TELIA LIETUVA, AB

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Telia Lietuva, AB:

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Telia Lietuva, AB (the Company) and consolidated financial statements of Telia Lietuva, AB and subsidiaries (the Group), which comprise the statements of financial position of the Company and the Group as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, of the financial position of the Company and the Group as at 31 December 2019, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Adoption of IFRS 16 effective from 1 January 2019	
Refer to pages 46-48 of the financial statements The Group and the Company adopted IFRS 16 Leases as at 1 January 2019. IFRS 16 introduced a new lease accounting model, where lessees are required to recognize a right-of-use asset and a lease liability arising from a lease on its balance sheet. The Group and the Company adopted IFRS 16 using the modified retrospective approach with no restatement of comparative information. As a result, as at 1 January 2019, the Group, net of deferred income tax effects, recognized right of use assets of EUR 31 million and an increase in lease liabilities of EUR 31 million. Significant judgement is required in order to determine the right of use assets and lease liability. The assumptions and estimates include assessment if a contract contains a lease, assessment of a lease term, and the determination of appropriate discount rates. The effect arising from first time applying IFRS 16 are material to the Group and the Company, and the adoption assessment is a key focus area in our audit.	Our audit approach consisted in assessing the appropriateness of the methodology and the compliance with applicable IFRS 16 guidance regarding the determination of the main assumptions. Our work also consisted of: • Understanding the Group's and the Company's process in identifying lease contracts, or contracts which contained leases; • Assessing the completeness of the lease databases used by the Group and the Company for calculation of the impact; • Assessing the internal controls over data inputs and calculations; • Corroborating by performing a sample the information used for determining assets and liabilities related to lease contracts with underlying contractual data; • Corroborating by performing a sample the data used for the calculation of the discount rates (based on the implicit rates) with the lease contracts and market data; • Recalculating, on a sample basis, the right of use assets and lease liability and comparing with the calculations performed by the Group and the Company;

	• Specifically testing accounting for new office lease contract entered by the Company during 2019; • We also assessed the appropriateness of the disclosures in Note 30 to the consolidated financial statements.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition	
Refer to pages 23, 31 of the financial statements The Group's and the Company's net sales amounted to EUR 388,299 thousand and EUR 389,292 thousand, respectively for the year then ended 2019. The net sales encompass several revenue streams such as traffic charges, including interconnect and roaming, subscription fees, installation fees, other services and sale of equipment. Furthermore, all these services and products give rise to multiple customer offerings (bundle services) which are subject to fair price allocation among the services and related products, incentives and discounts. Multiple billing systems and other interrelated data applications are used to maintain the accurate and complete accounting records within the Company and the Group. Complex products and services and a combination of those requires significant management judgment about the timing and value of revenue to be recognized and impose the risk of accuracy and completeness of revenue related accounting records. Due to this, we considered this to be a key audit matter.	Our audit procedures in this area included, among others: • assessing the application on the Company's and the Group's accounting policies with the respect to IFRS 15 to services and products delivered and the accounting implication of the new business models to verify that the Group accounting policies were appropriate for these models and were followed; • evaluating the design and operational effectiveness of key internal controls, including relevant IT systems, used for billing and monitoring of revenue recognition; • assessing based on sample of customer bills for accuracy for new products and tariffs introduced in the year; • under multiple-element contractual arrangements (bundled product offers), on a sample evaluating the deliverables to determine whether they represent separate element and testing the value allocated to the undelivered elements based on their respective fair values; • evaluating on a sample basis revenues allocated to undelivered elements (deferred and recognized ratably over the estimated term of provision of these elements); • reconciling revenue accruals to actual data traffic available after month closing; • evaluating the adequacy of disclosures related to the various revenue streams.

Other Information

The other information comprises the information included in the Company's and the Group's annual report, including Corporate Governance statement, and Corporate Social Responsibility Report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as specified below.

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

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

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

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with the decision made by Shareholders on 25 April 2018 we have been chosen to carry out the audit of the Company's and the Group's separate and consolidated financial statements. Our appointment to carry out the audit of the Company's and the Group's separate and consolidated financial statements in accordance with the decision made by Shareholders has been for years 2018 and 2019 and the period of total uninterrupted engagement is six years.

We confirm that our opinion in the section 'Opinion' is consistent with the additional report which we have submitted to the Company and Audit Committee.

We confirm that in light of our knowledge and belief, services provided to the Company and the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, we have not provided any other services except for audit of financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Saulius Bakas.

Deloitte Lietuva UAB
Audit Company License No 001275

Saulius Bakas
Lithuanian Certified Auditor
License No 000604

Vilnius, Republic of Lithuania
25 March 2020

(All tabular amounts are in EUR '000 unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Approved by
the Annual General Meeting
of Shareholders, as at ___ April 2020

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	**2019**	**2018**	**2019**	**2018**
Revenue	5	**388,299**	**376,494**	**389,292**	**377,728**
Cost of goods and services	6	(155,204)	(151,682)	(166,332)	(162,295)
Employee related expenses		(53,495)	(51,220)	(43,444)	(42,163)
Other operating expenses	8	(51,376)	(46,309)	(51,959)	(46,392)
Other income	7	-	-	495	295
Other gain / (loss) – net	9	644	154	636	98
Depreciation, amortisation and impairment of fixed assets and assets classified as held for sale	14	(69,087)	(64,522)	(68,817)	(64,112)
Operating profit		**59,781**	**62,915**	**59,871**	**63,159**
Gain/loss from investment activities		(1,860)	683	(1,860)	92
Finance income		2,859	2,009	2,859	2,009
Finance costs		(3,925)	(2,373)	(3,924)	(2,373)
Finance and investment activities – net	10	(2,926)	319	(2,925)	(272)
Profit before income tax		**56,855**	**63,234**	**56,946**	**62,887**
Income tax	11	(2,129)	(8,534)	(2,057)	(8,440)
Profit for the year		**54,726**	**54,700**	**54,889**	**54,447**
Other comprehensive income:					
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**54,726**	**54,700**	**54,889**	**54,447**
Profit and comprehensive income attributable to:					
Owners of the Parent		54,726	54,700	54,889	54,447
Non-controlling interests		-	-	-	-
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in EUR per share)	12	**0.094**	**0.094**	**0.094**	**0.093**

The notes on pages 12 to 55 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 55 have been approved for issue by the Board of Directors as at 24 March 2020 and signed on their behalf by the CEO and the Head of Finance:

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

(All tabular amounts are in EUR '000 unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

Approved by
the Annual General Meeting
of Shareholders, as at ___ April 2020

		As at 31 December			
		GROUP		COMPANY	
	Notes	2019	2018	2019	2018
ASSETS					
Non-current assets					
Property, plant and equipment	14	263,794	276,537	259,899	272,390
Goodwill	15	26,769	26,769	26,769	26,769
Intangible assets	15	105,392	104,742	105,388	104,721
Right-of-use assets	16	47,900	-	47,819	-
Investment property	17	-	-	-	-
Investments in associates and subsidiaries	18	-	-	4,122	4,122
Costs to obtain contract	32	4,625	5,175	4,625	5,175
Contract asset	33	351	530	351	530
Trade and other receivables	21	9,728	8,704	9,728	8,704
Finance lease receivables	21	4,036	-	4,036	-
		462,595	**422,457**	**462,737**	**422,411**
Current assets					
Inventories	19	10,153	8,182	10,153	8,182
Contract asset	33	1,178	1,352	1,178	1,352
Trade and other receivables	21	84,314	101,566	84,337	101,638
Current income tax assets		1,708	-	1,601	-
Finance lease receivables	21	2,831	-	2,831	-
Cash and cash equivalents	22	50,157	28,725	48,282	26,612
		150,341	**139,825**	**148,382**	**137,784**
Assets classified as held for sale		1,180	1,823	700	1,343
Total assets		**614,116**	**564,105**	**611,819**	**561,538**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Issued capital	23	168,958	168,958	168,958	168,958
Legal reserve	24	16,896	16,896	16,896	16,896
Retained earnings		142,222	133,922	140,080	131,617
Equity attributable to owners of the Company		328,076	319,776	325,934	317,471
Non-controlling interests		-	-	-	-
Total equity		**328,076**	**319,776**	**325,934**	**317,471**
LIABILITIES					
Non-current liabilities					
Borrowings	26	68,916	99,753	68,916	99,753
Lease liabilities	26	47,541	-	47,460	-
Deferred tax liabilities	27	19,829	21,049	19,196	20,392
Deferred revenue and accrued liabilities	25	8,376	8,104	8,376	8,104
Contract liability	33	-	-	-	-
Provisions	28	11,257	10,934	11,257	10,934
		155,919	**139,840**	**155,205**	**139,183**
Current liabilities					
Trade, other payables and accrued liabilities	25	48,737	43,988	49,296	44,315
Current income tax liabilities		-	2,024	-	2,092
Borrowings	26	74,536	58,365	74,536	58,365
Contract liability	33	501	75	501	75
Lease liabilities	26	6,347	-	6,347	-
Provisions	28	-	37	-	37
		130,121	**104,489**	**130,680**	**104,884**
Total liabilities		**286,040**	**244,329**	**285,885**	**244,067**
Total equity and liabilities		**614,116**	**564,105**	**611,819**	**561,538**

The notes on pages 12 to 55 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 55 have been approved for issue by the Board of Directors as at 24 March 2020 and signed on their behalf by the CEO and the Head of Finance:

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

(All tabular amounts are in EUR '000 unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

Approved by
the Annual General Meeting
of Shareholders as at ___ April 2020

GROUP	Notes	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2018		**168,958**	**16,896**	**120,005**	**305,859**
Profit for the year		-	-	54,700	54,700
Other comprehensive income for the year, net of income tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**54,700**	**54,700**
Dividends paid for 2017	13	-	-	(40,783)	(40,783)
Balance at 31 December 2018		**168,958**	**16,896**	**133,922**	**319,776**
Effect of change in accounting policy for initial application of IFRS 16				183	183
Balance at 1 January 2019 (as restated)		**168,958**	**16,896**	**134,105**	**319,959**
Profit for the year		-	-	54,726	54,726
Other comprehensive income for the year, net of income tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**54,726**	**54,726**
Dividends paid for 2018	13	-	-	(46,609)	(46,609)
Balance at 31 December 2019		**168,958**	**16,896**	**142,222**	**328,076**

COMPANY	Notes	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2018		**168,958**	**16,896**	**117,953**	**303,807**
Profit for the year		-	-	54,447	54,447
Other comprehensive income for the year, net of income tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**54,447**	**54,447**
Dividends paid for 2017	13	-	-	(40,783)	(40,783)
Balance at 31 December 2018		**168,958**	**16,896**	**131,617**	**317,471**
Effect of change in accounting policy for initial application of IFRS 16				183	183
Balance at 1 January 2019 (as restated)		**168,958**	**16,896**	**131,800**	**317,654**
Profit for the year		-	-	54,889	54,889
Other comprehensive income for the year, net of income tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**54,889**	**54,889**
Dividends paid for 2018	13	-	-	(46,609)	(46,609)
Balance at 31 December 2019		**168,958**	**16,896**	**140,080**	**325,934**

The notes on pages 12 to 55 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 55 have been approved for issue by the Board of Directors as at 24 March 2020 and signed on their behalf by the CEO and the Head of Finance:

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

(All tabular amounts are in EUR '000 unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

Approved by
the Annual General Meeting
of Shareholders as at ___ April 2020

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2019	2018	2019	2018
Operating activities					
Profit for the year		54,726	54,700	54,889	54,447
Adjustments for:					
Income tax expenses recognized in profit or loss	11	2,129	8,534	2,057	8,440
Depreciation, amortisation and impairment charge	14	65,306	65,402	65,036	64,992
Dividends received from subsidiaries	7	-	-	(495)	(295)
Other gain / (loss) – net	9	-	-	-	-
Write off of property, plant and equipment and intangible assets		375	927	367	927
Impairment of investments in subsidiaries	19	591	-	591	-
Interest income	10	(2,797)	(467)	(2,797)	(467)
Interest expenses		3,446	1,782	3,446	1,782
Other non-cash transactions		339	617	339	663
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories / Assets held for sale		(618)	5,204	(617)	5,237
Trade and other receivables		18,301	(222)	18,457	(175)
Decrease/(increase) in contract assets	32	550	(1,705)	550	(1,705)
Decrease/(increase) in contract costs	33	353	(35)	353	(35)
Increase/(decrease) in finance lease receivables		-	-	-	-
Trade, other payables and accrued liabilities, deferred tax liability		6,451	(18,748)	6,559	(21,344)
Increase/(decrease) in contract liabilities	33	426	(620)	426	(620)
Increase/(decrease) in deferred income		272	(1,047)	272	(1,047)
Provisions	28	(53)	230	(53)	230
Cash generated from operations		**149,797**	**114,552**	**149,380**	**111,030**
Interest paid		(3,199)	(1,766)	(3,199)	(1,766)
Interest received		100	467	100	467
Income taxes paid		(7,158)	(6,486)	(7,006)	(6,300)
Net cash generated by operating activities		**139,540**	**106,767**	**139,275**	**103,431**
Investing activities					
Purchase of property, plant and equipment (PPE) and intangible assets		(53,127)	(57,267)	(53,127)	(55,496)
Proceeds from disposal of PPE and intangible assets		2,296	599	2,304	325
Disposal of subsidiary	31, 35	-	836	-	2,086
Interest and finance lease income		655	-	655	-
Proceeds from finance sublease receivables		3,416	-	3,144	-
Acquisition of subsidiaries and investment in an associate	31	(1,268)	(700)	(1,268)	(650)
Legal merger (cash acquired)		-	-	-	-
Dividends received	7	-	-	495	295
Net cash used in investing activities		**(48,028)**	**(56,532)**	**(47,797)**	**(53,440)**

(Continued in the next page)

(All tabular amounts are in EUR '000 unless otherwise stated)

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2019	2018	2019	2018
Financing activities					
Repayment of borrowings	26	(67,950)	(41,430)	(67,950)	(41,430)
Proceeds from borrowings	26	54,141	37,537	54,141	37,537
Increase (decrease) in lease liabilities		(9,662)	-	(9,390)	-
Dividends paid to shareholders	13	(46,609)	(40,783)	(46,609)	(40,783)
Net cash received in financing activities		**(70,080)**	**(44,676)**	**(69,808)**	**(44,676)**
Increase (decrease) in cash and cash equivalents		**21,432**	**5,559**	**21,670**	**5,315**
Movement in cash and cash equivalents					
At the beginning of the financial year		**28,725**	**23,166**	**26,612**	**21,297**
Increase (decrease) in cash and cash equivalents		21,432	5,559	21,670	5,315
At the end of the financial year	22	**50,157**	**28,725**	**48,282**	**26,612**

(Concluded)

The notes on pages 12 to 55 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 55 have been approved for issue by the Board of Directors as at 24 March 2020 and signed on their behalf by the CEO and the Head of Finance:

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

(All tabular amounts are in EUR '000 unless otherwise stated)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1 General information

Telia Lietuva, AB (hereinafter – the Company) is a public company (joint-stock company) incorporated on 6 February 1992. The Company is domiciled in Vilnius, the capital of the Republic of Lithuania. Address of its registered office is Saltoniškių St. 7A, LT-03501, Vilnius, Lithuania.

