



2019

AB LIETUVOS GELEŽINKELIŲ INFRASTRUKTŪRA
ANNUAL REPORT

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ABBREVIATIONS:

LGI, the Company – AB Lietuvos Geležinkelių Infrastruktūra

LG, Lietuvos Geležinkeliai – AB Lietuvos Geležinkeliai

Group, Corporate Group – AB Lietuvos Geležinkeliai and its subsidiaries

GOV – Government of the Republic of Lithuania

LTSA – Lithuanian Transport Safety Administration under the Ministry of Transport and Communications of the Republic of Lithuania

Repair undertaking – undertakings which go to/from the construction, repair and/or maintenance sites of the railway infrastructure objects.

EU – European Union

CEO's foreword

DEAR PARTNERS, CUSTOMERS AND COLLEAGUES,

Last year was marked by a number of important changes for the entire Corporate Group of Lietuvos Geležinkeliai. As part of the programme LG Changes, which is aimed at refining the activities of the Group, we have transferred operations of the Railway Infrastructure Directorate to a newly-established legal entity, a public limited liability company Lietuvos Geležinkelių Infrastruktūra.

Providing services of the public railway infrastructure manager has remained the main purpose of the company's activities. Our plans and obligations with regard to our customers have not changed either. However, a number of new activities that will require our responsible approach have been added to the list of our important responsibilities and obligations. On 8 December 2019, in addition of all the former activities of the LTSA, the new company Lietuvos Geležinkelių Infrastruktūra also took over the execution of the fundamental functions of the public railway infrastructure manager, i.e. decision-making concerning allocation of the public railway infrastructure capacity, including assessment and evaluation of the possibility of allocating specific train paths and their allocation, and decision-making concerning the setting of the rates of charges for the minimum access package and their collection.

Together with the new beginning, we have set ourselves a number of ambitious goals, i.e. becoming the most efficient manager of the railway infrastructure in the Central and Eastern Europe. We will focus on becoming the leader in the region by applying progressive management models, by transforming processes and making the largest progress in modernising the national railway network, in order to ensure the maximum traffic safety of the railway transport and to provide customers with the services corresponding to their needs.

We will continue to focus on the digitalisation of our activities. We will step up our efforts in introducing modern IT tools that will allow us increasing the efficiency of the operational activities and making the entire public railway infrastructure convenient and safe for the customers, society and environment.

We ended the past year by signing, with the joint activity partners from Spain, Elecnor S.A. and Instalaciones Inabensa S.A., a very important contract on the project for the electrification of the Vilnius–Klaipėda (Draugystės st.) section, which is estimated at EUR 363.1 million. The main objective of the project is establishing a new standard of the national infrastructure in the major Lithuanian railway artery, while significantly reducing the operational costs of the freight and passenger transportation by rail. Lithuanian railways will thus gain a competitive advantage both in terms of other transport destinations, and as compared to the other modes of transport. Electrification of the main artery will also bring benefit for the environment, estimated at approximately EUR 700 million.

In 2019, the most important infrastructure project in the Baltic States, Rail Baltica, saw significant increase in the pace of its implementation in Lithuania. Works were carried out in all the geographic areas of



the project. In Spring 2019, main works for the construction of the European gauge, which are referred to as the most important and complicated works in the implementation of this entire cross-border project, commenced on the Kaunas-Palemonas section of the Kaunas railway junction which is to be passed by all the trains running on the Rail Baltica.

Throughout the past year, active preparations for the construction of the Rail Baltica in the direction of the Lithuania-Latvian border were taking place. Procedures of obtaining land for public interest were successfully completed in this section of the railway. Moreover, two service procurement contracts have been signed for the design of the European railway track running from Kaunas to the Lithuanian/Latvian border.

The planning of territories for the Kaunas-Vilnius and Lithuanian/Polish border–Kaunas railway paths where trains will be running at the speed of up to 249 km/h has also commenced.

Lietuvos Geležinkelių Infrastruktūra was consistently implementing its planned programmes for the modernisation and development of the railway infrastructure. One of the most important lines of the railway modernisation is ensuring the throughput of the railway section and the increase in the speed on the strategic IXB corridor which serves as the link connecting the capital city of Vilnius with the State Seaport of Klaipėda, the major cargo and logistics centre of Lithuania. For that purpose, a total of two international procurement procedures were opened last year, for the construction of the second track on the Livintai-Gaidžiūnai and Plugė-Šateikiai sections; investments in these projects totalled at EUR 97.8 million. These new two-track paths on the major Lithuanian railway artery will significantly change the situation: they will considerably improve the possibilities for utilising the network and will allow serving the needs of the national business sector regarding the increase in the intensity of the freight and passenger transportation.

The past year was an extraordinary year in terms of the resumed cooperation and renewed relations with the neighbouring countries.

As planned, in 2019, we started and completed the rebuilding of the politically important Renge section. The works for rebuilding the 19 km section that connects Mažeikiai in Lithuania with Renge in Latvia were estimated at EUR 9.4 million.

Each year we allocate significant funds for the improvement of the Lithuania railway infrastructure. Last year, we successfully continued implementing the programme for the renewal of major railway tracks; as part of the programme, we repaired more than 83 km of major tracks of the national railway, with works completed estimated at EUR 30.4 million. Thus we have modernised by 42% more railways, as compared to the preceding year, when a total of 58 km of railway tracks were renewed. At the moment, the company is carrying out railway repair works under a long-term plan which provides for investments of EUR 247 million in the period until 2024; these funds will be used to modernise or replace 640 km of railway paths, i.e. almost one-third of the entire national railway network

In order to ensure the modernisation of the railway infrastructure, last year a decision was made to purchase a modern self-propelled vehicle for inspecting tracks. Using different integrated systems, the diagnostic vehicle will collect data on the condition of the railway in real time. Upon assessing railway defects in the early stage and carrying out the predictive maintenance of the tracks, we will no longer have to restrict train movements by means of railway transport traffic breaks, and proper organisation of works will allow us saving significant amounts of money each year.

To ensure greater traffic safety at level crossings, in mid-2019, a project was approved for upgrading signalling equipment at 14 priority level crossings, which is part of the programme for improving safety at level crossings. This project will involve modernising the most important level crossings in the country that are part of the major IXB (Vilnius–Klaipėda) and IXC (Kaišiadorys–Kybartai) corridors and other relevant main and regional corridors.

In order to ensure the continuity of works and coordinated operations that are carried out in implementing the largest project in the Baltic States, Rail Baltica, and other projects, we have consistently intensified partnerships at international level. Throughout the year, we held regular top-level meetings with heads of the Lithuanian and Latvian governments, also Ministers for Transport and Communications and heads of railway undertakings. We have signed several international contracts, and summed up the practical cooperation with the joint international safety exercises that were organised for the first time: in summer and autumn we took part in the exercise together with the railway infrastructure managers from Poland (PKP Polskie Linie Kolejowe S. A.) and from Latvia (Latvijas dzelzceļš) respectively.

As one of the leaders in the region, we follow the principles of social responsibility and consistently expand the limits of our responsibilities. Last year, Lietuvos Geležinkelių Infrastruktūra took another step towards cleaner environment: we signed a contract with the successful bidder in the tendering procedure for power supply, following which, in 2020, the catenary network and the power supply networks of the entire Corporate Group will be using only the green electricity generated from the renewable energy sources.

In order to achieve the goals set out the White Paper of the European Commission, i.e. transferring road freight transportation to rail as a more environment-friendly mode of transport, in addition to the consistently increasing the capacity utilisation of terminals, in the Strategy of the Company, we have also provided for the expansion of

the complex of logistic services, through the assimilation of combined transportation, including transportation by semi-trailers, and additional cargo handling services, also the handling and consolidation of cargo on pallets. All of this is aimed at increasing the share of intermodal freight transportation in the overall volume of freight transportation, as a means of increasing the use of more effective and resource-efficient technologies. In 2018, the Company handled a total of 12,500 TEU and, in 2019, almost twice as much, i.e. 24,000 TEU.

We follow a comprehensive approach to making environment around the network as clean as possible. Last year, we found the solution which allowed us to triple the amount of old railway sleepers that are reclaimed every year and, in 2020, we intend to reduce, by more than half, the number of storage sites for the old railway sleepers.

In order to significantly contribute to the improvement of the surrounding environment, last year we started implementing a large-scale programme involving a number of measures for the reduction of noise. In Lentvaris, Kaišiadorys, Mažeikiai, Kretinga, Klaipėda, Šiauliai and Giruliai, we held regular meetings with the representatives of municipal administrations and local residents where we presented design projects of the noise absorbing barriers which are expected to significantly improve the quality of life of people living near the railway in the nearest future.

Successful and fruitful implementation of any strategy begins with people. I would like to thank the entire team of Lietuvos Geležinkelių Infrastruktūra who, over an extremely short period of time last year, managed to not only effectively implement the particularly important programme for separating the activities of the Group, but also achieved all the goals that they have set for themselves last year. A heartfelt thank you goes to our contractors, railway undertakings (carriers), repair and manoeuvring undertakings, suppliers, partners, also everyone who has helped us improve. Only by working together and by applying modern management methods, we can realise all good ideas. We have to continue changing, preserve the internal desire to move forward and focus on the needs of the future customers.

In view of the work done and experience accumulated by our team, I strongly believe that we are ready to face even greater challenges, therefore this year we will continue implementing our ambitious agenda of activities. We will do our best to further improve the management of our assets, to ensure the timely implementation of the major projects, to improve the efficiency of operations and to be the best partner to our customers.

KAROLIS SANKOVSKI

CEO, AB Lietuvos Geležinkelių Infrastruktūra

Key information about the company

Name	AB Lietuvos Geležinkelių Infrastruktūra
Legal form	Public limited liability company
Date and place of registration	1 July 2019, Register of Legal Entities of the Republic of Lithuania
Company code	305202934
Address	Mindaugo g. 12, LT- 03225 Vilnius
Telephone	(+370 5) 269 3353
E-mail	LGINfrastruktura@litrail.lt
Website	http://lginfrastruktura.lt/
Principal activity	Management, use and disposal of the railway infrastructure and execution of the functions of the public railway infrastructure manager
Chief Executive Officer	Karolis Sankovski
Shareholders	100% held by AB Lietuvos Geležinkeliai

COMPANY'S BUSINESS MODEL

AB Lietuvos Geležinkelių Infrastruktūra together with the parent public limited liability company Lietuvos Geležinkeliai (hereinafter the "Parent Company") and its directly and indirectly controlled legal entities comprise a vertically integrated corporate group (hereinafter the "Corporate Group"). The Parent Company provides management services to the companies of the Corporate Group, and, as regards the Company, these services are provided to the extent that this is in line with the regulatory requirements concerning the execution of the functions of the public railway infrastructure manager, impartiality of management and financial transparency. Moreover, to ensure compliance with the said requirements, all decisions concerning the execution of the fundamental functions of the public railway infrastructure manager are taken by the head of the Company or by his authorised staff.

The Company, acting as a member of the Corporate Group of the Parent Company, follows the strategy and its key directions, as defined by the Parent Company, also pursues the approved operational policies that companies of the Corporate Group must take into consideration when exercising their activities. The Company follows the strategy and its key directions defined by the Parent Company and pursues the approved operational policies to the extent that these documents are compatible with the above-mentioned requirements for the activities of the public railway infrastructure manager that are applicable to the Company.

PRINCIPAL ACTIVITY AND FUNCTIONS

AB Lietuvos Geležinkelių Infrastruktūra was registered in the Register of Legal Entities on 1 July 2019; the company started its activities on 8 December 2019, when it took over

the operations of the Railway Infrastructure Directorate of AB Lietuvos Geležinkeliai. 100% of shares are owned by AB Lietuvos Geležinkeliai.

The principal activity of the Company involves the management, use and disposal of the railway infrastructure and the execution of the functions of the public railway infrastructure manager.

The functions of the public railway infrastructure manager are defined in the Railway Transport Code of the Republic of Lithuania and other legal acts on rail transport operations

Key functions:

- renewal of the public railway infrastructure and the carrying out of its maintenance;
- organisation of the railway traffic;
- submission of proposals on draft programmes for the development of the public railway infrastructure;
- implementation of programmes and projects for the development of the public railway infrastructure;
- operation of the public railway infrastructure, except for the decision-making falling within the competence of the Minister for Transport and Communication in accordance with the Code;
- provision of services of the minimum access package;
- management, use and disposal of the state-owned public railway infrastructure and railway service facilities.

Key information about the company

The Lithuanian railway network is used by railways undertakings (carriers) engaged in the transportation of passengers, luggage and goods by rail. Railway undertakings (carriers) pay charges for the minimum access package which is necessary for the railway undertakings (carriers) when providing rail passenger, luggage and/or freight transport services on local/ or international routes. Those charges are also paid by repair undertakings using the public railway infrastructure.

The LTSA approved the rates of charges for the 2019–2020 working timetable of trains by Order No 2BE-423 of 6 December 2018. In line with the requirements of the Railway Transport Code of the Republic of the Lithuania, which came into force on 8 December 2019, the rates of charges for the minimum access package for the period of validity of the 2021–2022 working timetable of trains is to be calculated by the manager of the public railway infrastructure. In 2019, railway undertakings (carriers) and repair undertakings paid the following charges for the minimum access package: train movement charges; transit passenger charges; transit freight charges; freight transport charges; and charges for using the catenary network. The rates of the said charges are calculated in accordance with the regulations for the calculation and payment of these charges, as approved by the Government of the Republic of Lithuania.

The rates of charges for using the railway service facilities managed by the public railway infrastructure manager, also their railway tracks and the rail transport-related core services provided in those facilities are set by the Company, in accordance with the Railway Transport Code of the Republic of Lithuania.

As of the beginning of 2017, the functions of the regulatory authority of the rail transport market have been exercised by the Communications Regulatory Authority of the Republic of Lithuania, in accordance with the procedure established by the legislation.

SERVICES PROVIDED

Core services provided by the manager of the public railway infrastructure are as follows:

- services of access to the public railway infrastructure as part of the minimum access package cover the handling of requests for the public railway infrastructure capacity; the right to utilise the public railway infrastructure capacity which is granted, also track points, electrical supply equipment for traction current, where available; train control including signalling, regulation, dispatching; communication and provision of information on train movement and any other information required to implement or operate the service for which the public railway infrastructure capacity has been granted. The rates of charges for the minimum access package are publicly available on the website of the Company, at <http://lginfrastruktura.lt/viesosios-paslaugos>;

- services of access to and services provided at the railway service facilities. In 2019, services provided at the railway service facilities controlled by the Company covered the following: utilising places of embarkation/disembarkation of passengers, utilising locations for ticketing services, utilising the public railway infrastructure to gain access to sites intended for loading goods and other purposes, utilising train formation and shunting facilities, utilising service facilities for parking railway vehicles for more than 24 hours, utilising the track change mechanism, also accident response actions, utilising the intermodal terminal in Vilnius, utilising the intermodal terminal in Kaunas, utilising the hump shunting yard. The list of services of access to the railway service facilities and of services provided at the railway service facilities is publicly available on the website of the Company, at <http://lginfrastruktura.lt/gelezinkeliu-paslaugu-irenginiai>;
- services operated on a commercial basis: LGI provides services of maintenance and repair of facilities, short-term lease of special rolling stock, wagons and vehicles, rail welding, lease of trains, inspection of junctions and tracks, maintenance of automation, communication and power supply equipment, marking of underground routes, inspection and calibration of measuring instruments, lease of measurement and control equipment, and provision of communication services. Services of intermodal terminals: in addition to the main intermodal handling service for intermodal transport units, the LGI-controlled intermodal terminals provide a number of additional services, such as handling of containers carried by road only, weighing services, transportation inside the territory of the terminal, services of the representatives of the Customs Broker and handling of cargo on pallets, which is very frequently requested by our customers.

MAIN CUSTOMERS

Main customers of the Company include railway undertakings (carriers), repair undertakings and companies manoeuvring on the public railway infrastructure.

In 2019, the public railway infrastructure was utilised by the following customers: the Freight Transportation Directorate and the Passenger Transportation Directorate of Lietuvos Geležinkeliai (in May and at the start of September, their operations were transferred to AB LG Cargo and UAB LG Keleiviams respectively), also UAB Akmenės Cementas, UAB Geležinkelio Tiesimo Centras, UAB Gargždų Geležinkelis.



Key information about the company

CAPACITY OF THE PUBLIC RAILWAY INFRASTRUCTURE

On 8 December 2019, after taking over the allocation of the public railway infrastructure capacity from the LTSA, LGI allocated the capacity for 2019 for the period of validity of the 2019–2020 working timetable of trains on the basis of the last-minute requests received.

In 2019, a total of 4 side tracks were declared as congested, as compared to 2 side tracks in 2018.

