works have been started. It will be the longest bridge in the Baltic States; the length of the bridge is 1.5 km;
  - Contracts for the construction of the roadway and civil engineering works on the sections Šveicarija-Žeimiai and Žeimiai-Šėta for a total value of EUR 165.5 million have been signed. The main construction works on the 1435 mm gauge railway to Panevėžys are expected to be completed by the end of 2024;
  - The contract for the construction of the link road in Šveicarija-Žeimiai section has been signed and contract works have been started.
- The e*ngineering infrastructure development plan and environmental impact assessment for transport communications on the Rail Baltica railway line between Kaunas and Vilnius* are under preparation; the society is informed about specific decisions.
- Preparation of special plans for the Kaunas – PL/LT border section, infrastructure depot and regional stations has been continued.

2. To strengthen the competitiveness of the Lithuanian transport sector and to significantly reduce air pollution, the Railway Electrification Programme is further in progress. In the implementation of the project on the Electrification of Corridor IX, technical design works were continued and construction works were started in 2022. Electrification of the Vilnius junction and the railway line from Kaišiadorys to Klaipėda (Draugystė station) (366 km) by the end of 2025 will enable to carry freights and passengers on the route Vilnius-Šiauliai-Klaipėda using environmentally friendly and efficient electric traction.

3. The implementation of projects on enhancement of railway infrastructure capacity is further continued:

- In 2022, intensive works were being carried out to install the *second track on the Livintai-Gaižiūnai railway section* with the use of EU funds. 10.8 km of the new track have been built and 10.7 km of the existing track have been reconstructed. Implementation of the project is planned to be completed in 2023 after the integration into the Traffic Management System.
- In order to double the maximum train capacity on the Radviliškis-Pagėgiai section and to reduce congestion on the Radviliškis-Klaipėda section, interlocking stations at Batakiai and Lauksargiai have been installed.
- Contract works of the project *Radviliškis Railway Station III Yard Upgrading* have been continued. The completion of the project will enable to have longer freight trains (71 conditional wagons) at Radviliškis station, increase the rolling-stock exploitation efficiency and reduce railway loading.
- The *Kaunas Intermodal Terminal Capacity Expansion Project* has been initiated. In 2022, procurement procedures were carried out, a design and construction contract on reconstruction of the terminal's pavement was concluded. Having implemented the project, load capacity and sales of additional services will increase.

4. Investments into railway stations are being made in order to increase their attractiveness to the public:

- A *Reconstruction Project of Vilnius Railway Station* has been continued; as a result, it will increase the attractiveness of the station to passengers and it will be adapted for commercial purposes. During the reporting period, procurement procedures have been carried out during the reporting period and a works contract has been concluded.
- As part of the *Plungė Railway and Bus Station Integration Project*, the reconstructed Plungė railway and bus station officially opened its doors in 2022. Interior renovation was compleded in 2022. During the reporting period, a technical project for the improvement of the outdoor infrastructure has been prepared, contract works will be performed in 2023. Once completed, the project will create a common transport hub, allowing for more convenient passenger connections by different modes of transport.
- The implementation of the *Station Information System Development Project* has been continued. Modern passenger information system and equipment are planned to be installed at 50 stations.

- To make train journeys easily accessible to passengers with disabilities, the Project on the *Barrier-free Route for People with Disabilities in the station areas* is under implementation. Having implemented the project, all station accesses will be renovated, ramps installed, paths repaired, warning tapes and other measures will be installed.

5. The Project of Modernisation of Infrastructure Diagnostics has been completed. A self-propelling diagnostic vehicle has been acquired. The new vehicle performs the inspection of the railway condition, provides for early detection of potential flaws, allows more effective planning and organisation of repairs.

6. In an effort to be an environmentally friendly company and to meet the needs of the society, the LTG Group has continued to implement projects focusing on noise reduction and safety:

- The Project of *Installation of Noise Absorbing Barriers* has been continued: contract works have been completed at the sites of Lentvaris, Kaišiadorys, Šiauliai, Mažeikiai and Radviliškis. Under the project, 9 noise absorbing barriers are planned to be installed in 7 municipalities in total.
- Safety level is being improved at intersections of railways and roads:
  - *10 Top-priority Railway Level Crossings* are being modernised in the Vilnius-Klaipėda railway corridor: during the reporting period, modernisation of one level crossing has been completed. In 2022, procurement procedures for modernisation of 9 level crossings were carried out, they are expected to be installed by the end of 2024. Upon completion of the project, the technical safety measures set in the Standard of the International Union of Railways will be implemented;
  - The project of *Installation of Rail to Road Two-Level Intersections on the Lentvaris-Vievis (38+855 km) and Kyviškės-Valčiūnai (18 + 419 km) Sections* is being implemented. During the reporting period, one phase of the project has been completed at the Kyviškės-Valčiūnai section in cooperation with the Lithuanian Road Administration and Vilnius City Municipality. Contract works on the Lentvaris-Vievis section are continued. Implementation of the project at the mentioned level crossings where both train and car traffic is dense will enable to essentially eliminate traffic safety issues.
- The project of *Installation of the Automated Rolling-Stock Control System* is in progress. During the reporting period, procurement procedures have been carried out. The installed system will contribute to ensuring safety level of passengers, freight and railway infrastructure.
- To control all station systems, to monitor the traffic situation in real time and increase traffic safety, the project of *Modernisation of the Power Switch and Signal Interlocking in Vilnius, Kirtimai, Valčiūnai, Jašiūnai, Kyviškiai, Naujoji Vilnia stations* has been initiated. During the reporting period, procurement procedures have been carried out, a design and works contract has been concluded.
- *The project of Installation a Monitoring System for ACP (automation, communications, power supply) Equipment* has been initiated. It will increase the efficiency of maintenance of automation equipment, identify faults in a timely manner, automate the maintenance process and reduce costs.
- *An X-ray Inspection System for Trains at Kena Railway Station* has been installed. It will allow maximum control of customs procedures without stopping train traffic, and inspecting 100% of incoming and outgoing freight wagons. A project to install an X-ray system at Kybartai station was initiated in 2022.

7. In order to improve operational efficiency of stations, *the Station Management and Yard Modernisation Project* is being implemented. During the reporting period, procurement procedures have been carried out. Implementation of the project will result in development of a new operating model and the most appropriate station management tool will be installed.

8. In cooperation with the State Service for Protected Areas under the Ministry of Environment, the project on *Adaptation of the Lyduvėnai Railway Bridge Maintenance Path to Visitors* is being implemented. In 2022, procurement procedures were carried out and a works contract was concluded. It is expected that visitors will be able to enjoy the views from the longest (599 m) and highest (42 m) Lyduvėnai Railway Bridge in Lithuania in summer 2023.

Development of freight transportation activities

1. In order to reduce dependence on traditional freight modes, LTG Cargo has started development of freight services in Poland. LTG Cargo Polska that is a subsidiary of LTG Cargo carried out rolling stock acquisition and long-term lease projects in 2022. At the end of 2022, the company had 17 locomotives and 278 wagons leased. In addition, a purchase agreement on 2 locomotives and 146 specialised bulk containers was concluded in 2022. One of the locomotives has been already delivered to the company.

2. Projects to develop intermodal freight transportation. Assessing the development prospects for freight transportation by railway and efforts of the State to promote green freight transportation, the project on the *Purchase of Technological Equipment for Transportation of Semi-trailers* is being implemented. During the reporting period, 42 sets of equipment have been produced, 15 thereof have been installed on platform wagons and made available for use, and installation of the remaining 27 sets is scheduled for 2023. The 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 rail.

3. Projects to increase efficiency of the use of assets:

– The project of *LTG Tech Production Base Optimisation* is being implemented. A design works contract has been concluded and a technical project is under development. As a result of the project, the efficiency of locomotive repairs will increase and worn-out facilities will be eliminated in Vilnius City Centre through relocation of locomotive repair activities to the Vaidotai station;

– In 2022, in order to increase efficiency of the use of rolling stocks, LTG Cargo continued works for *Establishment of Operational Control Centre*. Implementation of the project will enable to plan and manage freight transportation activities applying equal business processes, to automate and digitalise activities, and to ensure data exchange with LTG systems;

– Taking into consideration the annually increasing demand for grain-shipping containers and with the aim to utilise currently unused containers, LTG Cargo has initiated the project on *Modernisation of Containers to be Suitable for Grain Shipping*. Completion of the first phase of the project – to modify 80 containers – Is scheduled for 2023. It will enable to meet the needs of customers during the grain-shipping season and to generate additional income.

Development of passenger transportation activities

1. The Smart Ticketing system implementation project: during the reporting period, the new ticketing system was installed, a mobile ticketing app was launched and purchasing of ticket vending machines to be located at stations was continued. Having installed the new ticketing system, train passengers will be able to buy tickets on a modern mobile app, on a new website and, subsequently, in ticket vending machines at stations. The ticketing system has been adapted to passengers with disabilities, seniors, families with toddlers.

2. The process of procurement of new electric passenger trains has been continued. LTG Link plans to replace old diesel trains with the most environmentally friendly electric trains. Part of the trains would be battery-powered which would allow to ensure eco-friendly passenger transportation on non-electrified railway sections. The trains will be adapted to the needs of persons with disabilities. In 2022, procurement procedures took place, conclusion of the contract is scheduled for 2023. Operation of the first new trains is planned to be started in 2026-2027.

3. In order to increase efficiency of operational management activities of LTG Link and to ensure control of operational activities, the project on establishment of Operational Control Centre has been continued during the reporting period, and implementation of the project is expected to be completed in 2023.

4. With the aim to ensure readiness of the rolling stock fleet for the scheduled transportation of passengers, the project on procurement of replacement units for the trains 730ML is being implemented. In 2022, the procurement procedures were carried out.

In the long-term, optimisation of the repair bases of passenger rolling stocks, related to adaptation of the bases to the new trains, increase in repair efficiency, solution of environmental protection issues, etc., is planned by LTG Link. Optimisation solutions for maintenance bases of passenger rolling stocks are under development.

Development of Information Technologies

Aiming at efficiency and safety of its operations, the LTG Group has focused on the IT systems used. During the reporting period, the ERP (finance and management accounting system) Modernisation Project has been continued. From 1 January 2022, one of the companies of the LTG Group – LTG Cargo – has started using the new SAP system in its daily activities. In 2022, installation works were started in another company of the LTG Group – LTG Infra.

In addition, *Modernisation of Data Exchange Network* and installation of other IT systems have been continued, as a result of which the LTG Group is becoming a modern company that develops in line with the new digital technologies.

GTC development

During the reporting period, the *Technical Upgrade Project* has been completed during the reporting period. Acquisitions of the small mechanisation have been performed.

(all amounts are in EUR million unless otherwise stated)

EMPLOYEES

Changes in organisational culture, implemented through consistent reinforcement of values, reinforcement of feedback, promotion of internal career progression, ensuring equal opportunities and diversity, prevention of violence and harassment, social partnership and other initiatives, remain the cornerstone of fostering the well-being of employees and the successful implementation of the long-term strategy of the LTG Group.

INITIATIVES AND SIGNIFICANT EVENTS OF 2022

- To adapt to the changed business environment, a three-pronged *Performance Optimisation Plan* was consistently implemented in 2022, covering efficiency improvements, cost reduction and diversification and expansion into new markets, in particular into Western Europe. As part of this plan, essential decisions have been adopted during the reporting period to strictly control operating expenses and to review some investment projects. Overall, the number of employees of the LTG Group in 2022 decreased by 1,678 employees or by 21.5% (from 7,804 employees as of 31 December 2021 to 6,126 employees as of 31 December 2022). The majority of the staff leaving the LTG Group were made redundant through position reductions in departments. These redundancies were implemented in continuous consultation with the Labour Council, the Trade Unions and the Employment Service. Several Career Days were organised, inviting employees who had received redundancy notices; dozens of employers across the country invited employees to join their teams. Career counselling was also organised for employees who had received redundancy notices. EUR 6.7 million of in severance payments and compensations were paid across the LTG Group in 2022.
- Completion of the implementation of SAP ERP Success Factors and UKG Dimensions systems has resulted in full digitalisation of the processes of employee data management and work time recording.
- To apply good governance practices and to strengthen corporate governance competences, new composition of the Boards of Directors of the LTG subsidiaries LTG Cargo, LTG Infra and LTG Link has been set up and approved which took office at the beginning of 2023. Since 2023, the Boards of Directors of the LTG subsidiaries have consisted of five members: two delegated by the holding company, two independent members and one civil servant.
- Under the decision of the LTG Board, governance of the Company has been strengthened with introduction of three new functions and competencies the need thereof had currently increased significantly: i. e. business resilience and risk prevention; management of operations, services and customer experience; development and ensuring of technological potential. Consequently, three new senior management positions have been established: Head of Business Resilience, Head of Administration, Head of Technologies.
- After intensive negotiations, a new Sectoral Collective Agreement of the LTG Group was signed at the end of 2022 for a period of four years. The social partners have agreed on the application of the agreement provisions to all employees of the LTG Group.
- As part of the ongoing initiatives to develop organisational culture, the Employees' Voice survey on factors influencing organisational culture was carried out for the third consecutive year. Based on the results of this survey, short-term and long-term actions to work on areas for improvement were identified.
- The review of the Strategic Directions of the LTG Group has paid particular attention to the review and clarification of values. All staff and managers were invited to participate in the values review process in order to ensure that values are derived from within the organisation. New values of the LTG Group: **Client, Cooperation, Improvement, Responsibility**.
- In 2022, particular focus was given to the mental health, emotional well-being and motivation of employees. Lectures by experienced psychologists, military experts and other professional lecturers were organised for employees of the LTG Group.

NUMBER OF EMPLOYEES OF THE COMPANIES OF THE LTG GROUP AND AVERAGE SALARY

Group companies	31/12/2020		31/12/2021		31/12/2022	
	Number of employees as at the end of the period	Average salary, EUR	Number of employees as at the end of the period	Average salary, EUR	Number of employees as at the end of the period	Average salary, EUR
AB Lietuvos Geležinkeliai	1,197	2,311	1,080	2,432	785	2,616
AB LTG Cargo group of companies	2,261	1,728	2,822	1,772	2,026	1,862
UAB LTG Link	675	1,661	595	1,726	567	1,851
AB LTG Infra	3,178	1,548	2,961	1,613	2,453	1,749
UAB Vilniaus Lokomotyvų Remonto Depas (reorganised)	935	1,500	-	-	-	-
UAB Geležinkelio Tiesimo Centras	373	1,669	340	1,819	291	1,947
LUAB Saugos Paslaugos (liquidated)	373	1,230	2	-	-	-
LUAB Gelsauga (liquidated)	3	2,342	-	-	-	-
UAB Rail Baltica Statyba	4	2,931	4	3,057	4	3,148
Total	**8,999**		**7,804**		**6,126**	

(all amounts are in EUR million unless otherwise stated)

As at 31 December 2022, the number of the Parent Company's employees was 785, 58 employees were on long-term leave (parental leave, maternity leave, military service, etc.). Compared to the data as of 31 December 2021, the number of the Company's employees has decreased by 295 or by 27.3%. The decrease in the number of employees has been influenced by significant decrease in freight transportation volumes and the income therefrom as a result of the war started by Russia in Ukraine and the application of wide-ranging sanctions. As part of the Performance Optimisation Plan implemented across the LTG Group, part of the Company's employees were made redundant, and more than EUR 1.7 million of in severance payments and compensations were paid to them.

The average monthly salary, compared to 2021, increased from EUR 2,432 to EUR 2,616. As every year, the most significant contributor to the increase of the salary has been the review of remuneration conducted at the LTG Group in April.

Excluding redundancy payments, compensations, vacation and other accruals, the total remuneration fund of LTG amounted to EUR 28.5 million. Compared to 2021, the remuneration fund decreased by EUR 4.3 million from EUR 32.8 million in 2021 to EUR 28.5 million in 2022.

In addition, in April 2022, as in other LTG Group companies, the annual incentives for performance and achievement of goals in the amount of EUR 1.5 million were paid to the Company's employees.

NUMBER OF LTG EMPLOYEES AND AVERAGE SALARY

Function groups	31/12/2020		31/12/2021		31/12/2022**					
	Number of employees as at the end of the period	Average salary, EUR	Number of employees as at the end of the period	Average salary, EUR	Number of employees as at the end of the period			Average salary, EUR		
					Total	Women	Men	Total	Women	Men
CEO of the LTG Holding*	1	9,305	1	9,770	1	-	1	10,450	-	-
Managers Council of the LTG Holding*	5	7,239	4	7,400	7	2	5	8,044	-	-
Top-level managers	13	6,241	11	6,393	12	7	5	6,462	6,823	6,099
Senior executives and specialists in exceptional fields	64	4,217	66	4,258	57	33	24	4,545	4,554	4,536
Middle-level managers and individual experts	335	3,030	312	3,061	258	143	115	3,166	3,035	3,325
Team leaders and experienced specialists	541	1,976	485	2,053	329	196	133	2,104	1,997	2,270
Specialists and experienced operational/ service staff	140	1,527	135	1,642	66	26	40	1,727	1,598	1,824
Operational/ service staff, qualified workers	98	1,274	66	1,341	55	5	50	1,492	1,497	1,491
Total	**1,197**	**2,311**	**1,080**	**2,432**	**785**	412	373	**2,616**	2,531	2,711

* fixed remuneration as at the end of the period;
** In 2021, the Company started publishing salary data by gender. For reasons of confidentiality, information on and difference in average salary is not disclosed if there are less than 5 employees of the same gender in the function group.

As at 31 December 2022, the fixed monthly salary of the Company's CEO amounted to EUR 10,450, and the average actual salary, including the annual motivation bonus for performance results, amounted to EUR 11,797.

As at 31 December 2022, the fixed monthly salary of top-level managers as stated in their labour contracts, amounted to EUR 8,044, and the average actual salary of these function groups, including the annual bonus for performance results, amounted to EUR 8,896.

REMUNERATION AND PERFORMANCE EFFICIENCY MANAGEMENT WITHIN THE LTG GROUP

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;
- motivating employees through a package of added benefits;
- effective personnel cost management.

Classic elements are used to achieve the identified tasks:
- 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 employee's performance efficiency - the results of achieving the annual goals, extra effort and value-based behaviour.

A local scale of corporate levels is used to publish the results of methodological job evaluation in the organization. Each employee is given the opportunity to see the corporate levels of their position and other positions in the organization. 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 organization 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 clear and objective criteria – 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 1 April of each year.

The total budget allocated for the review of the basic salaries in spring 2022 reached 7.4% across the LTG Group.

In the last quarter of 2022, the basic salary structure for operational staff was revised and the variable remuneration component, which had not been made possible by objectively measurable criteria over the years, was eliminated and integrated into the contractual remuneration. The aim was to ensure clarity, transparency and stability for employees, while moving towards the development of highly targeted incentive schemes that are geared towards achieving the strategic objectives of the LTG Group.

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, and which is allocated pursuant to Article 142(1)(2) 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.

Allocating the annual incentive fund in 2022, EUR 5.5 million were paid to employees, having taken into account the results achieved by the LTG Group in 2021.

The package of additional benefits includes lump-sum 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 organization at the retirement age, additional leave and other benefits provided for by the Sectoral Collective Agreement and the Remuneration Methodology of LTG Group. 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. During the negotiations with the social partners on the new sectoral collective agreement, it was agreed to increase the lump-sum payment in the event of the birth of a child or the death of a close family member by 50% from EUR 200 to EUR 300 after tax, starting in 2023.

Remuneration principles and additional benefits are defined in the Sectoral Collective Agreement, Personnel Policy, Remuneration Methodology of LTG Group. 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 details of how these principles are implemented are set out in internal process standards and methodologies, as well as published on the LTG Group's internal intranet - the employee knowledge base and newsletters.

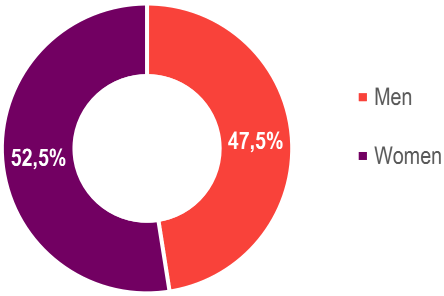
The process of managing and evaluating the performance of employees remains focused on establishing a culture of high performance, personal responsibility and continuous feedback, and the principle of "the best are rewarded the most".

(all amounts are in EUR million unless otherwise stated)

The average salaries of staff by general function group are updated on the websites of the companies of the LTG Group after the end of the quarter.

At the same time, a comparison of the average salaries of women and men is disclosed. The remuneration management principles of the LTG Group are objective, unified and ensure equal opportunities; however, the actual differences between the average salaries of women and men by general function group remain.

LTG employee distribution by gender, %



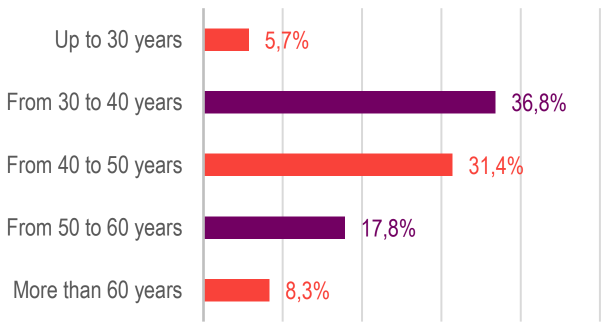
These differences are due to the overall distribution of women and men, with more men than women working not only in the railway industry as a whole, but also in a number of function groups, in particular in operational positions. Women predominate in support/administrative functions with relatively lower market remuneration. Men are concentrated in posts with more competitive market remuneration (e.g. IT, engineering) or where the nature of the work is of a particular nature – physical exertion, outdoor or other special conditions – where the market remuneration is higher. At the same time, the opposite situation is also observed in certain function groups, where women, although not predominant, occupy positions for which the market shortage leads to relatively higher remuneration (e.g. managerial positions in the fields of project management, strategy, finance, supply chain management), in which case they outperform men.

RATIO OF AVERAGE SALARIES OF WOMEN AND MEN

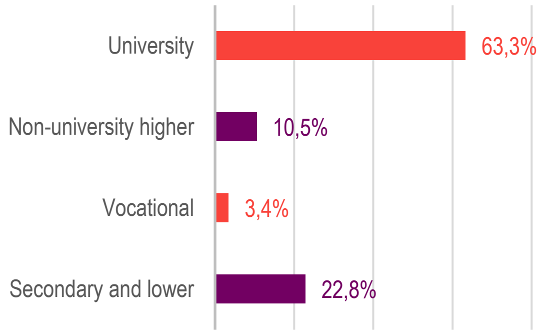
Function group	2021		2022	
	LTG Group	Company	LTG Group	Company
All employees	**1 : 1.08**	**1 : 1.09**	**1 : 1.05**	**1 : 1.07**
CEO and the Managers Council of the LTG Holding	1 : 1.12	-	1 : 1.01	-
Top-level managers	1 : 0.87	1 : 0.94	1 : 0.90	1 : 0.89
Senior executives and specialists in exceptional fields	1 : 1.03	1 : 1.02	1 : 0.97	1 : 1.00
Middle-level managers and individual experts	1 : 1.04	1 : 1.08	1 : 1.04	1 : 1.10
Team leaders and experienced specialists	1 : 1.03	1 : 1.15	1 : 1.04	1 : 1.14
Specialists and experienced operational/service staff	1 : 1.35	1 : 1.11	1 : 1.32	1 : 1.14
Operational/service staff, qualified workers	1 : 1.09	1 : 1.18	1 : 1.10	1 : 1.00

The table compares the ratio of the average salaries of women and men, where women's salaries equal 1 and men's salaries are calculated by dividing men's salaries by women's salaries.

LTG employee distribution by age group, %

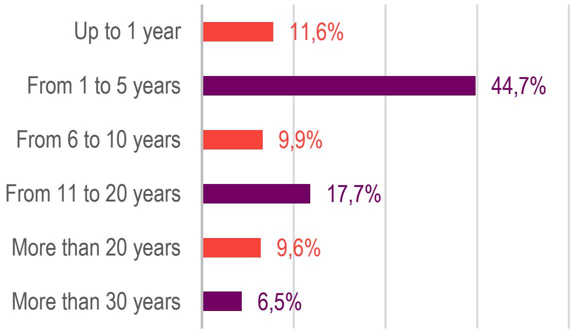


LTG employee distribution by education, %



(all amounts are in EUR million unless otherwise stated)

LTG employee distribution by lenght of service, %



Age group	Average length of service, in years
Under 30	1.8
30-40	4.8
40-50	8.3
50-60	17.0
Over 60	21.4
Average length of service	**9.3**

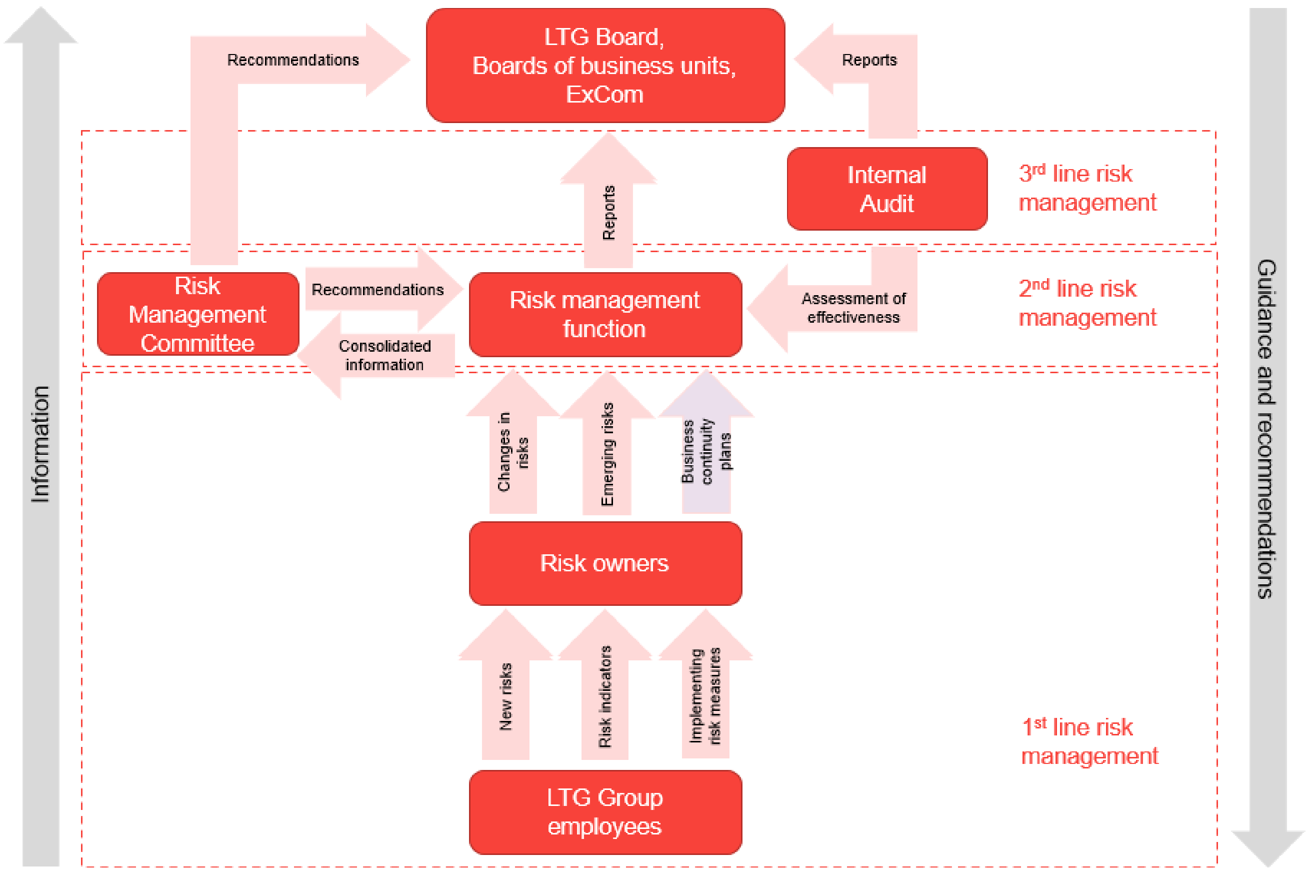
RISKS AND THEIR MANAGEMENT

The Company 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 Organizations of the Treadway Commission, Enterprise Risk Management) and best practices.

In the LTG Group, risk management responsibilities are divided according to the Model of Three Lines of Defence.

According to it:
- 1st line risk management activities are performed by LTG Group companies and LTG corporate functions, which identify, assess and manage risks;
- 2nd line risk management activities are performed by LTG Risk and Compliance Management, which develops and improves the overall system and performs coordination and control activities;
- 3rd line risk management is performed by the Internal Audit Division of LTG, which carries out an independent assessment of the effectiveness of risk management levels 1 and 2, and provides comments and recommendations.

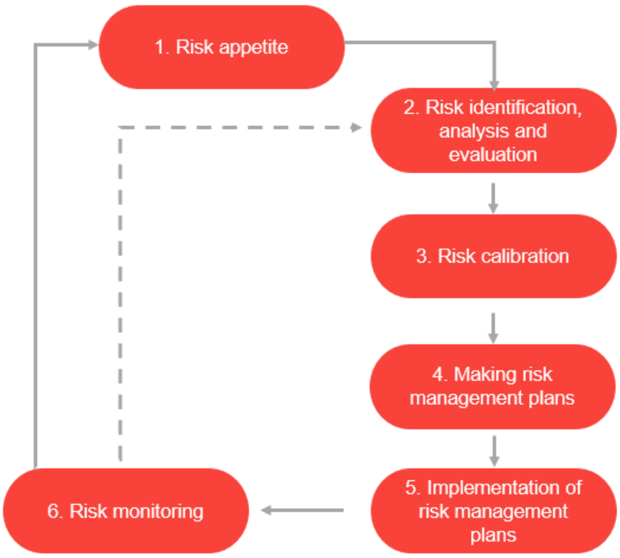
Both managers at various levels and collegial bodies are actively involved in risk management practices. The LTG Group has the Risk Management Committee chaired by the Director for Business Resilience of the LTG Group. The Risk Management Committee works along the following main lines of action: to ensure a holistic view of the Group's risks, it carries out risk calibration and prioritises risks (systemic or at LTG Group level); assesses the status of priority risks management; proposes the choice of risk management measures and the recording of new risks; makes recommendations for the improvement of the overall risk management framework.



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

1. Identification of risk appetite.
2. Risk identification 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, impact on activities as a going concern, on employee safety) and attributing 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.

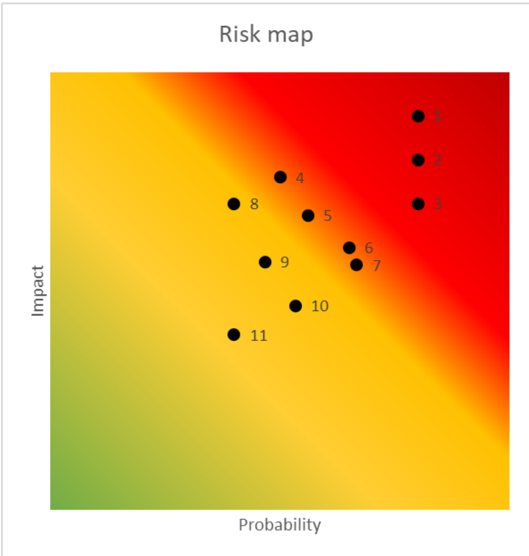


The periodic and timely dissemination of risk-related information is ensured by a well-established reporting system. The risk management status of each of the companies is reviewed on a quarterly basis in reports submitted to the boards of companies. The Board of the LTG Group is informed on a monthly 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 receive increasing attention and importance. One especially important change is the establishment of the Business Resilience Department at the LTG Group. The risk management and compliance function is controlled directly by Director for Business Resilience; as a result, direct reporting channels are ensured and the importance of risk and other resilience issues for adaptation of strategic solutions is increased.

MAIN RISKS AND THEIR MANAGEMENT MEASURES

1. Risk of delays in strategic infrastructure projects.
2. Risk of cyber-attacks.
3. Risk of supply chain disruptions.
4. Risk of non-compliance with sanctions requirements.
5. Risk of safety incidents.
6. Risk of failure to meet stakeholder expectations.
7. Risk of information management and GDPR compliance.
8. Liquidity risk related to short-term and long-term funding of the LTG Group.
9. Risk of lack of human resources with specific competences.
10. Risk of failure to ensure that IT systems meet business needs.
11. Risk of using outdated, less efficient technologies in operations.



Name of risk	Level of risk	Main sources of risk	Potential impact	Basic risk management measures
Risk of delays in strategic infrastructure projects	Highest	• Decrease in the Company's financial resources • Failure to secure public funding	• Delayed implementation of projects • Reputational damage	• Project re-planning, phasing • Ensuring human resource requirements • Timely communication with stakeholders
Risk of cyber-attacks	Highest	• Human error • Cyber-attacks • Social engineering • Technical and cyber-system vulnerabilities	• Reputational damage as a result of data leakage • Financial losses due to system disruptions or data loss • Disorders of critical functions	• Network monitoring system • EDR/XDR protection installed in IT • Regular security breach scans • Access control • Internal audits
Risk of supply chain disruptions	High	• Increase in prices of materials and raw materials • Increased delivery times • Possible sanctions for suppliers	• Operational failures • Delays in works	• Supplier checks due to sanctions • Advance planning • Reallocation of resources to intensive sections
Risk of non-compliance with sanctions requirements	High	• Operation of organised crime groups • Rapid expansion of the scope and complexity of sanctions	• Reputational damage • Financial losses arising from non-compliance with requirements	• Reinforcing sanctioning policy • Constant updating and control of the cargo inspection process • Use of automated verification tools • Activities of a working group on sanctions • Continuous education of employees • Implementation of additional controls in procurement processes
Risk of safety incidents	Moderate	• Failure to comply with work safety instructions • Failure to comply with technological requirements during repair work	• Injuries to workers or other persons • Financial losses due to damage to rolling stock or infrastructure • Damage to reputation due to failure to ensure traffic/worker safety • Disruption of operations due to traffic accidents	• Periodic training and coaching • Mobile app to help keep workers safe • Safety system inspections • Periodic monitoring of physical and technical security
Risk of failure to meet stakeholder expectations	High	• Delayed communication • Inadequate information • Passenger service processes and infrastructure not fully adapted for people with special needs	• Reputational damage due to misleading or delayed communications • Non-compliance with regulations on the rights of disabled persons and persons with reduced mobility	• Communication plan • Monitoring legislation • Open, accurate, timely and proactive communication • Adaptation of infrastructure to special needs
Risk of information management and GDPR compliance	Moderate	• Human error • Technical system vulerabilities	• Reputational damage • Financial penalties for non-compliancre with data management requirements	• Provision of continuous training to employees • Data management agreements and control • Update of legislation regulating information management with regard to external legislation changes • Audits of the systems • Access control

Name of risk	Level of risk	Main sources of risk	Potential impact	Basic risk management measures
Liquidity risk related to short-term and long-term funding of the LTG Group	Moderate	• Possible insufficient borrowing from banks • Unsecured credit line	• Failure to ensure financial stability • Failure to ensure business continuity	• Conclusion of a credit line agreement • PSO agreement on long-term funding • State budget subsidies for investments into infrastructure
Risk of lack of human resources with specific competences	Moderate	• Labour market trends within the country • Long training time for specialists • Lack of occupational prestige in certain professions	• Possible impact on the continuity of critical activities due to a shortage of human resources	• Improvement of working conditions • Increasing occupational prestige of the position • Automation of activities • Employer branding
Failure to ensure that IT systems meet business needs	Moderate	• Insufficient digitalisation and automation • The changing business environment gives rise for new needs • Data loss as a result of technical (power outage, flooding) and organisational (malicious activity, errors) factors	• Financial costs due to recovery of operating sytems or data • Reputational damage as a result of data leakage • Low operational efficiency as a resulf of insufficiently digitalised processes • Performance distruptions • Incompliance with data security requirements	• Development of project management tools • Upgrade of business management systems • Update of access control processes and tools
Risk of using outdated, less efficient technologies in operations	Moderate	• Long technological lifecycle • Technical and organisational reasons	• Operational efficiency • Continuity of operations	• Implementation of new systems • Modernising technology • Transfer of functionality to other systems

INFORMATION ON EXTERNAL AUDIT

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

The public procurement contract for the audit of the consolidated LTG and separate financial statements of LTG Group subsidiaries, prepared in accordance with International Financial Reporting Standards, adopted by the EU, for the year 2020–2022, was awarded to KPMG Baltics, UAB. The candidacy of auditors was confirmed by the Audit Committee of LTG, 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 the services of translation of the financial statements (including the Sustainability Report) into the English language to the Group companies and the Company; in addition, the auditor audited compliance certificates of the reporting period to credit institutions regarding compliance by LTG Group and its subsidiaries with the special and other financial covenants under long-term loan agreements.

During the reporting period, the auditor did not provide any additional services other than the audit of the financial statements.

