

# CONSOLIDATED ANNUAL REPORT

Approved by the Board  
as of 24 March 2020

## GENERAL INFORMATION

### Reporting period

Year ended 31 December 2019

### Issuer and its contact details

Name of the Issuer	<b>Telia Lietuva, AB</b> (hereinafter – ‘the Company’)
Legal form	public company (joint-stock company)
Legal status	participating in reorganization
Date of registration	6 February 1992
Name of Register of Legal Entities	State Enterprise Centre of Registers
Code of enterprise	1212 15434
LEI code	5299007A0LO7C2YYI075
Registered office	Saltoniškių str. 7A, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 1511
Fax number	+370 5 212 6665
E-mail address	info@telia.lt
Internet address	www.telia.lt

### Main activities of the Group

From 1 February 2017, **Telia Lietuva, AB** continues the activities of TEO LT, AB, AB Omnitel and AB Baltic Data Center. Following the reorganisation whereby AB Omnitel and AB Baltic Data Center were merged into TEO LT, AB, and TEO LT, AB on 1 February 2017 changed its name to Telia Lietuva, AB, the Company provides telecommunications, IT and TV services from a single source to residents and businesses in Lithuania.

The Company is a part of Telia Company Group, a telecommunication services provider in the Nordic and Baltic countries.

The Company’s **purpose** is bringing the world closer. Our shared **values** are dare, care, simplify. We **dare** to innovate, to lead and speak up. We **care** for our customers, for each other and our world. We **simplify** execution, teamwork and our operations.

The Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an **operator with significant market power** (SMP) in Lithuania on the following markets of:

- voice call termination on the mobile network;
- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- wholesale calls termination on individual public telephone networks provided at a fixed location;
- wholesale local access provided at a fixed location;
- wholesale central access for mass market products;
- wholesale high quality data transmission services via terminating segment;
- digital terrestrial television broadcasting transmission services provided by the Company in the territory of the Republic of Lithuania.

Following the provisions of the Law on Electronic Communications of the Republic of Lithuania the Company is obliged to provide access to other undertakings, to follow obligation of non-discrimination, obligation of transparency, obligations of price control and cost accounting, obligation of accounting separation. Also, to publish public offer regarding the access.

The Company has a limited activities electronic money institution licence issued by the Bank of Lithuania. The licence grants the right to issue electronic money and provide payment services as set out in Article 5 of the Payments Law of the Republic of Lithuania.

The Company is certificated for compliance with the following ISO standards: IT Management (ISO 20000), Information Security Management (ISO 27001), Quality Management (ISO 9001), Environmental Management (ISO 14001) and Occupational Health & Safety (OHSAS 18001).

As of 31 December 2019, the **Group** consisted of the parent company, Telia Lietuva, AB, (registered on 6 February 1992, code 1212 15434, name of the Register of Legal Entities: State Enterprise Center of Registers; address: Saltoniškių str. 7A, LT-03501 Vilnius tel.: +370 5 262 1511; fax. +370 5 212 6665; internet address: www.telia.lt), its subsidiaries and associates.

The following entities were **subsidiaries and associates** of the Company as of 31 December 2019:

<b>Name of the company</b>	<b>Date of registration, code, name of Register of Legal Entities</b>	<b>Contact details</b>	<b>The Company's share in the share capital of the entity (%)</b>	<b>The Company's share of votes (%)</b>
Telia Customer Service LT, AB	27 July 1992, code 1104 01957, State Enterprise Center of Registers	Vytenio str. 18, LT-03503 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5 278 3322, www.118.lt	100.00	100.00
VšĮ Numerio Perkėlimas	5 September 2014, code 3033 86211, State Enterprise Center of Registers	Jogailos str. 9, LT- 01116 Vilnius, Lithuania	-	50.00
UAB Mobilieji Mokėjimai	12 December 2016, code 3044 31143, State Enterprise Center of Registers	Žalgirio str. 92-701, LT- 09303 Vilnius, Lithuania tel. +370 699 23530	33.33	33.33

**Telia Customer Service LT, AB** takes care of the Company's customers and provides Directory Inquiry service 118 in Lithuania. It annually serves more than 20 million contacts over the phone or e-channels. In May 2019, this subsidiary paid to the Company EUR 495 thousand in dividends for the year 2018.

To streamline Telia Lietuva Group structure, shareholders of the Company had approved the preparation of reorganisation terms, under which Telia Customer Service LT, AB would be merged into Telia Lietuva, AB. The terms of merger of Telia Lietuva, AB and Telia Customer Service LT, AB were prepared and on 6 November 2019 approved by the Boards of both companies. In April 2019, Telia Customer Service LT, UAB changed its legal form from closed joint-stock company into joint-stock company. After change of legal form, the company operates as Telia Customer Service LT, AB.

**VšĮ Numerio Perkėlimas**, a joint not-for-profit organization, established together with Lithuanian telecommunication companies (UAB Bitė Lietuva and UAB Tele2 holding a 25 per cent stakes each), from 1 January 2016 in cooperation with UAB Mediafon administers the central database to ensure telephone number portability in Lithuania.

**UAB Mobilieji Mokėjimai**, that operates an instant payment platform, was acquired in equal parts by Lithuanian telecommunications operators – UAB Bitė Lietuva, UAB Tele2 and Telia Lietuva, AB – in December 2017. Prior to that, operators got the permission of the European Commission to jointly create a common platform for the provision of mobile payments services, and the Bank of Lithuania granted a limited activities electronic money institution license to UAB Mobilieji Mokėjimai required for activities related to instant payments.

The Beta version of the instant mobile payment platform was launched in August of 2018. Payments using MoQ application were accepted in more than 1,500 places including shops at the largest shopping malls, cafes and majority of on-line shops in Lithuania. In July 2019, the number of MoQ users exceed more than 100 thousand. However, in March 2020, following a divergence of opinions between the shareholders of UAB Mobilieji Mokėjimai as to the future development and prospects of the mobile payment platform MoQ, the shareholders of the undertaking decided to cease operations of UAB Mobilieji Mokėjimai. Prior to that, management of Telia Lietuva has taken a decision to impair the value of this investment to EUR 1 as of 31 December 2019. It is planned to cease provision of payment services and activities of mobile application MoQ from 18 May 2020.

The Company has no branches or representative offices.

#### **Agreements with intermediaries of public trading in securities**

Since 1 December 2000, the Company and SEB Bankas AB (code 1120 21238), Gedimino ave. 12, LT-01103 Vilnius, have an agreement on accounting of the Company's securities and services related to the accounting of securities.

## Data about securities traded on regulated market

The following securities of the Company are included into the Main List of Nasdaq Vilnius stock exchange (symbol: TEL1L) as of 31 December 2019:

Type of shares	Number of shares	Nominal value (in EUR)	Total nominal value (in EUR)	Issue Code
Ordinary registered shares	582,613,138	0.29	168,957,810.02	LT0000123911

Nasdaq Vilnius stock exchange is a home market for the Company's shares. Since January 2011, the Company's ordinary shares are included into the trading lists of the Berlin Stock Exchange (Berlin Open Market called *Freiverkehr*), the Frankfurt Stock Exchange (Open Market (*Freiverkehr*)), the Munich Stock Exchange and the Stuttgart Stock Exchange. The Company's share symbol on German stock exchanges is ZWS.

Securities of the Company's subsidiary, Telia Customer Service LT, are not traded publicly as the subsidiary is 100 per cent owned by the Company. Stakes in VšĮ Numerio Perkėlimas and UAB Mobilieji Mokėjimai are jointly owned together with UAB Bitė Lietuva and UAB Tele2, and are not for public trade.

## Other material information

As from 1 April 2019 the Company has moved to a new headquarters at Saltoniškių str. 7A in Vilnius, on 17 May 2019 the Company has changed its registered office address to Saltoniškių str. 7A, LT-03501 Vilnius, Lithuania.

## Recent events

In pursuit of a closer synergy with other companies of Telia Company Group and a higher performance efficiency, from 1 January 2020, Telia Lietuva has started to apply the New Operating Model, which brings together competences and capacities across Telia Company Group, aiming to avoid duplication of tasks, to standardize processes, to create a common operating architecture, to plan investments and to make data and analytics-based decisions. Telia teams in Estonia, Denmark and Norway have also embraced the New Operating Model together with Lithuania. This model is already applied in Sweden and Finland.

On 31 January 2020, the Company extended a loan of EUR 90 thousand to UAB Mobilieji Mokėjimai at an annual interest rate of 3.37 per cent. In March 2020, the shareholders of UAB Mobilieji Mokėjimai decided to cease provision of payment services and activities of mobile application MoQ from 18 May 2020.

Due to spread of coronavirus and from 16 March 2020 imposed a nationwide quarantine in the Republic of Lithuania, the Company closed its customer service outlets and serves its customers online or by phone. The Company puts employees and customers health at highest priority, therefore most of the Company's employees work remotely, while engineering teams act in observance of extreme care requirements when installing new services and troubleshooting. Specialists are expanding the network capacity due to significantly increased call and data traffic.

At this stage it is difficult to forecast what impact on the Company's financial results will have the current nationwide quarantine and how long it will continue, however general economic slowdown is expected. Restrictions on people's movement between the countries will have a negative impact on roaming service, closure of retail outlets will impact equipment sales, delayed payments by customers and potential increase of bad debt is expected. The Company is generating strong free cash flows and has enough liquidity reserves and support from its main shareholder, Telia Company AB, to successfully continue operations in rapidly changing economic environment. In any case, the Company will strive to ensure uninterrupted functioning of critical for the country telecommunications infrastructure and to fulfil all its contractual obligations towards the customers, employees, suppliers and other stakeholders.

## FINANCIAL INFORMATION

Year 2019 we started with the new organisational structure of the Company. Customer focus, holistic approach to customer experience and digitization led to creation of a new Direct and Digital Channels unit that united all employees involved in direct customer care, creation of digital channels, sales support and service implementation.

The focus on the value creation for our customers, the analysis of big data and business efficiency has taken us to the next level of quality, which turns the daily actions of our employees into direct business results. On the other hand, we are facing challenge from our legacy systems, tough competition and market slowdown.

Nevertheless, we finished the year 2019 at high note: revenue of the last two quarters exceeded EUR 100 million. Double-digit growth in revenue from TV and IT services, and equipment sales supported by continuous increase in revenue from mobile services were the main drivers of total revenue growth. Total revenue for the year 2019 amounted to EUR 388.3 million, an increase by 3.1 per cent over the revenue of EUR 376.5 million a year ago. However, we have a natural decline in traditional fixed voice telephony and for a second year in a row are observing decline in revenue from fixed broadband Internet service due to contracting ARPU despite intake of new Internet users.

In June 2019, we have reached an important milestone – the number of customers that took advantage of the unique on Lithuanian market converged offer “Telia One” exceeded 50 thousand. Introduced after the merger of fixed and mobile operations under one Telia umbrella back in 2017, “Telia One” provides higher speed, more data and more TV content to those who use both fixed and mobile services of Telia Lietuva.

We are the only operator in the Lithuanian market that could provide seamless connectivity no matter of place, device, time and technology. With the converge offers our residential customers could get more and “Telia One” is a good example of that. As for business customers we offer wide range of services from connectivity to IT solutions, from office equipment to data center infrastructure from a single point. Converged offers ensured number of new B2B contracts signed in 2019 as well as such a big project as video surveillance system implementation and maintenance in Kaunas city.

Another important mile stone was a completion of the first stage of our business transformation program – migration of residential fixed voice, broadband Internet and TV service users to a new Customer Relationship Management (CRM) system based on SAP. The next important step in creating a holistic approach and ensuring the best experience to our customers will be migration of mobile service users to a new integrated CRM system. An amount of EUR 11.2 million was allocated for investments into IT systems under business transformation program in 2019.

Quality of network is ensured by continuous investments into both fixed and mobile network. The integration of broadband and mobile networks into a single IP based network is already completed. Ongoing investments give their fruits: according to the latest measurements of the Communications Regulatory Authority (CRA) the average speed at Telia 4G network is the highest in Lithuania and at the end of 2019 was 76.22 Mbps. The total investments into network’s upgrade during 2019 amounted to EUR 35.8 million.

In the mid of 2019, we launched a new Telia Lietuva image campaign “Įdomiau tik gyvenimas” (“Only life is more interesting”). We’ve showed that we are a big part of the development of the Lithuanian society – from the first mobile GSM call to the test of 5G technology, and we are proud of what we have accomplished.

Every year Telia Lietuva invests over EUR 50 million and is one of the largest investors in the country. According to CRA data for the fourth quarter of 2019, the Company’s share of the country’s telecommunications market in terms of revenue amounted to 39.2 per cent, making it the largest country’s information and communication technology (ICT) company. We will continue to invest in technology, development of innovation and sustainable development of society, which, in turn, means even greater competition and more benefits for consumers.

Year 2019 was marked with a growing demand for legal and high-quality TV content. Subscribers of our flagship smart TV service were able to enjoy the acclaimed HBO premiers – last episodes of “Game of Thrones”, miniseries “Chernobyl” and “Catherine the Great” – at the same time as the rest of the world. In addition to an exclusive HBO content more than 13 thousand of TVPlay Premium movies and series were offered to our TV service users in 2019. In autumn, a new local content TV channel, Delfi TV, produced by the largest Lithuanian news portal, was added to TV channels’ list.

The culmination of the year was launch of Telia Play, an innovative TV on the go service developed in cooperation with Telia Company Group. From December our smart TV service became available on any device, anytime and anywhere.

To provide better Internet experience, in 2019 we upgraded household terminal equipment by replacing it with a new one free of charge primarily to those whose equipment was replaced the longest time ago.

High speed Internet and an exclusive content from HBO and TVPlay Premium provided to smart TV service users in combination with “Telia One” offer ensured continuous intake of a new customers. Despite fierce competition and saturation of some market segments, during 2019:

- number of FTTH Internet customers grew by 6.5 per cent up to 295 thousand,
- number of IPTV users increased by 6.1 per cent up to 244 thousand,
- number converged offer “Telia One” users almost doubled up to 60 thousand.

At the beginning of 2019, we changed treatment of active mobile service user and took off 114 thousand of post-paid mobile service users from the total number of mobile subscriptions. Nevertheless, intake of a new post-paid (57 thousand) and pre-paid (15 thousand) service customers together with growing usage of mobile data ensured ongoing growth of mobility business.

New customers, more premium TV content, growing usage of mobile data and high appetite for modern devices were driving the Company's revenue up in 2019. Over the year:

- revenue from TV services grew by 18.1 per cent,
- revenue from equipment sales went up by 13.5 per cent,
- revenue from IT services increased by 11 per cent,
- revenue from billed mobile services was up by 5.7 per cent.

From 1 January 2019, the Company implemented a new International Financial Reporting Standard (IFRS) 16 "Leases". Following the standard, the Company's agreements regarding the lease of premises, network capacity, mobile base stations and other are treated as assets thus reducing the Company's operating expenses but increasing depreciation and amortisation charges and interest expenses.

EBITDA, excluding non-recurring items, for the year 2019 was EUR 131 million, an increase by 1.8 per cent over EBITDA, excluding non-recurring items, of EUR 128.7 million for the year 2018. Excluding the positive impact from IFRS 16, comparable EBITDA, excluding non-recurring items, fell 4.2 per cent.

