TELIA LIETUVA, AB

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR 31 DECEMBER 2017

CONTENTS

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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 2017, 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 2017, 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
Goodwill impairment analysis	
Refer to pages 22, 37-38 of the financial statements As at 31 December 2017, the Company and the Group had goodwill amounting to 26,769 thousand Eur. Goodwill with an indefinite useful life is subject to impairment assessments annually and when there is an indication of impairment. The assessment of the value in use requires numerous estimates and judgments made by the Company and the Group, as described in Note 15, and in particular the assessment of the competitive, economic and financial environment of the country in which the Company and the Group operates, the ability to realize operating cash flows from strategic plans, the level of investment to be made and the discount and growth rates used in calculating recoverable amounts.	Our audit procedures in relation to management's impairment assessment included, among others: • assessing the appropriateness of the valuation methodologies used; • challenging the reasonableness of key assumptions utilised in valuing the goodwill based on our knowledge of the business and industry; • performing sensitivity analyses on the key assumptions where we flexed the growth rates and discount rates as these are the key assumptions against which the value in use calculations are most sensitive to; and

<table>
<tr><td>We have considered that the valuation of these assets is a key audit matter given the sensitivity to the assumptions made by management and the significant amount of goodwill in the financial statements.</td><td>testing source data from the business plan used to calculate the recoverable amount to supporting evidence:
comparing business plans from previous financial years with actual earnings over the financial periods in question;
interviewing operational and finance managers at the Company to assess the key assumptions used in the business plans and assess assumptions based on the explanations obtained;
reconciling the data used in the plans submitted to the board of directors.
evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.</td></tr>
</table>

<table>
<tr><td>Revenue recognition</td><td></td></tr>
<tr><td>Refer to pages 26-27, 32 of the financial statements

The Company’s and the Group’s net sales amounted to 359,296 thousand Eur and 370,123 thousand Eur respectively for the year then ended 2017.

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 recognised 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.</td><td>Our audit procedures in this area included, among others:
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 rateably over the estimated term of provision of these elements);
reconciling revenue accruals to actual data traffic available after month closing;
challenging the adequacy of disclosures related to the various revenue streams.</td></tr>
</table>

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 27 April 2017 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 renewed annually and the period of total uninterrupted engagement is four 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 Simonas Rimašauskas.

Deloitte Lietuva UAB
Audit Company License No 001275

Simonas Rimašauskas
Lithuanian Certified Auditor
License No 000466

Vilnius, Republic of Lithuania
27 March 2018

(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 25 April 2018

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2017	2016	2017	2016
Revenue	5	**370,123**	**345,906**	**359,296**	**204,065**
Cost of goods and services	6	(148,187)	(128,878)	(143,342)	(63,425)
Employee related expenses		(57,781)	(59,446)	(47,326)	(39,862)
Other operating expenses	8	(42,294)	(46,211)	(51,410)	(28,186)
Other income	7	-	-	1,070	4,400
Other gain / (loss) – net	9	357	9	379	103
Depreciation, amortisation and impairment of fixed assets and assets classified as held for sale	14	(67,044)	(63,233)	(63,761)	(35,204)
Impairment of investments in subsidiaries	17	-	-	-	(1,850)
Operating profit		**55,174**	**48,147**	**54,906**	**40,041**
Finance income		1,949	1,415	1,874	338
Finance costs		(2,405)	(2,485)	(2,349)	(1,707)
Finance income (costs) – net	10	(456)	(1,070)	(475)	(1,369)
Profit before income tax		**54,718**	**47,077**	**54,431**	**38,672**
Income tax	11	(2,913)	(5,583)	(2,125)	(4,682)
Profit for the year		**51,805**	**41,494**	**52,306**	**33,990**
Other comprehensive income:					
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**51,805**	**41,494**	**52,306**	**33,990**
Profit and comprehensive income attributable to:					
Owners of the Parent		51,805	41,494	52,306	33,990
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	**0.089**	**0.071**	**0.090**	**0.058**

The notes on pages 12 to 52 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 52 have been approved for issue by the Board of Directors as at 27 March 2018 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas
CEO

Laimonas Devyžis
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 25 April 2018

		As at 31 December			
		GROUP		COMPANY	
	Notes	2017	2016	2017	2016
ASSETS					
Non-current assets					
Property, plant and equipment	14	290,435	291,818	285,900	210,403
Goodwill	15	26,769	26,769	26,769	-
Intangible assets	15	95,632	97,743	95,590	10,147
Investment property	16	1,277	1,277	-	-
Investments in associates and subsidiaries	17	650	-	6,817	151,434
Trade and other receivables	20	10,385	10,944	10,385	5,477
		425,148	**428,551**	**425,461**	**377,461**
Current assets					
Inventories	18	11,242	10,135	11,242	1,157
Trade and other receivables	20	103,926	94,661	103,837	37,220
Current income tax assets		174	722	-	-
Cash and cash equivalents	21	23,166	56,650	21,297	31,015
		138,508	**162,168**	**136,376**	**69,392**
Assets classified as held for sale		2,743	-	1,973	-
Total assets		**566,399**	**590,719**	**563,810**	**446,853**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Issued capital	22	168,958	168,958	168,958	168,958
Legal reserve	23	16,896	16,896	16,896	16,896
Retained earnings		118,798	84,472	116,746	68,056
Amounts recognized directly in equity relating to assets classified as held for sale		-	-	-	-
Equity attributable to owners of the Company		304,652	270,326	302,600	253,910
Non-controlling interests		-	-	-	-
Total equity		**304,652**	**270,326**	**302,600**	**253,910**
LIABILITIES					
Non-current liabilities					
Borrowings	25	130,626	97,500	130,626	97,500
Deferred tax liabilities	26	18,867	20,284	18,171	9,302
Deferred revenue and accrued liabilities	24	9,151	9,897	9,151	972
Provisions	27	10,728	6,627	10,728	-
		169,372	**134,308**	**168,676**	**107,774**
Current liabilities					
Trade, other payables and accrued liabilities	24	59,018	55,114	59,177	31,263
Current income tax liabilities		1,959	1,068	1,959	1,068
Borrowings	25	31,385	129,500	31,385	52,500
Provisions	27	13	403	13	338
		92,375	**186,085**	**92,534**	**85,169**
Total liabilities		**261,747**	**320,393**	**261,210**	**192,943**
Total equity and liabilities		**566,399**	**590,719**	**563,810**	**446,853**

The notes on pages 12 to 52 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 52 have been approved for issue by the Board of Directors as at 27 March 2018 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas
CEO

Laimonas Devyžis
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 25 April 2017

GROUP	Notes	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2016		**168,958**	**16,896**	**48,804**	**234,658**
Profit for the year		-	-	41,494	41,494
Other comprehensive income for the year, net of income tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**41,494**	**41,494**
Dividends paid for 2015	13	-	-	(5,826)	(5,826)
Balance at 31 December 2016		**168,958**	**16,896**	**84,472**	**270,326**
Balance at 1 January 2017		**168,958**	**16,896**	**84,472**	**270,326**
Profit for the year		-	-	51,805	51,805
Other comprehensive income for the year, net of income tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**51,805**	**51,805**
Dividends paid for 2016	13	-	-	(17,479)	(17,479)
Balance at 31 December 2017		**168,958**	**16,896**	**118,798**	**304,652**

COMPANY	Notes	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2016		**168,958**	**16,896**	**39,892**	**225,746**
Profit for the year		-	-	33,990	33,990
Other comprehensive income for the year, net of income tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**33,990**	**33,990**
Dividends paid for 2015	13	-	-	(5,826)	(5,826)
Balance at 31 December 2016		**168,958**	**16,896**	**68,056**	**253,910**
Balance at 1 January 2017		**168,958**	**16,896**	**68,056**	**253,910**
Profit for the year		-	-	52,306	52,306
Other comprehensive income for the year, net of income tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**52,306**	**52,306**
Dividends paid for 2016	13	-	-	(17,479)	(17,479)
Result from legal merger	30	-	-	13,863	13,863
Balance at 31 December 2017		**168,958**	**16,896**	**116,746**	**302,600**

The notes on pages 12 to 52 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 52 have been approved for issue by the Board of Directors as at 27 March 2018 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas
CEO

Laimonas Devyžis
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 25 April 2018

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2017	2016	2017	2016
Operating activities					
Profit for the year		51,805	41,494	52,306	33,990
Adjustments for:					
Income tax expenses recognized in profit or loss	11	2,913	5,583	2,125	4,682
Depreciation, amortisation and impairment charge	14	67,044	63,233	63,761	35,204
Dividends received from subsidiaries	7	-	-	(1,070)	(4,400)
Other gain / (loss) – net	9	(407)	(9)	373	(103)
Write off of property, plant and equipment and intangible assets		393	-	365	196
Impairment of investments in subsidiaries	17	-	-	-	1,850
Interest income	10	(150)	(174)	(150)	(173)
Interest expenses		1,991	2,310	1,991	1,608
Other non-cash transactions		(48)	(53)	-	-
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories		(3,006)	(4,291)	(599)	213
Trade and other receivables		(8,706)	(5,135)	(6,107)	(4,173)
Trade, other payables and accrued liabilities, deferred tax liability		7,884	16,357	18,032	3,574
Provisions		(390)	(502)	3,741	(502)
Cash generated from operations		**119,323**	**118,813**	**134,768**	**71,966**
Interest paid		(2,073)	(1,961)	(2,073)	(1,981)
Interest received		150	174	150	173
Income taxes paid		(2,890)	(4,597)	(2,564)	(1,519)
Net cash generated by operating activities		**114,510**	**112,429**	**130,281**	**68,639**
Investing activities					
Purchase of property, plant and equipment (PPE) and intangible assets		(61,929)	(68,253)	(60,629)	(37,322)
Proceeds from disposal of PPE and intangible assets		1,292	81	1,353	207
Acquisition of subsidiaries / investments in associates	30	-	(129,618)	-	(141,083)
Legal merger (cash acquired)		-	-	5,565	-
Dividends received	7	-	-	1,070	4,400
Net cash used in investing activities		**(60,637)**	**(197,790)**	**(52,641)**	**(173,798)**

(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	
	Note	2017	2016	2016	2016
Financing activities					
Repayment of borrowings		(144,879)	(15,061)	(144,879)	(15,061)
Proceeds from borrowings	31	75,000	150,000	75,000	150,000
Dividends paid to shareholders	13	(17,478)	(5,826)	(17,479)	(5,826)
Net cash received in financing activities		**(87,357)**	**129,113**	**(87,358)**	**129,113**
Increase (decrease) in cash and cash equivalents		**(33,484)**	**43,752**	**(9,718)**	**23,954**
Movement in cash and cash equivalents					
At the beginning of the financial year		**56,650**	**12,898**	**31,015**	**7,061**
Increase (decrease) in cash and cash equivalents		(33,484)	43,752	(9,718)	23,954
At the end of the financial year	21	**23,166**	**56,650**	**21,297**	**31,015**

(Concluded)

The notes on pages 12 to 52 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 52 have been approved for issue by the Board of Directors as at 27 March 2018 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas
CEO

Laimonas Devyžis
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 until 1 February 2017 was named as TEO LT, 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 Lvovo St. 25, 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 2017		31 December 2016	
	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 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.

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 staff employed by the Group at the end of 2017 amounted to 2,733 (2016: 2,819). The number of full time staff employed by the Company at the end of 2017 amounted to 1,981 (2016: 1,738).