THE FEE FOR THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR 2022

Companies of the LTG Group	Fee, EUR thousand (excluding VAT)
AB Lietuvos Geležinkeliai (including the consolidated statements)	45.0
AB LTG Cargo	52.5
UAB LTG Link	31.0
AB LTG Infra	49.0
UAB Geležinkelio Tiesimo Centras	23.0
UAB Rail Baltica Statyba	8.0

(all amounts are in EUR million unless otherwise stated)

INFORMATION ABOUT THE GROUP AND THE COMPANY

PARENT COMPANY

Company name	AB Lietuvos Geležinkeliai
Legal form	Public limited liability company
Date and place of registration	24/12/1991, Register of Legal Entities, RoL
Company code	110053842
Company address	Geležinkelio g. 16, 02100 Vilnius
Address for correspondence	Pelesos g. 10, 02111 Vilnius
Phone No	+370 5 269 2038
E-mail	info@ltg.lt
Website	https://www.litrail.lt
Core business	Management of the LTG Group companies
Sole shareholder	The Republic of Lithuania, the property and non-property rights of which are carried out by the Ministry of Transport and Communications of the RoL

SUBSIDIARIES

Company name	**AB LTG Cargo**	**UAB LTG Link**	**AB LTG Infra**	**UAB Geležinkelio Tiesimo Centras**	**UAB Rail Baltica Statyba**	**voestalpine Railway Systems Lietuva, UAB (associate)**
Legal form	Public limited liability company	Private limited liability company	Public limited liability company	Private limited liability company	Private limited liability company	Private limited liability company
Date and place of registration	28/12/2018, Register of Legal Entities, RoL	28/02/2019, Register of Legal Entities, RoL	01/07/2019, Register of Legal Entities, RoL	21/12/2001, Register of Legal Entities, RoL	23/01/2014, Register of Legal Entities, RoL	28/07/1995, Register of Legal Entities, RoL
Company code	304977594	305052228	305202934	181628163	303227458	110709524
Company address	Geležinkelio St. 12, 02100 Vilnius	Geležinkelio St. 16, 02100 Vilnius	Geležinkelio St. 2, 02100 Vilnius	Trikampio St. 10, 25112 Lentvaris, Trakai district	Geležinkelio St. 16, 02100 Vilnius	Sostinės St. 18, 13221 Valčiūnai, Vilnius district
Phone No	+370 5 202 1515	+370 700 55 111	+370 5 269 3353	+370 655 37023	+370 614 18055	+370 672 49800
E-mail	info@ltgcargo.lt	info@ltglink.lt	info@ltginfra.lt	info@gtc.lt	rbs@litrail.lt	office.lietuva@voestalpine.com
Website	http://ltgcargo.lt	https://ltglink.lt	https://ltginfra.lt	https://gtc.lt	https://www.rail-baltica.lt/	http://www.railwaysystems.lt
Core business	Freight transportation by rail	Passenger transportation by rail	Manager of the public railway infrastructure	Repairs and construction of the public railway infrastructure	Implementation of shareholder's functions of the joint Baltic States company RB Rail AS	Manufacture of railway switches
Shares owned by LTG	100%	100%	100%	100%	100%	34%

(all amounts are in EUR million unless otherwise stated)

SECONDARY SUBSIDIARIES AND COMPANIES

Company name	RB Rail AS	OOO Rail Lab (under liquidation)	LTG Cargo Polska Sp.zo.o.	UAB LTG Wagons	LLC LTG Cargo Ukraine
Legal form	Public limited liability company	Limited liability company	Private limited liability company	Private limited liability company	Private limited liability company
Date and place of registration	12/11/2014, Republic of Latvia	26/05/2020, Republic of Belarus	21/07/2020, Republic of Poland	04/11/2020, Register of Legal Entities, RoL	09/12/2020, Ukraine
Company code	40103845025	192827267	386573260	305651295	43987945
Company address	Satekles iela 2B, Riga, Republic of Latvia, LV-1050	Internacionalnaja g. 36-1, Minsk, Republic of Belarus	Świętojerska 5/7, 00-236 Warsaw, Republic of Poland	Geležinkelio g. 12, 02100 Vilnius	Pushkin st. 21, office No. 3, 01004 Kyiv, Ukraine
Phone No	+371 6696 7171	-	+48 22 103 38 15	+370 618 84991	contacts provided on http://ltgcargo.ua
E-mail	info@railbaltica.org	-	office@ltgcargo.pl	info@ltgwagons.lt	contacts provided on http://ltgcargo.ua
Website	https://www.railbaltica.org	-	http://ltgcargo.pl	http://ltgcargo.lt	http://ltgcargo.ua
Core business	Implementation and coordination of the Rail Baltica project	No activity, company is under liquidation	Activities of freight carrier in Poland	Lease of wagons and containers used for freight transportation	Activities of freight carrier in Ukraine
Shares owned	LTG subsidiary UAB Rail Baltica Statyba owns 33,33% of shares	LTG subsidiary AB LTG Cargo owns 2% of shares	LTG subsidiary AB LTG Cargo owns 100% of shares	LTG subsidiary AB LTG Cargo owns 100% of shares	LTG subsidiary AB LTG Cargo owns 100% of shares

PUBLIC ENTITIES AND ASSOCIATION

Company name	VšĮ Geležinkelių Logistikos Parkas	VšĮ Transporto Inovacijų Centras (under liquidation)	Lithuanian Railway Companies Association
Legal form	Public entity	Public entity	Association
Date and place of registration	07/10/2011, Register of Legal Entities, RoL	08/02/2019, Register of Legal Entities, RoL	13/11/2018, Register of Legal Entities, RoL
Company code	302674602	305017405	304949011
Company address	Švitrigailos St. 39, 03209 Vilnius	Geležinkelio St. 16, 02100 Vilnius	Geležinkelio St. 16, 02100 Vilnius
Phone No	+370 612 02006	-	+370 616 18841
E-mail	logisticspark@logisticspark.lt	info@mobilitytech.lt	-
Website	https://www.logisticspark.lt	https://mobilitytech.lt	-
Core business	Entity owned by the Vilnius City Municipality and AB Lietuvos Geležinkeliai, responsible for the development and management of the Vilnius Public Logistics Centre Fleet	No activity, the company is under liquidation	Representation of members of association – rights of employers and interests in social partnership. Members: LTG, LTG Cargo, LTG Link, LTG Infra, GTC, RBS
Share in the LTG capital	79,61%	33,33%	-

REPRESENTATIVE OFFICES ABROAD

Representative office in the Russian Federation	Closed
Representative office in the Republic of Belarus	Closed
Representative office in the People's Republic of China	Closed
Representative office in the Republic of Kazakhstan	D. Kunajevo st. 6, office No. 310/10, 010000, Astana (activities suspended)
Representative office in the Republic of Poland	Rondo ONZ st. 1, floor 12, 00-124, Warsaw (activities suspended)

MEMBERSHIP IN INTERNATIONAL ORGANISATIONS

International Settlement Centre (BCC) http://bcclearing.eu/
Association of Railway Security Managers and Railway/Transport Police Forces (COLPOFER) http://www.colpofer.org/
International Rail Transport Committee (CIT) http://www.cit-rail.org/
Community of European Railway and Infrastructure Companies (CER) http://www.cer.be
Organisation for Co-operation of Railways (OSJD) http://en.osjd.org
International Union of Railways (UIC) http://www.uic.org/
Intergovernmental Organisation for International Carriage by Rail (OTIF) http://www.otif.ch/
Railway Transport Council of CIS and Baltic States (GTT) http://www.sovetgt.org/
Association of the European Rail Infrastructure Managers RailNetEurope (RNE) http://www.rne.eu/
North Sea – Baltic Rail Freight Corridors No.8 (RFC8) http://rfc8.eu/
Platform of Rail Infrastructure Managers in Europe (PRIME) https://webgate.ec.europa.eu/multisite/primeinfrastructure/prime-news_en

(all amounts are in EUR million unless otherwise stated)

DEFINITIONS AND ABBREVIATIONS

Income	Sales revenue + Income from other activities excluding Income from financial activities
Sales revenue / operating revenue	Revenue, excluding Subsidy, Income from other activities and Income from financial activities
Subsidy	State budget funds to compensate the activities of LTG Link and LTG Infra
Costs	Costs, excluding the Corporate tax and Expenses from financial activities
Financial debt	Interest-bearing financial debt, including lease
Net debt	Interest-bearing financial debt, including lease, 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 activities + Depreciation and amortisation
Adjusted 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
Adjusted 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
Financial debt / EBITDA	Financial debt / EBITDA of the period of the last 12 months
Financial debt / equity (D/E)	Financial debt / equity at the end of the reporting period
Net debt / EBITDA	Net debt / EBITDA of the period of the last 12 months
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)
Passenger turnover (passenger kilometres)	Passenger transportation indicator, calculated by multiplying the trip of each transported passenger by the travelled distance
Train operational volume (gross tkm)	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

* When measuring financial ratios of LTG Group and UAB LTG Link, and AB LTG Infra, the Subsidy is included in the Sales revenue / operating revenue.

ABBREVIATIONS:

LTG, Company – AB Lietuvos Geležinkeliai
LTG Group, Group – AB Lietuvos Geležinkeliai and its subsidiaries
LTG Cargo – AB LTG Cargo
LTG Cargo Polska – LTG Cargo Polska Sp.zo.o.
LTG Cargo Ukraine – LLC LTG Cargo Ukraine
LTG Link – UAB LTG Link
LTG Infra – AB LTG Infra
GTC – UAB Geležinkelio Tiesimo Centras
RBS – UAB Rail Baltica Statyba
govt. – Government of the Republic of Lithuania
EU – the European Union
SOE – State-owned enterprise

2022

SUSTAINABILITY REPORT
(unaudited)

ABOUT SUSTAINABILITY WITHIN THE LTG GROUP

The global transport system and supply chains are undergoing major changes due to the rapidly changing demographic, social, macroeconomic and geopolitical environment. As an environmentally friendly transport the importance of which in Europe will only increase with the change in the concept of mobility, the era of fossil fuels giving way to clean power and the attraction of other renewable energy sources, railways are called the transport of the future. Organisations striving for sustainability not only guarantee a competitive advantage in the transport sector and respond to the expectations of stakeholders, but also contribute to a sustainable future based on common values tailored to the needs of future generations.

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 sustainable development across all areas of its activity. In 2022 the LTG Group approved the Sustainability Policy – an important document setting the LTG Group's goals and objectives of sustainability activities, sustainability principles and priorities. This policy sets out the long-term Group priorities for the environmental protection, social and governance areas in which the LTG Group has the greatest impact on the environment and seeks to create the greatest value and make a significant change. Given the significant contribution and impact of the LTG Group activities at the national level, sustainable activities aim to contribute not only to the organisation of the LTG Group's activities, but also to the state's progress in the field of sustainability.

The LTG Group aims to build the future of the Group based on the culture of sustainability and to adhere to strict sustainability principles and values when making all of its business decisions. Sustainable activities in the 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). In addition, the International Labour Organisation Declaration on Fundamental Principles and Rights at Work, recommendations of the State Coordination Centre established by the Government of the Republic of Lithuania ensuring implementation of the Good Governance principles in state-owned enterprises are essential to the sustainability activities.

RELATIONS WITH THE STAKEHOLDERS

Close and proactive communication and cooperation with stakeholders is a high priority in the activities of the LTG Group. The LTG Group identifies 10 key stakeholders in its activities and bases its sustainability activities on their expectations, assessing potential impacts.

The companies of the LTG Group carry out activities relevant to the society and the whole country: the LTG Group manages and develops the state railway infrastructure, ensures smooth transport of passengers and freight in environmentally friendly transport, ensures traffic safety, 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 the LTG Group to identify, assess and respond to the expectations of all stakeholders. Sustainability management throughout the LTG Group is centralised and equally important for all the Group companies and activities.

Main stakeholders in activity of the LTG Group:

- Employees
- The Ministry of Transport and Communications of the Republic of Lithuania (shareholder)
- State authorities, regulators
- Non-governmental, international institutions, associations
- Business partners
- Private customers
- Suppliers
- Partners
- Communities
- Media

The 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, the LTG Group is committed to regularly improving its performance and compliance with sustainability standards.

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

THE LTG GROUP'S SUSTAINABILITY PRIORITIES, SUSTAINABLE DEVELOPMENT GOALS AND OTHER INTERNATIONAL AGREEMENTS

When implementing its strategic goals and sustainability management priorities, the LTG Group 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 six:

- **Good health and well-being** (goal 3). The safety, health and well-being of employees are top priorities. As one of the largest employers in Lithuania, the Group takes care to ensure that thousands of its employees would be able to perform their functions safely and contributes to ensure their comfort and health. Also, the Group always takes care of the safety and well-being of its clients – passengers and members of the surrounding communities – by esnuring comfortable and safe transportation by one of the greenest means of transportation – trains. The Group's safety vision is zero incidents.

- **Decent work and economic growth** (goal 8). Railways are an integral part of the country's economy and transport. With its sustainable, safe and planned development, the organisation contributes to the economic growth of the country and region, as well as stability of the labour market. The organisation does not tolerate corruption or discrimination, promotes a respectful communication culture equal rights. The LTG Group takes care of the well-being of its employees, continuously aims to improve working conditions and guarantees a stable and competitive remuneration for work.

- **Industry, innovation and infrastructure** (goal 9). The LTG Group contributes to the development of a sustainable and reliable transport infrastructure, promotes the use of innovations and digital technologies in transportation and internal processes. By ensuring safe and reliable transportaion, we contribute to the Lithuanian and regional industry growth and efficient activities.

- **Sustainable cities and communities** (goal 11). Communication and cooperation with communities and response to their interests is important for the activities and development of the LTG Group. We aim for the communities not only to be informed about the planned projects, but for them to participate in related discussions, express their expectations and needs. Also, we contribute to the state sustainable transportation policy and ensure sustainable possibilities for inter-city travels.

- **Responsible consumption and production** (goal 12). In our activities we contribute to the creation of a circular economy and strive to use green technologies in production and other activity cycles. We promote sorting and reuse of waste, as well as responsible use of materials. We save energy and other resources by implementing modern innovative technologies, promoting responsibility of employees and clients, and educating them on the need of sustainable consumption.

- **Climate change mitigation** (goal 13). We aim for a further significant mitigation of our activities on the climate and wish to become a climate-neutral organisation by 2050. We carry out railway electrification, expand opportunities to transport freights via intermodal transport, and encourage passengers to travel by railways – the most environmentally friendly means of transportation.

ESG areas	Sustainability priorities of the LTG Group	Priority Goals for Sustainable Development of the United Nations
Environmental	Reduction of environmental impact	8 DECENT WORK AND ECONOMIC GROWTH; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION
	Digitalisation and promotion of innovation	
Social	Ensuring well-being of employees and developing an organisational culture of high performance	3 GOOD HEALTH AND WELL-BEING; 8 DECENT WORK AND ECONOMIC GROWTH; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES
	Openness to the public and cooperation with communities	
	Comprehensive safety	
Governance	Creation of long-term value for the state and the society	8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
	Ensuring of business continuity and risk management	

In addition to the stated goals, the LTG Group also contributes to other global priorities such as efficient use of energy and natural resources, gender equality, the aim to reduce hunger and poverty, to ensure access to quality education and other key global goals.

Through its actions and initiatives, the LTG Group contributes to the implementation of the European Green Deal and the Paris Agreement, committing to become climate-neutral 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.

The LTG Group 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.

Rail Sustainability Index

In 2022 the LTG Group participated in the new assessment of the International Union of Railways designed to assess sustainability progress in the railway sector. The Rail Sustainability Index (RSi) is a rating system and an online tool designed for the global railway community and providing the contribution of the railway sector to the achievement of the Goals for Sustainable Development of the United Nations. 35 UIC members submitted their quantitative and qualitative sustainability data for assessment, which is an impressive number of participants for assessment of a new index. The LTG Group was happy to receive its first assessment on its progress in the sustainability area, the UIC assessed the Group's efforts to achieve the Goals for Sustainable Development above the average of global railway organisations (the LTG result is 57.7%, while the overall average is 42.4%).

Particularly well received were the efforts of LTG to use only green electricity, the ambition to become climate-neutral and to provide its employees with safe and appropriate working conditions. Although we have areas where we still have a lot to do (e.g. due to the low railway electrification degree we are as yet unable to receive a high assessment for goals 9 and 11), we appreciate our first assessment which proves that we are on the right track in our sustainability journey and aim for our activities to be of high standards.

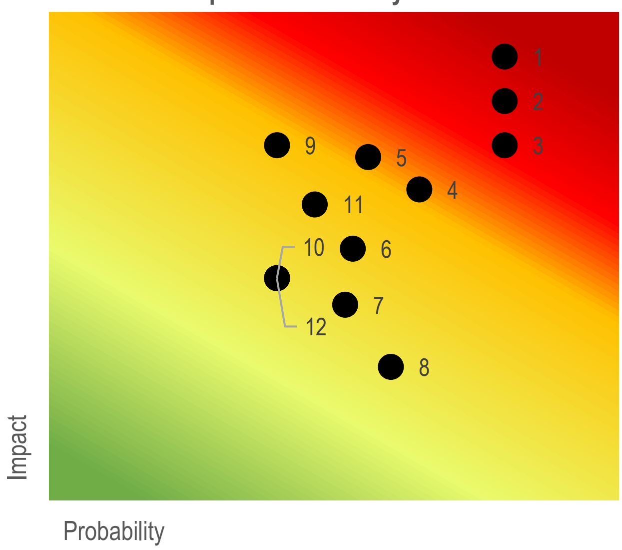
SUSTAINABILITY RISKS AND THEIR MANAGEMENT

In the LTG Group risks are managed centrally. In 2022 the risks related to sustainability and the priorities of the Sustainability Policy were identified for the first time. These risks are related with the risks of the shared risk system within the Group, but reflect specifically the challenges of the sustainability area.

In the map of sustainability risks[2] all of the identified risks are grouped according to their assessed potential impact and likelihood of occurrence.

1 - Risk of failure to guarantee financing for the projects reducing climate impact
2 - Cyber security
3 - Risk of the supply chain disruptions
4 - Risk of failure to meet the expectations of stakeholder groups
5 - Risk of safety incidents
6 - Risk of failure to guarantee compliance of IT systems with business needs
7 - Risk of non-compliance with environmental requirements
8 - Risk of failure to meet political and societal expectations in the area of sustainability
9 - Liquidity risk related to short-term and long-term financing of the LTG Group
10 - Risk of using outdated, less efficient technologies in operations
11 - Risk of lack of human resources with specific competences
12 - Risk of employee retention and turnover

Map of sustainability risks



The table below provides explanations of the identified risks, the reasons for their occurrence and the main tools which the Group uses and will use in order to reduce the impact of these risks on its activities and sustainable development.

[2] The risks related to corruption are assessed and described separately in the section "Resilience to corruption" under the Sustainability Priority "Ensuring of business continuity and risk management".

	Risk	Main risk sources	Potential impact	Risk management tools	ESG areas
1	**Risk of failure to guarantee financing for the projects reducing climate impact**	• Decrease in the Company's financial resources • Failure to guarantee state financing	• Overdue implementation of projects • Loss of reputation due to unfulfilled sustainability committments • Non-compliance with sustainability regulations	• Restructuring, staging of projects • Ensuring fulfillment of the need for human resources • Timely communication with stakeholders	**E**
2	**Cyber security**	• Human factor • Cyber attacks • Social engineering • Technical and cyber vulnerabilities of the system	• Reputational damage in the event of data leakage • Financial losses due to loss of systems or data • Disruptions of critical activities • Failure to guarantee transparency	• Network monitoring system • Security technologies installed in information systems • Regular scans of security breaches • Control of employee access • Internal audits	**G**
3	**Risk of the supply chain disruptions**	• Increase in the prices of sources and raw materials • Longer delivery terms • Potential sanctions for suppliers	• Operational disruptions	• Supplier checks due to sanctions • Advance planning • Reallocation of resources for sections with higher intensity •	**G**
4	**Risk of failure to meet the expectations of stakeholder groups**	• Delayed communication • Incorrectly submitted information • Passenger services and infrastructure not fully adapted to people with special needs	• Reputational damage due to misleading or delayed communication • Non-compliance with regulations regarding rights of people with special needs	• Establishment and implementation of a communication plan • Monitoring of compliance with legal acts • Open, accurate, timely communication • Adjustments of trains and infrastructure to accomodate people with special needs	**S**
5	**Risk of safety incidents**	• Non-compliance with work safety instructions • Non-compliance with technological requirements during repairs	• Injuries of employees or other persons • Financial losses due to damage to rolling stock or infrastructure • Reputational damage due to failure to guarantee traffic/employee safety • Operational disruptions due to traffic accidents	• Regular trainings and instructing • Mobile application which helps to guarantee employee safety • Checks of safety systems • Regular monitoring for implementation of physical and technical protection	**S, G**
6	**Risk of failure to guarantee compliance of IT systems with business needs**	• Insufficiency of digitalisation and automation • Occurence of new needs due to the changing business environment • Loss of data due to technical (electricity failures, floodings) and organisational (harmful activities, errors) factors	• Financial costs due to recovery of system activities or data • Reputational damage due to data leakage • Low operational efficiency due to insufficiently digitalised processes • Operational disruptions • Non-compliance with data protection requirements	• Development of project management tools • Update of business management systems • Updates of access management processes and tools	**E, S, G**
7	**Risk of non-compliance with environmental requirements**	• Insufficient financing • Sharing of responsibility with third parties • Inappropriate equipment • Non-compliance with preventive measures	• Administrative sanctions due to non-compliance with environmental requirements • Reputational damage • Financial costs to eliminate causes	• Initiation of projects for clean-up of territories • Implementation of noise mitigating measures	**E**

	Risk	Main risk sources	Potential impact	Risk management tools	ESG areas
8	**Risk of failure to meet political and societal expectations in the area of sustainability**	• Reduction/termination of investments due to political and economic situation	• Reputational damage due to failure to implement sustainability committments • Non-compliance with sustainability regulations • Failure to obtain external financing	• Assessment and management of stakeholder expectations • Preparation and implementation of the action plan for sustainability activities • Inclusion of sustainability criteria into asessment of strategic projects • Trainings and regular communication for employees and partners	**E, S, G**
9	**Liquidity risk related to short-term and long-term financing of the LTG Group companies**	• Challenges related to financing of bonds • Insufficient borrowings from banks • Failure to guarantee a credit line	• Failure to guarantee financial stability • Failure to guarantee operational continuity	• Signing of a credit line agreement • WHO agreement for long-term financing • State budget subsidies for investments into infrastructure	**G**
10	**Risk of using outdated, less efficient technologies in operations**	• Use of outdated and no longer supported technologies due to technical, financial and organisational reasons • Long technological life cycle	• Low operational efficiency • Potential operational continuity disruptions	• Installation of new systems • Modernisation of technologies • Transfer of functionality to other systems	**E, G**
11	**Risk of lack of human resources with specific competences**	• Labour market trends in the country • Long period necessary for preparation of specialists • Lack of prestige of certain professions	• Potential impact on continuity of critical activities due to shortage of human resources	• Improvement of working conditions • Improvement of prestige of certain professions • Automation of activities • Formation of employer image	**S**
12	**Employee retention and turnover risk**	• Insufficient communication of expectations and priorities • Potential insufficient involvement of management • Labour market trends in the country	• Failure to guarantee operational continuity due to shortage of human resources • Decrease in operatonal efficiency due to employee turnover • Loss of experience and knowledge	• Strengthening of change management skills • Clear, stuctured internal communication and knowledge management • Ensuring preservation of information by using IT tools • Strengthening of organisational culture	**S**

ENVIRONMENTAL AREA

Rail transport is one of the environmentally friendliest modes of transport, consuming up to ten times less fuel for freight and passengers transportation 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, the LTG Group 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 travelling 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 State Data Agency, 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.

There are two main sustainability priorities in the environmental area identified by the LTG Group:

- **Reduction of environmental impact;**
- **Digitalisation and promotion of innovation.**

With reduction of climate change impact, digitalisation of processes and installation of innovative solutions, the LTG Group contributes to the following global Sustainable Development Goals.

REDUCTION OF ENVIRONMENTAL IMPACT

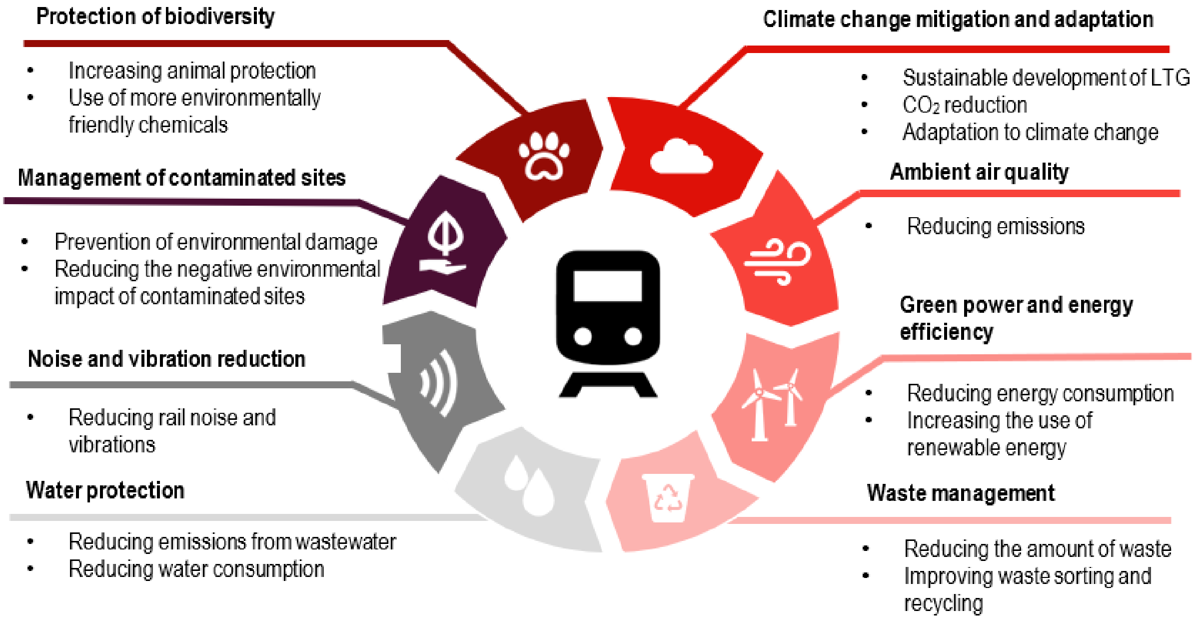
WE TAKE CARE OF THE ENVIRONMENT: WE SEEK TO BECOME A CLIMATE-NEUTRAL ORGANISATION BY 2050

The LTG Group, being socially responsible, 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, the Environmental Protection Strategy 2030+ of the LTG Group, the essence of which is to set the environmental protection objectives of the 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, was prepared and approved in 2021.

Indicators of priority

Indicator	Unit of measurement	2022	2021	2020
REDUCTION OF ENVIRONMENTAL IMPACT				
Total CO2 emission	thousand tonnes	110.5	181.0	193.5
Decrease in total CO2 emission compared to 2005	%	58.0	31.0	26.2
Specific CO2 when transporting freights	gCO2e/tkm	12.7	11.3	11.2
Decrease in specific CO2 when transporting freights compared to 2005	%	32.2	39.8	42.2
Specific CO2 when transporting passengers	gCO2e/pkm	45.0	51.9	60.8
Decrease in specific CO2 when transporting passengers compared to 2005	%	31.7	21.2	7.6
ENERGY EFFICIENCY AND ENERGY FROM RENEWABLE ENERGY SOURCES				
Share of energy from renewable energy sources	%	100.0	100.0	100.0
Energy efficiency when transporting freights	kWh/tkm	0.049	0.044	0.043
Energy efficiency when transporting passengers	kWh/pkm	0.207	0.235	0.274
Share of energy from renewable energy sources in transportation	%	9.7	8.4	6.8
Share of energy from renewable energy sources when transporting freights	%	7.0	7.0	5.56
Share of energy from renewable energy sources when transporting passengers	%	22.6	21.3	20.0
WASTE MANAGEMENT				
Share of recycled waste and waste suitable for energy generation	%	99	99	94
AMBIENT AIR QUALITY				
Nitrogen oxides from traction rolling stock	t NOx	1,532.0	2,511.0	2,665.0
Hard particles from traction rolling stock	t KD	42.0	69.0	73.0

The Environmental Protection Strategy of the LTG Group specifies **8 main priorities**:



To achieve the ambitious goals and mitigate its environmental and climate-related impact, the LTG Group implements environment-friendly projects, such as electrification of railways, acquisition of electric rolling stocks, optimisation projects of fuel consumption and lighting, initiatives promoting waste sorting, waste reuse, etc.

1. CLIMATE CHANGE MITIGATION

Based on the results for 2022, the total CO2 emissions from railway transport decreased to 110.5 thousand tonnes but this resulted mainly from lower volumes of transported freights and changed structure of freight nomenclature. In addition, the LTG Group continues to move towards its objective to reduce the emission of railway transport by as much as 30% compared to 2005. Increased passenger traffic and improved train occupancy resulted in lower specific emission of passenger trains (i.e. emission per passenger).

Taking into account international commitments, expectations from the shareholder of the LTG Group related to the objectives of the Lithuanian Green Deal and the ambition of the LTG Group to become a climate neutral organisation, the Strategy sets objectives that enable mitigating climate change and adapting to it:

- 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.
- To assess the measures of adaptation to climate change and its impacts and to improve resilience of railway infrastructure to climate change and its effects.

To achieve these goals, the LTG Group is developing strategic projects significantly contributing to climate change mitigation and to the LTG Group's ambition to become a climate neutral organisation by 2050:

- Electrification of tracks – electrification of the main Vilnius-Klaipėda corridor is planned, allowing to replace old diesel locomotives and trains with electric locomotives and trains, thus reducing pollution and cost of traction.
- Re-electrification of previously electrified tracks to modernise those that are reaching the end of their useful life.
- Rail Baltica is a greenfield rail transport infrastructure project that aims to integrate the Baltic countries into the European rail network by linking Helsinki, Tallinn, Perm, Riga, Panevėžys, Kaunas, Vilnius and Warsaw. The European track to Kaunas has now been built and the connection to the Kaunas intermodal terminal has been completed.
- Acquisition of electric trains – the aim of the project is to replace the non-compliant diesel trains with modern, environmentally friendly electric rolling stock, which will substantially reduce emissions in passenger transport operations, ensure compliance with the Passenger Rights Regulation, and improve customer satisfaction.

- Acquisition of electric locomotives – plans are made to renew and optimise the traction rolling stock fleet in the future by replacing locomotives with new electric locomotives, which have energy and maintenance costs about 40% lower than those of diesel locomotives.
- In 2021, LTG Cargo started intermodal freight services from Kaunas Intermodal Terminal to Western Europe. Intermodal freight, especially when transported by electrified rail, produces significantly lower CO2 emissions compared to trasnportation via roads. The ongoing development of the service creates new preconditions for promoting more sustainable logistics. For this purpose, LTG Cargo will issue CO2 saving certificates for clients who used intermodal freight transportation services in 2022. Multimodal transport makes it possible to shift an increasing proportion of freight onto rail under competitive conditions, thereby reducing environmental impact, freeing up road transport routes and addressing other environmental and safety challenges.
- Creation of a battery-charging infrastructure for passenger trains in the railway. Such infrastructure allows environmentally neutral battery-run trains operate even on non-electrified railway rails.
- Preparation of a freight rolling stock management strategy.
- Renewal of the car park by replacing cars with internal combustion engines with hybrid and electric cars.

In 2022 the LTG Group's car fleet of passenger and commercial vehicles up to 3.5 tonnes comprises 56 vehicles (11% of the park and plans are made to increase this portion). In 2022 the LTG Group optimised its car fleet as it renounced more than 50 cars of the highest management and additionally more than 50 cars owned by the LTG Group companies were optimised. Currently, a vehicle renewal programme is being actively prepared and it will be used to replace the car fleet with hybrid and electric vehicles.

In 2022 the LTG Group was actively involved in the update process of the National Energy and Climate Action Plan (NECP) organised by the Ministry of Environment of the Republic of Lithuania together with the Ministry of Energy of the Republic of Lithuania. The update of the NECP is an important part of the implementation of the international climate change objectives set out in the 2015 Paris Agreement and the EU climate change and energy policy mitigation (GHG reduction) goals and targets until 2030.

Together with other social partners 86 potential decarbonisation measures for the whole transport sector were submitted, out of which the LTG Group submitted as many as 19 intended specifically for the railway transport. Railway transport is significant when implementing decarbonisation of the transport sector – the GHG emission of railway transport amounts only to 2.9% of the whole sector; however, as much as 28% of freights and 10.3% of passenger flow is transported. During the NECP update process the decision was made to continue two current railway transport measures, i.e. the Rail Baltica project and railway electrification. Other measures, such as renewal and modernisation of passenger and freight rolling stock, the pilot project of alternative fuel – hydrogen – powered train, measures aimed at promotion of commuting by trains and improvement of their accessibility were also received positively and included into the updated NECP. Also included were two intermodal freight transportation measures which encompass both the technical development of the freights themselves and the measures and equipment necessary for transportation of freights (special rolling stock, mounting systems, etc.). The total effect of the decarbonisation measures to be implemented and submitted by the LTG Group amounts to approximately 700 thousand tCO2e during the 2025–2030 period.

2. GREEN POWER AND ENERGY EFFICIENCY

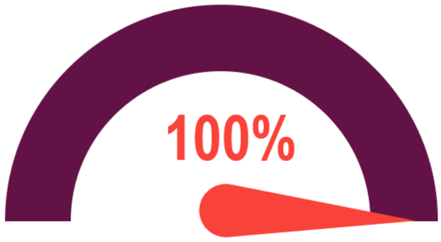
The LTG Group is one of the largest consumers of electricity in Lithuania; therefore, energy efficiency solutions are especially relevant. Particularly because environmental protection is one of the principal sustainability priorities of the present-day LTG; the Group commits to invest in innovative, energy-saving and environmentally friendly technologies.

The Strategy defines the following energy efficiency targets:

- to reduce energy consumption in passenger and freight transport by 40% by the year 2030, and to reduce energy consumption by 50% by the year 2050, compared to the year 2005;
- by the year 2030, to achieve 30% of rail transport energy consumption from RES (renewable energy sources);
- by 2030, the share of RES in energy production shall comprise 45%, and by 2050 – 80%.

Although due to structural changes of freight flows energy efficiency when transporting freights increased slightly in 2022 compared to 2021, the total energy efficiency of the LTG Group when transporting freights has already decreased by as much as 30% from 2005. Meanwhile, energy efficiency of passenger transport increased by 12% compared to 2022. This resulted from the increasing flow of passengers and various energy saving measures applied in train management.

Consumption of green electricity in LTG Group



In 2022, the share of energy from renewable energy sources (RES) when transporting freights and passengers increased, but the most significant breakthrough will be achieved when the rolling stock fleet will be renewed with electric locomotives, electric and battery-run passenger trains. Currently, RES comprises part of bio-additives in diesel fuel and the green energy. Already since 2019, green energy is used throughout the LTG Group both for electric traction and for other applications such as lighting or heating. The use of such electricity for electric traction alone saved 5.2 thousand tonnes of CO2e in 2022.

In 2021, the LTG Group and the Ministry of Energy of the Republic of Lithuania signed an Energy Saving Agreement. For the implementation of the Agreement LTG will aim for energy savings by implementing saving measures, including but not limited to the following saving measures: modernisation of lighting equipment (LED technologies), network electrification, real estate optimisation, modernisation of buildings, modernisation of boiler rooms, renewal of the vehicle fleet. Currently, measures and potential saving amounts are reviewed and a specification of the Energy Saving Agreement is planned in 2023. Energy savings under the measures can be preliminary estimated at approximately 2.6 GWh in 2023, and up to 50 GW in 2030, the volume of energy produced from renewable energy sources will amount to 6.2 MWh in 2023, 3600 MWh in 2030, and RES capacity to 11.0 kW and 3855.0 kW, respectively. Also, in response to the unstable situation resulting due to energy prices, when updating its strategies LTG will include initiatives for renewable energy sources in order to meet electricity needs.

An energy consumption audit was carried out in the LTG Group in 2022 following the procedure provided in the “Methodology for auditing energy, energy resources and water use in technological processes and equipment” approved under Order No. 1-141 of the Minister of Energy of the Republic of Lithuania dated 10 May 2010. The purpose of the energy consumption audit was to identify the volume of energy usage, to specify possibilities to reduce energy consumption as well as to provide for appropriate technical and organisational measures in order to ensure better power usage effectiveness in the company. The audit covered all types of energy used in the company and all energy-using equipment and technological processes and was carried out separately for all companies of the LTG Group. The economic feasibility of the proposals submitted in the reports was assessed based on the simple payback period calculation. The cost and expenditure analysis for energy, energy resources and water was carried out and energy efficiency improvement measures reducing energy cost and expenditure were provided, energy savings of the energy, energy resources and water consumption efficiency improvement measures were assessed by their energy-saving volumes and values, as well as the amount of necessary investments, possibilities for usage of renewable energy sources and its benefits, and proposals were prepared for efficiency improvement of all types of energy.

In order to reduce energy consumption, in 2022 twelve buildings in Vilnius, Kaunas, Klaipėda and Šiauliai were conserved within the LTG Group – a total of almost 5 thousand m^2. The need for physical working spaces has decreased due to the changed working habits of the employees as a considerable portion of staff within the Group choose the hybrid work model. Areas in some buildings were replanned and the space available is used more efficiently. Following transfer of working spaces into these buildings, some buildings have become redundant. Currently, alternatives are assessed concerning the future of these buildings.

In response to the global energy crisis and in order to achieve the highest energy efficiency, starting from 2022 the LTG Group has prepared a detailed action plan providing the projects and measures which will help to significantly reduce energy consumption within the Group, and independent energy production from renewable energy sources was initiated. Already in 2023, following implementation of a cost reduction plan for heating and lighting of buildings, smarter heating of the remaining buildings used, replacement the type of lighting with a more up-to-date one the LTG Group plans to use almost 1.4 GWh less electricity and save more than EUR 1.3 million. These results will be achieved by terminating use of unnecessary real estate, adopting smarter heating options and replacing lighting with a more up-to-date and sustainable LED.

During 2022, the LTG Group successfully implemented pilot projects aimed at increase of energy efficiency and production of energy from renewable energy sources: monitoring of fuels costs in rolling stock, installation of smart lighting, projects related to implementation of renewable energy sources and other projects. Also, the projects of IT infrastructure optimisation carried out by the LTG Digital department – the team managing information technologies within the LTG Group – made a significant contribution to the energy saving goals.

More information on the projects and their results is provided in the “Digitalisation and promotion of innovation” section of the Sustainability Report.

3. Ambient air quality

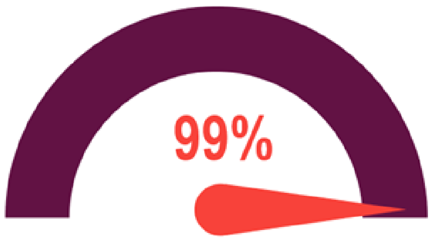
In addition to mitigating the impact of its activities on climate change, the LTG Group's Strategy commits to improving the quality of ambient air and has set a target to ensure that the LTG Group's emissions of pollutants to ambient air from traction rolling stock in 2030 are 40% lower than in 2005. 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.

The quantity of pollutants depends directly on the amount of fossil fuel used in railway transport; therefore, the volumes of freight and the amount of emissions were decreasing simultaneously (85% of these pollutants are emitted from transportation of freight). Emissions to ambient air will be significantly 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.

The LTG Group constantly monitors the emissions of pollutants from stationary sources of air pollution into the ambient air. 185 stationary sources of air pollution are monitored – no exceedances of pollutants were identified in 2022.

4. Waste management and the circular economy

LTG Group recyclable and energy-efficient waste



Waste management priorities of the LTG Group are to reduce the amount of waste generated, to implement the principles of circular economy, to ensure safe management of waste for human health and the environment, and the rational use of waste, raw materials 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 energy recovery. In 2022, the LTG Group can be proud of its great achievements – recyclable and energy-efficient waste increased from 90% to 99% over the past three years. A future goal of the LTG Group is to maintain high rates of recycled waste and to provide for measures not only to reduce the total amount of waste but also to promote the reuse of materials, extending their useful life as much as possible.

The growing focus on the circular economy, e. g. the reuse of wooden and reinforced concrete railway sleepers, track ballast, 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 transferred 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 2022, trainings were organised for all employees of the LTG Group, also the heads of the divisions had an opportunity to find out about the waste management process in waste collection and waste sorting companies.

Since 2019, reusable industrial wipes and oil-absorbent floor coverings have been used in manufacturing which have replaced disposable wipes, sorbents. In this way, employees' awareness regarding waste sorting is growing, and production rate is increasing because of the fact that up to 5 times more of soiled surfaces is cleaned using reusable wipes as compared to the use of disposable ones. Since the beginning of use, the reusable industrial wipes contributed to saving 1.3 million units of disposable wipes and approximately 34,500 units of oil-absorbent floor coverings. This amounts to more than 25,000 kg of waste.

Since 2019, we have been significantly reducing the amount of paper used for printers and documents on the level of the entire LTG Group. Although in 2022 the project was successfully completed (more than 90% of all documents within the Group are digital), the Group continues to implement initiatives and process renewal projects in order to further decrease the total amount of the paper used.

In 2022 three auctions were organised for write-off of computer and office machinery. A total of 700 units of machinery were prepared and sold for secondary use. 164 units of laptops and a considerable amount of communication equipment (phones, cables, modems, etc.) were prepared to be sent to the war-ridden Ukraine for charity purposes.

To improve the conditions for passengers to sort waste and recyclables, new two-compartment sorting containers made of recycled plastic have been introduced on all electric trains. Also this year, recycling bins have been installed in the waiting areas of passenger service of 41 stations.

5. Water protection

Seeking to protect the environment from contamination by discharge of wastewater, to improve the quality of surface water and ensure compliance with the environmental protection legislation, wastewater discharged by the LTG Group is treated in the wastewater treatment plants. In order to ensure effectiveness of these plants, maintenance of household, industrial and surface (rainwater) wastewater treatment plants and laboratory control of discharged wastewater are carried out on a regular basis. A total of more than 200 waste outlets are monitored highly focusing on monitoring of wastewater discharged by stations and loading platforms as well as other industrial objects. When exceedances are identified, an action plan is drawn up individually for each object in order to stop the increased pollution as soon as possible.

The LTG Group supplies drinking water and technical water for residents' and its own needs. In order to ensure the quality of drinking water, a microbiological and chemical water analysis is performed in accordance to the control plans agreed with the State Food and Veterinary Service.

6. Noise prevention

The LTG Group pays particular attention to reducing noise and vibration caused by railway transport. This problem has been identified as one of the most important ones by the International Union of Railways (UIC), which has also set a target for 2050 to achieve that noise and vibration would no longer be an issue for rail transport, i.e. that is, railway traffic would be operated within the established noise and vibration limits. To achieve this goal, companies of the LTG Group implement the measures provided for in the municipal noise prevention action plans: implement electrification projects, improve and constantly monitor the railway infrastructure, control the speed of trains, organise freight train traffic as often as possible during the day rather than evening or night, repair wagons, implement noise reduction measures.

7. Cleaning up contaminated sites

Identification, investigation and development of management programmes for historically contaminated sites continue to be a major focus within the LTG Group. Groundwater monitoring is being carried out at 10 sites in the LTG Group to manage already identified contaminated sites. In 2022 LTG cooperated with the Ministry of Environment of the Republic of Lithuania and the Environmental Protection Department under the Ministry of Environment to purchase oil product pollution elimination measures to be used in Nemunas, the installation of these measures is planned in 2023. LTG plans to continue focusing on the clean-up of historically contaminated sites through cooperation with municipalities and state institutions.

The objective of the LTG Group is to identify contaminated sites managed by the LTG Group and to remediate priority contaminated sites by 2030:

- Collecting information on contaminated sites in cooperation with state institutions.
- Establishment of a programme for the management of contaminated sites, identifying priority contaminated sites, the type of handling and financing needs.
- Eco geological surveys of priority contaminated sites and preparation of management/monitoring plans.