Even though EBITDA in absolute numbers went up, increasing costs put pressure on profitability margins and that requires additional efficiency improvement measures. Profitability margins in 2019 were slightly lower than in 2018. However, maintained EBITDA level and increased free cash flows (up by 74.1 per cent), allowed us to invest into projects for better customer experience, further network development and business digitization.

During the year we continued streamlining our activities by outsourcing some functions (such as People HUB and Sourcing) to the shared service center of Telia Company located in Vilnius and part of network infrastructure maintenance to the third party. In response to customer needs and the continuously increasing digitalization of operations a decision to establish a new Digitalisation and Analytics unit was made at the end of 2019. New unit will be responsible for data mining, management, modelling as well as marketing automation and management. Outsourcing and ongoing business digitalisation led to reduction of the total number of the Company's personnel by more than 14 per cent, while employees' salaries on average increased by 10.3 per cent excluding effect of taxation changes from 1 January 2019.

In November, pursuing our strategic excellence in digitalisation goal we employed artificial intelligence (AI) and launched a chatbot, an assistant robot which automatically provides responses to customer inquiries at our website. Our robot called Aita (Artificial Intelligent Telia Assistant) is a pioneer in AI use for customer care in Lithuanian telco industry. Also, for better customer experience and convenience we have started an upgrade of our customer service outlets.

From 1 January 2020, together with Telia teams in Estonia, Denmark and Norway we have embraced the New Operating Model, which will provide companies of Telia Company Group with more synergy and efficiency.

Aiming to increase the efficiency and simplify structure of Telia Lietuva Group and having shareholders' and the Board approvals we are in the process of merging our subsidiary Telia Customer Service LT, a Contact Center that since 2017 solely takes care of the Company's customers, into Telia Lietuva.

As the result of our activities, profit for the year 2019 was EUR 54.7 million, an increase by EUR 26 thousand over the profit in 2018. Also, we are steadily increasing a return to our shareholders. In May of 2019, we paid-out a record-high EUR 0.08 dividend per share (in total EUR 46.6 million) for the year 2018. During 2019, the Company's share price and market capitalisation increased by 15.4 per cent bringing us to the top position among the Baltic market listed companies.

By the 1 April 2019, more than a thousand of Telia Lietuva employees has settled in a new headquarters of the Company in Vilnius, at Saltoniškių str. 7A. The new head-office is a proof of our commitment to minimise our activities impact on environment. It uses 40 per cent less energy, 52 per cent less water and emits 32 per cent less CO<sub>2</sub> than typical office buildings. Besides, at least 10 per cent of electricity is generated by rooftop solar panels and rainwater is being used in sanitation facilities. The Company invested EUR 5 million into improvement of employee's well-being.

In 2019, Telia Company set an ambitious environmental goal to become the world's greenest telco with zero CO<sub>2</sub> and zero waste by 2030. We fully support this ambition and are planning our actions to reach that goal.

In autumn of 2019, during discussion festival “Būtent!” we presented our updated sustainability agenda with more emphases on daring environmental goals, development of digital competencies and people’s empowerment. During 2019, we upgraded our children safety online project “Augu internete” (Growing up on the Internet) and devoted more attention to own employees’ kids’ development, had an internal diversity trainings and supported number of public diversity initiative, as well as launched a pilot project in cooperation with “Silver line” to facilitate onboarding of seniors into digital society.

In recognition of our sustainability initiatives Telia Lietuva was awarded as the Friendliest Workplace among the large corporates of Lithuania during the National Responsible Business Awards 2019. Besides distance working possibility and flexible working hours, our employees depending on working experience are granted up to 5 extra vacation days to have a healthy work and rest balance. Employee’s kids from age 6 to 12 are welcome to afterschool Telia Schoolchildren Club organized in Vilnius and Šiauliai offices. Also, an open office day for employees’ family members are organized regularly to show that Telia is a place to work.

The consolidated financial statements of the Group have been prepared according to the International Financial Reporting Standards as adopted by the European Union. Introduction of IFRS 16 “Leases” from 1 January 2019 influenced the financial statements for 2019. Comparative information for 2018 has not been restated. See Note 30 of Company’s Consolidated and Separate Financial Statements for the year ended 31 December 2019.

<b>Key financial figures</b> (in thousands of EUR unless otherwise stated)	<b>2019</b>	<b>2018</b>	<b>Change (%)</b>
Revenue	388,299	376,494	3.1
EBITDA excluding non-recurring items	130,992	128,730	1.8
EBITDA margin excluding non-recurring items (%)	33.7	34.2	
EBITDA	128,868	127,437	1.1
EBITDA margin (%)	33.2	33.8	
Operating profit (EBIT) excluding non-recurring items	61,905	64,208	(3.6)
EBIT margin excluding non-recurring items (%)	15.9	17.1	
Operating profit (EBIT)	59,781	62,915	(5.0)
EBIT margin (%)	15.4	16.7	
Profit before income tax	56,855	63,234	(10.1)
Profit before income tax margin (%)	14.6	16.8	
Profit for the period	54,726	54,700	-
Profit for the period margin (%)	14.1	14.5	
Earnings per share (EUR)	0.094	0.094	
Number of shares (thousand)	582,613	582,613	-
Share price (EUR)	1.275	1.105	15.4
Market capitalisation	742,832	643,787	15.4
Total assets	614,116	564,105	8.9
Shareholders’ equity	328,076	319,776	2.6
Cash flow from operations	139,540	106,767	30.7
Operating free cash flow	87,441	50,235	74.1
Capital investments (Capex)	52,669	61,844	(14.8)
Net debt	143,452	129,393	10.9
<b>Operating figures</b>	<b>31-12-2019</b>	<b>31-12-2018</b>	<b>Change (%)</b>
Mobile service subscriptions, in total (thousand)	1,347	1,389	(3.0)
- Post-paid (thousand)	1,069	1,126	(5.1)
- Pre-paid (thousand)	278	263	5.7
Broadband Internet (excl. Wi-Fi) connections, in total (thousand)	419	409	2.4
- Fiber-optic (FTTH/B) (thousand)	295	277	6.5
- Copper (DSL, VDSL) (thousand)	124	132	(6.1)
Fixed telephone lines in service (thousand)	296	354	(16.4)
IPTV service customers (thousand)	244	230	6.1
Number of personnel (head-counts)	2,336	2,733	(14.5)
Number of full-time employees	2,127	2,482	(14.3)

Financial ratios	31-12-2019	31-12-2018
Return on capital employed (%)	13.3	13.8
Return on average assets (%)	10.0	11.3
Return on shareholders' equity (%)	17.3	17.7
Operating cash flow to sales (%)	35.9	28.4
Capex to sales (%)	13.6	16.4
Net debt to EBITDA ratio	0.72	1.02
Gearing ratio (%)	28.4	40.5
Debt to equity ratio (%)	43.7	49.4
Current ratio (%)	115.5	133.8
Rate of turnover of assets (%)	65.0	67.6
Equity to assets ratio (%)	53.4	56.7
Price to earnings (P/E) ratio	13.6	11.8

Description of financial ratios and their calculation is provided at the Company's website <https://www.telia.lt/eng/investors/financial-results>

## Revenue

The **total consolidated revenue** for the year 2019 amounted to EUR 388.3 million and was by 3.1 per cent higher than the total revenue of EUR 376.5 million a year ago. Growing revenue from mobile communication, television, IT and equipment sales strongly contributed to the increase in total revenue during 2019.

Share of revenue from fixed and mobile communication services amounted to 44.6 and 32.7 per cent, respectively, from the total revenue for 2019. Share of revenue from equipment sales was 22.7 per cent.

During 2019, revenue from services provided to residential customers amounted to 59.2 per cent, to business customers – 39.4 per cent and others – 1.4 per cent of the total revenue.

Over the year, the number of “Telia One”, a converged offer that gives more value – higher speed, more data and more TV content – to those who have both fixed and mobile services of Telia Lietuva, customers increased 1.8 times and by the end of December 2019 reached 60 thousand (33 thousand a year ago).

At the beginning of 2019, the Company changed treatment of active **mobile** service user and took off 114 thousand of post-paid mobile service users from the total number of mobile subscriptions. As a result, during 2019, despite intake of a new customer (57 thousand), the number of post-paid mobile communication service users decreased by 57 thousand, while the number of pre-paid service users increased by 15 thousand. Over the year, the total number of active mobile subscriptions decreased by 42 thousand.

Nevertheless, the growing average usage of mobile data per user pushed the billed revenue from mobile services up by 5.7 per cent to EUR 104.9 million for the year 2019 over EUR 99.2 million a year ago.

In 2016, Telia Lietuva was the first and so far, the only in Lithuania to implement VoLTE technology in 4G network. The VoLTE (Voice over LTE) technology helps to ensure up to three times faster connection of phone calls, HD voice quality, and most importantly, the possibility to surf the Internet during a phone call. Since December 2019, VoLTE technology is available to iPhone owners in Telia Lietuva network. Before that only owners of Huawei, Samsung, Sony and Xiaomi handset were able to make VoLTE calls using the Company's network.

Revenue from other mobile services include revenue from the Company's mobile network interconnections as well as roaming charges to country's visitors and other network services. Revenue from other mobile services during 2019 was almost the same as a year ago and amounted to EUR 22 million (EUR 21.9 million in 2018). Elimination of roaming charges in the EU from 15 June 2017 has triggered an increase in data usage by Lithuania's visitors from more than 110 countries that use Telia Lietuva mobile network for Internet access.

On 15 May 2019, European Electronic Communications Code (EERC) came into force and laid down new regulatory rules for European telecommunications companies. This Code establishes that the maximum price for calls and SMS between EU countries may not exceed 19 cents per call minute and 6 cents per SMS (excluding VAT), which means that tariffs for those, who call and text SMS to other EU and EEA countries, decreased by as much as 80 percent.

The Company's total revenue from mobile services for the year 2019 amounted to EUR 126.9 million, an increase of 4.8 per cent over the total mobile revenue of EUR 121.1 million a year ago.

During 2019, the number of fixed telephone lines in service went down by 58 thousand and the total retail fixed **voice telephony** traffic decreased by 14.8 per cent. As a result, the revenue from retail voice telephony services for the year 2019, compared with a year ago, went down by 16.8 per cent, while revenue from low margin voice transit service for 2019 was 14.6 per cent lower than a year ago and pushed the total revenue from fixed voice telephony services down by 15.9 per cent to EUR 49.7 million compared with EUR 59.1 million for 2018.

Revenue from **equipment sales**, compared with the same revenue of EUR 77.7 million for the year 2018, went up by 13.5 per cent and for the year 2019 amounted to EUR 88.2 million mainly due to ongoing demand for the latest smartphones, tablets, laptops, TV sets and various gadgets.

Over the year, the total number of retail **broadband Internet** access (excluding Wi-Fi) users increased by 10 thousand. The number of Internet connections over the fiber-optic network increased by 18 thousand and reached 295 thousand at the end of December 2019, while the number of copper DSL connections eased by 8 thousand to 124 thousand. By the end of 2019, the number of Internet connections over the fiber-optic access network amounted to 70 per cent of the total 419 thousand retail broadband Internet (excluding Wi-Fi and wholesales) connections.

The second birth to copper lines used for Internet provision came with introduction of "Super VDSL" (S-VDSL) technology back in 2018. Depending on the length of the copper line connecting the Company's exchange and end equipment S-VDSL technology provides up to 250 Mbps Internet speed. By the end of 2019, more than 20 thousand of Internet connections over the copper line were already migrated from traditional DSL to S-VDSL technology and more than 48 thousand could be potentially migrated.

In 2019, the Company upgraded customer-premises equipment (CPE) to those, whose equipment was replaced the longest time ago. Equipment was replaced to both DSL and fiber-optic Internet customers. The new modem ensures Wi-Fi connectivity on 2.4 GHz and 5 GHz frequency bands, thus Wi-Fi at home will be even faster and more stable, with less interference from surrounding Wi-Fi networks.

Despite increase in number of broadband Internet customers revenue from broadband Internet services for the year 2019 amounted to EUR 56.6 million and was 2.1 per cent lower than revenue from Internet services of EUR 57.8 million a year ago due to contracted average revenue per user (ARPU).

During 2019, the number of smart **television** (IPTV) service users increased by 14 thousand and by the end of December 2019 amounted to 244 thousand.

In September 2018, the Company terminated the provision of digital terrestrial television (DVB-T). Majority of DVB-T users migrated to IPTV over the cable or IPTV over LTE service. IPTV over LTE 4G network as a substitute to outdated DVB-T service in remote or rural areas where cable network is not accessible was launched in June 2018.

From May 2019, smart TV service users were provided with TVPlay Premium production – more than 13 thousand movies and series in Lithuanian and other languages. World class TV series, movies and documentaries from HBO are exclusively available to the Telia TV service since August 2018. In 2019, Telia smart TV subscribers were able to enjoy the acclaimed HBO premiers – last episodes of Game of Thrones, miniseries Chernobyl and Catherine the Great – at the same time as the rest of the world.

In September 2019, TV channel created by the largest Lithuanian news portal, Delfi TV, and providing exclusively local content was launched on the Company's IPTV platform. Earlier Delfi TV was broadcasted only over the Internet.

Moreover, Telia smart TV that offers up to 30 TV channels, video-on-demand and exclusive HBO content became available on the customers phone, tablet or PC screen in Lithuania. The TV on the go service called Telia Play was launched in December 2019. Telia Play is available to all the Telia TV subscribers free of charge when connected to fixed, mobile or Wi-Fi network of any Internet provider if they are within EU state.

Growing number of Telia smart TV views and exclusive video content led to a double-digit growth in revenue from television services. During the 2019 revenue from television services went up by 18.1 per cent and amounted to EUR 30.8 million, while a year ago it was EUR 26.1 million.

Compared with the year 2018, revenue from **data communication** services alone during 2019 decreased by 4 per cent, while revenue from **network capacity** services alone declined by 0.3 per cent. As a result, the total revenue from data



communication and network capacity services for the year 2019 amounted to EUR 18.7 million and was 2.5 per cent lower than the same revenue of EUR 19.1 million a year ago.

Revenue from **IT services** generated from the data center, information system management and web-hosting services provided to local and multinational enterprises showed a double-digit growth in 2019. Revenue from IT services for the year 2019 amounted to EUR 11.3 million, an increase of 11 per cent over the same revenue of EUR 10.2 million a year ago.

The high level of the Company's IT management and security is confirmed by the ISO certificates in IT Services (ISO 20000) and Information Security (ISO 27001) Management Systems held by the Company. The data centers owned by the Company create the largest IT infrastructure in Lithuania. The latest data center, which was opened in April 2016, is certified according to TIER III security standards.

In September 2019, the Company signed an agreement with Kaunas Municipality for installation and maintenance of at least 234 video surveillance cameras in 31 public location in Kaunas city for a total amount of EUR 700 thousand. Over all, the Company has implemented video surveillance systems in 15 Lithuanian cities. Currently, the Company ensures maintenance of 683 cameras in public places of Lithuania.