Ref. No.	Side tracks declared as congested in 2019	Ref. No.	Side tracks declared as congested in 2018
1.	Plungė – Šateikiai (Kužiai – Klaipėda section, IX B corridor)	1.	Plungė – Šateikiai (Kužiai – Klaipėda section)
2.	Viduklė – Tauragė (Radviliškis – Pagėgiai section)	2.	Viduklė – Tauragė (Radviliškis – Pagėgiai section)
3.	Livintai – Gaižiūnai (Kaišiadorys–Radviliškis section)	3.	-
4.	Šeduva – Gustonys (Rokiškis – Radviliškis section)	4.	-

Usability of the public railway infrastructure

2019	Average usability of congested side tracks of the public railway infrastructure (%)	Overall average usability of congested side tracks of the public railway infrastructure (%)
1.	89 %	85 %

Management of the Company

INFORMATION ABOUT SHARES

Amount of the authorised capital (EUR)	Number of shares (units)	Nominal value per share (EUR)
150 000	1000	150

On 1 July 2019, AB Lietuvos Geležinkeliai established a subsidiary AB Lietuvos Geležinkelių Infrastruktūra whose authorised capital was formed through the issuance of 150 ordinary shares, at a nominal value of EUR 1,000 per share, and amounted to EUR 150,000. All the shares of LGI are of the same class, i.e. ordinary registered shares. The shares are non-certified, and they are recorded in personal securities accounts, in accordance with the procedure established by the legislation.

As of 31 December 2019, the sole shareholder of the Company was AB Lietuvos Geležinkeliai. During the reporting period, the Company did not purchase any of its own shares or shares of the other companies of the Group.

Also, during the reporting period, the Company did not establish any branches or representative offices.

Management of the Company

MANAGEMENT AND ORGANISATIONAL STRUCTURE OF THE COMPANY

Lietuvos Geležinkelių Infrastruktūra is one of the companies of the Corporate Group of AB Lietuvos Geležinkeliai, with its parent company AB Lietuvos Geležinkeliai acting as the sole shareholder.

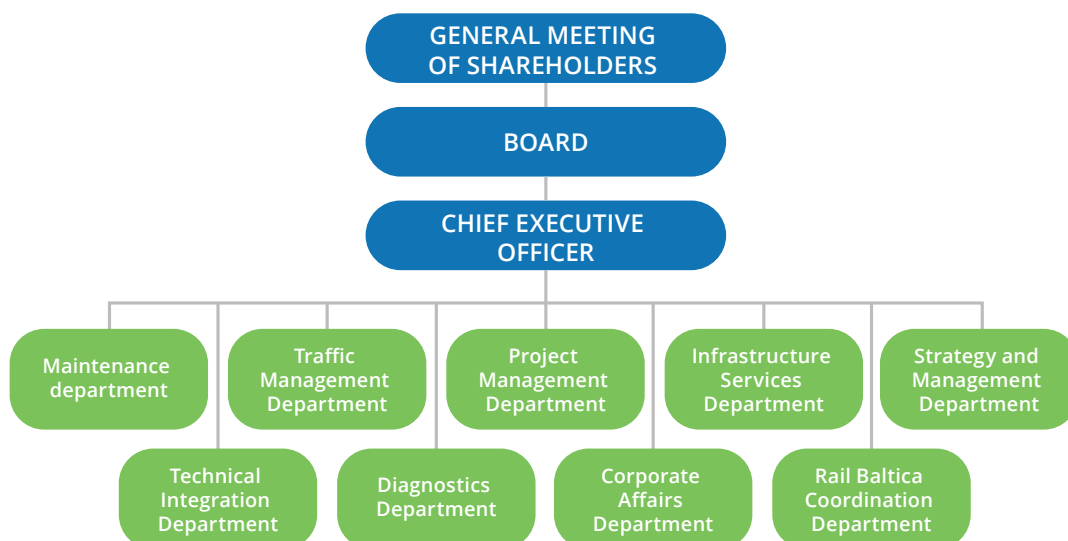
The shareholder of AB Lietuvos Geležinkeliai is the State of Lithuania, owning 100% of the shares. The rights and obligations of the shareholder are implemented by the Ministry of Transport and Communications of the Republic of Lithuania.

In order to achieve the long-term growth of the value of the Corporate Group of AB Lietuvos Geležinkeliai, to ensure the sound and efficient use of funds, assets and other resources, also to fulfil the expectations and to serve the interests of the shareholder, the business model of the Group is focused

on refining and consolidating its principal activities in the subsidiaries.

As part of the Corporate Group of AB Lietuvos Geležinkeliai, Lietuvos Geležinkelių Infrastruktūra is liable for the implementation of its principal activities and the achievement of the target performance indicators. In order to achieve the set goals and to ensure proper management, the Company acts independently in carrying out its activities, makes the necessary decisions and ensures the accountability and responsibility for its performance.

In carrying out its activities, Lietuvos Geležinkelių Infrastruktūra follows the Law on Companies, the Articles of Association of the Company, also decisions of the management bodies of the Company and other legal acts of the Republic of Lithuania governing the activities of companies.



MANAGEMENT BODIES OF THE COMPANY

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

The General Meeting of Shareholders is the supreme management body of the Company. The competence of and the procedure for convening the General Meeting of Shareholders, along with the procedure for decision making, are established in the Law on Companies, other legal acts, also the Articles of Association of the Company.

The Board of the Company is a collegial management body consisting of 5 members. The members of the Board are elected by the General Meeting of Shareholders for a 4-year term office. The Board is accountable to the General Meeting of Shareholders of the Company. The Board elects the chairman from among its members. The same person may be elected as a member of the Board for no more than 2 consecutive terms of office. The competence of the Board is in line with the competence of the board, as laid down under the Law on

Companies of the Republic of Lithuania and other legal acts; additional competences of the Board are set out in the Articles of Association of the Company.

It must be noted that, when composing the Board of the Company, it must be in line with the requirements of the Railway Transport Code of the Republic of Lithuania. The Board of the Company is composed in accordance with the requirements for the impartiality of the manager of the public railway infrastructure.

Moreover, according to the Railway Transport Code of the Republic of Lithuania, only the employees of vertically integrated group of companies can be elected as members of the collegial management bodies of subsidiaries, therefore the Board is comprised of the employees of the LG group.

The term of office of the Board covers the period between 26 06 2019 and 26 06 2023.

During the reporting period, a total of 5 meetings of the Board were held, including 2 meetings which took place in the form of a survey (in writing).

Management of the Company

COMPOSITION OF THE BOARD OF THE COMPANY

ANDREJ KOSIAKOV

Chairman of the Board
Holds the position since 27 11 2019

EDUCATION

- Bachelor's Degree in Economics, Vilnius University;
- Master's Degree in Business Administration and Management.

MAIN EMPLOYER, POSITION

AB Lietuvos Geležinkeliai, Chief Financial Officer; Mindaugo g. 12, Vilnius, company code 110053842.

IRENA JANKUTĖ - BALKŪNĖ

Member of the Board
Holds the position since 19 06 2019

EDUCATION

- Bachelor's Degree in Sociology, Vytautas Magnus University;
- Master's Degree in Applied Sociology, Vytautas Magnus University.

MAIN EMPLOYER, POSITION

AB Lietuvos Geležinkeliai, Chief Human Resources Officer; Mindaugo g. 12, Vilnius, company code 110053842.

OTHER POSITIONS HELD

UAB Gelsauga, Member of the Board; Prūsų g. 1, Vilnius, company code 125825125

ILONA DAUGĖLAITĖ

Member of the Board
Holds the position since 20 11 2019

EDUCATION

- Master's Degree in Hydrogeology and Engineering Geology, Vilnius University;
- Board Member Education program, Baltic Institute of Corporate Governance.

MAIN EMPLOYER, POSITION

AB Lietuvos Geležinkeliai, Head of Department for Corporate Development; Mindaugo g. 12, Vilnius, company code 110053842.

OTHER POSITIONS HELD

VšĮ Transporto Inovacijų Centras, Chairperson of the Board; Mindaugo g. 12, Vilnius, company code 305017405

KAROLIS SANKOVSKI

Member of the Board
Holds the position since 19 06 2019

EDUCATION

- Bachelor's Degree in Law, Mykolas Romeris University (Vilnius);
- Master's Degree in Law, Aix-Marseille University (Provence, France)
- Board Member Education program, Baltic Institute of Corporate Governance.

MAIN EMPLOYER, POSITION

AB Lietuvos Geležinkelių Infrastruktūra, Chief Executive Officer; Mindaugo g. 12, Vilnius, company code 305202934.

OTHER POSITIONS HELD

AS RB Rail, Deputy Chairman of the Supervisory Board, K.Valdemāra iela 8, Riga, Latvia, company code 40103845025;

UAB Rail Baltic Statyba, Chief Executive Officer and Chairman of the Board; Mindaugo g. 12, Vilnius, company code 303227458.

Management of the Company

ARENIJUS JACKUS

Member of the Board
Holds the position since 19 06 2019

EDUCATION

- Bachelor's Degree in Management, Vilnius Gediminas Technical University;
- Master's Degree in Management, Vilnius Gediminas Technical University.

MAIN EMPLOYER, POSITION

AB Lietuvos Geležinkelių Infrastruktūra, Director of the Rail Baltic Coordination Department; Mindaugo g. 12, Vilnius, company code 305202934.

OTHER POSITIONS HELD

UAB Rail Baltic Statyba, Member of the Board; Mindaugo g. 12, Vilnius, company code 303227458.

Changes in the composition of the Board during the reporting period: In the period between 19 06 2019 and 20 11 2019, the position of the Chairman of the Board was occupied by Mantas Bartuška, Chief Executive Officer of LG; and Adamas Ilkevičius, Director for Strategy and Development of LG, held the position of the Member of the Board; they were subsequently replaced by Andrej Kosiakov and Ilona Daugėlaitė.

In view of the fact that all members of the Board of the Company are employees of the LG group, they are not remunerated for their activities on the Board.

The **Chief Executive Officer** (CEO) of the company is a one-person management body of the Company who organises 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 and position regulations of the chief executive officer. The CEO is elected for a 5-year term office by the Board of LGI, to whom he/she is accountable. The same person may be appointed as the CEO for no more than 2 consecutive terms of office.

MANAGEMENT OF THE COMPANY

KAROLIS SANKOVSKI	CEO of the Company	Holds the position since 01 07 2019
DONATAS KALVAITIS	Director of Infrastructure Services Department of the Company	Holds the position since 08 12 2019
REMIGIJUS SKIRKUS	Director of the Diagnostics Department of the Company	Holds the position since 08 12 2019
ARVYDAS DVEILYS	Director of Maintenance Department of the Company	Holds the position since 08 12 2019
ARENIJUS JACKUS	Director of Rail Baltica Coordination Department of the Company	Holds the position since 01 11 2019
VITALIJA UZIALAITĖ	Director of Corporate Affairs Department of the Company	Holds the position since 29 10 2019
MANTAS BUROKAS	Director of Strategy and Management Department of the Company	Holds the position since 08 12 2019
TOMAS VARNECKAS	Director of Strategy and Management Department of the Company	Holds the position since 08 12 2019
JAROSLAV CECHANOVIČ	Director of Traffic Management Department of the Company	Holds the position since 08 12 2019
RIMANTAS KULIEŠIUS	Interim Director of the Technical Integration Department of the Company	Holds the position since 08 12 2019

Members of the Board and the CEO have submitted their declarations of private interests that are available on the website of the Chief Official Ethics Commission, at <http://www.vtek.lt>. During the reporting period, there were no conflicts of interests among the members of the Board, the CEO and the top-level managers.

In the period between 1 July and 7 December 2019, the CEO of AB Lietuvos Geležinkelių Infrastruktūra was employed part-time (0.25); as of 8 December, he also worked part-time (0.75) and, on 31 December 2019, his part-time monthly salary was EUR 5,330.

Management of the Company

In addition to the basic salary, the CEO of the Company may be paid a variable share of the annual salary (as part of the annual incentive award) which is related to the achievement of annual goals. Each year, the Board of the Company approves the structure of the annual goals of the Company, also threshold values and benchmarks for their achievement and, at the end of the year, verifies performance against the goals and the possibility of paying the annual incentive award.

The potential maximum payment may not exceed 30% of the fixed annual basic salary which represents total remuneration received from different sources for occupying additional positions

Strategy

In view of the geographic and economic developments in the market of transport services, which lead to changes in trade patterns and passenger flows, the LG Corporate Group is planning its operations not only in the short term, but also in the long term. To make sure that the strategic directions and goals set out in the LG's long-term corporate strategy for 2018–2030 are as much as possible focused on the specific activities carried out by the LG Corporate Group, long-term strategies of the individual companies of the LG Corporate Group have been drafted. One of them is the **long-term strategy of AB Lietuvos Geležinkelių Infrastruktūra for 2018–2030**, which is reviewed and improved on an annual basis.

MISSION OF THE COMPANY

Ensuring safe connections for a better future.

VISION OF THE COMPANY

The most efficient manager of the railway infrastructure in the Central and Eastern Europe.

STRATEGIC DIRECTIONS OF THE COMPANY:

1. Safety: zero fatalities.
2. Ensuring availability of capacity: infrastructure that is responsive to business needs.
3. Innovations: digitalisation, predictive maintenance.
4. Attractiveness of the infrastructure: proactive cooperation with the market, transfer of other types of freight transportation to the railway network, ensuring competitive pricing.
5. Rail Baltica: speed up to 249 km/h, new opportunities for business.
6. Independent manager: transparency, non-discriminatory access, integrity.

Key target indicators of the Company relative to the strategic operational directions:

Indicator	Measure	2020	2030
Costs incurred by the infrastructure manager per 1 km of track	thousand EUR/km	61.9	58.8
Train operational volume	billion tkm bruto	33.7	42.0
Length of electrified track	%	9.2 %	29 %

Highlights of 2019

- On **01 07 2019**, AB Lietuvos Geležinkeliai established a subsidiary, AB Lietuvos Geležinkelių Infrastruktūra. The newly established company is run by Karolis Sankovski, LG's Deputy CEO and Director of the Railway Infrastructure Directorate
- On **20 11 2019**, the composition of the Board was renewed and Ilona Daugėlaitė was appointed as a member of the Board.
- On **27 11 2019**, the composition of the Board was renewed and LG's CFO Andrej Kosiakov was appointed the chairman of the Board.
- On **08 12 2019**, operations of the Railway Infrastructure Directorate were transferred to the LG-established subsidiary, AB Lietuvos Geležinkelių Infrastruktūra. As of 8 December, AB Lietuvos Geležinkelių Infrastruktūra took over, from the LTSA, the execution of the fundamental functions of the public railway infrastructure manager (i.e. decision-making concerning allocation of the public railway infrastructure capacity, including assessment and evaluation of the possibility of allocating specific train paths and their allocation, and decision-making concerning the setting of the rates of charges for the minimum access package and their collection).
- On **18 12 2019**, LGI and a Spanish company, Indra Sistemas S.A., signed a contract on the expansion and upgrading of a section of the traffic management centre. The signing of this contract is the final activity in implementing the EU-funded project "Construction of the second track of the Vilnius Bypass Pušynas-Paneriai of the IXB corridor". The facilities of the railway transport traffic management and control systems of the Vaidotai and Paneriai railway stations, which will be reconstructed in the course of the project, will be upgraded and integrated in the LG's DaVinci system for the centralised management and control of railway transport traffic of all the railway stations from the Vilnius traffic management centre. The value of the signed contract stands at EUR 1 million (VAT excluded), 85% of which are to be covered from the EU Cohesion Fund. The estimated deadline for the completion of works is at the end of October 2020.
- On **20 12 2020**, a contract on the electrification of the Vilnius-Klaipėda railway section was signed with the joint-activity partners, Elecnor S.A. and Instalaciones Inabensa S.A., who had submitted the best offer in the international procurement procedure. The value of the contract is EUR 363.1 million. The estimated deadline for the completion of works is in 2023, and, in 2024, electric trains are expected to start running on the Vilnius-Klaipėda route. The electrification is expected to bring major environmental benefit: the consumption of diesel fuel on the railway network will go down by 46 thousand tonnes per year and emissions will be reduced on average by about 150 thousand tonnes per year.
- On **23 12 2019**, in the framework of the Rail Baltica project, a contract was signed on services of drafting the plan on the development of the engineering infrastructure of the Kaunas–Vilnius railway path and the environmental impact assessment. The project will be implemented by the Ministry of Transport and Communications of the Republic of Lithuania, AB Lietuvos Geležinkeliai and two companies acting under a joint activity agreement, UAB Sweco Lietuva and DB Engineering & Consulting GmbH.
- On **30 12 2019**, the rebuilding of the Renge track was completed. The rebuilding of the 19 km-long railway section was estimated at EUR 9.4 million.
- On **31 12 2019**, a contract on the project "Design and contract works for the construction of the second track of the Plungė–Šateikiai section" was signed. The best offer was submitted by AB Kauno Tiltai; the value of the contract is EUR 46.7 million. The project will cover the reconstruction of 13.9 km of the existing railway tracks, construction of 13.9 km of the new railway tracks, also reconstruction of the existing bridges and culverts, reconstruction of existing power, signalling and communication systems, construction of fences, rain and drainage systems, transformation of the existing railways stations in Plungė and Šateikiai, and extension of the usable length of the main and arrival/departure railway tracks.