8. Biodiversity protection

The LTG Group aims not only to reduce environmental pollution but it also contributes to the protection and restoration of biodiversity.

In Žasliai, near the railway station, residents of the small town and train passengers can enjoy a green zone. Together with representatives from Žasliai community, its district authorities and Kaišiadorys district municipality, we have planted 400 trees and bushes. During the campaign we also commemorated the largest train accident in the history of Lithuanian which took place on 4 April 1975.

When planting areas near the railway we:

- reduce train noise for residents;
- create a sustainable infrastructure which is beneficial not only for protection of the railway from the impact of wind and snow;
- improve the landscape and strengthen the natural carcass.

Railways together with protection zones form a significant part of the Lithuanian cultural landscape. Accordingly:

- 135 plants were planted in Kėdainiai (trees and bushes) with a height from 1.3 – 3 metres;
- 5 trees were planted in Giruliai with a height of 4 – 5 metres;
- 18 trees were planted in Pavenčiai railway station with a height of 2 – 2.5 metres;
- 8 plants (trees and bushes) were planted in Kazlų Rūda with a height of 0.8 – 2 metres;
- 20 thousand seedlings were restored/planted throughout the regions with a height of 0.5 – 1.2 metres.

As an element of the green infrastructure, railway protection plantations are the most natural measure which not only reduces noise or spread of pollutants, but also carries out economic and other nature protection functions, such as CO2 gas absorption and climate change mitigation, etc.

In 2022, 4 incidents with a threat of environmental damage occurred during transportation of freight. In all cases, no environmental damage has been made as all the necessary preventive measures have been applied in a timely manner. Taking into consideration that the Group companies transport a large amount of hazardous freights, we see a trend of decreasing number in incidents with a threat of environmental damage. In 2021 we had 8 incidents.

DIGITALISATION AND PROMOTION OF INNOVATION

WE SEEK FOR EFFECTIVE USE OF RESOURCES: WE DIGITALISE PROCESSES AND INSTAL MODERN SOLUTIONS

The Company is undergoing digital transformation, which helps to use resources of the LTG Group 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. Moving of many day-to-day complex processes to the digital space allowed to make the most of resources, increase the speed and validity of decisions, reduce the likelihood of errors and strengthen security.

OPTIMISATION OF LTG DATA CENTRES AND IT INFRASTRUCTURE

By managing large IT economy of the LTG Group, the group contributes to realisation of the Green Goal and sustainability priorities. During 2022, significant work was carried out to optimise LTG's data centres and infrastructure facilities, replacing outdated IT equipment with new, energy-efficient equipment, and recycling computer workstation equipment. The main results of this work are as follows:

- Data centre optimisation. The project eliminated two of its own data centres and concluded a long-term data centre lease agreement with an external supplier. As a result, the energy costs of data centre infrastructure (climate support, lighting, security, etc.) have been reduced by around 30%. The leased data centre of the supplier uses only green electricity and various energy efficiency solutions.
- Scrapping and disposal of obsolete, energy-wasting equipment. Over 6 tonnes of unwanted, non-reusable IT equipment was delivered to an e-waste collection and recycling company in 2022. This has allowed to keep only 6 out of 12 storage facilities and to reduce storage costs and energy consumption by up to 50%.
- Upgrading data centre equipment and adopting cloud technologies. Around 100 units of server equipment and storage were dismantled in the data centres after the upgrade of server equipment and migration of some systems to cloud platforms. The project has resulted in a 10% reduction in electricity consumption and, thanks to the operation of some of the systems on cloud platforms (e.g. AWS), they use 100% renewable electricity.
- Implementing a policy on the sustainable use of computer equipment. As a result, three auctions of decommissioned computer and office equipment were organised and 164 laptops were prepared for charity in Ukraine. Communication equipment (telephones, cables, modems, etc.) was also transferred to Ukraine.

PILOT PROJECTS TO PROMOTE IMPLEMENTATION OF INNOVATIVE TECHNICAL SOLUTIONS IN THE LTG GROUP

➢ Smart lighting

In order to assess the feasibility and effectiveness of smart solutions to reduce energy consumption in LTG facilities, a new technology for control and diagnostics of the area lighting system, “EcoLight”, was tested at Stasylos railway station. The pilot project achieved a 79% electricity saving, compared to the previous typical electricity consumption. Among other things, the selected system's capabilities allow for remote identification of lighting faults, thus ensuring faster troubleshooting, and the analytical reports generated by the system make it possible to address electricity saving issues in various LTG facilities (sites and buildings).

➢ Monitoring fuel consumption on railway rolling stock

Fuel costs account for a significant part of the LTG Group's total costs, so one of the priority areas for cost reduction is fuel efficiency through smart technologies that avoid or minimise the human factor. To assess these opportunities, the pilot project selected a shunting locomotive with remote fuel consumption monitoring equipment in the fuel tank, equipped with CPC Tracking technology. During testing, the actual fuel level and the location of the locomotive were continuously recorded in real time. The chosen technology also enables to assess fuel consumption against set consumption norms, depending on control modes and the search for solutions to improve fuel efficiency and reduce the costs. Meanwhile, the monitored data can be integrated into other digital tools for the operational management of available resources being deployed or planned by the LTG.

- Installing solar modules in sound-absorbing walls

Currently, LTG uses sound-reflecting and sound-absorbing walls, which serve the main function of protecting the surrounding population from noise, but do not add value. In order to optimise use of the constructions of the existing railway infrastructure, a pilot project on the installation and testing of solar modules in sound- absorbing walls has been launched to evaluate the performance of a vertical double-sided solar module under real conditions and the performance of the sound-absorbing material with the solar modules in place. The expected effect of the tested technology is to reduce the fixed costs of the sound-absorbing walls and the amount of electricity purchased, as well as to increase the amount of electricity generated from renewable energy sources. The electricity generated is expected to be 13 MWh in the first year and 372 MWh over the lifetime of the project, with savings from self-generated electricity (not purchased from the supplier) amounting to EUR 2.6 thousand in 2023 and savings of approximately EUR 114 thousand over the lifetime of the project. If the trials are successful, the solution can be extended to new sound-absorbing walls to be planned and installed.

- Installing solar modules on the roofs of LTG buildings

Although Lithuania is located between 54° and 56° N latitude, research shows that the amount of solar radiation is sufficient to meet the country's energy needs. Lithuania's geographical location means that a solar effect similar to Denmark can be expected. According to data from the Photovoltaic Centre of the Institute of the Lithuanian Scientific Union, the comparative solar energy input to the horizontal surface in Lithuania is about 1000 kWh/m2. This is much higher than in the UK and Scandinavian territories, and only by 10% lower than in Germany, where solar power plants are particularly common. The roof of the Radviliškis locomotive depot buildings at 63 Daukanto g. (area 9056 m2) was chosen for the pilot project. The assessment calculations showed that the annual electricity production would be 190 MWh and the annual GHG emission reductions would be 79 tCO2e according to the EPMA methodology. Thus, photovoltaic solar plants installed on the roofs of LTG industrial, administrative or other buildings would have huge potential.

- Hydrogen use in railway rolling stock

Between 2020 and 2024, the European Commission plans to finance installation of at least 6 GW of electrolysis plants to produce hydrogen from renewable sources. Up to 1 million tonnes of hydrogen from renewable sources should be produced by 2024 (1 GW of such plants are currently in operation). Between 2025 and 2030, hydrogen must become an integral part of the EU's integrated energy system, with up to 40 GW of renewable hydrogen electrolysis plants installed and up to 10 million tonnes of clean hydrogen produced. Between 2030 and 2050, hydrogen technologies must become widely used in industry and transport, and in other areas that are harder to decarbonise. To achieve this goal, the LTG analyses solutions that can make a significant contribution to climate change mitigation and the LTG's ambition to become a climate neutral organisation by 2050. The potential of using a train powered by green hydrogen (where hydrogen is produced from water by electrolysis, electrically splitting the water into hydrogen and oxygen with no CO2 emissions) on the LTG network is currently being assessed. The aim of the pilot project is to test a hydrogen-powered train on LTG infrastructure, focusing on the actual running of the hydrogen-powered train, fuel consumption analysis, refuelling technology and other operational aspects. The expected benefits of the project are a substantial reduction of emissions from passenger transport operations on non-electrified railway lines.

- Rail milling

LTG Group is constantly looking for new and innovative technologies that will help us to carry out track and switch maintenance in a high-quality, efficient and timely manner, at the lowest possible cost and with minimal environmental impact. One such technology has been approved at Kybartai railway station as part of a pilot rail milling test project. The project aimed at assessing the appropriateness of the technology for LTG in the following technical and financial aspects: restoring the shape and profile of the rail head, reducing the noise generated by rolling stock, ensuring the prevention and detection of rail defects and prolonging the service life of the rails, and reducing the cost of LTG for the maintenance of the rails and turnouts. The results of the pilot project on rail milling suggest that the introduction of this technology will allow achieving all the objectives set for the project.

➢ Automated level crossing monitoring

In order to prevent traffic accidents at level crossings and to take preventive measures to improve traffic safety, a pilot project for automated monitoring of the Gustonys – Panevėžys level crossing was carried out, with the aim of automated recording of road traffic offences, number plates of vehicles, vehicles stopped at the level crossing, to determine how many vehicles pass the level crossing per day, and how many vehicles passed after the barriers were raised during the relevant time interval. The pilot project achieved sufficient accuracy in the assessment criteria and identified areas for improvement. The results of the pilot project suggest that the automated level crossing monitoring equipment should be deployed at other LTG level crossings.

➢ Object tracking at the railway station

In 2022, a pilot project was carried out at Vilnius railway station, during which passenger flows in the station area and the safe number of passengers on the platform were counted, the directions of people movement were recorded, luggage and other items left in the station area were recorded, and people in the danger zone (close to the tracks or on the track) were recorded (the situation was modelled by an employee of the LTG, and the reaction of the staff monitoring the station area and the passenger palace building was monitored and protected). The pilot project included installation of dedicated cameras from different manufacturers and their calibration with the LTG software. The results of the pilot project show that the technology can be used as a preventive measure to improve the security of the station area and the building, as well as to identify areas for improvement of the LTG video surveillance equipment. Lessons learnt can be used to address the implementation of security enhancements in LTG facilities.

➢ Register of innovations

As part of the continuation of the digitisation of LTG's functions and tasks, the Innovation Register has been developed as an automated tool to initiate the process of selecting innovative solutions by establishing a clear, uniform set of steps for the whole LTG group of companies. It will help to search for innovations, assess their feasibility, test pilot projects and decide whether to pursue an innovation. The Innovation Registry is built based on the solutions of the tool 'Power Automate' on Microsoft Power platform used for easy management, navigation, collection, automation and analysis of data, which can be integrated with Microsoft and third-party solutions, e.g. monitoring process of the key operating indicators (KPI) and reporting on the PowerBI platform, task allocation and control on Microsoft Teams platform. The fully digitised and automated process helps avoiding repetitive tasks and is time and cost saving. The process for selecting innovative solutions is hosted in LTG ARIS and the terms used in the process are linked to the digital LTG Business Glossary.

LTG CARGO SUSTAINABLE INNOVATIONS

LTG Cargo invests in sustainable innovations that increase efficiency, transparency, protect the environment and help grow its business:

- Overhauls of locomotives and freight wagons (minor and major planned repair programmes of locomotives and freight wagon repair programme of LTG Cargo).
- Semi-trailer handling equipment is manufactured, and specially adapted flat wagons are prepared for loading and transporting all types of semi-trailers. Part of them have already been manufactured, part are in production.
- Digitalisation: a mobile app for wagon inspectors was started being used and an app for shunting operators is being tested. The apps will help make everyday tasks faster and more convenient.
- On 5 October 2022, the X-ray machine officially opens at Kena railway station. This X-ray machine significantly facilitates cargo inspections and customs work.

TRAIN TICKETING SYSTEM

In 2022, LTG Link has introduced a completely new ticketing system. Perhaps the most significant change for passengers buying train tickets online is that from the end of March they are able to plan their journeys and access all the information they need on the company's new website www.ltglink.lt, and from May and September onwards, on the Android and iOs mobile app, respectively.

The new system is tailored to meet the different needs of passengers – those with individual needs can now benefit from improved and tailored reading functionalities, self-purchase tickets with extra space for wheelchairs or guide dogs, and other solutions to simplify ticketing and journey planning. The new ticketing channels also provide more information about each route or changes to a route, allowing customers to see all the stops along the route, the train's parameters and the services it offers. In case of questions, visitors can use the live chat plugin to contact customer service specialists directly.

SOCIAL AREA

LTG Group is one of Lithuania's largest employers and a major infrastructure business. The Company aims to be not only the national company that generates the greatest economic benefits for the state, but also the one that both employees and society would be most proud of. Only transparent, open, efficient and modern management principles will drive the country's economic progress. The responsibility is not only to shareholders, with whom financial returns are shared through dividends, but also to employees and society at large.

The LTG Group's pursuit of sustainable growth is unthinkable without sustainable integration into society, so social partnership is an area of particular focus. The Company aims to provide not only financial but also social benefits to society, investing heavily in education, social initiatives and campaigns, and engaging with the public on the basis of the principles of equal opportunities, social well-being, security, and human rights.

In the social area, the LTG Group emphasises three main priorities on which it bases its activities and initiatives:

- **ensuring staff well-being and developing a high-performance organisational culture;**
- **openness to the public and cooperation with communities;**
- **comprehensive safety.**

LTG Group is committed to the well-being of its employees, to engaging with communities and to meeting their expectations by setting the highest safety bar. Through its social actions, LTG Group aims to contribute to the following global Sustainable Development Goals.

LTG Group aims to achieve its social objectives as set out in the LTG Staff Management Strategy, the Safety Management Policy, the Employee Personal Data Retention Policy, the Stakeholder Engagement Policy, the LTG Principles of Working for LTG, the action plans and other documents.

ENSURING STAFF WELL-BEING AND DEVELOPING A HIGH-PERFORMANCE ORGANISATIONAL CULTURE

CREATING VALUE FOR EMPLOYEES: HELPING THEM TO DEVELOP WHILE FOSTERING A HIGH-PERFORMANCE ORGANISATIONAL CULTURE

LTG Group places particular emphasis on ensuring the well-being and functional competencies of its employees, as well as on developing human capital and encouraging employees to become involved in the LTG Group's activities. The aim is to develop an effective social dialogue with employees and to create more comfortable working conditions by introducing advanced technological solutions and providing employees with the necessary working tools and benefits. The Company seeks to promote leadership among staff and managers; educational initiatives with social and educational partners; to create and maintain a high-performance organisational culture aiming to build a culture based on LTG Group values and open feedback to improve employee behaviour in day-to-day activities, to increase employee engagement and loyalty, and foster employee integrity and respect for people.

Indicators of priority

Indicator	Unit of measure	2022			2021			2020		
		Total	Male	Female	Total	Male	Female	Total	Male	Female
OVERALL STAFF PERFORMANCE BY AGE, FUNCTION AND GENDER										
Number of employees	persons	6,025	4,095	1,930	7,778	5,211	2,567	8,615	5,786	2,829
Breakdown of staff by gender[3]	%	-	68%	32%	-	67%	33%	-	67%	33%
Key executives	%	-	69%	31%	-	73%	27%	-	73%	27%
Management positions	%	-	61%	39%	-	61%	39%	-	65%	35%
Average age of employees	years	46.7	n/a	n/a	46.6	n/a	n/a	46.1	n/a	n/a
Number of new employees	persons	783	456	327	824	426	398	930	576	354
Positions filled by internal candidates	persons	364	213	151	n/a					
Management positions	persons	30	20	10						
Other positions	persons	334	193	141						
STAFF TURNOVER INDICATORS										
Total annual voluntary staff turnover, including per age groups:	%	10.3%	10.4%	10.1%	10.9%	10.6%	11.5%	6.0%	6.5%	5.0%
Up to 30 years	%	29.3%	n/a		30.5%	n/a		14.8%	n/a	
30-39 years		16.0%			15.36%			7.13%		
40-49 years		8.55%			7.95%			4.30%		
50-59 years		3.83%			4.52%			3.11%		
60+		9.29%			11.92%			8.37%		
OTHER INDICATORS										
Employees who were on parental leave	persons	198	31	167	200	34	166	n/a		
Employees who exercised their right to parental leave	%	n/a	11%	100%	n/a	12%	100%			
Employees who used Mother's Day/Father's Day	persons	1,596	1,118	478	1,174	776	398			
Employees who took advantage of Mother's Day/Father's Day compared to all those who were entitled to it	%	n/a	88%	98%	n/a	95%	98%			

* The presented data of the LTG Group employees does not include the data of LTG Cargo subsidiaries.

[3] CER (Community of European Railway and Infrastructure Companies) – in 2021, women accounted for 21% of the railway workers.

Indicator	Unit of measure	2022			2021	2020
		Total	Male	Female	Total	Total
STAFF TRAINING AND DEVELOPMENT						
Number of participants in trainings	persons	26,709	65%	35%	17,992	15,297
Number of participants in trainings per field:						
Compulsory training to maintain and improve professional, traffic and occupational safety competences	persons	24,831	32%	68%	n/a	n/a
Functional trainings		1,094	33%	67%		
Management and leadership		393	27%	73%		
Digital literacy		391	72%	28%		
Number of participants in training by position group:						
High and top level managers	persons	133	65%	35%	n/a	n/a
Senior managers and experts in specific fields		397	57%	43%		
Mid-level managers and individual domain experts		2,039	56%	44%		
Team leaders and experienced professionals		7,317	65%	35%		
Specialists and experienced operational/service staff		7,649	62%	38%		
Operational/service staff, qualified workers		9,174	76%	24%		
Average number of training hours per employee:	hours/person	13	14	11	20	13
High and top level managers	hours/person	16	15	18	n/a	n/a
Senior managers and experts in specific fields		15	15	15		
Mid-level managers and individual domain experts		10	11	10		
Team leaders and experienced professionals		13	14	11		
Specialists and experienced operational/service staff		16	16	15		
Operational/service staff, qualified workers		16	17	11		
Average number of training per training source:	hours	104,079			158,800	116,000
External	hours	17,892	n/a	n/a	n/a	n/a
Internal	hours	86,187				

Indicator	Unit of measure	2022	2021	2020
RESULTS OF THE “EMPLOYEE VOICE” SURVEY				
Total employee engagement, %	%	48	57	45
male	%	45	54	41
female	%	54	64	52
Satisfaction	%	68	77	66
Diversity and engagement	%	79	78	73
Loyalty	eNPS	-16	6	-16
Employee participation in the survey	%	82	87	73
RATIO OF AVERAGE SALARY FOR MEN AND WOMEN				
All employees	Ratio	1 : 1.05	1 : 1.08	n/a
LTG Holding's Management Council and CEO	Ratio	1 : 1.01	1 : 1.12	
High-level managers	Ratio	1 : 0.90	1 : 0.87	
Senior managers and experts in specific fields	Ratio	1 : 0.97	1 : 1.03	
Mid-level managers and individual domain experts	Ratio	1 : 1.04	1 : 1.04	
Team leaders and experienced professionals	Ratio	1 : 1.04	1 : 1.03	
Specialists and experienced operational/service staff	Ratio	1 : 1.32	1 : 1.35	
Operational/service staff, qualified workers	Ratio	1 : 1.10	1 : 1.09	
HELPLINE INDICATORS				
Number of reports received by the Helpline concerning possible discrimination or other human rights violations at work	unit	6	n/a	n/a

Developing an organisational culture

Focusing on employees and developing organisational culture is one of LTG Group's strategic directions. The basis of an organisation's culture is its values, which are the basis for the behaviour demonstrated in its day-to-day activities.

The development of organisational culture is based on five key principles:

- Open and continuous feedback between all employees in the organisation, regardless of their position or function.
- Equal opportunities: the culture of the organisation is developed on the basis of impartiality and objective as well as transparency criteria, promoting diversity and equality of opportunity that are based on competence, experience and performance.
- Employee involvement: involves all employees in the development of the LTG Group's culture and promotes personal responsibility and initiative.
- Objectivity in planning: the development of the organisation's culture is based on objective data, which is used as a basis for the planning and implementation of actions related to the development of the organisation's culture within the LTG Group. The culture survey measures indicators that reflect the culture of the organisation and individual areas that influence the overall culture of the organisation.
- Uniformity: the objectives, indicators and principles for the development of organisational culture are the same throughout the LTG Group and apply uniformly to all functions and positions.

➢ Values review

In 2022, during the review of the LTG Group's strategic directions, a special focus is placed on a review and clarification of the values in order to test whether the current LTG values are the values that the organisation's employees believe in and live by, and whether they will contribute to the achievement of the organisation's strategy, mission and vision.

We sought to involve all employees in the dialogue, so that values are born from within the organisation. The Values Review project was carried out using an internationally recognised methodology that seeks to make the links between what is important to our employees, what our organisation lives by now and what values we should base our actions on in the future to create a successful organisation.

All employees were invited to engage in the values review process and actively participated in the values survey, the working sessions to clarify the values themselves and to identify specific value behaviours. New LTG Group values are: **Responsibility, Customer, Cooperation, Improvement**. The next milestone is to embed the organisation's newly clarified values and behaviours into day-to-day operations by developing and reinforcing a high-performance culture.

➢ LTG Principles of Work

The LTG Principles of Work came into force on 1 January 2022 and form a document defining the day-to-day behaviour of employees, the principles of workplace ethics, health and safety requirements, other rights and obligations, and the responsibilities for misconduct or failure to perform one's duties, which all LTG Group employees have to follow.

The LTG Principles of Work are important in creating a high-performance culture based on the values of the organisation, ensuring the smooth and cohesive functioning of the LTG Group and the continuous development of the organisation, fostering and reinforcing leadership, openness and trust, orientation to the needs of internal and external customers and the common goals of the LTG Group, the personal effort and commitment of each individual and the creation of a suitable and safe working environment.

➢ Organisational culture survey

Each year, LTG Group conducts an extended survey on the factors influencing the culture of the organisation, called "Voice of Employees". The survey assesses 3 key indicators: employee engagement, satisfaction, loyalty (eNPS). In addition, other areas of high relevance to organisational culture are assessed, such as collaboration, career and development, organisational values, performance management, customer orientation, leadership, diversity management, empowerment, workplace and work safety.

More than 6,200 LTG employees (82%) expressed their views in the 2022 Voice of Employees survey. The extremely high participation rate across the Group's companies demonstrates the willingness of employees to speak up about what they are satisfied with at work and what they would like to change, and ensures the credibility of the survey results.

The survey results were as follows:

- Employee engagement: 48 per cent. Employee engagement is by 9 percentage points lower than in 2021 but by 2 points higher than in 2020. This indicator shows the proportion of employees who are confidently proud of their workplace, who consistently and proactively go above and beyond what is asked and who are true ambassadors for their organisation.
- Employee satisfaction: 68 per cent. Employee satisfaction has also fallen by 9 percentage points over the year, but remains high. This indicator shows how satisfied we are with our organisation.

- Employee loyalty (eNPS): -16. The Net Promoter Score (NPS) measures how likely employees are to recommend the organisation to others. This indicator has returned to its 2020 level (it was -16). The NPS score is calculated by subtracting the percentage of employees who recommend the organisation from the percentage of employees who do not recommend it, which gives a wide range of scores from -100 to +100. On average, eNPS organisations in Lithuania have about 0.
- Other area results. The survey assessed 19 different areas. The vast majority of staff (85%) continue to have a positive view of the management of the COVID-19 pandemic and of the care given to staff. The survey assessed 19 different areas. The vast majority of staff (85%) continue to have a positive view of the management of the COVID-19 pandemic and of the care given to staff. Areas such as workplace safety (+2%), diversity management (+1%), leadership (+2%), collaboration (+3%), workplace (+1%), empowerment (+3%), and image of the organisation (+2%) are highly rated by employees and have increased further over the year. The scores in some areas have dropped by a few percentage points, compared to the 2021 survey, but still remain high compared to other surveys of transport sector organisations in Eastern and Central Europe.

Based on the results of the "Voice of Employees" survey, individual activities have set their own priorities for the development of the organisation's culture that are relevant to their specific activities. In summary, the majority of this year's initiatives in the activities focus on improving collaboration, communication, work organisation and internal career.

In autumn 2022, LTG Group leaders at all levels gathered for Leaders' Forums in various regions of Lithuania - Vilnius, Kaunas, Radviliškis, Klaipėda. The aim of this new initiative is to bring managers together to discuss how to increase employee engagement, to actively share their experiences on how to implement the actions following the "Voice of the Employee" survey, to ensure that every member of the team is engaged in achieving the organisation's goals.

STAFF TRAINING AND DEVELOPMENT

LTG Group encourages a continuous staff development and up-skilling, sharing knowledge and best practices. Priority is given to self-development, on-the-job learning, internal trainings.

The LTG Group implements a unified approach to employee development to ensure the current and future competencies that are necessary for achieving the organisation's strategic objectives, strengthening competitive advantage, fostering the work environment in order to maintain professional growth and a culture of continuous learning:

- Applied principles of equality and non-discrimination, which mean equal access to training for all staff, without distinction based on gender, origin or place of residence.
- Staff development is based on the 70-20-10 principle, whereby 70% of development, improvement and learning activities take place through the staff member's work experience, 20% through learning from colleagues, experts, leaders with diverse experience and competences, and 10% through structured and targeted training events.
- Continuously development of the LTG Group employees' professional (functional) and general (based on values and personal effectiveness) competences.
- A community of internal lecturers and trainers is formed and fostered to promote the internal sharing of professional knowledge and experience. In-house professional training is seen as a competitive advantage for the organisation.

The need for staff development in the organisation is assessed in the light of the strategic directions and objectives of the LTG Group as a whole and of the individual business units, the challenges in the environment, the anticipated technological and organisational changes, the new opportunities and activities, the competencies and qualifications required for specific tasks, and the results of performance evaluations. Individual development needs are linked to performance appraisals, task-specific competences and development, setting personal development goals during the annual interview and supported by continuous feedback.

In 2022, as the organisation faces a challenging period due to the complex geopolitical situation, mandatory training to maintain and improve professional competences, the psychological and emotional health of employees, lectures on relevant management topics, and the development of digital training content have been a major focus, in line with the organisation's financial capacity and priorities.

In total, 104 thousand hours of education have been allocated in the Group in 2022. In-house training accounted for 83% of all trainings. The average number of training hours per employee in 2022 was 14.3 hours.

Mandatory training

Particular attention continued to be paid to compulsory vocational, road safety and occupational safety training, refresher training and periodic attestations to ensure that staff members acquire or update their professional knowledge, strengthen the necessary skills and maintain a high level of professional competence. Nearly 21,000 participants took part in the trainings. A total of 275 in-house instructor-led virtual and classroom training sessions were organised under the internal mandatory training programmes, with a total of 4,604 participants. 633 participants were trained in the mandatory programmes in external training institutions. A further 15.7 participants attended the mandatory training programmes and passed the examinations in electronic format.

Since 2021, LTG's Safety Management Team has been implementing one of its major safety culture initiatives by organising quarterly LTG Safety Academy lectures for all LTG Group employees, where they deliver remote lectures on safety topics, presenting the most pressing safety-related issues, challenges and solutions to them. In 2022, the Safety Academy organised 65 training sessions with 5,885 participants.

Contractors' staff receive regular e-learning on safe behaviour in the railway area, available in Russian or from instructors in English, if required. In 2022, 386 participants took part in the trainings for contractors.

- Management and leadership

At the beginning of 2022, managers at all levels continued to strengthen their leadership skills through the LTG Leadership Academy, which has been in place since 2019 and is led by experienced external trainers and practitioners. The Leadership Academy attracted 393 participants. The training focused on effective work organisation, creating maximum value for the client, managing complex situations, psychological resilience, emotional intelligence, creativity and innovation, and feedback.

In 2022, managers and team leaders were offered remote lectures by experienced external training consultants on the most relevant topics to a total of 1,219 participants: business and self-management in the VUCA environment, interviewing dismissed and retained employees, negotiating with employees, motivating employees, leadership that brings out the intelligence and potential of each individual, and conducting performance management interviews.

A strong emphasis is placed on a culture of feedback. For the fourth consecutive year, the Leadership Competencies 360 feedback survey has been carried out, in which each manager receives detailed and high-quality feedback on their leadership competencies from their immediate work environment - line manager, colleagues and subordinates, identifies strengths and behaviours to be improved, and develops individual development plans. In 2022, 238 managers participated in the feedback survey.

- Strengthening emotional health and psychological resilience

In response to the complex geopolitical situation that directly affected the organisation's activities, and to help employees cope with the challenges, get answers to their questions, and learn to live and work in a changing environment and under stress, remote lectures and meetings with experts in various fields on the most relevant topics were organised and open to everyone: how to cope and overcome anxiety in extreme situations, what to know and how to react to the war in Ukraine, how Lithuanian and foreign intelligence services work, how to use the energy of stress properly in times of organizational change, how to maintain personal effectiveness and well-being at work, why you need to take a holiday and how to know how to rest, how to be proactive in difficult situations. These lectures attracted great interest and high praise from staff (7,236 participants).

- Virtual learning environment

Since autumn 2021, LTG Group uses the SAP SuccessFactors virtual learning environment platform based on global best practices. Employees have the opportunity to independently plan the timeliness of mandatory trainings, register for announced trainings in the virtual training library. Managers have the tools to monitor their team's training plans, the progress of each employee, and to plan the development of individual employee competencies. Owners and trainers of in-house training programmes have access to all the data they need to assess the quality of the programme and plan trainings.

LTG Group consistently develops digitised training solutions to improve and maintain the skills of its employees. By the end of 2022, over 166 mandatory and optional learning programmes and certifications are uploaded to the virtual learning environment. An automated system for assigning mandatory training has been launched for the convenience of staff and managers.

Mandatory e-learning on Civil Protection, Fire Safety, Corruption Prevention, Personal Data Protection has been developed and assigned to all LTG Group employees. The content of the training has been tailored to the needs of the staff, e.g. two versions of the Personal Data Protection e-learning have been developed - for operational staff and for administrative staff, in order to make the most efficient use of the time allocated to the training.

In 2022, significant attention was paid to the digitisation of the content of the main regulatory documents for railway traffic: e-learning of the Rules of the Railway Traffic has been developed, and e-learning kits have been created for persons whose work is directly related to railway traffic and for persons whose work is indirectly related to railway traffic, respectively. These e-learning kits consist of the Technical Regulations for the Use of Railways, the Signalling Rules and the Railway Traffic Rules. Digitisation of these training allows staff to listen to the training at a time and pace that suits them, with the option to download and listen to the e-learning material at any time if they have any questions or wish to repeat it themselves.

➢ Other measures to strengthen workers' skills

In 2022, all staff members were offered courses on computer literacy and foreign language (English, Polish, Russian). In the framework of the LTG Group's arrangements of the Collective Agreement of the branch, training courses were organised for trade union presidents (employees) on oratory skills and motivation for trade union activity. Managers and employees also enhanced their competences and skills by participating in various external trainings, seminars and conferences.

Exceptional performers were encouraged to pursue vocational and higher education at professional, higher or other educational institutions, with the possibility of partial reimbursement of tuition as defined by the organisation.

EMPLOYEE REMUNERATION AND FRINGE BENEFITS

The principles of remuneration and the fringe benefits to be granted are defined in the LTG Group's Collective Agreement of the branch, the Personnel Policy and the Remuneration Methodology. The principles of remuneration for senior executives are defined in the Senior Executive Remuneration Policy approved by the Board of the Company.

For more information on remuneration design and review processes, please refer to the section *"Remuneration and Performance Management" under "Employees" in the Consolidated Annual Report*.

In addition to the basic salary, LTG Group provides its employees with free insurance against accidents and supplementary voluntary health insurance, which reimburses the costs of outpatient and inpatient medical treatment and diagnostics in private institutions, preventive health check-ups and vaccinations, as well as for prescription of medicines and medical supplies. In addition, staff can choose from dental, rehabilitation or optical services. Around 80% of employees declare their choice of supplementary voluntary health insurance each year. During the negotiations on the new Collective Agreement of the branch with the social partners it was agreed that as of the year 2023 the lump-sum payment for the birth of a worker's child or the death of a close family member will be increased by 50% - from EUR 200 to EUR 300 after tax. The package of fringe benefits for employees includes lump-sum payments in the event of the birth of an employee's child or the death of a close family member, support in the event of natural disasters, loyalty payments for employees who leave the organisation at retirement age, additional holidays and other benefits as provided for in the LTG Group's Collective Agreement of the branch and the Remuneration Methodology. In addition, travelling by train in Lithuania for all Group employees is free of charge.

COOPERATION WITH EDUCATIONAL INSTITUTIONS

LTG Group seeks a continuous and mutually beneficial cooperation with Lithuanian educational institutions. This is important to ensure that current students and potential employees have the knowledge of the railways, the Group and the necessary knowledge in related fields.

Relationships with the following institutions were particularly important in 2022:

- Continued cooperation with Kaunas University of Technology (KUT): participated in The skills of WANTed, a series of workshops aimed at developing the soft skills you need once you start your career. We shared with the students practical knowledge, tools, best practices used in the company, which will help them to develop skills on their own.
- We took part in the KUT WANTed Career Days 2022 - one of the largest career planning events in the Baltics. During the event, we presented LTG Group's activities, strategic directions, perspectives and career opportunities in our companies to students and school children, and focused on Rail Baltica, the largest railway infrastructure project.
- During the meetings with KUT representatives, the following areas of further mutual cooperation were discussed: participation in the ECIU programme, contribution of LTG experts to the content of lectures and curricula, possibilities of joint projects.
- We gave lectures on railway management, safety and standardisation to the Master's students of Vilnius Tech's "Roads and Railways" programme. The lecture introduced private and public models of railway infrastructure management, gave students specific historical examples, the evolution and cyclical nature of railway management models, and events that have led to technological progress in safety.
- We are in regular contact with Vilnius College of Technology and Design, inviting trainees to join the organisation in order to transfer the theoretical knowledge acquired in the railway transport engineering study programme into practical skills.
- Contacts were established with Kaunas Technical College and possible areas of cooperation were discussed. A lecture on infrastructure and rolling stock maintenance and repair solutions was given to students of Kaunas College, diagnostics solutions and innovations for infrastructure systems implemented in the company were presented, students' internship and work opportunities in LTG Group were discussed.

In 2022, 34 students had a traineeship in the LTG Group. The largest number of trainees was in the fields of Railway Transport Engineering and Train Management.

ENSURING EQUAL OPPORTUNITIES AND HUMAN RIGHTS

Key documents that address the principles of human rights protection and the well-being of LTG Group employees are as follows:

- Principles to ensure equal opportunities and diversity in AB Lietuvos Geležinkeliai group of entities.
- Principles to prevent violence and harassment in AB Lietuvos Geležinkeliai group of entities.
- Code of Ethics for Employees of AB Lietuvos Geležinkeliai group of entities.
- Principles of work in AB Lietuvos Geležinkeliai group of entities.

These documents are available to all LTG Group employees on the LTG Group intranet.

In 2022, the Equal Opportunities and Diversity Principles were updated (replacing the previous Equal Opportunities Policy) and the Principles for the Prevention of Violence and Harassment in the LTG Group were adopted, which aim to ensure the equality of individuals and the prohibition of restricting human rights and privileges to any human being, the prohibition of any discrimination, the provision of a safe and healthy workplace, and the encouragement of everyone to contribute to the prevention of violence and harassment, and to the development of respect and a work culture. These principles also outline measures for their implementation, with the aim of creating a work environment, in which everyone respects each other's dignity, communicates with courtesy and respect, ensures that no member of the team is subjected to humiliating, aggressive, abusive, offensive, or otherwise insulting behaviour, and promotes behaviour that is consistent with the ethical principles and the organisation's values.

Principles for Equality and Diversity in the LTG Group

The organisation values the uniqueness of the individual, giving particular importance to his/her competences and experience; it promotes a culture based on values, sustainability, excellence and high performance, where the implementation and promotion of equal opportunities and diversity is an integral part of the life of the LTG Group. The Group creates and fosters a socially sustainable, open and inclusive work environment where all employees feel respected and valued, have equal opportunities and resources, and are able to contribute their uniqueness and talents to the achievement of the goals of LTG Group.

Any form of discrimination is prohibited and will not be tolerated, including direct or indirect discrimination, intent or instruction to discriminate, harassment, sexual harassment, stalking, as well as any form of abuse, psychological violence, mobbing, bullying, intimidation, taking advantage of a person's position, or any other similarly disadvantageous treatment.

LTG Group respects and protects the rights of every candidate and employee, including the right to privacy and the protection of personal data, the right to family responsibilities, the right to promote personal and professional development of employees, the right to foster a collaborative safety culture, and the right to ensure a safe and healthy working environment that meets the needs of employees. We pursue respect and fairness in the selection and recruitment of candidates and at all stages of the staff member's employment, to ensure that no staff member is subjected to any form of discrimination on the grounds of sex, race, nationality, citizenship, language, origin, social status, religion, convictions or belief, opinion or age, sexual orientation, disability, ethnic origin, medical condition, marital or family status, membership of a political party, trade union or association, religion, the intention to have a child, the enjoyment of legal rights, or any other characteristic of the person.

Through the implementation of the annual performance review process and fostering a culture of feedback and personal recognition, the Group fosters a work environment that supports creativity, encourages behaviour that is in line with the LTG Group's values and ethical principles, and promotes employees' openness to diversity, respect for colleagues and others, goodwill, fairness, honesty, mutual trust, professionalism, fairness and transparency.

Measures ensuring equal opportunities and diversity

The LTG Group's principles for implementing and promoting equal opportunities and diversity are applied in all areas related to labour relations:

- Equal opportunities in the selection process

All candidates shall be subject to the same selection criteria and to identical and non-discriminatory conditions of employment, except where, by reason of the nature of the type of professional activity in question or of the conditions under which it is carried out, a particular feature of a person's identity constitutes an essential and decisive occupational requirement, and where this objective is legitimate and the requirement is proportionate.

In the selection process, candidates shall only be asked questions relating to their suitability for the job function, their competence, professionalism, experience, professional and subject qualities and other objective criteria relating to the requirements of the specific position for which they are applying.

In 2022, a standard for the selection management process to be used by recruitment managers and selection management experts was clearly defined, enshrining the application of the principles of equal opportunities and diversity. At the same time, the training programme for recruitment managers and selection experts at all levels has been updated to cover equal opportunities and diversity in the selection process, i.e. publication of recruitment notices, initial selection and follow-up interviews, and employment offers to successful candidates.

- Equal opportunities at work

LTG Group aims to provide all employees with a healthy and safe working environment, equal working conditions for the performance of their job functions, and the necessary tools to do the job.

In 2022, an international safety culture maturity survey was organised with EAR (European Union Agency for Railway), with more than 2,500 employees participating (11.9% more than in 2021). The results of the survey were analysed and summarised together with EAR, presentations and discussions were organised with the heads of business units and structural departments, areas for improvement in safety were identified, action plans were drawn up to reinforce the areas to be improved, and timeframes for the implementation of such measures were defined.

Employment decisions are made on the basis of the functions performed by the employees, their competencies, performance, professional and business qualities, LTG Group's values, business need and other objective criteria. In adjusting working time arrangements, determining the length and timing of working, deciding on vacation leave and other options relating to working time arrangements, the needs of the individual employee with regard to family responsibilities shall be taken into account, as far as possible, taking into account the specific nature of the work performed by the employee. All staff have access to parental guarantees – a structured and accessible knowledge base on who is covered and by whom, prompt communication on changes to such guarantees, simple and user-friendly tools for coordinating planned targeted absences with managers.

All staff are given equal opportunities to develop their competences, pursue professional development and gain practical work experience. An employee's career at LTG Group depends on his or her competence, experience and knowledge, performance, quality of work and the employee's own initiative in planning his or her internal career.

Summary of staff performance is carried out using similar procedures and objective evaluation criteria relating to job functions, which may differ only because of the specific nature of the functions performed by certain positions or the specific requirements of a particular position. At the same time, value behaviour is taken into account, and the aggregation of the results of the evaluation in the calibration meetings, the common agreements are used to clarify the bar of expectations for the specific evaluations and to carry out the final ranking in a specific meeting within the group of employees in question.

- Equal opportunities in remuneration setting

Staff remuneration is set and reviewed in accordance with the uniform principles set out in the Remuneration Methodology and the Standard for the Management of Staff Remuneration Process. They make it clear that the Group's remuneration principles are transparent and uniformly applied to all employees, irrespective of their gender or certain aspects of their individual identity. The specific remuneration of an employee shall be determined in accordance with the remuneration framework assigned to the corporate level of his/her position as well as with objective criteria related to the employee's personal experience and competencies, as well as to his/her performance in the context of a remuneration review.