At the end of 2019, the Company and Lietuvos Geležinkeliai (Lithuanian Railways) have signed a three-year equipment rental agreement worth EUR 1.4 million according to which the Company will modernise up to 1,000 portable computers with accessories and up to 500 external computer displays. IT equipment rental or the so-called Device as a Service (DaaS) agreement includes not only the cost of the equipment itself but also its insurance coverage, maintenance, recovery and other additional services.

Revenue from **other services** consists of the non-telecommunication services such as Contact Center services provided to external customers, lease of premises, discount refunds and other. Revenue from other services for the year 2019 amounted to EUR 6.1 million and was 15.5 per cent higher than the same revenue of EUR 5.3 million in 2018.

Gain or loss from sale of property, plant and equipment, as well as gain or loss on currency exchange is recorded at net value as **other gain (loss)**. The non-recurring gain from sales of property amounting to EUR 481 thousand was recorded in 2018.

## Market information

According to the latest Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue for the year 2019 amounted to EUR 713.5 million, an increase by 2.9 per cent over the total market revenue of EUR 693.4 million for the year 2018.

Telia Lietuva remains the largest telecommunications' service provider in Lithuania with the market share (in term of revenue) of 39.2 per cent for the fourth quarter of 2019, an increase by 0.45 percentage point over the year.

	The market shares in terms of customers (%)		The market shares in terms of revenue (%)	
	Q4 2019	Change (p.p.) (y-o-y)	Q4 2019	Change (p.p.) (y-o-y)
Fixed voice telephony services	80.5	(2.4)	87.5	(2.2)
Mobile voice telephony services	28.0	(1.5)	27.7	0.4
Fixed Internet access	52.2	0.2	59.4	(1.0)
Mobile Internet access	28.5	0.1	26.4	(2.5)
Pay-TV services	36.0	1.9	44.4	4.9
Data communication services	n/a	n/a	61.9	(3.5)

According to the Report of the CRA, on 31 December 2019, broadband Internet penetration per 100 residents of Lithuania was 50.9 per cent (47.3 per cent a year ago) and pay-TV penetration per 100 households was 51.7 per cent (50.3 per cent a year ago). The penetration of active mobile voice communication users per 100 residents was 132.6 per cent (134.7 per cent a year ago) and penetration of fixed voice telephony lines per 100 households – 26.8 per cent (31.3 per cent a year ago).

## Operating expenses

**Cost of goods and services** for the year 2019 amounted to EUR 155.2 million, an increase of 2.3 per cent over the cost of goods and services of EUR 151.7 million a year ago, mainly due to higher volumes of equipment sales in 2019.

Total **operating expenses** (excluding cost of goods and services, and non-recurring items) for the year 2019 were 7.3 per cent higher than total operating expenses in 2018. Total operating expenses (excluding cost of goods and services but including non-recurring items) for the year 2019 amounted to EUR 104.9 million and were 7.5 per cent higher than total operating expenses of EUR 97.5 million in 2018 due to higher both employee-related and other expenses in 2019.

**Employee-related expenses** (excluding one-time redundancy pay-outs) for the year 2019 were 3.9 per cent higher than a year ago. During 2019 non-recurring redundancy charge amounted to EUR 2.1 million (EUR 1.8 million in 2018). Employee-related expenses (including one-time redundancy pay-outs) for the year 2019 amounted to EUR 53.5 million, an increase by 4.4 per cent over the same expense of EUR 51.2 million in 2018 due to increase in average salary.

On 4 April 2019, the Company announced that to increase the efficiency and create a leaner structure of the Company the number of Telia Lietuva full-time employees during 2019 will be reduced by 285, while Telia Global Services Lithuania, a subsidiary of Telia Company operating in Vilnius, will expand with new job offerings and will reach 500 employees by the end of 2019. On 1 January 2019, the Company had already transferred 26 employees of its Human Resource unit (People HUB) to Telia Global Services Lithuania (TGSL) and 15 employees of Procurement unit were transferred to TGSL on 1 July 2019. In September 2019, 36 employees from Technology unit were outsourced to the third party.

During 2019, the total **number of employees** (headcount) decreased by 397 (mainly in Technology and Sales units) – from 2,733 to 2,336. In terms of full-time employees (FTE), the total number of Telia Lietuva Group employees during 2019 decreased by 355 – from 2,482 to 2,127.

**Other operating expenses** for the year 2019 amounted to EUR 51.4 million and were 10.9 per cent higher than operating expenses of EUR 46.3 million in 2018 due to higher marketing expenses, IT costs and increased volumes of services provided by Telia Company Group in 2019.

## Earnings

**EBITDA excluding non-recurring items** for the year 2019 amounted to EUR 131 million and was 1.8 per cent higher than EBITDA excluding non-recurring items in 2018 when it amounted to EUR 128.7 million. Non-recurring items for the year 2019 amounted to EUR 2.1 million (EUR 1.3 million in 2018) and mainly consisted of one-time redundancy pay-outs. EBITDA excluding non-recurring items margin for 2019 stood at 33.7 per cent, while a year ago it was 34.2 per cent. Comparable EBITDA, excluding non-recurring items and positive impact from IFRS 16, over the year fell 4.2 per cent.

**EBITDA** including non-recurring items for the year 2019 was EUR 128.9 million, an increase by 1.1 per cent over EBITDA including non-recurring items of EUR 127.4 million for 2018. EBITDA including non-recurring items margin in 2019 amounted to 33.2 per cent (33.8 per cent a year ago).

**Depreciation, amortisation and impairment charges** for the year 2019 over the depreciation, amortisation and impairment charges a year ago went up by 7.1 per cent and amounted to 17.8 per cent of the total revenue (17.1 per cent a year ago). An increase is mainly due to introduction of IFRS 16 “Leases” from 1 January 2019.

**Operating profit (EBIT) excluding non-recurring items** for January-December of 2019 was 3.6 per cent lower than operating profit (EBIT) excluding non-recurring items for the same period in 2018, and the operating profit excluding non-recurring items margin was 15.9 per cent (17.1 per cent a year ago).

**Operating profit (EBIT)** including non-recurring items for the year 2019 decreased by 5 per cent over operating profit (EBIT) including non-recurring items for the year 2018. Operating profit including non-recurring items margin was 15.4 per cent (16.7 per cent a year ago).

**Loss from investments** of EUR 1.9 million during 2019 represent result from activities of associated entity, UAB Mobilieji Mokėjimai, established by three Lithuanian mobile operators – Bitė, Tele2 and Telia – for provision of instant payment service. In March 2020, the shareholders of the undertaking decided to cease operations of UAB Mobilieji Mokėjimai from 18 May 2020. Prior to that, management of the Company has taken a decision to impair the value of this investment to EUR 1 as of 31 December 2019.

In 2018, the Company recorded a gain of EUR 683 thousand from investment activities related to divestment of subsidiaries: in June 2018, the Company sold its subsidiary Telia Global Services Lithuania, UAB, to Telia Company AB (Sweden), a largest shareholder of the Company, and in October – subsidiary UAB Verslo Investicijos to a third party.

**Net result from finance and investment activities** for the year 2019 was negative and amounted to EUR 2.9 million (in 2018 it was positive and amounted to EUR 319 thousand).

**Profit before income tax** for the year 2019 went down by 10.1 per cent and amounted to EUR 56.9 million (profit before income tax for the same period in 2018 was EUR 63.2 million).

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the year 2019 amounted to EUR 2.9 million (in 2018 – EUR 1.6 million). Thus, **income tax expenses** for the year 2019 were 75.1 per cent lower than a year ago.

As a result, **profit for the period** of the twelve months of 2019 amounted to EUR 54.7 million and was EUR 26 thousand higher than profit a year ago. The profit margin was 14.1 per cent while profit margin a year ago reached 14.5 per cent.

### Statement of financial position and cash flow

Due to introduction of IFRS 16 “Leases” from 1 January 2019 the audited Statement of Financial Position as of 31 December 2018 was restated and starting from 1 January 2019 new items on the balance sheet such as “Right-of-use-asset”, “Finance lease receivables” and “Lease liabilities” were created. As a result, the restated total assets as of 1 January 2019 were by EUR 35.8 million higher than audited total assets as of 31 December 2018 and retained earnings as well as total shareholders’ equity as of 1 January 2019 increased by EUR 183 thousand over retained earnings and shareholders’ equity as of 31 December 2018.

During 2019, **total assets** compared with total assets as of 31 December 2018 increased by 8.9 per cent. Total **non-current assets** increased by 7.5 per cent and amounted to 75.3 per cent of total assets. Total **current assets** increased by 6.5 per cent and amounted to 24.5 per cent of total assets, whereof cash alone represented 8.2 per cent of total assets.

**Shareholders’ equity** increased by 2.6 per cent and at the end of December 2019 amounted to 53.4 per cent of total assets.

On 26 April 2019, the Annual General Meeting of Shareholders allocated an amount of EUR 46.6 million for payment of **dividends** for the year 2018 from the Company’s distributable profit of EUR 131.6 million, i. e. EUR 0.08 dividend per share, and carried forward to the next financial year an amount of EUR 85 million as retained earnings (undistributed profit). In May 2019, dividends for the year 2018 were paid to the shareholders of the Company.

According to the Law on Companies of the Republic of Lithuania, dividends should be paid from retained earnings of the Parent company. As of 31 December 2019, **retained earnings** of the Parent company amounted to EUR 140.1 million, while consolidated retained earnings of Telia Lietuva Group amounted to EUR 142.2 million.

During 2019, the Company has repaid EUR 30 million from the EUR 150 million long-term bank loan. In May 2019, the Company used the option to extend the term of 5-years’ syndicated bank loan of EUR 60 million granted in 2017 for an extra two years, i.e. till May 2024. The full amount of this loan shall be repaid on maturity.

Also, in May 2019, the Company signed a new Revolver Loan Agreement with the largest shareholder of the Company, Telia Company AB, that provides a short-term credit facility for up to EUR 20 million. The Agreement is for two years.

At the end of December 2019, the total amount of **borrowings** amounted to EUR 143.5 million (EUR 158.1 million a year ago), whereof EUR 97.5 million were loans from banks, EUR 5 million was a short-term internal loan from Telia Company, EUR 38.7 million – obligations under vendor financing arrangements and EUR 2.2 million – obligation under financial lease agreements.

As of 31 December 2019, the net debt amounted to EUR 93.3 million (EUR 129.4 million a year ago) and net debt to equity (Gearing) ratio was 28.4 per cent (40.5 per cent at the end of December 2018).

The Company’s Dividend Policy that was approved by the Board in 2017 provides that the Company must maintain the net debt to EBITDA ratio not higher than 1.5 and to pay out 80 per cent of free cash flow as dividend. As of 31 December 2019, the Company’s net debt to EBITDA ratio was 0.72 (1.02 a year ago).

Net **cash flow from operating activities** for the year 2019 amounted to EUR 139.5 million and was 30.7 per cent higher than cash flow of EUR 106.8 million in 2018. **Operating free cash flow** (operating cash flow excluding capital investments) for 2019 was 74.1 per cent higher than a year ago (EUR 50.2 million) and amounted to EUR 87.4 million.

During 2019, the total **capital investments** amounted to EUR 52.7 million and were 14.8 per cent lower than capital investments of EUR 61.8 million a year ago. Most of capital investments (EUR 24.4 million or 46.3 per cent) went to upgrade of the core fixed network and development of fiber-optic access network. An amount of EUR 11.4 million was invested into development of mobile network, EUR 11.2 million – into development of IT systems under ongoing business transformation program (migration of customers, finance and business management systems into SAP) and EUR 5.7 million were other investments including investments into a new head-office.

At the end of 2019, the Company together with other Telia countries started setting up new generation customer service outlets. The first cosy and modern Telia outlet of Scandinavian design was opened in Šiauliai. The development of outlets' concept focused on a refined, clear communication, and layout of goods and services, so that customers would be able to easily navigate and find what they are looking for right after entering the outlet.

By the end of 2019, the Company opened another new concept outlet in Marijampolė and a renovated outlet in Vilnius, in the shopping centre BIG. During 2019, investments in setting-up outlets of new generation amounted to around EUR 300 thousand. The upgrade of other outlets is planned gradually over the forthcoming years.

During 2019, the Company installed and launched 595 new LTE 4G base stations and now has a network of 3,407 4G base stations in 1,425 locations across Lithuania. According to the latest data of the Communications Regulatory Authority (CRA), 4G mobile telecommunications service of the Company is available in 99 per cent of populated areas in Lithuania and the current average 4G speed in the Telia Lietuva network amounts to 76.2 Mbps.

By the end of December 2019, the Company had 929 thousand households passed (914 thousand a year ago), or 70.5 per cent of the country's households, by the fiber-optic network.

**Cash and cash equivalents** during 2019 increased by EUR 21.4 million.

During 2019, the Group paid EUR 79.1 million of **taxes and contributions**, not including taxes and contributions that were withheld and paid on behalf of other persons. An amount of EUR 25.5 million was contributed to the State Social Insurance Fund and a total of EUR 53.6 million was paid to the State Tax Inspectorate.

#### **Information about related party transactions**

Following the International Financial Reporting Standards as adopted by the EU, the parties related to the Company are the Company's subsidiaries, associates, companies that belong to Telia Company Group and management team of the Company. Companies that belong to Telia Company Group and management team of the Company are regarded as related parties to the Group. Transactions with related parties are carried out based on the arm's length principle.

In 2019, the Company and its subsidiaries and associates were providing to each other telecommunications, Contact Center and other services based on earlier signed agreements.

The Company and the Group through its largest shareholder, Telia Company AB, are related to Telia Company Group that provides telecommunication services in Nordic and Baltic countries. The main buyers and providers of telecommunications services to the Group based on earlier signed agreements are Telia Carrier AB (Sweden), Telia Eesti AS (Estonia), LMT (Latvia), Telia Finland Oyj (Finland). In 2019, the Company paid out to Telia Company an amount of EUR 41.1 million as dividend for the year 2018.

As of 31 December 2019, the outstanding balance of the loan granted by Telia Company to the Company was EUR 5 million. The loan was repaid on 3 January 2020. On 20 May 2019, the Company signed Revolver Loan Agreement with Telia Company AB for provision of revolving credit facility for up to EUR 20 million at 0.65 per cent margin. Tenor of the agreement – 2 years.

During 2019, the Company in several instalments extended two loans to associate UAB Mobilieji Mokėjimai for the total amount of EUR 910 thousand. In July and November 2019, loans including interests were converted into the share capital of UAB Mobilieji Mokėjimai and additional contribution of EUR 350 thousand into share capital of associate was made in January 2019. Over the year, the Company in total invested EUR 1,293 thousand into share capital of UAB Mobilieji Mokėjimai. The Company holds a 33.3 per cent stake in UAB Mobilieji Mokėjimai.

As of 31 December 2019, there were no loans extended by the Company to its subsidiaries or associates. In 2019, subsidiary Telia Customer Service LT, AB paid to the Company EUR 495 thousand in dividends for the year 2018. The Company's subsidiaries and associates have no interest in the share capital of the Company.

On 31 January 2020, the Company extended the loan to UAB Mobilieji Mokėjimai for an amount of EUR 90 thousand.