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

Subsidiary / associate	Country of incorporation	Ownership interest in % 31 December 2017	Ownership interest in % 31 December 2016	Profile
AB Omnitel	Lithuania	-	100%	The subsidiary, a provider of mobile communications services, was merged into the Company on 1 February 2017 (Note 30).
AB Baltic Data Center	Lithuania	-	100%	The subsidiary, a provider of information technology infrastructure services, was merged into the Company on 1 February 2017 (Note 30).
Telia Customer Service LT, UAB	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and Contact Center services. On 1 February 2017 changed the name to Telia Customer Service LT, UAB.
UAB Kompetencijos Ugdymo Centras (now – Telia Global Services Lithuania, UAB)	Lithuania	100%	100%	The dormant subsidiary of the Company. On 30 January 2018 change the name to Telia Global Services Lithuania, UAB.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of the investment project.

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

Subsidiary / associate	Country of incorporation	Ownership interest in % 31 December 2017	Ownership interest in % 31 December 2016	Profile
VšĮ Numerio Perkėlimas	Lithuania	50%	50%	A non-profit organization established by Lithuanian telecommunications operators (the Company and Omnitel initially owned a 25% stakes each) from 1 January 2016 administers central database to ensure telephone number portability.
UAB Mobilieji Mokėjimai	Lithuania	33.3%	-	An associated company is equally owned by three Lithuanian telecommunications operators from 6 December 2017 and is engaged in development of instant payment platform.
Baltic Data Center SIA	Latvia	-	-	The dormant subsidiary of Baltic Data Center was liquidated in January 2016.
VšĮ Ryšių Istorijos Muziejus	Lithuania	-	-	A not-for-profit organisation established and owned by the Company for management of the Communications History Museum in Kaunas was handed over to Kaunas City Municipality free of charge in April 2016.
VšĮ SOS Projektai	Lithuania	-	-	A non-profit organization established by Omnitel and Swedbank (Lithuania) for implementation of professional volunteering project. Omnitel handed over its 50% stake to Swedbank free of charge in July 2016.

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.

(a) New and emended standards and interpretations adopted by the Company and the Group

The following standards have been adopted by the Company and the Group for the first time for the financial year beginning on or after January 2017.

Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018). The amendments did not have any material effect on the Company's and Group's financial statements.

The following 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:

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017). The amendments did not have any material effect on the Company's and Group's financial statements.

Amendments to IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017). The amendments did not have any material effect on the Company's and Group's 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 new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

IFRS 9 "Financial Instruments" – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the standard on its financial statements.

IFRS 9 "Financial Instruments" is effective as of January 1, 2018, and will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes new requirements for impairment. During 2017, Telia Lietuva, AB has performed a review and an assessment of the potential effects on the financial assets and financial liabilities. Based on the conclusions from the review and assessment, the implementation of the new standard is expected to have no material impact for Telia Lietuva, AB. In line with IFRS 9, Telia Lietuva, AB has introduced a new impairment model based on expected losses, (rather than incurred losses as per IAS 39) in the beginning of the year 2017. As permitted by IFRS 9, Telia Lietuva, AB has not restated comparative figures.

IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). The Group assessed the impact of the standard on its financial statements.

IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019), The Group is currently assessing the impact of the standard on its financial statements.

Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018), The amendments did not have any material effect on the Company's and Group's financial statements.

Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time). The amendments did not have any material effect on the Company's and Group's financial statements.

Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018). The amendments did not have any material effect on the Company's and Group's financial statements.

Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018). The Group assessed the impact of the standard on its financial statements.

IFRS 15 "Revenue from Contracts with customers"

IFRS 15 "Revenue from Contracts with Customers" is effective for the annual reporting period beginning January 1, 2018. The Group and the Company will apply the new standard using the full retrospective method (subject to practical expedients in the standard), with adjustments to all periods presented.

In IFRS 15 the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue' are used, however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in IFRS 15 to describe such balances.

IFRS 15 specifies how and when revenue should be recognized as well as requires more detailed revenue disclosures. The standard provides a single, principle based five-step model to be applied to all contracts with customers and among others gives detailed guidance on the accounting for:

Bundled offerings: The Group's and the Company's current accounting and recognition of revenue for bundled offerings and allocation of the consideration between equipment, mobile service and value-added services (only where The Group and The Company is acting as an agent) provided will be adjusted as used fair value model for distinct equipment subsidized takes into consideration the average customer life agreement when according to IFRS 15 actual contract term should be used. Furthermore, IFRS15 requires the transaction price to be allocated to the different performance obligations on a relative stand-alone selling price basis and the revenue allocated to equipment sold will be materially different from the currently determined. Stand-alone selling prices will be determined based on the list prices at which the Group and the Company sells the equipment and services in separate transactions. A detailed analysis of the performance obligations and the revenue recognition for each type of customer contract has been performed and the model currently used has been refined as the effect of IFRS 15 adoption is material.

Distinct performance obligation: Due to IFRS 15 requirements, equipment such as routers and TV set-top-boxes that are currently being leased (for free) to customers as part of the subscriptions will need to be adjusted for. A detailed analysis of the performance obligation indicated that both broadband router and TV set-top-box must be treated as distinct performance obligation and therefore requires the transaction price reallocation. The adjustment is reclassification within the service revenues and operating lease revenues and has no effect on statement of profit and loss and other comprehensive income or statement of financial position for the Group and the Company. The adjustment will have impact on disclosure of revenue recognised from contracts with customers, which the Group and the Company shall disclose separately from its other sources of revenue.

Incremental costs for obtaining a contract: Sales commissions and equipment granted to dealers for obtaining a specific contract should be capitalized and deferred over the period over which The Group and the Company expects to provide services to the customer. The Group and the Company currently does not capitalize such costs. The main effect of implementing IFRS 15 for The Group and the Company is related to capitalization of costs.

Financing: If the period between payment and transfer of goods and services is beyond one year, adjustments for the time value of money should be made at the prevailing interest rates in the relevant market. The Group and the Company currently apply discounting, using the rate close to market discount rate. Therefore, method currently used will continue to be appropriate under IFRS 15.

Contract combination, contract modifications arising from various orders, variable consideration: Guidance is included on when to account for modifications retrospectively or progressively. The new guidance will not have any material revenue effect for The Group and The Company.

Disclosures: IFRS 15 adds a number of disclosure requirements in annual reports, e.g. to disaggregate revenues into categories that depict how the nature, amount, timing and uncertainty of revenues and cash flows are affected by economic factors.

The tables below present the impact that the initial application of IFRS 15 will have on the consolidated financial statements in the period of initial application.

IFRS 15 effects on Consolidated and separate statements of financial position

		GROUP							
EUR in thousands	**Notes**	**Reported 2016**	**Change due to IFRS 15**	**Ref**	**Restated Jan 1, 2017**	**Reported 2017**	**Change due to IFRS 15**	**Ref**	**Restated 2017**
ASSETS									
Non-current assets									
Property, plant and equipment	14	291,818			291,818	290,435			290,435
Goodwill	15	26,769			26,769	26,769			26,769
Intangible assets	15	97,743			97,743	95,632			95,632
Investment property	16	1,277			1,277	1,277			1,277
Investments in associates and subsidiaries	17	-			-	650			650
Cost to obtain a contract (non-current)		-	4,015	a	4,015	-	3,470	a	3,470
Other contract asset (non-current)		-	324	b	324	-	544	b	544
Trade and other receivables (non-current)	19	10,944	(595)	b	10,349	10,385	(926)	b	9,459
Deferred tax asset	25	-	8	c	8	-	104	c	104
		428,551	**3,752**		**432,303**	**425,148**	**3,192**	**-**	**428,340**
Current assets									
Inventories		10,135			10,135	11,242			11,242
Other contract asset (current)		-	1,408	b	1,408	-	1,303	b	1,303
Trade and other receivables (current)	20	94,661	(1,650)	b	93,011	103,926	(2,276)	b	101,650
Current income tax receivable		722			722	174			174
Cash and cash equivalents	21	56,650			56,650	23,166			23,166
		162,168	**(242)**		**161,926**	**138,508**	**(973)**	**-**	**137,535**
Assets classified as held for sale		-			-	2,743			2,743
Total assets		**590,719**	**3,510**		**594,229**	**566,399**	**2,219**	**-**	**568,618**
EQUITY									
Capital and reserves attributable to equity holders of the Company									
Share capital	22	168,958			168,958	168,958			168,958
Legal reserve	23	16,896			16,896	16,896			16,896
Retained earnings		84,472	2,935	d	87,407	118,798	1,207	d	120,005
Total equity		**270,326**	**2,935**		**273,261**	**304,652**	**1,207**		**305,859**
LIABILITIES									
Non-current liabilities									
Borrowings (non-current)	25	97,500			97,500	130,626			130,626
Deferred tax liabilities	26	20,284	525	c	20,809	18,867	317	c	19,184
Deferred revenue and accrued liabilities	24	9,897			9,897	9,151			9,151
Other contract liability (non-current)		-	8	b	8	-	50	b	50
Provisions (non-current)	27	6,627			6,627	10,728			10,728
		134,308	**533**		**134,841**	**169,372**	**367**		**169,739**
Current liabilities									
Trade, other payables and accrued liabilities	24	55,114			55,114	59,018			59,018
Current income tax liabilities		1,068			1,068	1,959			1,959
Borrowings (current)	25	129,500			129,500	31,385			31,385
Other contract liability (current)		-	42	b	42	-	645	b	645
Provisions (current)	27	403			403	13			13
		186,085	42		186,127	92,375	645		93,020
Total liabilities		**320,393**	**575**		**320,968**	**261,747**	**1,012**		**262,759**
Total equity and liabilities		**590,719**	**3,510**		**594,229**	**566,399**	**2,219**		**568,618**

IFRS 15 effects on Consolidated and separate statement of profit or loss and other comprehensive income

	GROUP				
EUR in thousands	**Reported 2016**	**Reported 2017**	**Change due to IFRS 15**	**Ref**	**Restated 2017**
Revenue	**345,906**	**370,123**	**(1,487)**	**b**	**368,636**
Cost of goods and services	(128,878)	(148,187)			(148,187)
Employee related expenses	(59,446)	(57,781)	3,390	a	(54,391)
Other operating expenses	(46,211)	(42,294)	(3,935)	a	(46,229)
Other income	-	-			-
Other gain / (loss) – net	9	357			357
Depreciation, amortization and impairment of fixed assets	(63,233)	(67,044)			(67,044)
Impairment of investments in subsidiaries	-	-			-
Operating profit	**48,147**	**55,174**	**(2,032)**		**53,142**
Finance income	1,415	1,949			1,949
Finance costs	(2,485)	(2,405)			(2,405)
Finance income (costs) – net	(1,070)	(456)	-		(456)
Profit before income tax	**47,077**	**54,718**	**(2,032)**		**52,686**
Income tax	(5,583)	(2,913)	304	c	(2,609)
Profit for the year	**41,494**	**51,805**	**(1,728)**		**50,077**
Other comprehensive income:					
Other comprehensive income for the year	-	-			-
Total comprehensive income for the year	**41,494**	**51,805**	**(1,728)**		**50,077**