The actual gender pay gap in the LTG Group is due to the overall gender distribution, with more men than women working not only in the railway industry in general, but also in a number of job groups, especially in operational roles. Women predominate in positions related to support/administrative functions, where the remuneration level in the market is relatively lower. Men are concentrated in positions where the field of activity generates more competitive remuneration on the market (e.g. IT, Engineering) or where the work is of a special nature - physical exertion, outdoor or other special conditions - where the level of remuneration on the market is higher. At the same time, the opposite situation can be observed in certain job groups, where women, although not predominant, occupy positions for which there is a shortage in the market, leading to relatively higher pay (e.g. leadership positions in project, strategy, finance, supply chain management), in which case remuneration of women exceed that of men.

We also allocate fringe benefits and all other employee incentives on the basis of clear criteria that are known to all employees.

Awareness and understanding of equal opportunities and diversity and their implementation among managers and employees is promoted through periodic sharing of information on the LTG Group's principles, and through training and consultation for managers and employees.

As part of the LTG Group's extended survey on factors influencing organisational culture, Voice of Employees asks employees about how people from different attitudes, backgrounds and mindsets are received in their work environment. The results show that diversity and inclusion is highly valued at LTG Group, with 79% of respondents agreeing in 2022.

Principles for preventing violence and harassment in LTG

At LTG, we strive to ensure a safe and healthy working environment for every employee, encouraging everyone to contribute to the prevention of violence and harassment, and to the development of a culture of respect as well as respect for work. We create a working environment where we respect each other's dignity, communicate with courtesy and respect, and ensure that none of us is subjected to humiliating, aggressive, abusive or otherwise insulting behaviour.

The LTG Principles for the Prevention of Violence and Harassment, introduced at the end of 2022, set out the possible forms of violence and harassment, the measures to be taken to prevent violence and harassment in the LTG Group, and the norms of conduct/work ethics for employees, and apply to all employees of the LTG Group without exception.

Helpline and reporting discrimination

The widely publicised whistleblowing channel manrupi@ltg.lt invites workers to report various irregularities that may involve non-compliance with the law, discrimination or other unethical behaviour, as well as to raise complaints or questions about their employment relationship. Through this channel, all LTG Group employees or other interested parties are invited to confidentially report possible committed violations of equal opportunities and diversity, ongoing or planned by LTG Group employees.

The confidentiality of whistle-blowers shall be protected and safeguarded against hostile treatment or adverse consequences, if an employee makes a report of a violation of equal opportunities and diversity or is involved in a case of a violation of equal opportunities and diversity against an LTG Group company, an employee of an LTG Group company, or any other person in any way connected with LTG Group. Reports and investigations of alleged, actual or threatened breaches of equal opportunities and diversity will be dealt with in accordance with the process updated in 2022.

In 2022, there were 6 reports of possible discrimination or other human rights violations at work. Investigations have not revealed any manifestations of discrimination or other human rights violations at work. The identification of partially correctable behaviours and the staff members who displayed them led to preventive measures to avoid possible future violations by analysing exemplary situations and discussing examples of appropriate behaviour.

SOCIAL PARTNERSHIP

The LTG Group recognises and guarantees the right of workers to organise themselves into trade unions or associations, and facilitates trade union activity. In December 2022, the LTG Group had a Labour Council and 23 trade unions representing all LTG Group employees.

The aim of this partnership is to maintain a constructive social dialogue with employee representatives on an ongoing basis. In order to ensure fair and equal treatment of all employees and to safeguard their legitimate interests, the LTG Group organises periodic meetings with employee representatives. The meetings include presentations on planned changes, discussions on issues of importance to employees, and consultations with employee representatives on decisions related to the employment relationship or to internal legislation on employees' rights and obligations in the workplace. Notices to employee representatives shall be given at least 10 working days before the envisaged changes or internal legislation comes into force.

More than 40 meetings with employee representatives took place during 2022. The quarterly meetings provide employees and employee representatives with an overview of the LTG Group's key initiatives, strategic projects, major developments and other relevant issues related to the company's operations, economic situation and labour relations, and answer the raised questions.

In December 2022, after intensive collective bargaining negotiations initiated by the trade unions, a new sectoral collective bargaining agreement was signed, in which the representatives of the LTG Group's employers and employees agreed to:

- improve the working, social and economic conditions of staff by creating a working environment that attracts and develops professional and loyal staff and encourages them to perform at their best;
- base the work organisation and activities on modern principles;
- adhere to the LTG Group's values, which underpin the behaviour demonstrated in day-to-day activities;
- strengthen social partnership;
- remove the preconditions and causes of corruption;
- apply fair and competitive remuneration and social security;
- provide safe working conditions;
- provide professional development, up-skilling and retraining opportunities for staff, taking into account the Group's financial resources and the Group's procedures;
- work together to achieve the LTG Group's business objectives and ensure an efficient and quality delivery of the Group's services and work, and a high level of work culture;

- agree on working conditions that are different from those regulated by the laws of the Republic of Lithuania;
- define additional guarantees for trade union activity;
- create a working environment based on mutual respect and equal rights, eradicate discrimination and violence.

The Collective Agreement of the branch and its provisions apply to all LTG Group companies.

In order to strengthen social dialogue with workers' representatives and to implement the provisions of the Collective Agreement of the branch, training sessions on "The Art of Oratory" and "Motivation for Trade Union Activities" were organised for trade union presidents in 2022.

In addition to the regular meetings, a separate event is organised each year for employee representatives to present an overview of the implementation of the Collective Agreement of the branch, to discuss directions for more effective cooperation, and to present the LTG Group's immediate plans.

ENCOURAGING STAFF INITIATIVE

LTG Group encourages employee initiatives aimed at community in order to develop its organisational culture and increase employee engagement. Some examples of such employee initiatives are given below:

➢ Ambassadors' Club

At the beginning of 2021, the LTG Ambassadors' Club was launched, inviting every active employee to join it and to work together to create and organise various initiatives for the benefit of the whole LTG Group and for colleagues. The main objective of this club is to increase employee engagement and promote employee commitment to the common goals of the LTG Group, to strengthen internal communication within the LTG Group companies and within separate departments, to promote employee feedback and cooperation between departments, and to encourage initiative.

Notwithstanding the challenges, the Club can be proud of the successfully realised projects in 2022:

- Lectures were organised to promote both physical and psychological health;
- In cooperation with the organisers of the #walk15 initiative, the "Step with LTG" campaign was organised for the second year in a row. The campaign lasted for 6 months, 576 colleagues joined in and together they walked 477 million steps, over 25 prizes were awarded;
- Teams were formed and participated in #walk15 walking competitions in Vilnius, Klaipėda and Šiauliai;
- 2 campaigns were organised to help Ukraine;
- LTG continues with "Pet Days", where you can bring your pet to work;
- For the first time in the LTG Group, the LTG staff hikes were held in Jonava and Šiauliai, with more than 60 staff members taking part;
- Internal live and virtual events, many competitions and personal challenges, the LTG Summer Festival, charity and donation campaigns were organised.

➢ LTG Women's Club

For several years now, the LTG Group has had a Women's Club, whose mission is to bring together LTG women, to strengthen and promote women's activities and equality in the railways. The Club aims to grow the community of women in the Group, to encourage the members of the community to develop and to strengthen the image of the Group as well as to develop cooperation with other communities.

➢ LTG Cargo moves the brain

LTG Cargo is developing an initiative aimed at generating and initiating new projects for the company's expansion and diversification of services. The essence of the initiative is to organise periodic creative thinking sessions to come up with as many ideas or solutions to problems as possible. Although the challenges are specific to the freight industry, all LTG Group employees are invited to put their brains together and contribute to the generation of ideas.

OPENNESS TO THE SOCIETY AND COOPERATION WITH COMMUNITIES

WE ARE OPEN: WE LISTEN TO THE EXPECTATIONS OF THE SOCIETY AND PROACTIVELY SHARE OUR PLANS AND ACHIEVEMENTS

Informing of communities and other social groups concerned about the processes that are important to them, their involvement in sustainability-related and other initiatives are considered by the LTG Group to be one of their priorities. The LTG Group informs these persons about their activities, sectoral events, the implemented or to-be-implemented projects proactively and on a regular basis and actively promotes and develops mutual dialogue. Initiatives of the Group companies comprise a wide and meaningful range of activities – such as collaboration with communities seeking to improve life quality of people living in areas next to railways, promotion of sustainable logistic solutions, education on safe behaviour at railways, as well as striving for telling the history of railways in a modern way and introducing the society to the work of professionals of this field.

In this way, the Group is continuously improving reporting and cooperation with all the social groups concerned, it is fostering the culture of openness and transparency. The Group understands that only such activity that is transparent, open, effective and based on modern management principles leads to progress and can create most value for those whom it is responsible to – i. e. all the society.

PROMOTING SUSTAINABLE LOGISTICS

Railways are recognised in the European Union as the most environmentally friendly mode of transport with the lowest GHG emissions from passenger and freight transport. In 2022, the LTG Group continued its active contribution to promotion of more sustainable, ecological travel and freight transport vehicles by actively communicating the green and environmental friendliness of trains to its customers, partners and the society.

LTG Infra makes sure that all market players are involved in the development of the network, the planning of repairs, and the development of innovations. The company organises regular annual meetings with contractors and suppliers each year to present the company's procurement and investment plans. This allows market players to prepare for upcoming projects.

LTG Cargo periodically and upon need has organised a number of meetings and discussions with organisations and associations involved in cargo transportation: representatives of the Klaipėda State Seaport Authority and the Lithuanian Stevedoring Companies Association (LSCA) to discuss cargo attraction to the port, the planned changes to the tariffs, as well as other current operational issues. Moreover, the company has maintained close contacts and regularly organised meetings with various associations of freight carriers and those of logistics sector, such as the International Transport Alliance (ITA), Lineka, it also has joined the Transport Innovation Alliance; together with the Lithuanian Confederation of Industrialists, the company has been working on the priorities of business development and discussing the cooperation with the EU structural funds.

In addition, LTG Cargo has organised online meetings with its customers to ensure transparency and consistent communication with them. A virtual meeting has been organised with an external economic expert to further discuss the geopolitical situation and to provide insights relevant to customers in the logistics and transport sector. LTG Cargo was the main partner of the Railfreight International Conference in 2022. The aim was to raise the profile of Lithuania as an important country for the logistics sector and to attract experts in this field to the country.

LTG Link also continuously implements solutions promoting travelling by rail and, thus, contributing to reduced environmental impact of transport sector. During the summer season in 2022, the Company continued organising the routes of the Seaside Express that allow passengers to travel to the seaside in a convenient and safe way; it is possible to travel from the capital to Kretinga or Klaipėda by rail and to continue the trip to the resort by specially provided buses. During the Christmas period, the Company also proposed to travel by festive trains – for the second time, two trains travelling on the routes Vilnius-Kaunas-Vilnius and Vilnius-Klaipėda-Vilnius were decorated with unique festive decorations. It has been estimated that this project, which has come to public attention, has enabled to attract approximately 20% more passengers than usual.

To encourage people to move more and change their daily habits, LTG Link and the free walking app #walk15 launched a new offer in September 2022 to motivate people to change their mobility habits – 75,000 steps will get you a 20% discount on a train ticket. To motivate people to discover the joy of sustainable travel, new sightseeing itineraries in Lithuania which can be reached by trains have been presented as well.

In order to actively encourage visitors to Trakai to come without their own transport, LTG Link and the mobility platform Bolt started cooperating in the summer of 2022 by installing special parking lots of electric scooters at Trakai railway station. This encourages passengers to continue their sustainable intercity train journeys around the city with a clean vehicle as well.

On 1 July 2022, LTG Link resumed its long-awaited international routes to Poland, with the launch of weekend routes between Kaunas and Bialystok. At the end of the year, on 11 December, they were replaced by the launch of the Vilnius-Kaunas-Warsaw-Krokuwa joint international train routes. The much-anticipated route offers a sustainable and simple daily train connection to two largest cities of Poland. These directions have traditionally been popular in Lithuania, and now there is an opportunity to choose green transport for the journey thus reducing the environmental impact.

Another important innovation to encourage sustainable travel and car-free travel is the combined train and Vilnius public transport ticket. LTG Link and JUDU have introduced a single ticket for Vilnius residents and visitors on 1 December 2022. The joint public transport ticket is available to all passengers planning to travel by train when their chosen route starts and ends at Vilnius railway station. This new service is the first step towards increasing integration of train travel with other modes of transport.

- Green awards

The Green Transport Awards for sustainable logistics solutions and initiatives were presented at the International Transport Innovation Forum 2022. During the awards jointly initiated by LTG and the Ministry of Transport and Communications, Lithuanian companies, public sector, creativity and social organisations have been recognised for their choice of a green course.

The Green Transport Awards for sustainable logistics solutions and initiatives have featured six nominations – Municipality of the Year, Startup of the Year, Ambassador of the Year, Business Enterprise of the Year, Partnership of the Year and Institutional Cooperation of the Year.

At the awards, LTG Cargo presented an award to the ITLA (International Transport and Logistics Alliance) for its partnership in the development of the transport sector that is progressive, innovative and meets the highest environmental standards. ITLA has contributed significantly to the constructive dialogue between road hauliers and LTG Cargo in the development and implementation of intermodal routes between the Lithuanian Kaunas Intermodal Terminal and the terminals in Duisburg (Germany) and Trieste (Italy).

PUBLIC AND SOCIAL INITIATIVES

- Rail Park

In September 2022, a Rail Park has been established in Naujininkai, Vilnius, next to the headquarters of LTG. In an authentic space open to the public, visitors can see historic rolling stocks: locomotives, railcars, a tanker, a steam locomotive, a restaurant-wagon, and a variety of equipment used for track maintenance. There is also a magical historical bell that makes travel wishes come true, as well as a little train and a swing made of train wheels for our younger guests. Visiting the Rail Park is free-of-charge.

The Park has been designed paying special attention to sustainability: old rail ties were used for footpaths, disused fuel tanks and containers were used for landscaping, and old benches were brought back to life.

- Railway Museum

In May, the Railway Museum reopened its door - renewed, interactive and modern. Located in the passenger palace of Vilnius Railway Station, the museum welcomes visitors five days a week, from Tuesday to Saturday.

The main motif of the renewed museum is "A colourful journey!". It covers an area of 700 square metres. Museum visitors will find different spaces divided into stations and platforms. In these spaces, they can discover the history of the railways through interactive tools, go behind the scenes of the depot and even try out the profession of a train driver.

The Railway Museum dates back to 1966. For 11 years it has been housed in the passenger palace of Vilnius Railway Station built in the 19th century.

Modernisation of the exhibition of the museum took approximately 2.5 years. During this period, the exposition and the interior have been renovated, exhibition furniture and interactive tools have been equipped, and the necessary equipment has been installed. In total, around EUR 800,000 have been invested in the renovation and modernisation of the Museum – approximately EUR 565,000 was funded by the European Union, and the remaining amount has been provided by AB Lietuvos Geležinkeliai.

➢ Free transport for people fleeing from the war of Russia against Ukraine

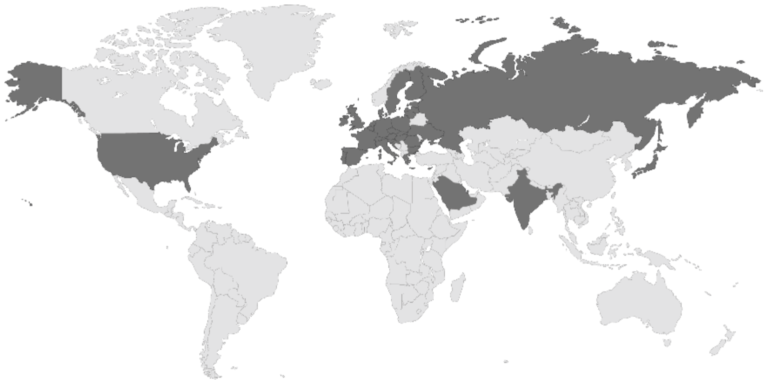
In response to the ongoing war of Russia against Ukraine and to help those fleeing from the horrors of war, LTG Link offered free travel for Ukrainian citizens on all domestic routes in Lithuania as of 1 March 2022. Ukrainian citizens wishing to take advantage of the free rail services were asked to present a Ukrainian passport or an ID card, and accepted birth certificates for children. In order to make the support even more targeted, the initiative was relaunched at the end of the summer of 2022. From 1 September, free train travel on local routes in Lithuania has been available to all people fleeing from the Russian war in Ukraine to Lithuania. All passengers wishing to take advantage of the initiative, i.e. both Ukrainian and non-Ukrainian citizens, are asked to present documents confirming their identity - a passport or identity card (a birth certificate for children) and a registration card issued by the Migration Department. They can take advantage of this initiative for three months from the date of issue of the registration card. According to the company's data, almost 135,000 passengers have taken advantage of the free travel possibility since March 2022.

➢ Passengers from Moscow get a real picture of the war of Russia against Ukraine

Exhibitions of photographs of the war of Russia against Ukraine have been opened on the platforms of Vilnius and Kena railway stations, where transit trains stop on the way from Moscow to Kaliningrad and back. The aim is to draw attention of Russian citizens to Russia's war against Ukraine and to encourage them not to remain indifferent.

For the exhibition in Vilnius, which was opened in March, in cooperation with the Lithuanian Press Photographers Club, LTG selected a total of 24 photographs reflecting the reality of war. The photographs are displayed at a height where they can be seen by passengers on the transit train from Moscow to Kaliningrad and back. The exhibition in Kena, which was opened in April, features 14 photographs from Buche, Mariupol and other war-torn parts of Ukraine.

Countries whose populations have been reached with information on the LTG exhibitions of photographs of the war in Ukraine



Transit trains run from Moscow to Kaliningrad and back on a daily basis. There also are transit trains running from Adler and St Petersburg to Kaliningrad and back. On average, 100 transit trains per month pass to and from Kaliningrad combined; on average, 100 people per train.

The exhibitions on the platforms attracted the interest of both Lithuanian and foreign media - the map highlights the countries whose populations were reached with information encouraging them not to remain indifferent.

➢ Free internet at border stations for passengers from Russia

LTG has set up free Wi-Fi at Kena and Kybartai railway stations in order to provide passengers travelling from Russia to the Kaliningrad region with access to objective information. During the hour when transit trains are at the stations, passengers from Moscow, Adler and St. Petersburg who want to use the internet must first look at the photos of the Russian war in Ukraine.

Passengers can access the photos online by clicking the consent button "I want to know the truth about the Russian war in Ukraine". They are informed that they can access social networks banned in Russia without any obstacles and are offered at least several Lithuanian and foreign news portals where they can find objective information in the Russian language.

ENSURING OPPORTUNITIES FOR PEOPLE WITH INDIVIDUAL NEEDS

The LTG Group actively promotes social dialogue with people with individual needs. Meetings with organisations uniting people with individual needs and representatives of the Ministry of Transport and Communications of the Republic of Lithuania were continued to be organised in 2022 on a quarterly basis. During the meetings, the progress of the implementation of the project “Adaptation of railway services according to the principles of universal design”, the status of the activities of LTG Infra and LTG Link, and the upcoming project-related works were discussed; also, it was aimed at taking into account the recommendations proposed by the organisations participating in the project.

In February 2022, the organisations uniting people with individual needs - the Lithuanian Association of the Blind and Visually Impaired (LASS), the Lithuanian Deaf Youth Association, the Lithuanian Community for the Care of People with Intellectual Disabilities "Viltis" and the Lithuanian Society of the Deaf - were invited to test the new ticketing system in advance, and in cooperation with the members of the

Lithuanian Association of the Blind and Visually Impaired, two tests were carried out prior to the public presentation of the new ticketing system. The specifications of the ticketing system were improved in response to the critical observations made by the organisation.

In order to ensure and meet the needs of all passengers, a public procurement of new electric trains has been started. The renewal of the train fleet is one of the most important priorities of the Company, which will enable ensuring green and sustainable mobility more efficiently. They will be in compliance with high requirements of sustainability, long-term operation and convenience for all passengers, including persons with individual needs. When preparing documentation for public procurement, the Company actively consulted with a variety of organisations uniting persons with individual needs, and the acquired trains will have to meet all the requirements established in the Commission Regulation (EU) No 1300/2014 on the technical specifications for interoperability relating to accessibility of the Union's rail system for persons with disabilities and persons with reduced mobility. In the first half of 2022, a meeting and a further discussion with representatives of disability organisations focused on optimal solutions for the installation of seats for people with reduced mobility on the new trains, as well as for ensuring accessibility for people with reduced mobility to the new trains. The suggestions made by the representatives of the organisations during the discussion have been taken into account in the further procurement of new electric trains.

In 2022, LTG Link continued its participation in the global international initiative "The Hidden Disabilities Sunflower". This initiative enables people with hidden disabilities to get the help they need. Other people can recognise that a person who is wearing badge has a hidden disability and may need a helping hand, understanding or just more time. The badges are available at all train ticket offices.

In 2022, the **Family Card** discounts on LTG Link tickets have been improved: cardholders with large families and families having children with disabilities get a 20% discount on train tickets, both online and at ticket offices. LTG Link has even been awarded in the Icebreaker 2022 category at the Family Card Awards as a partner whose joining the Family Card programme had a significant impact on motivating others to join.

In order to make train travel easily accessible and convenient for all passengers, including people with individual needs, seniors, young families with young children, LTG Infra continues to develop the project “Adapting a barrier-free route for people with disabilities in the station area” the purpose whereof is to renovate the entrances to the station, where it is necessary to install new ramps, repair paths near the stations, install warning lanes and perform other works.

Some of the results of the ongoing project are provided below:

- Emergency call points have been installed at four stations (Klaipėda, Šiauliai, Kaunas, Vilnius) where the passenger carrier has staff available to meet the passenger and provide assistance.
- In passenger palace buildings of eleven railway stations thresholds have been removed, handrails installed, emergency call buttons installed in WC facilities, and other kinds of repair have been carried out.
- Technical project descriptions for barrier-free routes and steps have been drawn up for the platforms and approaches of 42 stations and stops. 10 of them are on sites belonging to the Department of Cultural Heritage (DCH).
- Contract tendering procedures are being carried out for 12 stations on the basis of project descriptions.
- Technical designs are being prepared for the adaptation of the passenger palace buildings of nine railway stations.
- A new ticketing system has been installed. Tickets can be purchased not only on the website, but also via the mobile app (available on Android and iOS platforms). New ticket vending machines are also being purchased. The implementation of the new ticket vending machines adapted to passengers with individual needs is planned to be completed in the end of 2023.

CUSTOMER SATISFACTION

The LTG Group companies LTG Link and LTG Cargo aim to better respond to customers' needs and therefore proactively measured the Customer Referral Index (CRI) and Customer Satisfaction Index (CSAT) in 2022. The aim of these surveys is to hear directly from customers about their needs and expectations, as well as to measure the progress in improving service levels and encouraging people to choose trains for travel and freight.

LTG Link aims to better respond to customers' needs and therefore continued to proactively measure the Customer Referral Index (CRI) and Customer Satisfaction Index (CSAT) in 2022. Based on the survey data of five years measured by LTG Link, customer satisfaction in 2022 stands at 87% and the Recommendation Index at 69 points. Based on the results, actions to improve the customer experience have been launched, including solutions to provide better Wi-Fi on trains and more comfortable journeys by adjusting part of the annual timetable. As many as 70% of the suggestions made by customers in their survey have been taken into account in the timetable for the year 2023, which was presented in 2022.

Continuous measurement of the voice of the customer also helps to assess areas for improvement and to find solutions to improve on-board air-conditioning, customer awareness or to make journeys more comfortable. Following the lifting of restrictions related to the management of the COVID-19 pandemic, snacks and drinks were remade available on trains in the first half of 2022 - the mentioned service which makes a journey more comfortable has been provided in an increasing number of routes throughout the year. The procurement of new modern and comfortable trains has been continued to meet the needs of passengers. In addition, the company is actively reinforcing its passenger service culture, seeking to ensure that travel attendants are helpful and attentive throughout the entire journey. Surveys show a steady increase in the service rating, with the attentiveness of travel attendants rising by 0.5 points each year since 2021 to reach a score of 9.5 in 2022.

LTG Link has set up a Customer Information Centre to maintain an open relationship with its customers and to provide them with advice. In 2022, 76,000 calls, 4,500 email enquiries and approximately 400 Facebook messages were answered. The overall customer rating after a call is as high as 4.99 out of 5.

In order to consistently improve the experience and meet the needs of our business customers, LTG Cargo measures a Customer Referral Index. Although the entire logistics sector has been negatively affected by the Russian war in Ukraine in 2022, a Freight Rate Index has slightly decreased; yet it still stands at the score of 7.4, while a Repeat Customer Rate of the company remains high and reaches 8.4 points. Importantly, the company's customers have rated the company as an environmentally friendly transport enterprise by giving it the score of 7.8.

INTERESTS OF COMMUNITIES

Communities are an important stakeholder within the activity of the LTG Group. The Group's activities often influence their way of life and conditions, and the projects implemented have to be in line with their expectations and priorities. LTG Infra actively participates and initiates meetings with communities living near the railway. Discussions are focused on listening to their needs and working with municipalities to find solutions to improve the quality of life of people living near the railway.

In October 2022, another phase of the Rail Baltica railway spatial planning was completed, identifying the specific areas, land plots and parts of land through which the Rail Baltica railway line will pass on the Kaunas-Vilnius section. The connection to Vilnius undoubtedly increases the added value of the whole project, both economically and socially. However, it is also one of the most challenging sections because it is most urbanised. Continuous dialogue with municipalities and communities is essential; that is why, at this stage of specific solutions and in cooperation with municipalities, the Ministry of Transport and Communications, LTG Infra, that is in charge of implementation of the Rail Baltica project in Lithuania, and the joint venture partners Sweco Lietuva (Responsible Partner) and DB Engineering & Consulting GmbH, that are responsible for preparation of the Kaunas-Vilnius special plan, have organised meetings in each municipality where the European railway will be built. The meetings provided a detailed presentation of the specific solutions in each municipality, answering residents' questions and explaining how to make reasoned suggestions for improving the specific solutions.

Rail Baltica, the project of national importance, will be an important boost to regional development through infrastructure development and creation of new job opportunities. Therefore, representatives of LTG Infra which is responsible for implementation of the Rail Baltica project in Lithuania are initiating meetings with the Association of Lithuanian Municipalities and with those municipalities where the European railway will be built. The aim of the meetings is to present the progress of the project at both international and national level and to discuss relevant issues. It is planned that such meetings will be periodic and that representatives of municipalities will be included in project teams upon need.

Throughout the implementation of the Rail Baltica project, the public is constantly informed about its progress, challenges and achievements. An annual survey of the Lithuanian population is carried out to gauge public opinion on and support for the project.

According to the latest annual survey, the number of those who support the need for the Rail Baltica project in Lithuania is growing moderately, with 73% of respondents supporting this project, which is important not only for Lithuania but also for the entire Baltic region. Awareness of the project is also growing steadily every year having reached 68% in 2022.

PROGRAMMES TO PROMOTE SAFE BEHAVIOUR

In 2022, the campaign of LTG Infra on safe behaviour at railway crossings continued together with the special educational program "Safe Rails". On the International Day of Safe Behaviour at Railway Crossings, LTG Group employees and police officers held campaigns at the most dangerous crossings in the country - reminding drivers and pedestrians about the basics of safe traffic at railway crossings, and memorable posters of the "Safe Rails" campaign were displayed in cities.

Throughout the year, LTG employees, together with officials of the Lithuanian Road Police Service, carried out campaigns of safe traffic at crossings, organised at the most dangerous railway crossings where incidents have recently occurred and where there are extremely high traffic flows.

Safety campaigns encourage drivers and pedestrians to comply with the road traffic regulations and remind them to cross the level crossings safely, especially at a time when the weather is getting worse and it gets darker earlier.

On 9 June, on the International Day of Safe Behaviour at Railway Crossings, a general lesson on safe behaviour at railways was given at schools, also specific crossbuck signs were placed at the most dangerous level crossings to remind road users about importance of safe behaviour near the railway or at level crossings.

Ignoring of road signs or traffic lights at level crossings is the most common violation observed.

COMPREHENSIVE SAFETY

WE SEEK FOR SAFETY IN ALL ACTIVITY AREAS: WE ASSESS AND MANAGE RISKS, EDUCATE EMPLOYEES AND THE SOCIETY

The vision of the LTG Group in the field of traffic safety is **0 (zero) incidents**, i.e. safe employees, safe society and safe companies group, without any railway catastrophes, accidents and incidents.

The LTG Group seeks to be the safest railway company in the Central and Eastern Europe, and it promotes occupational and traffic safety within the following 5 key areas:

- Safety leadership;
- Development of employee awareness and competence;
- Raising public awareness;
- Establishment of safe and healthy working conditions;
- Ensuring railway safety.

Priority indicators

Indicator	Unit of measurement	2022	2021	2020
TRAFFIC SAFETY INDICATORS				
Weighted number of fatalities and serious injuries	Number	5	7	7
Indicator of risk for public safety	Number of fatalities and serious injuries / mil. train km	0.41	0.34	0.33
Total number of traffic accidents	Number	28	29	42
OCCUPATIONAL SAFETY INDICATORS				
Lost Time Injury Rate (LTIR)	Number of injuries / mil. work hours	2.18	1.96	1.73
Work accidents	Number	25	28	27

SAFETY LEADERSHIP

The aim of safety leadership is to promote understanding about importance of safety at all levels of management, encourage safety awareness and ensure awareness of responsibility regarding safety. By promoting safety leadership of managers we seek for reflection of safety in all elements of activity - in everyday meetings, in discussions of the results and in periodic visits to departments.

In 2022, in promotion of safety leadership, the concept of safety leadership forum of managers was being developed and adaptive training for division managers were being provided.

DEVELOPMENT OF EMPLOYEE AWARENESS AND COMPETENCE

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. Positive safety culture is characterised by a shared commitment by all employees to behave safely at all times.

In 2022, these initiatives were implemented in AB Lietuvos Geležinkeliai when promoting safety culture:

- Survey on the level of maturity of safety culture. For the second time, employees of the companies group had the opportunity to participate in the survey on the maturity level of safety culture of railway companies (carriers), infrastructure managers, safety authorities and other companies / institutions / organisations involved in railway transport in the European Union, organised by the European Union Agency for Railway. Almost 3,000 employees of the Group participated in the survey organised in 2022 and, 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 will be identified and an action plan for further fostering of the safety awareness of the employees will be prepared.
- Safety academies. Safety Academy Weeks were organised within the LTG Group on a quarterly basis, during which meetings to raise awareness were held with safety experts of the group and guest speakers who presented safety tips and solutions to the most relevant safety-related issues, and discussed on safety-related matters of concern of employees. More than 3,000 employees throughout the Group took part in each of the Safety Academies. The initiative aims at involving employees of the LTG Group in safety management, informing about the most relevant safety-related issues / challenges and solutions thereto, and raising awareness of employees in the field of safety. As many as 65 trainings were organised in the Safety Academy in 2022 with 5,885 participants.
- The culture of reporting. An automated tool has been installed within the group to ensure that employees of the LTG Group have appropriate conditions to promptly report on safety violations, safety non-compliance or safety-related issues. In addition, this tool enables employees to order necessary safety management services in a quick and convenient way.
- Unified dissemination of information on safety. In order to ensure standardised dissemination of safety-related information, the concept of unified dissemination of information on safety was prepared within the LTG Group in 2022. As a result, industrial workshops are started by reviewing safety indicators and discussing on daily safety tips, all employees are constantly provided with the most relevant information about the events occurred and lessons learned; also, meetings with employees are held on a monthly basis to discuss safety situation and to address problematic safety-related issues.
- Safety partnership. Development of safety ambassadorship was continued within the Group in 2022, during which group companies were consulted (not inspected), dangers related to traffic safety in structural units were analysed and mitigation thereof was sought.

The LTG Group focuses on development of competences of employees - it constantly provides initial, on-the-job and additional instructions as well as introductory theoretical / practical training, traineeships and continuous training. In 2022, instructional materials were reviewed and updated, training programmes and their content, which is presented in an interactive way and expands digital learning opportunities, were updated.

RAISING PUBLIC AWARENESS

In 2022, the LTG Group also focused on enhancing public safety awareness. In order to ensure that persons crossing railway tracks or who are present in the railway danger zone, users of level crossings are aware of the traffic safety risks, implementation of a social education campaign SafeTracks (for more information see https://saugusbegiai.lt/) which aimed at informing the public about dangers of crossing railway tracks or being in a dangerous railway zone, drawing attention of the public to importance of safe crossing of railway tracks, as well as ensuring proper dissemination of safety information, was continued.

Moreover, it has been cooperated with the Ministry of Education of the Republic of Lithuania during the provision of the general lesson on safety to school-children and preventive campaigns have been organised at the most dangerous railway crossings and level crossings in cooperation with the Lithuanian Police and the Lithuanian Transport Safety Administration.

ESTABLISHMENT OF SAFE AND HEALTHY WORKING CONDITIONS

Taking into account practices established in the standard ISO 450001:2018 - Occupational Health and Safety Management System. Requirements with Guidance for Use, the LTG Group ensures establishment of safe and healthy working conditions and compliance with the safety requirements laid down.

In 2022, the following measures and actions were taken to improve the achieved indicators even more:

- The Occupational Health and Safety Committees were updated in order to ensure proper development of social dialogue and cooperation;
- Occupational risks related to workplaces were evaluated, the selected safety measures were implemented, occupational risk assessment concept was updated;
- Instructions for occupational safety and health and their forms were updated;
- Mandatory instructions as well as the general instruction were provided to employees, and safety competencies were enhanced;
- Employees were provided with personal protective equipment;
- Inspections and audits, including the work of contractors, were carried out, action plans for elimination of non-conformities were prepared and implementation of measures established therein was ensured;
- Investigations of accidents at work were conducted and measures to prevent the causes of the events from reoccurring were taken;
- Periodic medical examinations and vaccination of employees were organised.

ENSURING RAILWAY SAFETY

Taking into account Commission Delegated Regulation (EU) 2018/762 of 8 March 2018 establishing common safety methods on safety management system requirements pursuant to Directive (EU) 2016/798 of the European Parliament and of the Council and repealing Commission Regulations (EU) No 1158/2010 and (EU) No 1169/2010, railway safety and compliance with the established safety requirements were ensured within the companies group AB Lietuvos Geležinkeliai.

In 2022, actions taken in order to increase traffic safety were as follows:

- Railway traffic management systems were updated, maintenance and repair systems of traction rolling stocks were certified, and preparation for obtaining general safety certificates was carried out;
- Changes to the railway system and arising risks were assessed, measures to properly manage the risks were taken;
- Safety competencies were enhanced;
- Inspections and audits, including the work of contractors, were carried out, action plans for elimination of non-conformities were prepared and implementation of measures established therein was ensured;
- Investigations of traffic accidents and incidents were conducted and measures to prevent the causes of the events from reoccurring were taken;
- Constant monitoring of railway safety status was carried out on the basis of safety indicators.

GOVERNANCE AREA

The LTG Group has committed to improve its governance in order to ensure that management that is effective and in line with the best governance practice; thus, it is constantly taking into consideration the good practices and recommendations to improve governance. The LTG Group follows a clear and transparent operating architecture aimed at the implementation of long-term and short-term LTG strategic goals, interoperability and possible synergies.

The LTG Group ensures independence of the management, seeks to isolate decision making and their implementation from any political impact. The Company receives positive assessments of its governance from Governance Coordination Centre and is constantly responding to recommendations on how it can further improve its performance in this area.

In the governance area, the LTG Group has set two key priorities:

- **Creation of long-term value for the state and the society.**
- **Ensuring of business continuity and risk management.**

The LTG Group also aims at implementing other activities and goals related to governance, such as ensuring the good governance and effective corporate management, zero tolerance for corruption, transparency fostering, legal regulation of state-owned enterprises, management structures that are in line with the good governance practice as well as upholding of remuneration system as it is provided in the Corporate Governance Policy, Remuneration Policy for Top Level Employees, Corruption-resistance policy, also in strategies, action plans and other documents of the LTG Group.

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

The LTG Group seeks for the highest level of efficiency and transparency in its governance and, by its initiatives and values in this area, it contributes mostly to these global Sustainable Development Goals.

CREATING LONG-TERM VALUE FOR THE STATE AND THE SOCIETY

WE ENSURE RETURN TO THE STATE AND THE SOCIETY: WE CONTINUOUSLY IMPROVE AND INVEST IN SUSTAINABLE SOLUTIONS

The LTG Group aims to be a competitive, growing corporate group that generates sustainable returns for its shareholder and creates long-term value for the society. In the LTG Group, corporate governance structure and investments are focused on creation of long-term value, sustainable borrowing resources are used for strategic projects. The 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, it is constantly aimed at reducing the negative impact on the environment and society, the Green Public Procurements are carried out, contribution to increasing public welfare and strengthening of citizenship is made.

Priority indicators

Indicator	Unit of measurement	2022	2021	2020
Good Corporate Governance Index as assessed by GCC (Governance Coordination Centre)	Index	A	A	A
Transparency evaluation as assessed by GCC	Index	A+	A	A
Rail Sustainability index according to the International Union of Railways UIC	Index	57.7%	-	-
PORTION OF THE GROUP'S GREEN PURCHASES BY PURCHASE VALUE	%	84.1	9.1	n/a
Lietuvos Geležinkeliai	%	77.7	9.3	n/a
LTG Cargo	%	94.6	0.1	n/a
LTG Link	%	82.3	11.7	n/a
LTG Infra	%	82.3	20.9	n/a

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, operating model of the LTG Group focuses on refining and concentrating the core activities in subsidiaries and streamlining, standardising and providing centralised services to the Group companies.

The LTG Group sets ambitious investment goals in its long-term strategic planning documents. 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. For the past 5 years, LTG has not invested in projects that would worsen the climate situation or pose risks related to climate change in the future. In the future, it is planned to receive additional financing, the terms whereof depend on green goals and investments in sustainable technologies. The Group is planning a number of investment projects that will further significantly reduce the impact on the climate and the environment in the future (electrification, network development, renovation of assets).

GOOD GOVERNANCE PRACTICES

Corporate governance within the LTG Group is understood as the set of management principles, uniform practices and processes established for and (or) applicable to the bodies of the LTG Group companies in accordance with which the LTG Group companies are managed and controlled. The LTG Corporate Governance Policy aims at setting out common principles for the LTG Group in terms of governance structure, the formation of governing bodies and separation of functions, corporate governance, control and transparency, the optimal governance structure, decision-making and reporting framework and the relationship between the governing bodies of the LTG Group companies.

The corporate governance policy of the LTG Group is implemented by exercising the rights of LTG as a shareholder in relation to its subsidiaries, by defining the powers, composition and responsibilities of the governing bodies of the subsidiaries of LTG, and by applying the other policies adopted by the LTG Group.

The LTG Group applies the principles of openness and transparency, regulatory compliance and efficiency of governance, meeting shareholders' expectations, cooperation with stakeholders, effective and efficient risk management and internal control systems, clarity and sustainability of objectives, as well as accountability and responsibility of the management bodies.

The corporate governance of the LTG Group is organised in such a way as to maintain an effective and result-oriented balance between the Group's management and control measures. The governance model of the LTG Group is centralised, i.e. the governing bodies of the parent company AB Lietuvos Geležinkeliai consider and approve consolidated business strategy, consolidated performance objectives, performance indicators and targets, the consolidated budget and operating plan of the LTG Group. Although the law and the Articles of Association do not provide for direct management powers of LTG over the subsidiaries, LTG establishes rules and procedures for coordination, supervision and control of the Group's companies. LTG also establishes group-wide policies and rules, acts as an active shareholder and exercises its rights properly.

The corporate governance structure of the LTG Group consists of the governing bodies of the LTG Group companies and the committees established by the Board of AB Lietuvos Geležinkeliai, which ensure proper representation of the shareholders' interests, alignment of the interests of the stakeholders, implementation of the management and control functions, and compliance with the requirements of legal acts.

In 2022, the LTG Group continued to develop and implement a governance model based on the highest sustainability standards, and it became a member of the Baltic Institute of Corporate Governance (BICG) in September. Having analysed the corporate governance practices of the LTG Group, BICG carried out a corporate governance assessment and presented the results to the LTG management, identifying potential areas for improvement.