Information about new related party transactions entered by the Company during 2019:

Related party	Transaction	Value
<b>UAB Mobilieji Mokėjimai</b> , code 304431143, Žalgirio str. 92-701, Vilnius, Lithuania, Register of Legal Entities	08-01-2019 share subscription agreement regarding an increase of share capital of UAB Mobilieji Mokėjimai	EUR 350 thousand
	27-03-2019 loan provided by the Company at an annual interest rate of 3.33 per cent	EUR 150 thousand
	09-05-2019 loan amount increased by the Company up to EUR 330 thousand at the same annual interest rate of 3.33 per cent	EUR 180 thousand
	12-06-2019 loan amount increased by the Company up to EUR 500 thousand at the same annual interest rate of 3.33 per cent	EUR 170 thousand
	31-07-2019 EUR 500 thousand loan provided by the Company and interest converted into share capital of Mobilieji Mokėjimai	EUR 502 thousand
	05-08-2019 loan provided by the Company at an annual interest rate of 3.27 per cent	EUR 263 thousand
	24-10-2019 loan amount increased by the Company up to EUR 410 thousand at the same annual interest rate of 3.27 per cent	EUR 147 thousand
	18-11-2019 EUR 410 thousand loan provided by the Company and interest converted into share capital of Mobilieji Mokėjimai	EUR 411 thousand
	<b>Telia Company AB</b> , code 556103-4249, 169 94 Solna, Sweden	22-05-2019 3 months loan provided to the Company at interest rate of 0.336 per cent
03-07-2019 3 months loan provided to the Company at interest rate of 0.304 per cent		EUR 5 million
03-10-2019 3 months loan provided to the Company at interest rate of 0.222 per cent		EUR 5 million
<b>Telia Global Services Lithuania, UAB</b> , code 134517169, Konstitucijos ave. 29-1, Vilnius, Lithuania, Register of Legal Entities	08-01-2019 agreement on acquisition of equipment by the Company	EUR 11.4 thousand
	11-06-2019 agreement whereby Telia Lietuva, AB transfers 15 employees of Procurement unit and related assets and liabilities to Telia Global Services Lithuania, UAB	EUR 19 thousand
<b>SK ID Solutions AS Lietuvos filialas</b> , code 304977982, Krokvos str. 53-3, LT-09306 Vilnius, Register of Legal Entities	14-01-2019 lease agreement whereby Telia Lietuva, AB leases to SK ID Solutions AS Lietuvos filialas a part of premises (14.45 sq. m.) located at Vytenio str. 18, Vilnius, from 14-01-2019 till 01-04-2019	EUR 434.23 (excl. VAT) per month
<b>Telia Försäkring AB</b> , code 516401-8490, 169 94 Solna, Sweden	Combined commercial Insurance policy (Liability insurance) issued by Telia Försäkring (Telia Insurance) and valid from 01-06-2019 till 31-05-2020.	EUR 39.3 thousand

Information about related party transactions is provided in Note 31 of the Company's Consolidated and Separate Financial Statements for the year ended 31 December 2019. Following the Law on Companies of the Republic of Lithuania requirements, information about related party transaction concluded starting from 1 January 2018 is placed on the Company's website.

Information about volumes of the Company's transactions with related parties during 2019 (in EUR thousand):

	<b>Sales of telecommunication and other services</b>	<b>Purchase of telecommunication and other services</b>
<b>Telia Company AB and its subsidiaries:</b>		
Latvijas Mobilais Telefons SIA	1,166	745
Telia Asset Finance AB	-	6,180
Telia Carrier AB	3,054	1,501
Telia Company AB	-	12,264
Telia Danmark A/S	352	270
Telia Eesti AS	692	571
Telia Finland Oyj	708	248
Telia Global Services Lithuania, UAB	202	(29)
Telia Sverige AB	1,040	147
UAB Telia Carrier Lithuania	857	-
Other	44	150
	<b>8,115</b>	<b>22,047</b>
<b>Subsidiaries of the Company</b>		
Telia Customer Service LT, AB	1,238	11,713
	<b>1,238</b>	<b>11,713</b>

### Research and development activities

In December 2019, the Company launched an innovative TV on the go service called Telia Play, which was developed in cooperation with Telia Global Services Lithuania, a Telia Company Group shared service centre operating in Lithuania. This is one of the first common Telia products for all Baltic and Nordic countries.

Telia Play offers up to 30 TV channels, video-on-demand and exclusive HBO content on mobile phone, tablet or PC screen. Moreover, Telia Play is available to all Telia Lietuva smart TV service subscribers free of charge having connected to either fixed, mobile or Wi-Fi network of any Internet provider as long as they are within an EU state.

### Risk management

The Company's Risk management policy describes the risk as uncertainty, that might significantly influence the Company's goals and level of achievement of expected results. The Company distinguish the following risk: risk of business discontinuation, security risk, reputational risk, financial risk, regulatory risk, ethics and sustainability risk as well as operational risk.

The Company's risk management is based on requirements of ISO 31000 standard and COSO (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management (ERM) system. The Company has a business oriented risk management process, by implement which potential threats to business are indicated and plans for prevention of business discontinuity and crises situation management are set. Risk management is fully integrated into business planning and control processes.

The risk management includes internal and external environment of the Company, distinguishing, but not limiting to, the following main risk management areas of internal environment: finance management, information management, information technologies, resources management, revenue assurance, services and customer care, personnel, processes management, strategy and network management, as well as external environment: ecology, economic conditions, competition, political, socio-cultural, technology, legal and regulatory, suppliers and customers.

By combining related areas, the Company has a set of rules and best practices for risk management in such areas as resource risk management, network risk management, revenue assurance risk management, services and customer care risk management, information risk management, business relations, reputation and market risk management, legal risk management and corruption risk management.

The Group's and the Company's activities expose it to the following financial risks: market risk (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk, liquidity risk. The Group's Financial Management Policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group.

The Company's exposure to foreign exchange risk is not substantial as Telia Lietuva operates in euro zone and majority of services are provided to residents and businesses in Lithuania as well as majority of services and goods are purchased from local or euro zone suppliers. Certain foreign exchange risk exposure arises from the Company's international activities with foreign telecommunication operators and suppliers from outside the euro zone and is primarily related to settlements in US Dollars. The Company's trade payables and trade receivables in foreign currency are short-term and insignificant in comparison with settlements in euro. The Company manages foreign exchange risk by minimising the net exposure to open foreign currency position, therefore no foreign exchange hedging instruments is used.

The Company's income and operating cash flows are partially dependent of changes in market interest rates. An outstanding amount of fixed interest rate syndicated loan of EUR 150 million provided by SEB Bank and Danske Bank for acquisition of Omnitel back in 2016 as of 31 December 2019 was EUR 37.5 million and will be fully repaid in January 2021. In 2019, the tenor of EUR 60 million loan provided by SEB Bank, Danske Bank and Nordea Bank in 2017 was extended till May 2024 and will be repaid in full on maturity. The interest rates of this syndicated loan are set semi-annually and are based on a 6 months EURIBOR interest rate. The Company does not use any interest rate hedging tools.

The Company's financial assets' exposure to credit risk is related to cash deposits and trade receivables. Credit risk of cash deposits is managed by limiting the cash exposure to financial institutions with lower than A (according to Fitch or equivalent by Standard & Poor's) long-term credit ratings. As of 31 December 2019, majority (92 per cent) of the Group's cash deposits were held in AA-, A+ and A rated banks. The Company and the Group did not have any held-to-maturity investments at the end of 2019.

In November 2019, the Company entered into Participation Agreement with Skandinaviska Enskilda Banken (SEB) for customer receivables. Under agreement SEB acquired the rights to the cash flows for certain pools of Telia Lietuva's receivables from the sales of handsets to residential customers. The objective of the agreement is to improve the Company's working capital by achieving derecognition of the receivables by transferring the risk related to the receivables to SEB with the use of the so called "pass-through" rules in IFRS 9 Financial instruments.

To manage credit risk of trade receivables the Company checks the creditworthiness of all new customers (business and residential) before signing the contracts. Customers' invoices payment control consists of a few various reminders regarding the invoice payment term expiration and consequently provision of services is limited in 3-6 days after the last reminder for all indebted customers, and in 33-36 days provision of services is fully terminated and penalties are issued. After sending additional reminding letters bad debts are handed over to external bad debt collection agencies for debt recovery.

Liquidity risk relates to the availability of sufficient funds for the Company debt service, capital expenditure, working capital requirement and dividend pay-out. Prudent liquidity risk management implies maintaining sufficient level of cash and cash equivalents. The goal of the Company's liquidity risk management is to ensure that minimum liquidity position (calculated as cash and cash equivalents plus undrawn committed credit facilities) should at any time exceed the level of 2 per cent of the annual revenue. During 2019, the Company's liquidity position on average amounted to 10.8 per cent of the annual revenue. In 2019, the Company has renewed a Revolver Loan Agreement with Telia Company under which could borrow up to EUR 20 million for 3- or 6-months' period within 2 business days. During 2019, the Company has in total borrowed EUR 15 million from Telia Company and by the end of 2019 has an outstanding amount of EUR 5 million that was repaid in January 2020.

The Company is a part of reverse factoring or Supplier Invoice Financing (SIF) program where suppliers' invoices are paid by third party bank in 7 days for an agreed fee which is covered by supplier. The Company does not pay any credit fees and does not provide any additional collateral or guarantee to the bank. The Company pays bank full amount in up to one-year period (actual term depends on few variables agreed between all three parties). There were 17 suppliers which participated in SIF program during 2019 and generated over EUR 20 million cash flow.

At the end of December 2019, the total amount of borrowings amounted to EUR 143.5 million (EUR 158.1 million a year ago), whereof EUR 97.5 million were loans from banks, EUR 5 million was a short-term internal loan from Telia Company, EUR 38.7 million – obligations under reverse factoring arrangement and EUR 2.2 million – obligation under financial lease agreements.

As of 31 December 2019, the net debt amounted to EUR 93.3 million (EUR 129.4 million a year ago) and net debt to equity (Gearing) ratio was 28.4 per cent (40.5 per cent at the end of December 2018). The Company's net debt to EBITDA ratio was 0.72 (1.02 a year ago).

The Company's financial risk management is carried out by employees of Finance unit of the Company under Telia Company Group policies in close co-operation with Telia Company Group. More information about the Company's financial risk

management is provided in Note 3 of the Company's Consolidated and Separate Financial Statements for the year ended 31 December 2019.

Security and integrity are of highest priority to Telia Company Group including Telia Lietuva. As a part of that we constantly evaluate and assess all partners and suppliers. We always oversee the construction and operation of our networks and we are constantly focused on security and that applies to all suppliers. Telia Company use several suppliers for networks and Huawei is one (together with Ericsson and Nokia). Telia Company has strategic 5G-co-operations with Ericsson in Sweden and with Nokia in Finland. While planning for 5G, the security aspect is of highest priority which applies to all soft- and hardware in the networks. Telia Lietuva used Huawei equipment for 5G presentation in December 2018. The Company has no strategic partnership with Huawei such as Telia Company with Ericsson and Nokia. The Company, together with Telia Company, follow the debate about Huawei and other Chinese suppliers. In any case, the Company always complies with laws and regulations.

### Plans and forecasts

Telia Lietuva strategy is aligned with Telia Company strategy and is based on the same shared values – Dare, Care and Simplify – and foundation of values-driven culture, self-leadership, customer passion and cost ownership as cornerstones as well as strong governance framework with best-in-class ethics and compliance.

Our purpose – bringing the world closer – and our ambitions to have the most loyal and satisfied customers, deliver strong total shareholder return, being industry leader in digital impact through United Nation's Sustainable Development Goals and have the most engaged employees remains unchanged. To reach our ambitions we are building on connectivity leadership closer to what matters to our customers based on speed, innovation and great people.

We will do that by:

- delivering the best network experience across platforms,
- being the hub to digital experiences in homes and offices,
- being the digitalization partner of choice,
- enabling partners with new business models,
- having analytics and insights driven go-to-market and customer interaction,
- rebuilding the factory through softwarization,
- taking cost leadership through scale and synergies.

Currently the telecommunications industry is facing such global challenges as aging population, urbanisation, digitalisation and technology development. In Lithuania, Telia Lietuva is also dealing with fierce competition on the market and faces challenge in growth and is losing the market leader position in some areas. But still the Company is the most likeable and loved brand, we have a good reputation as employer and we are one of the biggest investors in Lithuania.

The Telia Lietuva strategic goals for the forthcoming years are:

- leadership in network – seamless connectivity and experience no matter of time, place, devices or technology, will require to reduce complexity by radical dismantle or migration of the legacy system while optimising our technology footprint and investing into development of narrow band and 5G,
- leadership in customer experience – always having the customers' interest first by acting upon real insights and offering multichannel service shall lead to regaining market share and leadership in mobility business by leveraging on convergence and growth in SME/SOHO segment,
- leadership in digitalisation – meeting customer needs through digital channels and ensuring our business efficiency through the digital platforms and tools.

The Company has an ambition that by 2022 our customers will be able to interact with us fully digitally without the need for human intervention. The first step has been already made in 2019 by employing artificial intelligence for chatbot robot in dealing with customers on-line. The goal is to offer digital and personalised interactions with customers throughout their whole customer journey. Using shops and customer care would be an option of convenience.

In terms of technology, in the beginning on 2020 we have demonstrated a potential of narrowband Internet of Things technology that will allow businesses and the public sector to develop next-generation services and improve the existing ones without making any significant investment. Also, we are actively participating in discussions regarding the 5G technology implementation in Lithuania and are await of 5G frequency auction which delayed due to ongoing state level negotiations with the neighbouring countries. Anyway, we are preparing for 5G era in Lithuania and are planning to be a front-runner.



## CORPORATE GOVERNANCE

According to the By-Laws of the Company, the **governing bodies of the Company** are the General Shareholder's Meeting, the Board and the CEO. The Law of the Republic of Lithuania on Companies provides that Lithuanian companies at their discretion could have either two (Supervisory Council and Board) or only one collegial governing body. There is no Supervisory Council in the Company.

The decisions of the **General Meeting** made regarding the matters of competence of the General Meeting, are binding upon the Shareholders, the Board, the CEO and other officials of the Company. The Shareholders of the Company that at the end of the date of the record of the General Meeting are shareholders of the Company have the right to participate in the General Meeting. The date of record of the General Meeting of the Shareholders of the Company is the fifth business day prior to the General Meeting or the repeated General Meeting. The person, participating in the General Meeting and having the right to vote, must deliver his/her identification proving document. In case the person is not a shareholder he/she is to present a document, proving his/her right to vote at the General Meeting.

Following the By-laws, **the Board** of the Company consists of six members who are elected for the term of two years and jointly act as a managing body of the Company. The Board represents the shareholders, and performs supervision and control functions. The members of the Board are elected by the General Meeting in accordance with the procedure established by the Law on Companies of the Republic of Lithuania. The Chair of the Board is elected by the Board from its members for two years. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

The By-laws of the Company provides that the Board of Telia Lietuva:

- is responsible for the strategic direction of the Company;
- considers and approves the strategy of the Company, the annual and interim reports of the Company, the structure of the Company's governance and positions of the employees, the positions to which employees shall be hired through a contest, and nominees to such positions, nominees to the positions directly reporting to the CEO, remuneration and dismissal from the positions, regulations of branches and representative offices of the Company, general principles (procedure) of payment of bonuses to Company's employees;
- sets the information, which shall be held the commercial (industrial) secret and confidential information of the Company;
- analyses and assesses materials provided by the CEO concerning the strategy implementation, activities and financial status of the Company;
- adopts decisions to become incorporator or participant of other legal entities, acquisition or disposal by the Company of the shares of other companies, acquisition, transfer, lease of any assets or business, assumption of new debt obligations, when the amount of the transactions exceeds EUR 1.6 million (excl. VAT);
- adopts decisions concerning the annual financial statements of the Company and a draft of profit (loss) distribution that are proposed by the CEO and presents these drafts to the General Meeting;
- adopts decisions on transactions with related parties as prescribed by the Law and transactions that has a significant impact on the Company, its finances, assets, liabilities;
- is responsible for convocation of General Meetings in a timely manner.