IFRS 15 effects on Consolidated and separate statements of financial position

		COMPANY							
EUR in thousands	**Notes**	**Reported 2016**	**Change due to IFRS 15**	**Ref**	**Restated Jan 1, 2017**	**Reported 2017**	**Change due to IFRS 15**	**Ref**	**Restated 2017**
ASSETS									
Non-current assets									
Property, plant and equipment	14	210,403			210,403	285,900			285,900
Goodwill	15	-			-	26,769			26,769
Intangible assets	15	10,147			10,147	95,590			95,590
Investment property	16	-			-	-			-
Investments in associates and subsidiaries	17	151,434			151,434	6,817			6,817
Cost to obtain a contract (non-current)		-	4,015	a	4,015	-	3,470	a	3,470
Other contract asset (non-current)		-	324	b	324	-	544	b	544
Trade and other receivables (non-current)	19	5,477	(595)	b	4,882	10,385	(926)	b	9,459
Deferred tax asset	25	-	8	c	8	-	104	c	104
		377,461	**3,752**		**381,213**	**425,461**	**3,192**	**-**	**428,653**
Current assets									
Inventories		1,157			1,157	11,242			11,242
Other contract asset (current)		-	1,408	b	1,408	-	1,303	b	1,303
Trade and other receivables (current)	20	37,220	(1,650)	b	35,570	103,837	(2,276)	b	101,561
Current income tax receivable		-			-	-			-
Cash and cash equivalents	21	31,015			31,015	21,297			21,297
		69,392	**(242)**		**69,150**	**136,376**	**(973)**		**135,403**
Assets classified as held for sale		-			-	1,973			1,973
Total assets		**446,853**	**3,510**		**450,363**	**563,810**	**2,219**		**566,029**
EQUITY									
Capital and reserves attributable to equity holders of the Company									
Share capital	22	168,958			168,958	168,958			168,958
Legal reserve	23	16,896			16,896	16,896			16,896
Retained earnings		68,056	2,935	d	70,991	116,746	1,207	d	117,953
Total equity		**253,910**	**2,935**		**256,845**	**302,600**	**1,207**		**303,807**
LIABILITIES									
Non-current liabilities									
Borrowings (non-current)	25	97,500			97,500	130,626			130,626
Deferred tax liabilities	26	9,302	525	c	9,827	18,171	317	c	18,488
Deferred revenue and accrued liabilities	24	972			972	9,151			9,151
Other contract liability (non-current)		-	8	b	8	-	50	b	50
Provisions (non-current)	27	-			-	10,728			10,728
		107,774	**533**		**108,307**	**168,676**	**367**		**169,043**
Current liabilities									
Trade, other payables and accrued liabilities	24	31,263			31,263	59,177			59,177
Current income tax liabilities		1,068			1,068	1,959			1,959
Borrowings (current)	25	52,500			52,500	31,385			31,385
Other contract liability (current)		-	42	b	42	-	645	b	645
Provisions (current)	27	338			338	13			13
		85,169	**42**		**85,211**	**92,534**	**645**		**93,179**
Total liabilities		**192,943**	**575**		**193,518**	**261,210**	**1,012**		**262,222**
Total equity and liabilities		**446,853**	**3,510**		**450,363**	**563,810**	**2,219**		**566,029**

IFRS 15 effects on Consolidated and separate statement of profit or loss and other comprehensive income

	COMPANY				
EUR in thousands	**Reported 2016**	**Reported 2017**	**Change due to IFRS 15**	**Ref**	**Restated 2017**
Revenue	**204,065**	**359,296**	**(1,487)**	**b**	**357,809**
Cost of goods and services	(63,425)	(143,342)			(143,342)
Employee related expenses	(39,862)	(47,326)	3,390	a	(43,936)
Other operating expenses	(28,186)	(51,410)	(3,935)	a	(55,345)
Other income	4,400	1,070			1,070
Other gain / (loss) – net	103	379			379
Depreciation, amortisation and impairment of fixed assets	(35,204)	(63,761)			(63,761)
Impairment of investments in subsidiaries	(1,850)	-			-
Operating profit	**40,041**	**54,906**	**(2,032)**		**52,874**
Finance income	338	1,874			1,874
Finance costs	(1,707)	(2,349)			(2,349)
Finance income (costs) – net	**(1,369)**	**(475)**	**-**		**(475)**
Profit before income tax	**38,672**	**54,431**	**(2,032)**		**52,399**
Income tax	(4,682)	(2,125)	304	c	(1,821)
Profit for the year	**33,990**	**52,306**	**(1,728)**		**50,578**
Other comprehensive income:					
Other comprehensive income for the year	-	-			-
Total comprehensive income for the year	**33,990**	**52,306**	**(1,728)**		**50,578**

a) Employee related and other operating expenses in 2017 will increase due to capitalization of costs to obtain a contract. The net effect of EUR 545 thousand was led by 2017 amortization of the capitalized contract costs which is included in other operating expenses.

b) The effect on revenue is related to refining of the Group's and the Company's current revenue model for bundled offerings which resulted in the recognition of contract asset and contract liability.

c) The deferred tax relating to the IFRS 15 adjustments will increase deferred tax liabilities and assets at the date of transition January 1, 2017 and decrease deferred tax liabilities at 31 December 2017. The tax effect on net income 2017 will be EUR 304 thousand.

d) The implementation of IFRS 15 will have a negative profit or loss effect of EUR 1,728 thousand for 2017. The decrease is mainly related to refined revenue model calculation for bundled mobility offerings.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company and the Group.

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, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at (the effective dates stated below is for IFRS in full):

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

IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021). The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019). The Group is currently assessing the impact of the standard on its financial statements.

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

Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019). The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

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 (effective for annual periods beginning on or after 1 January 2019). The amendments did not have any material effect on the Company's and Group's financial statements.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018). The amendments did not have any material effect on the Company's and Group's financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019). The amendments did not have any material effect on the Company's and Group's financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Company and the Group, except IFRS 16.

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.

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 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.

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 Company and the Group 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 assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

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.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included within 'Other gain / (loss) - net' in the statement of 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 Company and the Group 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	2 – 20 years
Software	2 – 5 years
Client base	15 years
Trademarks	10 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.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company and the Group 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 are held for undetermined use and that are not occupied by the entities in the consolidated Group, are classified as investment property. Investment property comprise 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 16.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not yet available for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset’s 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 risk specific to the asset for which the estimates of future cash flows have not been adjusted.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets into the following categories: at fair value through profit or loss, available-for-sale, held to maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During the current period, all financial assets hold by the Company and the Group fell under the category of loans and receivables.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Company’s and the Group’s loans and receivables comprise ‘trade and other receivables’ and ‘cash and cash equivalents’ in the statement of financial position.

2.8.2 Recognition and measurement

Loans and receivables are carried at amortised cost using the effective interest method, less any impairment. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company or the Group has transferred substantially all risks and rewards of ownership.

2.8.3 Impairment of financial assets

At each reporting date, the Company and the Group assess whether there is objective evidence that a financial asset or a group of financial assets are impaired.

Objective evidence that the Company or the Group will not be able to collect all amounts due according to the original terms of receivables, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default (more than 90 days) or delinquency in payments are considered indicators that the loans and receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss within 'Other operating expenses'. When the loans and receivables are uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'Other operating expenses' in the statement of profit or loss.

2.9 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.

2.10 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 Company and the Group), 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.

2.11 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or service delivered in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets, if not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment.

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.

2.12 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.

2.13 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 Company and the Group, until the remedies are agreed upon and accepted by management. The determination if and when non-current assets and disposal groups should be classified a 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

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.

2.18 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.

2.19 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.

2.20 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 2017 is taxable at a rate of 15 % (2016: 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 2017 are carried forward indefinitely except for tax loss arising from the transfer of securities.

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.

2.21 Revenue recognition

Net sales principally consist of traffic charges including interconnect and roaming, subscription fees, connection and installation fees, service charges and equipment sales. Sales revenues are recognized at fair value of the consideration received, normally being the sales value, adjusted for rebates and discounts granted and sales-related taxes.

Revenue is recognized in the period in which the service is performed, based on actual traffic or over the contract term, as applicable. Revenue from rendering of services is recognized when it is probable that the economic benefits associated with a transaction will flow to Group and the amount of revenue, and the associated costs incurred, or to be incurred, can be measured reliably. Revenue from voice and data services is recognized when the services are used by the customer.

Revenue from interconnect traffic with other telecom operators is recognized at the time of transit across Telia Lietuva groups network. When invoicing end-customers for third-party content services, amounts collected on behalf of the principal are excluded from revenue.

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 cards.

Revenue from equipment sales is recognized when delivery has occurred and the significant risks and rewards have been transferred to the customer, i.e. normally on delivery and when accepted by the customer. In order to determine the fair-trade receivables and income from the sale of handsets in instalments the value of future premiums is discounted using the interest rate assigned to the current selling price of the phone. The difference between the fair value and the nominal payment of its value is recognized in financial income.

Multiple element arrangements
The group 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). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. The revenue is allocated to equipment and services in proportion to the fair value of the individual items. Services invoiced based on usage are not included in the allocation. The fair values of each element are determined based on the current market price of each of the elements when sold separately. When there is no objective and reliable evidence of the fair value of the delivered element, the fair value of undelivered element is used as a basis. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such manner as to reflect fair value of the elements.

Arrangements of discounts
The Company offers certain arrangements whereby, together with a defined period of servicing agreement, customer is offered discount for the services for a certain period. When such discount exits, such discount is allocated over defined period of servicing.

2.22 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'.

2.23 Dividend income

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

2.24 Employee benefits

Social security contributions
The Company and the Group 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 Company and the Group 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. The social security contributions amounting to EUR 15.1 million for the Group and EUR 12.7 million for the Company (2016: EUR 14.7 million for the Group and EUR 10.3 million for the Company) are recognised as an expense on an accrual basis and are included within employee related expenses.

Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date per mutual agreement or employers will. The Company and the Group 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 Company and the Group recognise a liability and an expense for bonuses based on predefined targets. The Company and the Group recognise related liability where contractually obliged or where there is a past practice that has created a constructive obligation.

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

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.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's and the Group'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% (2016: 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.

2.26 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 2016:

	January – December 2016			
	B2B	**B2C**	**Other**	**Total**
Revenue from external customers	**146,233**	**196,647**	**3,026**	**345,906**
Operating expenses external	(73,047)	(86,378)	(75,110)	(234,535)
Operational result	**73,186**	**110,269**	**(72,084)**	**111,371**
Impairment of fixed assets	-	-	-	-
Other income				-
Other gain/ (loss) – net				9
Depreciation and amortisation of non-current assets				(63,233)
Operating profit				**48,147**

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

Group's segment reporting 2017:

	January – December 2017			
	B2B	**B2C**	**Other**	**Total**
Revenue from external customers	**157,725**	**209,732**	**2,666**	**370,123**
Operating expenses external	(82,256)	(94,006)	(72,000)	(248,262)
Operational result	**75,469**	**115,726**	**(69,334)**	**121,861**
Impairment of fixed assets	-	-	-	-
Other income				-
Other gain / (loss) – net				357
Depreciation and amortisation of non-current assets				(67,044)
Operating profit				**55,174**

3 Financial risk management

3.1 Financial risk factors

The Company's and the Group'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 Treasury 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.

<u>Market risk</u>

Foreign exchange risk
The Company and the Group operate internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US Dollar (USD). Foreign exchange risk arises from commercial transactions, recognised assets and liabilities. Substantially all the Company's and the Group'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 20, 21, 24 and 25.

Cash flow and interest rate risk
The Company's and Group's income and operating cash flows are substantially independent of changes in market interest rates. Since most of the borrowings' interest rate is fixed, the interest rate risk is insignificant.

<u>Credit risk</u>

The financial assets exposed to credit risk represent cash deposits and trade receivables. The Company and the Group did not have any held-to-maturity investments at the end of 2017.

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 Company's and the Group's internal policy for trade receivable impairment. Estimation of impairment is based on classification of trade receivables into categories according to the payment overdue period and application of certain impairment rates to each category. The impairment rates and the Company's and the Group's internal policy for trade receivable impairment estimation are updated on a yearly basis.

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

Debtors of the Company and the Group 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 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% of planned annual revenue.

For the maturity analysis of the undiscounted cash flows of the Company's and the Group's borrowings, into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date see Note 25.

3.2 Capital management

The Company's and the Group's objectives when managing capital are to safeguard the Company's and the Group'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 Company and the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders and issue new shares.

The Company and the Group 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% of the company's registered share capital. As at 31 December 2017 and as at 31 December 2016 the Company complied with these requirements.

The Company's and the Group's operations are financed by the external parties as well as by the shareholders' capital. The Group had finance lease liabilities plus outstanding EUR 157.5 million external loans with Lithuanian and foreign banks at the end of 2017. For more detailed borrowings related information see Note 25.