The Company's shares are traded on Nasdaq Vilnius stock exchange from 16 June 2000. 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 the Berlin Stock Exchange, the Frankfurt Stock Exchange, the Munich Stock Exchange and the Stuttgart Stock Exchange.

The shareholders' structure of the Company was as follows:

	31 December 2019		31 December 2018	
	Number of shares	**%**	**Number of shares**	**%**
Telia Company AB (Sweden)	513,594,774	88.15	513,594,774	88.15
Other shareholders	69,018,364	11.85	69,018,364	11.85
	582,613,138	**100.00**	**582,613,138**	**100.00**

The Company's principal activity is provision of telecommunications, TV and IT services to business and residential customers in the Republic of Lithuania.

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 8 telecommunications markets. 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 license issued by the Bank of Lithuania. The license 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 number of full-time employees of the Group at the end of 2019 amounted to 2,336 (2018: 2,482). The number of full-time employees of the Company at the end of 2019 amounted to 1,607 (2018: 1,864).

The subsidiaries and associates, other investments included in the Group's consolidated financial statements are indicated below:

		Ownership interest in %		
Subsidiary / associate	**Country of incorporation**	**31 December 2019**	**31 December 2018**	**Profile**
Telia Customer Service LT, AB	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and customer care services to customers of the Company.
VšĮ Numerio Perkėlimas	Lithuania	50%	50%	A non-profit organization established by Lithuanian telecommunications operators administers central database to ensure telephone number portability.
UAB Mobilieji Mokėjimai	Lithuania	33.3%	33.3%	An associated company is equally owned by three Lithuanian telecommunications operators operates instant payment platform.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these separate and consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The financial statements have been prepared under the going concern basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Initial application of new amendments to the existing standards effective for the current reporting period

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),

Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),

Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),

Amendments to various standards due to "Improvements to IFRSs (cycle 2015 - 2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),

IFRIC 23 "Uncertainty over Income Tax Treatments" – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Group and the Company financial statements.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),

Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),

Amendments to References to the Conceptual Framework in IFRS Standards adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

2.1 Basis of preparation (continued)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at date of publication of financial statements (the effective dates stated below is for IFRS as issued by IASB):

IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),

Amendments to IFRS 3 "Business Combinations" – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),

Amendments to IAS 1 "Presentation of Financial Statements" – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),

IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Group and the Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group and the Company in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Group and the Company estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"** would not significantly impact the financial statements, if applied as at the balance sheet date.

2.2 Consolidated financial statements

Basis of consolidation
The consolidated financial statements comprise the parent company Telia Lietuva, AB and all entities over which Telia Lietuva, AB has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity is controlled or not. Telia Lietuva, AB is assumed to have control if the group owns the majority of shares and the shares have equal voting rights attached, and a proportionate entitlement to a share of the returns of the entity and decisions about relevant activities are determined by majority votes.

Subsidiaries
Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net identifiable assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the statement of profit or loss.

2.2 Consolidated financial statements (continued)

Inter-company transactions, balances, income and expenses on transaction between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates
Associates are all entities over which the Group has significant influence (the power to participate in the financial and operating policy decisions of the investee) but not control. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investments is initially recognised at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment. The Group's investment in associates includes goodwill identified on acquisition.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the equity, the Group does not recognize further losses.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent in statement of profit or loss.

Business combination
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition – date fair values of the assets transferred by the Group, liabilities incurred by Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition – related costs are generally recognised in profit or loss as incurred.

Though business combinations involving entities under common control are outside the scope of IFRS 3. If there is a commercial substance, the Group's and the Company's accounting policy for such business combinations is based on the requirements of IFRS 3. If there is no commercial substance, the Group's and the Company's accounting policy for such business combinations is based on a method similar to pooling of interest where carrying amounts from consolidated financial statements of the Group are used.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

2.3 Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the Group's entities as well as the separate and consolidated financial statements are presented in Euro (EUR), which is the functional currency of the Company and all subsidiaries.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within "Finance income" or "Finance costs". All other foreign exchange gains and losses are presented in the statement of profit or loss within "Other gain / (loss) – net".

2.4 Property, plant and equipment

Property, plant and equipment are carried at its historical cost less any accumulated depreciation and any accumulated impairment loss. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

2.4 Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful life, as follows:

Buildings	10 – 50 years
Ducts and telecommunication equipment	3 – 30 years
Other tangible fixed assets	2 – 10 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Construction in progress is transferred to appropriate groups of fixed assets when it is completed and ready for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.5 Intangible assets

Goodwill
Goodwill arises on the acquisition of business and represents the excess of the consideration transferred over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in ‘Intangible assets’. Goodwill on acquisitions of associates is included in ‘investments in associates and subsidiaries’. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Other intangible assets
Intangible assets expected to provide economic benefit to the Group and the Company in future periods have finite useful life and are measured at acquisition cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated on the straight-line method to allocate the cost of intangible asset over estimated benefit period as follows:

Licenses and software	3 – 20 years
Client base	15 years
Trademarks	5 years
Other intangible fixed assets	5 years

The assets’ useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting date.

Separately acquired licenses are shown at historical cost. Licenses acquired in a business combination are recognised at fair value at the acquisition date.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

2.5 Intangible assets (continued)

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group and the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable cost that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are included within 'Other gain / (loss) – net' in the statement of profit or loss.

2.6 Investment property

Property that is held for undetermined use and that are not occupied by the entities in the consolidated Group, are classified as investment property. Investment property comprises construction in progress.

Recognition of investment property takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Group and the cost can be measured reliably. Subsequent expenditure is included in the asset’s carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Investment properties of the Group are stated at cost less accumulated depreciation and any accumulated impairment losses. Transaction costs are included on initial recognition. The fair values of investment properties are disclosed in the Note 17.

2.7 Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group and the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group and the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

2.7 Impairment of tangible and intangible assets excluding goodwill (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.8 Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group’s and the Company’s cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.9 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

2.9.1 Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

<u>Amortised cost and effective interest method</u>
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

2.9.1 Classification of financial assets (continued)

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

If collection is expected in one year or less, they are classified as current assets, if not, they are presented as non-current assets.

Interconnection receivables and payables to the same counterparty are stated net, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item (Note 10).

2.9.2 Impairment of financial assets

The Group and the Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group and the Company always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s and the Company’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets’ gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group’s and the Company’s understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group and the Company in accordance with the contract and all the cash flows that the Group and the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

2.9.3 Derecognition of financial assets

The Group and the Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group and the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group and the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

2.10 Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group and the Company, are measured in accordance with the specific accounting policies set out below.

2.10.1 Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

2.10.2 Derecognition of financial liabilities

The Group and the Company derecognises financial liabilities when, and only when, the Group’s and the Company’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group and the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group and the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

2.11 Investments in subsidiaries and associates in the separate financial statements of the Company

Investments in subsidiaries that are included in the separate financial statements of the Company are accounted at cost less impairment.

Investments in associates that are included in the consolidated financial statements of the Company are accounted for using the equity method of accounting. Under the equity method, the investments is initially recognised at cost, and the carrying amount is increased or decreased to recognize the investor’s share of the profit or loss of the investee after the date of acquisition. Dividends received or receivable from associated are recognized as a reduction in the carrying amount of the investment. The Company’s investment in associates includes goodwill identified on acquisition.

When the Company’s share of losses in an equity-accounted investment equals or exceeds its interest in the equity, the Company does not recognize further losses.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group and the Company), transportation, handling and other costs directly attributable to the acquisition of inventories. Net realisable value is the estimate of the selling price in the ordinary course of business, less the applicable selling expenses. All inventories held by the Group and by the Company attribute to the materials and goods for resale categories.

2.13 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use. An asset held for sale is measured at the lower of its previous carrying value and fair value less costs to sell. One of the conditions that must be satisfied for an asset to be classified as held for sale is that the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. One criteria for the sale to qualify as highly probable is that the appropriate level of management must be committed to a plan to sell the assets or disposal group in its present condition. In the telecom industry acquisitions often require regulatory approval. If the buyer is a telecom operator in the same market parties often have to agree to a number of remedies to get the approval. If the buyer is expected to be a telecom operator in the same market and significant remedies are expected, a sale is usually not regarded as highly probable and consequently the assets are not classified as held for sale by the Group and the Company, until the remedies are agreed upon and accepted by management. The determination if and when non-current assets and disposal groups should be classified as held for sale requires management judgment considering all facts and circumstances relating to the transaction, the parties and the market and entities can come to different conclusions under IFRS.

2.15 Issued capital

Ordinary shares are classified as equity. Issued capital is considered by law order only registered issued capital. All issued shares have been paid in full and carry equal rights to vote and participate in the assets of the company.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method. All borrowing costs are recognised in the statement of profit or loss in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Supplier financing arrangements
An entity may enter into arrangements under which a ‘factor’ (typically, a financial institution) pays a supplier on its behalf, with the entity (i.e. the purchaser) then reimbursing the factor. Such arrangements may be referred to as, for example, ‘supplier financing’, ‘reverse factoring’ or ‘structured payable arrangements’.

Borrowings are disclosed in the Note 26.

2.18 Accounting for leases – where the Company or the Group is the lessee

Finance lease
Where the Company or the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company or the Group is classified as finance lease. The assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the statement of profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term if the Company or the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2.18 Accounting for leases – where the Company or the Group is the lessee (continued)

If sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not recognised immediately and is deferred and amortised over the lease term. The deferred amount is carried as deferred revenue included in line ‘Deferred revenue and accrued liabilities’ in the statement of financial position.

Operating lease
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

On 1 January 2019, the new IFRS 16 “Leases” is introduced. The effect of IFRS16 is presented in Note 30.

2.19 Accounting for leases – where the Company or the Group is the lessor

Operating lease
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments received under operating leases (net of any incentives provided to the lessee) are credited to the statement of profit or loss on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of asset.

On 1 January 2019, the new IFRS 16 “Leases” is introduced. The effect of IFRS16 is presented in Note 30.

2.20 Provisions

Provisions are recognised when the Company or the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Restructuring provisions are recognised in the period in which the Company or the Group becomes legally or constructively committed to payment. Restructuring provisions comprise employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the present obligation at the end of the reporting period.

2.21 Income tax

The tax expenses for the period comprise current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to item recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred tax is determined using tax rates (and legislation) that have been enacted or substantially enacted on the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that is probable that future taxable profit will be available against which the temporary differences can be utilised.

Profit for 2019 is taxable at a rate of 15% (2018: 15%) in accordance with Lithuanian regulatory legislation on taxation.

Income tax expense is calculated and accrued for in the financial statements based on information available at the moment of the preparation of the financial statements.

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets. The Group accounts for such allowances as tax credits, which means that the allowance reduce income tax payable and current tax expense.

According to Lithuanian legislation, tax losses accumulated as at 31 December 2019 are carried forward indefinitely except for tax loss arising from the transfer of securities.

2.21 Income tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income tax levied by the same taxation authority on the same taxable entity. Current tax assets and tax liabilities are offset where the same taxable entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.22 Revenue recognition

Revenue principally consist of mobile service revenues including subscription, interconnect and roaming and fixed service revenues including telephony, broadband, TV, installation fees and business solutions, as well as revenue from equipment sales and leases. There are both revenue from products and services sold separately and from products and services sold as a bundle.

Revenue is recognized based on a single principle based five-step model which is applied to all contracts with customers. Revenue is allocated to performance obligations (equipment and services) in proportion to stand-alone selling prices of the individual items. Revenue is recognized when (at a point in time) or as (over a period of time) the performance obligations are satisfied, which is determined by the manner in which control passes to the customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amount collected on behalf of third parties. The consideration promised in a contract with a customer may include fixed amounts, variable amounts or both. For variable consideration accumulated experience is used to estimate and provide for the variable consideration, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

Service revenues are recognized over time, in the period in which the service is performed, based on actual traffic or over the contract term, as applicable. Revenue from voice and data services is recognized when the services are used by the customer. Subscription fees are recognized as revenue over the subscription period. Sales relating to pre-paid phone cards, primarily mobile, are deferred as a contract liability and recognized as revenue based on the actual usage of the cards. Revenue from interconnect traffic with other telecom operators is recognized at the time of transit across the Company’s network.

Subscription fees are recognized as revenue over the subscription period. Sales relating to pre-paid phone cards, primarily mobile, are deferred and recognized as revenue based on the actual usage of the services cards.

Revenue from equipment sales is recognized at the point in time when control is transferred to the customer, which normally is on delivery and when accepted by the customer. If the customer has the right to return the equipment, the amount of revenue recognized is adjusted for expected returns, estimated based on historical data.

Bundled services and products
The Group and the Company may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). The Group and the Company accounts for each individual product and service separately if they are distinct – i.e. if a product or service is separately identifiable from other items in the bundled package and if a customer can benefit from it. When the transaction price is determined for bundles that includes services (e.g. a mobile subscription), the minimum non-cancellable contract term is considered. When applicable, the transaction price is adjusted for financing components and expected returns. There are usually no or few other variable components in the transaction price. The transaction price is allocated to each equipment and service accounted for as a separate performance obligation, based on their relative stand-alone price. For most performance obligations, the stand-alone selling prices are directly observable. If stand-alone selling prices are not directly observable, they are estimated based on expected cost plus margin. In some cases the offerings includes non-refundable upfront fees such as activation fees. Payments for such fees are included in the transaction price, and, if not related to the satisfaction of a performance obligation, allocated to other performance obligations identified in the contract.

Some bundled offerings include lease components, e.g. TV boxes, as well as non-lease components, e.g. subscription. In those arrangements, the transaction price is allocated to both the lease components and non-lease components identified as separate performance obligations. The lease components are then accounted for as either an operating lease or a finance lease depending on the lease classification. Revenue for the non-lease components are recognized when or as the performance obligations are satisfied. Equipment that can be used only in connection with services provided by the Group and the Company and that have no other significant function for the customer than delivering the service, e.g. routers, is not accounted for as a separate performance obligation. In such arrangements, the transaction price is allocated to the performance obligations identified, i.e. no part of the transaction price is allocated to the equipment. Any consideration received upfront, when the equipment is delivered, is recognized as a contract liability and recognized as revenue when or as the identified performance obligations are satisfied.

2.23 Interest income

Interest income is recognised on a time-proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Interest income on held-to-maturity investments, loans granted are classified as "Other income", interest income on cash and cash equivalents are classified into 'Finance income'.

2.24 Dividend income

Dividend income from investments is recognised when the right to receive payment has been established.

2.25 Employee benefits

Social security contributions
The Group and the Company pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group and the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period.

Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date per mutual agreement or employers will. The Group and the Company recognise termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of mutual agreement. Benefits falling due more than 12 months after reporting date are discounted to present value.

Bonus plans
The Group and the Company recognise a liability and an expense for bonuses based on predefined targets. The Group and the Company recognise related liability where contractually obliged or where there is a past practice that has created a constructive obligation.

Supplementary health insurance
The Company pays supplementary health insurance contributions to the insurance company on behalf of its employees. Supplementary health insurance for employees is the possibility to get health care and health improvement services in a selected health care institution. The supplementary health insurance contributions are recognized as expenses when incurred.

Contributions to Pension Fund
The Company is contributing to III pillar pension funds on behalf of its employees who decided to participate in pension fund's program proposed by the Company with cooperation with "SEB Investicijų valdymas". These contributions are recognized as expenses when incurred.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Withholding tax on dividends paid to legal entities amounts to 15% (2018: 15%). According to statutory law, participation exemption (i.e. no withholding tax on dividends) could be applied when shareholder holds more than 10% of share capital and retains the holding for more than one year. There is also withholding tax exemption on dividends paid to pension and investment funds.

(All tabular amounts are in EUR ‘000 unless otherwise stated)

2.27 Segment information

Business customer segment (B2B) is responsible for services sales and customer care for big, medium and small business customer and operators including retail and wholesale telecommunication and IT services.

Private customer segment (B2C) is responsible for service and customer care for private customers.

Other segment includes technology division and support units financial performance.

The management assesses the performance of the segments based on measure of revenue and operational profit using the same accounting policies as used in preparation of these consolidated financial statements.

Segment revenue represents revenue generated from external customers. Management assess segment operating profit according to its responsibility defined in segment budget. Intersegment sales and expenses are not included into segment activities assessment.

Group’s segment reporting 2018:

	January – December 2018			
	B2B	B2C	Other	Total
Revenue from external customers	**155,051**	**218,518**	**2,925**	**376,494**
Operating expenses external	(76,893)	(92,100)	(80,218)	(249,211)
Operational result	**78,158**	**126,418**	**(77,293)**	**127,283**
Impairment of fixed assets				-
Other income				-
Other gain/ (loss) – net				154
Depreciation and amortisation of non-current assets				(64,522)
Operating profit				**62,915**

Group’s segment reporting 2019:

	January – December 2019			
	B2B	B2C	Other	Total
Revenue from external customers	**152,940**	**229,838**	**5,521**	**388,299**
Operating expenses external	(78,659)	(95,241)	(86,175)	(260,075)
Operational result	**74,281**	**134,597**	**(80,654)**	**128,224**
Impairment of fixed assets				-
Other income				-
Other gain / (loss) – net				644
Depreciation and amortisation of non-current assets				(69,087)
Operating profit				**59,781**

(All tabular amounts are in EUR ‘000 unless otherwise stated)

3 Financial risk management

3.1 Financial risk factors

The Group’s and the Company’s activities expose them to financial risks: market risk (including foreign exchange risk, and interest rate risk), credit risk, liquidity risk. The Group’s Policy for Financial Management putting the main guidelines for financial risk management and seeks to minimise potential adverse effects of the financial performance of the Group.

Financial risk management is carried out by a Group Treasury under policies approved by the Board of Directors. Group Treasury identifies and evaluates financial risks in close co-operation with the Group’s operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

Market risk

Foreign exchange risk
The Group and the Company operates in euro zone and main stream of revenue and payments are in euro therefore its exposure to currency risk is not significant. 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 (USD). Substantially all the Group’s and the Company’s trade payables and trade receivables in foreign currency are short-term and insignificant as compared to total cash pool in EUR. As the foreign exchange risk is insignificant, the sensitivity analysis of foreign exchange risk is not disclosed. The Group manages foreign exchange risk by minimising the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Notes 21, 22, 25 and 26.

Cash flow and interest rate risk
The Company is exposed to interest rate risk through funding, financing and cash management activities.

At the reporting date the interest rate profile of the Company’s interest-bearing financial assets and liabilities:

	2019	2018
Financial assets		
Accounts receivables with differed payments	37,220	61,081
Financial liabilities		
Loans with variable interest rate	60,000	60,000
Provisions (ARO)	11,257	10,934
Pensions accruals	321	259
Accounts payables with differed payment	7,997	8,573

A change in the interest rates at the reporting date would have increased (decreased) assets or liabilities and equity by the amounts shown below. This analysis assumes that all other variables remain constant.

	Interest rate applied	Change in interest rate (-100 basis points)	Change in interest rate (+100 basis points)	Delta, KEUR
Financial assets				
Accounts receivables with differed payments	5,21%	37,900	36,824	396
Financial liabilities				
Loans with variable interest rate	0,76%	61,360	57,365	1,360 / 2,635)
ARO	2,69%	12,609	10,514	1,285 / (810)
Pensions accruals	2,69%	340	304	19 / (16)
Accounts payables with differed payment	2,21%	8,494	7,540	496 / (457)
Total				

3.1 Financial risk factors (continued)

Credit risk

The financial assets exposed to credit risk represent cash deposits and trade receivables. The Group and the Company did not have any held-to-maturity investments at the end of 2019.

All the new customers (corporate and private) are being investigated for creditworthiness before contract signing in both mobility and broadband parts. Customer bill payment control consists of a number of various reminders regarding bill payment term expiration and consequently services are limited after 3-6 days since the last reminder for all indebted customers, and after further 33-36 days provision of services is fully terminated and penalties are issued. Debts are transferred to credit bureau. After sending additional reminding letters bad debts are handed over to external bad debt collection agencies for debt recovery. There is possibility to sell B2C debts after unsuccessful recovery.

Impairment provision for trade receivables is calculated on a monthly basis according to the Group’s and the Company’s internal policy for trade receivable impairment. Estimation of impairment is based on expected loss of trade receivables categories and application of certain impairment rates to each category. The impairment rates and the Group’s and the Company’s internal policy for trade receivable impairment estimation are updated on a yearly basis.

Debtors of the Group and the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk relates to the availability of sufficient funds for debt service, capital expenditure and working capital requirement or dividend payment. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Accordingly, the Group’s management implemented formal procedures for liquidity risk management, where minimum required 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 planned annual revenue.

The Group and the Company has internal control processes and contingency plans for managing liquidity risk. The short-term and mid-term liquidity management takes into account the maturities of financial assets and financial liabilities and estimates of cash flows from operations.

For the maturity analysis of the undiscounted cash flows of the Group’s and the Company’s borrowings, into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date see Note 26.

Operational transaction exposure sensitivity

In most cases, the Group and the Company customers are billed in local currency. Receivables from and payables to other operators for international fixed-line traffic and roaming are normally settled net through clearing-houses.

The sensitivity analysis based on the assumption that the operational transaction exposure is equivalent to that in 2019 did not reveal any significant interest rate or currency exchange risk, no hedging measures were taken.

Fair value estimation

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group’s market assumptions. This hierarchy requires the use of observable market data when available.

The objective of the fair value measurement, even in inactive markets, is to arrive at the price at which an orderly transaction would take place between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

In order to arrive at the fair value of a financial instrument different methods are used: quoted prices, valuation techniques incorporating observable data, and valuation techniques based on internal models. These valuation methods are divided according with the fair value hierarchy in Level 1, Level 2, and Level 3.

(*All tabular amounts are in EUR ‘000 unless otherwise stated*)

3.1 Financial risk factors (continued)

The level in the fair value hierarchy within which the fair value of a financial instrument is categorized, is determined on the basis of the lowest level input that is significant to the fair value in its entirety.

The classification of financial instruments in the fair value hierarchy is a two-step process:
1) Classifying each input used to determine the fair value into one of the three levels;
2) Classifying the entire financial instrument based on the lowest level input that is significant to the fair value in its entirety.

Quoted market prices – Level 1
Valuations in Level 1 are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available, and the prices represent actual and regularly occurring market transactions on an arm’s length basis.

Valuation techniques using observable inputs – Level 2
Valuation techniques in Level 2 are models where all significant inputs are observable for the asset or liability, either directly or indirectly. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as price) or indirectly (that is, derived from prices).

Valuation technique using significant unobservable inputs – Level 3
A valuation technique that incorporates significant inputs that are not based on observable market data (unobservable inputs) is classified in Level 3. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. Level 3 inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

Assets and liabilities for which fair value is disclosed

The carrying amount of liquid and short-term financial instruments (with maturity below 3 months), for example, cash and cash equivalents, short-term deposits, short-term trade payables and trade receivables, short-term bank borrowings corresponds to its fair value.

3.2 Capital management

The Group’s and the Company’s objectives when managing capital are to safeguard the Group’s and the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group and the Company may adjust the amounts of dividends paid to shareholders, return capital to shareholders and issue new shares.

The Group and the Company defines capital as equity which is disclosed in the statement of financial position.

Pursuant to the Lithuanian Law on Companies the authorised share capital of a joint stock company must be not less than EUR 40,000, and the shareholders’ equity should not be lower than 50 per cent of the company’s registered share capital. As at 31 December 2019 and 2018, the Company complied with these requirements.

The Group’s and the Company’s operations are financed by the external parties as well as by the shareholders’ capital. The Group had finance lease and vendor financing liabilities plus outstanding EUR 97.5 million external loans with Lithuanian and foreign banks and outstanding EUR 5 million internal loan from Telia Company AB at the end of 2019. For more detailed borrowings related information see Note 26.

The Group and the Company is not subject to any externally imposed capital requirements.

3.3 Fair value estimation

The carrying value less impairment losses of trade receivables and carrying value of payables are assumed to approximate their fair value (as market rates are used).

(All tabular amounts are in EUR '000 unless otherwise stated)

3.4 Offsetting financial assets and financial liabilities

Financial assets

The following financial assets are subject to offsetting, according to criteria described in Note 2.11:

	GROUP		COMPANY	
	2019	2018	2019	2018
Trade and other receivable				
Gross amounts of recognized financial assets	95,134	110,359	95,157	110,431
Gross amounts of recognized financial liabilities set off in the statement of financial position	(3,287)	(2,269)	(3,287)	(2,269)
Net amounts of financial assets presented in the statement of financial position	**91,847**	**108,090**	**91,870**	**108,162**
Related amounts not set off in the statement of financial position	-	-	-	-
Net amount	**91,847**	**108,090**	**91,870**	**108,162**

Financial liabilities

The following financial liabilities are subject to offsetting, according to criteria described in Note 2.11:

	GROUP		COMPANY	
	2019	2018	2019	2018
Trade payables				
Gross amounts of recognized financial liabilities	184,255	190,810	183,881	191,137
Gross amounts of recognized financial assets set off in the statement of financial position	(3,287)	(2,269)	(3,287)	(2,269)
Net amounts of financial liabilities presented in the statement of financial position	**180,968**	**188,541**	**180,594**	**188,868**
Related amounts not set off in the statement of financial position	-	-	-	-
Net amount	**180,968**	**188,541**	**180,594**	**188,868**

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's and the Company's accounting policies, which are described in Note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.5 and Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 15).

The purpose of impairment test is to ensure that assets are carried at no more than their recoverable amount. The recoverable amounts (that is, the higher of value in use and fair value less cost to sell) are normally determined on the basis of value in use, applying discounted cash flow calculations. In the recoverable amount calculations, management used assumptions that it believes are reasonable based on the best information available. The key assumptions in the value in use calculations were sales growth, EBITDA margin development, the weighted average return on assets (WARA), CAPEX-to-sales ratio, and the terminal growth rate of free cash flow.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

The value in use calculations were based on forecasts approved by management, which management believes reflect past experience, forecasts in industry reports, and other externally available information. The forecasted cash flows were discounted at the weighted average return on assets (WARA). It represents a method of calculating a company's average cost of capital, in which each category of capital is weighted in accordance with the share of that particular category of capital in overall company's financing. WARA mirrors the Internal rate of return (IRR), which is the expected result of the purchase price allocation (PPA). Weighted average cost of capital (WACC) is lower than IRR as a rational and knowledgeable market investor does not invest in projects, which yield is below WACC. Therefore, WACC is usually below WARA and IRR.

Goodwill was tested for impairment at 31 December 2019 and 2018. Calculations were done using pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Management determined budgeted profit after tax based on past performance, valued contracts with customers and its expectations of market development. Cash flows beyond the five-year period were extrapolated using the estimated rates as follows: for client base – growth rate perpetuity: 2%, discount rate: 13.6%; for trademarks: growth rate perpetuity: 0%, discount rate: 13%. Based on analysis performed, the management concluded no impairment loss.

Intangibles
Estimates concerning useful lives of intangibles are disclosed above and amortization charge for the year is disclosed in Note 15. Intangible assets with the estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis. The estimations are done based on the entity’s consideration of its own historical experience consistent with the highest and best use of the asset and with the expected use of the asset in future. Recognized intangible asset reflects the period over the asset will contribute. The estimation of the useful life for customer data basis was done based on the statistics of current number of customers and the disconnected amount of customers over the period.

Based on the assumptions above, some changes of useful lives for intangible assets were made over 2019.

Property, plant and equipment
Estimates concerning useful lives of property, plant and equipment due to constant technology advances – useful lives are disclosed above and depreciation charge for the year is disclosed in Note 14. Increasing an asset’s expected useful life or its residual value would result in a reduced depreciation charge. The useful lives of property, plant and equipment are determined by management at the time the asset is acquired and reviewed on an annual basis for appropriateness. The lives are based on historical experiences with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Furthermore, network infrastructure cannot be depreciated over a period that extends beyond the expiry of the associated license under which services are provided.

Impairment allowance for accounts receivable
Impairment allowance for accounts receivable was determined based on the management’s estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgment. Judgment is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments. Current estimates of the Group and the Company could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Allowance for doubtful receivables reflects estimated losses that result from the inability of customers to make required payments. Management determines the size of the allowance based on the likelihood of recoverability of accounts receivable taking into account actual losses in prior years and current collection trends.

(All tabular amounts are in EUR ‘000 unless otherwise stated)

5 Revenue

	GROUP		COMPANY	
	2019	2018	2019	2018
Mobile services	126,888	121,120	127,300	121,305
Equipment sales revenue	88,211	77,732	88,211	77,735
Internet services	56,618	57,839	56,618	57,839
Voice telephony services	49,670	59,076	49,517	58,779
TV services	30,783	26,076	30,783	26,076
Data communication and network capacity services	18,654	19,125	18,656	19,128
IT services	11,330	10,204	11,630	10,519
Other services	6,145	5,322	6,577	6,347
Total	**388,299**	**376,494**	**389,292**	**377,728**

6 Cost of goods and services

	GROUP		COMPANY	
	2019	2018	2019	2018
Costs of goods and services purchased	99,637	88,895	110,765	99,508
Network’s interconnection	45,911	49,872	45,911	49,872
Network capacity costs	9,656	12,915	9,656	12,915
Total	**155,204**	**151,682**	**166,332**	**162,295**

7 Other income

	GROUP		COMPANY	
	2019	2018	2019	2018
Income from dividends (Note 31)	-	-	495	295
Total	**-**	**-**	**495**	**295**

8 Other operating expenses and employee related expenses

	GROUP		COMPANY	
	2019	2018	2019	2018
Marketing expenses	14,111	12,639	14,111	12,639
Energy, premises and transport costs	11,585	15,131	12,170	15,422
Consultations and other services from group	12,142	5,936	12,142	5,936
Maintenance and other services	6,072	6,795	6,072	6,686
Impairment of accounts receivable	2,449	1,627	2,449	1,627
Other expenses	5,017	4,181	5,015	4,082
Total	**51,376**	**46,309**	**51,959**	**46,392**

The social security contributions amounting to EUR 0.78 million for the Group and EUR 0.86 million for the Company (2018: EUR 12.8 million for the Group and EUR 10.7 million for the Company) are recognised as an expense on an accrual basis and are included within employee related expenses.