The Board elects and recalls the **CEO** of the Company, sets his remuneration and other conditions of the employment agreement, approves his office regulations, induces and applies penalties to him. The CEO is the Head of the Company. The Head of the Company is a one-man management body of the Company and, within his scope of authority, organizes the day-to-day operation of the Company. An employment agreement with the CEO is signed by the Chair of the Board or other person, authorized by the Board. The remuneration of the CEO comprises a fixed salary and bonuses (premiums), payable contingent on the results of the Company's activities and performance of the CEO. The Work Regulations that are approved by CEO define the duties and authority of CEO and other officers of the Company in more details.

The By-laws of the Company provides that CEO of Telia Lietuva:

- supervises the day-to-day operation and ensure the implementation of the Company's Business Plan;
- prepares annual financial statements and annual report of the Company;
- prepares a draft decision on the allocation of dividends;
- reports on the current operations of the Company at each meeting of the Board;
- performs the functions delegated to him by the Board and implement decisions adopted by the General Meeting;
- represents or procures the representation of the Company before companies, authorities, organizations, courts, arbitration and in relations with any third party;
- opens or closes accounts with banking institutions and dispose of the funds therein;
- executes the Company's transactions pursuant to the By-laws, decisions of the General Meeting and the Board;
- issues authorizations to other persons to perform his functions within the scope of his authority;

- issues procurations;
- issues internal documents regulating the work of the administration, and other structural units;
- appoints and dismisses employees of the Company, signs, amends and terminates on behalf of the Company employment agreements with employees of the Company (except where, in cases provided in these By-laws, Board approval is required);
- determines employees' salaries and bonuses (except where, in cases provided in these By-laws, Board approval is required); presents the procedure for payment of bonuses to the Board for approval;
- ensures the protection and increases of the Company's assets, normal working conditions, and protection of commercial secrets;
- represents or gives another person a power of attorney to represent the Company in general meetings of shareholders of other companies in which the Company has invested;
- approves, amends and supplements the work regulations of the administration;
- provides reports to the Shareholders and the Board on major events that are relevant to the Company's activities;
- complies with legal requirements when concluding transactions with related parties;
- executes other functions, ascribed to the competence of the head of a Company in the valid legal acts.

The Company essentially follows a recommendatory **Corporate Governance Code** for the Companies Listed on Nasdaq Vilnius stock exchange (hereinafter 'the Governance Code') adopted in August 2006, amended in December 2009 and newly worded from January 2019. The Company does not have a Supervisory Council, but supervision functions set by the Law on Companies of the Republic of Lithuania are performed by the Board, which is a non-executive managing body of the Company and is comprised from four representatives of the largest shareholder, Telia Company, and two independent members of the Board. The Company does not have a Nomination Committee as its functions are performed by the Remuneration Committee. The Company currently does not comply with the Code requirement that Chair of the Board should not serve as the Chair of committee, because historically the Chair of the Board of the Company is the Chair of the Remuneration Committee.

The Company prepared the disclosure of compliance with the principles and recommendation set by the Governance Code in Telia Lietuva, AB Corporate governance reporting form for the year ended 31 December 2019, which is an annex to this Annual Report.

### Share capital

The **authorised capital** of the Company amounts to 168,957,810.02 euro and consists of 582,613,138 ordinary registered shares with a nominal value of 0.29 euro each.

### Shareholders

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 2019:

Name of the shareholder (name of the enterprise, type and registered office address, code in the Register of Enterprises)	Number of ordinary registered shares owned by the shareholder	Share of the share capital (%)	Share of votes given by the shares owned by the right of ownership (%)	Share of votes held together with persons acting in concert (%)
Telia Company AB, 169 94 Solna, Sweden, code 556103-4249	513,594,774	88.15	88.15	-
Other shareholders	69,018,364	11.85	11.85	-
<b>Total:</b>	<b>582,613,138</b>	<b>100.00</b>	<b>100.00</b>	<b>-</b>

The number of **shareholders** on the shareholders' registration day (18 April 2019) for the Annual General Meeting of Shareholders, which was held on 26 April 2019, was 10,968.

### Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. As of 31 December 2019, the number of the Company's shares that provide voting rights during the General Meeting of Shareholders amounted to 582,613,138. One ordinary registered share of the Company gives one vote in the General Meeting of Shareholders.

The Company is not aware of any agreements between the shareholders that could limit transfer of securities and/or their ability to exercise their voting rights.

## Shareholders meetings

The Annual General Meeting of shareholders, that was held on 26 April 2019, decided:

- to approve the Company's audited annual financial statements for the year 2018,
- to allocate the Company's profit for the year 2018,
- to change the Company's registered office address,
- to approve the preparation of reorganisation terms,
- to re-elect members of the Board for a new term of the Board.

Both independent members of the Board – Tomas Balžekas and Mindaugas Glodas, as well as CEO of the Company, Dan Strömberg, and CFO of the Company, Arūnas Lingė, have attended the Annual General Meeting of Shareholders.

## Procedure for amending the Company's By-laws

The Company's By-laws provide that the By-laws of the Company can be amended upon the initiative of the Board or Shareholders, whose shares grant them no less than 1/20 of the whole votes. The decision on amendment of the By-laws shall be taken by the 2/3 majority of the votes of participants of the General Meeting. In case the General Meeting takes the decision to amend the By-laws of the Company the whole text of the amended By-laws shall be drawn and signed by the person, authorized by the General Meeting.

## Information about trading in the Company's securities

582,613,138 ordinary registered shares of Telia Lietuva, AB (ISIN code LT0000123911) are listed on the Main List of Nasdaq Vilnius stock exchange (code: TEL1L). Nasdaq Vilnius stock exchange is a home market for the Company's shares.

From January 2011, the Company's shares are included into the trading lists of Berlin Stock Exchange (Berlin Open Market (Freiverkehr), Frankfurt Stock Exchange (Open Market (Freiverkehr), Munich Stock Exchange and Stuttgart Stock Exchange. Telia Lietuva share's symbol on German stock exchanges is ZWS.

During 2019, the Company's **share price** on Nasdaq Vilnius stock exchange increased by EUR 0.17 or 15.4 per cent. The shares' turnover, compared to the year 2018, went down by 37.1 per cent. The Company's **market capitalisation** on 31 December 2019 was EUR 742.8 million, an increase by 15.4 per cent over the market capitalisation of EUR 643.8 a year ago.

Information about trading in the Company's shares on Nasdaq Vilnius stock exchange in 2019:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	1.110	1.290	1.095	1.275	1.170	4,665,175	5,460,065

## Dividends

In 2017, the Board of the Company approved dividend policy which provides that the Company must maintain the net debt to EBITDA ratio not higher than 1.5 and to pay out 80 per cent of free cash flow as dividend. Each year the Company pays dividends although there was no officially approved dividend policy until 2017.

On 23 May 2019, the Company paid out to the shareholders an amount of EUR 46.6 million of dividends or EUR 0.08 per share for the year 2018. In accordance with the relevant legislation, dividends were paid to the shareholders who were on the Shareholders' List of the Company on the dividend record day, 13 May 2019, i.e. the tenth business day after the Annual General Meeting of Shareholders. Dividends to all shareholders were paid in cash.

## Treasury stocks

The Company has no treasury stocks. The Company has never acquired any shares from the management of the Company.

## The Board Activities

On 26 April 2019, upon termination of the two-years' term of the Board, the Annual General Meeting of Shareholders following the proposal of the largest shareholder of the Company, Telia Company AB, re-elected all members of the Board for a new two-years' term.

All members of the Board are non-executive members of the Board. Four members of the Board – Emil Nilsson, Agneta Wallmark, Claes Nycander and Hannu-Matti Mäkinen – represent Telia Company and two members of the Board – Tomas Balžekas and Mindaugas Glodas – are regarded as independent members of the Board.

In June 2019, for the new two-years' term till 26 April 2021 re-elected Board has re-elected Emil Nilsson as a Chair of the Board and re-appointed Agneta Wallmark and both independent members of the Board – Tomas Balžekas and Mindaugas Glodas – as the members of the Audit Committee for the term of their membership in the Board. Agneta Wallmark was re-elected as the Chair of the Audit Committee. The Board also re-elected Emil Nilsson, Claes Nycander and Mindaugas Glodas (independent member of the Board) as the members of the Remuneration Committee for the term of their membership in the Board. Emil Nilsson was re-elected as the Chair of the Remuneration Committee.

During 2019, eight ordinary and four extraordinary **meetings of the Board** were held. Ordinary meetings were convened according to the preliminary approved schedule of the Board meetings, and extraordinary meetings were convened following the procedure provided by the Rules of Procedure of the Company's Board for appointment of Head of Direct and Digital Channels, and Head of Finance, approval of Reorganisation Terms and onboarding of the New Operating Model. During all Board meetings there was quorum prescribed by legal acts.

Information about the Board members' attendance of the meetings in 2019 (number of attended/to be attended meetings):

Name, surname	Position	Meeting attendance			Tantiemes for 2018 paid-out in 2019 (EUR)
		Board	Audit Committee	Remuneration Committee	
Emil Nilsson	Chair of the Board, Chair of the Remuneration Committee	12/12		8/8	-
Claes Nycander	Member of the Board, member of the Remuneration Committee	12/12		8/8	-
Agneta Wallmark	Member of the Board, Chair of the Audit Committee	12/12	5/5		-
Hannu-Matti Mäkinen	Member of the Board	12/12			-
Tomas Balžekas	Member of the Board, member of the Audit Committee	11/12	5/5		15,640
Mindaugas Glodas	Member of the Board, member of the Audit and Remuneration Committees	12/12	5/5	8/8	15,640

During its meetings the Board, besides the ongoing follow up of the Company's business plan implementation, supervision of transformation and other programs' development, approved:

- financial statements for the 12 months of 2018 and 3, 6 and 9 months of 2019,
- financial statements and the consolidated annual report for the year ended 31 December 2018,
- convocation of the Annual General Meetings of Shareholders and agenda of the Meeting,
- proposal of profit allocation for the year 2018,
- payment of annual bonuses for the year 2018,
- the Company's targets and KPIs for the year 2019,
- updated Variable Pay Instruction and the following Policies: People, Source to Pay, Anticorruption and Antibribery, Security, Inside Information and Insider Trading,
- agreements with debt recovery company and media planning partner,
- extension of the term of EUR 60 million syndicated banks' loan for additional two years, i.e. till May 2024,
- signing of a new Revolver Loan Agreement of EUR 20 million with Telia Company AB,
- Participation Agreement with Skandinaviska Enskilda Banken AB,

- Telia Lietuva, AB accession to the Framework Agreement for Electronic Invoice Management Service between Telia Company AB and Danske Bank A/S, Denmark, Swedish Branch, and Data Transfer Agreement between Telia Company AB and OP Corporate Bank plc.,
- related party transactions with UAB Mobilieji Mokėjimai and Telia Global Services Lithuania, UAB,
- additional investments into UAB Mobilieji Mokėjimai,
- elections of the Chair of the Board, members and Chairs of the Remuneration and Audit Committees,
- appointment of the Head of Direct and Digital Channels, Head of Legal and Corporate Affairs, Head of Finance, Head of B2C, Head of B2B and acting Head of Digitalisation and Analytics (from 1 January 2020),
- Reorganisation terms, whereby Telia Customer Service LT, AB will be merged into Telia Lietuva, AB,
- new Rules of Procedure of the Board and Committees,
- implementation of the New Operating Model of Telia Company Group,
- new organisational structure of the Company valid from 1 January 2020.

The Board on a regular base considered reports of the Audit and Remuneration Committees as well as reports of the Company's management.

On 26 April 2019, the shareholders resolved to allocate for two independent members to the Board – Tomas Balžekas and Mindaugas Glodas – the total amount of EUR 31,280, or EUR 15,640 each, as a tantiemes (annual payment) for the year 2018. As of 30 December 2019, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010 was not paid to the then member of the Board who had not provided written requests to the Company.

The **Remuneration Committee** of the Company shall make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders. The Remuneration Committee reviews and establishes the general compensation goals and guidelines for the Company's employees and the criteria by which bonuses are determined, reviews and makes recommendation for compensation for executives and management, plans for executive development and succession, supports the Chair of the Board in the recruitment of CEO and supports CEO in recruitment of the managers directly reporting to CEO.

During 2019 eight meetings of the Remuneration Committee were held. The following issues were considered during these meetings:

- evaluation of the Company's Management team members' performance and approval of variable pay amounts for Management team for the year 2018,
- evaluation of the CEO performance and approval of variable pay amount for the year 2018,
- appointment of the Head of Direct and Digital Channels, Head of Legal and Corporate Affairs, Head of Finance, Head of B2C, acting Head of Digitalisation and Analytics (from 1 January 2020),
- salary review of members of the Management team,
- update of Variable Pay Instruction and People Policy,
- succession planning,
- new Committee's Rules of Procedure,
- onboarding of the New Operating Model,
- new organisational structure of the Company valid from 1 January 2020.

All members of the Committee attended all meetings of the Committee and all meetings were chaired by Chair of the Committee, Emil Nilsson.

The purpose of the **Audit Committee** is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its internal orders.

During 2019, five meetings of the Audit Committee were held, during which the following issues were considered:

- report of external auditors regarding the financial statements for the year 2018,
- draft of audited financial statements and the Annual Report for the year 2018,
- draft of Profit allocation statements for the year 2018 (dividends and tantiemes),
- extension of the term of EUR 60 million syndicated banks' loan for additional two years, i.e. till May 2024,
- signing of a new Revolver Loan Agreement of EUR 20 million with Telia Company AB,
- Participation Agreement with Skandinaviska Enskilda Banken AB,
- accession of Telia Company Group agreements for suppliers' invoice financing,
- findings of the Bank of Lithuania investigation,
- regular reports of risk management, internal audit and local Governance, Risk, Ethics and Compliance meetings,
- Source to Pay Policy,

- implementation of the New Operating Model,
- plan of external auditors regarding the audit of financial statements,
- new Committee's Rules of Procedure.

Following the requirements of the Law on Companies of the Republic of Lithuania, the Audit Committee produced written opinions regarding not typical to the Company's activities related parties' transactions and submitted their opinions to the Board for the final approval of transactions. During 2019, there were 3 related parties' transaction that the Audit Committee had to consider. All members of the Committee attended all meetings of the Committee. All meetings were chaired by Chair of the Committee, Agneta Wallmark.

During the first meeting of the Audit Committee in 2019 the external auditors from Deloitte Lietuva presented an audit plan for the year 2019, team of auditors and officially stated about their independence.