Events after the reporting period

- On **15 01 2020**, following the increase in the authorised capital, the Articles of Association of the Company were amended accordingly. After the issuance of additional 654,778 shares at a nominal value of EUR 1,000 per share, the authorised capital of the Company increased to EUR 654,928,000. The authorised capital was increased in view of the value of the Company, as established in the Business Valuation Report of 24 09 2019.
- On **30 01 2020**, the bids submitted being too high, tenders from all suppliers concerning the procurement of contract works on the Palemonas-Rokai railway section of the Rail Baltica were rejected, thus the tendering procedure was announced to be closed. A new tendering procedure is to be opened for the procurement of contract works on the Rokai-Palemonas section of the Rail Baltica. Before announcing the new tendering procedure for the procurement of contract works on the Rokai-Palemonas section, the best possible solutions will be evaluated in the special plan for the Kaunas junction, which is under way. The contract works on this section will be implemented in accordance with an approved schedule: the estimated deadline for the construction and testing of the European gauge railway is in 2025 and in 2026 respectively.
- On **03 02 2020**, procurement procedures of the largest “Rail Baltica” were initiated. Within the scope of procurements of the stage I of construction works being started on the section of “Rail Baltica” “Kaunas – Panevėžys – Lithuanian/Latvian state border” it is planned to install up to 96 km of trackbed from Palemonas to the north towards Panevėžys, while laying down access ways in parallel with it, constructing the largest railroad bridge across Neris River and installing up to 58 km of the upper layer of the trackform. The planned value of procurements may reach up to EUR 475 million. Public procurement planning works have been started: the most efficient procurement approach has been selected; proposal selection criteria have been defined; the market consultation has been conducted; corporate resolutions have been obtained; procurement documents for qualifications-based selection are prepared and external reconciliation with project partners is conducted.
- On **18 02 2020**, it was announced that, over the past year, AB Lietuvos Geležinkelių Infrastruktūra repaired and renewed more than 83 km of the major national railway tracks, with works completed estimated at EUR 30.4 million, i.e. the Company modernised by 42% more railways, as compared to the preceding year when a total of 58 km of railway tracks were renewed. The Company maintains, on an ongoing basis, an almost 2 thousand kilometre-long national railway network. The Company is currently carrying out railway repairs under a long-term project which in the period between 2014 and 2024 is to be allocated a total of EUR 247 million. These funds will be used to modernise or replace a total of 640 kilometres of railway lines, which accounts for almost one-third of the entire national railway network.
- On **20 02 2020**, it was reported that AB Lietuvos Geležinkelių Infrastruktūra is to triple its capacity to reclaim old used railway sleepers, it will thus more actively contribute to the protection of environment around the railway. As of 2020, the majority of railway sleepers will be reclaimed by the German-based wood processing company Pfeleiderer and the amount of old railway sleepers to be reclaimed will on average increase from 700 tonnes to 2,000 tonnes per year or more. Also, in 2020, the Company intends to reduce, by more than half, i.e. from 43 to 20, the number of storage sites for the old railway sleepers.
- On **27 02 2020**, AB Lietuvos Geležinkelių Infrastruktūra and UAB KMT signed a contract for the procurement of a self-propelled diagnostic vehicle. The best offer in the international procurement procedure for the manufacture of the self-propelled diagnostic vehicle was submitted by joint-activity partners, UAB KMT (Lithuania), Graw Sp.zo.o. (Poland), Sperry Rail Limited (United Kingdom) and Tesmec SPA (Italy). The value of the contract stands at EUR 6.5 million, i.e. about 20% lower than the value of similar procurement contracts signed by railway undertakings in other European countries.
- On **03 03 2020**, AB Lietuvos Geležinkelių Infrastruktūra and the Lithuanian branch of Eurovia CS a.s. signed a procurement contract for the reconstruction of a railway bridge in Jonava, which is one of the most important railway bridges in Lithuania. The contract of the international tender for the procurement of design and contract works under the project for the reconstruction of the Jonava railway bridge (94+634 km) (it which was announced by AB Lietuvos Geležinkeliai Group) was awarded to a group of companies acting under a joint activity agreement, Eurovia (Czech Republic), Eurovia Lietuva, and AS LNK Industries (Latvia), who had offered the best price, i.e. EUR 12.49 million VAT excluded. The bridge is part of the strategic IXB corridor which serves as the link connecting the State Seaport of Klaipėda, the major cargo and logistics centre of Lithuania, with Vilnius, Belarus, Ukraine and Russia. It is the longest (200 m) single-track bridge on the IXB corridor with no alternative passages in Lithuania, therefore its continuous accessibility is of major importance in ensuring the continued and efficient provision of railway services on the international IXB corridor and in the entire country in general.
- On **05 03 2020**, it was reported that AB Lietuvos Geležinkelių is to make yet another step towards cleaner environment: this year, the catenary network will be using only the so-called green electricity generated from the renewable energy sources. When organising the tender for the procurement of electric power, AB Lietuvos Geležinkeliai set a prerequisite for the market players that at least 10% of electric power required for the entire train traffic system and activities of AB Lietuvos Geležinkeliai Group must be generated using renewable sources. The winning tenderer AB NTER RAO Lietuva offered 93,890,845 kWh of green electricity from renewable sources, which accounts for 100% of the electric power used by the entire group.
- On **18 03 2020**, it was announced that AB Lietuvos Geležinkelių Infrastruktūra had offered all the railway station-based businesses a possibility to take a rent holiday during the COVID-19 epidemic, i.e. they are allowed to postpone the payment of the rent for at least a month.

Events after the reporting period

- On **10 04 2020**, it was reported that the possibility to transport passengers and freight by rail in Lithuania would be provided in line with the new rules for setting priorities in the congested part of the public railway infrastructure. According to the new rules, which were approved by the Minister for Transport and Communications of the Republic of Lithuania on 9 April 2020, the capacity shall be first allocated for the provision of rail passenger and luggage transport services and, as regards freight transport, priority shall be given to European destinations, i.e. international transport to/from other EU states.
- On **14 04 2020**, it was announced that in order to ensure the more efficient use of the railway infrastructure and to encourage stronger competition among railway carriers, AB Lietuvos Geležinkelių Infrastruktūra, which is responsible for the management of the national public railway infrastructure, would from now on follow the new rules for the calculation and payment of charges for the access to the public railway infrastructure as part of the minimum access package, as approved by the Government of the Republic of Lithuania on 8 April 2020.

Overview of key performance indicators

OVERVIEW OF KEY PERFORMANCE INDICATORS

Indicators	Measure	2019
Train operational volume	billion km bruto	2.1
Train runs	million train-km	1.3

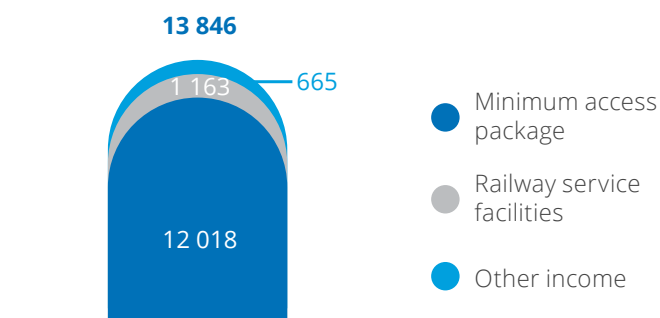
Analysis of financial performance

PERFORMANCE

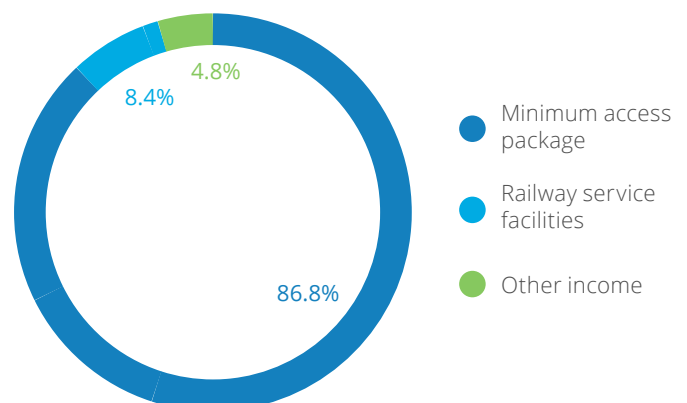
REVENUE

- The Company took over the functions of the public infrastructure manager on 8 December 2019, and thus generated income from providing services of the minimum access package and other services only during part of December.
- Revenues of the Company amounted to EUR 13.8 million in December 2019. The majority of the revenues, i.e. EUR 12 million or 86.8%, were generated from providing services of the minimum access package.
- The income from services provided at the railway service facilities managed by the Company accounted for 8.4%
- Other income amounted to EUR 0.7 million in December 2019. Other income is derived from leased assets, electric power and water supply, and different services.

Revenue of the Company
December 2019, thousand EUR



Revenue structure of the Company,
December 2019 (%)

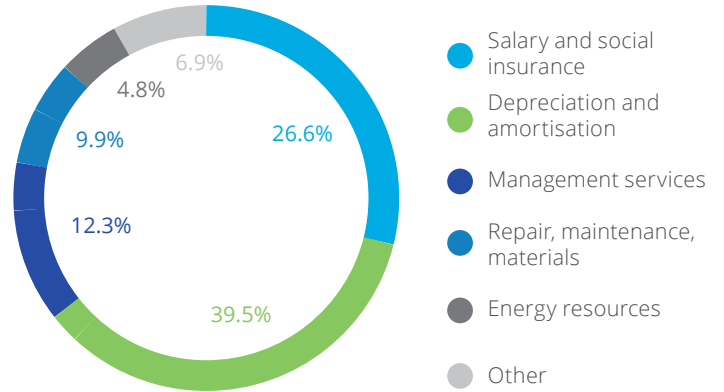


Analysis of financial performance

COSTS

- In 2019, the Company incurred EUR 15.3 million in costs with regard to its principal and secondary activities.
- The majority of these costs are comprised by depreciation and amortisation costs (39.5%), labour costs (26.6%), management service costs (12.3%), also costs of repair, maintenance and materials (9.9%) and energy resources (4.8%). Remaining costs stood at 6.9%.

Cost structure of the Company,
2019 (%)



Analysis of financial performance

KEY FINANCIAL INDICATORS*

		2019 (June-December)
Sales revenue	thousand EUR	13,844
Other income	thousand EUR	2
Total income	thousand EUR	13,846
Costs	thousand EUR	(15,297)
EBITDA	thousand EUR	4,588
EBITDA margin	%	33.1%
EBIT	thousand EUR	(1,451)
EBIT margin	%	-10.5%
Net profit	thousand EUR	(1,395)
Net profit margin	%	-10.1%
31 12 2019		
Fixed assets	thousand EUR	1,396,144
Current assets	thousand EUR	67,782
Total assets	thousand EUR	1,463,926
Equity	thousand EUR	672,272
Financial debt	thousand EUR	145,346
Net debt	thousand EUR	131,896
Debt	thousand EUR	159,746
Return on equity (ROE)	%	-0.2%
Return on assets (ROA)	%	-0.1%
Return on investment (ROI)	%	-11.3%
Financial debt / EBITDA	times	31.7
Net debt / EBITDA	times	28.7
Debt / EBITDA	times	34.8
Debt / Equity (D/E)	%	23.8%
Equity ratio	%	45.9%
Asset turnover ratio	times	0.01
Quick liquidity ratio	times	0.7
Total liquidity ratio	times	1.0

* For definitions of the indicators, see page 26 of the Report.

DIVIDEND POLICY

The payment of dividends by state-owned enterprises and the amount of profit distributions is governed by Resolution No 20 of the Government of the Republic of Lithuania of 14 January 1997 regarding dividends on the shares of state-owned enterprises and the contributions of state-enterprise profit, and the amendments thereto.

The allocation and payment of Company's dividends is governed by the Group's Dividend Policy, which has been

drafted in accordance with the provisions of the Resolution of the Government of the Republic of Lithuania and the recommendations of the Governance Coordination Centre (GCC).

The Company pays dividends calculated in accordance with the procedure laid down in this Policy to the extent compatible with the requirements of the Railway Transport Code of the Republic of Lithuania regarding the payment of the dividends of this Company.

Analysis of financial performance

SPECIAL OBLIGATIONS

Special obligations mean 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 Company performs a special obligation: it provides minimum access package services and carries out maintenance, modernisation and development of the public railway infrastructure.

The purpose of the special obligation:

- to provide minimum access package services to railway undertakings (carriers) on non-discriminatory terms;
- to maintain, modernise and develop the public railway infrastructure by implementing projects listed in the state investment programme and by ensuring the use of European Union funds.

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

Legislation entrusting the SOE with the following special obligation:

- provision of minimum access package services: Article 23(1) and Article 24(5) of the Railway Transport Code of the Republic of Lithuania;
- maintenance, modernisation and development of the public railway infrastructure: Article 23(1) and Article 24(4) of the Railway Transport Code of the Republic of Lithuania.

Legislation that sets forth the conditions for the performance of a special obligation and regulates pricing:

- provision of minimum access package services: no budget appropriations are allocated for the function, pricing is regulated by Article 25 of the Railway Transport Code of the Republic of Lithuania and the rules for calculation and publication of minimum access package charges, calculation and payment of minimum access package charges payable by a specific railway undertaking (carrier), approved by Resolution No 610 of the Government of the Republic of Lithuania of 19 May 2004 on the approval of the rules for calculation and publication of minimum access package charges, calculation and payment of minimum access package charges payable by a specific railway undertaking (carrier);
- maintenance, modernisation and development of the public railway infrastructure: the function is performed under the annual public service agreement between the Ministry of Transport and Communications of the Republic of Lithuania and AB Lietuvos Geležinkeliai for the use of the state budget funds allocated for the LG programme for ensuring communication by rail. The funding of the special obligation (modernisation and development of public railway infrastructure) stems from European Union Cohesion Fund, CEF, ERDF, TEN-T and ISF. Pricing is not subject to regulation.

Company's results of special obligations in 2019

Special obligations	Income from special obligation, thous. EUR	Costs for special obligation, thous. EUR	Profit before tax from special obligation, thous. EUR	Assets*, thous. EUR
Minimum access package services and maintenance, modernisation and development of the public railway infrastructure*	12,018	12,782	(764)	1,463,926

* Since there is no possibility of separating special obligation assets from Company's total assets, we present here Company's total assets as of 31 12 2019

Analysis of financial performance

INVESTMENTS

In 2019, investments (payments) by AB Lietuvos Geležinkelių Infrastruktūra amounted to EUR 16.4 million, including EUR 11.3 million from Company's own funds. 68.9% of Company's investments in 2019 were from its own funds. EUR 5.1 million of EU support and state budget funds were used over the reporting period.

MAJOR INVESTMENT PROJECTS

Renewal

- In 2019, the company continued with the major railway track upgrade programme, which used EUR 5.2 million in December 2019. Works under the major railway track upgrade programme represent part of a long-term 10-year track repair programme aimed at halving the number of failing (requiring major repairs) railway tracks across the entire railway network in Lithuania.
- Other infrastructure renewal works were also carried out: for EUR 0.4 million. They included the renewal of level crossings, railway structures (bridges, culverts), switches and other facilities.

DEVELOPMENT AND MODERNISATION

Major ongoing projects:

- Implementation of Rail Baltica Project:
 - reconstruction of Kaunas–Palemonas section. Works at this section of Rail Baltica include the construction of 9 km of new European gauge railway line and 2 km of parallel European and wide-gauge railway track, also the reconstruction of 3.6 km of the existing wide-gauge railway. Following the completion of the contracting works, as of 2021, freight transport will be able to travel along the European-gauge track to the very public intermodal terminal in Palemonas (KIT) as of 2021;
 - technical design documentation was under preparation for the sections Kaunas-Ramygala and Ramygala-LT/LV border. It involved research process and preparation of main and detailed designs;
 - service agreement was signed on the preparation of a plan for the development of engineering infrastructure of communications of Rail Baltica railway line Kaunas-Vilnius and for environmental impact assessment. A European-gauge railway line has been planned with passenger train speed of 234 km/h; Lentvaris, Vievis and Kaišiadorys regional passenger stations and connections to them will be planned additionally.
- In 2019, procurement procedures were completed for design and contracting works in the framework of

the largest project of AB Lietuvos Geležinkeliai Group - Electrification of IX Corridor; a contract on contracting works was signed, which provided for the electrification of Vilnius node and the railway line from Kaišiadorys to Klaipėda (Draugystės railway station) (366 km) within the period of four years. Following the electrification of the key Lithuanian railway line, over 50% of freight will be transported by using environmentally-friendly and efficient electric traction; and passengers travelling on the route Vilnius–Šiauliai–Klaipėda will enjoy the comfort of modern electric passengers trains.