(All tabular amounts are in EUR '000 unless otherwise stated)

9 Other gain (loss)

	GROUP		COMPANY	
	2019	2018	2019	2018
Gain on sales of property, plant and equipment	395	926	387	927
Loss on sales of property, plant and equipment	(20)	-	(20)	-
Gain/loss from investments in associates	-	(697)	-	(754)
Other gain (loss)	269	(75)	269	(75)
Total	**644**	**154**	**636**	**98**

10 Financial and investment activities

	GROUP		COMPANY	
	2019	2018	2019	2018
Gain/loss from investments in subsidiaries and associates	**(1,860)**	**683**	**(1,860)**	**92**
Interest income from instalments amortisation	2,697	1,367	2,697	1,367
Interest income on cash and cash equivalents	100	467	100	467
Foreign exchange gain (loss) on financing activities	15	58	15	58
Other finance income	47	117	47	117
Finance income	**2,859**	**2,009**	**2,859**	**2,009**
Interest expenses	(1,482)	(1,782)	(1,482)	(1,782)
Interest expenses leases	(1,964)	-	(1,964)	-
Foreign exchange gain (loss) on financing activities	(398)	(422)	(398)	(422)
Other finance costs	(81)	(169)	(80)	(169)
Finance costs	**(3,925)**	**(2,373)**	**(3,924)**	**(2,373)**
Financial and investment activities – net	**(2,926)**	**319**	**(2,925)**	**(272)**

11 Income tax

	GROUP		COMPANY	
	2019	2018	2019	2018
Current tax expenses	3,381	6,565	3,285	6,433
Deferred tax change (Note 27)	(1,252)	1,969	(1,228)	2,007
Income tax expenses	**2,129**	**8,534**	**2,057**	**8,440**

As at 1 January 2009, amendments to Law on Corporate Profit Tax came into effect which provides tax relief for investments in new technologies. As a result, the Company's calculated profit tax relief amounts for 2019 to EUR 4.8 million (2018: EUR 3.4 million). Investments in new technologies are capitalised as property, plant and equipment, and their depreciation is deductible for tax purposes, therefore, the tax relief does not create any deferred tax liability.

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when tax declaration was submitted and may impose additional tax assessments with penalty interest and penalties.

The Group's and the Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

(All tabular amounts are in EUR '000 unless otherwise stated)

11 Income tax (continued)

The tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Profit before income tax	**56,855**	**63,234**	**56,946**	**62,887**
Tax calculated at a tax rate of 15% (2018: 15%)	8,528	9,485	8,542	9,433
Non-taxable dividends received (tax effect)	-	-	(74)	(44)
Income not subject to tax (-) and expenses not deductible for tax purposes (+)	(1,550)	2,337	(1,529)	2,337
Tax relief	(4,792)	(3,363)	(4,827)	(3,363)
Other	(57)	75	(55)	77
Income tax expense recognized in profit or loss and other comprehensive income statement	**2,129**	**8,534**	**2,057**	**8,440**
Effective tax rate	3.74%	13.50%	3.61%	13.42%

12 Earnings per share

Basic earnings per share are calculated by dividing the net profit (loss) for the period by the weighted average number of ordinary shares in issue during the period. The Group and the Company has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as basic earnings per share.

The weighted average number of shares for both reporting periods amounted to 582,613 thousand.

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Net profit	**54,726**	**54,700**	**54,889**	**54,447**
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613	582,613	582,613
Basic earnings per share (EUR)	**0.094**	**0.094**	**0.094**	**0.093**

13 Dividends per share

The dividends per share declared in respect of 2018 and 2017 and paid in 2019 and 2018 were EUR 0.08 and EUR 0.07 respectively.

14 Property, plant and equipment, Right-of-use-asset

The depreciation, amortisation and impairment charge in the statement of profit or loss items:

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Depreciation of property, plant and equipment	45,106	49,723	44,854	49,436
Impairment of property, plant and equipment	842	1,178	842	1,074
Amortisation of intangible assets (Note 15)	16,404	13,621	16,386	13,602
Impairment of intangible assets (Note 15)	-	-	-	-
Amortisation of Right-of-use-asset (Note 16)	6,735	-	6,735	-
Total	**69,087**	**64,522**	**68,817**	**64,112**
Impairment of assets classified as held for sale	**-**	132	**-**	28
Total	**69,087**	**64,654**	**68,817**	**64,140**

(All tabular amounts are in EUR '000 unless otherwise stated)

14 Property, plant and equipment (continued)

In 2018, the Company revised useful lives of its property, plant and equipment.

GROUP	Land and buildings	Ducts and telecommu-nication equipment	Other tangible fixed assets	Construction in progress	Total
Year ended 31 December 2018					
Opening net book amount	**17,287**	**233,379**	**7,915**	**31,854**	**290,435**
Additions	-	156	-	39,086	39,242
Reclassifications	311	(40)	(4)	(980)	(713)
Disposals and write-offs	(1,272)	(196)	(58)	-	(1,526)
Transfers from construction in progress	988	52,471	512	(53,971)	-
Depreciation charge	(990)	(46,290)	(2,443)	-	(49,723)
Impairment charge	(132)	(1,033)	(13)	-	(1,178)
Closing net book amount	**16,192**	**238,447**	**5,909**	**15,989**	**276,537**
At 31 December 2018					
Cost	38,434	869,521	29,083	15,989	953,027
Accumulated depreciation	(22,242)	(628,460)	(23,174)	-	(673,876)
Impairment Charge	-	(2,614)	-	-	(2,614)
Net book amount	**16,192**	**238,447**	**5,909**	**15,989**	**276,537**
Year ended 31 December 2019					
Opening net book amount	**16,192**	**238,447**	**5,909**	**15,989**	**276,537**
Additions	-	265	-	41,387	41,652
Reclassifications	1,969	(9,362)	7,358	(5,741)	(5,776)
Disposals and write-offs	(2,385)	(130)	(155)	(1)	(2,671)
Transfers from construction in progress	693	33,614	8,003	(42,310)	-
Depreciation charge	(1,402)	(39,434)	(4,270)	-	(45,106)
Impairment charge	(74)	(750)	(18)	-	(842)
Closing net book amount	**14,993**	**222,650**	**16,827**	**9,324**	**263,794**
At 31 December 2019					
Cost	41,124	815,755	67,649	9,324	933,852
Accumulated depreciation	(26,131)	(590,912)	(50,822)	-	(667,865)
Impairment Charge	-	(2,193)	-	-	(2,193)
Net book amount	**14,993**	**222,650**	**16,827**	**9,324**	**263,794**

(All tabular amounts are in EUR ‘000 unless otherwise stated)

14 Property, plant and equipment (continued)

COMPANY	Land and buildings	Ducts and telecommuni-cation equipment	Other tangible fixed assets	Construction in progress	Total
Year ended 31 December 2018					
Opening net book amount	**12,942**	**233,309**	**7,796**	**31,853**	**285,900**
Additions	-	156	-	39,085	39,241
Disposals and write-offs	(1,002)	(196)	(54)	-	(1,252)
Reclassifications	35	(42)	(4)	(979)	(990)
Transfers from construction in progress	988	52,453	531	(53,971)	1
Depreciation charge	(788)	(46,232)	(2,416)	-	(49,436)
Impairment charge	(28)	(1,033)	(13)	-	(1,074)
Closing net book amount	**12,147**	**238,415**	**5,840**	**15,988**	**272,390**
At 31 December 2018					
Cost	31,024	866,888	27,314	15,988	941,214
Accumulated depreciation	(18,877)	(625,859)	(21,474)	-	(666,210)
Impairment charge	-	(2,614)	-	-	(2,614)
Net book amount	**12,147**	**238,415**	**5,840**	**15,988**	**272,390**
Year ended 31 December 2019					
Opening net book amount	**12,147**	**238,415**	**5,840**	**15,988**	**272,390**
Additions	-	265	-	41,387	41,652
Reclassifications	1,969	(9,362)	7,358	(5,741)	(5,776)
Disposals and write-offs	(2,385)	(130)	(156)	-	(2,671)
Transfers from construction in progress	693	33,614	8,003	(42,310)	-
Depreciation charge	(1,195)	(39,412)	(4,247)	-	(44,854)
Impairment charge	(74)	(750)	(18)	-	(842)
Closing net book amount	**11,155**	**222,640**	**16,780**	**9,324**	**259,899**
At 31 December 2019					
Cost	33,714	813,956	66,493	9,324	923,487
Accumulated depreciation	(22,559)	(589,123)	(49,713)	-	(661,395)
Impairment charge	-	(2,193)	-	-	(2,193)
Net book amount	**11,155**	**222,640**	**16,780**	**9,324**	**259,899**

During 2018, the Company reviewed the write-off principles of fully depreciated assets based on economical benefits criteria as disclosed in the accounting policy. Based on a new criteria the Company has written-off fully depreciated assets for EUR 137,698 thousand of acquisition cost.

During 2019, the Company reviewed the accounted projects and has done the reclassification from tangible assets to intangible assets in amount of EUR 5,742 thousand.

The Company still uses depreciated property, plant and equipment with acquisition cost as at 31 December 2019 amounting to EUR 376,744 thousand (2018: EUR 400,452 thousand), comprising buildings with acquisition cost as at 31 December 2019 amounting to EUR 8,478 thousand (2018: EUR 5,847 thousand), plant and machinery with acquisition cost of EUR 330,932 thousand (2018: EUR 377,959 thousand) and other fixtures, fitting, tools and equipment with acquisition cost of EUR 37,334 thousand (2018: EUR 16,646 thousand).

(All tabular amounts are in EUR '000 unless otherwise stated)

14 Property, plant and equipment (continued)

The category 'Ducts and telecommunication equipment' includes terminal equipment leased by the group to third parties under operating leases with the following carrying amounts:

	GROUP		COMPANY	
	2019	2018	2019	2018
Cost	55,698	53,312	55,698	53,312
Accumulated depreciation at 1 January	(31,469)	(33,233)	(31,469)	(33,233)
Depreciation charge for the year	(7,635)	(7,890)	(7,635)	(7,890)
Disposals and write-offs accumulated depreciation	3,358	8,467	3,358	8,467
Net book amount	**19,952**	**20,656**	**19,952**	**20,656**

15 Intangible assets

GROUP	Licenses and software	Goodwill	Other intangible assets*	Construction in progress**	Total
Year ended 31 December 2018					
Opening net book amount	**37,502**	**26,769**	**45,435**	**12,695**	**122,401**
Additions	-	-	-	22,722	22,722
Reclassifications	28,545	-	44	(28,580)	9
Amortisation charge	(9,919)	-	(3,702)	-	(13,621)
Closing net book amount	**56,128**	**26,769**	**41,777**	**6,837**	**131,511**
At 31 December 2018					
Cost	117,965	29,408	58,586	6,837	212,796
Accumulated amortisation	(61,837)	(2,639)	(13,225)	-	(77,701)
Impairment charge	-	-	(3,584)	-	(3,584)
Net book amount	**56,128**	**26,769**	**41,777**	**6,837**	**131,511**
Year ended 31 December 2019					
Opening net book amount	**56,128**	**26,769**	**41,777**	**6,837**	**131,511**
Additions	-	-	-	11,311	11,311
Reclassifications	14,728	-	(30)	(8,955)	5,743
Amortisation charge	(12,826)	-	(3,578)	-	(16,404)
Closing net book amount	**58,030**	**26,769**	**38,169**	**9,193**	**132,161**
At 31 December 2019					
Cost	116,137	29,408	58,240	9,193	212,978
Accumulated amortisation	(58,107)	(2,639)	(16,487)	-	(77,233)
Impairment charge	-	-	(3,584)	-	(3,584)
Net book amount	**58,030**	**26,769**	**38,169**	**9,193**	**132,161**

*Other intangible assets at 31 December 2019 consist of the client base (acquired while merging AB Omnitel) for an amount of EUR 37,546 thousand, the remaining amortisation period is 12 years.

**Construction in progress comprise intangible assets developed for internal use and provision of services, are expected to be completed within 2020.

Management determined budgeted profit after tax based on past performance, valued contracts with customers and its expectations of market development. Cash flows beyond the five-year period are extrapolated using the estimated rates as follows: for client base - growth rate perpetuity: 2%, discount rate: 13.6%; for trademarks: growth rate perpetuity: 0%, discount rate: 13%. The discount rates used are pre-tax and reflect specific risks relating to the relevant cash generating units. Based on analysis performed, the management concluded no impairment loss.

(All tabular amounts are in EUR '000 unless otherwise stated)

15 Intangible assets (continued)

COMPANY	Licenses and software	Goodwill	Other intangible assets	Construction in progress	Total
Year ended 31 December 2018					
Opening net book amount	**37,471**	**26,769**	**45,431**	**12,688**	**122,359**
Additions	-	-	-	22,722	22,722
Reclassifications	28,542	-	42	(28,573)	11
Amortisation charge	(9,903)	-	(3,699)	-	(13,602)
Closing net book amount	**56,110**	**26,769**	**41,774**	**6,837**	**131,490**
At 31 December 2018					
Cost	115,772	29,408	58,430	6,837	210,447
Accumulated amortisation	(59,662)	(2,639)	(13,072)	-	(75,373)
Impairment charge	-	-	(3,584)	-	(3,584)
Net book amount	**56,110**	**26,769**	**41,774**	**6,837**	**131,490**
Year ended 31 December 2019					
Opening net book amount	**56,110**	**26,769**	**41,774**	**6,837**	**131,490**
Additions	-	-	-	11,311	11,311
Reclassifications	14,729	-	(32)	(8,955)	5,742
Amortisation charge	(12,811)	-	(3,575)	-	(16,386)
Closing net book amount	**58,028**	**26,769**	**38,167**	**9,193**	**132,157**
At 31 December 2019					
Cost	114,113	29,408	58,090	9,193	210,804
Accumulated amortisation	(56,085)	(2,639)	(16,339)	-	(75,063)
Impairment charge	-	-	(3,584)	-	(3,584)
Net book amount	**58,028**	**26,769**	**38,167**	**9,193**	**132,157**

Provision of fixed, long distance and international telecommunication services (including transmission) is not a subject to licensing in Lithuania.