A new Corporate Governance Policy was also launched in 2022 and approved by the LTG Group in February 2023. The new policy has been supplemented by the principles of the LTG Group Corporate Governance, it has defined the elements of corporate governance, clarified the application of corporate documents in the LTG Group, defined the relationship between the bodies of the LTG Group companies. The Corporate Governance Policy has been supplemented by provisions on risk management and internal control system.

INDEPENDENCE OF THE BOARDS

In carrying out its activities, the LTG Group applies the highest standards of transparency and the general, specific and independence requirements set out in the Code of Conduct for the selection of candidates to the collegiate supervisory or management body of a state-owned or municipally-owned company or its subsidiary. In order to ensure transparency of the work of the Boards of Directors and the decisions taken and compliance with the requirements of the legal acts, AB Lietuvos Geležinkeliai has a Board consisting of 5 independent members, a member of the Board delegated by the shareholder and one civil servant.

These standards of transparency and independence are also reflected in the subsidiaries of the LTG Group where the Boards of Directors are established: in the second quarter of 2022, procedures for selecting new boards and amending the Articles of Association were launched, which will require the Board to have at least 1/3 of independent members.

The Boards of LTG Cargo, LTG Infra and LTG Link meeting the above requirements were elected and the Articles of Association were amended in January 2023.

BREAKDOWN OF THE BOARD BY GENDER

Following the provisions set out in the Labour Code of the Republic of Lithuania, the Law on Equal Opportunities of the Republic of Lithuania, the Law on Equal Opportunities for Women and Men of the Republic of Lithuania, as well as with the other normative legal acts establishing equality of persons and the prohibition to restrict the rights of human beings on the basis of discrimination, the LTG Group does not tolerate any inequalities, any forms of violence, any manifestations of psychological or similar pressures, or any discrimination at work. During the process of recruitment, as well as during and after the employment relationship, the LTG Group adheres to the principle of equal opportunities and the prohibition to restrict or favour the rights of workers on the grounds of sex, race, nationality, citizenship, language, origin, social status, religion, beliefs or opinions, age, sexual orientation, disability, ethnic origin, or any other grounds.

Gender diversity in the LTG Group is also reflected in the highest governance bodies. The Board of AB Lietuvos Geležinkeliai consists of 71% of men and 29% of women. Meanwhile, in the subsidiaries of AB Lietuvos Geležinkeliai, where the Boards of Directors were established in 2022, as many as 50% of the Board members were women. Gender diversity is also ensured by the election of new Boards in the subsidiaries of AB Lietuvos Geležinkeliai in 2023. In January 2023, 25% of women were elected to the Board of LTG Cargo, 20% of women were elected to the Board of LTG Infra, and even 40% of women were elected to the Board of LTG Link.

REMUNERATION TO MEMBERS OF THE BOARD

In accordance with legal requirements and good governance practices, the LTG Group pays remuneration both to independent and shareholder-delegated members of the Board, as well as civil servants. For more information on the Board members of the LTG Group, their remuneration, decisions taken, etc., please refer to the *Corporate Governance section of the Consolidated Annual Report*.

COLLECTIVE REPRESENTATION

During the financial year, the LTG Group had a group-wide sectoral collective agreement aimed at improving the working, social and economic conditions of its employees by creating a working environment that attracts and develops professional and loyal employees and encourages them to strive for the best possible performance.

IMPLEMENTATION OF GREEN PROCUREMENTS

Since 2021, the LTG Group has actively pursued green public procurements as part of the implementation of the Resolution of the Government of the Republic of Lithuania No.1133 of 21 July 2010 “Regarding Establishment and Implementation of Green Procurement Objectives”. According to this resolution, procurement executives shall set environmental criteria in the terms of the procurement in order to procure goods, services or works with the lowest possible environmental impact in a single, several or all stages of the life cycle of the goods, services or works. The goods purchased in this way are greener and more sustainable than standard alternatives, and the service provider certifies that its activities meet international environmental standards. Measuring all public procurements across the Group, green procurements account for over 84% of total purchases by value (or almost 47% by a number of purchases). “Green” procurement has been used for acquisition of services of such importance to the Group as Phase I of contract works for Rail Baltica, modernisation of the data transmission network, maintenance and repair of buildings, as well as purchases of fuel for rolling stocks and electricity from renewable energy sources. The Group has managed to significantly exceed the 50% procurement benchmark set by the State in terms of value, and has an ambitious target of 100% green procurement from 2023.

SUPPLIER CODE OF CONDUCT

The LTG Group has a Supplier Code of Conduct, the main purpose of which is to establish standards of business ethics and sustainable behaviour that are binding on suppliers of goods and services with whom the LTG Group companies enter into sales and purchase agreements. In accordance with the provisions of the Code, all suppliers of the Group are required to comply with international business practice guidelines and standards based on the United Nations Global Compact Operating Principles, the United Nations Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the International Labour Organisation Declaration on Fundamental Principles and Rights at Work and other recommendations.

The Supplier Code of Conduct of the LTG Group is binding on all suppliers. Its full text is available on the website of the LTG Group.

EMPLOYEE CODE OF ETHICS

The Employee Code of Ethics is an important document of the LTG Group, which defines the standards of behaviour expected of the Group's employees. It sets out the key ethical principles ((leadership, legality, integrity, etc.) of employee behaviour that are expected to be adhered to in order to ensure integrity, transparency and credibility across the LTG Group. The Code of Ethics promotes a culture of trust within the LTG Group, a transparent and open relationship that avoids conflicts of public and private interest, inappropriate giving and accepting of gifts and other ethically questionable situations. The LTG Group expects employees to behave ethically at work in the performance of their duties and employees should avoid situations where their unethical behaviour outside of work could be attributable to the LTG Group and could damage its reputation.

The Code applies to LTG Group employees and members of collegiate governing bodies, trainees or interns.

ENSURING BUSINESS CONTINUITY AND RISK MANAGEMENT

WE PLAN THE FUTURE: WE INTEGRATE THE MANAGEMENT OF SHORT-TERM AND LONG-TERM RISKS INTO THE CORPORATE ACTIVITY

The LTG Group 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. Effective anti-corruption and anti-bribery mechanisms that contribute to transparent decent management of the LTG Group processes have been introduced. The importance of the LTG 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 them with other organisations.

Priority indicators

Indicator	Unit of measurement	2022	2021	2020
CORRUPTION PREVENTION INDICATORS				
SOE good governance corruption prevention index (GCC)	Index	A+	A+	A
Participation in online training on corruption prevention	Number of people	3,942	1,500	-
Participation in training on corruption prevention of the Safety Academy	Number of people	535	540	-
Participation in other trainings on corruption prevention	Number of people	200+	300+	200+
Number of employees participated in the survey	Number of people	680	1,285	1,299
Employees believing that the workplace is not affected by corruption	%	93.4%	93.5%	91.5%
Employees who are aware of whom to report a case of corruption to	%	89.6%	80.1%	72.1%
Corruption-related breaches reported on the hotline	Number	21	13	20
Notifications received through reporting channels that the investigation was based on	Number	4	2	4
Pre-trial investigations initiated	Number	1	1	1
PERSONAL DATA PROTECTION INDICATORS				
Data Protection Impact Assessments carried out	Number	9	2	3
Requests by individuals to exercise their rights under the GDPR	Number	6	16	13
Personal data breaches managed	Number	6	3	9
LTG GROUP'S PRE-EMPLOYMENT CHECK INDICATORS				
Total people checked	Number of people	90	28	49
Negative information obtained during the checks	Number	0	1	0

For more information on risk management and ways of ensuring business continuity of the LTG Group, please refer to the *Risks and their Management section of the Consolidated Annual Report*.

Prevention of corruption

The LTG Group follows the principle of zero tolerance for corruption, which means that the Group companies do not tolerate any form of corruption. In its activities, LTG implements a set of measures and processes aimed at forming a transparent and smoothly functioning company of 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. The expectation of the shareholder to act in a transparent manner is adhered to.

On the basis of the SOE Good Governance Index assessment, LTG was given the highest possible A+ index in 2022 for its actions taken in response to prevention of corruption, which confirms that efforts made by the LTG Group regarding prevention of corruption are successful and positively evaluated.

The strategic objectives of the National Anti-Corruption Programme 2023-2033 have been focused on three key areas:

- To shape anti-corruption provisions and develop anti-corruption competencies;
- To seek for sustainable political, management, administrative and financial solutions resilient to undue influence as well as for quality public and administrative services;
- To seek for effective control of corruption and unbiased, objective administration of justice and ensuring of the rule of law.

As part of the public sector the LTG Group makes every effort to act in a transparent manner. Moreover, we always note that over the past years the LTG Group received at least two letters from its shareholder – the Ministry of Transport and Communications of the Republic of Lithuania – requesting for commitment to transparency and accountability. The companies group is encouraged to act in a transparent manner thus ensuring that all the information included in the Guidelines for Ensuring Transparency is publicly available.

In addition to the laws and legal acts of the Republic of Lithuania, the area of corruption prevention across the LTG Group is regulated by internal documents:

- Corruption Prevention Policy.
- Anti-corruption Management System Handbook.
- Supplier Code of Conduct.
- Employee Code of Ethics.
- Work Principles within AB Lietuvos Geležinkeliai Group of Companies.
- Methodology for the Acceptance and Provision of Gifts.
- The Rules for Declaration of Employees Private Interests of the LTG Group and Control of Executing Declaration.
- Other related processes and standards.

Management of corruption-related risks

Responding to Corruption Prevention Provisions, a working party on the assessment of corruption-related risks has been established in the LTG Group and has been operating since 2021, which analyses the status activities of the LTG Group in terms of anti-corruption on a regular basis, it identifies specific corruption-related risks, proposes to include them to the Register of Corruption-Related Risks, reviews the anticipated risk management measures in accordance with the general risk management principles and risk management methodology of LTG. In 2022, the working party reviewed and updated the list of corruption sensitive areas of the LTG Group based on which there is reasonable focus placed precisely on such areas (e. g. public procurements, asset management, etc.), it made assessment of the effectiveness of the anticipated management measures, and evaluated implementation possibilities of the suggestions made after the performed determination of the probability of corruption. The Group monitors typical risks (identified in examples of good practice) associated with corruption and pays great attention to their elimination.

1 – Potential conflicts of public and private interests

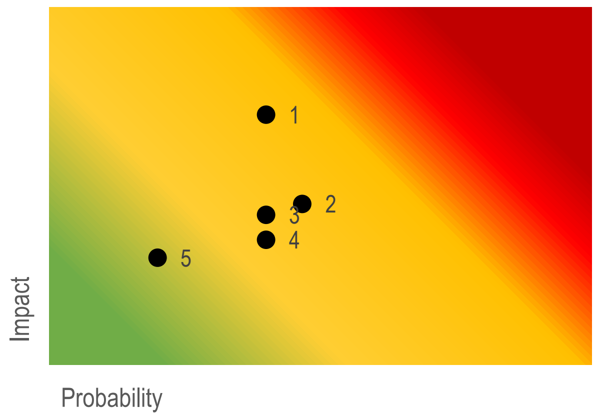
2 – Lack of internal control in terms of contracting and payment

3 – Abuse in the initiation and execution of procurements

4 – Abuse of employees in asset management

5 – Smuggling and other unlawful actions

Mapping of corruption-related risks



	Risk	Key sources of risk	Potential effect	Risk management measures
1	**Potential conflicts of public and private interests**	• Failure to submit declaration of private interests • Failure to submit declaration of private interests	• Violation of legislation	• Implementation of additional controls in procurement processes • Training of employees on declaring private interests and recusal • Role control in systems • Inspections of declaration of interests
2	**Lack of internal control in terms of contracting and payment**	• Abuse by employees • Human error • Data errors • Non-compliance with processes • Failure to define responsibilities sufficiently clearly	• Reputational damage • Financial losses • Administrative offenses • Inefficient contract management	• Automated payments • Systemic rights restrictions • Multi-level approval processes in systems • Application of the four-eye principle • Periodic inspections • Cross-functional inspections
3	**Abuse in the initiation and execution of procurements**	• Abuse by employees • Subjective evaluation of tenders • Lack of competencies • Unlawful conduct of suppliers	• Reputational damage • Financial losses • Non-compliance with legal regulations	• Extension of internal regulation on asset management • Unscheduled facility inventories • Inspections on activities carried out in rented premises • Evaluation of the actual use of vehicles
4	**Abuse by employees in asset management**	• Abuse by employees • Lack of internal controls	• Reputational damage • Financial losses	• Improvement of working conditions • Increasing the prestige of the position • Process automation • Employer branding
5	**Smuggling and other unlawful actions**	• Abuse by employees	• Reputational damage • Financial losses	• Unannounced inspections to detect smuggling • Monitoring and analysis of freight flows • Job rotation

The LTG Group applies internal control instruments increasing transparency in operations of the LTG group of companies. In 2022, three internal audits were performed, the recommendations of which contributed to transparency of activities:

- Audit of compliance of the anti-corruption management system with the ISO 37001 standard.
- Audit of corruption prevention measures in procurements.
- Fraud investigation.

Noteworthy, the group of companies has been operating in accordance with the requirements of ISO 37001 Anti-Bribery Management Systems - Requirements with Guidance for Use (hereinafter - ISO standard) for several years. In 2022, the LTG Group completed the necessary steps to implement the Standard. Evaluation of the implemented anti-corruption management system has been performed by external auditors in August – September 2022. Based on the findings of the external audit, ISO 37001: 2016 certificate was issued in November 2022.

RAISING EMPLOYEE AWARENESS

Within the LTG Group, training employees on prevention of corruption is carried out in different ways; i. e. employees may learn independently online by accessing the Success Factor platform on their own; trainings given by lecturers within the company or by guest speakers are organised; information on corruption prevention issues is provided for employees through a variety of the LTG Group communication channels.

In the implementation of the requirements of the introduced ISO Standard, relevant information on corruption prevention issues has been provided in the online training on corruption prevention that had already had 5,500 employees participated therein from the end of 2020 to the end of 2022. During this training, topics related to prevention of corruption presented to employees cover the following: development of anti-corruption environment, the main legal acts regulating implementation of corruption prevention measures, declaration of public and private interests, management of conflicts of interest, the process of recusal and its functionality, reporting channels.

In addition, high level of focus has been placed on improvement of competencies of employees responsible for corruption prevention. In 2022, each employee of the LTG Group responsible for this area participated in the Integrity Academy training on development of anti-corruption environment and individual measures, organised by the Special Investigation Service. Representatives of the LTG Group have willingly shared their knowledge and successful practice with their colleagues - they have presented peculiarities of pre-employment background check and functioning of the anti-corruption management system to representatives of the transportation industry.

During the Safety Academy weeks in 2022, 4 targeted trainings related to prevention of corruption have been organised. In preparation for certification, training on the Anti-Corruption Management System has been organised for managers in order to present the system, explain what provisions are included by ensuring prevention of corruption within the LTG Group, etc.

Moreover, 2 targeted trainings on the peculiarities of their field have been provided individually to employees working in the field of procurement services.

Within the LTG Group, Training of employees is carried out consistently and continued in all areas including general corruption prevention issues and specific target trainings. It is planned to continue using all available forms and means of training – continue organising and conducting online learning, as well as targeted trainings during the Safety Academies, participate in the Integrity Academy training of the Special Investigation Service, invite guest speakers upon need.

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 within the group of companies, identify employees' knowledge about the measures taken by the group of companies to prevent corruption. The results of the survey performed in 2018 – 2020 show that the level of honesty and awareness of employees not to give illegal remuneration / gifts is extremely high and employees rarely face corruption in their activities.

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.

ENSURING NATIONAL SECURITY

The LTG Group operates in a strategically important economic sector and manages facilities and assets of importance to ensuring national security; therefore, the companies LTG Infra, LTG Cargo and LTG Link owned by the LTG Group are attributed to Category II enterprises of importance to ensuring national security. In order to ensure uninterrupted operation the Group uses Critical Information Infrastructure and information systems, and applies all the necessary measures to ensure proper and safe use thereof. Before entering into contracts related to national security (e. g. contracts related to the Critical Information Infrastructure; the value of the transaction exceeds 10% of the company's annual income for the previous financial year; etc.), the responsible persons are obliged to make sure that the Commission for Coordination of Protection of Objects of Importance to Ensuring National Security has assessed whether the contracts are in compliance with national security interests.

Pursuant to Order of the Minister for Transport and Communications of the Republic of Lithuania, the list of current responsibilities born by persons (including members of collegial supervisory bodies of enterprises important for ensuring national security, members of management bodies and single-person management bodies) working in enterprises important for ensuring national security and (or) with facilities important for ensuring national security and persons who, due to the functions or the work assigned to them, would be given the right to enter without escort the companies, facilities and assets specified in this section or to make decisions regarding the functioning of these facilities and assets, (hereinafter - List of Responsibilities) of LTG, LTG Link, LTG Cargo, LTG Infra, GTC shall be approved. Business Security carries out inspection of persons before appointing them to the positions listed in the List of Responsibilities. During the inspection, the State Security Department of the Republic of Lithuania and the Ministry of the Interior of the Republic of Lithuania are applied for information.

CYBER SECURITY

The LTG Group provides uninterrupted services of particular importance to passengers and business entities. In the course of its activities, it uses, controls and processes general-purpose information systems, the Critical Information Infrastructure and information systems of industrial process control, it also processes public, confidential information and trade secrets of the group of companies and its business partners as well as personal data of customers, business partners and employees.

In the event of a breakdown of information systems, a data protection breach or a cyber-attack, operations of the LTG Group may be disrupted. Taking into account the changing business environment needs of the LTG Group and the constantly evolving cyber threat technologies and attack methods, cyber security is an essential component of security and protection of the LTG Group activities.

The legislative framework of the LTG Group provides for cyber security directions, describes principles and requirements ensuring security of information and information systems and proper management of related risks. The LTG Group ensures information security through operation in accordance with international information security standards and best global information security practices. AB Lietuvos Geležinkeliai is the upstream provider of cyber security services of the LTG Group responsible for enabling other companies of the LTG Group to use safe information services.

We manage cyber security risks by regular assessments of information security risks of vital processes and information systems. In order to ensure information security of information systems, we respond consistently to incidents and vulnerabilities related to information security, we perform analyses and implement preventive measures. In addition, we apply high security standards both to the systems used by the LTG Group and third parties; i. e. a third party must ensure the same level of information security as applicable within the LTG Group.

We give a high priority to promotion of vigilance and awareness of cyber security of the LTG Group employees - trainings on cyber security are organised on a regular basis, cyber security memos are provided, information on current security threats is published. As the majority of cyber incidents is caused by a human error, social engineering simulations are performed during which vulnerabilities are identified and preventive security measures are applied accordingly. Ensuring cyber security of the LTG Group we continuously cooperate with the National Cybersecurity Centre under the Ministry of National Defence of the Republic of Lithuania and other authorities.

It is especially important to continuously improve knowledge and practical skills not only of employees of the LTG Group but also of security personnel; therefore, every year, cyber security experts of the LTG Group participate in the international cyber security exercise Amber Mist organised by the Defence Staff of the Lithuanian Armed Forces, the main objective of which is training of participants in a prepared cyber training space to protect the Critical Infrastructure.

The LTG Group is able to adapt quickly to such environmental changes affecting cyber security of the LTG Group as remote work and geopolitical situation by managing cyber incidents effectively and without financial or reputational damage.

PROTECTION OF PERSONAL DATA

The LTG Group places great importance on personal data protection and responsibly processes data entrusted by its employees, customers and partners. The Group seeks to ensure maximum protection and confidentiality of processed data and compliance of data processing with requirements of the EU General Data Protection Regulation (GDPR) and other data protection legislation.

Technical and organisational measures are applied within the LTG Group to protect personal data against accidental or unauthorised disclosure, alteration, destruction and other unlawful forms of data processing. In the implementation of the GDPR requirements, records of data processing activities are updated, monitoring of data processing operations is performed, Data Protection Impact Assessments, audits of information systems in terms of GDPR and legitimate interest tests are carried out within the Group on a regular basis. We aim at promoting employee culture and ensuring their training in the field of personal data protection.

In 2022, in the implementation of data protection legislation requirements in the field of personal data protection, we:

- provided training to employees on a quarterly basis, prepared mandatory interactive training that is followed by a verification test to be done by employees, shared memos on data protection that include essential information on data protection, organised specialised training for target groups of employees, divisions;
- updated internal legislation of the LTG Group, process standards, and privacy notices related to personal data protection;
- implemented additional control mechanisms to make sure that partners (service providers) who process personal data of employees and customers sign data processing agreements when contracts are concluded therewith;
- focused on assessment of compliance of the systems used within the LTG Group to process personal data with personal data protection requirements, followed the guidelines and recommendations provided by the State Data Protection Inspectorate (SDPI) and the European Data Protection Board (EDPB), identified and applied information system changes in order to ensure compliance with the GDPR requirements and implementation of best practices;
- placed great importance on review and update of records of data processing activities within the Group companies, implemented additional control mechanisms, involved responsible employees of the Group companies in the ongoing processes;
- constantly monitor data processing operations (activities) in terms of GDPR seeking to ensure compliance with the GDPR requirements, we identified data protection risks and provided recommendations to mitigate these risks;
- performed 9 Data Protection Impact Assessments, identified risks, provided recommendations, and established measures to mitigate the risks;
- carried out legitimate interest tests, identified risks, provided conclusions and recommendations when data is processed on the basis of legitimate interest;
- concluded data processing and data transfer agreements with data processors and co-controllers implemented additional control mechanisms;
- provided recommendations and consultations to employees of the Group companies regarding compliance of data processing operations, legislation, contracts with GDPR and other legislation on personal data protection.

CONTROL SYSTEM AND INTERNAL AUDIT

In order to ensure transparent and efficient operation of the LTG Group companies and an appropriate internal control system, centralised Internal Audit Department – “the third line of defence” – has been established in the Company. The Department reports directly to the Board, thus ensuring the independence and objectivity of the internal audit, 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 activities of the Department are 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 2022, the activities of the Internal Audit covered areas selected on the basis of a risk assessment and the identification of priority activities and processes to be audited. Findings of the audits carried out have been presented to the heads of the responsible divisions and the top-level management of the Company, as well as to the Audit Committee and the Board of LTG. For more information on activities of the Internal Audit, please refer to the *Corporate Governance section of the Consolidated Annual Report*.

INFORMATION ON THE COMPLIANCE WITH THE GUIDELINES ON TRANSPARENCY

The Group companies follow the requirements of the description of the guidelines for ensuring transparency of state-owned enterprises approved by Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010 when disclosing the required information in annual and interim reports and ensuring the disclosure of information on their websites.

STRUCTURED INFORMATION ON THE COMPLIANCE WITH THE GUIDELINES ON TRANSPARENCY

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;	No, the Supervisory Council is not formed
5.11.	Names of committees, if formed; data about their chairmen and members;	Yes
5.12.	The sum of the nominal values of the state-owned shares (in euro to the nearest euro cent) and the share (in percentage) in the authorised capital of the state-owned enterprise;	Yes
5.13.	The performed special obligations that are determined as to recommendations approved by the Minister of Economics and Innovations of the Republic of Lithuania: the purpose of the special obligations, state budget appropriations allocated their implementation in the current calendar year and the legal acts entrusting the state-owned enterprise with the performance of the special obligation, the conditions for fulfilment of the special obligations and (or) regulatory pricing;	Yes
5.14.	Information on social responsibility initiatives and measures, important ongoing or planned investment projects.	Yes
6.	In order to ensure publicity regarding the professionalism of the management and supervisory bodies as well as the members of the committees, formed in a state-owned enterprise, the following data of the persons referred to in sub-points 5.8 – 5.11 of the Description shall be published: name, surname, commencement date of current duties, other current managerial positions in other legal entities, education, qualification, professional experience. If the person stated in sub-points 5.9 – 5.11 of the Description has been elected or appointed as an independent member, this information should be additionally disclosed under his data.	Yes
7.	The following documents shall be announced in the website of a state-owned enterprise:	
7.1.	Articles of Association;	Yes
7.2.	Statement from an institution representing the State regarding the establishment of the goals and expectations of the State in a state-owned enterprise;	Yes
7.3.	The business strategy or a summary thereof in cases where the business strategy contains confidential information or information which is considered a commercial (industrial) secret;	Yes
7.4.	Document establishing the remuneration policy, setting out the remuneration of the head of a state-owned enterprise and the remuneration of members of collegial bodies and committees formed in a state-owned enterprise, as detailed in the Code of Corporate Governance;	Yes
7.5.	Annual and interim reports of a state-owned enterprise, annual and interim activity reports of a state-owned enterprise for a period of at least five years;	Yes
7.6.	Annual and interim financial statements and auditor's reports on annual financial statements for a period of at least five years;	Yes
8.	When a state-owned enterprise is a parent company, the structure of the group of companies is to be published on its website as well as the information of its subsidiaries and further subsidiaries as specified in Clauses 5.1–5.3 of the Description, the website addresses, the share (percentage) of the share capital owned by the parent company in their authorised capital, and consolidated annual reports.	Yes
9.	When a state-owned enterprise is a participant of legal entities other than those specified in Clause 8, the details of these legal entities specified in Clauses 5.1–5.3 of the Description as well as their website addresses must be posted on its website.	Yes
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.	-

Point of Description	Description provision	Yes/No
	Disclosure of the Company's information	
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 of the state-owned enterprise;	Yes
17.4.	The profitability, liquidity, assets negotiability, and debt indicators;	Yes
17.5.	The fulfilment of the specific obligations;	Yes
17.6.	The implementation of the investment policy, planned investment projects and investments as well as those under implementation during the reporting year;	Yes
17.7.	The implementation of the risk management policy applicable at the state-owned enterprise;	Yes
17.8.	The implementation of the dividend policy at state-owned enterprises;	Yes
17.9.	The implementation of the remuneration policy;	Yes
17.10.	The total annual payroll fund, the average monthly salaries according to the positions held and (or) divisions;	Yes
17.11.	Information on the compliance with the provisions of Chapters II and 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 environmental 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

AB Lietuvos Geležinkeliai

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 2022

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Independent Auditor's Report

To the Shareholders of AB Lietuvos Geležinkeliai

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

Opinion

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

- the separate and the consolidated statements of financial position as at 31 December 2022,
- the separate and the consolidated statements of profit or loss and other comprehensive income for the year then ended,
- the separate and the consolidated statements of changes in equity for the year then ended,
- the separate and the consolidated statements of cash flows for the year then ended, and
- the notes to the separate and the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2022, and of their unconsolidated and consolidated financial performance and their unconsolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' 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.

Key Audit Matters

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

Company code: 111494971
VAT code: LT114949716

Property, plant and equipment – valuation (consolidated financial statements)

The carrying amount of Group's property, plant and equipment as at 31 December 2022: EUR 1,937,138 thousand (31 December 2021: EUR 1,894,821 thousand); depreciation and amortization expense for the year then ended: EUR 106,383 thousand (31 December 2021: EUR 108,096 thousand).

We refer to the financial statements:

Significant accounting policies – "2 Property, plant and equipment", "3 Use of estimates and judgments in the preparation of financial statements", Note 7 „Property, plant and equipment and investment property".

The key audit matter	How the matter was addressed in our audit
On 24 February 2022, Russian state military troops attacked the Ukrainian state. The military actions have an impact not only on Ukraine and Russia, but also on the other economies in Europe and the rest of the world. The war and ensuring sanctions resulted in a significant decrease in sales compared to previous years. The Group's profitability also depressed as a result. The above represented an indication that certain asset or cash generating units of the Group may be impaired. Any such impairment would be recognized in the amount by which the carrying amount of the asset or cash-generating unit exceeds the recoverable amount. The determination of recoverable amounts of the asset or cash generating units is a process that requires management to make a number of significant judgements, including those in respect of future operating cash flows, growth rates and discount rates. The projected operating cash flows from the Group's activities are influenced primarily by assumptions concerning sales volumes. These projections are exposed to significant variability due to inherent uncertain market conditions. Accordingly, this area required our increased attention in the audit and as such was identified by us to be our key audit matter.	Our audit procedures performed, where applicable, with the assistance from our own valuation specialists, included, among others: • considering the appropriateness of the value-in-use model ("impairment model") applied for estimation of recoverable amount, against the relevant requirements of the financial reporting standards; • evaluating the appropriateness of allocation of assets to cash generating units based on our understanding of the Group's operations and business units; • evaluating the quality of the Group's forecasting by comparing historical projections with actual outcomes, considering the expected support from the Goverment and also tracing the forecast cash flows in the impairment model to Management Board approved forecasts; • using our knowledge of the Group, its past performance, business and customers, and our industry experience, challenging significant forecast cash flow and growth assumptions. As part of the procedure we: ○ challenged the discount rate used by reference to publicly available market data, adjusted by risk factors specific to the Group and its industry, ○ assessed reasonableness of the assumptions relating to sales volumes and profit margins to historical results and to industry forecasts; • assessing the integrity of the impairment model, including the accuracy of the underlying calculation formulas; • considering sensitivity of the impairment model to changes in key assumptions, such as forecast EBITDA and discount rates to identify the assumptions at higher risk of bias or inconsistency in application; • considering the adequacy of the Group's disclosures in respect of impairment testing.

Other Information

The other information comprises the information included in the consolidated annual management report, set out on pages 3 – 73, including the Corporate Social Responsibility Report, but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

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

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

We also need to check that the Corporate Social Responsibility Report ("Sustainability report" set out on pages 74 – 119) has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Under order of the Minister of Transport and Communications of the Republic of Lithuania we were appointed on 17 January 2018 for the first time to audit the Company‘s and the Group's separate and consolidated financial statements. Our appointment to audit the Company‘s and the Group's separate and consolidated financial statements is renewed each year under decision of the general shareholders‘ meeting, and the total uninterrupted period of engagement is 7 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report which we have submitted to the Company and the Group and their Audit Committee.

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

In the course of audit, in addition to the audit of the separate and consolidated financial statements, we have provided translation services, agreed upon procedures services related to loan covenants, agreed upon procedure on the comparison of carrying amounts of AB “LTG Cargo” assets and liabilities to be transferred to AB “LTG Infra” and the assets and liabilities included in the sales / purchase agreement.

On behalf of KPMG Baltics, UAB

Rūta Kupinienė
Certified Auditor

Vilnius, the Republic of Lithuania
7 June 2023

The electronic auditor‘s signature applies only to the Independent Auditor‘s Report on pages 121 to 125 of this document.

(all amounts are in EUR thousand unless otherwise stated)

STATEMENTS OF FINANCIAL POSITION

	Notes	Group		Company	
		2022	2021 (adjusted)	2022	2021
NON-CURRENT ASSETS					
Property, plant and equipment	7	1,937,138	1,894,821	26,696	36,869
Land		152,437	154,100	-	3
Buildings and structures		983,968	864,952	17,704	23,676
Machinery and plant		134,422	145,798	3,378	4,749
Vehicles		322,802	340,122	340	456
Other equipment, fittings and tools		69,762	75,312	5,087	6,051
Construction in progress and prepayments		273,747	314,537	187	1,934
Right-of-use assets	8	11,361	5,995	8,528	10,053
Intangible assets	9	28,892	26,882	9,926	8,434
Software		22,951	19,446	7,230	2,308
Licences and similar rights		1,194	1,242	1,194	1,242
Other intangible assets		4,747	6,194	1,502	4,884
Investment property	10	3,169	2,586	12,283	14,377
Financial assets		7,437	7,262	1,009,405	1,008,742
Investments in subsidiaries	11	-	-	883,235	883,737
Investments in associates	11	4,837	4,651	747	783
Loans to related and other companies	33	-	-	124,490	122,960
Trade and other receivables	13	2,600	2,611	933	1,262
Other non-current assets		66	-	-	-
Deferred income tax asset	32	3,254	3,013	2,238	1,913
Total non-current assets		**1,991,317**	**1,940,559**	**1,069,076**	**1,080,388**
CURRENT ASSETS					
Inventories	12	30,577	30,211	8,384	4,223
Non-current assets held for sale	12	1,731	2,986	9,341	500
Contract assets	14	16	84	-	-
Loans to related and other companies	33	160	160	7,527	4,687
Trade and other receivables	13	39,770	51,239	23,467	19,984
Prepayments	14	3,255	7,985	9,870	17,455
Cash and cash equivalents	15	213,434	84,656	4,567	37,885
Total current assets		**288,943**	**177,321**	**63,156**	**84,734**
TOTAL ASSETS		**2,280,260**	**2,117,880**	**1,132,232**	**1,165,122**

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

(all amounts are in EUR thousand unless otherwise stated)

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

	Notes	Group		Company	
		2022	2021 (adjusted)	2022	2021
EQUITY					
Authorised share capital	16	1,059,282	1,059,282	1,059,282	1,059,282
Legal reserve	18	34,025	33,852	34,025	33,852
Other reserves	18	8,757	7,829	8,757	7,829
Currency translation reserve		48	-	-	-
Retained earnings (losses)	19	59,392	65,644	(3,085)	7,342
Total equity		**1,161,504**	**1,166,607**	**1,098,979**	**1,108,305**
LIABILITIES					
Non-current liabilities					
Grants	20	809,164	603,642	822	611
Loans and borrowings	21	125,745	147,967	-	-
Lease liabilities	22	4,536	4,559	5,994	8,490
Employee benefits	23,30	5,458	8,442	291	595
Trade and other payables	25	8,960	4,611	-	-
Provisions	24	14,470	14,470	-	-
Deferred tax liabilities	32	23,063	21,693	-	-
Total non-current liabilities		**991,396**	**805,384**	**7,107**	**9,696**
Current liabilities					
Loans and borrowings	21	22,737	26,034	-	-
Lease liabilities	22	6,895	1,506	2,790	1,894
Corporate income tax liabilities		750	375	-	128
Employee benefits	23,30	24,396	28,490	4,820	5,805
Trade and other payables	25	49,335	64,126	9,091	20,385
Contract liabilities	26	9	2	-	-
Prepayments received	26	22,630	24,667	9,445	18,909
Provisions	24	608	689	-	-
Total current liabilities		**127,360**	**145,889**	**26,146**	**47,121**
Total liabilities		**1,118,756**	**951,273**	**33,253**	**56,817**
TOTAL EQUITY AND LIABILITIES		**2,280,260**	**2,117,880**	**1,132,232**	**1,165,122**

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

Financial statements and explanatory notes on pages from 132 to 183 were approved and signed on 7 June 2023 by:

Chief Executive Officer	(signature)	Egidijus Lazauskas
Chief Financial Officer	(signature)	Andrej Kosiakov
Head of Accounting	(signature)	Lina Užlienė

(all amounts are in EUR thousand unless otherwise stated)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Group		Company	
		2022	2021	2022	2021
Revenue	27	336,741	420,748	96,193	102,145
Grant	28	96,191	37,629	-	-
Other income	29	1,168	6,761	209	6,497
Total income		434,100	465,138	96,402	108,642
Employee benefits costs	23,30	(156,790)	(169,607)	(31,472)	(34,550)
Depreciation and amortisation	7,8,9, 10,20	(106,383)	(108,096)	(8,517)	(7,988)
Fuel		(44,975)	(52,553)	(187)	(450)
Materials		(12,937)	(20,080)	(40,744)	(48,124)
Services rendered by other foreign railway companies		(13,033)	(19,226)	-	-
Electricity consumption		(19,490)	(8,621)	(609)	(253)
Repairs and maintenance		(16,995)	(19,025)	(2,951)	(2,994)
Increase (decrease) in the value of non-current assets		(8,037)	(2,076)	175	(185)
Write-down of inventories to net realisable value		(3,675)	(1,260)	43	172
Increase (decrease) in the value of investments		(38)	(466)	(160)	(860)
Impairment loss (gain) on receivables		(1,367)	771	(34)	(20)
Change in provisions		76	58	-	-
Other expenses		(44,735)	(36,196)	(17,470)	(13,980)
Profit (loss) from operations		5,721	28,761	(5,524)	(590)
Finance income	31	497	252	2,238	4,363
Finance costs	31	(3,526)	(3,965)	(160)	(253)
Share of net profit (loss) of associates		270	301	-	-
Profit (loss) before taxation		2,962	25,349	(3,446)	3,520
Corporate income tax	32	(1,749)	(1,885)	361	(66)
Net profit (loss)		**1,213**	**23,464**	**(3,085)**	**3,454**
Other comprehensive income (expenses)					
Currency exchange rate differences due to translation of financial statements of foreign undertakings		48	-	-	-
Total other comprehensive income (expenses)		**48**	**-**	**-**	**-**
Total comprehensive income (expenses)		**1,261**	**23,464**	**(3,085)**	**3,454**

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

(all amounts are in EUR thousand unless otherwise stated)

STATEMENTS OF CHANGES IN EQUITY

Group	Notes	Authorised share capital	Share premium	Legal reserve	Other reserves	Currency translation reserve	Retained earnings (loss)	Total
Balance as at 31 December 2020		**1,059,282**	**-**	**32,987**	**5,235**	**-**	**65,473**	**1,162,977**
Net profit (loss)		-	-	-	-	-	23,464	23,464
Other comprehensive income after tax		-	-	-	-	-	-	-
Total comprehensive income (expenses)		*-*	*-*	*-*	*-*	*-*	*23,464*	*23,464*
Profit (loss) not recognised in the statement of profit or loss and other comprehensive income	19	-	-	-	-	-	(5,998)	(5,998)
Increase in share capital	16	-	-	-	-	-	-	-
Formed reserves	18	-	-	865	2,594	-	(3,459)	-
Reserves used	18	-	-	-	-	-	-	-
Dividends	17	-	-	-	-	-	(13,836)	(13,836)
Total transactions with owners of the Company		*-*	*-*	*865*	*2,594*	*-*	*(23,293)*	*(19,834)*
Balance as at 31 December 2021		**1,059,282**	**-**	**33,852**	**7,829**	**-**	**65,644**	**1,166,607**
Net profit (loss)		-	-	-	-	-	1,213	1,213
Other comprehensive income after tax		-	-	-	-	48	-	48
Total comprehensive income (expenses)		*-*	*-*	*-*	*-*	*48*	*1,213*	*1,261*
Profit (loss) not recognised in the statement of profit or loss and other comprehensive income	19	-	-	-	-	-	(123)	(123)
Increase in share capital	16	-	-	-	-	-	-	-
Formed reserves	18	-	-	173	928		(1,101)	-
Reserves used	18	-	-	-	-	-	-	-
Dividends	17	-	-	-	-	-	(6,241)	(6,241)
Total transactions with owners of the Company		*-*	*-*	*173*	*928*	*-*	*(7,465)*	*(6,364)*
Balance as at 31 December 2022		**1,059,282**	**-**	**34,025**	**8,757**	**48**	**59,392**	**1,161,504**

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

(all amounts are in EUR thousand unless otherwise stated)

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Company	Notes	Authorised share capital	Share premium	Legal reserve	Other reserves	Retained earnings (loss)	Total
Balance as at 31 December 2020		**1,059,282**	**-**	**32,987**	**5,235**	**17,295**	**1,114,799**
Net profit (loss)		-	-	-	-	3,454	3,454
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		*-*	*-*	*-*	*-*	*3,454*	*3,454*
Profit (loss) not recognised in the statement of profit or loss and other comprehensive income	19	-	-	-	-	3,888	3,888
Increase in share capital	16	-	-	-	-	-	-
Formed reserves	18	-	-	865	2,594	(3,459)	-
Reserves used	18	-	-	-	-	-	-
Dividends	17	-	-	-	-	(13,836)	(13,836)
Total transactions with owners of the Company		*-*	*-*	*865*	*2,594*	*(13,407)*	*(9,948)*
Balance as at 31 December 2021		**1,059,282**	**-**	**33,852**	**7,829**	**7,342**	**1,108,305**
Net profit (loss)		-	-	-	-	(3,085)	(3,085)
Other comprehensive income after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		*-*	*-*	*-*	*-*	*(3,085)*	*(3,085)*
Profit (loss) not recognised in the statement of profit or loss and other comprehensive income	19	-	-	-	-	-	-
Increase in share capital	16	-	-	-	-	-	-
Formed reserves	18	-	-	173	928	(1,101)	-
Reserves used	18	-	-	-	-	-	-
Dividends	17	-	-	-	-	(6,241)	(6,241)
Total transactions with owners of the Company		*-*	*-*	*173*	*928*	*(7,342)*	*(6,241)*
Balance as at 31 December 2022		**1,059,282**	**-**	**34,025**	**8,757**	**(3,085)**	**1,098,979**

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

(all amounts are in EUR thousand unless otherwise stated)

STATEMENTS OF CASH FLOWS

	Notes	Group		Company	
		2022	2021 (adjusted)	2022	2021
Cash flows from operating activities					
Net profit (loss)		**1,213**	**23,464**	**(3,085)**	**3,454**
Adjustments					
Depreciation and amortisation expenses	7,8,9,10	131,701	132,490	8,697	8,119
(Depreciation) of grants	20	(22,531)	(21,757)	(180)	(131)
(Gain) loss from disposal/write-off of non-current assets		(953)	(12,784)	174	(6,317)
Decrease (increase) in the value of non-current assets		8,037	2,076	(175)	185
Write-down of inventories to net realisable value		3,675	1,260	(43)	(172)
Decrease (increase) in the value of investments		38	466	160	860
Decrease (increase) in the value of amounts receivable		1,367	(771)	34	20
Change in accrued income/expenses		(7,478)	14,090	(4,283)	(3,121)
Interest (income) expenses		2,549	2,390	(1,870)	(1,600)
Increase (decrease) in provisions		(76)	(58)	-	-
Effect of currency exchange fluctuations		214	(20)	119	41
Interest on lease liabilities		170	190	121	214
Corporate income tax expenses (income)	32	1,749	1,885	(361)	66
(Profit) loss of an associated company		(270)	(301)	-	-
Cash flows from operating activities after adjustments		119,405	142,620	(692)	1,618
Changes in working capital					
Decrease (increase) in inventories		(6,626)	6,962	(4,045)	2,601
Decrease (increase) in trade and other receivables and prepayments		(81,813)	(54,533)	3,395	11,982
Increase (decrease) in current and non-current trade payables and received prepayments		(2,211)	33,846	(14,394)	11,076
Increase (decrease) in employment related liabilities		(4,094)	(4,723)	(1,298)	(1,023)
Increase (decrease) in other non-current and current payables		(4,816)	(5,567)	321	32
(Paid) income tax		(3,147)	(5,731)	-	-
Net cash from operating activities		16,698	112,874	(16,713)	26,286
Cash flows from investing activities					
(Acquisition) of non-current assets and change in prepayments for non-current assets		(184,973)	(145,196)	(4,586)	(9,414)
Disposal, write-off of non-current assets		731	7,987	378	8,434
(Acquisition) of investments		-	-	-	1,113
Dividends received		-	680	-	1,636
Interest received		-	-	-	-
Loans granted		-	-	(4,371)	(2,644)
Other increases in cash flows from investing activities	19	-	-	-	7,947
Net cash used in investing activities		(184,242)	(136,529)	(8,579)	7,072
Cash flows from financing activities					
Loans received		-	-	-	-
Loans (repaid)	21	(25,475)	(27,818)	-	-
Grants received (repaid, used)		335,989	85,082	396	101
Interest on lease liabilities		(170)	(190)	(206)	(214)
Payment of lease liabilities		(5,644)	(1,959)	(1,975)	(2,120)
Interest (paid)	21	(2,137)	(2,467)	-	-
Dividends (paid)	17	(6,241)	(13,836)	(6,241)	(13,836)
Net cash flows from financing activities		296,322	38,812	(8,026)	(16,069)
Increase (decrease) in net cash flows		128,778	15,157	(33,318)	17,289
Cash and cash equivalents at the beginning of the period		84,656	69,499	37,885	20,596
Cash and cash equivalents at the end of the period		**213,434**	**84,656**	**4,567**	**37,885**

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

EXPLANATORY NOTES

1. General information

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

The Company is a legal entity independently organising economic, financial, organisational and legal activities. The Company is an authorised capital Company and the Republic of Lithuania acts as a shareholder of the Company. The Company's registration code 110053842, VAT payer's code LT100538411, legal (registration) address: Geležinkelio St. 12, LT-02100 Vilnius.