- Final works were carried out at the railway section Mažeikiai–Lithuanian/Latvian border (towards the direction of Renge). The project provides for the restoration of traffic on 19 km-long railway line, reconstruction of five crossings, repairs of six bridges and three culverts, and other works;
- In 2019, second tracks installation projects continued with a view to increasing throughput in IX B corridor:
 - a contract was signed for the installation of second tracks in the section Plungė–Šateikiai. The main purpose of the installation of second tracks is to increase the throughput and the speed of trains on the route Vilnius–Klaipėda.
 - an agreement was signed for the European Union-funding of the project for the installation of second tracks in the section Livintai–Gaižiūnai; an advance payment has already been paid (EUR 10.2 million).
- A project for the installation of noise protection barriers was carried out in 2019. Technical design was under preparation for noise protection barriers in seven towns. The installation of the barriers will improve the living conditions of the people living next to the railway, while noise pollution will comply with the applicable hygiene standards.

Other large-scale investment projects in respect of which preparations were made in 2019 (procurement procedures launched):

- Acquisition of a self-propelled diagnostic vehicle. The new vehicle will allow more efficient inspection of the condition of the upper track with early detection of potential failures. This will ensure traffic safety with lower maintenance costs.
- Reconstruction of Jonava railway bridge. Reconstruction of the longest (200 m) bridge on the route Vilnius–Klaipėda will ensure safer train traffic.
- Reconstruction of track III of Radviliškis railway station. The completion of the project will provide for a possibility to have longer freight trains and for increased capacity.
- GSM-R core renewal. The new equipment will ensure communication needed for safe train traffic throughout the rail network.

Analysis of financial performance

EMPLOYEES

For the successful implementation of its strategy, the Company follows the personnel management principles that are based on the best practices. Commitment to our employees is our strategic choice, which is implemented, in the first place, through the development of the corporate culture. The Company promotes a high-performance culture, which builds on the LG's intrinsic values:



We are ambitious



We work for our clients



We respect each other



We promote integrity



We are responsible

The basis of a successful sustainable organisation lies in its employees, who are capable of carrying out day-to-day business in an efficient manner, creating competitive advantage and excellence, adapting to the changing business needs, setting and successfully implementing long-term strategic goals. The introduction and development of personnel management processes aim at ensuring that each and every employee understand their role and are responsible for fostering corporate culture.

2019 initiatives:

- all the employees were involved in setting annual goals and measuring their progress
- a benefits package was supplemented: since the beginning of 2019, all employees have been covered by supplementary voluntary health insurance
- uniform remuneration review principles were put in place
- with a view to strengthening leadership competencies, a LG Leadership Standard was developed (a 2-day Standard training, mandatory for all the managers of the Company)
- an annual 360-feedback survey for the managers was conducted

The number of Company's employees was 3 159 as of 31 December 2019.

The average monthly salary was EUR 1 496 in December 2019. At the end of 2019, the CEO of AB Lietuvos Geležinkeliai Infrastruktūra was employed on a part-time basis (0.75), his monthly salary for the part-time job stood at EUR 5 330 as of 31 December 2019. The current AB Lietuvos Geležinkeliai Infrastruktūra employees who worked at that time were paid annual incentive pay-outs in March, when the company was still in the process of incorporation and its employees were regarded as the employees of AB Lietuvos Geležinkeliai at the time. The variable annual salary component (annual incentive) of Company's CEO was linked to the achievement of annual targets. The maximum amount of the variable annual salary component of Company's CEO was 30% on the fixed annual remuneration.

The salary set for the top-level managers was EUR 6 164 as of the last day of 2019. In December 2019, the average salary of the middle-level managers and chief specialists amounted to EUR 2 026, while that of specialists and workers was EUR 1 342.

The total payroll fund of AB Lietuvos Geležinkelių Infrastruktūra stood at EUR 3.46 million as of December 2019.

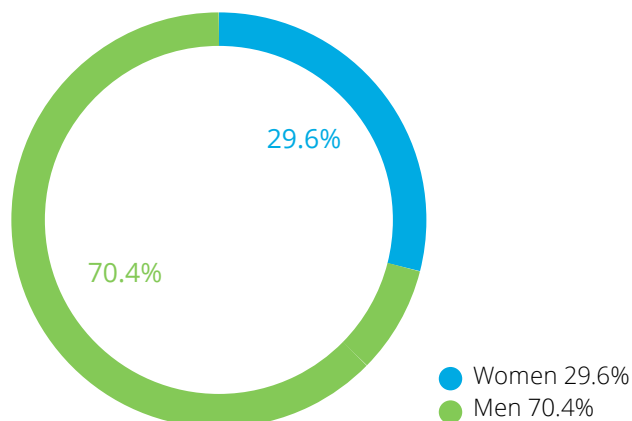
Employee groups by position	31 12 2019	
	The actual number of employees at the end of the period	Average salaries, Eur
CEO*	1	5,330
Top-level managers*	8	6,164
Middle-level managers, chief specialists**	640	2,026
Specialists, workers**	2,510	1,342
In total	3,159	1,496

* a fixed remuneration rate as of the end of the period. CEO remuneration for part time job (0.75);

** AB Lietuvos Geležinkelių Infrastruktūra data at 8-31 December 2019.

Analysis of financial performance

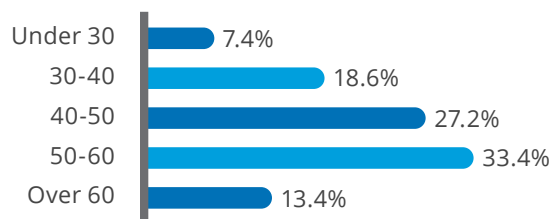
Employee distribution by gender, %



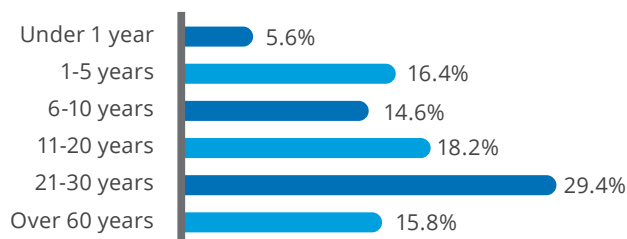
Employee distribution by education, %



Employee distribution by age group, %



Employee distribution by length of service, %



Age group	Average length of service, in years
Under 30	2.8
30-40	7.5
40-50	16.7
50-60	22.4
Over 60	27.5
Average length of service	17.3

SOCIAL PARTNERSHIP

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

To build close social partnership, efforts are taken to cooperate and maintain regular contacts with the representatives of the trade unions that are in the Company; periodic meetings are held to discuss day-to-day issues related to work and to address matters, which are important to employees and which have relevance for their social and economic situation. Information relevant to trade unions is provided in accordance with the procedure laid down by the legislation, they are also consulted when decisions are made regarding changes in the Company.

REMUNERATION AND PERFORMANCE MANAGEMENT

Company's unified remuneration policy aims at ensuring organisation's competitiveness and its compliance to the current trends in the remuneration market through the application of standardised processes and principles. To achieve this goal, in 2019, a map of Company positions was finalised along with the unified principles of remuneration review, which covers the following key elements:

- position evaluation following the internationally applied position evaluation methodology;
- comparison of internal remuneration data with market information;
- individual annual performance evaluation, which included all the employees in 2019.

These steps ensure transparency in decisions related to the determination of salaries and to their adjustments, while at the same time establishing a payroll system that is comprehensible to all the employees and which is linked to individual performance.



Analysis of financial performance

TRAINING AND DEVELOPMENT OF COMPETENCES

To encourage the employees to use their full potential and career opportunities, the Company encourages the continuous professional and personal development of its employees. The Company gives priority to personal development, on-the-job learning and internal training.

The Company follows the best human resources management practices in strengthening managerial competencies and investing in the quality of the employee-manager relations. In 2019¹, a Leadership Standard was developed to harmonise the fundamental leadership knowledge among the top-level managers and to define key principles for leading a team. All the managers of the Company underwent a 2-day Leadership Standard training. Each new manager is introduced to the LG Leadership Standard and must undergo the Leadership Standard training programme.

A 360 feedback survey on leadership competence, which is widely applied across organisations and is a proven practice in the development of managerial competencies, has been conducted for two consecutive years. The survey aims to provide managers with comprehensive and high-quality feedback on their leadership competencies from their immediate working environment, i.e. immediate supervisors, colleagues, and subordinates, and to help pinpoint strengths and behaviours to be improved, as well as to work out personal development plans on the basis of the results of the survey.

The Company holds regular internal training and periodic certifications for its employees to acquire or update professional knowledge, develop or test their existing skills related to Company's specific technological processes and equipment, and to maintain a high level of excellence.

In 2019, in-house trainers conducted training in 14 training programmes, which took into consideration business needs. A total of 2015 employees of the company had in-house training, were certified, and received certificates. Employees, who do hazardous work and handle potentially hazardous equipment and carry out its maintenance, get training in safe working methods. In 2019, 2058 employees were trained in occupational safety and health at work. A total of 1768 employees participated in specialised training in railway transport, including 658 trained in accordance with the provisions of the Law of the Republic of Lithuania on Railway Transport Traffic Safety (periodic certification, training, and periodic qualification development) and the European regulations.

¹In 2019, the employees of Geležinkelių Infrastruktūra Directorate participated in training and competence development events, and they were later transferred to the Company, along with the task of the public railway infrastructure manager. The implementation of the specified measures is ensured centrally at the LG Group level.

Company risks and their management

To manage risks, the Company follows a unified risk management system, which is based on the best risk management practices (ISO 31000, COSO), and which is introduced and continuously developed in operations by the LG Group. Such risk management ensures that operations-related risks get timely detection, assessment, management, and thus mitigation of their potentially adverse effect. The level of emerging risks is assessed by determining their likelihood and potential impact (evaluating their financial and legal effect as well as their impact on the reputation). Risks assessed fall within the following categories: operational, compliance, financial, or strategic.

Taking into account the specifics of Company's operations and the existing context, key strategic risks have been identified as potentially having great impact on Company's strategic objectives.

NAME OF RISK	LEVEL OF RISK	DESCRIPTION OF THE RISK AND ITS EFFECTS	BASIC RISK MANAGEMENT MEASURES
Risk of project funding	Very high	Company's operations are susceptible to the risk of external underinvestment of the construction of new railway infrastructure. The limit of state and EU funding for company's investment projects is reviewed and readjusted on annual basis. Therefore, long-term funding is not guaranteed.	The Company carries out monitoring of the ongoing projects and maintains regular communication with the Ministry of Transport and Communications of the Republic of Lithuania and other competent authorities with a view to securing funding for priority projects and projects of particular importance.
Delays in procurement	Very high	Prolonged procurement procedures and unpredictable external factors (such as received claims) lead to procurement delays and this has a direct impact on the implementation of the company's strategic projects (delays)	Efforts are made to ensure early planning of public-commercial procurement; efficient and transparent procurement procedures, implementation of measures such as consultation with market participants and inspection of risky public procurement procedures and transactions.

Information on the compliance with the guidelines on transparency

The Company follows 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 its website.

Company's financial statements are audited in accordance with International Standards on Auditing. In 2019, public procurement for the services of auditing of Company's financial statements prepared in accordance with International Financial Reporting Standards was awarded to UAB KPMG Baltics. The audit company was paid for the auditing of the 2019 financial statements EUR 52 000 (excluding VAT).

Corporate social responsibility report

OCCUPATIONAL SAFETY AND HEALTH

- The most important goals in ensuring occupational safety and health are to strengthen the leadership and culture of employees and to improve processes and measures regulating occupational safety and health with a view to reducing the risk of health disorders or occupational accidents.
- To achieve an independent corporate safety culture, Company's activities are standardised and organised in line with the PDCA elements (plan-do-check-adjust), while additionally enabling the leadership of each employee and ensuring social dialogue, allocation of duties, rights, and responsibilities in the area of safety.
- In 2019, during the separation of the Company, the integrity of safety management elements was ensured, along with the effective and efficient implementation of occupational health and safety methodology and processes in day-to-day operations and the compliance of the Company with occupational safety and health legislation.
- For the development of social dialogue between the employer and employees, new elections of employee representatives for safety and health were initiated in 2019, and conditions were created for participation in internal trainings conducted by occupational safety and health professionals.
- In June 2019, a new corporate safety and health committee (8 members in total) started its activities; it helps to build safety culture for better health and safety of the employees, it consults employee representatives to ensure the improvement of occupational safety and health, assesses Company's occupational safety and health indicators and preventive measures, also makes recommendations for their improvement.
- Safety Days held on the first working day of each month involve all the employees, where the department heads discuss the information provided with their personnel. In 2019, safety professionals arranged 11 Safety Days on sobriety issues, fire risk management, election of employee representatives for safety and health and on their rights and responsibilities, on traffic safety information and safe behaviour, healthy lifestyle, manual handling of cargo, reducing stress at work and other relevant subjects.
- In order to create safe and healthy conditions, a sufficient number of safety and health professionals and occupational health specialists is ensured, plans are drawn up for occupational risk assessment, inspections and audits of departments, contractors, and of customers, and once these plans are implemented, plans are made for the implementation of prevention measures, while ensuring their monitoring.
- Following the management guidelines 'Occupational safety and health management systems. Requirements and application instructions' contained in standard ISO 45001:2018, in 2019, a methodology for ensuring occupational safety and health was drawn up, along with the processes ensuring safe and healthy conditions (instructing, occupational risks, provision of personal protective equipment for employees, etc.).
- Occupational safety and health instructions are being updated (visualised). In the light of the circumstances of the accident of 5 March 2018, having claimed life of two employees of AB Lietuvos Geležinkeliai while cleaning railway switches off snow at Vaidotai railway station, visual material was prepared for employees on how to safely remove snow off railway switches and how to work in dangerous railway zones.
- The Company carries out prevention of work-related incidents and accidents at work and on the way to and back from work, prevention of health disorders and occupational diseases, and investigates all the occurring accidents. Employees are additionally insured against accidents at the employer's expense.
- Much attention has been paid to the development of the employees' competence: in 2019, 194 employees were trained in the field of occupational safety and health (including department heads (30), employees before starting dangerous works (62), other employees trained in the area of occupational safety and health (102).
- The majority of Company's training related to occupational safety and health (mandatory first aid, manual cargo handling, height works, for department heads, for employee representatives for safety and health, etc.) is conducted by specialists of the Occupational Safety and Health Department, who are also in charge of preparing training materials and staff certification.
- All the department heads organising production operations fall subject to mandatory training in occupational safety and health, and in 2019, the majority of the department heads participated in the Leadership Standard training organised by the Personnel Department, where they were introduced to safety requirements for organising work in the department.
- In 2019, the revised employee competence management system was launched with competence matrices and draft matrices for acquiring practical skills in the workplace.
- All willing employees were vaccinated against influenza (771 in 2019), also against tick-borne encephalitis, considering

Corporate social responsibility report

the risk factors in the workplace (19 in 2019).

- At the initiative of the Safety and Risk Management Department, the Company participated in a 5-month project on health promotion in mobile workplaces run by VšĮ Pozityvios Sveikatos Komanda. Psychologists and nutritionists shared health advice; additional training was provided to employees, and a video on healthy eating at work was created.
- All employees are provided with quality collective and personal protective equipment by ensuring rental services of working clothes with periodic laundry and repair. Over EUR 50 000 was paid for renting and purchasing work clothes, work shoes and other personal protective equipment.

STANDARDIZATION OF OCCUPATIONAL SAFETY AND HEALTH IN THE COMPANY



ENVIRONMENTAL PROTECTION

AB Lietuvos Geležinkelių Infrastruktūra ensures an efficient management, maintenance, modernisation and development of the public railway infrastructure in compliance with the general environmental protection obligations of AB Lietuvos Geležinkeliai Group: the Company efficiently uses energy and natural resources, seeks for solutions to reduce its negative impact on the environment and climate change.

The implementation of Company's environmental protection functions is centralised. To ensure operational compliance with the requirements of the environmental legislation, the company carries out internal environmental inspections and periodic control of pollutants emitted and discharged into the environment, and submits reports on the impact of operations on the environment.

As a public railway infrastructure manager, the company

carries out electrification projects regularly, thereby ensuring the capacity needed for the growth of freight and passenger traffic, while at the same time reducing the negative impact on the environment and climate change. The electrification projects implemented will create opportunities to transport passengers and freight by way of electric traction from the Belarusian border to Klaipėda. Electric traction vehicle is more energy efficient than diesel, it does not pollute the ambient air with nitrogen oxides and particulate matter and helps reduce noise levels resulting from rail transport.