During 2018, the Company reviewed the write-off principles of fully amortised assets based on economic benefits criteria. Based on a new criteria the Company has written-off fully depreciated assets for EUR 23,759 thousand of acquisition cost.

During 2019, the Company reviewed the accounted projects and has done reclassification from tangible to intangible assets for EUR 5,742 thousand of acquisition cost.

The Company still uses amortized software and licenses with acquisition cost as at 31 December 2019 amounting to EUR 28,745 thousand (2018: EUR 42,137 thousand).

16 Right-of-use-asset

	GROUP	COMPANY
Assets as per statement of financial position		
As at 31 December 2018	**-**	**-**
Effect of change in accounting policy for initial application of IFRS 16	28,999	28,645
Opening net book amount as at 1 January 2019 (as restated)	**28,999**	**28,645**
Additions	33,694	33,695
Disposals and retirements	(8,238)	(7,966)
Termination of the lease contract	180	180
Amortisation charge	(6,735)	(6,735)
Closing net book amount as at 31 December 2019	**47,900**	**47,819**

(All tabular amounts are in EUR '000 unless otherwise stated)

17 Investment property

As at 31 December 2019, the Company did not have any investment property.

As at 31 December 2017, the Group disclosed construction in progress as investment property. Management applied judgment in determining the classification of the construction in progress as investment property and, based on experience, considered that, since the future use of the asset is undetermined, it was appropriate to classify it as investment property. The actual outcome of the use was the sale of the asset in 2018 since it was not completed for use of the Group.

18 Investments in associates and subsidiaries

The movement in Investments in associates and subsidiaries during the period is as follows:

	GROUP		COMPANY	
	2019	2018	2019	2018
At the beginning of year	**-**	**650**	**4,122**	**6,817**
Acquisition / increase of share capital of associates[1]	-	650	-	650
Divestment/ reclass of subsidiaries and associates[1]	-	(637)	-	(3,345)
Result of associates	-	(663)	-	-
At end of year	**-**	**-**	**4,122**	**4,122**

[1]In December 2017, Telia Lietuva, AB together with other two largest Lithuanian mobile operators – UAB Bitė Lietuva and UAB Tele2 – each acquired a 33.3 per cent stake in UAB Mobilieji Mokėjimai. The authorized capital of the company as of 31 December 2018 amounted to EUR 2.1 million (2019: EUR 7.8 million). Mobilieji Mokėjimai has created instant payments platform, which is called MoQ ("móku") and functions as a mean of payment at points of sale, on the Internet, and allows customers to make money transfers between themselves. All payments between MoQ users are made instantaneously and at any time of the day. In May 2017, the Bank of Lithuania granted a limited activity electronic money institution license to Mobilieji Mokėjimai required for activities related to instant payments. In July 2017, the mobile operators got the permission of the European Commission to jointly create a common platform for the provision of the mobile payments service. In 2018 UAB Mobilieji Mokėjimai was reclassified as held for sale. In March 2020, the shareholders of UAB Mobilieji Mokėjimai decided to cease operations of the entity from 18 May 2020.

On 1 June 2018, the Company sold a 100 per cent stake in subsidiary Telia Global Services Lithuania UAB to Telia Company AB.

On 26 October 2018, the Company sold a 100 per cent stake in subsidiary UAB Verslo Investicijos to UAB Netfundus (Lithuania). UAB Verslo Investicijos was developing project at Lvovo str. 21A in Vilnius.

19 Inventories

	GROUP		COMPANY	
	2019	2018	2019	2018
Goods for resale	952	2,230	952	2,230
Supplies and consumables	9,201	5,952	9,201	5,952
Total	**10,153**	**8,182**	**10,153**	**8,182**

20 Financial instruments by category

The accounting policies for the financial instruments have been applied to the line item below:

	GROUP		COMPANY	
	2019	2018	2019	2018
Assets as per statement of financial position				
Available-for-sale financial assets	-	596	-	596
Trade and other receivables	91,847	108,090	91,870	108,162
Cash and cash equivalents	50,157	28,725	48,282	26,612
Total	**142,004**	**137,411**	**140,152**	**135,370**

(All tabular amounts are in EUR ‘000 unless otherwise stated)

20 Financial instruments by category (continued)

All financial liabilities of the Group amounting to EUR 190,698 thousand (2018: EUR 188,541 thousand) and of the Company amounting to EUR 190,324 thousand (2018: EUR 188,868 thousand) fell under the category of other financial liabilities, there are no liabilities at fair value through profit and loss.

21 Trade and other receivables

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Trade receivables from business customers and residents	85,595	106,051	85,571	105,948
Trade receivables from other operators	2,881	3,032	2,881	3,032
Total trade receivables	**88,476**	**109,083**	**88,452**	**108,980**
Less: provision for impairment of receivables	(5,749)	(9,194)	(5,749)	(9,194)
Trade receivables – net	**82,727**	**99,889**	**82,703**	**99,786**
Receivables from companies collecting payments for telecommunication services	205	357	205	357
Prepaid expenses and other receivables	2,980	4,938	2,902	4,918
Finance lease receivables	6,867	-	6,867	-
Receivables from related parties (Note 31)	8,130	5,086	8,255	5,281
	100,909	**110,270**	**100,932**	**110,342**
Less: non-current portion	(13,764)	(8,704)	(13,764)	(8,704)
Current portion	**87,145**	**101,566**	**87,168**	**101,638**

All non-current receivables are due within three years from the reporting date.

The fair values of trade and other receivables are approximate to their carrying values.

The maximum exposure to credit risk at the reporting date is the carrying value of receivables mentioned above. The Group and the Company does not hold any collateral as security.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

As at 31 December 2019, the Group’s trade receivables of EUR 88,140 thousand (2018: EUR 110,388 thousand) and the Company’s trade receivable of EUR 88,116 thousand (2018: EUR 110,354 thousand) were impaired and provided for. The amount of the Group’s provision was EUR 5,413 thousand as at 31 December 2019 (2018: EUR 9,194 thousand) and the amount of the Company’s provision was EUR 5,413 thousand as at 31 December 2019 (2018: EUR 9,194 thousand). Impairment allowance by major part has been recognized on an issued invoices, based on the impairment rates assessed by management.

The Company started to account an expected credit losses on account receivables according to IFRS 9 requirements.

The main rules used in calculation of expected credit losses are as following:

- Historical data is used to estimate expected credit losses.
- A provision matrix specifies fixed provision rates depending on the number of days that account receivable is past due.
- The same provision rate is applied to all customer‘s account receivables (which may have different days past due) according to the oldest due date. Postponed payments for installments are also included in calculation of expected credit losses.
- Different provision rates are applied for different customer segments – Mobility B2C; Mobility B2B; Broadband B2C; Broadband B2B/B2O as historical credit loss experience shows different loss patterns for these segments. This means that in case customer has services in different systems (e.g. Broadband and Mobility) different provision rates will be applied for the same customer.

(All tabular amounts are in EUR '000 unless otherwise stated)

21 Trade and other receivables (continued)

The ageing of these receivables is as follows:

	GROUP		COMPANY	
	2019	2018	2019	2018
Trade receivable total	**88,476**	**109,083**	**88,452**	**108,980**
Of which not overdue	68,520	95,757	68,496	95,654
Overdue up to 3 months	13,746	6,809	13,746	6,809
4 to 6 months	418	1,373	418	1,373
7 to 12 months	348	2,068	348	2,068
Over 12 months	5,444	3,076	5,444	3,076

The age of past due but not impaired accounts receivable is as follows:

	GROUP		COMPANY	
	2019	2018	2019	2018
Total	**-**	**1,620**	**-**	**1,620**
Overdue up to 3 months	-	1,336	-	1,336
4 to 6 months	-	73	-	73
7 to 12 months	-	148	-	148
Over 12 months	-	63	-	63

The age of fully and partially impairment accounts receivables is as follows:

Total	**88,476**	**78,703**	**88,452**	**78,594**
Of which not overdue	68,520	66,997	68,496	66,888
Overdue up to 3 months	13,746	5,473	13,746	5,473
4 to 6 months	418	1,300	418	1,300
7 to 12 months	348	1,920	348	1,920
Over 12 months	5,444	3,013	5,444	3,013

The carrying amounts of the trade and other receivables are denominated in the following currencies:

	GROUP		COMPANY	
	2019	2018	2019	2018
Currency				
EUR	100,459	109,391	100,482	109,463
Other currency	450	879	450	879
Total	**100,909**	**110,270**	**100,932**	**110,342**

Movements of impairment for trade receivables are as follows:

	GROUP		COMPANY	
	2019	2018	2019	2018
At the beginning of year	**9,194**	**8,341**	**9,194**	**8,341**
Acquirement during business combination	-	-	-	-
Receivables written off during the year as uncollectible	(4,519)	(945)	(4,519)	(945)
Provision for receivables impairment / Unused amount reversed (-)	1,074	1,798	1,074	1,798
At the end of year	**5,749**	**9,194**	**5,749**	**9,194**

(All tabular amounts are in EUR ‘000 unless otherwise stated)

21 Trade and other receivables (continued)

The recognition and release of provision for impaired receivables have been included in ‘Other operating expenses and employee related expenses’ in the profit or loss (Note 8).

The other classes within trade and other receivables do not contain impaired assets.

22 Cash and cash equivalents

	GROUP		COMPANY	
	2019	2018	2019	2018
Cash in hand and at bank	50,157	28,725	48,282	26,612
Total	**50,157**	**28,725**	**48,282**	**26,612**

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	GROUP		COMPANY	
	2019	2018	2019	2018
Currency				
EUR	50,115	28,709	48,240	26,596
USD	42	16	42	16
Total	**50,157**	**28,725**	**48,282**	**26,612**

The credit quality of cash in hand and at bank can be assessed by reference to Standard & Poor’s long-term credit ratings (or equivalent by Moody’s):

	GROUP		COMPANY	
	2019	2018	2019	2018
AA-	41,425	21,336	41,425	21,336
A+	4,599	5,827	2,724	3,714
A	134	223	134	223
Baa1	2,904	904	2,904	904
Other	1,095	435	1,095	435
Total	**50,157**	**28,725**	**48,282**	**26,612**

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents classified as other cash and cash equivalents.

23 Share capital

The authorised share capital comprises of 582,613,138 ordinary shares of EUR 0.29 nominal value each. All shares are fully paid up.

24 Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, is compulsory until the reserve including share premium reaches 10% of the share capital. The legal reserve can be used to cover the accumulated losses. The amount of the legal reserve surplus which exceeds the size of legal reserve required by the legislation can be added to retaining earnings for the profit distributing purpose.

At the end of year 2019 legal reserve – EUR 16.9 million.

(All tabular amounts are in EUR '000 unless otherwise stated)

25 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2019	2018	2019	2018
Trade payables	20,273	17,270	20,254	15,898
Taxes, salaries and social security payable	8,652	8,959	8,052	9,815
Amounts payable to related parties (Note 31)	5,535	2,535	6,736	3,680
Accrued liabilities	4,310	5,612	4,287	5,612
Trade payables to operators	3,182	363	3,182	363
Accruals to operators	1,795	1,981	1,795	1,981
Other payables and deferred revenue	13,366	15,372	13,366	15,070
	57,113	**52,092**	**57,672**	**52,419**
Less non-current portion	(8,376)	(8,104)	(8,376)	(8,104)
Current portion	**48,737**	**43,988**	**49,296**	**44,315**

The carrying amounts of the trade and other payables are denominated in the following currencies:

	GROUP		COMPANY	
	2019	2018	2019	2018
Currency				
EUR	51,538	51,213	52,097	51,540
Other currency	5,575	879	5,575	879
Total	**57,113**	**52,092**	**57,672**	**52,419**

26 Borrowings and lease liabilities

	GROUP		COMPANY	
	2019	2018	2019	2018
Current				
Borrowings	35,000	40,000	35,000	40,000
Reverse factoring	38,704	17,538	38,704	17,538
Lease liabilities	6,347	-	6,347	-
Finance lease liabilities	832	827	832	827
	80,883	**58,365**	**80,883**	**58,365**
Non-current (due between 2 and 5 years)				
Borrowings	67,500	97,500	67,500	97,500
Lease liabilities	47,541	-	47,460	-
Finance lease liabilities	1,416	2,253	1,416	2,253
	116,457	**99,753**	**116,376**	**99,753**
Total borrowings and lease liabilities	**197,340**	**158,118**	**197,259**	**158,118**

In 2018, the Company concluded new agreements with SEB Enskilda Banken (Sweden).

In 2019, the Company concluded five lease agreements with SEB bank AB. Company's finance leases concern company cars for employees, and other vehicles. There is subleasing. Cars lease agreements are for 5 years. All the borrowings denominated in EUR.

Reverse factoring or Supplier Invoice Financing (SIF) is a program where invoices are paid by 3rd party bank in 7 days for the 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. Company pays bank full amount in approximately one-year period (actual term depends on few variables agreed between all 3 parties). There were 17 suppliers which participated in SIF program during 2019 and generated over EUR 20 million cash flow.

(All tabular amounts are in EUR '000 unless otherwise stated)

26 Borrowings and lease liabilities (continued)

Company's minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2018	854	3,089	-	3,943
Less future finance charges	(31)	(51)	-	(82)
Present value of minimum lease payments at 31 December 2018	**823**	**3,038**	**-**	**3,861**
Minimum lease payments at 31 December 2019	855	1,423	-	2,278
Less future finance charges	(23)	(7)	-	(30)
Lease liabilities	6,347	21,529	25,930	53,806
Present value of minimum lease payments at 31 December 2019	**7,179**	**22,945**	**25,930**	**56,054**

27 Deferred income taxes

On 1 February 2017, AB Omnitel was merged into the Company therefore, tax goodwill of EUR 71.2 million was recognised upon the merger. The Company calculated deferred tax asset on the whole amount of goodwill of EUR 10.7 million, however, due to the negative binding ruling received from the Tax Authorities, allowance for the whole amount of deferred tax asset was also calculated. The negative binding ruling was appealed to the Supreme Administrative Court.

The net movement on the deferred tax liabilities and deferred tax assets is as follows:

	GROUP		COMPANY	
Deferred tax liabilities	**2019**	**2018**	**2019**	**2018**
At the beginning of year	**21,049**	**19,080**	**20,392**	**18,384**
Effect of change in accounting policy for initial application of IFRS 16	32	-	32	-
At the beginning of year restated	**21,081**	**19,080**	**20,424**	**18,384**
Charged/ (credited) to profit or loss (Note 11)	(1,252)	1,969	(1,228)	2,008
At the end of year	**19,829**	**21,049**	**19,196**	**20,392**

The analysis of deferred tax assets and deferred tax liabilities is as the follows:

	GROUP		COMPANY	
Deferred tax liabilities	**2019**	**2018**	**2019**	**2018**
Deferred tax asset to be recovered / liability settled after more than 12 months	19,591	20,647	18,958	19,985
Deferred tax asset to be recovered / liability settled within 12 months	238	402	238	407
	19,829	**21,049**	**19,196**	**20,392**

According to Lithuanian tax legislation, investments in subsidiaries of the Company qualify for participation exemption, therefore deferred income tax liabilities have not been established on the unremitted earnings of subsidiaries.