The Company and the Group 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).

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	
	2017	2016	2017	2016
Trade and other receivable				
Gross amounts of recognized financial assets	112,709	101,342	112,769	42,572
Gross amounts of recognized financial liabilities set off in the statement of financial position	(3,892)	(1,961)	(3,892)	(1,961)
Net amounts of financial assets presented in the statement of financial position	**108,817**	**99,381**	**108,877**	**40,611**
Related amounts not set off in the statement of financial position	-	-	-	-
Net amount	**108,817**	**99,381**	**108,877**	**40,611**

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

Financial liabilities

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

	GROUP		COMPANY	
	2017	2016	2017	2016
Trade payables				
Gross amounts of recognized financial liabilities	209,767	264,218	210,145	175,698
Gross amounts of recognized financial assets set off in the statement of financial position	(3,892)	(1,961)	(3,892)	(1,961)
Net amounts of financial liabilities presented in the statement of financial position	**205,875**	**262,257**	**206,253**	**173,737**
Related amounts not set off in the statement of financial position	-	-	-	-
Net amount	**205,875**	**262,257**	**206,253**	**173,737**

4 Critical Accounting Estimates

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).

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 amount of customers and the disconnected amount of customers over the period.

Based on the assumptions above no changes of useful lives for intangible assets were made over 2017.

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 Company and the Group 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	
	2017	2016	2017	2016
Mobile services	107,122	101,467	98,776	-
Voice telephony services	77,512	71,234	77,440	72,851
Equipment sales revenue	66,356	56,458	63,371	15,156
Internet services	58,709	57,320	58,817	57,767
TV services	27,027	24,473	27,027	24,473
Data communication and network capacity services	19,157	20,381	19,271	21,611
IT services	9,574	11,030	9,472	5,807
Other services	4,666	3,543	5,122	6,400
Total	**370,123**	**345,906**	**359,296**	**204,065**

6 Cost of goods and services

	GROUP		COMPANY	
	2017	2016	2017	2016
Costs of goods and services purchased	74,427	64,053	71,537	23,543
Network's interconnection	60,066	48,489	58,695	30,775
Network capacity costs	13,694	16,336	13,110	9,107
Total	**148,187**	**128,878**	**143,342**	**63,425**

7 Other income

	GROUP		COMPANY	
	2017	2016	2017	2016
Income from dividends (Note 31)	-	-	1,070	4,400
Total	**-**	**-**	**1,070**	**4,400**

8 Other operating expenses

	GROUP		COMPANY	
	2017	2016	2017	2016
Energy, premises and transport costs	14,383	15,034	14,676	10,377
Marketing expenses	9,797	10,254	9,299	3,449
Maintenance and other services	7,593	8,253	7,252	10,952
Consultations and other services from group	5,589	5,199	4,909	392
Impairment of accounts receivable	1,211	1,872	1,200	592
Other expenses	3,721	5,599	14,074	2,424
Total	**42,294**	**46,211**	**51,410**	**28,186**

9 Other gain (loss)

	GROUP		COMPANY	
	2017	2016	2017	2016
Gain on sales of property, plant and equipment	853	193	825	179
Loss on sales of property, plant and equipment	(460)	(69)	(460)	(69)
Other gain (loss)	(36)	(115)	14	(7)
Total	**357**	**9**	**379**	**103**

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

10 Finance income and costs

	GROUP		COMPANY	
	2017	2016	2017	2016
Interest income from instalments amortisation	1,314	1,072	1,239	-
Interest income on cash and cash equivalents	488	167	488	166
Foreign exchange gain (loss) on financing activities	-	-	-	-
Other finance income	147	176	147	172
Finance income	**1,949**	**1,415**	**1,874**	**338**
Interest expenses	(1,839)	(2,145)	(1,829)	(1,602)
Foreign exchange gain (loss) on financing activities	(158)	(112)	(157)	(55)
Other finance costs	(408)	(228)	(363)	(50)
Finance costs	**(2,405)**	**(2,485)**	**(2,349)**	**(1,707)**
Finance income (costs) – net	**(456)**	**(1,070)**	**(475)**	**(1,369)**

11 Income tax

	GROUP		COMPANY	
	2017	2016	2017	2016
Current tax expenses	4,330	5,611	3,769	3,461
Deferred tax change (Note 26)	(1,417)	(28)	(1,644)	1,221
Income tax expenses	**2,913**	**5,583**	**2,125**	**4,682**

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 2017 to EUR 4,7 million (2016: EUR 2,9 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.

On 6 February 2017, the Tax Authorities started tax investigation of the Company and reviewed tax year 2015. Based on the Tax Investigation Deed issued on 19 December 2017 the Tax Authorities challenged the amount of goodwill recognized and amortized since 2009, after the NST being merged into TEO as well as minor VAT and CIT adjustments were proposed. The amount of goodwill was reduced by the amount of loan which was provided by TEO to NST right before the merger. The Company agreed adjusting CIT returns starting tax period 2012. The total amount of additional CIT calculated is of 38 thousand EUR. This amount was also reduced to investment project relief applied. No penalties or late payment interest applied due to existing tax overpayments.

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 tax investigation mentioned above does not close the tax period 2015 for the tax review.

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

11 Income tax (continued)

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

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Profit before income tax	**54,768**	**47,077**	**54,431**	**38,673**
Tax calculated at a tax rate of 15% (2016: 15%)	8,215	7,062	8,165	5,801
Non-taxable dividends received (tax effect)	-	-	(161)	(660)
Income not subject to tax (-) and expenses not deductible for tax purposes (+)	(18)	2,202	(780)	588
Tax relief	(4,698)	(2,937)	(4,546)	(1,142)
Other	(586)	(744)	(553)	95
Income tax expense recognized in profit or loss and other comprehensive income statement	**2,913**	**5,583**	**2,125**	**4,682**
Effective tax rate	5.32%	11.86%	3.90%	12.11%

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 Company and the Group 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	
	2017	**2016**	**2017**	**2016**
Net profit	**51,805**	**41,494**	**52,306**	**33,990**
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613	582,613	582,613
Basic earnings per share (EUR)	**0.089**	**0.071**	**0.090**	**0.058**

13 Dividends per share

The dividends per share declared in respect of 2016 and 2015 and paid in 2017 and 2016 were EUR 0.03 and EUR 0.01 respectively.

14 Property, plant and equipment

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

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Depreciation of property, plant and equipment	48,401	48,874	46,144	32,167
Impairment of property, plant and equipment	1,518	426	1,518	81
Amortisation of intangible assets (Note 15)	12,637	12,085	12,246	2,956
Impairment of intangible assets (Note 15)	3,584	-	3,584	-
Impairment of investment property (Note 16)	-	1,848	-	-
Impairment of assets classified as held for sale	904	-	269	-
Total	**67,044**	**63,233**	**63,761**	**35,204**

In 2017, the Company did not revised the useful lives of its property, plant and equipment. This revision was done in 2016.

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

14 Property, plant and equipment (continued)

GROUP	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
Year ended 31 December 2016					
Opening net book amount	**15,783**	**186,337**	**3,915**	**8,847**	**214,882**
Acquisition of subsidiaries	8,519	60,955	2,682	2,688	74,844
Additions	36	7,385	737	43,425	51,583
Reclassifications	(34)	520	(18)	-	468
Disposals and retirements	(17)	(313)	(329)	-	(659)
Transfers from construction in progress	9	28,268	678	(28,955)	-
Depreciation charge	(1,247)	(44,814)	(2,813)	-	(48,874)
Impairment charge	(345)	(81)	-	-	(426)
Closing net book amount	**22,704**	**238,257**	**4,852**	**26,005**	**291,818**
At 31 December 2016					
Cost	49,365	961,133	31,389	26,005	1,067,892
Accumulated depreciation	(26,316)	(722,795)	(26,537)	-	(775,648)
Impairment Charge	(345)	(81)	-	-	(426)
Net book amount	**22,704**	**238,257**	**4,852**	**26,005**	**291,818**
Year ended 31 December 2017					
Opening net book amount	**22,704**	**238,257**	**4,852**	**26,005**	**291,818**
Legal merger	-	-	-	-	-
Additions	-	4,118	282	48,311	52,711
Reclassifications	(2,741)	68	-	183	(2,490)
Disposals and retirements	(1,407)	(254)	(24)	-	(1,685)
Transfers from construction in progress	58	37,736	4,851	(42,645)	-
Depreciation charge	(1,079)	(45,276)	(2,046)	-	(48,401)
Impairment charge	(248)	(1,270)	-	-	(1,518)
Closing net book amount	**17,287**	**233,379**	**7,915**	**31,854**	**290,435**
At 31 December 2017					
Cost	40,021	973,008	32,445	31,854	1,077,328
Accumulated depreciation	(22,734)	(736,730)	(24,530)	-	(783,994)
Impairment Charge	-	(2,899)	-	-	(2,899)
Net book amount	**17,287**	**233,379**	**7,915**	**31,854**	**290,435**

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

14 Property, plant and equipment (continued)

COMPANY	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
Year ended 31 December 2016					
Opening net book amount	**9,237**	**185,160**	**3,752**	**8,846**	**206,995**
Additions	-	21	10	35,949	35,980
Disposals and write-offs	-	(247)	(45)	-	(292)
Reclassifications	(28)	6	(10)	-	(32)
Transfers from construction in progress	9	22,237	500	(22,746)	-
Depreciation charge	(687)	(29,826)	(1,654)	-	(32,167)
Impairment charge	-	(81)	-	-	(81)
Closing net book amount	**8,531**	**177,270**	**2,553**	**22,049**	**210,403**
At 31 December 2016					
Cost	23,994	759,972	17,663	22,049	823,678
Accumulated depreciation	(15,463)	(582,702)	(15,110)	-	(613,275)
Net book amount	**8,531**	**177,270**	**2,553**	**22,049**	**210,403**
Year ended 31 December 2017					
Opening net book amount	**8,531**	**177,270**	**2,553**	**22,049**	**210,403**
Legal merger	8,227	59,390	2,271	4,563	74,451
Additions	-	4,115	282	47,142	51,539
Disposals and write-offs	(1,434)	(260)	(24)	-	(1,718)
Reclassifications	(1,319)	23	-	183	(1,113)
Transfers from construction in progress	58	37,368	4,658	(42,084)	-
Depreciation charge	(873)	(43,327)	(1,944)	-	(46,144)
Impairment charge	(248)	(1,270)	-	-	(1,518)
Closing net book amount	**12,942**	**233,309**	**7,796**	**31,853**	**285,900**
At 31 December 2017					
Cost	32,778	970,244	30,617	31,853	1,065,492
Accumulated depreciation	(19,836)	(734,036)	(22,821)	-	(776,693)
Impairment charge	-	(2,899)	-	-	(2,899)
Net book amount	**12,942**	**233,309**	**7,796**	**31,853**	**285,900**

The Company still uses depreciated property, plant and equipment with acquisition cost as at 31 December 2017 amounting to EUR 495,889 thousand (2016: EUR 352,644 thousand), comprising buildings with acquisition cost as at 31 December 2017 amounting to EUR 6,265 thousand (2016: EUR 4,177 thousand), plant and machinery with acquisition cost of EUR 473,441 thousand (2016: EUR 339,914 thousand) and other fixtures, fitting, tools and equipment with acquisition cost of EUR 16,182 thousand (2016: EUR 8,553 thousand).