### Members of the Board

**Emil Nilsson** (born in 1971) – Chair of the Board, member of the Board since 9 November 2018, re-elected for the two-year terms on 26 April 2019 (nominated by Telia Company AB), Chair of the Remuneration Committee. Education – University of Stockholm (Sweden), Bachelor of Science in Finance. Employment – Telia Company AB, 169 94 Solna, Sweden, code 556103-4249, Senior Vice President & Head of cluster Lithuania, Estonia and Denmark (LED) and Region Eurasia. Current Board Assignments:

- Telia Eesti AS, Mustamäe tee 3, 15033 Tallinn, Estonia, code 10234957, Chair of the Supervisory Council;
- Moldcell S.A., Belgrad str. 3, MD2060 Chisinau, Moldova, code 1002600046027, Chair of the Board;
- Svenska Handbollslandslaget AB, Arsenalsgatan 2, 111 47 Stockholm, Sweden, code 556768-4906, member of the Board.

Emil Nilsson has no direct interest in the share capital of Telia Lietuva. He has 41,851 shares of Telia Company AB (Sweden).

**Agneta Wallmark** (born in 1960) – member of the Board since 25 April 2018, re-elected for the two-year terms on 26 April 2019 (nominated by Telia Company AB), Chair of the Audit Committee. Education: Stockholm School of Economics (Sweden), B. Sc. Econ with special focus on Accounting and Finance and Stockholm University (Sweden), LL M with special focus on Tax and Economics. Employment – Telia Company AB, 169 94 Solna, Sweden, code 556103-4249, Vice President, Head of Group Treasury. Current Board assignments:

- Telia Försäkring AB (Telia Insurance), 169 94 Solna, Sweden, code 516401-8490, Chair of the Board;
- Swedish Pension Fund of Telia, 169 94 Solna, Sweden, member of the Board;
- Telia Towers AB, 169 94 Solna, Sweden, code 559196-5164, member of the Board.

Agneta Wallmark has no direct interest in the share capital of Telia Lietuva.

**Claes Nycander** (born in 1963) – member of the Board since 29 April 2014, re-elected for the two-year terms on 29 April 2015, 27 April 2017 and 26 April 2019 (nominated by Telia Company AB), member of the Remuneration Committee. Education: Uppsala University (Sweden), Master of Business and Administration; Stanford University Palo Alto (U.S.A.), Master of Science in Electrical Engineering; Institute of Technology at University of Linköping (Sweden), Master of Science in Electrical Engineering, and University of Linköping (Sweden), Bachelor of Science in Mathematics. Employment – Telia Company AB, 169 94 Solna, Sweden, code 556103-4249, Vice President and Head of Chief Operating Officer Office & LED (Lithuania, Estonia, Denmark) Management at Group Service Operations. Current Board Assignments:

- TT-Netværket P/S, Amager Strandvej 60, 2300 København S, Denmark, code 34230625, Chair of the Board;
- Telia Towers AB, 169 94 Solna, Sweden, code 559196-5164, Chair of the Board;
- Telia Company Danmark A/S, Holmbladsgade 139, 2300 København S, Denmark, code 18530740, Chair of the Board;
- Telia Mobile Holding AB, 169 94 Solna, Sweden, code 556855-9040, Chair of the Board
- Telia Nättjänster Norden AB, Mårbackagatan 11, 123 43 Farsta, Sweden, code 556459-3076, Chair of the Board;
- Systecon AB, Rehngatan 20, 113 57 Stockholm, Sweden, code 556536-6605, member of the Board;
- Systecon Group AB, Rehngatan 20, 113 57 Stockholm, Sweden, code 556710-8492, member of the Board;
- Systecon Software AB, Rehngatan 20, 113 57 Stockholm, Sweden, code 556714-5403, member of the Board;
- Svenska UMTS-Nät AB, Warfvinges Väg 45 4tr, 11251 Stockholm, Sweden, code 556606-7996, member of the Board;
- Svenska UMTS-licens AB, Warfvinges Väg 45, 112 51 Stockholm, Sweden, code 556606-7772, member of the Board;
- Latvijas Mobilais Telefons (LMT) SIA, Ropažu iela 6, Rīga, LV-1039 Latvia, code 50003050931, member of the Supervisory Council;
- Telia Eesti AS, Mustamäe tee 3, 15033 Tallinn, Estonia, code 10234957, member of the Supervisory Council.

Claes Nycander has no direct interest in the share capital of Telia Lietuva.

**Hannu-Matti Mäkinen** (born in 1970) – member of the Board since 25 April 2018, re-elected for the two-year terms on 26 April 2019 (nominated by Telia Company AB). Education: University of Arizona (U.S.A), College of Law, LL.M (Master of Laws) in International Trade Law, and University of Lapland (Finland), School of Law, LL. B (Bachelor of Laws) and LL.M (Master of Laws) in Finnish and EU-Law. Employment – Telia Company AB, 169 94 Solna, Sweden, code 556103-4249, Vice President and Head of Legal Practice Group B2B & Carrier. Current Board Assignments:

- Telia Finland Oyj, PL 106, FI-00511 Sonera, Finland, code 1475607-9, member of the Board;
- Tilts Communications A/S, Holmbladsgade 139, 2300 København, Denmark, code 17260642, member of the Board;
- Tet SIA, Dzirnau iela 105, Rīga, LV-1011 Latvia, code 40003052786, member of the Supervisory Council.

Hannu-Matti Mäkinen has no direct interest in the share capital of Telia Lietuva.

**Tomas Balžekas** (born in 1977) – member of the Board since 25 April 2018, re-elected for the two-year terms on 26 April 2019 (as independent member of the Board nominated by Telia Company AB), member of the Audit Committee. Education: Concordia University Wisconsin (U.S.A.), Master of Business Administration (MBA), Finance; Concordia University Wisconsin (U.S.A.), Bachelor of International Business, and Concordia International University Estonia, Bachelor of International Business. Employment: UAB Media Bitės, Kęstučio g. 25, LT-08121 Vilnius, Lithuania, code 304552458, General Manager (CEO). Involvement in activities of other entities:

- UAB Media Bitės, Kęstučio g. 25, LT-08121 Vilnius, Lithuania, code 304552458, shareholder (51 per cent);
- UAB Mano Doktoras, Kęstučio g. 25, LT-08120 Vilnius, Lithuania, code 303085208, a subsidiary of UAB Media Bitės, General Manager (CEO);
- UAB Balžeko Bitės, Aukštaičių g. 6, LT-11341 Vilnius, Lithuania, code 302833809, shareholder (100 per cent);
- UAB M7 Plius, Vlodo Mirono g. 6D, LT-11311 Vilnius, Lithuania, code 305250719, shareholder (25 per cent);
- VšĮ M7 Sporto Grupė, Vlodo Mirono g. 6D, LT-11311 Vilnius, Lithuania, code 305229956, owner (25 per cent);
- VšĮ Lietuvos Nacionalinis Radijas ir Televizija (Lithuanian National Radio and Television), S. Konarskio g. 49, LT-03123 Vilnius, Lithuania, code 124241078, member of the Council.

Tomas Balžekas has no direct interest in the share capital of Telia Lietuva.

**Mindaugas Glodas** (born in 1972) – member of the Board since 25 April 2018, re-elected for the two-year terms on 26 April 2019 (as independent member of the Board nominated by Telia Company AB), member of the Audit and Remuneration Committees. Education: University of Antwerp, Centre for Business Administration UFSIA (Belgium), Master of Business Administration (MBA), and Vilnius University, Faculty of Economics (Lithuania), Bachelor of Business Administration (BBA). Employment: NRD Companies AS, Løkketangen 20 B, 1337 Sandvika, Norway, code 921985290, General Manager; Norway Registers Development AS, Løkketangen 20 B, 1337 Sandvika, Norway, code 985221405, General Manager; Norway Registers Development AS Lithuanian branch, Gynėjų g. 14, LT-01109 Vilnius, Lithuania, code 304897486, General Manager; Zedge Lithuania, UAB, J. Basanavičiaus g. 26, LT-03244 Vilnius, Lithuania, code 304890634, General Manager. Involvement in activities of other entities:

- Council for Research, Development and Innovations at the Government of Lithuania, Gedimino pr. 11, LT-01103 Vilnius, code 188604574, member of the Council;
- Agency for Science, Innovations and Technologies, A. Goštauto g. 12-219, LT-01108 Vilnius, Lithuania, code 188730854, member of Coordinating Council;
- Association Žinių Ekonomikos Forumas, Saulėtekio al. 15, LT-10221, Vilnius, Lithuania, code 225709520, member of the Council;
- Lithuanian National Committee for UNICEF, Aušros Vartų g. 3, LT-01304 Vilnius, Lithuania, code 191588169, Chair of the Board;
- MB Vox Proxima, Perkūno g. 32, Gilužių k., LT-14195 Vilniaus r., Lithuania, code 303481474, member of partnership (50 per cent);

Mindaugas Glodas has no direct interest in the share capital of Telia Lietuva.

## Management Team

**Dan Strömberg** (born in 1958) – CEO of the Company from 4 July 2018. Education: IHM/Stockholm University (Sweden), Finance and IHM Business School (Sweden), Marketing. Involvement in activities of other entities:

- Tet SIA Dzirnau iela 105, Rīga, LV-1011 Latvia, code 40003052786, Deputy Chair of the Supervisory Council,
- Association Investors' Forum, Totorių g. 5-21, LT-01121 Vilnius, Lithuania, code 224996640, member of the Board.

Dan Strömberg has no direct interest in the share capital of Telia Lietuva.

On 21 March 2019, the Company announced that Mindaugas Ubartas, Head of Business to Business (B2B) and acting Head of Business to Consumer (B2C), decided to leave the Company from 12 April 2019. In June 2019, the Board appointed Daniel Karpovič, Head of Segment and Product Management, as a new Head of Business to Business (B2B) from 6 June 2019, and Nortautas Luopas as a new Head of Business to Consumers (B2C) from August 2019.

From 1 January 2020, the Company established a new Digitization and Analytics unit that took over the management of digital channels from the Direct and Digital Channels unit and is merged with the Data and Business Insights unit, which until then was a part of the Business to Consumer (B2C) Unit. Nortautas Luopas, the Head of Business to Consumer of the Company, will temporarily lead the new unit responsible for data mining, management, modelling as well as marketing automation and management. Also, from 1 January 2020, names of some units were changed.

**Nortautas Luopas** (born in 1979) – Head of Consumer (B2C) from 16 August 2019, acting Head of Digitization & Analytics from 1 January 2020. Education: Klaipėda University (Lithuania), Bachelor's degree in Applied Mathematics and IT (2001), and Baltic Management Institute (Lithuania), Executive MBA (2009). He is not involved in activities of other entities. Nortautas Luopas has no direct interest in the share capital of Telia Lietuva and has no shareholdings that exceed 5 per cent of the share capital of any company.

**Daniel Karpovič** (born in 1982) – Head of Enterprise (B2B) from 6 June 2019. Education: Catholic University of Lublin in Poland, Master of Psychology (2006) and studies in Marketing (2006). He is not involved in activities of other entities. Daniel Karpovič has no direct interest in the share capital of Telia Lietuva and has no shareholdings that exceed 5 per cent of the share capital of any company.

From 1 January 2019, a new Direct and Digital Channels unit was formed and Giedrė Kaminskaitė-Salters, previously the Company's General Counsel and Head of Public Affairs from 7 December 2015, became a Head of Direct and Digital Channels. The unit of Direct and Digital Channels (from 1 January 2020 renamed to Sales and Customer Care) unites specialists of direct customer care, digital channels and sales support from the Business to Consumers (B2C) and Business to Business (B2B) units as well as specialists of service implementation from the Technology unit.

**Giedrė Kaminskaitė-Salters** (born in 1978) – Head of Sales and Customer Care (former Direct and Digital Channels) from 8 January 2019. Education: Maastricht University (The Netherlands), Doctor of Law; BPP Law School, London (United Kingdom), law conversion studies, juris doctor equivalent; Oxford University (United Kingdom), MPhil in Russian and East European Studies; London School of Economics (United Kingdom), Bachelor of Science in International Relations. Involvement in activities of other entities:

- Latvijas Mobilais Telefons (LMT) SIA, Ropažu iela 6, Rīga, LV-1039 Latvia, code 50003050931, member of the Supervisory Council and the Audit Committee;
- UAB Litexpo, Laisvės pr. 5, LT-04215 Vilnius, Lithuania, code 120080713, Chair of the Board;
- UAB Mobilieji Mokėjimai, Žalgirio str. 92-701, LT- 09303 Vilnius, Lithuania, code 304431143, member of the Board,
- Association "Lyderė", Jogailos g. 9, LT-01116 Vilnius, Lithuania, code 304439065, member of the Board.

Giedrė Kaminskaitė-Salters has no direct interest in the share capital of Telia Lietuva and has no shareholdings that exceed 5 per cent of the share capital of any company.

**Andrius Šemeškevičius** (born in 1976) – Head of Technology Infrastructure from 18 August 2014. Education: Vilnius Gediminas Technical University (Lithuania), Bachelor's degree in Engineering Informatics and Master's degree in Engineering Informatics. He is not involved in activities of other entities. Andrius Šemeškevičius has 8,761 shares of Telia Lietuva that accounts to 0.0015 per cent of the total number of the Company's shares and votes. He has no shareholdings that exceed 5 per cent of the share capital of any company.

On 8 March 2019, the Board appointed Arūnas Lingė as a new Head of Finance from 25 March 2019 to substitute Laimonas Devyžis, who after four-years of leading the Finance unit decided to leave the Company. His decision was communicated in December 2018.

**Arūnas Lingė** (born in 1975) – Head of Finance from 25 March 2019. Education: Kaunas Technology University (Lithuania), Master of Management (1999), and ACCA (Association of Chartered and Certified Accountants) (UK) Member and Fellow (1999 – 2004). He is not involved in activities of other entities. Arūnas Lingė has no direct interest in the share capital of Telia Lietuva. He has no shareholdings that exceed 5 per cent of the share capital of any company.

**Ramūnas Bagdonas** (born in 1974) – Head of People and Engagement from 1 June 2014. Education: Vytautas Magnus University (Lithuania), Master of Business Administration; Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration. Involvement in activities of other entities:

- Association of Personnel Management Professionals, Galvydžio g. 5, LT-08236 Vilnius, Lithuania, code 300563101, member of the Board,
- State Enterprise Lithuanian Airports, Rodūnios kel. 10A, LT-02189 Vilnius, Lithuania, code 120864074, member of the Board.

Ramūnas Bagdonas has no direct interest in the share capital of Telia Lietuva. He has 11,532 shares of Telia Company AB (Sweden). He has no shareholdings that exceed 5 per cent of the share capital of any company.



**Daiva Kasperavičienė** (born in 1968) – Head of Legal and Corporate Affairs from 25 January 2019. Education – Vilnius University (Lithuania), Law Master's degree. She is not involved in activities of other entities. Daiva Kasperavičienė has no direct interest in the share capital of Telia Lietuva, AB and has no shareholdings that exceed 5 per cent of the share capital of any company.