The main activities of the group of companies AB Lietuvos Geležinkeliai (LTG group, the Group) are freight and passenger transportation by rail, administration of railway network, management, supervision and development of public railway infrastructure.

The main activities of the Company are management, RSE (railway service equipment) and commercial services).

As of 1 December 2021, after reorganisation the Company continues its activity having taken over all assets, rights and commitments of AB VLRD under reorganisation (merged) (disclosed in Note 19).

As at 31 December 2022 and 2021, the Republic of Lithuania represented by the Ministry of Transport and Communications was the sole shareholder of the Company.

As at 31 December 2022, the Company's share capital comprised 3,657,492 ordinary registered shares with the nominal value of EUR 289.62 each. The share capital comprised EUR 1,059,282 thousand. The Company had not acquired own shares.

The number of listed active employees in the Group and in the Company as at the end of 31 December 2022 (excluding the employees on parental leave, military service, long-term incapacity) was 6,126 and 785 employees respectively (as at 31 December 2021 – 7,804 and 1,080 employees, respectively).

The Company's management authorised these financial statements on 7 June 2023. The Company's shareholders have a statutory right to either approve or not to approve these financial statements and to require the management to prepare a new set of financial statements

(all amounts are in EUR thousand unless otherwise stated)

1. General information (continued)

The Group comprised the Company (the parent company) and the companies presented below:

Subsidiaries

Company name	Registered address	Owned share, % 2022	Owned share, % 2021	Main activities
AB LTG Cargo	Geležinkelio St. 12, Vilnius	100	100	Freight transportation by rail.
UAB LTG Link	Geležinkelio St. 16, Vilnius	100	100	Passenger transportation by rail.
AB LTG Infra	Geležinkelio St. 2, Vilnius	100	100	Management of public railway infrastructure and implementation of functions of the manager of public railway infrastructure.
UAB Geležinkelio tiesimo centras	Trikampio St. 10, Lentvaris	100	100	Public railway infrastructure road repairs and construction.
LUAB Gelsauga	Prūsų St. 1, Vilnius	-	100	Security services. The legal entity was removed from the Register of Legal Entities on 25 February 2022.
LUAB Saugos paslaugos	Prūsų St. 1, Vilnius	-	100	Physical and electronic security, installation, monitoring and repairs of technical security surveillance devices. The legal entity was deregistered from the Register of Legal Entities on 30 June 2022.
UAB Rail Baltica statyba	Geležinkelio St. 16, Vilnius	100	100	Implementation of shareholder's functions of the joint Baltic States company RB Rail AS, which monitors implementation of the Rail Baltica 2 project.
OOO Rail Lab	Internacionalnaja St. 36-1, Minsk, the Republic of Belarus	2	100	Manufacturing of locomotives and rolling stock, repairs and technical maintenance of vehicles, wholesale of other machinery and equipment. The company is under liquidation.
LTG Cargo Polska Sp.zo.o.	ul. Rondo ONZ, 12 Piętro, 00-124, Warsaw, Poland	100	100	Activities of freight carrier and provision of related services.
UAB LTG Wagons	Geležinkelio St. 12, Vilnius	100	100	Lease of wagons and containers used for freight transportation by rail and provision of related services.
LTG Cargo Ukraine LLC	Puškino St. 21, Kiev, Ukraine	100	100	Lease, repair forwarding of rolling stock used for freight transportation by rail and provision of other logistic services.
VšĮ Geležinkelių logistikos parkas	Švitrigailos St. 39, Vilnius	79.61	79.61	Responsible for the development and management of Vilnius Public Logistics Centre Fleet. The Company is not significant thus not material for consolidation.

Associated and secondary companies

Company name	Registered address	Owned share, % 2022	Owned share, % 2021	Main activities
voestalpine Railway Systems Lietuva, UAB	Sostinės St. 18, Valčiūnai, Vilnius district	34	34	Manufacture of railway switches.
RB Rail AS	Satekles iela 2B, LV-1010, Riga, Latvia	33.33	33.33	Implementation of Rail Baltica project and of functions of central project coordinator. Controlled through UAB Rail Baltica Statyba.
VšĮ Transporto inovacijų centras	Mindaugo St. 12, Vilnius	33.33	33.33	Development of innovation testing possibilities in transport sector infrastructure. The company is under liquidation.

2. Significant accounting policies

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

The financial statements are prepared on the historical cost basis.

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

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

Use of estimates and judgements. The preparation of the financial statements in conformity with the IFRS and IAS 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. When preparing the financial statements in accordance with IFRS, as adopted by the European Union, the Group and the Company have to make estimates and assumptions on assumptions that affect the application of accounting policies and figures related to assets and 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 carrying amounts of assets and liabilities, decisions on which cannot be made based on other sources.

Judgements made by the management in the application of IFRSs and IAS that have significant effect on the consolidated and separate financial statements and estimates with a significant risk within the next financial year are discussed in paragraph *Significant changes in accounting policies* of Note 4.

Going concern. These financial statements for the financial year ended 31 December 2022 have been prepared under the assumption that the Group and the Company will continue as a going concern.

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

Associates. Associates are entities over which the Group and the Company have significant influence (directly or indirectly), but not control. Generally, it is assumed that when owning a shareholding of between 20 and 50 per cent of the voting rights a significant influence can be made.

Investment in associates is accounted for using equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence ceases. Dividends received from associates reduce the carrying amount of the investments in associates.

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

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

(all amounts are in EUR thousand unless otherwise stated)

2. Significant accounting policies (continued)

For consolidation purposes, the assets and liabilities of foreign operations are translated into euro at the exchange rate ruling at the reporting date, and the amounts of their statement of comprehensive income items are translated using the average exchange rates for the reporting period. Currency exchange differences arising from currency translation during consolidation are recognised in other comprehensive income. When a foreign operation is sold, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss in the statement of comprehensive income.

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

The cost of property, plant and equipment shall only be recognised as assets when: a) the entity reasonably expects a flow of economic benefits from such asset in future periods; and b) the entity can reliably measure the acquisition (production) cost of the asset.

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

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

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

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

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

As at 31 December 2022 and 2021, the Group had assets managed under the right of trust; more details are provided in Notes 3 and 7.

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

Groups of property, plant and equipment	Useful life	
	Group	Company
Buildings and structures	5–110	5–80
Machinery and plant	4–40	4–33
Road transport	4–15	4–10
Rolling stock (including wagons)	5–46	5–20
Computers and hardware	3–20	4–20
Other equipment, fittings and tools	4–70	4–12

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

Construction in progress. Construction in progress is stated at cost less impairment losses. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and put into operation. Inventories intended for repair of non-current tangible assets and in compliance with the provisions of IAS 16 are reclassified from inventories to construction in progress.

2. Significant accounting policies (continued)

Investment property. Investment property, including part of buildings and structures, is held for earning rentals and/or for capital appreciation rather than for use in the production, provision of services, or for administration purposes or sale. Investment property is stated at historical cost less accumulated depreciation and adjusted for impairment loss, if any. Depreciation is calculated on the straight-line method over the estimated useful life: 10–50 years. Transfers to and from investment property are made only when there is an evidence of change in an asset's use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value of investment property at the date of change in use. If owner-occupied property becomes an investment property the Company and the Group account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The deemed cost for subsequent investment property accounting is the carrying amount at the time of assets' transfer.

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

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

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

The Group's and the Company's intangible assets are amortised using the straight-line method over their useful lives. Amortisation period shall be reviewed at the end of each financial year.

The Group's and the Company's intangible assets are amortised using the straight-line method over their useful lives, lasting between 2 and 20 years and between 3 and 10 years, respectively. 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.

Assets held-for-sale. The Group and the Company classify non-current assets as held-for-sale if their carrying amount will be recoverable from disposal rather than their continued utilisation. Such non-current assets classified as held-for-sale, are assessed at the lower of their carrying amount and fair value less costs to sell. Costs to sell are expenses directly attributed to sales, except for finance costs and income tax expenses. One of the conditions to be met in order to classify assets as held-for-sale is the existence of a highly probable possibility to sell the asset (or disposal group) quickly considering its current condition. One of the criteria allowing to consider sales highly probable is a commitment by management of the respective level to sell the assets or disposal groups considering their current condition. In determining whether and when non-current assets or disposal groups should be classified as assets held-for-sale requires management's judgement considering all facts and circumstances related to the transaction; therefore parties and markets as well as entities may draw different conclusions in accordance with IFRS.

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

Property, plant and equipment may have finite or indefinite useful lives. Depreciation is calculated only on assets with finite useful lives. The Group has no property, plant and equipment with indefinite useful lives. The useful life of land is indefinite, but its use does not reduce its value; therefore, land is not depreciated.

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

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

2. Significant accounting policies (continued)

Financial instruments

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

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

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

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

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

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

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

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

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

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

Financial assets measured at fair value through profit or loss are initially recognised at fair value. Subsequently, gains and losses from the change in fair value, including all interest and dividends, are recognised in profit or loss in the statement of profit or loss and other comprehensive income.

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

- the rights to receive cash flows from the asset have expired;
- the Group and the Company retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement;
- the Group and the Company have transferred the rights to the cash flows and/or:
  a) have transferred substantially all the risks and rewards of the asset, or
  b) have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

The Group and the Company reduce the gross carrying amount of the financial asset if they cannot reasonably expect to recover all or part of the financial asset.

Writing down is an event of derecognition.

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

At the end of each reporting period, the Group and the Company recalculate and record the provision for expected credit losses in accordance with past events, current market conditions and future prospects. The Group and the Company apply a simplified method to calculate the expected lifetime credit losses over the period of validity and use a provisioning matrix for all trade and other receivables. For calculation of the expected credit losses using the provisioning matrix, trade receivables are analysed by the number of days past due.

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

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

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

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

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

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

The Group and the Company individually make assessments with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedures for recovery of amounts

2. Significant accounting policies (continued)

Derivative financial instruments. During 2022 and 2021, the Group and the Company had no derivative financial instruments.

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

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

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

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

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group and the Company to make specified payments to reimburse the holder of the guarantee for a loss they incur because a specified debtor fails to make payment when due in accordance with the original or updated terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. Subsequent to initial recognition, the liabilities under such guarantees are measured at the higher of the amount of loss allowance and the premium received on initial recognition less income recognised in accordance with principles of IFRS 15.

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

Leases, where the Group and the Company are lessees

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

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

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

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

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

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

Initial assessment of the lease liability. On the commencement date the Group and the Company measure a lease liability at the present value of the lease payments outstanding at that date. Lease fees are discounted using the interest rate provided for in the lease contract, if that rate can be readily determined. If this rate cannot be readily determined, the Group and the Company use the borrowing rate published by the Bank of Lithuania.

2. Significant accounting policies (continued)

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

Leases, where the Group and the Company are lessors

Leases. The Group and the Company recognise the lease fees related to operating lease, as income on a straight-line basis over the lease term. Costs (including depreciation) incurred in earning lease related income are recognised by the Group and the Company as costs. The initial direct costs incurred in obtaining the operating lease are included by the Group and the Company in the carrying amount of the leased assets and are recognised as expenditure during the lease period on the same basis as the lease income. The Company accounts for the change in the operating lease as a new lease from the date of the change entry into force and treats the lease fees paid or accrued in advance in relation to the original lease as part of the new lease.

Subleases. A transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and lessee remains in effect. In classifying a sublease, an intermediate lessor classifies the sublease as a finance lease or an operating lease. The intermediate lessor treats the right-of-use asset as the as the underlying asset in the sub-lease, not the item of property, plant and equipment that it leases from the head lessor On the commencement date the Group and the Company recognise assets leased under finance leases in the statement of financial position and present them as a receivable equal to the amount of the net investment in the lease. In order to assess the net investment in the lease, the Company uses the interest provided for in the lease contract. In the case of sublease, if the interest rate provided for in the sublease contract cannot be easily determined, the Company uses the discount rate used for the underlying contract (adjusted for any initial direct costs associated with the sublease) to assess the net investment in sublease as an intermediate lessor. The initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised during the lease period. The interest rate provided for in the lease contract is determined in such a way that the initial direct costs are automatically included in the amount of net investment in the lease; they are not added separately.

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.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted by the end of the reporting period. The income tax charge comprises current tax and deferred income tax and is recognised in the statements of profit or loss and other comprehensive income, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Income tax rate for the companies in Lithuania for the years 2022 and 2021 was 15%.

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

Provisions for retirement benefits. According to the legislative requirements of the Republic of Lithuania, each employee at the age of retirement is entitled to a one-off payment in the amount of 2-month salary. The past service costs are recognised as an expense on a straight-line basis in profit or loss immediately after the assessment of such liability. Any gains or losses appearing as a result of curtailment and/or settlement are recognised as incurred. The abovementioned employment benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Obligation is recognised in the statements of financial position and reflects the present value of these benefits on the preparation date of the statements of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government securities of the same currency and similar maturity as the employment benefits. 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 Group and the Company recognise a liability and an expense for bonuses where it is contractually obliged or where there is a past practice that has created a constructive obligation. Based on the provisions of Collective Agreement, the liabilities are recognised for possible benefits to employees reaching the jubilees of 50 and 60.

Provisions for warranty repairs. Liabilities related to rolling stock warranty repairs are recognised as provisions under the signed contracts and the essential requirements for the repair and upgrading of tractive rolling stocks, nods and aggregates. The Group is legally obliged to provide rolling stock warranty services and to fulfil this obligation has to utilise economic resources and will not be relieved of accumulated costs. Warranty costs are attributed to the period when warranty services were sold rather than the period when warranty repair of rolling stocks is performed; therefore, these costs are recognised in the reporting period when the income is earned. Calculation of provisions for warranty repairs is based on the Group's experience in providing rolling stock repair services, established practise of common malfunctions of specific parts of rolling stocks after specific types of repairs performed and knowledge about additional work to be carried out after the sale of warranty service, and specialists' estimates and calculations. Provisions for warranty repairs are charged to current liabilities, and provision formation costs are attributed to operating expenses.

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

Step 1 - Identify Customer Agreements.

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

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

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

Step 2 - Identify performance obligations in the contract.

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

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

Step 3 - Determine the transaction price.

Transaction price may be fixed, variable or both.

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

2. Significant accounting policies (continued)

Step 4 - Assigning a transaction price to performance obligations.

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

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

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

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

Service sales revenue

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

Sales of goods

Revenue from the sale of goods is recognised at a point of time when the following conditions have been satisfied:

- The Group and the Company have transferred ownership control to a buyer;
- The Group and the Company retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue from sales is recognised net of VAT and discounts, including accrued expected discounts for the year.

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

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

Operating revenue generated by the Group includes the following:

- Revenue earned from freight and services related to freight transportation;
- Passenger transportation and related services;
- Use of public railway infrastructure.

Other income from operating activities generated at the Group and the Company:

- Resale;
- Management services;
- Lease of assets;
- Work of locomotives and locomotive crews abroad;
- Technical maintenance and repairs;
- Supply of electricity, gas, steam and water;
- Other services.

Revenue classified according to the nature of revenue recognition:

- At a point of time after rendering of services;
- Over time (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.

Income from freight transportation and services related to freight transportation

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

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

2. Significant accounting policies (continued)

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

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

Passenger transportation income

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

Income from sales of advanced tickets is allocated to future periods of service rendering.

Income for the use of public railway infrastructure

Income for the use of public railway infrastructure reflects income received from the use of public railway infrastructure. Income related to the use of public railway infrastructure and from related additional services is recognised over time (calendar month), after the services have been rendered, as the client receives benefits from the use of public railway infrastructure.

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

2. Significant accounting policies (continued)

Type of services	Nature, timing and payment conditions of operating liabilities	Revenue recognition under IFRS 15
Use of public railway infrastructure	Invoices for the use of public railway infrastructure and related additional services are issued periodically, as contractually agreed with a customer (daily, every ten days, monthly); the invoices are formed according to initial and additional service documents after the service has been rendered or over time when the services are being rendered applying a rate: - Prepayment; - After provision of services applying collaterals (cash deposit, bank guarantee, commercial credit); - After provision of services without collaterals (up to 30 days, mostly 7 to 10 days); - A common term for payment of invoices is 7 to 10 days.	Income related to the use of public railway infrastructure and from related additional services is recognised over time (time elapsed), when the client receives benefits from the use of public railway infrastructure. The amount of recognised income is assessed following the procedure set out in the service provision rules and at the price indicated in additional services documents. Advances received are included into contractual liabilities.
Income from repairs and maintenance	Invoices are issued after the service has been rendered and the deed of acceptance and delivery of works has been signed. A common term for payment of invoices is 30 days. A 10-day term is applied for uncoupling repairs of private rail cars; a cash deposit may also be applied.	Revenue is recognised over a time based on the stage of completion method (on a monthly basis). The related costs are recognised in the statement of profit or loss and other comprehensive income when incurred. Expected contract related loss was recognised immediately in the statement of profit or loss and other comprehensive income. Advances received are included into contractual liabilities. If services under one agreement are rendered in different reporting periods, then the consideration is allocated based on their relative stand-alone sales prices. It is determined based on service prices indicated in the agreement.
Other additional income	Invoices for additional services provided are issued immediately after the services are provided. Income from the sale of goods is recognised when the goods are loaded from the warehouse. A common term of payment is 30 days. Invoices are issued after the service has been rendered and the deed of acceptance and delivery of works has been signed. A common term for payment of invoices is 30 days. Payments for one-off works are subject to a 7-to-30-day term, a cash deposit may also be applied.	Income is recognised at a point of time, as the customer acquires the control over goods and services once the goods have been removed from the warehouse, and the services have been rendered. Services are considered provided when the deed of acceptance-transfer of the performed works is signed. The customer acquires the control over the good and service when it receives all benefits related to the good and service. Revenue is recognised every month over time when services are rendered. The amount of recognised revenue is estimated based on signed deeds of rendered services. Revenue is recognised using the cost method, which can be applied to the Company's progress seeking to fully satisfy performance obligation and measure it over time, on the basis of measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract.

Recognition of expenses. In the financial statements, 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.

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

The Company accounts for each business combination using the acquisition method. Applying the acquisition method requires:
a) identifying the acquirer;
b) determining the acquisition date;
c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
d) recognising and measuring goodwill or a gain from a bargain purchase.

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

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

In 2021, the business combination of the Group and the Company was carried out in accordance with the principles of a joint venture. IFRS 3 does not apply to jointly controlled entities in a business combination. The business transfer to a Group company and the Company took place at carrying amounts.

2. Significant accounting policies (continued)

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

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

3. Critical accounting estimates and judgements

Significant judgements

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

Timing of revenue recognition. The management assesses the timing of revenue recognition, i.e. whether revenue is recognised over time or at a point in time. The Group's income from the use of public railway infrastructure is recognised over time, as a customer receives benefits from the use of public railway infrastructure; and income from freight and passenger transportation is recognised at a point of time, when the services have been rendered, when the freight or passengers have been transported to a place specified in the transportation document.

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

Assets managed under the right of trust. The Group manages public railway infrastructure facilities and state-owned service facilities and land plots beneath those facilities (hereinafter collectively referred to as the public railway infrastructure facilities). Under the Trust agreement with the Ministry of Transport and Communications of the Republic of Lithuania and in accordance with the Railway Transport Code, the Group's subsidiary, AB LTG Infra, operates, manages and disposes the public railway infrastructure facilities, while the Government of the Republic of Lithuania retains legal title. AB LTG Infra and the Group accounts for these assets as property, plant and equipment in accordance with IAS 16 based on the following:

- AB LTG Infra is entitled to use public railway infrastructure facilities free of charge for an indefinite period, the state may revoke this right only by amending legislation;
- Having transferred that right to AB LTG Infra, the state has also transferred the significant risks and rewards of ownership – AB LTG Infra uses the public railway infrastructure facilities to generate revenue and incurs expenses for its maintenance; although the state is to ensure that the general public has access to the railway transportation in the country, the state does not retain direct financial risks associated with the public railway infrastructure facilities;
- Although some rights that are generally associated with the ownership of the public railway infrastructure facilities are restricted (e.g. AB LTG Infra cannot sell or pledge these assets), similar restrictions are common in private and privatised infrastructure and utility companies – including entities that are subject to strict cost-of-service forms of rate regulation.

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

Management considered the following factors:
a) Being the sole shareholder of AB Lietuvos Geležinkeliai before and after reorganisation, the state controls the Group, including, indirectly, AB LTG Infra, through its voting rights. The state does not utilize its rights, provided by the Code, to manage the relevant activities of AB LTG Infra bypassing AB Lietuvos Geležinkeliai. Therefore, these rights are deemed protective.

b) Even though certain restrictions for the use of profit generated from the activity of the manager of public infrastructure are provided for by the Code, AB Lietuvos Geležinkeliai has a right to receive dividends from the profit generated by this activity pursuant to the procedure laid down by this Code and variable returns from other sources.

Based on the above, the management concluded that neither the reorganisation nor the changes to the Code affect the AB Lietuvos Geležinkeliai control over AB LTG Infra.

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

3. Critical 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).

Significant estimates and assumptions

Information on significant estimates and assumptions is provided below:

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

Review of remaining useful life and residual values of non-current assets

In 2022, a significant reduction in freight flows led to a review and adjustment of the useful lives of property, plant and equipment. The change in useful lives resulted in a decrease in depreciation expense of EUR 6.5 million in 2022 compared to 2021.

As at 31 December 2022, the Group had rolling stocks (83 units) with the carrying amount of EUR 12,140 thousand (as at 31 December 2021 – 99 units with the carrying amount of EUR 17,001 thousand), which will not meet the legislative requirements of the EU as of 2025; however, in 2019, Lithuania exercised an exemption regarding non-application of the provisions set out in the *Regulation (EC) No 1371/2007 of the European Parliament and of the Council of 23 October 2007 on rail passengers' rights and obligations* (hereinafter – the Regulation) until 2 December 2024. Subsequent to 2 December 2024, the exemption from the Regulation shall not be applied; therefore, a railway undertaking providing public passenger transportation services, will be obliged to ensure that disabled persons and persons with reduced mobility have access to rail travel comparable to that of other citizens.

It is to be noted that the Regulation does not set forth that all rolling stocks owned by a railway undertaking shall meet the TSI requirements after the termination of the exemption. The Article (3), (5) of the Commission Regulation (EU) No 1300/2014 of 18 November 2014 on Technical Specification for Interoperability (TSI) Relating to Accessibility of the Union's Rail System for Persons with Disabilities and Persons with Reduced Mobility sets forth that TSIs are applicable only to:

1) all new rolling stocks;
2) existing rolling stocks if they are upgraded or improved.

Article 2 (4) of TSI established that TSI are not applicable to existing rolling stocks which have already been put into operation.

As at 31 December 2022, management is aware that six railcars out of 83 units (99 units at 31 December 2021) which are non-compliant, the residual value of which is EUR 3,844 thousand at 31 December 2022, are undergoing retrofitting works (EUR 3,763 thousand at 31 December 2021) in order to meet the accessibility requirements for passengers with disabilities. 16 units of rolling stock were transferred to non-current assets held for sale, of which 1 unit was sold. According to management's estimation, the cost of the adaptation works amounts approximately to EUR 100 thousand per vehicle. In 2022, the residual value of 76 items of rolling stock non-compliant with TSI (Technical Specification for Interoperability) requirements from 2025 onwards has been equated to scrap metal due to the reduced realisability. Due to a decrease in the residual value of rolling stock by EUR 3,873 thousand, the depreciation expense increased by EUR 936 thousand, including an increase of EUR 1,053 thousand as a result of the recalculation of the residual value of the rolling stock in accordance with the average scrap metal prices, and a decrease of EUR 117 thousand as a result of the extension of the useful life of the railcars 620M until 2030.

Impairment losses of intangible assets and property, plant and equipment. The carrying amounts of the Group's and the Company's intangible assets and property, plant and equipment are reviewed at each reporting date to determine, whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The recoverable amount of an asset that does not generate cash inflows on its own is determined by the recoverable amount of the cash-generating unit to which the asset belongs. The key assumptions used to calculate the recoverable amount of an asset are described in note 7.

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

3. Critical accounting estimates and judgements (continued)

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

Write-down of inventories to net realisable value. The Group reviews its list of inventories at least annually to establish their net realisable value. Inventories acquired earlier than one year before, are reviewed in order to determine whether they will be realisable in the future. In case of slow moving spare parts and other materials, impairment is registered taking into account detailed operational plans according to each unit of inventories, their potential realisation period and preliminary realisation cost.

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

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

Information on the impact of geopolitical changes on the Group's and Company's going concern

Geopolitical developments, the military actions of the Russian Federation in Ukraine before and especially after 24 February 2022, as well as the wide range of sanctions imposed on Belarus and Russia by the United States of America and the European Union, have had a significant negative impact on the Group's operations and results during the reporting period.

These geopolitical developments have significantly affected the operations of LTG Infra as the company managing Lithuania's public railway infrastructure network. Revenues of LTG Infra are substantially driven by the payment of the minimum access package to the public railway infrastructure by freight railway undertakings (carriers) (around 87.8% of revenues in 2022). This revenue collected is used for the operation of the public railway infrastructure manager.

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 for 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 of 1 February 2022. LTG Cargo, with an average annual traffic of about 11 million tonnes of Belaruskalij cargo, generated about EUR 60 million in freight transport revenues (including related services).

A significant part of LTG Cargo's freight and empty wagon freight revenue is generated by imports/exports to/from Russia, Belarus, China, Kazakhstan, Ukraine and other countries, as well as by transit (EUR 207 million in 2021 and EUR 111 million in 2022). Freight turnover in 2022 is down 49% compared to 2021, while sales revenue is down 25%.

The sanctions imposed on the Russian Federation did not affect passenger transit trains, but did affect the development of international routes: the Kiev-Vilnius-Riga route was not launched in 2022, and the pre-pandemic Vilnius-Minsk route was not reopened. In addition, uncertainty remains about the continuation of transit trains.

The war in Ukraine caused by Russia has disrupted supply chains, in particular for necessary components and spare parts for old trains, and the Group is currently working on finding alternative solutions to keep part of the train fleet in service.

3. Critical accounting estimates and judgements (continued)

The unpredictable nature of the military situation in Ukraine means that the actions of the Lithuanian and other governments are fluid and it is difficult to reliably assess the potential impact on performance and outcomes. The Group's management cannot exclude the possibility that the increased severity of the sanctions imposed on Russia, Belarus or the negative impact of such measures on the economic environment in which the Group operates will not have an additional negative impact on the Group's financial position and results of operations in the short and long term. The Group follows and analyses the whole geopolitical situation in Eastern Europe very closely.

In the light of the situation, the Group's management has responsibly assessed the main risks and threats related to business continuity and the impact on operations and has taken steps to manage the situation:•

• An Operation Optimisation Project is underway, covering three areas: improvement of operational efficiency, cost reduction, diversification and expansion into new markets, particularly in Western Europe. During the reporting period, the necessary decisions were taken regarding the Group's governance model and the optimal number of employees, optimisation of the assets used in the operations and the repairs carried out. Decisions were taken on the optimal number of employees and 1,678 employees were made redundant. These changes led to a reduction of EUR 14 million in wage costs at Group level and, excluding the impact of severance payments and compensation, to a reduction of over EUR 19 million.

• Strict cost control decisions have been taken - only the costs necessary to carry out activities are financed. The portfolio of investment projects has been reviewed and decisions have been taken to defer and postpone some investment projects. Ongoing investment projects and investments needed to renew assets are being continued.

• In order to manage the Group's liquidity risks, the Group companies – UAB LTG Link and AB LTG Infra – were assured access to state subsidies and additional financing:

- public passenger transport services are fully financed, covering all losses incurred by this activity. The long-term contract for the outsourced services and their financing by Public Service Obligations (PSOs) with the Government of the Republic of Lithuania signed in December 2022 for a period of 10 years (2023-2032) ensures the continuity of the operation. The average annual co-financing for passenger transport will amount to EUR 40 million, which will not only provide the necessary funding but also allow the renewal of the train fleet. The public passenger services are fully financed, covering all the losses incurred by this activity.
- In April 2022, AB LTG Infra signed a Quality and Financing Contract for railway service facilities owned by the Lithuanian State, which is published on the website https://ltginfra.lt/administracine-informacija. State funding will enable AB LTG Infra to ensure stable maintenance of public railway infrastructure, improve the quality of services provided and ensure a high level of safety in rail transport. The contract is valid for five years. Under this contract, AB LTG Infra's subsidy income in 2022 was EUR 60 million.
- After assessing the feasibility of projects of strategic importance for 2022, the Lithuanian Government granted LTG Infra an additional amount of EUR 91.6 million from the State budget for railway electrification and other investment projects.

Given the political situation and its further dynamics and impact on the activities of the Group and its companies, the Group's management will continue to optimise its operations by reducing its cost base and diversifying its activities.

In the opinion of the Group's management, the above measures and actions, the State aid and borrowing facilities, and the cash flow generated by operating activities have enabled and will enable the Group to balance the cash flows necessary to ensure the continuity of its operations and to service its existing loan agreements and commitments to partners.

Climate change management measures and the impact on the Group's and Company's operations

AB Lietuvos Geležinkeliai Group pays special attention to environmental protection when implementing the strategic goals and sustainability management priorities set out in the LTG Sustainable Growth Strategy 2040. One of the key strategic activities of the Group and its individual companies is the Green Deal.

Since 2021, the Group has been implementing the Environmental Strategy 2030+, which identifies the Group's environmental priorities and the areas that are or could potentially be impacted by the Group's activities, 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 environmental protection, including climate change.

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

For more information on climate change management measures and the impact on the Group's and the Company's operations, please refer to the *Climate Change Impacts on LTG Group's Operations* section of the annual report.

4. New standards, amendments to 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 2023 and have not been applied in the preparation of these financial statements are set out below:

IFRS 17 Insurance Contracts

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

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

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

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

The amendments clarify:

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

The amendments are effective for annual 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 Group's and the Company's management, the new amendments, after initial application, will not have a significant impact on the Group's and 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 Group's and the Company's management, the new amendments, after initial application, will not have a significant impact on the Group's and 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 Group's and the Company's management, the new amendments, after initial application, will not have a significant impact on the Group's and the Company's financial statements.

(all amounts are in EUR thousand unless otherwise stated)

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

Deferred tax related to assets and liabilities arising from Single Transaction (Amendments to IAS 12)

In May 2021, the International Accounting Standards Board issued amendments to IAS 12 that narrow the scope of the initial recognition exemption so that it no longer applies to transactions that create equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur at the beginning of the earliest comparative period. In addition, at the beginning of the earliest comparative period, a deferred tax asset (if sufficient taxable profit is available) and a deferred tax liability shall be recognised for all taxable and deductible temporary differences relating to leases and decommissioning obligations.

The amendments apply to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The Group and the Company are currently assessing the impact of the amendments.

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

5. Adjustment of comparative figures

In 2022, the Group's management decided to revise the presentation of grants: i) in the Statement of Financial Position to account for grants received in advance not in the item of Prepayments received (Note 26) but under Grants (Note 20); ii) in the Cash flow statement to reclassify Grant for compensation of losses incurred on the transportation of passengers on domestic routes received from the state from Cash flows from operating activities to Cash flows from financing activities. As a result of this decision, while preparing the financial statements for 2022, the comparative figures were adjusted as follows: in the Statement of Financial Position as at 31 December 2021, the amounts of *Prepayments received* decreased by EUR 15,789 thousand, resulting in an increase of EUR 15,789 thousand in *Grants.* In the Statement of Cash Flows, *Grants received* (repaid, used) and *Net cash flows from financing activity* increased by EUR 56,947 thousand and at the same time the amounts of *Non-current and current trade payables and received prepayments* as well as *Cash flows from operating activities* decreased by the same amount. The impact on the statement of financial position as at 1 January 2021 amounted to EUR 421 thousand and was not material; therefore, the Group did not present the statement of financial position as at 1 January 2021.

After issuing invoices in 2022 for MAP services provided in 2021, the income tax and the deferred income tax liabilities for 2021 were adjusted in the Group's statement of financial position. The deferred income tax liability increased by EUR 3,935 thousand and the income tax liability decreased by the same amount. This adjustment had no impact on the Group's result.

6. Financial instruments and risk management

Financial instruments. Fair value

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

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

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

	Group		Company	
	2022	2021	2022	2021
Financial assets				
Contract assets	16	84	-	-
Loans and other borrowings	160	160	132,017	127,658
Trade and other receivables	25,410	36,659	19,418	15,170
Cash and cash equivalents	213,434	84,656	4,567	37,885
Total	**239,020**	**121,559**	**156,002**	**180,713**
Financial liabilities				
Contract liabilities	9	2	-	-
Loans and borrowings	148,482	174,001	-	-
Lease liabilities	11,431	6,065	8,784	10,384
Trade and other payables	45,397	48,763	6,172	12,264
Total	**205,319**	**228,831**	**14,956**	**22,648**

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

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

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

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

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

	Net carrying amount 2022	Fair value 2022			Net carrying amount 2021	Fair value 2021		
Financial assets	Total	Level 1	Level 2	level 3	Total	Level 1	Level 2	level 3
Contract assets	16	-	-	16	84	-	-	84
Loans and other borrowings	160	-	-	160	160	-	-	160
Trade and other receivables	25,410	-	-	25,410	36,659	-	-	36,659
Cash and cash equivalents	213,434	213,434	-		84,656	84,656	-	-
Total	**239,020**	**213,434**	**-**	**25,586**	**121,559**	**84,656**	**-**	**36,903**
Financial liabilities								
Contract liabilities	9	-	-	9	2	-	-	2
Loans and borrowings	148,482	-	148,482	-	174,001	-	174,001	-
Lease liabilities	11,431	-	-	11,431	6,065	-	-	6,065
Trade and other payables	45,397	-	-	45,397	48,763	-	-	48,763
Total	**205,319**	**-**	**148,482**	**56,837**	**228,831**	**-**	**174,001**	**54,830**

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

	Net carrying amount 2022	Fair value 2022			Net carrying amount 2021	Fair value 2021		
Financial assets	Total	Level 1	Level 2	level 3	Total	Level 1	Level 2	level 3
Loans and other borrowings	132,017	-	-	132,017	127,658	-	-	127,658
Trade and other receivables	19,418	-	-	19,418	15,170	-	-	15,170
Cash and cash equivalents	4,567	4,567	-	-	37,885	37,885	-	-
Total	**156,002**	**4,567**	**-**	**151,435**	**180,713**	**37,885**	**-**	**142,828**
Financial liabilities								
Loans and borrowings	-	-	-	-	-	-	-	-
Lease liabilities	8,784	-	-	8,784	10,384	-	-	10,384
Trade and other payables	6,172	-	-	6,172	12,264	-	-	12,264
Total	**14,956**	**-**	**-**	**14,956**	**22,648**	**-**	**-**	**22,648**

The classification and measurement of the Group's and the Company's financial instruments as at 31 December 2022 are disclosed in a table below:

	Measurement	
	Group	Company
Financial assets		
Contract assets	Amortised cost	Amortised cost
Loans and other borrowings	Amortised cost	Amortised cost
Trade and other receivables	Amortised cost	Amortised cost
Cash and cash equivalents	Amortised cost	Amortised cost
Financial liabilities		
Contract liabilities	Amortised cost	Amortised cost
Loans and other borrowings	Amortised cost	Amortised cost
Lease liabilities	Amortised cost	Amortised cost
Trade and other payables	Amortised cost	Amortised cost

The Group and the Company had no financial assets measured at fair value.

6. Financial instruments and risk management (continued)

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

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

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

Risk management

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

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

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

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

Credit risk is the risk that the Group and 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 the Group's and the Company's customers.

The war in Ukraine and the sanctions imposed on Russia and Belarus have increased the risk of default and settlement with customers in these countries. The Group and the Company took preventive measures to eliminate these risks and cooperated with the Lithuanian authorities to minimise the possible consequences.

Financial guarantees. The Company has signed guarantee agreements with the European Investment Bank (EIB) and Nordic Investment Bank (NIB), based on which it provides guarantees for obligations of AB LTG Cargo and AB LTG Infra under the transferred and amended contracts of AB LTG Cargo and LTG Infra with the EIB and NIB. The amount of guarantee is equal to the loan outstanding, including all interest, rick charge (if applicable), termination expenses, charges, fees, indemnification or any other amount that AB LTG Cargo, AB LTG Infra or the Company is required to pay to the EIB and NIB based on the conditions set in the guarantee and financing agreements with banks. The maximum exposure to credit risk is equal to the nominal value of guarantees issued.

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

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

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

	Group		Company	
	2022	2021	2022	2021
Client A	6,219	3,923	4,950	1,070
Client B	5,527	2,490	232	232
Client C	1,407	2,470	213	224
Client D	619	2,246	29	174
Client E	592	1,487	22	37
Client F	483	1,391	11	29
Other	4,636	15,197	97	80
Total	**19,483**	**29,204**	**5,554**	**1,846**

The Group and the Company allocate each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies. In assessing the risks related to receivables from external customers, the recalculation based on the oldest outstanding amount of a customer is applied in order to estimate the risk of potential losses in a more conservative manner. An ECL rate is calculated for each credit risk grade based on actual credit loss experience.