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	
	2017	2016	2017	2016
Cost	52,026	48,234	52,026	48,234
Accumulated depreciation at 1 January	(30,263)	(27,429)	(30,263)	(27,429)
Depreciation charge for the year	(7,449)	(7,824)	(7,449)	(7,824)
Disposals and write-offs Accumulated depreciation	4,479	4,990	4,479	4,990
Net book amount	**18,793**	**17,971**	**18,793**	**17,971**

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

15 Intangible assets

GROUP	Licenses	Software	Goodwill	Other intangible assets*	Construction in progress**	Total
Year ended 31 December 2016						
Opening net book amount	**1,064**	**6,290**	**2,038**	**603**	**2,375**	**12,370**
Acquisition of subsidiaries	9,536	12,258	24,731	52,607	5,435	104,567
Additions	12,391	-	-	252	6,821	19,464
Transfer from assets in construction	-	2,639	-	7,671	(10,114)	196
Amortisation charge	(2,981)	(1,015)	-	(8,089)	-	(12,085)
Closing net book amount	**20,010**	**20,172**	**26,769**	**53,044**	**4,517**	**124,512**
At 31 December 2016						
Cost	27,158	77,451	27,868	61,722	4,517	198,716
Accumulated amortisation	(7,148)	(57,279)	-	(8,678)	-	(73,105)
Impairment charge	-	-	(1,099)	-	-	(1,099)
Net book amount	**20,010**	**20,172**	**26,769**	**53,044**	**4,517**	**124,512**
Year ended 31 December 2017						
Opening net book amount	**20,010**	**20,172**	**26,769**	**53,044**	**4,517**	**124,512**
Additions	-	5	-	-	11,182	11,187
Transfer from assets in construction	3	5,911	-	13	(5,927)	-
Reclassifications	-	-	-	-	2,923	2,923
Amortisation charge	(1,788)	(6,811)	-	(4,038)	-	(12,637)
Impairment charge	-	-	-	(3,584)	-	(3,584)
Closing net book amount	**18,225**	**19,277**	**26,769**	**45,435**	**12,695**	**122,401**
At 31 December 2017						
Cost	28,030	81,968	29,408	61,733	12,695	213,834
Accumulated amortisation	(9,805)	(62,691)	(2,639)	(12,714)	-	(87,849)
Impairment charge	-	-	-	(3,584)	-	(3,584)
Net book amount	**18,225**	**19,277**	**26,769**	**45,435**	**12,695**	**122,401**

* Other intangible assets at 31 December 2016 consist of the client base (acquisition from AB Omnitel amount EUR 52,465 thousand) and trademarks (acquisition from AB Omnitel amount EUR 4,587 thousand).

**Construction in progress comprise intangible assets developed for internal use and provision of services, are expected to be completed within 2018.

Goodwill was tested for impairment at 31 December 2017 and at 31 December 2016. For the purposes of impairment testing, goodwill is allocated to group's cash-generating units (CGUs). These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

As at 31 December 2017, the Group had goodwill amounting to 26,769 thousand Eur (as at 31 December 2016 there was one cash generating unit identified with the goodwill amount allocated to UAB Baltic Data Center EUR 2,038 thousand, which comprise also goodwill from Hostex UAB (company which was merged into UAB Baltic Data Center in 2015)).

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: growth rate perpetuity: 0%; discount rate: 6%. 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	Software	Goodwill	Other intangible assets	Construction in progress	Total
Year ended 31 December 2016						
Opening net book amount	**1,065**	**6,128**	**-**	**582**	**2,372**	**10,147**
Additions	-	-	-	-	2,956	2,956
Transfer from assets in construction	-	2,639	-	10	(2,649)	-
Amortisation charge	(513)	(2,205)	-	(238)	-	(2,956)
Closing net book amount	**552**	**6,562**	**-**	**354**	**2,679**	**10,147**
At 31 December 2016						
Cost	5,168	49,463	-	3,793	2,679	61,103
Accumulated amortisation	(4,616)	(42,901)	-	(3,439)	-	(50,956)
Net book amount	**552**	**6,562**	**-**	**354**	**2,679**	**10,147**
Year ended 31 December 2017						
Opening net book amount	**552**	**6,562**	**-**	**354**	**2,679**	**10,147**
Legal merger	20,750	11,923	26,769	52,680	1,940	114,062
Additions	-	-	-	-	11,057	11,057
Transfer from assets in construction	3	5,895		13	(5,911)	-
Reclassifications	-	-	-	-	2,923	2,923
Amortisation charge	(1,775)	(6,439)	-	(4,032)	-	(12,246)
Impairment charge	-	-	-	(3,584)	-	(3,584)
Closing net book amount	**19,530**	**17,941**	**26,769**	**45,431**	**12,688**	**122,359**
At 31 December 2017						
Cost	29,401	78,408	29,408	61,578	12,688	211,483
Accumulated amortisation	(9,871)	(60,467)	(2,639)	(12,563)	-	(85,540)
Impairment charge	-	-	-	(3,584)	-	(3,584)
Net book amount	**19,530**	**17,941**	**26,769**	**45,431**	**12,688**	**122,359**

In Lithuania provision of fixed, long distance and international telecommunication services (including data transmission) is not subject to licensing.

The Company still uses amortised software and licenses with acquisition cost as at 31 December 2017 amounting to EUR 41,910 thousand (2016: EUR 12,914 thousand).

16 Investment property

As at 31 December 2017 the Group as investment property accounted construction in progress (2016: construction in progress).

At 31 December 2017 and 2016, the fair value of the investment property approximates the carrying value. The investment property was externally valued as at 6 June 2016 valuations, by using comparative method determining value of the asset and revenue method determining value of land plot. At 31 December 2017, investment property was not valued.

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 is appropriate to classify it as investment property. Possible outcomes of the future use are selling the asset or completing it and using it by the Group.

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

17 Investments in associates and subsidiaries

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

	GROUP		COMPANY	
	2017	2016	2017	2016
At the beginning of year	**-**	**-**	**151,434**	**12,176**
Acquisition of subsidiaries, associates[1]	700	-	700	144,107
Legal merger	-	-	(145,317)	-
Impairment of investments	-	-	-	(1,849)
Decrease share capital of subsidiary	-	-	-	(8,319)
Contribution to cover losses of subsidiary	-	-	-	5,319
Result of associates	(50)	-	-	-
At end of year	**650**	**-**	**6,817**	**151,434**

[1] On 4 January 2016, the Company acquired a 100 per cent stake in AB Omnitel.
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 amounts to EUR 2.1 million. Mobilieji Mokėjimai is creating the first instant payments platform in the Baltic States, which will be called MoQ ("móku") and will function as a means of payment at points of sale, on the Internet, and will allow customers to make money transfers between themselves. All payments between MoQ users will be 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, the mobile operators got the permission of the European Commission to jointly create a common platform for the provision of the mobile payments service.

The Company recognised an impairment provision for the following investments accounted under Investments in associates and subsidiaries:

	Year ended 31 December	
	COMPANY	
	2017	2016
UAB Verslo Investicijos	-	(1,849)
	-	**(1,849)**

Recoverable amount of the investments in UAB Verslo Investicijos was determined as fair value less cost to sell.

18 Inventories

	GROUP		COMPANY	
	2017	2016	2017	2016
Goods for resales	6,307	5,998	6,307	-
Supplies and consumables	4,935	4,137	4,935	1,157
Total	**11,242**	**10,135**	**11,242**	**1,157**

19 Financial instruments by category

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

	Loans and receivables	
GROUP	**2017**	**2016**
Assets as per statement of financial position		
Trade and other receivables	108,817	99,381
Cash and cash equivalents	23,166	56,650
Total	**131,983**	**156,031**

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

19 Financial instruments by category (continued)

COMPANY	Loans and receivables 2017	Loans and receivables 2016
Assets as per statement of financial position		
Trade and other receivables	108,877	40,611
Cash and cash equivalents	21,297	31,015
Total	**130,174**	**71,626**

All financial liabilities of the Group amounting to EUR 205,875 thousand (2016: EUR 262,257 thousand) and of the Company amounting to EUR 206,253 thousand (2016: EUR 173,737 thousand) fell under the category of other financial liabilities, there are no liabilities at fair value through profit and loss.

20 Trade and other receivables

	GROUP		COMPANY	
	2017	2016	2017	2016
Trade receivables from business customers and residents	107,158	96,706	106,937	37,777
Trade receivables from other operators	4,029	5,384	4,029	2,002
Total trade receivables	**111,187**	**102,090**	**110,966**	**39,779**
Less: provision for impairment of receivables	(8,341)	(8,666)	(8,341)	(3,454)
Trade receivables – net	**102,846**	**93,424**	**102,625**	**36,325**
Receivables from companies collecting payments for telecommunication services	453	1,547	453	315
Prepaid expenses and other receivables	8,474	7,329	8,474	2,085
Receivables from related parties (Note 31)	2,538	3,305	2,670	3,972
	114,311	**105,605**	**114,222**	**42,697**
Less: non-current portion	(10,385)	(10,944)	(10,385)	(5,477)
Current portion	**103,926**	**94,661**	**103,837**	**37,220**

All non-current receivables are due within five 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.

Trade receivables that are not overdue are considered as fully performing.

As at 31 December 2017, the Group's trade receivables of EUR 9,262 thousand (2016: EUR 11,596 thousand) and the Company's trade receivable of EUR 9,261 thousand (2016: EUR 4,523 thousand) were impaired and provided for. The amount of the Group's provision was EUR 8,341 thousand as at 31 December 2017 (2016: EUR 8,666 thousand) and the amount of the Company's provision was EUR 8,341 thousand as at 31 December 2017 (2016: EUR 3,454 thousand). Impairment allowance by major part has been recognised on a collective basis, based on the impairment rates assessed by management.

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

20 Trade and other receivables (continued)

The ageing of these receivables is as follows:

	GROUP		COMPANY	
	2017	2016	2017	2016
Trade receivable total	**111,187**	**102,090**	**110,966**	**39,779**
Of which not overdue	92,427	83,639	92,206	31,844
Overdue up to 3 months	9,499	6,855	9,499	3,412
4 to 6 months	1,168	2,657	1,168	900
7 to 12 months	1,244	1,520	1,244	605
Over 12 months	6,849	7,419	6,849	3,018

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

	GROUP		COMPANY	
	2017	2016	2017	2016
Total	**2,449**	**3,674**	**2,449**	**1,753**
Overdue up to 3 months	1,805	2,384	1,805	1,339
4 to 6 months	407	681	407	412
7 to 12 months	124	542	124	23
Over 12 months	113	67	113	(21)

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

Total	**83,714**	**41,879**	**83,713**	**22,252**
Of which not overdue	67,402	27,102	67,402	16,070
Overdue up to 3 months	7,694	4,471	7,694	2,073
4 to 6 months	762	1,976	761	488
7 to 12 months	1,120	978	1,120	582
Over 12 months	6,736	7,352	6,736	3,039

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

	GROUP		COMPANY	
	2017	2016	2017	2016
Currency				
EUR	111,031	104,598	110,942	41,872
Other currency	3,280	1,007	3,280	825
Total	**114,311**	**105,605**	**114,222**	**42,697**

Movements of impairment for trade receivables are as follows:

	GROUP		COMPANY	
	2017	2016	2017	2016
At the beginning of year	**8,666**	**5,302**	**3,454**	**5,294**
Acquisition of subsidiaries	-	4,617	-	-
Acquirement during business combination	-	-	5,212	-
Receivables written off during the year as uncollectible	(1,231)	(2,667)	(1,231)	(2,666)
Provision for receivables impairment / Unused amount reversed (-)	906	1,414	906	826
At the end of year	**8,341**	**8,666**	**8,341**	**3,454**

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

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

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

21 Cash and cash equivalents

	GROUP		COMPANY	
	2017	2016	2017	2016
Cash in hand and at bank	23,166	56,650	21,297	31,015
Total	**23,166**	**56,650**	**21,297**	**31,015**

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

	GROUP		COMPANY	
	2017	2016	2016	2016
Currency				
EUR	23,163	56,589	21,294	30,956
USD	3	61	3	59
Total	**23,166**	**56,650**	**21,297**	**31,015**

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

	GROUP		COMPANY	
	2017	2016	2017	2016
AA-	10,477	47,381	10,464	24,263
A+	7,380	1,701	5,524	220
A	3,057	6,545	3,057	6,420
Other	2,252	1,023	2,252	112
Total	**23,166**	**56,650**	**21,297**	**31,015**

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

22 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.