**Birutė Eimontaitė** (born in 1983) – Head of Communication from 1 January 2019. Education: Vilnius University (Lithuania), Bachelor's degree in Communication and Information and Vilnius University, Institute of International Relations and Political Science (Lithuania), Master's degree in Political Science. She is not involved in activities of other entities. Birutė Eimontaitė has no direct interest in the share capital of Telia Lietuva. She has no shareholdings that exceed 5 per cent of the share capital of any company.

**Vytautas Bučinskas** (born in 1974) – Head of Business Assurance and Transformation from 15 December 2017. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration; Kaunas Technology University (Lithuania), Bachelor of Management of Production and Master of Marketing. Involvement in activities of other entities:

- Member of the Cyber Security Council (Lithuania)
- Deputy Chair Cybersecurity Committee at INFOBALT, Mokslininkų g. 2A, LT-08412 Vilnius, Lithuania, code 122361495.

Vytautas Bučinskas has no direct interest in the share capital of Telia Lietuva and has no shareholdings that exceed 5 per cent of the share capital of any company.

Information about remuneration of key management personnel is provided in Note 31 of the Company's Consolidated and Separate Financial Statements for the year ended 31 December 2019. Key management includes CEO, Heads of Units directly reporting to CEO and Heads of the largest Units of the Company. The total amount of the Company's dividends for the year 2018 paid in 2019 to key management personnel amounted to 799.28 euro.

During 2019, there were no loans, guarantees or sponsorship granted to the members of the Board or members of the Management Team by the Company as well as none of subsidiaries paid salaries or other payouts to the members of the Board or members of the Management Team of the Company for being members of their managing bodies.

The principle of employees' (including managers) equal opportunities based on competence, experience and performance, regardless of gender, race, ethnicity, religion, age, disability, sexual orientation, nationality, political opinion, union affiliation, social background and/or other characteristics protected by applicable law, is set in the People Policy. Nevertheless, the Board introduced a soft target to increase the number of females in the management positions, as currently just one female out of six is member of the Board and three out of ten are members of Management Team.

**Information about agreements of the Company and the members of its management bodies, or the employee providing for a compensation in case of the resignation or in case they are dismissed without due reason or their employment is terminated in view of the change of the control of the Company**

All the Company's employment agreements with the employees, including management, of the Company are concluded following requirements of the Labour Code of the Republic of Lithuania. Employees are employed and laid off following requirements of the Labour Code.

Members of the Company's Board are elected for a two-year term by the shareholders without any employment agreements as they represent shareholders and are not employees of the Company. The Annual General Meeting of Shareholders while adopting decision on profit allocation can also pass a decision on granting annual compensations (tantiemes) to members of the Board for their activities. Members of the Board have a right to resign from the Board prior to the termination of the term of the Board upon written notification to the Company submitted not later than 14 calendar days. The Rules of Procedure of the Board do not provide for any compensations or pay-outs in case any member of the Board resigns prior to the termination of the term of the Board.

The Board approves the main conditions of employment agreements of the members of the Company's Management Team. The said conditions stipulate that where a member of the Management Team has his/her employment agreement terminated due to his/her revocation from the office under the initiative of the Company without any fault on the part of the member of the Management Team, the Company must pay to him/her the compensation amounting up to 6 monthly salaries unless laws regulating labour relations provide otherwise.

There are no material agreements to which the Company is a party and which would come into effect, be amended or terminated in case of change in the Company's control.

## The main features of the Group's internal control and risk management systems related to preparation of consolidated financial statements

The Group prepares its consolidated financial statements according to the International Financial Reporting Standards (IFRS) as adopted by the EU.

In collaboration with Telia Company AB, the Company had implemented a process of internal controls. It was implemented following the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology.

The process of the Company's internal controls implies control of business processes related to provision of services and revenue assurance (customers' settlements and accounting, development and management of services, services provision), performance of IT systems (customer care and billing, infrastructure, network information, financial accounting, salary accounting, networks' interconnection) and the process of preparation of financial reports.

The Company's Process for Preparation of Financial Statements provides that financial statements will be prepared in a correct and timely manner. The Process for Preparation of Financial Statements describes potential risks, methods, types and frequencies of risks control, proves of control, employees responsible for and employees executing control related to preparation of financial statements.

### Auditors

Auditors from UAB Deloitte Lietuva, a member of the Deloitte network, audited the consolidated and separate financial statements of the Company and its consolidated subsidiaries for the years ended 31 December 2014, 2015, 2016, 2017, 2018 and 2019 together with the related consolidated and separate statement of profit or loss and other comprehensive income, consolidated and separate statement of financial position, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows and a summary of significant accounting policies and other explanatory notes for the years then ended.

On 25 April 2018, the shareholders of the Company decided to elect UAB Deloitte Lietuva as the Company's audit enterprise to perform the audit of the annual consolidated and separate financial statements of the Company for the year 2018 and 2019, and to assess the consolidated annual report of the Company for the year 2018 and 2019, and to authorize the CEO of the Company to conclude the agreement for audit services, establishing the payment for services as agreed between the parties but in any case not more than 240,000 (two hundred forty thousand) euro (VAT excluded) for the audit of the Company's annual consolidated and separate financial statements and the assessment of the consolidated annual report (i.e. 120,000 (one hundred twenty thousand) euro (VAT excluded) per each financial year).

Deloitte is a globally connected network of member firms in more than 150 countries and territories providing audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. The criteria for selection of Deloitte as the Company's audit enterprise was decision of the Annual General Meeting of Telia Company AB shareholders on 10 April 2018 to elected Deloitte AB (Sweden) as the auditor of Telia Company. The aim is that consolidated subsidiaries of Telia Company be audited by the same highly reputable international audit enterprise, therefore the Company is audited by Lithuanian arm of Deloitte.

Following the Law of the Republic of Lithuania on Audit, UAB Deloitte Lietuva on 2 April 2019 at the meeting of the Audit Committee of the Company officially stated about UAB Deloitte Lietuva independence from the Company. During 2019, UAB Deloitte Lietuva did not provided any other than audit services to the Company and did not received any other remuneration from the Company except for audit services provided for the total amount of EUR 117 thousand.

## PERSONNEL

Number of Telia Lietuva Group employees at the end of the year:

	2019	2018	Change (%)
Number of personnel (head-counts)	2,336	2,733	(14.5)
Number of full-time employees	2,127	2,482	(14.3)

While counting full-time employees, the number of part-time employees is recalculated into the number of full-time employees, and this number does not include employees on maternity/paternity leave.

On 4 April 2019, the Company announced that to increase the efficiency and create a leaner structure of the Company the number of Telia Lietuva full-time employees during 2019 will be reduced by 285, while Telia Global Services Lithuania,

a subsidiary of Telia Company operating in Vilnius, will expand with new job offerings and will reach 500 employees by the end of 2019. On 1 January 2019, the Company had already transferred 26 employees of its Human Resource unit (People HUB) to Telia Global Services Lithuania (TGSL) and 15 employees of Procurement unit were transferred to TGSL on 1 July 2019. In September 2019, 36 employees from Technology unit were outsourced to the third party.

The breakdown of the number of the Group employees (head-counts) by the companies:

Name of the company	31-12-2019	31-12-2018	Change
Telia Lietuva, AB	1,701	1,977	(276)
Telia Customer Service LT, AB	635	756	(121)
	<b>2,336</b>	<b>2,733</b>	<b>(397)</b>

## People Policy

Telia Company's most valuable resource is our people. We strive to have the most engaged employees. Without our ability to identify, hire and retain the best people, we would lose some of our unique culture and competitive edge.

People Policy defines the Company's expectations of the employees as well as what expectations our employees shall have of each other and on the Company as their employer. The policy does not form part of any employee's contract of employment and may change from time to time at the discretion of the Company.

The Code of Responsible Business Conduct lays out basic expectations on employees. Telia Company Group is committed to several international principles and frameworks such as the UN Guiding Principles on Business and Human Rights, the ILO Core Conventions and the Children's Rights and Business Principles. Employees are, at all times, expected to respect these commitments.

The People Policy covers the following areas:

- Addictive substances. The Company does not accept any form of use or possession of illegal or unauthorized drugs in the workplace. It is forbidden to be at the workplace or perform work while under the influence of alcohol or drugs. To maintain a smoke-free work environment, smoking is allowed only in designated areas.
- Child labor and forced labor. Child labor is not accepted in any of Telia Company Group operations or at our suppliers or sub-suppliers. Under no circumstance will we employ anyone below the age of 15 (or the country's legal minimum age, if over 15). Forced labor is not accepted in any of Telia Company Group operations or at our suppliers or sub-suppliers. Employees are free to leave their employment after a notice period, as required by law and contract.
- Disclosure of conflicting interests. Employees shall not be involved in outside employment or business interests in potential or actual conflict with Telia Company Group business unless agreed between the employee and the company. Employees facing a potential or actual conflict of interest situation shall discontinue it.
- Freedom of association and collective bargaining. Employees have the right to form or join associations of their own choice concerning the relationship between the employer and the employees, and to collective bargaining. We do not accept any discrimination or disciplinary actions, which is based on an employee's choice to peacefully and lawfully organize or join an association.
- Integrity. Employees shall act in a manner, which is appropriate to their position in the organization. They shall not act in a manner, which could disrepute Telia Company. Employees shall personally not be engaged in any illegal or criminal activities (inside or outside working hours).
- Non-discrimination, equal opportunity and diversity. Telia Company promotes a culture of diversity and equal opportunity based on competence, experience and performance. All employees shall treat one another with respect, dignity and common courtesy. No employee shall be treated differently because of their gender, gender identity or expression, ethnicity, religion, age, disability, sexual orientation, nationality, political opinion, union affiliation, social background and/or other characteristics protected by applicable law. As part of our commitment to a diverse and inclusive workplace, we have zero tolerance against discrimination, victimization, harassment and bullying.
- Recruitment. The right competence, diversity and equal opportunity are all equally important factors when we recruit, both internally and externally. Recruitments are based on business needs and we care for respect for the individual no matter of age, gender, marital or parental status, color, religion, race, ethnicity, nationality, handicap, sexual orientation or political opinion.
- Terms of employment and working hours. Telia Company provides working conditions, which comply with local statutory requirements and collective bargaining agreements. The Company follows national legislation and collective bargaining agreements on working hours. We respect the employees' right to leisure time and a work-life balance.

- Total remuneration. Remuneration is based on fairness and non-discrimination and regularly reviewed to ensure these principles. Employees are provided understandable information in written about their employment conditions regarding salaries before they enter employment. Employees are provided details of their salaries for the given pay period each time they are paid.
- Travel. Business travel shall be conducted in the most reasonable, safe, cost-effective and environmentally friendly manner.

Any Telia Company employee who suspects violations of the Code of Responsible Business Conduct or People Policy must speak up and raise the issue primarily to their line manager, and secondly to the Human Resources unit, to the Ethics and Compliance Office, or through the Speak-Up Line.

The breakdown of the Group employees (head-counts) by gender and the companies as of 31 December 2019:

<b>Name of the company</b>	<b>Female</b>	<b>(%)</b>	<b>Male</b>	<b>(%)</b>
Telia Lietuva, AB	596	35.0	1,105	65.0
- <i>whereof Technology unit</i>	152	20.2	599	76.8
Telia Customer Service LT, AB	514	80.9	121	19.1
	<b>1,110</b>	<b>47.5</b>	<b>1,226</b>	<b>52.5</b>

The protection and improvement of the health, safety and well-being of everyone who works for or with the Company, is a guiding principle in all our operations. This definition includes our employees, contractors, suppliers and visitors. Our common approach is built on promoting good health, well-being and safe work conditions, preventing occupational risks and ill health, and rapidly reacting to injuries and unsafe conditions. This applies to both physical and psycho-social work aspects.

The Company's occupational health and safety (OHS) management system cover all requirements of OHSAS18001 standard. The certificate of compliance with Occupational health and safety (OHSAS 18001) standard was obtained by the Company in October 2017.

### Remuneration Policy

The Company's objective is to maximize the effectiveness of remuneration programs to attract, retain and motivate high calibre staff needed to maintain and improve the success of the business and support the change journey of becoming a new generation telecom company. The aim of Remuneration Policy and the associated remuneration practices is to support the strategic direction and objectives of the Company.

The Remuneration Policy sets out the following principles:

- Competitiveness and positioning. The total remuneration should be market competitive without leading relative to the competition, and factor in the affordability for the business;
- Job Levelling. Remuneration structure should take the competence required, responsibility, complexity and business contribution of the positions into consideration when identifying the relevant remuneration levels;
- Compliance. To ensure sustainability, all remuneration structures at Telia Company should comply with statutory requirements, collective bargaining agreements and internal policies and instructions.
- Cost Effectiveness and Administrative Efficiency. Remuneration programs should be delivered to employees in an optimally effective manner, both in terms of cost effectiveness and administrative efficiency.
- Performance orientation. In identifying remuneration levels for individuals, corporate, team and individual performance should be taken into account. Performance is assessed in terms of total contribution once per year. Both "What" and "How" is assessed with clear links to outcomes not only remuneration but also development and promotions;
- Equal opportunity. Remuneration decisions should only be made based on the guidelines outlined in policies and instructions. Discrimination related to factors like race, gender, age, religious or ethnic affiliation are under no circumstances allowed.

The Company applies total remuneration approach, which means that making remuneration comparisons with market levels and in communicating the value of remuneration to stakeholders, the emphasis is placed on the total value of the remuneration, not on the individual components. The Company offers different remuneration components to its employees differentiated based on types of businesses, functions, roles and markets. The remuneration may consist of one or more of the following components:

- Fixed base pay, which reflects the competence required, responsibility, complexity and business contribution of the position, type of role, external market conditions, the performance and skills of the employee and consequently is individual and differentiates within acceptable ranges;

- Short-term annual variable pay may be offered to some of the employees and is based on the achievement of agreed both financial and non-financial objectives and manager's assessment of the employee's performance;
- Functional variable pay is a sales incentive component tied to sales performance in positions related to direct sales to customers;
- the Company may introduce long-term incentive programs (such as share-based) for some of its employees to create confidence in and commitment to the Group's long-term financial performance;
- other financial and non-financial benefits such as additional health insurance, pension plans, etc.

The remuneration of all employees is assessed once a year, usually in spring. In 2019, the remuneration was increased to 88 per cent (70 per cent in 2018) of the Company employees on average by 10.3 per cent and annual bonuses amounting to roughly one monthly salary on average were paid to all employee of the Company which in 2018 worked in the Company for more than 3 months and did not received sales incentive pays. According to the policy, the remuneration structure and levels for the members of the Company's Management Team are supervised and governed by the Remuneration Committee of the Company and are approved by the Board.

The breakdown of employee related expenses (EUR thousand) by the companies:

<b>Name of the company</b>	<b>2019</b>	<b>2018</b>	<b>Change (%)</b>
Telia Lietuva, AB	43,995	42,163	4.3
Telia Customer Service LT, AB	9,500	9,050	5.0
Other subsidiaries	-	7	-
	<b>53,495</b>	<b>51,220</b>	<b>4.4</b>

Following the amendments of Law on Income Tax of Individuals, social security contribution on employee's remuneration (31.18 per cent of remuneration) paid by the Company starting from 1 January 2019 was included into the total amount of the employee's remuneration therefore employees' salaries were recalculated and increased by 1.289 time, while social security contribution on employee's remuneration paid by the Company decreased to 1.77 per cent of remuneration.