One of the company's goals is to ensure that traction vehicle is supplied with electricity produced from renewable energy sources. In this way, the Company enables travelling by train with no impact on the climate. By increasing the level of railway electrification and providing green energy to traction rolling stock, the company is contributing to climate change mitigation and in 2019, this resulted in 5.4 thousand tonnes of CO₂e saved in passenger transport. Through the timely implementation

Corporate social responsibility report

of electrification projects, in 2030, LGI will enable savings of as much as 80 000 tonnes of CO₂e per year in freight and passenger transport.

The company's concern is to reduce the number of people exposed to noise and vibration from rail transport. This problem has been identified as one of the most poignant by the International Union of Railways (UIC), which has set a goal to achieve by 2050 that noise and vibration are no longer a challenge for rail transport, and that rail traffic does not exceed the noise and vibration limits. To achieve this goal, the Company has been implementing measures provided for in municipal action plans for noise prevention: it has been carrying out electrification projects, improving railway infrastructure and performing its regular control, and implementing noise suppression measures. A total of 35.286 km of noise barriers have been installed in the public railway infrastructure managed by the Company. The implementation of the complex of measures has resulted in fewer complaints from the population regarding noise and vibration, and fewer non-compliances have been found as regards hygiene standards.

The Company aims to protect natural and energy resources by saving materials and raw materials used, by properly maintaining the rolling stock, and thus extending its service life. The generated waste is sorted to ensure high recycling potential. As much as 97% of the waste generated by the Company last year was suitable for recycling. The Company is also involved in the LG group-wide No Paper Project, which focuses on more efficient document management and elimination of paper documents.

Given the growing public concern about climate change and environmental pollution, the Company remains committed to reducing the environmental impact of its operations, to sustainably using natural and energy resources, to the mitigation goals for climate change and environment pollution, and to ensuring sustainable development of the infrastructure of the Lithuanian railway network.

RAILWAY TRANSPORT TRAFFIC SAFETY

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

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

To implement its vision in the field of traffic safety, the Company has taken account of the best practices and regulations of other countries to develop and approve new safety management

system and related documents; in addition, it has defined relevant safety objectives oriented to the highest operational risks; the Company has outlined and implemented a plan of complex measures aimed at reaching them, and has been fostering an integrated corporate safety culture model providing for greater occupational safety awareness.

To ensure a high level of railway transport safety, the Company also manages risks related to railway transport traffic safety by implementing measures aimed at eliminating or mitigating the risks to the lowest acceptable level, carries out targeted traffic safety inspections and performs periodic audits of the elements comprising the safety management system, ensures continuous monitoring of the state of the traffic safety based on safety indicators, enabling proactive prevention of railway catastrophes, accidents, incidents and their consequences. Any railway catastrophe, accident or incident is investigated with a view to find direct and indirect causes for such accidents and to implement systematic measures focused on the opportunities offered by the Fourth Industrial Revolution so as to prevent incidents from recurring in the future.

PREVENTION OF CORRUPTION AND BRIBERY

AB Lietuvos Geležinkelių Infrastruktūra adheres to the principle of zero tolerance for corruption, which means that corruption will not be tolerated in the Company in any form whatsoever. AB Lietuvos Geležinkelių Infrastruktūra has set of measures and procedures that are put in place to ensure that the Company operates in a transparent and smooth manner and has an impeccable reputation. The totality of measures in the Company is subject to regular review and continuous improvement.

AB Lietuvos Geležinkelių Infrastruktūra ensures the declaration of public and private interests of its employees and the management of conflicts of interest. Depending on their current positions, Company's employees declare their public and private interests in accordance with the procedure established by the Law on the Adjustment of Public and Private Interests or by internal regulations. For the sake of transparency and objectivity in decision-making, employees withdraw from decisions on issues that represent conflict of interest.

The LG Group has a Trust Line. Both employees and other persons can report any offences related to corruption through all the whistle-blower channels of the Trust Line (by phone: (8 5) 269 3600, email: prevencija@bekorupcijos.lt or by completing a whistle blowing form on the website: www.litrail.lt/korupcijos-prevencija), while keeping their anonymity. Reports on acts of corruption, fraud and other similar cases are investigated following company's prescribed procedure.

AB Lietuvos Geležinkelių Infrastruktūra follows legislative requirements in screening job applicants for legislative compliance and impeccability of reputation. At the same time, the Company requires integrity from its partners too - AB Lietuvos Geležinkelių Infrastruktūra scrutinizes and evaluates the solvency and reputation of its business partners with a view

Corporate social responsibility report

to identifying risks that may arise as a result of their improper reputation or inability to fulfil contractual obligations.

The Company is Category II enterprise of importance to ensuring national security. Therefore, following the criteria laid down in the Law on the Protection of Objects of Importance to Ensuring National Security, the company notifies the Commission for Coordination of Protection of Objects of Importance to Ensuring National Security of the intended transactions as well as the substantial changes to the already concluded transactions, which are scrutinised by the above-mentioned Commission for their compliance with the national security interests. The company will not conclude any transaction, which may be in conflict with national security interests.

The company carries out a number of other measures to prevent corruption: it cooperates with the Special Investigation Service of the Republic of Lithuania and other institutions in the field of prevention of corruption; it carries out surveys on tolerance of the employed staff for corruption, holds training for the staff and publishes information on corruption prevention activities in various media channels.

DATA PROTECTION

AB Lietuvos Geležinkelių Infrastruktūra takes care of the protection of personal data and protects the information entrusted to it by its employees and customers. In doing so, the Company strictly follows the requirements of the EU General Data Protection Regulation and other data protection legislation as regards the protection of data subjects. In 2019, when implementing the requirements of the EU General Data Protection Regulation, the following actions were carried out in the Company in the field of data protection:

- ensured implementation of the data protection function;
- during the reporting period, no requests from data subjects were received to exercise their rights under the EU General Data Protection Regulation;
- no personal data breaches were recorded within the Company;
- The State Data Protection Inspectorate did not impose any fines, issued instructions or made recommendations as regards data processing within the Company;
- data protection memos were periodically sent to Company's employees informing them of essential points to be known to each employee of the Company as regards data protection.

COOPERATION WITH EDUCATION PROVIDERS

Cooperation with education providers and joint projects with universities, colleges and vocational schools that train railway professionals represent important strategic efforts in ensuring future competencies. In 2019, efforts were made towards ensuring high-quality training of all professions required for railway transport, in consideration of company's long-term strategic needs. We have closely involved education providers in this activity, which is of strategic importance for the company. Education providers have been presented with a long-term demand for future employees, along with the requirement for knowledge and skills of relevance to the future railway industry. Education content is already being modified by education providers to meet the needs of the Lithuanian railways as well as of the railway industry as a whole in Lithuania.

To promote rail careers, the company joined the national project 'I Will Be', which involved organising of educational tours. The educational tours were for pupils from different schools, who visited our departments and learned about their operations. Rail careers have been also promoted among university and college students. Students from various faculties have visited different departments of the company during these educational tours.

The summer internship programme 'Growing Leaders' invited young people studying at Lithuanian and foreign universities to join the LG Group. After the internship, some of the trainees who had participated in the programme started working for the company.

DEFINITIONS

Sales revenue	Sales revenue, excluding income from financial and other activities
Costs	Costs, excluding the corporate tax and financial activities expenses
EBIT	Profit (loss) before the corporate tax – the result of financial investment activities
EBITDA	Profit (loss) before the corporate tax – the result of financial investment activity + depreciation and amortization
Financial debt	Interest-bearing financial debt, including finance leases
Net debt	Interest-bearing financial debt, including finance leases, less cash, and cash equivalent investments
Debt	Interest-bearing financial debt, including finance leases, plus provisions for pensions and similar obligations
Return on equity (ROE)	Net profit/loss for the period of the last 12 months / average equity for the reporting period
Return on assets (ROA)	Net profit/loss for the period of the last 12 months / average assets for the reporting period
Return on investment (ROI)	Net profit/loss for the period of the last 12 months / average assets for the reporting period - average short-term liabilities for the reporting period
EBIT margin	EBIT/sales revenue
EBITDA margin	EBITDA/sales revenue
Net profit margin	Net profit (loss) / sales revenue
Equity ratio	Equity at the end of the period / total assets at the end of the period
Asset turnover ratio	Sales revenue for the period of the last 12 months / total assets at the end of the reporting period
Quick liquidity rate	Current assets at the end of the period – inventories / current liabilities at the end of the period
Total liquidity rate	Current assets at the end of the period / current liabilities at the end of the period
Train operational volume (gross-gross ton/km)	Unit of measure representing the movement over a distance of one kilometre of one tonne of rail vehicle including the weight of tractive vehicle
Number of employees	The number of listed active employees as of the end of the period (excluding the employees on parental leave, military service, long-term incapacity)
Average salary	Average gross salary per employee



**AB „LIETUVOS GELEŽINKELIŲ INFRASTRUKTŪRA“
FINANCIAL STATEMENTS PREPARED IN ACCORDANCE
WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION AND THE
INDEPENDENT AUDITOR'S REPORT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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Independent Auditor's Report

To the Shareholders of AB Lietuvos Geležinkelių Infrastruktūra

Opinion

We have audited the financial statements of AB Lietuvos Geležinkelių Infrastruktūra ("the Company"). The Company's financial statements comprise:

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

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

Basis for Opinion

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

Other Information

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

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

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



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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

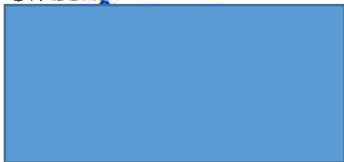
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting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



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

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

On behalf of KPMG Baltics, UAB



Rokas Kasperavicius
Partner
Certified Auditor

Vilnius, the Republic of Lithuania
18 June 2020

Statement of financial position

	Notes	2019	2018
NON-CURRENT ASSETS			
Property, plant and equipment	7	1,376,057	-
Land		150,737	-
Buildings and constructions		827,972	-
Machinery and plant		130,440	-
Vehicles		12,495	-
Other equipment, fittings and tools		71,502	-
Construction in progress and prepayments		182,911	-
Right-of-use assets	8	948	-
Intangible assets	9	15,862	-
Software		15,774	-
Licences and similar rights		6	-
Other intangible assets		82	-
Investment property	10	3,277	-
Total non-current assets		1,396,144	-
CURRENT ASSETS			
Inventories	11	17,288	-
Trade and other receivables	12	36,087	-
Prepayments	13	957	-
Cash and cash equivalents	14	13,450	-
Total current assets		67,782	-
TOTAL ASSETS		1,463,926	-

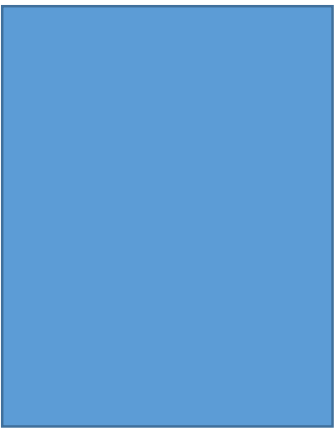
The accompanying explanatory notes are an integral part of these financial statements

Statement of financial position (continued)

	Notes	2019	2018
EQUITY			
Share capital	15	150	-
Legal reserve		-	-
Other reserves		-	-
Retained profits (loss)	16	672,122	-
Total equity		672,272	-
LIABILITIES			
Non-current liabilities			
Loans and borrowings	18	129,792	-
Lease liabilities	19	584	-
Employee benefits	20, 24	4,233	-
Provisions	22	14,400	-
Trade and other payables	21	2,703	-
Grants	17	555,248	-
Deferred income tax liabilities	26	16,314	-
Total non-current liabilities		723,274	-
Current liabilities			
Loans and borrowings	18	14,572	-
Lease liabilities	19	398	-
Income tax liability		771	-
Employee benefits	20,24	9,789	-
Trade and other payables	21	42,850	-
Total current liabilities		68,380	-
TOTAL EQUITY AND LIABILITIES		1,463,926	-

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

Financial statements and explanatory notes on pages 37-75 were approved and signed on 18 June 2020 by:

Chief Executive Officer		Karolis Sankovskis
AB Lietuvos Geležinkeliai Accounting Services Centre Head of Reporting Team acting under Power of Attorney No JG(LGI)-100 of 17 March 2020		Sandra Narkevičienė

Statement of profit or loss and other comprehensive income

	Notes	2019	2018
Revenue		13,844	-
Other income		2	-
Total income	23	13,846	-
Depreciation and amortisation	7,8,9,10,17	(6,039)	-
Employee benefit	24	(4,292)	-
Fuel		(64)	-
Repairs and maintenance		(1,021)	-
Management services		(1,889)	-
Materials		(486)	-
Electricity		(669)	-
Impairment (increase) of receivables		(12)	-
Change in provisions	24	32	-
Other		(856)	-
Operating profit (loss)		(1,450)	-
Finance income		-	-
Finance costs	25	(182)	-
Profit (loss) before taxation		(1,632)	-
Income tax	26	237	-
Net profit (loss)		(1,395)	-
Other comprehensive income (expenses)		-	-
Total comprehensive income (expenses)		(1,395)	-

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

Statement of changes in equity

	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as at 31 December 2017							
Impact of IFRS 9 applied for the first time		-	-	-	-	-	-
Impact of IFRS 15 applied for the first time		-	-	-	-	-	-
Profit for the period		-	-	-	-	-	-
Other comprehensive income (expenses), after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	-	-
Unrecognized profit (loss) for the reporting year		-	-	-	-	-	-
Increase in share capital		-	-	-	-	-	-
Transfers between reserves		-	-	-	-	-	-
Dividends		-	-	-	-	-	-
Total transactions with owners of the Company		-	-	-	-	-	-
Balance as at 31 December 2018		-	-	-	-	-	-
Impact of IFRS 16 applied for the first time		-	-	-	-	-	-
Profit for the period		-	-	-	-	(1,395)	(1,395)
Other comprehensive income (expenses), after tax		-	-	-	-	-	-
Total comprehensive income (expenses)		-	-	-	-	(1,395)	(1,395)
Increase in share capital by an asset contribution	16	-	-	-	-	673,517	673,517
Transfers between reserves	15, 16	150	-	-	-	-	150
Dividends		-	-	-	-	-	-
Total transactions with owners of the Company		150	-	-	-	673,517	673,667
Balance as at 31 December 2019		150	-	-	-	672,122	672,272

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

Statement of cash flows

	Notes	2019	2018
Cash flows from operating activities			
Profit for the period		(1,395)	-
Adjustment to non-cash items			
Depreciation and amortization	7,8,9,10	7,386	-
Grants (amortisation)	17	(1,347)	-
(Reversal) of impairment losses		11	-
Change in accumulated income/costs		4,392	-
Interest income (costs)		167	-
Lease liability interest		-	-
Increase (reduction) in provisions		(32)	-
Effect of currency exchange fluctuations		-	-
Income tax expenses (income)		(237)	-
Cash flows from operating activities after adjustment to non-cash items		8,945	-
Changes in working capital			
Decrease (increase) in inventories		1,245	-
Decrease (increase) in trade and other receivables and prepayments		14,399	-
Increase (decrease) in current and non-current trade payables and received prepayments		5,731	-
Increase (decrease) in employment related liabilities		3,890	-
Increase (decrease) in other non-current and current payables		2,186	-
Net cash from operating activities		36,396	-
Cash flows from investing activities			
(Acquisition) disposition of non-current assets		(7,178)	-
Change in prepayments for non-current assets		(17,870)	-
Interest received		-	-
Net cash from operating activities		(25,048)	-
Cash flows from financing activities			
Grants received (repaid)		1,952	-
Payment of lease liability interest		-	-
Payment of lease liabilities		-	-
Cash flows related to owners		150	-
Net cash flows from financing activities		2,102	-
Net increase (decrease) in cash and cash equivalents		13,450	-
Cash and cash equivalents at the beginning of the period		-	-
Cash and cash equivalents at the end of the period		13,450	-

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

Explanatory notes

1. General information

The Articles of Association of AB Lietuvos Geležinkelių Infrastruktūra (the Company) were signed on 26 June 2019 and registered on 1 July 2019. In performing its activities the Company is governed by the Constitution of the Republic of Lithuania, the Law of the Republic of Lithuania on Companies, the Code of Railway Transport of the Republic of Lithuania and other legislation effective in the Republic of Lithuania.

The Company is a private legal entity of limited civil liability independently organising economic, financial, organisational, and legal activities. AB Lietuvos Geležinkelių Infrastruktūra is part of AB Lietuvos Geležinkeliai Group and its sole shareholder is AB Lietuvos Geležinkeliai. Company registration code: 305202934, VAT code: LT100012666211, legal (registration) address: Mindaugo g. 12, LT-03603 Vilnius. See Note 16 for more details.