(All tabular amounts are in EUR '000 unless otherwise stated)

27 Deferred income taxes (continued)

The movement in deferred tax assets and liabilities of the Group (prior to offsetting of balances) during the period is as follows:

GROUP – deferred tax liabilities	Investment relief[1]	Difference in useful lives[2]	Other	Total
At 31 December 2018	**2,581**	**19,482**	**1,321**	**23,384**
Effect of change in accounting policy for initial application of IFRS 16	-	-	32	32
Charged / (credited) to profit or loss	(244)	6,179	364	6,299
At 31 December 2019	**2,337**	**25,661**	**1,717**	**29,715**

GROUP – deferred tax asset	Tax losses	Other	Total
At 31 December 2018	**-**	**(2,335)**	**(2,335)**
Charged / (credited) to profit or loss	-	(7,551)	(7,551)
At 31 December 2019	**-**	**(9,886)**	**(9,886)**

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of insignificant amount of losses that can be carried forward without expiry against future taxable income.

The movement in deferred tax asset and liabilities of the Company (prior to offsetting of balances) during the period is as follows:

COMPANY – deferred tax liabilities	Investment relief[1]	Difference in useful lives[2]	Other	Total
At 31 December 2018	**2,074**	**19,327**	**1,320**	**22,721**
Effect of change in accounting policy for initial application of IFRS 16	-	-	32	32
Charged / (credited) to profit or loss	(221)	6,185	353	6,317
At 31 December 2019	**1,853**	**25,512**	**1,705**	**29,070**

COMPANY – deferred tax asset	Tax losses	Other	Total
At 31 December 2018	**-**	**(2,329)**	**(2,329)**
Charged / (credited) to profit or loss	-	(7,545)	(7,545)
At 31 December 2019	**-**	**(9,874)**	**(9,874)**

[1] under investments relief applied till year 2001, value of assets invested was deducted for income tax purpose in the year of investment. Further depreciation expenses of these assets are not tax-deductible therefore deferred tax liability was created. It will be fully utilized during useful lives of these assets.

[2] when depreciation is prolonged for accounting purposes, as useful lives set by tax laws are shorter than normal wear-and-tear rates.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Deferred tax asset	(9,886)	(2,335)	(9,874)	(2,329)
Offset with deferred tax liabilities	9,886	2,335	9,874	2,329
Deferred tax asset as per statement of financial position	**-**	**-**	**-**	**-**
Deferred tax liabilities	29,715	23,384	29,070	22,721
Offset with deferred tax asset	(9,886)	(2,335)	(9,874)	(2,329)
Deferred tax liabilities as per statement of financial position	**19,829**	**21,049**	**19,196**	**20,392**

28 Provisions

Group provisions movement during January-December 2019:

	Provision for restructuring	Assets retirement obligation	Total
Opening net book amount at 31 December 2018	**37**	**10,934**	**10,971**
Acquisition of subsidiaries	-	-	-
Additions	-	339	339
Used provisions	(37)	(16)	(53)
Closing net book amount at 31 December 2019	**-**	**11,257**	**11,257**

The restructuring provision comprises of compensation to employees as a result of the restructuring plan approved by the Group and the Company. Year 2018 provisions for restructuring are fully utilized during the year 2019.

The Group leases land for the construction of mobile stations. Upon expiry of the lease term the mobile stations should be disassembled and land restored so that it could be returned to the land owner in a condition it was before the lease. Similarly, the Group has telecommunication equipment installed in the premises or on the buildings leased from third parties. This equipment will have to be disassembled when the lease agreement expires. To cover these estimated future costs, assets retirement obligation has been recognized. The Group expects that assets retirement obligation will be realized later than after one year. Therefore, the whole amount of assets retirement obligation has been classified as non-current provision for other liabilities and charges.

29 Contingent liabilities and contingent assets

Guarantees
As at 31 December 2019, the aggregate guarantees (obligations guaranteed under tender and agreement performance arrangements) provided by AB SEB Bankas and AB Lietuvos Draudimas (Lithuanian Insurance) on behalf of the Group and the Company amounts to EUR 614 million (2018: EUR 625 million).

As at 31 December 2019, tender and performance guarantees represented the following expected maturities:

Expected maturity EUR in thousand	Jan-Mar 2020	Apr-Jun 2020	Jul-Sep 2020	Oct-Dec 2020	2021	2022	2023	2024 and later	Total
Guarantees	127	27	38	42	143	133	-	104	**614**

Minimum lease payments receivable
The future minimum lease payments to be received under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Not later than 1 year	7,978	5,372	7,978	5,372
Later than 1 year but not later than 5 years	20,791	2,749	20,791	2,749
Total	**28,769**	**8,121**	**28,769**	**8,121**

Minimum lease payments recognized in the statement of profit or loss and other comprehensive income during 2019 were EUR 8,482 thousand (2018: EUR 7,527 thousand).

The future minimum lease payments to be received:

- not later than 1 year consist of EUR 2,597 Telia asset finance (TAF) contracts <EUR 5,000 and 5,021 other equipment;
- later than 1 year but not later than 5 years consist of EUR 2,418 Telia asset finance (TAF) contracts <EUR 5,000 and 18,373 other equipment.

(All tabular amounts are in EUR '000 unless otherwise stated)

29 Contingent liabilities and contingent assets (continued)

Capital commitments
Capital expenditure contracted for at the reporting date but not recognized in the financial statements is as follows:

	GROUP		COMPANY	
	2019	2018	2019	2018
Property, plant and equipment	2,824	8,848	2,824	8,848
Intangible assets	1,868	656	1,868	656
	4,692	**9,504**	**4,692**	**9,504**

Operating lease commitments – where the Group is the lessee (AP)
The Group and the Company lease passenger cars, IT equipment and premises under operating lease agreements.

The operating lease expenditure charged to the statement of profit or loss are as follows:

	GROUP		COMPANY	
	2019	2018	2019	2018
Minimum lease payments	15,436	9,982	15,788	9,743
	15,436	**9,982**	**15,788**	**9,743**

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2019	2018	2019	2018
Not later than 1 year	3	10,447	3	10,380
Later than 1 year but not later than 5 years	8	11,582	8	11,314
Later than 5 years	173	9,767	173	9,748
Total	**184**	**31,796**	**184**	**31,442**

The Company's operating lease agreements primarily concern office and server space, leased buildings, land, vehicles and IT equipment. Certain contracts include renewal options for various periods of time. Subleasing consists mainly of office and server premises.

30 IFRS 16 "Leases"

The Group and the Company apply the new standard using the modified retrospective approach, which means that comparative figures are not restated. The cumulative effect of applying IFRS 16 is recognized at 1 January 2019. The lease liabilities attributable to leases which have previously been classified as operating leases under IAS 17 are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The Group and the Company recognizes a right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to the lease, recognized as at 31 December 2018.

For leases classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability under IFRS 16 at 1 January 2019, is the carrying amount of the lease asset and lease liability accounted for under IAS 17 immediately before transition to IFRS 16.

30 IFRS 16 "Leases" (continued)

The initial application of IFRS 16 has the following effects on the consolidated statement of financial position at the date of initial application 1 January 2019.

IFRS 16 effects **EUR in thousand**	**1 January, 2019**
Right-of-use-asset	31,100
Deferred tax asset	4,665
Increase total assets	**35,765**
Lease liability, non-current	22,950
Deferred tax liability	4,665
Lease liability, current	8,150
Increase total liabilities	**35,765**

In the table above, deferred tax assets and tax liabilities attributable to the right of use asset and lease liability, have been offset where there is a legal enforceable right to set off the deferred taxes.

The Company has identified lease contracts relating to e.g. network equipment (e.g. copper, dark fiber, IRU and ducts), technical and non-technical space, technical and non-technical equipment, shops, land and cars.

In determining the balances above, the main judgements made are related to determining the lease terms and whether a contract is or contains a lease. Regarding lease terms, a majority of the lease contracts in the group includes options for the Company either to extend or to terminate the contract. When determining the lease term, the Company considers all facts and circumstances that creates an economic incentive to exercise an extension option, or not to exercise a termination option. Example of factors that are considered are; strategic plans, assessment of future technology changes, the importance of the underlying asset to the Company’s operations and/or costs associated with not extending or not terminating the lease.
The Company has reassessed whether a contract is or contains a lease at the date of initial application of IFRS 16. The Company has concluded that some agreements that were assessed to be a service contracts under IAS 17, meet the definition of a lease agreement and are in scope of IFRS 16.

The difference between the Company’s future minimum leasing fees under operating lease agreements in accordance with IAS 17 and the lease liability which is recognized as of January 1, 2019, in accordance with IFRS 16 is mainly related to finance leases, estimated lease term extension periods and reassessments of whether a contract is or contains a lease.

Subleases
An intermediate lessor has to account for a head lease and a sublease as two separate contracts, applying both the lessee and lessor accounting requirements. This approach is considered to be appropriate because, in general, each contract is negotiated separately, with the counterparty to the sublease being a different entity from the counterparty to the head lease. Accordingly, for an intermediate lessor, the obligations that arise from the head lease are generally not extinguished by the terms and conditions of the sublease.

When the intermediate lessor enters into the sublease, the intermediate lessor:
- derecognises the right-of-use asset relating to the head lease that it transfers to the sublessee and recognises the net investment in the sublease;
- recognises any difference between the right-of-use asset and the net investment in the sublease in profit or loss; and
- retains the lease liability relating to the head lease in its statement of financial position, which represents the lease payments owed to the head lessor.

During the term of the sublease, the intermediate lessor recognises both finance income on the sublease and interest expense on the head lease.

30 IFRS 16 "Leases" (continued)

The initial application of IFRS 16 have the following effects on the consolidated statement of financial position at the date of initial application 1 January 2019.

IFRS 16 effects **EUR in thousand**	**1 January, 2019**
Right-of-use-asset	(2,101)
Trade receivables	2,316
Deferred tax asset	-
Increase total assets	**215**
Equity	183
Deferred tax liability	32
Increase total liabilities	**215**

The following amounts are recognised in profit or loss:

	IFRS16 **2019**	**IAS17** **2018**
Finance leases		
Interest income on the net investment in the lease	111	-
Operating leases		
Lease income – fixed payments	8,513	7,527
Total income related to leases	**8,624**	**7,527**

The table below analyses the movement in lease receivables for each of the periods presented:

	Lease receivables
At 1 January 2018	**-**
Cash flows	-
Interest accrued	-
At 31 December 2018	**-**
At 1 January 2019	**2,317**
Cash flows	(2,042)
New lease contracts	6,482
Interest accrued	111
At 31 December 2019	**6,868**

31 Related party transactions

The Group is controlled by Telia Company AB (Sweden) which owns 88.15% of the Company's shares and votes. The largest shareholder of Telia Company AB is Government of Sweden.

On 1 June 2018, Telia Company AB for an amount of EUR 151 thousand acquired from the Company a 100 per cent stake in the Company's subsidiary, Telia Global Services Lithuania, UAB, which was chosen as the base for the establishment of Telia Company Group shared service centre. Prior that 196 employees of the Company providing services to Telia Company Group were transferred to Telia Global Services Lithuania, UAB.

On 1 July 2019, the Company transferred 15 employees of its Procurement unit and related assets and liabilities to Telia Global Services Lithuania, UAB for the remuneration of EUR 19 thousand.

(All tabular amounts are in EUR ‘000 unless otherwise stated)

31 Related party transactions (continued)

The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2019	2018	2019	2018
Telia Company AB and its subsidiaries	8,115	7,884	8,115	7,884
Sales of assets	-	983	-	983
Divestment of subsidiary	-	151	-	151
Subsidiaries of the Company	-	-	1,238	1,684
Total sales of telecommunication and other services	**8,115**	**9,018**	**9,353**	**10,702**
Sales of assets to subsidiaries	-	-	-	-
Total sales of assets and services	**8,115**	**9,018**	**9,353**	**10,702**

Purchases of assets and services:

	GROUP		COMPANY	
	2019	2018	2019	2018
Purchases of assets from:				
Telia Company AB and its subsidiaries	157	2,176	157	2,176
Subsidiaries of the Company	-	-	-	-
	157	**2,176**	**157**	**2,176**
Purchases of services from:				
Telia Company AB and its subsidiaries	22,047	14,159	22,047	14,159
Subsidiaries of the Company	-	-	11,713	8,625
	22,047	**14,159**	**33,760**	**22,784**
Total purchases of assets and services	**22,204**	**16,335**	**33,917**	**24,960**

Year-end balances arising from sales / purchases of assets / services:

Receivables and accrued revenue from related parties:

	GROUP		COMPANY	
Receivables from related parties:	2019	2018	2019	2018
Long term receivables:				
Telia Company AB and its subsidiaries	195	195	195	195
Short-term receivables:				
Telia Company AB and its subsidiaries	6,822	4,490	6,822	4,490
Subsidiaries of the Company	-	-	125	195
	7,017	**4,685**	**7,142**	**4,880**
Accrued revenue from related parties:				
Telia Company AB and its subsidiaries	1,113	401	1,113	401
	1,113	**401**	**1,113**	**401**
Total receivables and accrued revenue from related parties	**8,130**	**5,086**	**8,255**	**5,281**

The receivables from related parties arise mainly from sale transactions and due one month after the date of sale. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties as at 31 December 2019 and 2018.

(All tabular amounts are in EUR '000 unless otherwise stated)

31 Related party transactions (continued)

Payables and accrued expenses to related parties:

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Payables to related parties:				
Telia Company AB and its subsidiaries	4,108	2,521	4,108	2,521
Subsidiaries of the Company	-	-	1,201	1,145
	4,108	**2,521**	**5,309**	**3,666**
Accrued expenses to related parties:				
Telia Company AB and its subsidiaries	1,427	14	1,427	14
	1,427	**14**	**1,427**	**14**
Total payables and accrued expenses to related parties	**5,535**	**2,535**	**6,736**	**3,680**

The payable to related parties arise mainly from purchase transactions and are due one month after date of purchase. The payables bear no interest.