The Group's and the Company's exposure to credit risk and ECLs for trade and other receivables as at 31 December 2022 by separate external customers:

Group	Gross carrying amount	Expected credit loss, %	Impairment	Net carrying amount
Low risk	23,394	0.02%	(5)	23,389
Fair risk	617	28.85%	(178)	439
Increased risk	712	18.12%	(129)	583
High risk	9,127	89.05%	(8,128)	999
Total	**33,850**		**(8,440)**	**25,410**

Company	Gross carrying amount	Expected credit loss, %	Impairment	Net carrying amount
Low risk	16,058	0.00%	-	16,058
Fair risk	1,419	0.00%	-	1,419
Increased risk	3,449	10.42%	(359)	3,090
High risk	5,157	88.63%	(4,571)	586
Total	**26,083**		**(4,930)**	**21,153**

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

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

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

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

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

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

(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 2022:

Group	Expected credit losses, %	Gross carrying amount	Impairment	Net carrying amount
Not past due	0.02%	20,738	(5)	20,733
Past due for 1 to 30 days	44.17%	403	(178)	225
Past due for 31 to 60 days	1.53%	1,310	(20)	1,290
Past due for 61 to 120 days	4.02%	2,710	(109)	2,601
Past due for over 120 days	93.54%	8,689	(8,128)	561
Total		**33,850**	**(8,440)**	**25,410**

Company	Expected credit losses, %	Gross carrying amount	Impairment	Net carrying amount
Not past due	0.00%	16,079	-	16,079
Past due for 1 to 30 days	0.00%	1,417	-	1,417
Past due for 31 to 60 days	0.00%	1,234	(1)	1,233
Past due for 61 to 120 days	16.20%	2,223	(360)	1,863
Past due for over 120 days	89.07%	5,130	(4,569)	561
Total		**26,083**	**(4,930)**	**21,153**

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

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

	Group		Company	
	2022	**2021**	**2022**	**2021**
Balance at the beginning of the period	(2,900)	(3,552)	(73)	(54)
Impairment of amounts written off	-	-	3	1
Change in impairment allowance for trade receivables	(1,266)	652	(33)	(20)
Balance at the end of the period	**(4,166)**	**(2,900)**	**(103)**	**(73)**

The Group's and the Company's movement of impairment allowance of loans, other amounts receivable within one year and after one year:

	Group		Company	
	2022	**2021**	**2022**	**2021**
Balance at the beginning of the period	(4,274)	(4,370)	(4,274)	(4,282)
Impairment of amounts written off	-	(23)	-	8
Change in impairment allowance for trade receivables	-	119	-	-
Balance at the end of the period	**(4,274)**	**(4,274)**	**(4,274)**	**(4,274)**

As at 31 December 2022, the Group's and the Company's change in impairment allowance for receivable debts is presented in the statements of profit or loss and other comprehensive income, under items of increase (decrease) in value of receivables. The Group's and the Company's amounts written off are considered as amounts with no possibility or right of recovery.

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

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

	Group		Company	
	2022	2021	2022	2021
AA-, Aa3	210,723	77,625	4,308	37,693
A2,A	357	-	29	-
Baa2, BBB	2,287	5,664	174	6
BBB-, Baa3	-	139	-	138
BB+, Ba1	56	-	56	-
Below BBB-/Baa3	3	1,183	-	48
Cash in hand	8	45	-	-
Total	**213,434**	**84,656**	**4,567**	**37,885**

The carrying amount of cash and cash equivalents is approximately equal to their fair value. ECLs are not accounted for due to insignificance of the expected risk of change in their value.

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

Liquidity risk. Liquidity risk is a risk that the Group and the Company will be unable to fulfil their financial liabilities at maturity. Risk management ensures that the Group and the Company always have sufficient liquid assets and are able to meet liabilities in a timely manner. Management of liquidity and solvency risk is related to cash flow planning and control and forecast of unforeseeable events that may have a negative effect on cash flows and pose a threat to solvency and liquidity. Liquidity and solvency risk is assessed by monitoring and analysing relative liquidity and solvency ratios which are used to assess the state of current and non-current liabilities and the efficiency of cash flow management. The Group's and the Company's shortage of operating capital is balanced using credit facilities, if necessary. In addition, according to the Group's and the Company's standard policy, payment period for suppliers is 45 days.

The Group had significant balances of cash and cash equivalents during the year and ensured the liquidity of all Group companies through cash-pool. In order to ensure liquidity risk management, in 2022 the Company signed a EUR 30.0 million short-term financing (overdraft) agreement with SEB Bank. Under this agreement, the Company had no indebtedness at the year-end.

As at the date of the financial statements, the Group and the Company did not face any liquidity issues.

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

Group	2022	Value set by the bank	2021	Value set by the bank
Net debt / Adjusted EBITDA*	Comply	Not higher than 4.0	Comply	Not higher than 4.0
Equity ratio	Comply	Not lower than 35 per cent	Comply	Not lower than 35 per cent
Loan servicing ratio	Comply	Not lower than 2	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.

Based on financial terms of credit agreements, these financial covenants of the Group (consolidated), AB LTG Infra and AB LTG Cargo are monitored. The financial covenants are calculated considering the financial performance of AB LTG Infra, AB LTG Cargo and the Group (consolidated).

As at 31 December 2022, no breaches to the compliance with the financial or non-financial covenants under loan agreements were identified.

(all amounts are in EUR thousand unless otherwise stated)

6. Financial instruments and risk management (continued)

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

The Group's maturities of financial liabilities by undiscounted cash flows method as at 31 December 2022:

Financial liabilities	Total:	Within one year	One to five years	After five years
Loans and other borrowings	148,482	22,737	62,888	62,857
Lease liabilities	11,431	6,895	4,536	-
Trade and other payables	58,296	49,336	8,960	-
Total	**218,209**	**78,968**	**76,384**	**62,857**

The Group's maturities of financial liabilities by undiscounted cash flows method as at 31 December 2021:

Financial liabilities	Total:	Within one year	One to five years	After five years
Loans and other borrowings	174,001	26,034	69,555	78,412
Lease liabilities	6,065	1,506	4,559	-
Trade and other payables	68,737	64,126	4,611	-
Total	**248,803**	**91,666**	**78,725**	**78,412**

The Company's maturities of financial liabilities by undiscounted cash flows method as at 31 December 2022:

Financial liabilities	Total:	Within one year	One to five years	After five years
Loans and other borrowings	-	-	-	-
Lease liabilities	9,839	1,771	3,433	4,635
Trade and other payables	9,091	9,091	-	-
Total	**18,930**	**10,862**	**3,433**	**4,635**

The Company's maturities of financial liabilities by undiscounted cash flows method as at 31 December 2021:

Financial liabilities	Total:	Within one year	One to five years	After five years
Loans and other borrowings	-	-	-	-
Lease liabilities	11,650	2,096	4,065	5,489
Trade and other payables	12,264	12,264	-	-
Total	**23,914**	**14,360**	**4,065**	**5,489**

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

The main sources of foreign currency exchange risk for the Group and the Company are various transactions denominated in foreign currencies (CHF, USD, RUB, BYN), the carrying out of which poses a risk of incurring losses due to fluctuations of foreign currency exchange rates against the euro: sale/purchase of goods and services, repayment of loans obtained in foreign currency, payment of interest etc. This risk is minimal as the major part of the Group's and the Company's settlements are denominated in euro. Foreign currency exchange risk was managed by using internal means, i.e., by balancing funds received and spent in foreign currencies.

In 2022 and 2021, the Group and the Company did not conclude derivative financial transactions with banks in order to manage currency exchange risk.

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

6. Financial instruments and risk management (continued)

Risk management measures are used only if there are clear indications that the interest rate may significantly change. There are no derivative financial instruments in the Group intended for managing of the interest rate fluctuation risk.

As at 31 December 2022, the weighted interest rate of the Group's loan portfolio was 1.3%, and as at 31 December 2021 was 1.2%. The interest rate risk is assessed taking into consideration sensitivity of the Group regarding interest rate fluctuations. If the interest rate grew by 0.5 percentage points during 2022, the annual interest expenses would increase by EUR 1,142 thousand.

In 2022 and 2021, the Group and the Company did not use derivative financial instruments to manage interest rate risk. The Group and the Company have a provision that 30% and more of the total amount of the Group's and the Company's financial resources shall be invested in highly liquid financial instruments: funds in current accounts in commercial banks, call deposits and term deposits the maturity of which is less than 12 months. The Group and the Company have cash in large banks of Lithuania that have credit ratings of BBB-/Baa3 and higher as assigned by international rating agencies.

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

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

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

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

As at 31 December 2022 and 31 December 2021, the Group and the Company were in compliance with the above-mentioned requirements of the provisions of the Law on Companies of the Republic of Lithuania.

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

(all amounts are in EUR thousand unless otherwise stated)

7. Property, plant and equipment

Property, plant and equipment of the Group comprised:

	Land	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
31 December 2020	**153,785**	**1,262,014**	**256,795**	**556,900**	**119,901**	**252,389**	**2,601,784**
- acquisitions for the year	943	66	4,951	33,020	490	109,355	148,825
- sold, written off, disposed assets	(688)	(3,136)	(2,505)	(19,767)	(1,305)	(3,992)	(31,393)
- reclassification from/to current assets	6	289	(3,580)	(5,450)	(560)	1,880	(7,415)
- reclassification (to) intangible assets	-	-	-	-	-	(2,070)	(2,070)
- reclassifications*	54	27,970	1,228	1,087	1,691	(32,228)	(198)
31 December 2021	**154,100**	**1,287,203**	**256,889**	**565,790**	**120,217**	**325,334**	**2,709,533**
- acquisitions for the year	-	2,502	8,675	20,019	421	156,366	187,983
- sold, written off, disposed assets	(1,660)	(4,433)	(6,481)	(17,317)	(1,746)	(960)	(32,597)
- reclassification from/to current assets	(3)	(1,086)	(416)	(8,957)	47	(1)	(10,416)
- reclassification (to) intangible assets	-	-	-	-	-	(37)	(37)
- reclassifications*	-	180,986	(2,342)	7,946	1,196	(188,841)	(1,055)
31 December 2022	**152,437**	**1,465,172**	**256,325**	**567,481**	**120,135**	**291,861**	**2,853,411**
Accumulated depreciation and impairment losses							
31 December 2020	**-**	**(354,839)**	**(100,759)**	**(209,043)**	**(38,998)**	**(8,870)**	**(712,509)**
- depreciation	-	(68,357)	(16,926)	(35,243)	(7,431)	-	(127,957)
- impairment reversal for the year	-	(34)	(1)	44	(32)	(1,927)	(1,950)
- sold, written off, disposed assets	-	1,069	2,035	17,568	1,081	-	21,753
- reclassifications from/(to) current assets	-	(164)	4,564	1,002	475		5,877
- reclassifications*	-	74	(4)	4	-	-	74
31 December 2021	**-**	**(422,251)**	**(111,091)**	**(225,668)**	**(44,905)**	**(10,797)**	**(814,712)**
- depreciation	-	(62,732)	(16,074)	(35,041)	(7,216)	-	(121,063)
- impairment for the year	-	59	1	(936)	3	(7,317)	(8,190)
- sold, written off, disposed assets	-	3,819	4,337	13,447	1,600	-	23,203
- reclassifications from/(to) current assets	-	(357)	256	4,227	108	-	4,234
- reclassifications*	-	258	668	(708)	37	-	255
31 December 2022	**-**	**(481,204)**	**(121,903)**	**(244,679)**	**(50,373)**	**(18,114)**	**(916,273)**
Carrying amount							
31 December 2020	**153,785**	**907,175**	**156,036**	**347,857**	**80,903**	**243,519**	**1,889,275**
31 December 2021	**154,100**	**864,952**	**145,798**	**340,122**	**75,312**	**314,537**	**1,894,821**
31 December 2022	**152,437**	**983,968**	**134,422**	**322,802**	**69,762**	**273,747**	**1,937,138**

*The reclassification balance of non-current assets was transferred to investment property.

(all amounts are in EUR thousand unless otherwise stated)

7. Property, plant and equipment (continued)

Property, plant and equipment of the Company comprised:

	Land	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Construction in progress and prepayments	Total
Acquisition cost							
31 December 2020	**-**	**40,979**	**13,407**	**1,247**	**15,804**	**2,372**	**73,809**
- acquisitions for the year	3	1,123	103	315	235	2,480	4,259
- sold, written off, disposed assets	-	(1,421)	(349)	(590)	(732)	(7)	(3,099)
- assets taken over during reorganisation*	-	1,322	368	-	285	-	1,975
- transferred to investment property	-	(3,001)	-	-	-	-	(3,001)
- reclassifications	-	532	252	-	3	(2,587)	(1,800)
31 December 2021	**3**	**39,534**	**13,781**	**972**	**15,595**	**2,258**	**72,143**
- acquisitions for the year	-	-	54	52	454	1,412	1,972
- sold, written off, disposed assets	(3)	(8,992)	(2,044)	(118)	(2,054)	(175)	(13,386)
- transferred to investment property	-	1,160	-	-	-	-	1,160
- transferred to intangible assets	-	1,990	506	-	649	(3,159)	(14)
31 December 2022	**-**	**33,692**	**12,297**	**906**	**14,644**	**336**	**61,875**
Accumulated depreciation and impairment losses							
31 December 2020	**-**	**(14,511)**	**(8,036)**	**(820)**	**(9,009)**	**(141)**	**(32,517)**
- depreciation	-	(2,484)	(989)	(87)	(915)	-	(4,475)
- impairment for the year	-	-	(1)	-	-	(183)	(184)
- sold, written off, disposed assets	-	464	300	391	578	-	1 733
- assets taken over during reorganisation*	-	(314)	(306)	-	(198)	-	(818)
- transferred to investment property	-	987	-	-	-	-	987
31 December 2021	**-**	**(15,858)**	**(9,032)**	**(516)**	**(9,544)**	**(324)**	**(35,274)**
- depreciation	-	(2,406)	(953)	(78)	(917)	-	(4,354)
- impairment for the year	-	-	-	-	-	175	175
- sold, written off, disposed assets	-	3,506	1,066	28	904	-	5,504
- transferred to investment property	-	(1,230)	-	-	-	-	(1,230)
31 December 2022	**-**	**(15,988)**	**(8,919)**	**(566)**	**(9,557)**	**(149)**	**(35,179)**
Carrying amount							
31 December 2020	**-**	**26,468**	**5,371**	**427**	**6,795**	**2,231**	**41,292**
31 December 2021	**3**	**23,676**	**4,749**	**456**	**6,051**	**1,934**	**36,869**
31 December 2022	**-**	**17,704**	**3,378**	**340**	**5,087**	**187**	**26,696**

*Reorganisation of AB Vilniaus lokomotyvų depas by the way of merger took place on 1 December 2021.

7. Property, plant and equipment (continued)

The Group's depreciation charge included to the statement of profit or loss and other comprehensive income of the Group amounted to EUR 97,554 thousand (EUR 104,707 thousand in 2021). This amount included EUR 121,063 thousand (EUR 127,957 thousand in 2021) depreciation expenses, which were reduced by depreciation of grants of EUR 20,722 thousand (EUR 20,613 thousand in 2021) as disclosed in Note 20 and by capitalised depreciation costs amounting to EUR 2,787 thousand (EUR 2,637 thousand in 2021).

The Company's depreciation charge included to the statement of profit or loss and other comprehensive income amounted to EUR 4,403 thousand (EUR 4,472 thousand in 2021). This amount included EUR 4,354 thousand (EUR 4,475 thousand in 2021) depreciation expenses which were reduced by depreciation of grants of EUR 49 thousand (EUR 3 thousand in 2021) as disclosed in Note 20.

As at 31 December 2022, the carrying amount of assets managed under the right of trust at the Group comprised EUR 947,811 thousand (at 31 December 2021: EUR 963,070 thousand).

The acquisition cost of fully depreciated but still used property, plant and equipment of the Group was EUR 65,413 thousand (EUR 55,243 thousand in 2021) and the Company EUR 10,414 thousand (EUR 9,131 thousand in 2021). Most of fully depreciated property, plant and equipment comprised other equipment, fittings and tools.

EUR 19,361 thousand of the Group's inventories complying with the requirements of IAS 16 were reclassified to non-current assets, construction in progress (EUR 17,411 thousand in 2021).

Impairment allowances were formed by the Group in 2022, which mainly relate to wagons located in the territory of Ukraine (EUR 505 thousand), locomotives not in use (EUR 431 thousand), investment projects (impairment of EUR 7,911 thousand in respect of assets and EUR 3,065 thousand in respect of grants related to assets).

The Group and the Company have no assets pledged.

The Company did not perform a test of recoverable amount of its property, plant and equipment as there are no indications of impairment taking into consideration the operating results.

The Group has carried out a recoverable amount calculation for part of the cash-generating units, which was carried out by discounting the expected future cash inflows. The key assumptions by business area are set out below.

The forecast of infrastructure performance is based on the following key assumptions:

- The cash flows were projected over 5 years (2023–2027) with a rolling period and discounted at a pre-tax weighted average cost of capital (pre-tax WACC) of 5.74%;
- The long-term growth rate used in the calculation of the recoverable amount is 2%;
- MAP (minimum access package) tariffs have been calculated in accordance with the new tariff calculation methodology, which comes into force from 2023–2024 working timetable of trains;
- The freight volumes were determined on the basis of traffic forecasts provided by the railway undertakings (carriers);
- Taking into account the forecast volumes of the railway undertakings (carriers), the envisaged operational efficiency measures and assessing the need to balance the MPP's operating revenues cost (the need for state subsidies is forecast throughout the period under assessment; however, when comparing 2027 with 2023, it decreases by 67%), EBITDA grows by an average of 10% over the forecast period.

✓ The sensitivity analysis showed that if
✓ WACC increased by 1 p.p., the recoverable amount would decrease by 21%, which means that impairment expenses should be recognised;
✓ WACC decreased by 1 p.p., the recoverable amount would increase by 37%;
✓ EBITDA increased by 1 p.p., the recoverable amount would increase by 2%;
✓ EBITDA decreased by 1 p.p., the recoverable amount would decrease 2%.

The Group reviewed ongoing projects, their status, further implementation and values. The review identified 4 investment projects for further analysis and valuation. Based on the results of the analysis, an impairment of EUR 7,911 thousand for assets and EUR 3,065 thousand for grants related to assets was accounted for in 2022.

7. Property, plant and equipment (continued)

The forecast of freight performance is based on the following key assumptions:

- Cash flows are assessed over a period of 5 years up to and including 2027, thereafter a continuous growth is assessed (rolling period);
- The calculation is based on the data from the Group's approved corporate strategy;
- The projected long-term growth rate is 2%;
- Freight volumes are forecast taking into account the cessation of oil product flows to Poland from 2028, the decreasing transit towards Kaliningrad and the increasing intra-EU freight flows. The Group does not forecast import and export flows from/to Belarus and Russia;
- The projected annual growth in freight tariffs reflects forecast increases in energy, wages and other costs. Taking into account changes in freight volumes, tariffs and costs, the EBITDA margin will increase and exceed 20% on a continuing basis;
- The calculation of the asset's recoverable amount uses a weighted average pre-tax cost of capital (pre-tax rate) of 6.46%;
- Depreciation on a rolling period is equal to the investments, taking into account that the Group must maintain the level of assets available to generate cash flows by renewing them accordingly;
- The performed sensitivity analysis was made using more conservative assumptions and values for earnings and pre-tax WACC.

The sensitivity analysis showed that if
- ✓ WACC increased by 1 p.p., the recoverable amount would decrease by 23%;
- ✓ WACC decreased by 1 p.p., the recoverable amount would increase by 36%;
- ✓ EBITDA increased by 1 p.p. in 2027, the recoverable amount would increase by 2%;
- ✓ EBITDA decreased by 1 p.p. in 2027, the recoverable amount would decrease by 2%.

The recoverable amount calculations and the sensitivity analysis carried out did not show any impairment of the assets.

Two alternatives were evaluated for the passenger transport performance forecast based on which a probability weighted scenario was calculated:

- ✓ On 29 December 2022, an agreement was signed on the Provision of Public Services for Transportation off Passengers by Rail and/or Public Combined Services for Transportation of Passengers on Domestic Routes (hereinafter referred to as “the Agreement“), with a commitment to provide domestic passenger transport services for 10 years up to and including 2032. The Agreement provides for an obligation on the service contractor (the Ministry of Transport and Communications) to oblige the next public service operator with whom a new public service contract is concluded to buy back the trains at the residual value at the end of the contract, if a new contract for local passenger services is not signed with a Group company;
- ✓ The first alternative assumes that the local passenger service will be operated until 2032, no new contract will be signed and the asset shall be sold to the service contractor at the expected sale price;
- ✓ The second alternative assumes the operation of the local passenger service until 2042, i.e. a new analogous local passenger service contract will be signed for the following 10-year period and the asset will be sold to the service contractor at the expected sale price at the end of the second contract;
- ✓ Given the possibilities of the passenger transport market participants, management considers that the second alternative is significantly more likely than the first alternative, and therefore bases the calculation of the recoverable amount of the asset on a probability scenario based on the significantly higher probability of the second alternative.

Other assumptions:
- The calculation uses data from the Company's approved strategy, providing for passenger growth of up to 6.6 million (2032) and EBITDA margin of up to 37%;
- The average annual compensation provided for in the contract is EUR 40 million (excluding bonuses);
- The long-term growth rate used in the calculation of the recoverable amount is 2%;
- The weighted cost of capital was calculated on the basis of a weighted average cost of capital (WACC) model and amounted to 4.61%. For the calculation of the value of non-current assets, a pre-tax weighted average cost of capital rate of 5.42% was used;
- Major investments for the restoration of the existing fleet are planned for 2024 and 2026;
- The cash flow under the second alternative for the period 2032–2042 is projected at a growth rate of 2%.

The sensitivity analysis showed that if
- ✓ WACC increased by 1 p.p., the recoverable amount would decrease by 16%;
- ✓ WACC decreased by 1 p.p., the recoverable amount would increase by 19%;
- ✓ EBITDA increased by 1 p.p. in 2032, the recoverable amount would increase by 1%;
- ✓ EBITDA decreased by 1 p.p. in 2032, the recoverable amount would decrease by 1%.

The recoverable amount calculations and the sensitivity analysis carried out did not show any impairment of the assets.

(all amounts are in EUR thousand unless otherwise stated)

8. Right-of-use assets

As at 31 December 2022, the Group's right-of-use assets consisted of:

	Land	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Total
Acquisition cost						
1 January 2020	-	1,222	352	5,003	713	7,290
- acquisitions for the year	1,480	724	-	523	159	2,886
- disposed assets	-	-	(323)	-	-	(323)
- reclassifications	-	-	-	-	-	-
31 December 2021	1,480	1,946	29	5,526	872	9,853
- acquisitions for the year	47	92	-	12,520	27	12,686
- disposed assets	-	(675)	(29)	(2,108)	-	(2,812)
- reclassifications	-	-	-	-	-	-
31 December 2022	1,527	1,363	-	15,938	899	19,727
Accumulated depreciation and impairment losses						
1 January 2020	-	(124)	(209)	(1,973)	(105)	(2,411)
- depreciation	(46)	(178)	(37)	(1,195)	(214)	(1,670)
- depreciation reversal of disposed assets	-	-	223	-	-	223
- reclassifications	-	-	-	-	-	-
31 December 2021	(46)	(302)	(23)	(3,168)	(319)	(3,858)
- depreciation	(43)	(563)	(6)	(5,152)	(239)	(6,003)
- depreciation reversal of disposed assets	-	149	29	1,317	-	1,495
- reclassifications	-	-	-	-	-	-
31 December 2022	(89)	(716)	-	(7,003)	(558)	(8,366)
Carrying amount						
1 January 2020	-	1,098	143	3,030	608	4,879
31 December 2021	1,434	1,644	6	2,358	553	5,995
31 December 2022	1,438	647	-	8,935	341	11,361

As at 31 December 2022, the Company's right-of-use assets consisted of:

	Land	Buildings and structures	Machinery and plant	Vehicles	Other equipment, fittings and tools	Total
Acquisition cost						
31 December 2020	-	5,666	30	4,139	346	10,181
- acquisitions for the year	1,424	6,568	-	963	101	9,056
- disposed assets	-	(5,564)	-	(159)	-	(5,723)
31 December 2021	1424	6,670	30	4,943	447	13,514
- acquisitions for the year	80,	92	-	1,826	30,	2,028
- disposed assets	(177)	(1,433)	-	(2,089)	-	(3,699)
31 December 2022	1,327	5,329	30	4,680	477	11,843
Accumulated depreciation and impairment losses						
31 December 2020	-	(387)	(13)	(1,581)	(50)	(2,031)
- depreciation	(49)	(765)	(11)	(1,319)	(131)	(2,275)
- depreciation reversal of disposed assets	-	690	-	155	-	845
31 December 2021	(49)	(462)	(24)	(2,745)	(181)	(3,461)
- depreciation	(70)	(659)	(6)	(1,186)	(155)	(2,076)
- depreciation reversal of disposed assets	32	149	-	2,041	-	2,222
31 December 2022	(87)	(972)	(30)	(1,890)	(336)	(3,315)
Carrying amount						
31 December 2020	-	5,279	17	2,558	296	8,150
31 December 2021	1,375	6,208	6	2,198	266	10,053
31 December 2022	1,240	4,357	-	2,790	141	8,528

Discount rate applied to lease agreements in 2022 comprises 6-month EURIBOR and market research, market margin determined under the current market conditions.

During 2022, the Company generated income of EUR 1,289 thousand (in 2021: EUR 1,299 thousand) from the sublease of the right-of-use assets.

(all amounts are in EUR thousand unless otherwise stated)

9. Intangible assets

As at 31 December 2022, intangible assets of the Group comprised the following:

	Software	Licences and similar rights	Other intangible assets	Total
Acquisition cost				
31 December 2020	**29,872**	**3,140**	**1,216**	**34,228**
- additions	400	576	4,959	5,935
- sales, disposals, write-offs	(1,204)	(139)	(188)	(1,531)
- transferred from tangible assets	1,436	(116)	750	2,070
31 December 2021	**30,504**	**3,461**	**6,737**	**40,702**
- additions	542	313	5,536	6,391
- sales, disposals, write-offs	(47)	(15)	(67)	(129)
- transferred from tangible assets	7,002	1	(6,966)	37
31 December 2022	**38,001**	**3,760**	**5,240**	**47,001**
Accumulated amortisation and impairment losses				47,001
31 December 2020	**(9,941)**	**(2,133)**	**(677)**	**(12,751)**
- amortisation	(2,321)	(225)	(25)	(2,571)
- impairment for the year	-	-	-	-
- sales, disposals, write-offs	1,204	139	159	1,502
31 December 2021	**(11,058)**	**(2,219)**	**(543)**	**(13,820)**
- amortisation	(4,039)	(361)	(18)	(4,418)
- impairment for the year	-			
- sales, disposals, write-offs	47	14	68	129
31 December 2022	**(15,050)**	**(2,566)**	**(493)**	**(18,109)**
Carrying amount				
31 December 2020	**19,931**	**1,007**	**539**	**21,477**
31 December 2021	**19,446**	**1,242**	**6,194**	**26,882**
31 December 2022	**22,951**	**1,194**	**4,747**	**28,892**

As at 31 December 2022, intangible assets of the Company comprised the following:

	Software	Licences and similar rights	Other intangible assets	Total
Acquisition cost				
31 December 2020	**6,614**	**2,979**	**35**	**9,628**
- additions	444	576	4,136	5,156
- sales, disposals, write-offs	(914)	(78)	(7)	(999)
- transferred from tangible assets	1,168	(116)	748	1,800
31 December 2021	**7,312**	**3,361**	**4,912**	**15,585**
- additions	-	312	2,671	2,983
- sales, disposals, write-offs	-	-	-	
- transferred from tangible assets	6,067	-	(6,053)	14
31 December 2022	**13,379**	**3,673**	**1,530**	**18,582**
Accumulated amortisation and impairment losses				
31 December 2020	**(5,278)**	**(1,973)**	**(35)**	**(7,286)**
- amortisation	(640)	(224)	-	(864)
- impairment for the year	-	-	-	-
- sales, disposals, write-offs	914	78	7	999
31 December 2021	**(5,004)**	**(2,119)**	**(28)**	**(7,151)**
- amortisation	(1,145)	(360)	-	(1,505)
- impairment for the year	-	-	-	-
- sales, disposals, write-offs	-	-	-	-
31 December 2022	**(6,149)**	**(2,479)**	**(28)**	**(8,656)**
Carrying amount				
31 December 2020	**1,336**	**1,006**	**-**	**2,342**
31 December 2021	**2,308**	**1,242**	**4,884**	**8,434**
31 December 2022	**7,230**	**1,194**	**1,502**	**9,926**

(all amounts are in EUR thousand unless otherwise stated)

9. Intangible assets (continued)

Amortisation costs of intangible assets of the Group which in 2022 amounted to EUR 2,609 thousand (EUR 1,427 thousand in 2021) are accounted for in the statement of profit or loss and other comprehensive income. This amount includes EUR 4,418 thousand (EUR 2,571 thousand in 2021) of amortisation expenses which were reduced by amortisation of grants of EUR 1,809 thousand (EUR 1,144 thousand in 2021) as disclosed in Note 20.

Amortisation costs of intangible assets of the Company which in 2022 amounted to EUR 1,377 thousand (EUR 736 thousand in 2021) are accounted for in the statement of profit or loss and other comprehensive income. This amount includes EUR 1,505 thousand (EUR 864 thousand in 2021) of amortisations expenses which were reduced by amortisation of grants of EUR 128 thousand (EUR 128 thousand in 2021) as disclosed in Note 20.

The Group's fully amortised intangible assets still in use amounted to EUR 6,341 thousand (EUR 5,819 thousand in 2021). The Company's fully amortised intangible assets still in use amounted to EUR 5,304 thousand (EUR 4,751 thousand in 2021). Most of fully amortised assets was software.

Capitalised expenses of the Company, including ERP consultation services, amounted to EUR 6,603 thousand during 2022 (EUR 847 thousand in 2021).

10. Investment property

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

	Group	Company
Acquisition cost		
31 December 2020	**3,012**	**9,384**
- acquisitions for the year	-	-
- sold, written off, disposed assets	-	(28)
- assets taken over during reorganisation*	-	8,470
- transferred from property, plant and equipment	198	3,001
31 December 2021	**3,210**	**20,827**
- acquisitions for the year	-	-
- sold, written off, disposed assets	-	(2,033)
- transferred from property, plant and equipment	1,055	(1,160)
31 December 2022	**4,265**	**17,634**
Accumulated depreciation and impairment losses		
31 December 2020	**(258)**	**(2,892)**
- depreciation	(292)	(505)
- sold, written off, disposed assets	-	11
- assets taken over during reorganisation*	-	(2,077)
- transferred from property, plant and equipment	(74)	(987)
31 December 2021	**(624)**	**(6,450)**
- depreciation	(217)	(760)
- sold, written off, disposed assets	-	629
- transferred from property, plant and equipment	(255)	1,230
31 December 2022	**(1,096)**	**(5,351)**
Carrying amount		
31 December 2020	**2,754**	**6,492**
31 December 2021	**2,586**	**14,377**
31 December 2022	**3,169**	**12,283**

*Reorganisation of AB Vilniaus lokomotyvų depas by the way of merger took place on 1 December 2021.

The Group's and the Company's investment property comprised leased buildings. Average non-cancellable term of the lease is 3 years with possibility to prolong.

Part of the Group's investment property with the acquisition cost as at 31 December 2022 of EUR 126 thousand (EUR 124 thousand as at 31 December 2021) was fully depreciated but still used in operations.

Part of the Company's investment property with the acquisition cost as at 31 December 2022 of EUR 327 thousand (EUR 691 thousand as at 31 December 2021) was fully depreciated but still used in operations.

During 2022, the Group and the Company received EUR 1,430 thousand and EUR 4,846 thousand of income from the lease of investment property (2021: EUR 1,087 thousand and EUR 3,069 thousand, respectively).

According to the valuations carried out in 2015 – 2020, the fair value of the Group's and the Company's investment property as at 31 December 2022 amounts to EUR 4,265 thousand and EUR 17,634 thousand, respectively. As to the Group's and the Company's management, the fair value of investment property is close to its book value at the date of the statement of financial position.

(all amounts are in EUR thousand unless otherwise stated)

11. Investments

The movement of investments of the Group to associates and other companies:

Company name	Owned share, %	2022 Investment value	2022 Accounted impairment	2022 Carrying amount	2021 Investment value	2021 Accounted impairment	2021 Carrying amount
Shares of associates							
voestalpine Railway Systems Lietuva, UAB	34	2,536	-	2,536	2,212	-	2,212
VšĮ Transporto inovacijų centras	33.33	25	-	25	70	-	70
RB Rail AS	33.33	2,257	-	2,257	2,312	-	2,312
		4,818	-	4,818	4,594	-	4,594
Long-term investments							
VšĮ Geležinkelių logistikos parkas	79.61	460	(443)	17	460	(405)	55
Brussels Central Settlement Centre	1.34	2	-	2	2	-	2
		462	(443)	19	462	(405)	57
Total				4,837			4,651

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

Company name	Owned share, %	2022 Investment value	2022 Accounted impairment	2022 Carrying amount	2021 Investment value	2021 Accounted impairment	2021 Carrying amount
Shares of subsidiaries							
AB LTG Cargo	100	39,752	-	39,752	39,752	-	39,752
UAB LTG Link	100	142,778	-	142,778	142,778	-	142,778
AB LTG Infra	100	673,668	-	673,668	673,668	-	673,668
UAB Geležinkelio tiesimo centras	100	24,752	-	24,752	24,752	-	24,752
LUAB Saugos paslaugos	100	-	-	-	1,522	(1,139)	383
UAB Rail Baltica statyba	100	4,804	(2,536)	2,268	4,804	(2,455)	2,349
VšĮ Geležinkelių logistikos parkas	79.61	460	(443)	17	460	(405)	55
		886,214	(2,979)	883,235	887,736	(3,999)	883,737
Shares of associates							
voestalpine Railway Systems Lietuva, UAB	34	745	-	745	745	-	745
VšĮ Transporto inovacijų centras	33.33	115	(115)	-	115	(79)	36
		860	(115)	745	860	(79)	781
Long-term investments							
Brussels Centralised Payment Centre	1.34	2	-	2	2	-	2
		2	-	2	2	-	2
Total		**887,076**	**(3,094)**	**883,982**	**888,598**	**(4,078)**	**884,520**

(all amounts are in EUR thousand unless otherwise stated)

11. Investments (continued)

The financial position of investments in associates carried using equity method:

2022	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity
voestalpine Railway Systems Lietuva, UAB	3,965	7,878	66	2,463	9,314
RB Rail AS	3,712	35,204	16,027	16,118	6,771
VšĮ Transporto inovacijų centras	-	52	-	2	50

2021	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Equity
voestalpine Railway Systems Lietuva, UAB	3,887	6,645	58	2,132	8,342
RB Rail AS	3,071	25,201	8,447	13,109	6,716
VšĮ Transporto inovacijų centras	1	63	-	4	60

Investments in associates using equity method in the statement of profit or loss and other comprehensive income:

	2022		
	Revenue	(Expenses)	Profit or loss
voestalpine Railway Systems Lietuva, UAB	11,679	(10,890)	789
RB Rail AS	22,698	(22,823)	(125)
VšĮ Transporto inovacijų centras	-	(10)	(10)

	2021		
	Revenue	(Expenses)	Profit or loss
voestalpine Railway Systems Lietuva, UAB	10,679	(9,985)	694
RB Rail AS	16,126	(16,370)	(244)
VšĮ Transporto inovacijų centras	-	(50)	(50)

In February 2022, UAB Gelsauga was deregistered from the Register of Legal Entities.

In June 2022, UAB Saugos paslaugos was deregistered from the Register of Legal Entities.

In 2022, the value of investments in the Company decreased by EUR 383 thousand due to the reimbursement of the investment in UAB Saugos paslaugos by cash received on liquidation of the company.

An additional impairment of investments of EUR 155 thousand was accrued and accounted for in 2022.

The Company has performed tests of recoverable amount on its investments in subsidiaries (LTG Infra, LTG Cargo, LTG Link), which did not identify any impairment indicators. The key valuation assumptions are disclosed in Note 7.

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

	Investment value
Acquisition value as at 31 December 2020	**902,416**
Increase (+)	1,360
Decrease (-)	(19,256)
Acquisition value as at 31 December 2021	**884,520**
Increase (+)	-
Decrease (-)	(538)
Acquisition value as at 31 December 2022	**883,982**

(all amounts are in EUR thousand unless otherwise stated)

12. Inventories

As at 31 December 2022, the Group's and the Company's inventories comprised:

	Group		Company	
	2022	2021	2022	2021
Spare parts	10,368	10,591	313	468
Materials of the upper railway part	3,737	8,603	-	-
Materials	5,368	4,868	137	617
Fuel	9,864	4,377	7,906	3,060
Other inventories	1,209	1,621	28	78
Total raw materials, materials and component parts	30,546	30,060	8,384	4,223
Goods for resale	31	151	-	-
Total goods for resale	31	151	-	-
Non-current assets held-for-sale	1,731	2,986	9,341	500
Total non-current assets held-for-sale	1,731	2,986	9,341	500
Total	**32,308**	**33,197**	**17,725**	**4,723**

The carrying amount of the Group's inventories of EUR 43,791 thousand was reduced by EUR 11,483 thousand to the net realisable value as at 31 December 2022 (the carrying amount of EUR 37,164 thousand was reduced by EUR 3,967 thousand to the net realisable value as at 31 December 2021).

The carrying amount of the Company's inventories of EUR 18,338 thousand was reduced by EUR 612 thousand to the net realisable value as at 31 December 2022 (the carrying amount of EUR 5,379 thousand was reduced by EUR 656 thousand to the net realisable value as at 31 December 2021).

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

The net realisable value of non-current assets held-for-sale of the Group and the Company as at 31 December 2022 amounted to EUR 1,731 thousand and EUR 9,341 thousand, respectively (at 31 December 2021: EUR 2,986 thousand and EUR 500 thousand).

The major part of the Company's non-current assets held for sale consists of real estate related to the terminal operations of AB LTG Infra. The decision to sell was taken by the Company's Management Board on 21 February 2023.

The write down to the fair value less cost to sell of non-current assets held-for-sale of the Group and the Company is shown in article of impairment and write down expenses in the statements of profit or loss and other comprehensive income. The major part of the Group's non-current assets held-for-sale comprises passenger wagons, diesel locomotives, draisines, cranes, wagons and buildings held-for-sale.

13. Trade and other receivables

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

	Group		Company	
	2022	2021	2022	2021
Gross external trade debtors	23,649	32,104	6,211	1,919
Impairment (-)	(4,166)	(2,900)	(104)	(73)
Total external trade receivables	**19,483**	**29,204**	**6,107**	**1,846**
Receivables from related parties	11	388	12,268	12,034
Impairment (-)	-	-	-	-
Total receivables from related parties	**11**	**388**	**12,268**	**12,034**
Receivable VAT	4,509	6,134	534	-
Other amounts receivable from the budget	9,676	8,227	1,959	2,549
Accrued other amounts receivable from related parties	-	-	2,239	3,382
Accrued income	2,775	2,830	250	145
Other receivables	10,190	11,341	5,317	5,564
Impairment (-)	(4,274)	(4,274)	(4,274)	(4,274)
Total other receivables	**22,876**	**24,258**	**6,025**	**7,366**
Total	**42,370**	**53,850**	**24,400**	**21,246**

In 2022, the Group's trade and other receivables compared to 2021 decreased by EUR 11,480 thousand. In 2022, the Company's trade and other receivables increased by EUR 3,154 thousand, compared to 2021.

The Company accrued other amounts receivable from related parties of EUR 1,516 thousand for management services rendered to Group companies (EUR 2,851 thousand as at 31 December 2021).

(all amounts are in EUR thousand unless otherwise stated)

14. Prepayments and contract assets

Prepayments of the Group and the Company comprised:

	Group		Company	
	2022	2021	2022	2021
Prepayments to external customers	469	2,945	233	221
Prepayments to related parties	-	-	7,222	14,558
Guarantees paid to suppliers	40	91	347	351
Deferred costs	2,746	4,949	2,068	2,325
Total	**3,255**	**7,985**	**9,870**	**17,455**

The Group's and the Company's contract assets comprised:

	Group		Company	
	2022	2021	2022	2021
Guarantees paid to customers	6	54	-	-
Accrued income	10	30	-	-
Total	**16**	**84**	**-**	**-**

15. Cash and cash equivalents

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

	Group		Company	
	2022	2021	2022	2021
Cash in banks	213,427	84,630	4,567	37,885
Cash in hand	7	26	-	-
Total	**213,434**	**84,656**	**4,567**	**37,885**

As at 31 December 2022 and 2021, the Group and the Company had no term deposits. Cash was not pledged.