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

The Company's main activity is railway infrastructure management and public railway infrastructure manager services.

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

The Company has no branches and representative offices.

As of 31 December 2019 the listed number of active employees at the end of the period (excluding the employees on parental leave, employees doing military service, long-term incapacity) was 3,159.

2. Significant accounting policies

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

The financial statements are prepared on the historical cost basis.

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

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

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

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

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

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

Explanatory notes (continued)

2. Significant accounting policies (continued)

Property, plant and equipment. Property, plant and equipment are non-current tangible assets which: a) are kept for purposes of production of goods or provision of services, or for administrative purposes; and b) are intended to be used for a period longer than one reporting period. The cost of property, plant and equipment shall only be recognised as assets when and only when: a) it is probable that the future economic benefits embodied in the asset will eventuate; and b) the asset possesses a cost or other value that can be measured reliably. The Company manages a share of assets, i.e. land and public railways, by the right of trust. See Note 3 for more details: Significant judgements.

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

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

At the end of each reporting period, if any impairment indications exist, property, plant and equipment are tested for impairment. If any indications of impairment are noticed, the recoverable amount as an asset's fair value less costs to sell or its value in use (whichever is higher), is determined. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of profit or loss and other comprehensive income. Impairment loss recognised for an asset in the previous year is reversed where appropriate if any changes occur in the estimates used to determine the asset's value in use or the fair value less costs to sell. The impairment of assets is reversed to the extent of the increase in the recoverable amount but not exceeding the car-

rying amount before accounting of impairment, assessing the estimated depreciation.

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

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

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

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



Groups of property, plant and equipment

Useful life

Buildings and structures	8–110
Machinery and plant	4–40
Road transport/vehicles	4–20
Rolling stock	4–35
Computers and hardware	4–10
Other equipment, fittings and tools	4–70

Explanatory notes (continued)

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Explanatory notes (continued)

2. Significant accounting policies (continued)

FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

- the financial asset is held according to a business model, an objective of which is to hold the financial asset to collect its contractual cash flows; and
- due to contractual conditions of the financial asset cash flows may occur on set dates, which represent solely payments of principal and interest.

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

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

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

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement;
- the Company transfers its right to receive the cash flows and/or:
 - a) transfers substantially all risks and rewards of the asset,
 - b) neither transfers nor retains substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Writing down is an event of derecognition.

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

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

Explanatory notes (continued)

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Explanatory notes (continued)

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

Lease

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

Lessee

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

The Company shall not apply the lease recognition provisions to short-term leases (leases of up to one year) and leases with low value property (computers, telephones, printers, furniture, etc.). In deciding whether the value of an asset is low, the Company shall assess each asset separately. In deciding whether

the value of an asset is low, lease fees over the entire lease period are not assessed. Assets with a value of up to EUR 4 thousand are considered low value assets. The Company shall not apply the lease recognition provisions to all intangible assets. The Company shall apply the provisions of IAS 38 “Intangible Assets” to such assets.

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

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

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

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

Subsequent assessment of right-of-use assets. After the commencement date, the Company shall assess the right-of-use assets applying the cost method. By applying the cost method the Company shall measure the 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 shall apply the depreciation requirements of IAS 16 “Property, Plant and Equipment”.

Explanatory notes (continued)

2. Significant accounting policies (continued)

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

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

Lessor

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

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

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

treat the lease fees paid or accrued in advance in relation to the original lease as part of the new lease.

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

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

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

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

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

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

Explanatory notes (continued)

2. Significant accounting policies (continued)

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

Taxable losses can be carried forward for an unlimited time, except for the losses that have originated due to disposal of securities and (or) derivative financial instruments. Operating losses carry forward is disrupted if the Company ceases its activities which caused the losses, unless the Company ceases activities due to reasons beyond its control. The losses from 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 no more than 70 percent of taxable profit of a taxable period according to applicable Lithuanian laws.

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

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

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

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

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

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

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

Explanatory notes (continued)

2. Significant accounting policies (continued)

Provisions for retirement benefits. Following the legislative requirements of the Republic of Lithuania, each employee at the age of retirement is entitled to a one-off payment in the amount of 2-month salary. The historical cost is recognised as expenses in the Profit and Loss statement and other comprehensive income immediately after the assessment of such liability. Any profit or losses which have appeared as a result of a change in benefit conditions are recognised immediately. The above-mentioned employment benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. The obligation is recorded in the 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. Actuarial profit and losses are recognised in other comprehensive income. Therefore, provisions are formed for the possible benefits. Actuarial estimates are carried out in order to assess the liability of such retirement payments.

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

Agreement, the liabilities are recognized for possible benefits to employees reaching the jubilees of 50 and 60.

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

Step 1 - Identify the contracts with a customer.

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

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

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

Step 2 - Identify the performance obligations in the contract.

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

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

Step 3 - Determine the transaction price.

The transaction price may be fixed, variable or both.

The transaction price is the amount to which the Company expects to be entitled in exchange for the transfer of goods and services. Transactions concluded by the Company are subject to fixed prices for both ongoing services and services performed at a given moment.

Transaction price might comprise a fixed amount of consideration paid by the customer; however, sometimes it may also comprise variable consideration. The transaction price is also adjusted considering the time value of money, if the contract includes a significant financing component, and considering any consideration payable to the customer. The Company applies the following sales price calculation methods: adjusted market assessment approach, expected cost plus margin approach and residual approach. Similar transactions are measured equally.

Explanatory notes (continued)

2. Significant accounting policies (continued)

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

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

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

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

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

Revenue is recognized by using the methods described below:

Service sales revenue

Revenue from sales of the services is recognized based on invoices issued to customers for services rendered. The invoices are issued based on work completion certificates. At the end of the period revenue, for which invoices have not been issued, but the services have been provided, is accrued based on the accrual principle.

Goods sales revenue

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

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

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

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

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

Operating revenue generated by the Company includes the following:

- Use of public railway infrastructure;
- Use of railway service equipment;
- Other income;

Explanatory notes (continued)

2. Significant accounting policies (continued)

Fee income pertaining to the use of public railway infrastructure and equipment is recognized at a point of time when the services are provided.

Type of services	Nature, timing of satisfaction of performance obligations and payment conditions	Revenue recognition under IFRS 15
Use of public railway infrastructure	<p>Invoices for the use of public railway infrastructure and relating additional services are issued once per reporting month generating them based on primary and additional service documentation and applying the respective rate as soon as the service is provided;</p> <p>Payment conditions:</p> <ul style="list-style-type: none"> Prepayment made by the 5th day of the month following the reporting month; <p>Invoices for the use of public railway equipment and related additional services are issued once per reporting month having agreed on the scope of the services with the customer based on primary and additional service documents;</p> <p>Payment conditions:</p> <p>The customer pays for the services provided within 10 calendar days following the day of receipt of the VAT invoice.</p>	<p>Income from the use of public railway infrastructure and related additional services is recognized at a point of time when the services are provided, i.e. when public railway infrastructure is used. Most often the use of infrastructure lasts up to 24 hours, so income is recognized immediately.</p> <p>The amount of recognized income is in accordance with the procedure laid down in the Rules on the provision of services and the price is specified in documents for additional services. Prepayments received are included into contractual obligations.</p> <p>If services under one agreement are provided in different reporting periods, the consideration is allocated according to their relative independent selling prices. The individual selling price is set at a rate based on the service prices specified.</p>
Use of public railway equipment	<p>Invoices for the use of public railway equipment and related additional services are issued one per reporting month having agreed on the scope of the services with the customer based on primary and additional service documents;</p> <p>Payment conditions:</p> <p>The customer pays for the services provided within 10 calendar days following the day of receipt of the VAT invoice.</p>	<p>Income from the use of public railway equipment and related additional services is recognized at a point of time when the services are provided, i.e. when public railway infrastructure is used. Most often the use of infrastructure lasts up to 24 hours, so income is recognized immediately.</p> <p>The amount of recognized income is in accordance with the procedure laid down in the Rules on the provision of services and the price is specified in documents for additional services. Prepayments received are included into contractual obligations.</p> <p>If services under one agreement are provided in different reporting periods, the consideration is allocated according to their relative independent selling prices. The individual selling price is set at a rate based on the service prices specified.</p>
Other income	<p>Other income: 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. Lease revenue: 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.</p>	<p>Revenue is recognized as the service is rendered. Revenue is recognized on a monthly basis when the services are rendered. The amount of revenue recognized is estimated on the basis of the signed service provision deeds. If services under one agreement are provided in different reporting periods, the consideration is allocated according to their relative independent selling prices. The individual selling price is determined on the basis of the service prices specified in the contract.</p>

Explanatory notes (continued)

2. Significant accounting policies (continued)

Recognition of expenses. Expenses are recognized on the basis of accrual and matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

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

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

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 recognized 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 recognized in the statement of profit or loss and other comprehensive income, under other income. Grants intended for compensation of specific expenses are carried in the statement of profit or loss and other comprehensive income, by reducing the amount of related expenses by the amount of grant.

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). The amount of asset-related grants is recognised in profit and loss gradually according to the depreciation rate of the assets associated with this grant and, in profit or loss, a relevant expense account is reduced by the amount of grant amortisation.

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

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

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

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

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

Explanatory notes (continued)

2. Significant accounting policies (continued)

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

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

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

3. Significant accounting estimates and judgements

Significant judgements

On 20 December 2018 amendments to the Railway Transport Code of the Republic of Lithuania (hereinafter the Code) were adopted amending the provisions of the Code specifying the public railway infrastructure manager. Under the currently effective provisions of the Code (Article 23(1)), the public railway infrastructure, by the right of trust, is managed, used and disposed of, the services related to the management and maintenance of the public railway infrastructure management are provided by the public railway infrastructure manager, i.e. the joint stock company Lietuvos Geležinkeliai. As of 8 December 2019, when the above-mentioned changes come into effect, the public railway infrastructure, by the right of trust, will be managed, used and disposed of by the public railway infrastructure manager, i.e. a subsidiary established by the joint stock company Lietuvos Geležinkelių Infrastruktūra to perform the functions of public railway infrastructure manager.

On 22 November 2019 AB Lietuvos Geležinkelių Infrastruktūra concluded a trust agreement with the Ministry of Transport and Communications of the Republic of Lithuania concerning public railway infrastructure assets owned by the State of Lithuania by property right, except for the state land occupied thereby, and railway service equipment owned by the State of Lithuania by property right, except for the state land occupied thereby. The trust agreement transfers assets to be managed, used and disposed of under the right of trust in accordance with the laws of the Republic of Lithuania and the requirements set out in the Agreement for the performance of the functions of the public railway infrastructure manager and the railway service equipment operator until 7 December 2039. The Civil Code (CC) provides that the Trust Agreement shall not be concluded for a period longer than twenty years. The Code also gives a clear priority to other laws, specifying that the law in regulation of the matters of property trust agreement, related to the management of state-owned assets by the right of trust, may set a different regulation than that set by the

CC. The Code states that the rights to manage the assets are transferred to AB Lietuvos Geležinkelių Infrastruktūra, which has led to the conclusion that the assets by the right of trust are transferred for the term of exercising such function; the exercise of the function as such does not have a finite term; therefore, the management of assets by the right of trust is also indefinite. According to the Resolution of the Government of the Republic of Lithuania No 1677 of 30 December 2004 on the approval of the procedure for transfer of state land to the Company under the right of trust to be used public railway infrastructure facilities, the municipalities transferred to the Company a part of land plots located near railways. The Company controls those land plots by the right of trust. Considering the aforementioned facts, the management is of the opinion that the assets controlled by the right of trust, i.e. the land and public usage railways or assets that under the law may only be property of the State, shall be accounted for in the statements of financial position. Therefore, the Company recognises the assets controlled by the right of trust as the property, plant and equipment.

The Company's management has adopted a significant judgement on whether, in accordance with both the Trust Agreement and the Code, the Company controls public railway infrastructure assets and whether it therefore may recognise such assets in the relevant statement of financial position of the Company as the property, plant and equipment. The Company's management has adopted a significant judgement on the period of the Trust Agreement and has come to the conclusion that the Trust Agreement is concluded essentially for an indefinite period and that period is not limited by the provisions of the Civil Code. Moreover, in accordance with the Code provisions, it is only the Company that may perform the functions of the public railway infrastructure manager in Lithuania.

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

Events after the reporting period. 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.

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

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

Explanatory notes (continued)

3. Significant accounting estimates and judgements (continued)

Significant estimates and assumptions

Information on significant estimates and assumptions is provided below:

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

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

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

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

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

Impairment losses of amounts receivable. The Company assesses receivables for impairment at least quarterly. In order to determine whether it is necessary to recognize an impairment loss in profit or loss, the Company assesses whether there is any indication that future cash flows from receivables may be impaired until the impairment of a specific receivable is determined. Such indications include information that indicates a negative change in the financial condition of customers, economic conditions in the country or region that affect the Company's receivables. Management estimates the expected future cash flows from receivables based on historical

loss experience with receivables with similar credit risk. The methods and assumptions used for estimating the expected future cash flows and their timing are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

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

4. New Standards, amendments 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 2020 and have not been applied in the preparation of these financial statements are set out below:

Amendments to Conceptual Financial Reporting Framework (effective for annual periods beginning on or after 1 January 2020; not yet approved by the European Union).

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

Explanatory notes (continued)

4. New Standards, amendments and interpretations not yet adopted (continued)

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

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

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

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

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

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

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

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

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

were concentrated in a single asset unit (or group of similar assets), the acquired assets would not constitute a business. According to the preliminary assessment of the Company's management, the application of this standard will not have a significant impact on the Company's financial statements.

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet endorsed by the European Union).

IFRS 17 replaces IFRS 4, which 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 affect the Company's financial statements as it does not carry out insurance activities.

According to the preliminary assessment of the Company's management, Standards listed below but not approved by the European Union have no impact on the Company's financial statements:

- “Sale of assets or contributions between an investor and its associate or joint venture” – amendments to IFRS 10 and IAS 28 (effective date to be determined by the International Accounting Standards Board; amendments not yet approved by the European Union).
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016; the European Commission has decided not to commence the process of adopting this interim standard and is awaiting adoption of the final standard).

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

5. Significant changes in accounting policy

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

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

Explanatory notes (continued)

5. Significant changes in accounting policy (continued)

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

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

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

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

- a) determination of the remaining lease term under lease contracts made until 1 January 2019;
- b) an assessment of whether it is reasonably known that the Company will exercise the option to extend the lease;
- c) determination of the additional lending rate to be applied for the purpose of discounting future cash flows;
- d) the determination of the useful life and depreciation rates of right-of-use assets recognized as at 1 January 2019.

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

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

The new IFRS 16 “Leases” did not have a material impact on the opening balances of the Company’s statements of financial position and profit or loss and other comprehensive income as the Company was established on 26 June 2019 and on 8 December the reorganisation and transfers of undertakings procedure included the transfer of:

- right-of-use assets: EUR 20 thousand;
- liabilities: EUR 20 thousand.

See Note 8 for more details.

Explanatory notes (continued)

6. Financial instruments and risk management

Financial instruments. Fair value

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

rowing rate EURIBOR, while other financial assets and liabilities are short-term and therefore their fair value fluctuation is not significant.

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

The Company's financial instruments according to their types:

	2019	2018
Financial assets		
Trade and other receivables	31,896	-
Cash and cash equivalents	13,450	-
Total	45,346	-

	2019	2018
Financial liabilities		
Loans and other financial debts	144,364	-
Lease liabilities	982	-
Trade and other payables	25,143	-
Total	170,489	-

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

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

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

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

Explanatory notes (continued)

6. Financial instruments and risk management (continued)

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

	Carrying amount 2019			Fair value 2019			Carrying amount 2018			Fair value 2018		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets												
Trade and other receivables	31,896	-	-	31,896	-	-	-	-	-	-	-	-
Cash and cash equivalents	13,450	13,450	-	-	-	-	-	-	-	-	-	-
Total	45,346	13,450	-	31,896	-	-	-	-	-	-	-	-
Financial liabilities												
Loans and other financial debts	144,364	-	144,364	-	-	-	-	-	-	-	-	-
Lease liabilities	982	-	-	982	-	-	-	-	-	-	-	-
Trade and other payables	25,143	-	-	25,143	-	-	-	-	-	-	-	-
Total	170,489	-	144,364	26,125	-	-	-	-	-	-	-	-

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

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

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

Risk management

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

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

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

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

The Company manages the credit risk through procedures. The basis of credit risk management of trade receivables is the assessment of customer reliability. The Company constantly

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

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

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

The Company's receivables from related parties amounted to EUR 26,858 thousand with accumulated revenue of EUR 91 thousand, no debt was overdue and no impairment was booked. See Note 11 for more details.