Information about employees of Telia Lietuva, AB as of 31 December 2019:

<b>Group of employees</b>	<b>Number of employees</b>	<b>Average monthly salary (in EUR)</b>
Managers	42	7,411
Middle level managers	153	2,848
Specialists	1,506	1,755
	<b>1,701</b>	<b>1,993</b>

For several years, the Company provides additional health insurance to all employees of the Company as well as those employees of Telia Customer Service LT that have a longer employment record. During 2019, in total 2,465 employees of the Group had an additional health insurance. Employees also could insure their family members – spouses and children.

The Company has an agreement with SEB Investicijų Valdymas (SEB Investment Management) regarding the Company employees' pension savings at 3rd tier pension funds. The Company employees working for at least a year and employees of Telia Customer Service LT working for at least three years within the Group could participate in a program "Save with Telia". The essence of the program is that the funds allocated by employer are invested into one of the SEB Investicijų Valdymas' fund of the employee's choice. For all the Company's employees participating in the program the Company allocated EUR 8 every month, and if the employee was willing to contribute to the pension saving from his own finances by additionally allocating 1, 2 or more (from 1 January 2019 – 0.78, 1.55 or more) per cent of his/her salary, then the Company also transferred an amount equal to employee's contribution but not exceeding 1.55 per cent of employees basic salary. As of 31 December 2019, in total 1,028 employees of the Group were participating in a program.

### **Collective Bargaining Agreement**

Social dialogue and partnership with the employees' representatives, Trade Unions, is ongoing since nineties and Collective Bargaining Agreement in the Company exists for more than 20 years.

A new Collective Bargaining Agreement between the Company, as the employer, and united representation of Trade Unions was signed on 10 January 2020. Following the requirements of a new Labour Code in order to be valid for all employees of the Company (not only for members of Trade Union), 77 per cent of employees participated in voting and by 98 per cent majority approved the validity of a new Collective Bargaining Agreement to all employees of the Company from 1 February 2020.

The new Agreement grants more flexible working and rest time, support for professional development, transparent remuneration system and extra funding for social support of the Company's employees. The Agreement provides some better and more favourable than set by the Labour Code of the Republic of Lithuania labour, social and economic conditions to employees of the Company:

- 50 per cent higher pay for worked time if the working schedule is changed at the last minute,
- maximum amount of overtime increased from 180 to 230 hours per annum,
- 5 additional business days of vacations depending on the number of years worked at the Company,
- 3 calendar days of paid vacations on wedding occasion,
- 3 calendar days of paid vacations in case of a death of employee's father, mother, spouse, child (adopted child), brother or sister,
- 1 calendar day of unpaid vacations in case of a death of employee's grandparent, employee spouse's parent, brother or sister,
- upon employee's request a possibility to attend training at least once a year,
- paid vacations for studies,
- in case of employee group redundancy and upon request from Trade Union, to order and finance outplacement training for a group of least 5 employees who got the redundancy notice,
- if employee was fallen sick, for the first 2 days of illness to pay 70 per cent of the employee's average remuneration;
- employee could take 2 business days off a year due to not feeling well or sickness without a sick-list while getting remuneration,
- upon request employee who received the redundancy notice may be granted from 20 to 100 per cent of his work time for a new job search while getting remuneration,
- employee who worked in the Company for more than 10 years gets an additional redundancy pay-out of one average salary,
- remuneration review guidance after long-term absence,
- employees of the Company are insured against accidents all around the clock.

The Company has established a Social Needs Fund. Its purpose is to improve the organisation's culture and to meet the social needs of the employees in accordance with the regulations of the Fund. The Fund is managed by the Committee of the Social Needs Fund formed of representatives of the Employer and Trade Unions.

The Fund is obliged to:

- finance initiative involving employee's children,
- pay bonus of 10 Basic Social Pay-outs (BSP) on occasion of 20, 30 and 40 years of uninterrupted work in the Company,
- pay allowance of 10 BSP in case of death of employee's father, mother, spouse or children (adopted children),
- pay allowance of 12 BSP and funeral expenses, excluding a funeral dinner, in case of employee's death,
- grant allowance due to difficult financial situation of the employee or his/her family or due to incurred substantial material loss.

The Funds also allocates funds to improve the employees' health: rent of sports premises and grounds, support of sports and culture events arranged on the Company level. In 2019, the Social Needs Fund allocated EUR 78.8 thousand for the above-mentioned purposes.

## SUSTAINABILITY

Digitalization is a key factor for positive societal development and sustainable economic growth. But there are risks and legitimate concerns related to the negative impacts of digitalization. It is our firm belief that integrating sustainable and responsible business practices in all aspects of business and strategy is a prerequisite for sustainable growth and profitability, which in turn creates long-term value for shareholders and supports sustainable development. We strive to be fully transparent and accountable, highlighting our successes but also when we are not meeting expectations.

Being a part of Telia Company Group, we follow the principles of responsible business set by the Telia Company Group.

### Our approach

At the core of our sustainability approach are two strategic pillars:

- Shared value creation is about addressing societal and environmental challenges while creating business value,
- Responsible business focuses on managing risk, minimizing negative impact and acting ethically and responsibly. These responsibilities extend through the value chain.

Supporting the approach are three critical success factors:

- Board and management commitment – actively steering our sustainability agenda in order to create long-term sustainable stakeholder value,
- Employee engagement – enabling all employees to contribute to positive digital impact,
- Ethics and compliance – the foundation for ensuring responsible business practices.

By leveraging our core competencies and business and by executing on new opportunities, we create sustainable profitability and growth while contributing to the UN Sustainable Development Goals (SDGs).

Our **shared value creation** efforts focus on three areas:

- Environmental action,
- Quality of life,
- Innovation and growth.

Doing business responsibly is a fundamental part of meeting stakeholder expectations on business ethics, managing risks and ensuring that we contribute to societal development where we operate.

**Responsible business** is organized into seven focus areas:

- Anti-bribery and corruption
- Children's rights
- Customer privacy
- Environmental responsibility
- Freedom of expression and surveillance privacy
- Health and well-being
- Responsible sourcing

Code of Responsible Business Conduct is a “compass” for our ethical behaviour at work. It reflects many situations of responsible performance of business, and applies to all employees. The Code of Responsible Business Conduct covers areas of gifts and business hospitality, relations with civil servants, personal data protection, responsible procurement procedures and many other relevant areas, and presents recommendations for proper behaviour in various situations.

Telia Lietuva as a member of the United Nations Global Compact and a member of the Lithuanian Association of Responsible Business (LAVA) have undertaken in writing to respect the principles of responsible and ethical business.

Starting from the year 2006, once a year the Company along with the annual financial results prepares and publishes on-line unaudited Sustainability Report which presents non-financial corporate responsibility information to all its stakeholders: customers, shareholders, investors, employees, suppliers, business and social partners, and the public.

Preparation of the Company's Sustainability Report has been inspired by the Guidelines G4 of the Global Reporting Initiative (hereinafter - the GRI) of the United Nations, as well as the requirements applicable to telecommunications companies. G4 Guidelines are recommended internationally as one of the most advanced methodologies for non-financial reporting intended to measure and provide information to both internal and external stakeholders. Also, recommendations of the Lithuanian Association of Responsible Business (LAVA) on information to be presented by responsible business are considered when preparing the report.

### **Implementation of principles of sustainable business**

**The Code of Responsible Business Conduct** defines the expectations and requirements how to conduct business responsibly and clarifies the importance of, and channels for, speaking up regarding actual or suspected unethical behaviour or violation of laws or the company's guiding documents. The Code was launched in 2016 together with a mandatory e-learning course for all employees and subsequent new employees. A new e-learning course was launched in 2019 and provides in-depth practical guidance on how to apply the requirements of the various areas of the Code through set of realistic scenarios, with guidance on how to resolve them.

Telia Company strives to provide and promote grievance mechanisms for raising concerns without fear of retaliation or reprisal. The whistle-blowing tool [Speak-Up Line](#) enables employees and others to anonymously report violations of proper accounting, reporting or internal controls, as well as non-compliance with local laws or breaches of the Code of Responsible Business Conduct, group policies and instructions. Telia Company has a group-wide standard for performing internal investigations. The guiding principle is to ensure that investigations are conducted objectively and impartially; are carried out in a way to swiftly establish the facts with minimum disruption to the business or the personal lives of employees; and to make sure that confidentiality and non-retaliation are respected at all times.

Information and communication technology (ICT) is a key factor in managing global **environmental** challenges related to climate change, resource and energy scarcity, and the circular economy. In 2019, Telia Company launched Daring Goals initiative, which consists of two ambitious and aspirational environmental goals with the intention of becoming the world's greenest telco: zero CO<sub>2</sub> and zero waste by 2030.

Reaching the goals of zero impact of own operations requires a broad agenda of actions. Some are already in place, such as using of 100 per cent renewable electricity. When it comes to minimizing customers' impact, focus will be where the effect is the biggest, and where it fits business strategy the best. Through digitalization, Telia Company has significant potential to impact the environment in a positive way and providing customers with eco-friendly solutions has a great potential of saving money while reducing greenhouse gas emissions and increasing resource efficiency. We are working on developing science-based targets well within the ambition of limiting global heating to 1,5°C.

Doing business with Telia Company will also come with even stricter environmental requirements and expectations. Starting from 2019, CO<sub>2</sub> is added to supplier selection criteria. By 2022, suppliers should have a plan in place for reaching zero CO<sub>2</sub> throughout their supply chains by 2030. Over time, this requires working closely with thousands of vendors and subcontractors to integrate the environmental agenda into their operations.

Sustainable energy use, greenhouse gas emissions and hazardous and non-hazardous waste, particularly electronic waste, are the key environmental impacts to manage in our own operations. We adopt a structured management approach through ISO 14001 environmental management system certification. ISO 14001 certificate was obtained by Telia Lietuva in 2017.

Buy-back programs, also known as take-back or upgrade programs, reduce the amount of electronic waste by extending the product usage of mobile devices that are often in good working condition. The devices are sold to local partners who either data wipe and resell them, or when unusable send them to recycle. During 2019, we collected 562 kg of re-usable mobile phones and other electronic equipment from our customers.

Telecommunications enable access to information and the exchange of ideas in a way that supports openness and transparency. We aim to respect **freedom of expression and surveillance privacy**. Issues related to freedom of expression and surveillance privacy pose a high risk to users of telecom services globally. Risks include mass surveillance, network shutdowns, localization of mobile devices and blocking or restriction of certain content. Respecting and promoting freedom of expression and surveillance privacy is becoming increasingly important as legislators seek additional surveillance measures to fight crime, terrorism, hate speech and more.

Our duty to respect and promote human rights is focused on the risks to our customers. We aim to limit potential harm to individuals by seeking active measures to support the rights of our customers where we believe that these are at risk. The Group Policy addresses our commitments in relation to requests or demands with potentially serious impacts on freedom of expression and surveillance privacy in telecommunications ("unconventional requests"). A Telia Company Group instruction sets out practical steps regarding assessments and escalation whenever a local company receives a potentially serious request or demand.

To create the right **health and well-being** culture, our approach consists of promoting good health, identifying and reducing or preventing risks and rapidly reacting to ill health. The major health and well-being risks – road safety, working at heights and electrical work – relate to network construction and maintenance, work that is generally carried out by contractors. Telia employees work mainly in offices or retail environments where risks relate mainly to psychosocial well-being and ergonomics. As suppliers face health and safety risks, our aim is to have the Supplier code of conduct, which includes health and safety requirements, included in all construction, installation and maintenance agreements. We adopt a structured management approach by implementing OHSAS 18001 occupational health and safety management system.

Our aim is to know, show and manage our **human rights** impacts, risks and opportunities. With good faith efforts, our ambition is to improve over time and to be considered an industry leader in human rights. Issues related to human rights, such as customer privacy, freedom of expression and surveillance privacy can pose a risk to users of telecom services. As an international group of companies with sourcing from tens of thousands of local and international suppliers, we need to manage supply chain-specific human rights risks such as child and forced labour, labour rights and basic health and safety provisions.

We protect personal data and ensure the **privacy of a person**. We manage only such amount of personal data, which is necessary considering the set purposes of data management and in strict compliance with legislative requirements. The Company follows a strict policy on the assurance of personal data protection of its customers, thus when managing personal data of data subjects, the Company acts in observance of the Law on Legal Protection of Personal Data of the Republic of Lithuania, Law on Electronic Communications of the Republic of Lithuania and other directly applicable legal



acts governing personal data protection, and it cooperates with other companies and state authorities in the procedure prescribed by laws. All employees of the Company take part in the mandatory personal data protection e-trainings and periodically renew their knowledge in this area.

We expect our suppliers, sub-suppliers and distributors to implement sustainable business practices and to be transparent about their challenges. Choosing suppliers with good sustainability practices is a way for us to positively influence our supply chain. **Responsible sourcing** starts with setting the expectations for our suppliers, primarily through the Supplier's Code of Conduct. We use a risk-based process where suppliers are categorized based on, for example, the region where the company is registered, the type of product or service provided or how critical the supplier is to our operations. This categorization supports in designing appropriate risk mitigation activities such as further due diligence steps (supplier self-assessment, information research and risk analysis) before contracting, and in conducting on-site audits to evaluate whether a supplier's sustainability performance is sufficient.

**Children** and young people are active users of our services. We work on our own and together with experienced partners to promote a safer use of internet among children, young people and their parents. We believe that the Internet enriches children's lives and provides them with opportunities to improve their digital skills as well as to socialize, play and learn. However, children are particularly vulnerable to online threats such as cyber bullying and inappropriate content. Keeping children safe online requires an integrated approach across the broader technology industry and the society. Telia works closely with other companies and organizations within and outside our industry to drive common approaches to safe browsing and app use, as well as respectful behaviour among children and young people.

**YOUNITE** is Telia employee volunteering program. Through YOUNITE we enable and encourage our employees, as part of their employment, to engage in activities and societal contributions connected to digitalization in our communities. By becoming active contributors, employees are given one day per year to create a notable impact on society's digitalization journey. The initiative is part of Telia Company's ongoing work to support the UN Sustainable Development Goals (SDGs).

At Telia, we stand up for **diversity** and respect every person's uniqueness regardless of gender, nationality, ethnicity, religion, age, sexual orientation, disability, personality. We are committed to offering a diverse and inclusive workplace where every employee can be themselves, with equal access to opportunities.

### Recognitions

Based on ISS Corporate ESG Performance Rating Telia Lietuva shares qualify for sustainable investments. Prime status with C+ rating was reiterated in February 2020.

### Sustainability report

The Company's Sustainability Report for the year 2019 where more detailed information about the Company's activities in social responsibility area is available on the Company's website at <https://www.telia.lt/eng/sustainability/reporting>.

## CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Information Disclosure of the Bank of Lithuania, we, Dan Strömberg, CEO of Telia Lietuva, AB, and Arūnas Lingė, Head of Finance of Telia Lietuva, AB, hereby confirm that, to the best of our knowledge, the Consolidated Annual Report of Telia Lietuva, AB, for the year 2019 includes a fair review of the development and performance of the business and the position of the Company and the Group of undertakings in relation to the description of the main risks and contingencies faced thereby.

Dan Strömberg  
CEO

Arūnas Lingė  
Head of Finance