Borrowings from related parties:

	GROUP		COMPANY	
	2019	**2018**	**2019**	**2018**
Beginning of the year	**10,014**	**-**	**10,014**	**-**
Acquisition of subsidiaries		-		-
Borrowings	15,000	20,000	15,000	20,000
Repayments of borrowings (in cash)	(20,000)	(10,000)	(20,000)	(10,000)
Interest charged (including VAT)	38	73	38	73
Interest paid (including VAT)	(49)	(59)	(49)	(59)
End of the year	**5,003**	**10,014**	**5,003**	**10,014**

The borrowings from related parties have the following terms and conditions:

Name of the related party	Date of agreement	Original currency of agreement	Outstanding balance	Maturity	Interest rate
Year ended 31 December 2019					
Telia Company AB	20 May 2019	EUR	10,000	22 August 2019	0.336%
Telia Company AB	03 July 2019	EUR	5,000	03 October 2019	0.304%
Telia Company AB	03 October 2019	EUR	5,000	03 January 2020	0.222%
Year ended 31 December 2018					
Telia Company AB	21 May 2018	EUR	10,000	21 August 2018	0.324%
Telia Company AB	21 May 2018	EUR	10,000	21 November 2018	0.380%
Telia Company AB	21 August 2018	EUR	10,000	21 February 2019	0.384%

As of 31 December 2019, the Company had an outstanding short-term internal loan of EUR 5 million (2018: EUR 10 million) provided by Telia Company AB under the Revolver Loan Agreement signed on 20 May 2019.

During 2019, the Company extended loans in total amount of EUR 910 thousand to UAB Mobilieji Mokėjimai, an associated entity where the Company holds 33.3 per cent. The loans including interests were converted into share capital of UAB Mobilieji Mokėjimai. In addition, EUR 350 thousand contribution to the share capital of UAB Mobilieji Mokėjimai was made in January 2019. During 2018, the amount of loans extended and later converted into share capital of UAB Mobilieji Mokėjimai was EUR 350 thousand and additional contribution to the share capital amounted to EUR 300 thousand.

All transactions with related parties are carried out based on an arm's length principle.

(All tabular amounts are in EUR '000 unless otherwise stated)

31 Related party transactions (continued)

In 2019, dividends paid out to Telia Company AB amounted to EUR 41,088 thousand (2018: EUR 35,952 thousand). Dividends received by the Company from subsidiary amounted to EUR 495 thousand (2018: EUR 295 thousand).

Remuneration of the Group's and the Company's key management

	2019	2018
Remuneration of key management personnel	4,657	3,487
Social security contributions on remuneration	82	1,087
Total remuneration	**4,739**	**4,574**

Key management includes CEO, Heads of Units directly reporting to CEO and Heads of the largest Units of the Company. The total number of top management personnel employed as at 31 December 2019 was 51 (as at 31 December 2018: 53).

The total amount of annual payments (tantiemes) assigned to two independent members of the Board of the Company for the year 2018 during 2019 amounted to EUR 31 thousand (2018: for two members amounted to EUR 31 thousand). As at 31 December 2019, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010, was not paid to one member of the Board. All remuneration of the Group's and the Company's key management falls under short term employee benefits.

32 Costs to obtain a contract

Contract cost assets balance roll forward:

	Group / Company	
	2019	2018
Contract cost assets at the beginning of the year	**5,175**	**3,470**
Increase of contract assets due to new contracts within the year	5,345	6,762
Amortization expense of costs to obtain contracts	(5,895)	(5,057)
Contract cost assets as at 31 December	**4,625**	**5,175**

Costs to obtain a contract are incremental costs incurred resulting in obtaining a contract with a customer, where the Company would not have incurred if the contract had not been obtained. These costs are typically external commissions paid or internal commission or bonus paid related to obtaining a new contract. The asset is amortized on a straight-line basis over the average customer life period, assessed at a portfolio level. If the Company pays a significant commission on contract renewal, the asset is amortized over the minimum contract term.

33 Contract assets and liabilities

Contract assets balance roll forward:

	Group / Company	
	2019	2018
Current contract assets at 1 January	**1,352**	**1,303**
Increase in the balance due to new contract modification	1,614	1,626
Decrease in balance due to normal unwind or contract modification	(1,788)	(1,577)
Balance transfer from non-current to current contract assets	-	-
Current contract assets as at 31 December	**1,178**	**1,352**

(All tabular amounts are in EUR ‘000 unless otherwise stated)

33 Contract assets and liabilities (continued)

Non-current contract assets at 1 January	**530**	**543**
Increase in the balance due to new contract modification	(137)	153
Decrease in balance due to normal unwind or contract modification	(42)	(166)
Balance transfer from non-current to current contract assets	-	-
Non-current contract assets as at 31 December	**351**	**530**
Total contract assets as at 31 December	**1,529**	**1,882**

Contract liability balance rollforward:	**Group / Company**	
	2019	**2018**
Current contract liabilities at 1 January	**75**	**645**
Increase in contract liability during the year	562	86
Derecognition of contract liability	(136)	(656)
Balance transfer from non-current to current contract liabilities	-	-
Current contract liabilities as at 31 December	**501**	**75**

	Group / Company	
	2019	**2018**
Non-current contract liabilities at 1 January	**-**	**50**
Increase in the balance due to new contract modification	-	-
Decrease in balance due to normal unwind or contract modification	-	-
Balance transfer from non-current to current contract liabilities	-	(50)
Non-current contract liabilities as at 31 December	**-**	**-**
Total contract liabilities as at 31 December	**501**	**75**

34 Notes to the cash flow statement

	Group		**Company**	
	2019	**2018**	**2019**	**2018**
Cash in hand and at bank	50,157	28,725	48,282	26,612

	Group		**Company**	
	2019	**2018**	**2019**	**2018**
Dividends received	-	-	495	295
Interest received	100	467	100	467
Interest paid	(1,549)	(1,766)	(1,548)	(1,766)
Income taxes paid	(7,186)	(6,486)	(7,034)	(6,300)

(All tabular amounts are in EUR ‘000 unless otherwise stated)

35 Disposal of subsidiary

As referred to in Note 18, on 1 June 2018 the Group disposed of its interest in Telia Global Services Lithuania, UAB and on 28 October 2018, the Group disposed of its interest in UAB Verslo Investicijos.

The net assets of Telia Global Services Lithuania, UAB and UAB Verslo Investicijos at the date of disposal were as follows:

	Telia Global Services Lithuania, UAB	UAB Verslo Investicijos
Property, plant and equipment	942	1,634
Intangible assets	576	-
Trade and other receivables	200	9
Cash and cash equivalents	856	394
Trade and other payables	(2,566)	(39)
Gain on disposal	142	(62)
Total consideration	**150**	**1,936**
Satisfied by:		
Cash and cash equivalents	150	1,936
Net cash inflow arising on disposal:		
Consideration received in cash and cash equivalents	150	1,936

The impact of Telia Global Services Lithuania, UAB and UAB Verslo Investicijos on the Group’s results in the current and prior years is disclosed in Note 18.

The gain on disposal is included in the profit for the year from discontinued operations (Note 18).

36 Effect of change in accounting policy for initial application of IFRS 16 on consolidated and separate statement of financial position

The tables below present the impact of initial application of IFRS 16 on consolidated and separate financial statements for 2019:

IFRS 16 effects on consolidated and separate statements of financial position

	GROUP			COMPANY		
	Reported 2018	Effects IFRS 16	Jan 1, 2019 (as restated)	Reported 2018	Effects IFRS 16	Jan 1, 2019 (as restated)
ASSETS						
Non-current assets						
Property, plant and equipment	276,537	-	276,537	272,390	-	272,390
Goodwill	26,769	-	26,769	26,769	-	26,769
Intangible assets	104,742	-	104,742	104,721	-	104,721
Right-of-use assets	-	28,999	28,999	-	28,645	28,645
Investment property	-	-	-	-	-	-
Investments in associates and subsidiaries	-	-	-	4,122	-	4,122
Costs to obtain contract	5,175	-	5,175	5,175	-	5,175
Contract asset	530	-	530	530	-	530
Trade and other receivables	8,704	-	8,704	8,704	-	8,704
Finance lease receivables	-	793	793	-	793	793
	422,457	**29,792**	**452,249**	**422,411**	**29,438**	**451,849**
Current assets						
Inventories	8,182	-	8,182	8,182	-	8,182
Contract asset	1,352	-	1,352	1,352	-	1,352
Trade and other receivables	101,566	-	101,566	101,638	-	101,638
Current income tax assets	-	-	-	-	-	-
Finance lease receivables	-	1,523	1,523	-	1,523	1,523
Cash and cash equivalents	28,725	-	28,725	26,612	-	26,612
	139,825	**1,523**	**141,348**	**137,784**	**1,523**	**139,307**
Assets classified as held for sale	1,823	-	1,823	1,343	**-**	**1,343**
Total assets	**564,105**	**31,315**	**595,420**	**561,538**	**30,961**	**592,499**

(All tabular amounts are in EUR '000 unless otherwise stated)

36 Effect of change in accounting policy for initial application of IFRS 16 on consolidated and separate statement of financial position (continued)

EQUITY						
Capital and reserves attributable to equity holders of the Company						
Issued capital	168,958	-	168,958	168,958	-	168,958
Legal reserve	16,896	-	16,896	16,896	-	16,896
Retained earnings	133,922	183	134,105	131,617	183	131,800
Equity attributable to owners of the Company	319,776	183	319,959	317,471	183	317,654
Non-controlling interests	-	-	-	-		
Total equity	**319,776**	**183**	**319,959**	**317,471**	**183**	**317,654**
LIABILITIES						
Non-current liabilities						
Borrowings	99,753	-	99,753	99,753	-	99,753
Lease liabilities	-	22,950	22,950	-	22,657	22,657
Deferred tax liabilities	21,049	32	21,081	20,392	32	20,424
Deferred revenue and accrued liabilities	8,104	-	8,104	8,104	-	8,104
Contract liability	-	-	-	-	-	-
Provisions	10,934	-	10,934	10,934	-	10,934
	139,840	**22,982**	**162,822**	**139,183**	**22,689**	**161,872**
Current liabilities						
Trade, other payables and accrued liabilities	43,988	-	43,988	44,315	-	44,315
Current income tax liabilities	2,024	-	2,024	2,092	-	2,092
Borrowings	58,365	-	58,365	58,365	-	58,365
Contract liability	75	-	75	75	-	75
Lease liabilities	-	8,150	8,150	-	8,089	8,089
Provisions	37	-	37	37	-	37
	104,489	**8,150**	**112,639**	**104,884**	**8,089**	**112,973**
Total liabilities	**244,329**	**31,132**	**275,461**	**244,067**	**30,778**	**274,845**
Total equity and liabilities	**564,105**	**31,315**	**595,420**	**561,538**	**30,961**	**592,499**

IFRS 16 effects on consolidated and separate statement of profit or loss and other comprehensive income

	GROUP			**COMPANY**		
	Reported 2018	**Effects IFRS 16**	**Jan 1, 2019 (as restated)**	**Reported 2018**	**Effects IFRS 16**	**Jan 1, 2019 (as restated)**
Revenue	**376,494**	**2,316**	**378,810**	**377,728**	**2,316**	**380,044**
Cost of goods and services	(151,682)	(2,101)	(153,783)	(162,295)	(2,101)	(164,396)
Employee related expenses	(51,220)	-	(51,220)	(42,163)	-	(42,163)
Other operating expenses	(46,309)	-	(46,309)	(46,392)	-	(46,392)
Other income	-	-	-	295	-	295
Other gain / (loss) – net	154	-	154	98	-	98
Depreciation, amortization and impairment of fixed assets	(64,522)	-	(64,522)	(64,112)	-	(64,112)
Impairment of investments in subsidiaries	-	-	-	-	-	
Operating profit	**62,915**	**215**	**63,130**	**63,159**	**215**	**63,374**
Gain/loss from investments in subsidiaries	683		683	92		92
Finance income	2,009		2,009	2,009		2,009
Finance costs	(2,373)	-	(2,373)	(2,373)	-	(2,373)
Finance and investment activities – net	319	**-**	319	(272)	**-**	(272)
Profit before income tax	**63,234**	**215**	**63,449**	**62,887**	**215**	**63,102**
Income tax	(8,534)	(32)	(8,566)	(8,440)	(32)	(8,472)
Profit for the year	**54,700**	**183**	**54,883**	**54,447**	**183**	**54,630**
Other comprehensive income:						
Other comprehensive income for the year						
Total comprehensive income for the year	**54,700**	**183**	**54,883**	**54,447**	**183**	**54,630**

37 Events after the reporting period

On 31 January 2020, the Company extended EUR 90 thousand loan to UAB Mobilieji Mokėjimai for an annual interest rate of 3.37 per cent.

In March 2020, the shareholders of UAB Mobilieji Mokėjimai (the Company holds a 33.3 per cent stake) decided to cease operations of the entity 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.

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No 22 of the Law on Securities of the Republic of Lithuania and 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, Telia Lietuva, AB Consolidated and Separate Financial Statements as of and for the year ended 31 December 2019 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position, profit or loss and cash flows of the Group and the Company of undertakings.

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

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	**Telia Lietuva, AB** (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:

Name of the company	Date of registration, code, name of Register of Legal Entities	Contact details	The Company's share in the share capital of the entity (%)	The Company's share of votes (%)
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 Saltoniškų 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 CO2 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 CO2 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.

Key financial figures (in thousands of EUR unless otherwise stated)	**2019**	**2018**	**Change (%)**
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

Operating figures	**31-12-2019**	**31-12-2018**	**Change (%)**
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 smart-phones, 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 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
UAB Mobilieji Mokėjimai, 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
Telia Company AB, 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	EUR 10 million
	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
Telia Global Services Lithuania, UAB, 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
SK ID Solutions AS Lietuvos filialas, code 304977982, Krokuvos 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
Telia Försäkring AB, 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):

	Sales of telecommunication and other services	Purchase of telecommunication and other services
Telia Company AB and its subsidiaries:		
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
	8,115	**22,047**
Subsidiaries of the Company		
Telia Customer Service LT, AB	1,238	11,713
	1,238	**11,713**

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	-
Total:	**582,613,138**	**100.00**	**100.00**	**-**

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):

		Meeting attendance			Tantiemes for 2018 paid-out in 2019 (EUR)
Name, surname	**Position**	**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, Rehnsgatan 20, 113 57 Stockholm, Sweden, code 556536-6605, member of the Board;
- Systecon Group AB, Rehnsgatan 20, 113 57 Stockholm, Sweden, code 556710-8492, member of the Board;
- Systecon Software AB, Rehnsgatan 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, Warfinges 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-0051 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, Dzirnavu 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 Daktaras, 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, Vlado Mirono g. 6D, LT-11311 Vilnius, Lithuania, code 305250719, shareholder (25 per cent);
- VšĮ M7 Sporto Grupė, Vlado 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 Vilniaus 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, Giližių 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 Dzirnavu 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)
	2,336	**2,733**	**(397)**

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:

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

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:

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

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:

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

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 c**hallenges 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 CO2 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, CO2 is added to supplier selection criteria. By 2022, suppliers should have a plan in place for reaching zero CO2 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

CORPORATE GOVERNANCE REPORTING FORM
FOR THE YEAR ENDED 31 DECEMBER 2019

The public limited liability company **Telia Lietuva, AB** (hereinafter referred to as the "Company"), acting in compliance with Article 12 (3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB Nasdaq Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated and the reasons for such non-compliance must be specified. In addition, other explanatory information indicated in this form must be provided.