In order to ensure more efficient fund management and ensure the liquidity of the Group's companies on market conditions, on 21 December 2018 the Group's cash-pool agreement was signed with Swedbank, AB. Under this agreement, the members of the Group may borrow and lend funds to the members of the Group on a mutual borrowing platform for a maximum period of one year. As at 31 December 2022, the Group companies had no debt to the Company under the cash-pool agreement (EUR 2,527 thousand as at 31 December 2021). During 2022, the Group members used cash-pool funds based on their needs, accruing interest income of EUR 103 thousand (31 December 2021: EUR 114 thousand) and interest expense of EUR 6 thousand.

As at 31 December 2022, due to bank guarantees issued, the use of cash and cash equivalents of EUR 103 thousand was restricted (EUR 104 thousand as at 31 December 2021).

16. Authorised share capital

During 2022, there were no changes in the Company's Articles of Association.

17. Dividends

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

Based on Order No 3-264 of the Minister of Transport and Communications dated 24 May 2022, it was decided to allocate for dividends EUR 6,241 thousand from the Company's distributable profit for 2021, with payments made on 25 May 2022 – EUR 2,080 thousand, on 29 June 2022 – EUR 2,080 thousand and on 27 July 2022 – EUR 2,081 thousand. Dividends per share amounted to EUR 1.7.

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

(all amounts are in EUR thousand unless otherwise stated)

18. Reserves

Legal reserve. The legal reserve means a reserve which is required by the provisions of legal acts of the Republic of Lithuania. This reserve must be annually renewed by at least 5 per cent of the net profit up to the extent equal to 10 per cent of the authorised capital. The legal reserve cannot be distributed as dividends, but can be used to cover future losses. As at 31 December 2022, the Group's and the Company's legal reserve amounted to EUR 34,025 thousand.

Other reserves. As at 31 December 2022, the balance of the Group's other reserves consisted of the reserve for investments of EUR 8,757 thousand. The balance of the Company's other reserves item consisted of the reserve for investments of EUR 8,757 thousand.

19. Retained earnings (losses) and profit (loss) not recognised in the statement of profit or loss and other comprehensive income

On 30 November 2021, based on the decision of the Ministry of Transport and Communications of the Republic of Lithuania on the reorganisation of the Company and AB Vilniaus lokomotyvų remonto depas (AB VLRD), as well as based on the decision of the Company, as the sole shareholder of AB VLRD, the terms of the reorganisation were approved, prescribing that AB VLRD shall be merged into the Company by way of merger.

As of 1 December 2021, after reorganisation the Company continues its activity having taken over all assets, rights and commitments of AB VLRD under reorganisation (merged).

The carrying amounts of the total reorganised assets, rights and obligations of AB VLRD, transferred to the Company on 1 December 2021:

ASSETS		EQUITY AND LIABILITIES	
Property, plant and equipment	1,157	Employee benefits	-
Intangible assets	-	**Total non-current liabilities**	**-**
Investment property	6,393	Employee benefits	2
Deferred tax asset	103	Trade and other payable amounts	299
Total non-current assets	**7,653**	**Total current liabilities**	**301**
Inventory	-	**Net assets**	**19,140**
Trade and other receivable amounts	3,841		
Cash and cash equivalents	7,947		
Total current assets	**11,788**		
TOTAL ASSETS	**19,441**	**TOTAL EQUITY AND LIABILITIES**	**19,441**

As at 1 December 2021, the difference between the carrying amounts of the transferred assets and liabilities of AB VLRD, i.e. the net assets, amounted to EUR 19,140 thousand. The elimination of the Company's investment of EUR 15,252 thousand in AB VLRD resulted in a gain on reorganisation of EUR 3,888 thousand, which is recorded directly to equity "*Profit (loss) not recognised in the statement of profit or loss and other comprehensive income*.

A building complex controlled by the Group company AB LTG Infra under the right of trust was transferred to SE Turto Bankas on 1 March 2021 following the resolution No 181 of 10 February 2021 of the Government of Republic of Lithuania "Regarding Management, Use and Disposal of the State Real Estate Transferred to State-owned Enterprise Turto Bankas by the Right of Trust". This transaction of transfer is considered to be a common control transaction with owners and is accounted for as unrecognised loss of EUR 5,998 thousand in the statement of profit or loss and other comprehensive income.

The Group's retained earnings (loss) include the legal reserves of the consolidated subsidiaries, which amounted to EUR 3,551 thousand as at 31 December 2022 (31 December 2021: EUR 2,299 thousand). These reserves cannot be distributed as dividends but can be used to cover future losses.

20. Grants

Movement of grants of the Group and the Company:

	Group		Company	
	2022	2021 (adjusted)	2022	2021
Balance at the beginning of the period	603,642	581,384	611	641
Received during the year	204,263	31,495	396	101
Grants received in advance	33,720	15,789	-	-
Used for reduction of depreciation and amortisation costs of non-current assets	(22,531)	(21,757)	(180)	(131)
Used for reduction of other expenses	(4,933)	(3,140)	(5)	-
Impairment	(3,066)	-	-	-
Repaid / transferred	(1,931)	(129)	-	-
Balance at the end of the period	**809,164**	**603,642**	**822**	**611**
Including assets managed under right of trust	**237,002**	**237,699**	**-**	**-**

20. Grants (continued)

Grants are related to the financing of investment programmes, assets received under the Trust Agreement and subsidies earmarked for compensating costs.

21. Loans and borrowings

As at 31 December 2022, borrowings of the Group and the Company comprised:

	Group		Company	
	2022	2021	2022	2021
Non-current loans	125,745	147,967	-	-
Current loans	22,737	26,034	-	-
Total	148,482	174,001	-	-

The Company does not have any financial liabilities to credit institutions, because on 8 December 2019 all the loans between the Company and the Nordic Investment Bank were transferred to LTG Infra AB, and, on 30 June 2020, all the loans between the Company and the European Investment Bank were transferred to LTG Cargo AB. On 30 June 2020, following the completion of the restructuring of the Company's long-term loans, the guarantee agreements with the Nordic Investment Bank and the European Investment Bank entered into force, under which the Company guarantees for the obligations of LTG Cargo AB and LTG Infra AB to creditors.

The Group's loans comprised:

	Loan currency	2022	2021
Bank EIB - 3, total [2]	EUR	-	1,372
Bank EIB - 4, total [1]	EUR	7,401	14,126
Nordic Investment Bank -2, total [5]	EUR	-	1,891
Nordic Investment Bank - 3, total [3]	EUR	70,017	77,387
Nordic Investment Bank - 4, total [4]	EUR	32,891	36,321
Nordic Investment Bank - 5, total [6]	EUR	38,174	42,904
Total		148,482	174,001

During 2022, the Group repaid EUR 25,475 thousand of loans and paid EUR 2,137 thousand of interest.

[1] EIB-4 is the loan for the procurement of new railway rolling stock. During 2022, AB LTG Cargo repaid EUR 6,667 thousand of the loan and paid EUR 309 thousand of interest.

[2] EIB-3 the loan was repaid on 27 September 2022 in full.

[3] Two loan agreements have been signed with the Nordic Investment Bank (NIB-3) for the renovation and development of the public railway infrastructure. During 2022, AB LTG Infra repaid EUR 7,355 thousand of the loan and EUR 1,103 thousand of interest.

[4] A loan agreement has been signed with the Nordic Investment Bank (NIB-4). The loan was granted to ensure co-financing of the national part of the public railway infrastructure project Rail Baltica, which is financed by the EU support funds for 2007-2013. During 2022, AB LTG Infra repaid EUR 3,439 thousand of the loan and EUR 437 thousand of interest.

[5] The loan of the Nordic Investment Bank (NIB-2) was repaid in full on 2 May 2022.

[6] (NIB-5) loan is intended for the implementation of the investment projects for 2014–2021 and the Rail Baltica project. During 2022, AB LTG Infra paid EUR 4,762 thousand of the loan and EUR 257 thousand of interest.

As at 31 December 2022, the Group has accrued interest of EUR 515 thousand (31 December 2021 – EUR 559 thousand).

22. Lease liabilities

The Company leases buildings and other assets (mainly vehicles). Building lease agreements are usually concluded for a fixed 36-month period with a possibility to extend them. Vehicle lease agreements are concluded for 36 months without a possibility to extend them. In determining the lease term, management considers all the facts and circumstances that give rise to the economic incentive to exercise the option to extend the contract or not to exercise the option to terminate it. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated). Possible future cash payments were not included in the lease liabilities as there is no reason to be certain that the leases will be extended (or not terminated).

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

A discount rate applied to lease contracts in 2022 comprises 6-month EURIBOR and a market margin determined on the basis of a market research according to effective market conditions.

(all amounts are in EUR thousand unless otherwise stated)

22. Lease liabilities (continued)

The Group‘s and the Company‘s lease commitments and their movements:

	Group		Company	
	2022	2021	2022	2021
Carrying amount at the beginning of the period	**6,065**	**5,352**	**10,384**	**8,421**
Lease contracts concluded	12,015	3,538	4,556	9,402
Lease contracts terminated	(1,005)	(866)	(4,096)	(5,319)
Calculated interest	170	190	121	214
Lease payments (principal amount and interest)	(5,814)	(2,149)	(2,181)	(2,334)
Carrying amount at the end of the period	**11,431**	**6,065**	**8,784**	**10,384**
Non-current lease liabilities	4,536	4,559	5,994	8,490
Current lease liabilities	6,895	1,506	2,790	1,894

Future lease payments under non-cancellable lease contracts:

	Group		Company	
	2022	2021	2022	2021
Lease liabilities with the following maturities:				
Within one year	6,895	1,505	2,790	1,894
From one to five years	3,351	1,671	3,014	1,783
After five years	1,185	2,889	2,980	6,707
Total	**11,431**	**6,065**	**8,784**	**10,384**

If the discount rate applicable at the Company increased or decreased by 1 percent, the amount of lease liabilities as at 31 December 2022 would accordingly make up EUR 8,210 thousand and EUR 9,462 thousand (EUR 9,727 thousand and EUR 11,186 thousand accordingly as at 31 December 2021).

The Group and the Company have amounts payable for short-term leases and leases of low value assets that are recognised in the statement of profit or loss and other comprehensive income for the amounts of EUR 5,402 thousand and EUR 4,190 thousand in 2022, respectively (2021: EUR 6,567 thousand and EUR 5,953 thousand, respectively).

(all amounts are in EUR thousand unless otherwise stated)

23. Employee benefits

According to the legislative requirements of the Republic of Lithuania, each employee of the Company at the age of retirement is entitled to a one-off payment in the amount of 2-month salary. In addition, under the effective collective agreement, payment of up to 1 month average remuneration is paid to an employee who has served for 25 years or more. Jubilee payments also comprise provisions for pensions and similar liabilities. Under the collective agreement effective at the Group and the Company, a payment of EUR 300 is paid to members of trade unions when they reach the ages of 50 and 60 years.

Change in non-current provisions for pensions and similar liabilities is provided in the table below:

	Group	Company
Balance as at 31 December 2020	10,360	860
Change (+)	15	-
Change (-)	(1,933)	(265)
Balance as at 31 December 2021	8,442	595
Change (+)	-	-
Change (-)	(2,984)	(304)
Balance as at 31 December 2022	**5,458**	**291**

Main assumptions applied in assessment of the Company's non-current employee benefit liability are provided below:

	2022	2021
Discount rate, %	3.54	0.76
Staff turnover ratio, %	17.41	11.79
Salary increase rate, %	5.00	2.00

Change in the Group's employee benefits during 2022 by type:

	2021	Calculated to the statement of profit or loss and other comprehensive income	Calculated capitalised costs	Paid	2022
Non-current liabilities					
Provisions for pensions and similar obligations	8,442	(1,155)	-	(1,829)	5,458
Total non-current liabilities:	**8,442**	**(1,155)**	**-**	**(1,829)**	**5,458**
Current liabilities					
Vacation pay accrual	10,190	15,668	-	(18,158)	7,700
Payable remuneration	6,783	75,587	10,691	(87,062)	5,999
Payable social insurance contributions	3,444	30,477	1,897	(32,729)	3,089
Payable personal income tax	2,126	24,639	1,117	(26,021)	1,861
Other employment related liabilities	5,947	11,574	-	(11,774)	5,747
Total current liabilities:	**28,490**	**157,945**	**13,705**	**(175,744)**	**24,396**
Total	**36,932**	**156,790**	**13,705**	**(177,573)**	**29,854**

Change in the Company's employee benefits during 2022 by type:

	2021	Calculated to the statement of profit or loss and other comprehensive income	Calculated capitalised costs	Paid	2022
Non-current liabilities					
Provisions for pensions and similar obligations	595	(298)	-	(6)	291
Total non-current liabilities:	**595**	**(298)**	**-**	**(6)**	**291**
Current liabilities					
Vacation pay accrual	1,838	2,703	-	(3,242)	1,299
Payable remuneration	1,296	14,785	439	(15,373)	1,147
Payable social insurance contributions	631	6,240	186	(6,523)	534
Payable personal income tax	426	4,887	145	(5,082)	376
Other employment related liabilities	1,614	3,155	-	(3,305)	1,464
Total current liabilities:	**5,805**	**31,770**	**770**	**(33,525)**	**4,820**
Total	**6,400**	**31,472**	**770**	**(33,531)**	**5,111**

(all amounts are in EUR thousand unless otherwise stated)

23. Employee benefits (continued)

Short-term employee benefits by type:

	Group		Company	
	2022	2021	2022	2021
Vacation pay accrual	7,700	10,190	1,300	1,838
Payable remuneration	5,999	6,783	1,149	1,296
Payable social insurance contributions	3,089	3,444	533	631
Payable personal income tax	1,861	2,126	375	426
Other employment related liabilities	5,747	5,947	1,463	1,614
Total	**24,396**	**28,490**	**4,820**	**5,805**

24. Provisions

Other provisions of the Group and the Company comprised:

	Group		Company	
	2022	2021	2022	2021
Non-current provisions	14,470	14,470	-	-
Current provisions	608	689	-	-
Total	**15,078**	**15,159**	**-**	**-**

In 2022 and 2021, the non-current provisions are related to potential liabilities.

The movement in provisions could be specified:

	Group	Company
Balance as at 31 December 2020	15,274	-
Formed additionally (+)	223	-
Used (-)	(338)	-
Effect of reorganisation (-)	-	-
Balance as at 31 December 2021	15,159	-
Formed additionally (+)	749	
Used (-)	(830)	-
Balance as at 31 December 2022	**15,078**	**-**

25. Trade and other payables

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

	Group		Company	
	2022	2021	2022	2021
Trade payables	40,159	39,934	3,094	8,800
Trade payables to related parties	306	705	2,088	1,047
Cash guarantees received	2,856	4,832	977	2,405
Other taxes payable to the budget	6,639	6,224	667	541
Accrued service costs of foreign railways	227	1,167	-	-
Accrued other amounts payable from related parties	-	-	1,077	6,612
Other accrued costs	6,033	12,583	1,175	968
Other amounts payable and liabilities	2,075	3,292	14	12
Total	**58,295**	**68,737**	**9,091**	**20,385**

Under other accrued expenses, the Group and the Company accounted for audit service expenses of EUR 209 thousand (2021: EUR 216 thousand) and EUR 45 thousand (2021: 52 thousand), respectively.

At the Company, accrued expenses comprised accruals of not invoiced management services to related parties.

(all amounts are in EUR thousand unless otherwise stated)

26. Prepayments received and contract liabilities

	Group		Company	
	2022	2021 (adjusted)	2022	2021
Prepayments received, non-current portion	-	-	-	-
Prepayments received, current portion	22,630	24,667	9,445	18,909
Total	**22,630**	**24,667**	**9,445**	**18,909**

The largest part of the prepayments received by the Group and the Company consisted of an advance payment of EUR 8,186 thousand received from OAO Belaruskalij.

The Group's and the Company's contract liabilities comprised:

	Group		Company	
	2022	2021	2022	2021
Non-current portion	-	-	-	-
Current portion	9	2	-	-
Total	**9**	**2**	**-**	**-**

27. Sales revenue

Sales revenue of the Group and the Company comprised:

	Group		Company	
	2022	2021	2022	2021
Freight transportation income:	276,736	372,949	-	-
Freight transportation on local routes	93,733	81,754	-	-
Freight transportation on international routes	119,835	188,491	-	-
Provision of services related to freight transportation	63,168	102,704	-	-
Income for the use of public railway infrastructure	420	536	-	-
Passenger transportation income:	34,454	18,653	-	-
Passenger transportation on local routes	20,577	11,762	-	-
Passenger transportation on international routes	12,099	5,979	-	-
Provision of services related to passenger transportation	1,778	912	-	-
Other revenue:	25,131	28,610	96,193	102,145
Leased assets	2,187	1,691	6,122	4,380
Locomotive and locomotive crew work abroad	2,957	4,367	-	-
Maintenance and repairs	4,532	3,770	449	467
Electricity, gas, vapour and water supply	1,676	867	12	1
Resale	-	-	40,069	47,617
Management services	-	-	43,521	43,555
Other services	13,779	17,915	6,020	6,125
Total	**336,741**	**420,748**	**96,193**	**102,145**

The decline in revenues from international freight and freight-related services was due to geopolitical developments, military actions by the Russian Federation in Ukraine, and a wide range of US and EU sanctions imposed on Belarus and Russia during the reporting period.

The Group's and the Company's revenue according to the moment of revenue recognition comprised the following:

	Group		Company	
	2022	2021	2022	2021
Recognised at a point in time	329,602	414,751	89,622	97,298
Recognised over time	7,139	5,997	6,571	4,847
Total	**336,741**	**420,748**	**96,193**	**102,145**

(all amounts are in EUR thousand unless otherwise stated)

28. Grant

In 2022, the subsidy of EUR 36,229 thousand (EUR 37,629 thousand in 2021) consisted of the compensation of losses for the carriage of passengers by train on domestic routes and a subsidy of EUR 59,962 thousand aimed at ensuring the stable maintenance of public railway infrastructure, improving the quality of the services provided and ensuring a high level of safety of rail traffic (see also Note 3 *Critical Accounting estimates and Judgements* for details).

29. Other income

In 2022, the Group's other income comprised EUR 1,168 thousand (EUR 6,761 thousand in 2021). The gain from disposal of non-current assets comprised the major part of other operating income. In 2022, the Company's other income comprised EUR 209 thousand (EUR 6,497 thousand in 2021), the major part of which comprised EUR 151 thousand of profit from disposal of non-current assets.

30. Employee benefits costs

The Group's employee benefits costs by type:

	2022	2021
Wages and salaries	(138,052)	(152,274)
Social security costs	(2,444)	(2,695)
Vacation accrual	(15,668)	(16,397)
Pensions and similar obligations	(626)	1,759
Total	**(156,790)**	**(169,607)**

The Company's employee benefits costs by type:

	2022	2021
Wages and salaries	(26,644)	(30,643)
Social security costs	(642)	(723)
Vacation accrual	(2,703)	(2,932)
Pensions and similar obligations	(1,483)	(252)
Total	**(31,472)**	**(34,550)**

31. Result from financing activities

Result from financing activities of the Group and the Company comprised:

	Group		Company	
	2022	2021	2022	2021
Total finance income	497	252	2,238	4,363
Interest	276	154	2,105	1,607
Currency exchange gain	166	-	120	41
Dividends	-	-	-	1,636
Fines and penalties	55	98	13	15
Other income	-	-	-	1,064
Total finance expenses	(3,526)	(3,965)	(160)	(253)
Interest	(2,549)	(2,390)	(38)	(6)
Currency exchange loss	-	(20)	-	-
Expenses of fines and interest on late payment	(857)	(1,296)	(1)	(32)
Other expenses	(120)	(259)	(121)	(215)
Total	**(3,029)**	**(3,713)**	**2,078**	**4,110**

32. Corporate income tax and deferred tax

Corporate income tax was calculated at a 15% tax rate.

	Group		Company	
	2022	2021 (adjusted)	2022	2021
Income tax for the year	702	374	-	128
Adjustment to income tax of the previous year*	(82)	(2,464)	(36)	(512)
Deferred tax expenses (income)	1,129	3,975	(325)	450
Total corporate income tax expenses (income) recognised in profit or loss	**1,749**	**1,885**	**(361)**	**66**

(all amounts are in EUR thousand unless otherwise stated)

32. Corporate income tax and deferred tax (continued)

Corporate income tax expenses (income) of the Group and the Company comprised:

	Group		Company	
	2022	2021	2022	2021
Profit (loss) before tax	2,962	25,349	(3,447)	3,520
Corporate income tax	444	3,802	(517)	528
Non-deductible expenses (+)/Additional allowable (-) deductions	1,633	1,534	252	238
Non-taxable income (-)	(246)	(1,090)	(60)	(291)
Income tax of the previous year*	(82)	(2,464)	(36)	(512)
Change in deferred tax due to reorganisation	-	103	-	103
Total corporate income tax (income) expenses	**1,749**	**1,885**	**(361)**	**66**
Effective rate, %	59.05	7.44	10.47	1.88

* In May 2021, having received information on the investment projects eligible for the income tax incentive, the Income tax for 2020 was adjusted accordingly in 2021.

Deferred tax assets (liabilities)

Calculation of the deferred tax of the Group and the Company is provided herein:

	Group		Company	
	2022	2021 (adjusted)	2022	2021
Deferred income tax assets:				
Impairment of amounts receivable and write-off of bad debts	624	435	15	11
Write down of inventories	1,857	943	92	98
Vacation and bonus accruals	1,888	2,338	414	518
Liabilities of long-term employee benefits	870	1,266	44	89
Accrued expenses	416	135	-	-
Difference between accounting and tax value of non-current assets	-	16	-	-
Other provisions	112	239	-	-
Tax losses carried forward	7,115	9,051	1,510	882
Deferred income tax assets	12,882	14,423	2,075	1,598
Deferred income tax liabilities:				
Difference between accounting and tax value of non-current assets	(27,604)	(23,517)	189	352
Difference in grants	(4,820)	(5,554)	(26)	(37)
Other provisions	(267)	(4,032)	-	-
Deferred tax liability	(32,691)	(33,103)	163	315
Net deferred tax assets (liabilities)	**(19,809)**	**(18,680)**	**2,238**	**1,913**
Recognised as deferred tax assets in the statement of financial position	3,254	3,013	2,238	1,913
Recognised as deferred tax liabilities in the statement of financial position	(23,063)	(21,693)	-	-

Deferred tax assets and deferred tax liabilities are offset to the extent that the deferred tax liability will be realised at the same time as deferred tax assets. In addition, they are related to the same tax authority.

33. Related party transactions

The parties are deemed as being related when one of them could control another or could have significant influence on the other party when making financial and operating decisions.

As defined by IAS 24 *Related Party Disclosures*, the entity is related to a reporting entity if any of the following conditions applies:

- The Lithuanian Government in its capacity as the owner of all shares in AB Lietuvos Geležinkeliai;
- Companies or enterprises subject to the control of the Lithuanian Government;
- Subsidiaries of the parent company AB Lietuvos Geležinkeliai;
- Affiliated, non-consolidated and associated companies as well as joint ventures of AB Lietuvos Geležinkeliai;
- The members of the Management Board and their close relatives as well as companies under their control;
- All members of the key management staff and companies under their control;
- Key management staff of the reporting entity and their family members.

(all amounts are in EUR thousand unless otherwise stated)

33. Related party transactions (continued)

For entities operating in an environment in which government control is pervasive, many counterparties are also government-related and therefore are related parties. IAS 24 allows a reporting entity to reduce the level of disclosures about transactions and outstanding balances, including commitments, with:

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

Due to the above-mentioned reasons, the Group and the Company do not disclose the transactions with Lithuanian Government and other entities controlled by the Lithuanian Government.

Statements of financial position of the Group's subsidiaries and associates:

2022	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Ownership
AB LTG Cargo	243,232	82,413	161,174	58,959	105,512
UAB LTG Link	120,669	50,060	4,508	11,405	154,816
AB LTG Infra	1,561,514	142,845	975,254	69,802	659,303
UAB Geležinkelio tiesimo centras	22,688	8,416	277	4,895	25,932
UAB Rail Baltica statyba	2,257	44	-	20	2,281
RB Rail AS	3,712	35,204	16,027	16,118	6,771
voestalpine Railway Systems Lietuva, UAB	3,965	7,878	66	2,463	9,314
VšĮ Transporto inovacijų centras	-	52	-	2	50
OOO Rail Lab	17	23	-	1	39
LTG Cargo Polska Sp.zo.o.	2,959	4,714	-	10,170	(2,497)
UAB LTG Wagons	-	9	-	54	(45)
LTG Cargo Ukraine LLC	3	618	7	554	60

2021	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Ownership
AB LTG Cargo	232,035	83,719	145,627	74,727	95,400
UAB LTG Link	127,431	34,915	2,743	11,921	147,682
AB LTG Infra	1,503,973	50,161	762,890	120,316	670,928
UAB Geležinkelio tiesimo centras	24,691	10,989	4,441	406	30,833
LUAB Gelsauga	-	-	-	-	-
LUAB Saugos paslaugos	-	527	-	132	395
UAB Rail Baltica statyba	2,239	60	-	22	2,277
RB Rail AS	3,071	25,201	8,447	13,108	6,716
voestalpine Railway Systems Lietuva, UAB	3,887	6,645	58	2,132	8,342
VšĮ Transporto inovacijų centras	1	63	-	4	60
OOO Rail Lab	15	294	-	1	308
LTG Cargo Polska Sp.zo.o.	193	1,929	-	2,490	(368)
UAB LTG Wagons	3	75	-	36	42
LTG Cargo Ukraine LLC	9	331	-	64	276

The Company's transactions with related parties:

	2022		31-12-2022	
	Company's purchases	Company's sales	Company's receivables	Company's payables
AB LTG Cargo	64	61,852	139,532	1,724
UAB LTG Link	94	11,820	1,816	1,617
AB LTG Infra	2,468	21,697	2,777	462
UAB Geležinkelio tiesimo centras	-	951	68	-
LUAB Gelsauga	-	-	-	-
LUAB Saugos paslaugos	-	-	-	-
UAB Rail Baltica statyba	-	4	-	-
voestalpine Railway Systems Lietuva, UAB	-	-	-	-
UAB „LTG Wagons	-	28	28	-
LTG Cargo Polska Sp. Z.o.o.	-	281	7,320	-
LTG Cargo Ukraine“ LLC	-	17	141	-
Total	**2,626**	**96,650**	**151,682**	**3,803**

(all amounts are in EUR thousand unless otherwise stated)

33. Related party transactions (continued)

	2021		31-12-2021	
	Company's purchases	Company's sales	Company's receivables	Company's payables
AB LTG Cargo	30	67,280	147,088	4,320
UAB LTG Link	59	11,269	1,264	1,164
AB LTG Infra	1,391	21,509	3,982	173
UAB Vilniaus lokomotyvų remonto depas	-	1,922	-	-
UAB Geležinkelio tiesimo centras	202	974	77	1
LUAB Gelsauga	758	-	-	-
LUAB Saugos paslaugos	2,837	102	-	-
UAB Rail Baltica statyba	-	8	-	-
voestalpine Railway Systems Lietuva, UAB	-	-	-	-
LTG Cargo Polska Sp. Z.o.o.	-	21	-	-
UAB LTG Wagons	-	25	-	-
LTG Cargo Ukraine" LLC	-	26	2,000	-
Total	**5,277**	**103,136**	**154,411**	**5,658**

* From 2022 onwards, purchases and sales are disclosed net of accruals and resales. Comparative information on purchases and sales for 2021 has been adjusted accordingly.

The Company's accrued income and expenses with related parties recognised in the statement of financial position as at 31 December 2022:

	2022		2021	
	Accrued receivables	Accrued payables	Accrued receivables	Accrued payables
AB LTG Cargo	1,309	9	493	4,124
UAB LTG Link	170	3	2,167	-
AB LTG Infra	25	1,065	7	2,487
LUAB Gelsauga	-	-	-	-
LUAB Saugos paslaugos	-	-	102	-
UAB Geležinkelio tiesimo centras	495	-	531	-
UAB Vilniaus lokomotyvų remonto depas	-	-	-	-
LTG Cargo Polska Sp. Z.o.o.	203	-	32	-
UAB LTG Wagons	26	-	24	-
LTG Cargo Ukraine LLC	11	-	26	-
Total	**2,239**	**1,077**	**3,382**	**6,612**

Accrued payables mainly comprised management service accruals to related parties.

According to the methodology of the LTG group of companies, all transactions with related parties are carried out under market conditions and comply with the arm's-length principle.

In 2022, profit of associates by equity method comprised EUR 389 thousand, loss – EUR 119 thousand (profit – EUR 318 thousand, loss – EUR 17 thousand in 2021).

The Group's and the Company's loans to related companies comprised:

	Group		Company	
	2022	2021	2022	2021
Loans granted to related parties	-	-	124,490	122,960
Total non-current part	-	-	**124,490**	**122,960**
Loans granted to related parties	160	160	269	160
Cash-pool / Credit line	-	-	7,258	4,538
Total current part	160	160	7,527	4,698
Total	**160**	**160**	**132,017**	**127,658**

More details on the borrowing from cash-pool are presented in Note 15.

(all amounts are in EUR thousand unless otherwise stated)

33. Related party transactions (continued)

Under the loan agreement, dated 12 March 2019, a loan of EUR 163,862 thousand was granted to LTG Cargo AB for the acquisition of railway rolling stock - wagons, containers and locomotives. The loan matures in 2031. The determined interest rate is variable and is linked to 6-month EURIBOR plus market margin determined based on market investigation. The restructuring of the Company's long-term loans was completed on 30 June 2020. According to a separate agreement with the European Investment Bank (EIB), the above-mentioned loan between LTG Cargo AB and the Company is subordinated in respect of the EIB loans transferred to LTG Cargo AB, i.e. no payments of both, the loans and the interest, can be made until the maturity date of the EIB loans in 2024. Interest receivable amounted to EUR 4,127 thousand.

Management salary and other benefits. As at 31 December 2022, the number of managers of the Company was equal to 8, i.e., 1 Director General, 1 Chief Financial Officer, 1 Director for Strategy and Development, 1 Director for People and Culture, 1 Director for Legal and Compliance, 1 Director for Business Resilience, 1 Director of Technology, and 1 Director of Administration.

Group / Company	2022	2021
Management salary	847	557
Incentive payments*	88	140
Accrued non-current benefits at the end of the year**	1	2
Number of managers	8	5
Benefits to Board members	170	108
Number of Board members	7	7
Payments to audit committee members	25	15
Number of audit committee members	4	4

* Incentive payments are additional payment for performance results and one-off payments.

** Accrued non-current payments are provisions for pension and similar liabilities, accrued as at the end of the year.

In 2022 and 2021, the management was not granted with loans, provided with guarantees or other paid or accrued benefits or disposed assets, except as disclosed above.

34. Contingent assets and liabilities, potential disputes

On 30 August 2018, VAS Latvijas dzelzcelš and SIA LDZ CARGO applied to AB Lietuvos Geležinkeliai in writing demanding compensation for the damage incurred by these companies. According to these companies, they incurred the damage because of the removed rail track connecting Mažeikiai with the Latvian border, and the amount of damage is EUR 82,340 thousand. The above-mentioned companies also demand the payment of 6% interest for the period from the occurrence of damage until the date of indemnification. AB LTG Infra, as an assignee of procedural rights, disagrees with these claims and considers them unjustified.

On 12 January 2022, the Court of Justice of the European Union issued a judgment dismissing the appeal and upholding the judgment of the General Court of the European Union of 18 November 2020, which reduced the fine of EUR 27,873 thousand imposed by the European Commission on 2 October 2017 on AB Lietuvos Geležinkeliai to EUR 20,069 thousand. The fine was paid in 2018.

On 26 June 2020, BUAB Hidrostatyba applied to the Regional Court of Vilnius with a claim against AB LTG Infra, requesting to adjudge from this entity the debt in an amount of EUR 1,870 thousand (excl. VAT), a penalty of EUR 337 thousand, annual procedural interest of 8.34% from the amount adjudged by the court for the period the case was started in court until full execution of the court decision, as well as litigation costs. On 31 December 2020, the Regional Court of Vilnius dismissed the action brought by BUAB Hidrostatyba. BUAB Hidrostatyba appealed against the decision, which was examined by the Lithuanian Court of Appeal on 6 April 2021 and the case was referred back to the court for a new hearing. On 4 November 2021, the Regional Court of Vilnius fully satisfied the claim of BUAB Hidrostatyba and ordered AB LTG Infra to pay EUR 1,870 thousand of debt, EUR 337 thousand of penalty and the annual interest of 8.34% for the period from the commencement date of the case until the court's decision is fully executed. Disagreeing with this judgment, AB LTG Infra appealed against the decision and requested the claim to be dismissed. On 15 February 2022, the Court of Appeal of Lithuania issued a ruling upholding the judgment of the Regional Court of Vilnius, dated 4 November 2021. On 11 April 2022, AB LTG Infra filed a cassation appeal regarding annulment of the decision of the Court of Appeal of Lithuania, dated 15 February 2022. On 7 December 2022, the Supreme Court of Lithuania decided to uphold the decision of the Court of Appeal of Lithuania dated 15 February 2022. The amount of EUR 1,870 thousand awarded for the work carried out was accounted for under non-current assets in the item of construction in progress.

On 13 April 2022, AB LTG Infra received an Order of the Director of the Communications Regulatory Authority of the Republic of Lithuania No (1.9E)1V-280 "Regarding the fees for services provided by AB LTG Infra for the period of validity of the service timetable for 2021-2022 "Use of station and/or sidings assigned to a railway service facility for the purpose of wagon propulsion" and "Use of train formation and shunting facilities", by which the Authority obliged AB LTG Infra to recalculate the tariffs for the services mentioned in the service timetable for the years 2021-2022, and to publish them on the website of the company. The company has complied with the obligations imposed by the Director of the Lithuanian Communications Regulatory Authority.

AB LTG Cargo has received a claim from UAB Skinest Baltija for loss of revenue due to non-participation in tenders under the public procurement rules. Management does not expect the claim to be successful. No provision has been made.

34. Contingent assets and liabilities, potential disputes (continued)

UAB Geležinkelio tiesimo centras, as a joint defendant, together with UAB Fima, AB LTG Infra, and an insurance company, is involved in a criminal case for serious injury to health. The total amount of the civil claims is EUR 2,000 thousand. The legal proceedings are pending. The management considers that the outcome of the case is associated with uncertainty, as it is difficult to predict the further course or duration of the case. In the opinion of the legal expert representing the Company, the most likely outcome of the criminal proceedings is in favour of UAB Geležinkelio tiesimo centras. Accordingly, no provision for the possible impact of the outcome was formed in the financial statements.

35. Investment commitments

On 20 December 2019, AB LTG Infra entered into a contract regarding the electrification of railway track Vilnius-Klaipėda with joint-activity partners Elecnor S.A. and Instalaciones Inabensa S.A., which submitted the best proposal at the international tender. After the indexation performed in 2022, the contract value amounts to EUR 381.6 million. The works are planned to be completed in 2024 and electric trains are planned to start operations on Vilnius-Klaipėda route in 2025. The electrification is expected to bring significant environmental benefits with 46,000 fewer tonnes of diesel burned annually on the rail network and an average reduction of emissions by approximately 150,000 tonnes per year. According to the tripartite agreement, the obligation to implement the project passed to LTG Infra. An advance payment of EUR 72,620 thousand for the contracting and design works was transferred to the project partners.

On 1 April 2022, AB LTG Infra, the company responsible for the implementation of the Rail Baltica project in Lithuania, signed a contract with the Italian company Rizzani de Eccher for the construction of the Rail Baltica railway bridge over the Neris River near Jonava. The value of the contract amounts to EUR 63,957 thousand (excluding VAT), with an advance payment of EUR 12,791 thousand (excluding VAT) to the contractor. It is planned that the works will be completed in 2024. The new railway bridge will be the longest not only in Lithuania but also in the Baltic States. It will be as long as 1,510 metres at a height of about 40 metres above the Neris and the river valley. The bridge, which is almost 14 metres wide, will carry a European-standard double-track railway.

In the Rail Baltica project stage Kaunas - Lithuanian/Latvian border, the new double-track railway crossing and engineering structures in the sections Jonava - Kėdainiai in the districts of Šveicarija-Žeimiai and Žeimiai-Šėta will be built by the joint venture partners UAB Fegda and UAB Tilsta. The total value of the contracts is EUR 165,547 million excluding VAT, respectively EUR 87,883 thousand excluding VAT for the section Šveicarija-Žeimiai and EUR 77,664 thousand excluding VAT for the section Žeimiai-Šėta. For the 10 km section from Šveicarija to Žeimiai and the 17.7 km section from Žeimiai to Šėta, the successful tenderers will carry out all the track works except for the installation of the upper part of the track: land and site clearance, installation of railway drainage, protective fencing and the construction of part of the service roads. The main construction works for the railway to Panevėžys are planned to be completed in 2024.

36. Subsequent events

In January 2023, the liquidation procedures were initiated on the Group's associate company VšĮ Transporto inovacijų centras. The decision to close the establishment was taken by its founders – Lietuvos Geležinkeliai (LTG), Lietuvos paštas and Kelių priežiūra. In order to use the available resources more efficiently, from now on, the transport sector companies that have established the public enterprise will concentrate their resources on technological development and the search for and application of modern solutions within the companies.

AB LTG Infra has filed two lawsuits before the Vilnius Regional Court against the defendants UAB Sweco Lietuva and DB Engineering & Consulting GMbH, the third party being the Ministry of Transport and Communications of the Republic of Lithuania. The first action in an amount of EUR 30.4 thousand of fine was brought on 30 January 2023 for the delay of services in accordance with the service agreement (Project Kaunas-Vilnius), dated 23 December 2019, regarding preparation of an engineering infrastructure development plan and environmental impact assessment of the route Kaunas-Vilnius of the Rail Baltica project. The second action was brought on 13 March 2023 for the award of EUR 97.2 thousand of fines due to delayed provision of services in accordance with the contract, dated 16 July 2020, regarding purchase and sale of services for the preparation of the development plan of the communications engineering infrastructure to upgrade the railway line Rail Baltica between the Polish-Lithuanian border and Jiesia (Project PL - Jiesia) and for carrying out an environmental impact assessment.

UAB Sweco Lietuva and DB Engineering & Consulting GMbH do not agree with the above claims.

On 24 February 2023, UAB Sweco Lietuva and DB Engineering & Consulting GMbH lodged a counterclaim to AB LTG Infra for unlawful crediting of EUR 190 thousand of incest, as well as for EUR 1,390 thousand for additional services and EUR 34 thousand of delay interest in relation to the project Kaunas-Vilnius.

On 3 May 2023, UAB Sweco Lietuva and DB Engineering & Consulting GMbH filed a counterclaim against AB LTG Infra for unlawful offset contractual penalty of EUR 101 thousand, EUR 850.4 for additional services and EUR 18.2 thousand for default interest in the PL-Jiesia Project.

As above mentioned civil cases are pending, the final positions of the parties on the claims are not finalised. However, AB LTG Infra maintains its claims in principle and disagrees with the claims of UAB Sweco Lietuva and DB Engineering & Consulting GMbH. No provisions have been established.

36. Subsequent events (continued)

The Management Board of AB Lietuvos Geležinkeliai and the Management Board of AB LTG Cargo have agreed that AB LTG Cargo, as the sole shareholder of LTG Cargo Polska Sp. z o.o., would increase the authorised capital of LTG Cargo Polska Sp. z o.o. by EUR 7.2 million. It also approved the decision of LTG Cargo Polska Sp. z o.o.'s to enter into a long-term credit facility of EUR 8.2 million with AB Lietuvos geležinkeliai to finance investments for the acquisition of machinery fleet.

In February 2023, a valuation of the cargo handling business of AB LTG Cargo was carried out, which by the decision of the Management Board of AB Lietuvos Geležinkeliai, adopted on 21 February 2023, was sold to AB LTG Infra on 1 May 2023. The value of the cargo handling business to be sold, as determined by independent business valuers, is EUR 438 thousand as at 31 December 2022.

On 1 April 2023, AB LTG infra acquired from AB Lietuvos Geležinkeliai assets related to terminal operations worth EUR 10.8 million.

There were no other significant events after the end of the reporting period, which have to be recognised or disclosed in the financial statements for 2022.