23 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 2017 legal reserve – EUR 16.9 million.

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

24 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2017	2016	2017	2016
Trade payables	31,038	37,768	30,862	17,124
Taxes, salaries and social security payable	10,297	10,257	9,912	6,613
Accrued liabilities	6,445	2,513	6,445	2,513
Amounts payable to related parties (Note 31)	2,080	3,778	3,158	1,642
Accruals to operators	1,841	5,800	1,841	1,769
Trade payables to operators	1,783	566	1,783	566
Other payables and deferred revenue	14,685	4,329	14,327	2,008
	68,169	**65,011**	**68,328**	**32,235**
Less non-current portion	(9,151)	(9,897)	(9,151)	(972)
Current portion	**59,018**	**55,114**	**59,177**	**31,263**

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

	GROUP		COMPANY	
	2017	2016	2017	2016
Currency				
EUR	64,479	64,148	64,638	31,903
Other currency	3,690	863	3,690	332
Total	**68,169**	**65,011**	**68,328**	**32,235**

25 Borrowings

	GROUP		COMPANY	
	2017	2016	2017	2016
Current				
Borrowings	30,000	129,500	30,000	52,500
Finance lease liabilities	1,385	-	1,385	-
	31,385	**129,500**	**31,385**	**52,500**
Non-current				
Borrowings	127,500	97,500	127,500	97,500
Finance lease liabilities	3,126	-	3,126	-
	130,626	**97,500**	**130,626**	**97,500**
Total borrowings	**162,011**	**227,000**	**162,011**	**150,000**

In 2017, the Company concluded five lease agreements with SEB bank AB. Company's finance leases concern company cars to employees, and other vehicles. There is no subleasing. Cars lease agreements are for 5 years. All the borrowings denominated in EUR.

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 2016				
Less future finance charges	-	-	-	-
Present value of minimum lease payments at 31 December 2016	**-**	**-**	**-**	**-**
Minimum lease payments at 31 December 2017	871	3,940		4,812
Less future finance charges	(14)	(78)	-	(92)
Present value of minimum lease payments at 31 December 2017	**857**	**3,862**	**-**	**4,720**

26 Deferred income taxes

On 4 January 2016 the Company acquired 100% of AB Omnitel shares, therefore closing balances of the deferred tax as at 31 December 2016, the movement of the deferred tax and closing balances as at 31 December 2017 of AB Omnitel are identified and consolidated.

On 1 February 2017 AB Omnitel was merged into AB TEO LT, therefore, tax goodwill of 71,2 mio EUR was recognised upon the merger. The Company calculated deferred tax asset on the whole amount of goodwill of 10,7 million EUR, 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. It is expected that the decision will be in place before the filing of the annual CIT return for the tax period 2017.

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

	GROUP		COMPANY	
Deferred tax liabilities	**2017**	**2016**	**2017**	**2016**
At the beginning of year	**20,284**	**8,922**	**9,302**	**8,081**
Deferred tax liability from a business combination (Note 30)	-	11,390	10,513	-
Charged/ (credited) to profit or loss (Note 11)	(1,417)	(28)	(1,644)	1,221
At the end of year	**18,867**	**20,284**	**18,171**	**9,302**

	GROUP		COMPANY	
Deferred tax assets	**2017**	**2016**	**2017**	**2016**
At the beginning of year	**-**	**-**	**-**	**-**
Deferred tax assets from a business combination (Note 30)	-	-	-	-
Charged / (credited) to profit or loss (Note 11)	-	-	-	-
At the end of year	**-**	**-**	**-**	**-**

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

	GROUP		COMPANY	
Deferred tax liabilities	**2017**	**2016**	**2017**	**2016**
Deferred tax asset to be recovered / liability settled after more than 12 months	18,696	17,888	17,993	8,227
Deferred tax asset to be recovered / liability settled within 12 months	171	2,396	178	1,075
	18,867	**20,284**	**18,171**	**9,302**

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

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 2016	**3,548**	**9,103**	**9,672**	**22,323**
Charged / (credited) to profit or loss	(550)	66	(472)	(956)
At 31 December 2017	**2,998**	**9,169**	**9,200**	**21,367**

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

26 Deferred income taxes (continued)

GROUP – deferred tax asset	Tax losses	Other	Total
At 31 December 2016	**-**	**(2,039)**	**(2,039)**
Charged / (credited) to profit or loss	-	(461)	(461)
At 31 December 2017	**-**	**(2,500)**	**(2,500)**

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 2016	**2,809**	**6,719**	**3**	**9,531**
Deferred tax liabilities from legal merger (Note 30)[3]	-	11,973	-	11,973
Charged / (credited) to profit or loss	(430)	(483)	72	(841)
At 31 December 2017	**2,379**	**18,209**	**75**	**20,663**

COMPANY – deferred tax asset	Tax losses	Other	Total
At 31 December 2016	**-**	**(229)**	**(229)**
Deferred tax assets from legal merger (Note 30)[3]	-	(1,460)	(1,460)
Charged / (credited) to profit or loss	-	(803)	(803)
At 31 December 2017	**-**	**(2,492)**	**(2,492)**

[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.

[3] On 1 February 2017 AB Omnitel was merged into AB TEO LT. In a business combination, the Company recognises deferred tax liability and this affects the amount of goodwill.

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	
	2017	**2016**	**2017**	**2016**
Deferred tax asset	(2,500)	(2,039)	(2,492)	(229)
Offset with deferred tax liabilities	2,500	2,039	2,492	229
Deferred tax asset as per statement of financial position	**-**	**-**	**-**	**-**
Deferred tax liabilities	21,367	22,323	20,663	9,531
Offset with deferred tax asset	(2,500)	(2,039)	(2,492)	(229)
Deferred tax liabilities as per statement of financial position	**18,867**	**20,284**	**18,171**	**9,302**

27 Provisions

Group provisions movement during January-December 2017:

	Provision for restructuring	Assets retirement obligation	Total
Opening net book amount at 31 December 2016	**403**	**6,627**	**7,030**
Acquisition of subsidiaries	-	-	-
Additions	2,005	4,114	6,119
Used provisions	(2,395)	(13)	(2,408)
Closing net book amount at 31 December 2017	**13**	**10,728**	**10,741**

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

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 recognised. The Group expects that assets retirement obligation will be realised 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.

28 Contingent liabilities and contingent assets

Guarantees

As at 31 December 2017 the aggregate of bank guarantees (obligations guaranteed under tender, agreement performance arrangements) provided by SEB Bankas AB on behalf of the Company and the Group amounts to EUR 1,187 million (2016: EUR 1,884 million).

As at December 31, 2017, credit and performance guarantees represented the following expected maturities:

Expected maturity EUR in thousand	Jan-Mar 2018	Apr-Jun 2018	Jul-Sep 2018	Oct-Dec 2018	2019	2020	2021	2022 and later	Total
Guarantees	300	58	146	168	70	226	4	215	**1,187**

Minimum lease payments receivable

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

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Not later than 1 year	3,954	3,978	3,954	3,978
Later than 1 year but not later than 5 years	1,761	1,033	1,761	1,033
Total	**5,715**	**5,011**	**5,715**	**5,011**

Minimum lease payments recognized in the statement of profit or loss and other comprehensive income during 2017 were EUR 3,539 thousand (2016: EUR 6,011 thousand).

29 Commitments

Capital commitments

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

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Property, plant and equipment	10,227	4,915	10,227	4,915
Intangible assets	1,179	-	1,179	-
	11,406	**4,915**	**11,406**	**4,915**

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

29 Commitments (continued)

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

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

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Minimum lease payments	8,638	7,289	8,495	6,021
	8,638	**7,289**	**8,495**	**6,021**

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

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Not later than 1 year	7,908	5,828	7,908	2,914
Later than 1 year but not later than 5 years	11,783	10,087	11,783	3,648
Later than 5 years	10,532	6,861	10,532	3,331
Total	**30,223**	**22,776**	**30,223**	**9,893**

Telia 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 Business combination and legal merger

On 1 February 2017, continuing plan for increasing synergies and cost saving, the Company's 100% controlled subsidiaries AB Omnitel and AB Baltic Data Center were merged into the Company. The merger transaction was accounted at carrying values, used in the Group consolidated financial statements.

At the date of legal merger the net assets of merged companies was the following:

	1 February 2017
ASSETS	
Non-current assets	
Property, plant and equipment	74,451
Goodwill	26,769
Intangible assets	87,293
Long term non-interest bearing receivables	10,315
	198,828
Current assets	71,283
Total assets	**270,111**
LIABILITIES	
Non-current liabilities	25,850
Current liabilities	85,081
Total liabilities	**110,931**
Net assets of merged companies	**159,180**
Cost of investments	145,317
Result of legal merger	**13,863**

30 Business combination and legal merger (continued)

On 4 January 2016, the Company acquired a 100% stake in AB Omnitel from Telia Company AB, which also owns 88.15 per cent of the Company's shares.

The companies operated in the same geographical market in interrelated segments. In general, the telecom industry, is expected to become more integrated in the future, in a digital and connected world and the industry is going through rapid change in services as well as when it comes to innovation (business commerce, social, healthcare, education and utilities). Management expected that the acquisition would enable synergies in net sales, costs and investments, also would give a better platform for being an outsourced partner for rest of Telia Company Group.

As it is required by accounting standards, the acquired intangible assets were identified and fair value of certain assets, liabilities and other components as of acquisition date was evaluated. The evaluation was assisted by external consultants. In most cases, fair value was estimated based on market comparable approach and management's consideration. Client based was evaluated applying expected maturity EUR in thousand-period excess earnings method. Created tax amortization benefit was also considered where applicable.

Goodwill arising on acquisition

Purchase consideration	144,107
Fair value of net assets acquired	(119,376)
Goodwill	**24,731**

Goodwill arose in the acquisition because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Assets acquired and liabilities recognised at the date of acquisition

	Fair value	**Acquiree's carrying amount**
Cash and cash equivalents	14,489	14,489
Property, plant and equipment	74,845	71,564
Intangible assets	79,837	16,453
Inventories	4,473	4,473
Trade and other receivables	59,331	59,331
Trade and other payables	(25,209)	(25,209)
Deferred tax liability	(11,390)	(1,228)
Borrowings	(77,000)	(77,000)
Net assets acquired	**119,376**	**62,873**

Net cash outflow on acquisition of subsidiaries

Purchase consideration settled in cash	144,107
Cash and cash equivalents in subsidiaries acquired	(14,489)
Cash outflow on acquisition	**129,618**

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 4 January 2016, the Company acquired a 100 per cent stake in UAB Omnitel from Telia Company AB, which also owns 88.15 per cent of the Company shares, for EUR 220 million on a cash and debt free basis. On 18 December 2015, the Company signed an agreement with SEB bankas AB and Danske bankas AB for a long-term loan of EUR 150 million to finance acquisition of shares in UAB Omnitel.

On 26 April 2016, the Annual General Meeting of Shareholders of the Company approved the preparation of reorganisation terms, under which the Company's subsidiaries UAB Omnitel and UAB Baltic Data Center would be merged into the Company.

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

31 Related party transactions (continued)

On 8 June 2016, Omnitel and Baltic Data Center changed their legal form from closed joint-stock companies (UAB) into joint-stock companies (AB). After change of legal form, the companies operated as AB Omnitel and AB Baltic Data Center.

Until 1 February 2017, when it was merged into the Company, AB Omnitel was providing mobile telecommunications services to residential and business customers in Lithuania.