Explanatory notes (continued)

6. Financial instruments and risk management (continued)

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

	2019	2018
Customer A	2,633	-
Customer B	1,668	-
Customer C	599	-
Customer D	593	-
Others	757	-
Total	6,250	-

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

The Company has not introduced any reduction in value accounting for sufficient risk amounts because the receivables are mostly amounts from the Lithuanian Road Administration under the Ministry of Transport and Communications (EUR 2,633 thousand) and Telšiai District Municipality Administration (EUR 1,668 thousand), which is why the expected credit loss is close to 0%.

The Company's exposure to credit risk and ECLs for receivables as at 31 December 2019 by separate customers:

	Initial value	Expected credit losses, %	Impairment	Carrying amount
Low risk	475	0.01 %	-	475
Fair risk	4,344	0.01 %	-	4,344
Increased risk	122	19.67 %	(24)	98
High risk	1,309	96.71 %	(1,266)	43
Total	6,250		(1,290)	4,960

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

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

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

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

Explanatory notes (continued)

6. Financial instruments and risk management (continued)

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

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

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

	Expected credit losses, %	Initial value	Impairment	Carrying amount
Not past due	0.01 %	426	-	426
1-30 days past due	0.01 %	49	-	49
31-60 days past due	0.01 %	4,344	-	4,344
61-120 days past due	19.67 %	122	(24)	98
More than 120 days past due	96.71 %	1,309	(1,266)	43
Total		6,250	(1,290)	4,960

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

The Company's movement of impairment allowance for doubtful trade receivables:

	2019	2018
Balance at the beginning of the period	-	-
Impairment of receivables carried forward during the reorganization	1,290	-
Balance at the end of the period	1,290	-

Impairment of receivables at the Company as of 31 December 2019 has been reflected in the Statements of profit or loss and other comprehensive income, in receivables and contract asset value (reduction) increase items.

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

Explanatory notes (continued)

6. Financial instruments and risk management (continued)

	2019	2018
Aa2,AA credit rating	42	-
AA-,Aa3 credit rating	13,408	-
Total	13,450	-

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

Liquidity risk. Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. Risk management ensures that the Company will always have sufficient liquid assets and will be able to meet its obligations

on time. Liquidity and solvency risk management involves the planning and control of cash flows and the forecasting of unforeseen events that may adversely affect cash flows and pose a threat to solvency and liquidity. Liquidity and solvency risk is assessed by monitoring and analysing the relative liquidity and solvency ratios, which assess the condition of both current and non-current liabilities and the effectiveness of cash flow management. According to the Company's standard policy, the payment period for suppliers is 45 days.

Financial indicators observed under the financial conditions of credit agreements of the Company as of 31 December 2019 are common for the entire group of AB Lietuvos Geležinkeliai because the business of the public railway infrastructure manager was transferred on 8 December 2019 and the indicators for the first six months for AB Lietuvos Geležinkelių Infrastruktūra are calculated starting on 1 January 2020. Financial indicators of credit agreements of AB Lietuvos Geležinkeliai Group are in line with the creditor's loan conditions.

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

	Loans		Interest	
	2019	2018	2019	2018
Within one year	14,571	-	1,929	-
From one to five years	48,841	-	5,921	-
After five years	80,952	-	4,514	-
Total	144,364	-	12,364	-

The Company's maturities of trade payables and lease liabilities using the undiscounted flow method:

	Trade and other payables		Lease liabilities	
	2019	2018	2019	2018
Within one year	22,440	-	398	-
From one to five years	2,703	-	584	-
After five years	-	-	-	-
Total	25,143	-	982	-

Explanatory notes (continued)

6. Financial instruments and risk management (continued)

By the decision of the Board of AB Lietuvos Geležinkeliai of 1 October 2019, the business of the public railway infrastructure manager is transferred as of 8 December 2019 from AB Lietuvos Geležinkeliai to AB Lietuvos Geležinkelių Infrastruktūra including all the assets needed for performing this activity, personnel and liabilities relating to public railway infrastructure management including liabilities under financing agreements and performance thereof.

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

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

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

Long-term loans mostly affect increase in the interest rate risk. On 31 December 2019 the value of the Company's long-term loan portfolio was EUR 129,792 thousand.

If the interest rate goes up by 0.5 percentage points during the year 2020, annual interest costs would increase by EUR 649 thousand.

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

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

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

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

Explanatory notes (continued)

7. Property, plant and equipment.

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

	Land	Buildings and structures	Machinery and equipment	Vehicles	Other equipment fittings and tools	Construction in progress and pre-payments	Total
Acquisition cost							
31 December 2018	-	-	-	-	-	-	-
- acquisitions per year	-	-	15	-	14	24,057	24,086
- receipt of assets due to reorganization *	150,870	836,023	131,008	12,631	71,994	159,394	1,361,920
- assets sold, written off, disposed	(23)	-	-	-	-	-	(23)
- reclassifications to investment property	(110)	(2,609)	540	-	-	(540)	(2,719)
31 December 2019	150,737	833,414	131,563	12,631	72,008	182,911	1,383,264
Accumulated depreciation and impairment losses							
31 December 2018	-	-	-	-	-	-	-
- depreciation	-	(5,450)	(1,123)	(136)	(506)	-	(7,215)
- impairment during the year	-	-	-	-	-	-	-
- assets sold, written off, disposed	-	-	-	-	-	-	-
- reclassifications to investment property	-	8	-	-	-	-	8
31 December 2019	-	(5,442)	(1,123)	(136)	(506)	-	(7,207)
Carrying amount							
31 December 2018	-	-	-	-	-	-	-
31 December 2019	150,737	827,972	130,440	12,495	71,502	182,911	1,376,057

* On 8 December 2019 railway infrastructure activities together with non-current assets owned by the Railway Infrastructure Directorate of AB Lietuvos Geležinkeliai were transferred to the Company. See Note 16 for more details.

The sum of the Company's depreciation costs included in the statement of profit or loss and other comprehensive income was EUR 5,914 thousand. That amount includes depreciation costs of EUR 7,215 thousand that were reduced by grant depreciation costs of EUR 1,301 thousand as described in Note 17.

On 31 December 2019 the value of the Company's assets managed by the right of trust was EUR 982,986 thousand.

The cost of the Company's fully depreciated but still used property, plant and equipment amounted to EUR 268 thousand. A

major share of fully depreciated but still used property, plant and equipment was buildings and structures.

8. Right-of-use assets

New IFRS 16 "Leases" became effective on 1 January 2019. IFRS 16 makes no substantial impact on the Company's Statement of financial position and the Statement of profit or loss and other comprehensive income. The discount rate applicable to lease contracts is 6-month EURIBOR and the market margin estimated by a market survey in accordance with applicable market conditions.

Explanatory notes (continued)

8. Right-of-use assets (continued)

As of 31 December 2019 the Company's right-of-use assets consisted of:

	Assets			Lease liabilities
	Buildings and structures	Other assets	Total:	
Balance as of 1 January 2019	-	-	-	-
Acquisitions per year	-	962	962	962
Receipt of assets due to reorganization *	20	-	20	20
Depreciation	(1)	(33)	(34)	-
Interest	-	-	-	-
Payments	-	-	-	-
Balance as of 31 December 2019	19	929	948	982

* On 8 December 2019 railway infrastructure activities together with non-current assets owned by the Railway Infrastructure Directorate of AB Lietuvos Geležinkeliai were transferred to the Company. See Note 16 for more details.

9. Intangible assets

The Company's intangible assets consisted of:

	Software	Concessions, patents, licences, trade marks and similar rights	Other intangible assets	Total:
Acquisition cost				
31 December 2018	-	-	-	-
- acquisitions per year	-	-	-	-
- receipt of assets due to reorganization*	15,897	8	89	15,994
- assets sold, written off, disposed	-	-	-	-
- reclassifications	-	-	-	-
31 December 2019	15,897	8	89	15,994
Accumulated amortization and impairment losses				
31 December 2018	-	-	-	-
- amortization	(123)	(2)	(7)	(132)
- assets sold, written off, disposed	-	-	-	-
- reclassifications	-	-	-	-
31 December 2019	(123)	(2)	(7)	(132)
Carrying amount				
31 December 2018	-	-	-	-
31 December 2019	15,774	6	82	15,862

* On 8 December 2019 railway infrastructure activities together with non-current assets owned by the Railway Infrastructure Directorate of AB Lietuvos Geležinkeliai were transferred to the Company. See Note 16 for more details.

Explanatory notes (continued)

9. Intangible assets (continued)

The Company does not have internally generated intangible assets. Amortization costs of the Company's intangible assets, which made up EUR 132 thousand in 2019, are accounted for in the statements of profit or loss and other comprehensive income, under depreciation and amortization; they dropped by EUR 46 thousand attributable to grant amortization as described in Note 17. The Company's fully amortized intangible assets still in use amounted to EUR 9 thousand. The main part of fully amortized assets consisted of software.

10. Investment property

The Company's investment property consisted of:

	2019
Acquisition cost	
31 December 2018	-
- acquisitions per year	-
- receipt of assets due to reorganization*	571
- assets sold, written off, disposed	-
- reclassifications	2,719
31 December 2019	3,290
Accumulated depreciation and impairment losses	
31 December 2018	-
- depreciation	(5)
- impairment during the year	-
- assets sold, written off, disposed	-
- reclassifications	(8)
31 December 2019	(13)
Carrying amount	
31 December 2019	3,277

* On 8 December 2019 railway infrastructure activities together with non-current assets owned by the Railway Infrastructure Directorate of AB Lietuvos Geležinkeliai were transferred to the Company. See Note 16 for more details.

Investment property consisted of buildings leased to third parties. The average irrevocable lease period is 3 years and may be extended.

Explanatory notes (continued)

11. Inventories

The Company's inventories consisted of:

	2019	2018
Superstructure materials	12,544	-
Fuel	132	-
Spare parts	1,770	-
Materials	2,611	-
Other inventories	231	-
Total raw materials, supplies and components	17,288	-
Goods purchased for resale	-	-
Total goods purchased for resale	-	-
Non-current assets held for sale	-	-
Non-current assets held for sale, total	-	-
Total	17,288	-

During 2019 the inventories of EUR 487 thousand (without fuel) were written off to operating expenses. There was no need to reduce the book value of the Company's inventories to the net realisable value and there was no impact on the statement of profit or loss and other comprehensive income.

12. Trade and other receivables

The Company's trade and other receivables included:

	2019	2018
External trade receivables, gross value	6,250	-
Impairment (-)	(1,290)	-
Total external trade receivables	4,960	-
Receivables from related parties	26,845	-
Impairment (-)	-	-
Total receivables from related parties	26,845	-
Other receivables from the budget	9	-
Accrued income	91	-
Other receivables	4,318	-
Impairment (-)	(136)	-
Total other receivables	4,282	-
Total	36,087	-

The change in impairment of external trade receivables is disclosed in Note 6.

Explanatory notes (continued)

13. Prepayments

The Company's prepayments consisted of:

	2019	2018
Prepayments to external suppliers	864	-
Prepayments to related parties	50	-
Deferred charges	43	-
Total	957	-

14. Cash and cash equivalents

The Company's cash and cash equivalents consisted of:

	2019	2018
Money in the bank	13,450	-
Total	13,450	-

On 31 December 2019 the Company had no term deposits. Cash was not pledged. In order to manage funds more effectively and ensure liquidity of the Group companies, the Group account (Cash-pool) agreement was signed with AB Swedbank on 19 December 2018. The Company signed an agreement to

join the Group's account. Under this agreement, the members of the Group may borrow and lend funds to the members of the Group on a mutual borrowing platform for a maximum period of one year under market conditions. On 31 December 2019 the Company had no receivables or liabilities under this agreement.

15. Share capital

The nominal value per share of the Company is EUR 1000. The change in the share capital is presented in the following table:

	Share capital	Number of shares, units
Subscribed share capital		
31 December 2018	-	-
Increase	150	150
Decrease	-	-
31 December 2019	150	150
Capital structure at the end of the reporting period		
By type of shares		
Ordinary shares	150	150
Privileged shares	-	-
Total	150	150

On 1 July 2019 AB Lietuvos Geležinkeliai incorporated AB Lietuvos Geležinkelių Infrastruktūra. The Company's share capital was generated by issuing 150 ordinary shares of the nominal value of EUR 1,000 each and amounted to EUR 150,000 thousand.

Explanatory notes (continued)

16. Retained earnings

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

During implementation of the LG Changes programme on 8 December 2019 AB Lietuvos Geležinkeliai fully completed the reorganization related to railway infrastructure business and transferred the business of the Railway Infrastructure Directorate to the Company. The transfer of operations from AB Lietuvos Geležinkeliai is assessed as a transaction of joint ventures.

The business transferred to the Company includes assets related to railway infrastructure use activities, liabilities and employees. The fair market value of the business, determined by the independent assessor, has made up EUR 654,778 thousand. Business relocation based on the selected reorganization policy is treated as business transfer and has been accounted for at carrying values.

The difference between the assets received and liabilities accepted in the amount of EUR 673,517 thousand profit is considered the reorganization result that has been accounted for in the Company's retained earnings (losses). The draft document on profit (loss) distribution is being drawn up and, in accordance with the decision of the general meeting of shareholders the shareholder will only distribute the Company's profit (loss) available for distribution following the approval of the annual financial statements taking into account external and domestic legislation governing the payment of dividends and other conditions.

Balance of transfer of railway infrastructure business (at carrying values of AB Lietuvos Geležinkeliai):

ASSET		EQUITY AND LIABILITIES	
Property, plant and equipment	1,361,939	Loans	129,792
Intangible assets	15,994	Grants	554,666
Investment property	571	Provisions and income tax liabilities	35,987
Total non-current assets	1,378,504	Trade and other payables	2,696
Inventories	18,532	Total non-current liabilities	723,141
Trade and other receivables	67,921	Loans	14,572
Prepayments	4,036	Trade and other payables	57,763
Total current assets	90,489	Total current liabilities	72,335
		Net assets	673,517
TOTAL ASSETS	1,468,993	TOTAL EQUITY AND LIABILITIES	1,468,993

17. Grants

The movement of the Company's grants is presented below:

	2019	2018
Opening balance	-	-
Received per year	2,238	-
Receipt due to reorganisation**	554,666	-
Used to reduce depreciation costs of non-current assets	(1,347)	-
Used to reduce other costs	(309)	-
Returned	-	-
Closing balance	555,248	-
Including assets managed under the right of trust	228,248	-

Explanatory notes (continued)

17. Grants (continued)

Grants are related to the financing of investment programmes, assets received under the Trust Agreement and subsidies earmarked for compensating costs.

18. Loans and other financial debts

The Company's financial debts consisted of:

	2019	2018
Long-term loans	129,792	-
Short-term loans	14,572	-
Total	144,364	-

The Company's loans consisted of:

	Opening loan balance	Loan balance transferred to REORG	Loan received	Loan repaid	Loan balance
	2019	2019	2019	2019	2019
Nordic Investment Bank 3 ¹	-	91,936	-	-	91,936
Nordic Investment Bank 4 ²	-	42,984	-	-	42,984
Nordic Investment Bank 1 ³	-	-	-	-	-
Nordic Investment Bank 2 ³	-	9,444	-	-	9,444
Total	-	144,364	-	-	144,364

¹ During the reorganisation the Company took over two loan agreements concluded by AB Lietuvos Geležinkeliai on 25 June 2013 with Nordic Investment Bank (NIB-3) for the renovation and expansion of railway infrastructure under which the outstanding liabilities amounted to EUR 91,936 thousand. Every part of the loan used was subject to an individual interest rate.

² During the reorganisation the Company took over a loan agreement concluded by AB Lietuvos Geležinkeliai on 15 July 2014 with Nordic Investment Bank (NIB-4) under which the outstanding liabilities amounted to EUR 42,984 thousand. The loan was granted for securing the national share of co-financing of the public railway infrastructure project Rail Baltica financed with the EU support funds in 2007-2013.

³ During the reorganisation the Company took over other loans of AB Lietuvos Geležinkeliai intended for the renovation and expansion of railway infrastructure (NIB-1, NIB-2).

Pursuant to the provisions of the financing agreements signed between the Company and the European Investment Bank (EIB) and the Nordic Investment Bank (NIB), the split-off of the Company business activities was possible only with the consent of the banks. For that reason AB Lietuvos Geležinkeliai Group asked for consent for the completion of business transfer activities envisaged during each split-off phase. The EIB and the NIB agreed to allow AB Lietuvos Geležinkeliai Group to transfer the part of the business concerning infrastructure manager's activities provided that the Group would transfer the existing long-term credit liabilities to the subsidiaries and sign guarantee agreements with the EIB and the NIB thus guaranteeing the obligations assumed by AB Lietuvos Geležinkelių Infrastruktūra under the guarantee agreements and the financing agreements transferred and amended. On 8 Decem-

ber 2019 the long-term liabilities were transferred by the NIB to AB Lietuvos Geležinkelių Infrastruktūra.