1. Summary of the Corporate Governance Reporting Form

According to the By-Laws of Telia Lietuva, AB, the governing bodies of the Company are the General Shareholder's Meeting, the Board and CEO. 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. Following the By-Laws of the Company the Board is elected for a term of two years. There are two committees in the Company: Audit and Remuneration. The Company does not have a Nomination Committee as its functions are performed by the Remuneration Committee. The Board elect members of both committees for a term of two years. Three members of the Board, whereof two are independent, comprise the Audit Committee, and three members of the Board, whereof one is independent, comprise the Remuneration Committee. The Board elects and recalls CEO of the Company, sets his/her remuneration and other conditions of the employment agreement.

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.

More information about the corporate governance, shareholders' rights, activities of the Board and the Committees as well as members of the Board and Management Team, internal control and risk management systems are provided in the Consolidated Annual Report of Telia Lietuva, AB, for the year ended 31 December 2019.

2. Structured table for disclosure:

PRINCIPLES/ RECOMMENDATIONS	YES/NO/NOT APPLICABLE	COMMENTARY
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights **The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.**		
1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.	Yes	The Company's documents and information required by the legal acts are available on the Company's webpage in both Lithuanian and English languages. All shareholders have the equal rights to participate in the General Meetings of Shareholders.
1.2. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders.	Yes	The share capital of the Company consists of 582,613,138 ordinary registered shares of EUR 0.29 nominal value each. Each share gives one vote during the shareholders meeting. All shares of the Company are given equal rights.
1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company's By-Laws, stipulating all the rights of shareholders, are publicly available on the Company's webpage.
1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer	Yes	The shareholders approve all the transactions that, following the Law on Companies and the By-Laws of the Company, should be approved by the shareholders.

of the company, should be subject to approval of the general meeting of shareholders.		
1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	Yes	The shareholders' meetings of the Company are convened at the head-quarters of the Company in Vilnius. The Annual General Meetings are usually held in the second half of April. In 2019, the Annual General Meeting was convened on 26 April 2019 at 1 p.m. The notice of the Annual General Meetings of Shareholders specified that draft decisions could be submitted at any time before or at the Annual General Meeting of Shareholders in writing.
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	All the documents and information related to the General Meeting of Shareholders including notices of the meetings, draft decisions, decisions and minutes of the meetings are publicly announced in two languages – Lithuanian and English – simultaneously via regulatory news dissemination system and on the Company's website. Draft decisions for the Annual General Meeting, held on 26 April 2019, were announced in two languages on 10 April 2019.
1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Shareholders of the Company may exercise their right to vote in the General Meeting in person or through a representative upon issuance of proper proxy or having concluded an agreement on the transfer of their voting rights in the manner compliant with the legal regulations, also the shareholder may vote by completing the General Voting Ballot in the manner provided by the Law on Companies.
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	No	The Company does not comply with this recommendation as there are no means to guarantee text protection and possibilities to identify the signatures of voting persons.
1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	Yes	The nominees to the Board are publicly announced as soon as the Company receives nominations. Publicly announced and presented to the General Meeting CVs of the Board nominees contain information about their education, employment history and other competence. The amount of annual compensation (tantiemes) to the Board members is provided in the draft of the Profit allocation statemen presented the General Meeting. The name of proposed audit company and proposed remuneration for the audit services are presented in advance as a draft decision for the General Meeting.

1.10. Members of the company's collegial management body, heads of the administration or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	Yes	CEO and CFO of the Company, as well as both proposed for election independent members of the Board participated at the Annual General Meeting of Shareholders held on 26 April 2019. Other four nominees to the Board who do not reside in Lithuania did not attend the General Meeting.
Principle 2: Supervisory board **2.1. Functions and liability of the supervisory board** **The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.** **The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.**		
2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	Not applicable	
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	Not applicable	
2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	Not applicable	
2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	Not applicable	
2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	Not applicable	
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	Not applicable	

2.2. Formation of the supervisory board **The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.**		
2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	Not applicable	
2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.	Not applicable	
2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	Not applicable	
2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	Not applicable	
2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.	Not applicable	
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	Not applicable	
2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures.	Not applicable	

Principle 3: Management Board

3.1. Functions and liability of the management board

The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.

3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	Yes	As there is no Supervisory Council in the Company, the Company's Board performs supervisory functions set by the Law on Companies of the Republic of Lithuania and approves the Company's strategy.
3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	Yes	The Company's approach towards employees, suppliers, customers and society are set up in respective Company's policies and Code of Responsible Business Conduct that are approved by the Board and are available on the Company's webpage.
3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	Yes	Internal policies of Telia Company Group are adopted by the Company's Board including the Code of Responsible Business Conduct, and their implementation in the Company is followed up at regular local Governance, Risk, Ethics and Compliance (GREC) meetings.
3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	The Company's Governance, Risk, Ethics and Compliance (GREC) meetings are held on a regular basis.
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	Yes	The current CEO of the Company, appointed by the Board from 4 July 2018, has a vast managerial experience in telecommunication industry and used to work in Lithuania for a couple of years.

3.2. Formation of the management board

3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	Yes, except gender diversity	Three members of the current Board have MBA degrees, two have degrees in Finance and Accounting, and one has Masters' of Law degree. Four out of six members of the Board are working in the telecommunications company; one – in media business and one in ICT sector. Currently only one out of six members of the Board is a female.
3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of	Yes	CVs of the nominees to the Board (including information about candidate's participation in activities of other companies) are included into the draft decisions for the General Meeting of Shareholders and are available at the

the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.		Company's website, and shareholders may be acquitted with such information in advance. Information about employment of the Board members as well as their participation in the activities of other companies is continuously monitored and collected, and each quarter updated information is presented at the Company's website as well as in the Company's annual and interim reports.
3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company.	Yes	Upon election, all members of the Board were acquainted with their duties and responsibilities set by Lithuanian legislation as well as the By-laws of the Company. Members of the Board on the regular basis are informed about the Company's performance and its development, as well as major changes in the Company's activities legal framework and other circumstances having effect on the Company during the Board meetings and individually upon the need and request by the Board members.
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	Yes	Following the By-Laws of the Company, the Board members are elected for a two-year term, not limiting the number of terms. Thus, one member of the Board has been working in the Board since April 2014 and has been re-elected three times – in April 2015, April 2017 and April 2019. Another was elected in April 2016 and worked till April 2017, and once again was elected in April 2018 and re-elected in April 2019. Three members were elected in April 2018 and re-elected in April 2019. One member of thr Board was elected in November 2018 and re-elected in April 2019. The current two-year term of the Board ends in April 2021.
3.2.5. Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	Yes	Current (from November 2018) Chair of the Board represents the majority shareholder of the Company and neither is involved in any daily activities of the Company, nor has at any time been working in the Company. Former CEOs of the Company are neither working in the Company nor in any collegial body.
3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.	Yes	Each member devotes sufficient time and attention to perform his duties as a member of the collegial body. During all Board meetings in 2019 there was the quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings and information about attendance of the meetings by each member of the Board is presented in the Consolidated Annual Report for the year 2019.

3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent, it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances.	Yes	Two independent members of the Board – Tomas Balžekas and Mindaugas Glodas – were re-elected for a new term of the Board in April 2019. It was disclosed before the Annual General Meeting that those two nominees to the Board upon election will regarded as independent members of the Board.
3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	Yes	While approving the Profit allocation statement the Annual General Meeting of the Company's Shareholders sets the annual compensations (tantiemes) to the members of the Board. Starting from 2016, annual compensation of EUR 15.6 thousand per person is paid only to two independent members of the Board.
3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	Yes	According to the information possessed by the Company, all members of the Board that perform supervisory functions provided by the Law are acting in a good faith in respect of the Company, in the interest of the Company but not in the interest of their own or third parties, pursuing principles of honesty and rationality, following obligations of confidentiality and property separation, thus striving to maintain their independence in decisions making.
3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	Yes	Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2019 and the Board members carried out an assessment of the Board activities.
Principle 4: Rules of procedure of the supervisory board and the management board of the company **The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.**		
4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform he supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	Yes	The Company has the Board that represents the shareholders of the Company and is responsible for strategic management of the Company, supervision and control of activities of CEO of the Company. The management team of the Company on a regular basis informs the Board about the Company's performance.

4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	Yes	The Company's Board meetings are convoked according to the preliminary approved meetings schedule for the year. At least two ordinary meetings are held each quarter, while extraordinary meetings could be convoked upon the need.
4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	Yes	Following the Board's work regulations, information about the meeting convocation, agenda and all materials related to the agenda issues should be provided to each Board member not later than seven days before the meeting. The meeting agenda should not be changed during the meeting, unless all members present at the meeting agree or absentees inform that they agree with the changed agenda.
4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.	Not applicable	There is no Supervisory Council in the Company, but dates and agenda of the Board meetings are coordinated with the CEO of the Company, and the CEO of the Company as well as other members of the management team, if necessary, participate in the Board meetings.

Principle 5: Nomination, remuneration and audit committees

5.1. Purpose and formation of committees

The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.

Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.

5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees.	Yes	There are two instituted by the Board Committees in the Company: Audit and Remuneration. The Nomination Committee is not instituted as its functions are performed by the Remuneration Committee. Three members of the Board comprise each committee.

5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.		
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	Not applicable	
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	Yes, except regarding chair of committee	Three members of the Board comprise each committee. Two independent members of the Board are member of the Audit Committee. All three members of the Audit committee have a financial background. One independent member of the Board is member of the Remuneration Committee. All three members of the Remuneration Committee have managerial experience. Historically, Chair of the Board is a Chair of the Remuneration Committee.
5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	Yes	Responsibilities and work regulations of the committees are approved by the Board. In 2019, work regulations of both committees were revised and updated. The names of the Committee members are announced in the Company's periodic reports and on the webpage of the Company. Information about activities of the committees and attendance of the committees' meeting is provided in the Consolidated Annual Report for the year 2019.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	Yes	Employees of the Company who are responsible for the discussed area as well as external partners such as auditors participate in the Committees' meetings and provide all necessary information.
5.2. Nomination committee		
5.2.1. The key functions of the nomination committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the	Yes	In the Company, the function of the Nomination Committee is performed by the Remuneration Committee.

functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning.		
5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.	Yes	
5.3. Remuneration committee		
5.3.1. The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	Yes	Information about activities of the Remuneration committee is provided in the Consolidated Annual Report for the year 2019.
5.4. Audit committee		
5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee. 5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.	Yes	
5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the	Yes	

relevant persons without members of the management bodies present.		
5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	Yes	Internal and external auditors present their activities plans and reports to the Audit Committee on a regular basis.
5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	Yes	Reports of the Company's Governance, Risk, Ethics and Compliance (GREC) meetings are presented to the Audit Committee on a regular basis.
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes	Reports of the Audit Committee are presented at the Board meetings on a regular basis.
Principle 6: Prevention and disclosure of conflicts of interest **The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.**		
Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	Yes	
Principle 7: Remuneration policy of the company **The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.**		
7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	Yes	The principles of the Company's Remuneration policy, which was updated and approved by the Board, is described in the Company's Consolidated Annual Report for the year 2019 and placed on the Company's website.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	Yes	

7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	Yes	Only two independent members of the Board receive the annual compensations (tantiemes) approved by the Annual General Meeting of Shareholders. The amount of tantiemes was the same for a decade and amounted to EUR 15.6 thousand per person.
7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	No	The Company's Remuneration policy does not stipulate policy regarding termination payments. The Company follows provisions of respective Laws regarding termination payments.
7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	Not applicable	The Company does not have any share options scheme for employees' remuneration.
7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	No	In the Consolidated Annual Report and Consolidated Financial Statements, the Company discloses information about total employee-related expenses, remuneration of key management personnel and annual compensations (tantiemes) paid to members of the Board during the reporting period. Information about the Board and the management is provided separately. The Consolidated Annual Report is publicly available on the Company's webpage.
7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.	No	Following the requirement of the Law on Companies of the Republic of Lithuania, starting from the year 2020, the Remuneration Policy will be submitted for approval to the Annual General Meeting of Shareholders. The Company does not apply any schemes for remuneration in shares, share options or any other rights to purchase shares or be remunerated based on share price movements.
Principle 8: Role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.**		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	The Code of Responsible Business Conduct is approved by the Board and is available on the Company's webpage.
8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance	Yes	The Company and trade unions that represent employees of the Company have signed a Collective Bargaining Agreement.

include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorized capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.		In 1999, following the Company's privatization program, almost 5 per cent of the Company's shares were sold to its employees. The current and former employees of the Company participate in the shareholders meetings, show interest in the Company's performance and results. Every year the Company pays dividends to the shareholders. The Company has approved Support Policy and, on the basis of it, builds its relations with society and local communities.
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company prepares the Sustainability Report, which discusses principles and practices in relation to the Company's cooperation with investors, employees, customers and local communities.
8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	Yes	There is a Speak-Up Line valid for the whole Telia Company Group.
Principle 9: Disclosure of information **The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.**		
9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:		
9.1.1. operating and financial results of the company;	Yes	The Company reports its operating and financial results quarterly.
9.1.2. objectives and non-financial information of the company;	Yes	The Company reports its operating and financial results quarterly.
9.1.3. persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;	Yes	The information is available on the Company's website and is presented in the interim and annual reports.
9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;	Yes	The information is available on the Company's website and is presented in the interim and annual reports.
9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	Yes	The information about composition of the committees, number of meetings and attendance is presented in the semi-annual and annual reports.
9.1.6. potential key risk factors, the company's risk management and supervision policy;	Yes	Information is presented in the semi-annual and annual reports.
9.1.7. the company's transactions with related parties;	Yes	The information is available on the Company's website and is presented in the interim and annual reports.
9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	Yes	Information is presented in the semi-annual and annual reports.

9.1.9. structure and strategy of corporate governance;	Yes	The information is available on the Company's website and is presented in the interim and annual reports.
9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects. This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.	Yes	Information about investments is presented in the interim and annual reports. Information about social responsibility policy and anti-corruption fight is available on the Company's website and is presented in the Sustainability reports.
9.2. When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	Yes	The Company prepares consolidated financial interim and annual reports.
9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	Yes	Information about the total amount of remuneration paid over the year to the key management personnel of the Company is publicly announced in the Company's Consolidated Annual Report.
9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	Yes	All information is disseminated to the shareholders, investors and stock exchanges at the same time and in the same amount, in both Lithuanian and English, and all information is publicly available on the Company's webpage.
Principle 10: Selection of the company's audit firm **The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.**		
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	Yes	An independent audit firm carries out an audit of the annual consolidated financial statements of the Company prepared in accordance with the IFRS adopted by the EU. The auditors also review Consolidated Annual Reports for any inconsistencies with financial statements.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	Yes	The Board proposes the candidacy of an independent audit firm for two years to the Annual General Meeting of Shareholders.
10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	Yes	Information about non-audit services provided to the Company by the audit firm (if any) is presented in the Consolidated Annual Report of the Company.