On 1 February 2017, the Company's subsidiaries AB Omnitel (mobile telecommunications services) and AB Baltic Data Center (IT infrastructure services) were merged into the Company and the Company changed its name from TEO LT, AB to Telia Lietuva, AB. On 1 February 2017, the Company's subsidiary UAB Lintel (Contact Center services) changed its name into Telia Customer Service LT, UAB.

On 29 April 2016, the Company transferred its ownership rights of VšĮ Ryšių Istorijos Muziejus (The Communications History Museum) to Kaunas City Municipality free of charge. VšĮ Ryšių Istorijos Muziejus, a not-for-profit organisation, was established in 2010 for the management of the Communications History Museum in Kaunas funded by the Company. The Company was a sole founder and owner of VšĮ Ryšių Istorijos Muziejus.

In July 2016, AB Omnitel transferred its 50 per cent stake of ownership rights of VšĮ SOS Projektai to Swedbank (Lithuania) free of charge. SOS Projektai was jointly established by AB Omnitel and Swedbank AB (each owning a 50 per cent stake) as a not-for-profit organisation for implementation of a professional volunteering project "Kam to reikia?!" ("Who needs it?!").

On 6 December 2017, the Company together with UAB Tele2 and UAB Bitė Lietuva acquired an equal 33.3 per cent stakes in UAB Mobilieji Mokėjimai, each. UAB Mobilieji Mokėjimai is creating the instant payments platform. 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. The entity holds a limited activities electronic money institution license issued by the Bank of Lithuania for activities related to instant payments.

The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Telia Company AB and its subsidiaries	6,889	8,143	6,889	5,758
Subsidiaries of the Company	-	-	1,313	8,624
Total sales of telecommunication and other services	**6,889**	**8,143**	**8,202**	**14,382**
Sales of assets to subsidiaries	-	-	68	-
Total sales of assets and services	**6,889**	**8,143**	**8,270**	**14,382**

Purchases of assets and services:

	GROUP		COMPANY	
	2017	**2016**	**2017**	**2016**
Purchases of assets from:				
Telia Company AB and its subsidiaries	356	-	356	-
Subsidiaries of the Company	-	-	-	374
	356	**-**	**356**	**374**
Purchases of services from:				
Telia Company AB and its subsidiaries	13,860	11,695	13,860	2,894
Subsidiaries of the Company	-	-	11,927	12,326
	13,860	**11,695**	**25,787**	**15,220**
Total purchases of assets and services	**14,216**	**11,695**	**26,143**	**15,594**

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

31 Related party transactions (continued)

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

Receivables and accrued revenue from related parties:

	GROUP		COMPANY	
Receivables from related parties:	2017	2016	2017	2016
Long term receivables:				
Telia Company AB and its subsidiaries	251	251	251	251
Short-term receivables:				
Telia Company AB and its subsidiaries	1,974	2,506	1,974	589
Subsidiaries of the Company	-	-	132	2,461
	2,225	**2,757**	**2,357**	**3,301**
Accrued revenue from related parties:				
Telia Company AB and its subsidiaries	313	548	313	671
	313	**548**	**313**	**671**
Total receivables and accrued revenue from related parties	**2,538**	**3,305**	**2,670**	**3,972**

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 provision are held against receivables from related parties as at 31 December 2017 and 2016.

Payables and accrued expenses to related parties:

	GROUP		COMPANY	
	2017	2016	2017	2016
Payables to related parties:				
Telia Company AB and its subsidiaries	1,946	3,743	1,946	43
Subsidiaries of the Company	-	-	1,078	1,440
	1,946	**3,743**	**3,024**	**1,483**
Accrued expenses to related parties:				
Telia Company AB and its subsidiaries	134	35	134	159
	134	**35**	**134**	**159**
Total payables and accrued expenses to related parties	**2,080**	**3,778**	**3,158**	**1,642**

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	
	2017	2016	2017	2016
Beginning of the year	**77,004**	**15,006**	**-**	**15,006**
Acquisition of subsidiaries	-	77,023	77,004	-
Borrowings	20,000	-	20,000	-
Repayments of borrowings (in cash)	(97,000)	(15,006)	(97,000)	(15,006)
Interest charged (including VAT)	150	558	150	15
Interest paid (including VAT)	(154)	(577)	(154)	(15)
End of the year	**-**	**77,004**	**-**	**-**

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

31 Related party transactions (continued)

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 2017					
AB Omnitel[2]	2 January 2017	EUR	1,200	1 February 2017	0.83%
AB Omnitel[2]	4 January 2017	EUR	3,800	1 February 2017	0.83%
Telia Company AB[3]	30 January 2017	EUR	70,000	30 May 2017	0.30%
Telia Company AB	29 May 2017	EUR	2,000	29 August 2017	0.321%
Telia Company AB	30 May 2017	EUR	10,000	30 November 2017	0.40%
Telia Company AB	3 July 2017	EUR	3,000	3 October 2017	0.32%
Year ended 31 December 2016					
Telia Company AB	29 December 2016	EUR	77,000	1 February 2017	0.83%

[2] As at 1 February 2018, AB Omnitel was merged into the Company.
[3] Prolongation of outstanding 29 December 2016 loan from Telia Company AB minus repayment of EUR 7 million.

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

During 2017, dividends paid out to Telia Company AB amounted to EUR 15,408 thousand (2016: EUR 5,136 thousand dividends).

During 2017, dividends received by the Company from subsidiaries amounted to EUR 1,070 thousand (2016: EUR 4,400 thousand).

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

	2017	2016
Remuneration of key management personnel	3,919	3,896
Social security contributions on remuneration	1,181	1,098
Total remuneration	**5,100**	**4,994**

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 2017 was 50 (as at 31 December 2016: 58).

The total amount of annual payments (tantiemes) assigned to two members of the Board of the Company for the year 2016 during 2017 amounted to EUR 31 thousand (2016: for two members – EUR 31 thousand). As at 31 December 2017, 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 Company's and the Group's key management falls under short term employee benefits.

32 Events after the reporting period

On 30 January 2018, the Company's subsidiary UAB Kompetencijos Ugdymo Centras change the name to Telia Global Services Lithuania, UAB.

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, Kęstutis Šliužas, CEO of Telia Lietuva, AB, and Laimonas Devyžis, 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 2017 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 Company and the Group of undertakings.

Kęstutis Šliužas
CEO

Laimonas Devyžis
Head of Finance

Approved by the Board
as of 27 March 2018

CONSOLIDATED ANNUAL REPORT

GENERAL INFORMATION

Reporting period

Year ended 31 December 2017

Issuer and its contact details

Name of the Issuer	**Telia Lietuva, AB** (hereinafter – 'the Company')
Legal form	public company (joint-stock company)
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	Lvovo str. 25, 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 – on the customer´s terms. 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.

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.

As of 31 December 2017, 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: Lvovo str. 25, 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 2017:

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, UAB	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
Telia Global Services Lithuania, UAB	5 July 1995, code 1345 17169, State Enterprise Center of Registers	Konstitucijos ave. 29-1, LT-08105 Vilnius, Lithuania tel. +370 5 262 1511, fax. +370 5 212 6665	100.00	100.00
UAB Verslo Investicijos	13 November 2008, code 3022 47778, State Enterprise Center of Registers	Vytenio str. 18, LT-03229 Vilnius, Lithuania tel. + 370 5 262 1511, fax. +370 5 212 6665	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	A. Tumėno str. 4, LT-01109 Vilnius, Lithuania tel. +370 699 23530	33.33	33.33

On 1 February 2017, the Company's subsidiaries AB Omnitel, a provider of mobile communications services to residential and business customers in Lithuania, and AB Baltic Data Center, an IT infrastructure service provider, were merged into the Company, and the Company changed its name to Telia Lietuva, AB. From 1 February 2017, the Company provides integrated telecommunications, IT and TV services from a single source to residents and businesses in Lithuania.

On 4 January 2016, the Company acquired a 100 per cent stake in Omnitel from Telia Company AB, which also owns 88.15 per cent of the Company shares, for EUR 220 million on a cash and debt free basis.

On 1 February 2017, the Company's subsidiary which takes care of the Company's customers and provides Directory Inquiry service 118 in Lithuania, changed its name from UAB Lintel to **Telia Customer Service LT, UAB**. In 2017, this subsidiary paid to the Company EUR 1.1 million in dividends for the year 2016.

Telia Global Services Lithuania, UAB (which till 30 January 2018 was known as UAB Kompetencijos Ugdymo Centras) is a dormant subsidiary of the Company. The name change is related to the establishment of Telia Group shared service center in Vilnius. **UAB Verslo Investicijos** is implementing an investment project in Vilnius, at Lvovo str. 21A.

VšĮ Numerio Perkėlimas, a joint not-for-profit organization, established together with Lithuanian telecommunication companies (UAB Bitė Lietuva and UAB Tele2 holding 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.

On 6 December 2017, the Company together with other two Lithuanian mobile operators – UAB Bitė Lietuva and UAB Tele2 – each acquired a 33.3 per cent stake in **UAB Mobilieji Mokėjimai**, a creator of an instant payment platform. In July 2017, the mobile operators got the permission of the European Commission to jointly create a common platform for the provision of mobile payments services. In May 2017, the Bank of Lithuania granted a limited activities electronic money institution license to Mobilieji Mokėjimai required for activities related to instant payments.

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 2017:

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 subsidiaries are not traded publicly as the subsidiaries are 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

On 15 February 2017, the Company signed a long-term construction and lease agreement regarding the new head-office of the Company in Vilnius at Saltoniškių str. 7. At the beginning of 2019, about 1,200 employees of the Company will settle in a six-story and more than 15 thousand sq. m building a block of modern offices developed by M.M.M. Project Group. Currently the Company's employees in Vilnius are spread out in six different locations.

In March 2017, the Company and the Lithuanian Radio and Television Center (Telecentras) settled the disputes that started in mid-2013 regarding the tariffs for the storage of digital terrestrial television (DVB-T) transmitters. According to the Company and Telecentras' peace agreement, which was confirmed by the Court, the Company paid to Telecentras an additional EUR 1.01 million for the period from 1 August 2013 until 31 January 2017. The companies agreed on volumes of transmitters stored as well as contractual terms, and continue their cooperation on mutually beneficial terms. Now the Company is paying to Telecentras according to the valid standard service tariffs, gradually reducing number of transmitters.

In August 2017, the Company signed a share sale-purchase agreement with UAB Lietuvos Energija and AB Litgrid regarding the acquisition of a 100 per cent stake in UAB Duomenų Logistikos Centras. Following the agreement Lietuvos Energija will sell 79.64 per cent, whereas Litgrid will dispose of 20.36 per cent shares of Duomenų Logistikos Centras. Commenced in November 2016, the sale process of Duomenų Logistikos Centras should be finalised in the middle of 2018 upon obtaining the concentration permit from the Competition Council. Till then the amount of transaction will not be disclosed. Duomenų Logistikos Centras provides data transfer and data centre services. The company operates 7 data centres in four cities of Lithuania, among them one of the most efficient data centres in the region – DataINN that was awarded a Tier III reliability level certificate by Uptime Institute in 2014. The company also provides data transfer services both in Lithuania and abroad. Together with partners, it operates an international data transfer network "Baltic Highway" connecting Tallinn with Frankfurt into an integral fibre-optic network, as well as the biggest and longest fibre-optic data transfer network in the Baltic Countries – Baltic Optical Network. Services of the company are used by banks, communication operators, and major providers of internet and cloud computing services.

In October 2017, we announced the establishment of a Group service centre in Vilnius, with the ability to grow and serve Telia Company Group with a variety of global services – from IT and technology to sourcing and other internal services. The existing team of around 100 specialists in primarily IT technology and service operations in Vilnius moved into new premises in the business centre K29, with which an agreement has been signed for the rental of a 4.5 thousand square meter premises.

Recent events

On 30 January 2018, the Company's subsidiary UAB Kompetencijos Ugdymo Centras changed the name to Telia Global Services Lithuania, UAB.