AB Lietuvos Geležinkeliai agreed to guarantee all AB Lietuvos Geležinkelių Infrastruktūra liabilities concerning the execution of financing agreements terms. Guarantee agreement, signed between NIB and AB Lietuvos Geležinkeliai will become effective only after the finish of loans restructuring process, i.e. after all long-term loans are transferred to respective subsidiary entities. The outstanding balance of loans of AB Lietuvos Geležinkelių Infrastruktūra on 31 December 2019 to NIB is EUR 144,364 thousand.

Explanatory notes (continued)

19. Lease liabilities

The Company rents out buildings and other assets (vehicles and dredgers). 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. When determining the lease period, the management evaluates all facts and circum-

stances, which give rise to economic incentives to avail themselves of the possibility to extend or terminate the contract. The possibility of extending the contract (or the periods after the possibility of terminating the contract) is provided for in the leases only if it can be reasonably expected that the lease will be extended (or not terminated). Possible future cash payments were not included in the lease liabilities as there is no reason to be certain that the leases will be extended (or not terminated).

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

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

	2019
Asset:	
Right-of-use assets	948
Non-current liabilities:	
Lease liabilities	(584)
Current liabilities:	
Lease liabilities	(398)
Impact on the statement of profit or loss and other comprehensive income	(34)

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

	2019
Depreciation costs	(34)
Lease costs	-
Operating profit (loss)	(34)
Financial operating costs:	
Interest	-
Profit (loss) for the reporting period	(34)

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

	2019
Net profit (loss)	(34)
Depreciation costs	34
Interest on the lease liability	-
Cash flow from investment activities	
Lease liability payments	-
Interest on lease liability	-
Net cash flow increase (decrease)	-

If the discount rate applicable at the Company increases or decreases by 1 percent, the amount of lease liabilities on 31 December 2019 would amount to EUR 994 thousand or EUR 970 thousand accordingly.

Explanatory notes (continued)

20. Employee benefits

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



The change in long-term provisions for pensions and similar liabilities is given in the table below:

Balance on 31 December 2018	-
Additionally formed	-
Effect of reorganisation*	4,265
Used	(32)
Balance on 31 December 2019	4,233

* On 8 December 2019 the activities of the Railway Infrastructure Directorate together with the liabilities pertaining to the Railway Infrastructure Directorate were transferred to AB Lietuvos Geležinkelių Infrastruktūra.

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

	2019	2018
Discount rate	0.56%	-
Employee turnover rate	5.17%	-
Salary accrual rate	3.00%	-

Change in employee benefits during 2019 by type:

	31 December 2018	Effect of reorganiza- tion	Added to the state- ment of profit or loss and other com- prehensive income	Capitalised costs	Paid	Balance as at 31 December 2019
Non-current liabilities						
Provisions for pensions and similar liabilities	-	4,265	(32)	-	-	4,233
Total non-current liabilities:	-	4,265	(32)	-	-	4,233
Current liabilities						
Accumulated leave	-	4,053	455	-	66	4,442
Wages and salaries payable	-	-	1,988	4	244	1,748
Social security contributions payable	-	-	796	-	3	793
Personal income tax payable	-	-	703	-	88	615
Other employment-related liabilities	-	1,845	346	-	-	2,191
Total current liabilities:	-	5,898	4,288	4	401	9,789
Total		10,163	4,256	4	401	14,022

Explanatory notes (continued)

21. Trade and other payables

The Company's trade and other payables consisted of:

	2019	2018
Trade accounts payable	12,002	-
Trade accounts payable to related parties	8,096	-
Prepayments received	13,053	-
Cash guarantees received	973	-
VAT payable	1,836	-
Accumulated costs	1,022	-
Prepayments received for use of railway infrastructure	495	-
Accumulated liabilities for use of railway infrastructure	3,528	-
Other accounts payable and liabilities	4,548	-
Total	45,553	-

Under the heading of other payables and liabilities the Company booked a liability of EUR 454 thousand for management services.

22. Provisions

The Company's provisions consisted of:

	2019	2018
Non-current provisions	14,400	-
Current provisions	-	-
Total:	14,400	-

Movement of provisions:

Balance on 31 December 2018	-
Effect of reorganisation*	14,400
Used	-
Balance on 31 December 2019	14,400

* The provisions of EUR 14,400 thousand for legal proceedings were transferred from AB Lietuvos Geležinkeliai.

See Note 30 for more details on the provisions.

Explanatory notes (continued)

23. Sale proceeds

The Company's revenue consisted of:

	2019	2018
Revenue from use of railway infrastructure	13,151	-
Future revenue from use of railway infrastructure	(1,133)	-
Revenue from use of railway equipment	1,072	-
Accumulated revenue from use of railway equipment	91	-
Other income	665	-
Total	13,846	-

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

	2019	2018
Recognized at a point of time	13,696	-
Recognized over time	150	-
Total	13,846	-

24. Employee benefits

Employee benefits by type:

	2019	2018
Wages and salaries	4,002	-
Social security contributions	71	-
Accrued vacation reserve	219	-
Pensions and similar liabilities	(32)	-
Total	4,260	-

25. Net finance income

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

	2019	2018
Total finance income	-	-
Penalties and default interest for overdue trade receivables	-	-
Total finance costs	(182)	-
Interest	(168)	-
Negative impact of currency exchange fluctuations	-	-
Other costs	(14)	-
Total	(182)	-

Explanatory notes (continued)

26. Income tax and deferred tax

Income tax was calculated at a rate of 15 percent.

	2019	2018
Income tax for the reported year	771	-
Deferred tax expenses (benefit)	(1,008)	-
Total income tax expense (benefit) recognized in profit or loss	(237)	-

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

	2019	2018
Profit or loss before tax	(1,632)	-
Income tax	(245)	-
Costs increasing income tax	9	-
Income reducing income tax	(1)	-
Total corporate income tax expenses (income)	(237)	-
Effective rate	14.51%	-

Below is the calculation of the Company's deferred corporate income tax:

	2018	Effect of reorganization	Change in 2019	2019
Deferred corporate income tax assets:				
Impairment of receivables and write-off of bad debts	-	192	2	194
Write-off of inventories	-	587	-	587
Accrual of leave and bonuses	-	885	110	995
Long-term employee benefits liabilities	-	640	(5)	635
Accumulated costs	-	-	-	-
Deferred tax assets	-	2,304	107	2,411
Deferred income tax liability:				
Difference in the value of non-current assets with tax value	-	(12,288)	1,093	(11,195)
Differences in grants	-	(7,338)	(192)	(7,530)
Deferred income tax liability	-	(19,626)	901	(18,725)
Deferred tax asset (liability), net		(17,322)	1,008	(16,314)

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

The reorganisation carried over EUR 17,322 thousand of deferred income tax liabilities.

Explanatory notes (continued)

27. Related party transactions

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

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

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

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

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

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

Related party transactions of the Company:

	2019			
	Purchases	Sales	Receivables	Payables
AB Lietuvos Geležinkeliai	2,246	-	-	2,711
AB LG CARGO	32	13,892	25,436	128
UAB LG Keleiviams	28	486	1,133	30
UAB Geležinkelio tiesimo centras	2,993	104	163	4,179
UAB Vilniaus lokomotyvų remonto depas	1	74	112	22
UAB Gelsauga	-	2	2	2
UAB Rail Baltica statyba	-	-	-	15
UAB Voestalpine VAE Legetecha	587	-	12	1,084
Total	5,887	14,558	26,858	8,171

Explanatory notes (continued)

27. Related party transactions (continued)

The Company's accumulated revenue and costs as well as transactions with related parties are booked in the statement of financial position of 31 December 2019:

	2019	2018
	Accrued receivables	Accrued payables
AB LG CARGO	-	3,292
UAB LG Keleiviams	91	236
AB Lietuvos Geležinkeliai	-	454
Total	91	3,982

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

28. Management remuneration and other benefits

As of 31 December 2019, the number of executives was 9 people, i.e. Chief Executive Officer, Director of Transit Management Department, Director of Project Management Department, Director of Strategy and Management Department, Corporate Activities Director, Director of Rail Baltica Coordination Department, Director of Diagnostics Department, Director of Infrastructure Services Department, Director of Technical Services Department.

	2019	2018
Management remuneration	48	-
Incentives*	5	-
Number of executives	9	-
Allowances for members of the Board	-	-
Number of Board members	5	-

* Incentives are performance bonuses and lump sums.

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

Explanatory notes (continued)

29. Contingent assets and liabilities

By the decision of the Board of AB Lietuvos Geležinkeliai of 1 October 2019, the business of the public railway infrastructure manager is transferred as of 8 December 2019 from AB Lietuvos Geležinkeliai to AB Lietuvos Geležinkelių Infrastruktūra including all the assets needed for performing this activity and related liabilities. Thus, given the effective transfer of part of the business, rights and liabilities, AB Lietuvos Geležinkelių Infrastruktūra is the defendant in the cases for damages relating to the disassembly of Rengė section.

For the implementation of Rail Baltica project stage “Reconstruction of the current railway track Kaunas-Palemonas by building the 1,435 mm track gauge”, in 2018 AB Lietuvos Geležinkeliai signed a contract with the partners of a joint-activity agreement UAB Hidrostatyba, LEONHARD WEISS RTE AS and UAB Autokausta. On 8 December 2019 during the transfer of public railway infrastructure management activity AB Lietuvos Geležinkelių Infrastruktūra took over all the rights and obligations provided for in the Contract. The value of works is EUR 58,725 thousand (excluding VAT). The expected maturity term of the contract is in 2021. The companies having signed the Contract are committed to build a European track gauge from Kaunas railway station to intermodal terminal located in Palemonas.

On 20 December 2019, a contract for the electrification of the Vilnius-Klaipėda railway section was signed with the joint venture partners Elecnor S.A. and Instalaciones Inabensa S.A., which submitted the best bid in the international tender. The value of the contract is EUR 363.1 million. The works are expected to be completed in 2023 and electric trains to be running on the route Vilnius - Klaipėda as early as 2024. The electrification is estimated to bring marked environmental benefits: railway diesel consumption will be 46 000 tonnes less each year and emissions will decrease by an average of about 150 000 tonnes a year. According to the tripartite agreement, the responsibility for the project implementation has been transferred to AB Lietuvos Geležinkelių Infrastruktūra.

30. Legal cases

Following the decision of the Board of the Company of 1 October 2019, on 8 December 2019, the business of the public railway infrastructure manager was transferred from the Company to AB Lietuvos Geležinkelių Infrastruktūra, including the assets required for the implementation of these activities, also employees and obligations related to the public railway infrastructure management. All rights and obligations arising from the activities of the infrastructure manager have been transferred to AB Lietuvos Geležinkelių Infrastruktūra. The claim of Lietuvos Geležinkeliai regarding partial or full annulment of Decision C(2017) 6544 and/or reduction of the fine is pending in the General Court of the European Union, and no final decision has been made regarding the infringement inflicted by the Company. The issue of the dismantling of the Rengė (Mažeikiai-Latvian border) railway section and the compensation for the damage suffered are primarily related to the activities, rights and obligations (including the liability) of the infrastructure manager. Hence, the provision for litigation was transferred from AB Lietuvos Geležinkeliai to the Company.

On 30 August 2018, VAS Latvijas dzelzceļš and SIA LDZ CARGO wrote to AB Lietuvos Geležinkeliai demanding compensation for the damage incurred by these companies. The companies claim that they incurred the damage because the Company had dismantled the rail track connecting Mažeikiai with the Latvian border, and the amount of damage was 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 Lietuvos Geležinkeliai does not agree with these claims and considers them unfounded, as, based on the claims submitted by VAS Latvijas dzelzceļš and SIA LDZ CARGO, it is currently impossible to reliably determine whether these companies had actually incurred damage, or to measure the size of the alleged damage, or to say whether it is founded. Furthermore, the Company's claim regarding partial or full annulment of Decision C(2017) 6544 and/or reduction of the fine is still pending in the General Court of the European Union, and no final decision has been made regarding the infringement inflicted by the Company. Therefore, no provisions related to these claims have been accounted for in the financial statements. On 5 February 2020, a hearing of EU General Court was held to examine the Company's claim against European Commission's imposed fine in the amount of EUR 28 million (the fine has been paid). The case has been examined, a court verdict will be made within 4-6 months. Following the pronouncement of the court decision, LDZ and LDZ CARGO may take more active actions depending on the content of the decision. The claim for damages incurred by these companies relates to the activities, rights and obligations of the infrastructure manager. Given the transfer of part of the business, rights and obligations, AB Lietuvos Geležinkelių Infrastruktūra would act as a defendant in the cases regarding compensation for damages due to the dismantling of the Rengė section.

31. Events after the reporting period

On 15 January 2020 the Company's Articles of Association were registered and the share capital was increased. The share capital consists of 654,928 ordinary registered shares. The par value of one share is EUR 1,000.

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

The coronavirus (COVID-19) pandemic has created a difficult to predict and unprecedented situation not only in Lithuania, but also around the world, effect of which has been felt by all business sectors. On 11 March 2020 the World Health Organization declared an outbreak of coronavirus as a pandemic, and since 16 March 2020 the Government of the Republic of Lithuania has announced a quarantine and related public life restrictions. The restrictions are related to movement of foreign citizens, movement through the state border, activities of companies and organizations of the public and private sectors, organization of work of educational and health institutions, and other areas of economic and social life.

Explanatory notes (continued)

31. Events after the reporting period (continued)

Wider effects of those events include:

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

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

The Company's Management has carried out a comprehensive assessment of the existing situation and identified principal near-term threats that might affect the Company's activities:

- malfunctioning of the Company's operations caused by existing restrictions in Lithuania and countries, where main partners are located;
- effect of movement restrictions on the partners in other countries and the Company's operations;
- possible malfunctioning of supply from foreign and local partners;
- possible decrease in demand;
- possible impact of temporary disruptions in other business lines on the Company's operations;

After a comprehensive assessment of the main threats that could affect operations, the Company identified three possible scenarios related to the potential spread of the disease outbreak and the expected impact on the Company and the economic environment in which the

Company operates, including measures already taken by the Government of Lithuania and the governments of other countries, where the Company's main business partners and customers are located:

- a realistic scenario for COVID-19 – a possible drop in the Company's revenue by up to 11% because of the forecast decrease in freight flows and passenger flows. Slower freight flows are expected due to the adverse effect of COVID-19 on the economic situation. With 106 local train services cancelled in April and May and all international train services cancelled through to August, later in the year bringing them back gradually (locally – starting from May and internationally – starting from August);
- a conservative scenario for COVID-19 – a possible drop in the Company's operating revenue by up to 14% because of the forecast decrease in freight flows and passenger flows. Slower freight flows are expected due to the adverse effect of COVID-19 on the economic situation and lower demand for oil products. With 106 local train services cancelled in April and May and all international train services cancelled through to August, later in the year bringing them back gradually (locally – starting from May and internationally – starting from August);
- a pessimistic scenario for COVID-19 – a possible drop in the Company's operating revenue by about 29% because of the forecast decrease in freight flows and passenger flows. In line with the assumptions underlying the conservative scenario, the probability that COVID-19 pandemic will come back in November and December is also assessed.

Based on the possible scenarios the Company does not plan to withdraw from investment projects; however, it does not eliminate the possibility to revise the investment portfolio, to postpone the implementation of some investment projects in the future.

The Company has also assessed possible liquidity and credit risks and measures to manage them:

- a possibility to borrow inside the Group through cashpool in order to ensure a sufficient need in current assets;
- has taken additional measures to strengthen payment control;
- has revised planned investments and assessed their necessity.

Assessing the results of the first quarter of 2020, a decrease in sales is visible compared to the corresponding period of the previous year, but it does not exceed the realistic forecast scenario. Railway transport remains the most reliable means of transport during the pandemic. The major customers are large companies, which are included in a list of risk-free companies by the Company. The Company operates in one of the most strategic and secure sectors of the state and can expect state support or guarantees if necessary.

Explanatory notes (continued)

Management estimates that the cash flows from operating activities are likely to be sufficient to service existing loan agreements and liabilities to partners. At the moment of preparation of the statements payments had been made as usual; and the Company identifies no additional liquidity or credit risk problems.

In the opinion of the Company's Management, the circumstances mentioned above and sensitivity analysis performed substantiate all assumptions for sufficient resources and empower the Company to continue the Company's activities/operations. According to the Company's Management, the negative circumstances related to the virus do not raise doubts about the Company's business continuity and do not change the Company's long-term business plan goals. The management however cannot rule out that long lockdown periods, more stringent measures or any adverse effect of such measures on the economic environment in which the Company operates will have no negative effect on the Company, its financial standing and performance during the medium-term and long-term periods. The Management is continuously monitoring the situation carefully and will take measures to mitigate effects of such events and circumstances.