FINANCIAL INFORMATION

On 1 February 2017, the legal merger of AB Omnitel and AB Baltic Data Center into the Company was completed and we have almost the full year when the Company is offering a wide spectrum of fixed and mobile communications services with IT expertise from a single point under new name, Telia Lietuva, AB.

The merger of mobile and fixed broadband operations into single entity and rebranding is bearing fruit: customers are presented with offers that are unique in the market and that combine various technologies, and the Company records growth in term of both revenue and profitability. Our top line shows further potential, especially in data monetization and further positive market share improvement. Growing demand for high quality video content, modern TV services, has contributed to growth in fixed broadband business. After the legal merger and successful rebranding, we can focus on further operational and structural improvements, retrieval of synergies and cost efficiency; and this is reflected in EBITDA improvement in 2017.

The start of Telia Lietuva in spring was marked with new offers to our residential customers: the increase of broadband internet speed over fiber-optic connections of up to 1 Gbps and a unique hybrid-type Internet service integrating copper access with the fastest 4G mobile Internet. For business customers "Telia Cloud" service was launched, one of the first OpenStack-based cloud computing services in the Nordic region.

On 15 June 2017, when roaming charges were abolished in the European Union (EU), the Company launched new mobile payment plans where customers can enjoy their services at the same price travelling within the EU, subject to certain restrictions set out by the EU and the fair usage policy. In addition, some of the plans have travel insurance included. The amount of mobile data offered in most of the new packages has increased from 25 to 400 per cent, and the price for 1 GB of mobile data has fallen by up to 23 per cent.

We observe the changing behaviour of our customers – especially their growing appetite for mobile data abroad. It started in 2016 when we launched the "roam like at home" offer for customers travelling in the Nordic and Baltic countries, and accelerated after 15 June 2017 when roaming charges were eliminated in the European Union. Mobile data usage abroad rocketed by 2.7 times, while total mobile data usage increased by 1.8 times over the year.

In the autumn, we launched a converged offer "Telia One" that is unique in the market and that gives more value – higher speed, more data and more TV content – to those who have both fixed and mobile services. It is convenient because customers can get fixed and mobile home offers by visiting one portal, one retail outlet, or calling one customer care number.

Thanks to new offers and successful launch of "Telia One" but despite tough competition and market saturation positive intake of new customers over the year continued:

- The number of post-paid mobile service users rose by 63 thousand up to 1,075 thousand;
- The number of IPTV users increased by 20 thousand up to 211 thousand,
- The number of FTTH Internet customers grew by 18 thousand up to 264 thousand.

The growing number of customers, accelerating usage of mobile data and strong sale of smart phones, gadgets and other equipment led to the total annual revenue growth of 7 per cent. Control of all cost combined with the increase in revenue resulted in a 9.8 per cent increase in EBITDA (EBITDA excluding non-recurring items grew by 7 per cent) for the year 2017. And at the bottom line – profit for the year 2017 was 24.8 per cent higher than a year ago.

In October 2017, the highest quality level of services provided and standards used in the Company was confirmed by Quality Management (ISO 9001), Environmental Management (ISO 14001) and Occupational Health & Safety (OHSAS 18001) certificates obtained in addition to the IT Management (ISO 20000) and Information Security Management (ISO 27001) certificates we'd already held.

Quality of services could not be ensured without ongoing investments into fiber-optic and 4G networks, supporting IT systems and processes. During 2017, total investments amounted to EUR 63.8 million, an increase of 10.6 per cent over the year. 464 new base stations were added to the largest and fastest 4G/LTE network in the country owned by Telia Lietuva. Also, as of October, our customers are the first in Lithuania to use VoLTE technology. Preparing for the forthcoming 5G and Internet of Things era, we installed 4.5G / LTE Advanced Pro base stations in five major cities of Lithuania and started a major upgrade of our back-bone IP network.

During 2017, the Company repaid one third (EUR 52.5 million) of the long-term loan of EUR 150 million taken for the acquisition of AB Omnitel, and took the opportunity to refinance the internal loan previously extended by Telia Company to Omnitel by signing an agreement with the banks for a 5 years' term loan of EUR 60 million.

In 2017, the Board of the Company set a target to maintain the Company's net debt to EBITDA ratio not higher than 1.5 and to pay out up to 80 per cent of free cash flow as dividend. Having that in mind it proposed to the Annual General Meeting of Shareholders, which was held on 27 April 2017, to increase the dividend pay-out from EUR 0.01 per share for the year 2015 to EUR 0.03 per share for the year 2016. In May 2017, following the decision of the Shareholders' Meeting, the Company paid-out in total EUR 17.5 million of dividends for the year 2016.

Overall, in 2017, we achieved three strategic goals. Firstly, the legal merger of fixed and mobile operations enabled us to launch the "Telia One" offer and to start a cross up-sell of mobile services to fixed broadband services users and vice versa. Secondly, with the successful introduction of Telia brand into the Lithuanian market, supported by new converged offers and services, we delivered promises of a new brand. Our Brand Tracker Index measured within the Telia Company Group was one of the top scores.

In 2017, we continued with the third strategic initiative – business transformation program that was started back in 2014. Business transformation implies consolidation of main IT systems such as billing, customer care (CRM) and finance management into a new SAP system, simplification and standardisation of fixed and mobile communication services portfolio, digitalisation of customer experience, and a new online self-service system. By December 2017, there were more than 150 thousand customers migrated into a new SAP system, and both mobile and fixed communication services users could access both mobile and home services invoices online with a single login.

Exploring possibilities close to the core business, Telia Lietuva, AB together with other two Lithuanian operators – UAB Tele2 and UAB Bitė Lietuva – are entering the instant payment market. The European Commission's permit for the creation of a common platform for provision of instant payments was received in July 2017. And the next step – investment into a jointly and in equal parts owned entity, UAB Mobilieji Mokėjimai, that will create, operate and supervise the platform required for the provision of instant payments – was made in December 2017.

In August 2017, the Company signed an agreement for the acquisition of UAB Duomenų Logistikos Centras, a provider of data transfer and data centre services. Completion of the acquisition is subject to receiving a concentration permit from the Competition Council.

We strive to be a leader not only in technologies, but in our approach to doing business. In daily activities, we strictly follow the Code of Responsible Business Conduct that was launched by Telia Company in September 2016 and was adopted by the Company. It focuses on integrity, transparency and sustainability of our business conduct.

In 2017, we continued implementation of Telia Company All In approach into our business strategy. The aim of All In is to leverage our core competencies and business to create shared value – combining social good with business benefits. It focuses on four key areas: connecting the unconnected, education for all, a healthy and safe society, and digital innovation and entrepreneurship.

In November 2017, during the National Responsible Business Awards Telia Lietuva, AB was recognised as the Environmental Company of the Year among the international corporations, and was ranked 2nd among the most transparent, open and ethical largest companies in Lithuania according to Transparency International rating. In June, we also won the Best Employer award of Verslo Žinios, the leading business daily.

Operating figures of the Group	**31-12-2017**	**31-12-2016**	**Change (%)**
Mobile service subscriptions, in total (thousand)	1,352	1,318	2.6
- Post-paid (thousand)	1,075	1,012	6.2
- Pre-paid (thousand)	277	306	(9.5)
Fixed telephone lines in service (thousand)	416	466	(10.7)
Broadband Internet connections, in total (thousand)	412	404	2.0
- Fiber-optic (FTTH/B) (thousand)	264	246	7.3
- Copper (DSL) (thousand)	148	158	(6.3)
TV service customers, in total (thousand)	242	229	5.7
- IPTV (thousand)	211	191	10.5
- Digital terrestrial TV (DVB-T) (thousand)	31	38	(18.4)
Number of personnel (head-counts)	3,027	3,146	(3.8)
Number of full-time employees	2,733	2,819	(3.1)

The consolidated financial statements of the Group have been prepared according to the International Financial Reporting Standards as adopted by the European Union.

Key financial figures of the Group	2017	2016	Change (%)
Revenue	370,123	345,906	7.0
EBITDA excluding non-recurring items	125,234	117,041	7.0
EBITDA margin excluding non-recurring items (%)	33.8	33.8	
EBITDA	122,218	111,380	9.7
EBITDA margin (%)	33.0	32.2	
Operating profit (EBIT) excluding non-recurring items	58,190	53,808	8.1
EBIT margin excluding non-recurring items (%)	15.7	15.6	
Operating profit (EBIT)	55,174	48,147	14.6
EBIT margin (%)	14.9	13.9	
Profit before income tax	54,718	47,077	16.2
Profit before income tax margin (%)	14.8	13.6	
Profit for the period	51,805	41,494	24.8
Profit for the period margin (%)	14.0	12.0	
Earnings per share (EUR)	0.089	0.071	
Number of shares (thousand)	582,613	582,613	-
Net cash flow from operations	114,510	112,429	1.9
Operating free cash flow	53,873	44,257	21.7

Financial ratios	31-12-2017	31-12-2016
Return on capital employed (%)	12.2	10.2
Return on average assets (%)	10.1	8.6
Return on shareholders' equity (%)	18.0	16.1
Operating cash flow to sales (%)	30.9	32.5
Gearing ratio (%)	45.6	63.0
Debt to equity ratio (%)	53.2	84.0
Current ratio (%)	149.9	87.1
Rate of turnover of assets (%)	67.6	61.7
Equity to assets ratio (%)	53.8	45.8

Revenue

The **total consolidated revenue** of the Group for the year 2017 increased by 7 per cent, over the total revenue of EUR 345.9 million a year ago, and amounted to EUR 370.1 million.

The total revenue increase was driven by continuous growth of revenue from equipment sale, television, mobile communication, network interconnection and fixed broadband Internet services.

Share of revenue from fixed and mobile communication services amounted to 53.1 and 29 per cent, respectively, from the total revenue for January-December of 2017. Share of revenue from equipment sales reached 17.9 per cent.

During 2017, revenue from services provided to residential customers (B2C) amounted to 56.6 per cent, to business customers (B2B) – 42.5 per cent, and others – 0.9 per cent of the total revenue.

In October 2017, the Company launched a converged offer "Telia One" that gives more value – higher speed, more data and more TV content – to those who have both fixed and mobile services. It is convenient and worth it. Customers can get a fixed and mobile connectivity home offer by visiting one portal, one retail outlet, or calling one customer care number.

During 2017, the number of post-paid **mobile** communication service users increased by 63 thousand and the number of pre-paid mobile service users contracted by 29 thousand. Over the year, the total number of active mobile subscriptions increased by 34 thousand.

Revenue from mobile services for the year 2017 amounted to EUR 107.1 million, an increase of 5.6 per cent over the mobile revenue of EUR 101.5 million a year ago. The revenue from mobile services grew due to an 8.2 per cent increase in billed revenue from post-paid and pre-paid mobile services, while revenue from other mobile services such as mobile network interconnections and other network services decreased by 4.9 per cent.

The growth in billed revenue from mobile services was driven by an increased number of active mobile subscriptions, continuous customer migration from pre-paid to higher ARPU post-paid mobile services and accelerating usage of mobile data. Over the year, the amount of data used by mobile devices increased by 1.8 times, and especially after the elimination of roaming charges in the European Union from 15 June 2017. The amount of mobile data used by the Company's customers abroad was by 2.7 times higher than in 2016.

On 15 June 2017, when roaming charges in the European Union (EU) were eliminated, the Company introduced new mobile service plans. All new Telia clients in Lithuania get up to four times more mobile data, and part of the time and data set in the new plan can be used while travelling in the EU for no additional charge. In addition, some of the plans have a travel insurance included. The amount of mobile data offered to clients in most of new packages has increased between 25 and 400 per cent. Although the price of data packages, subject to their size, has increased, the price for 1 GB of mobile data has fallen by up to 23 per cent. Moreover, starting from 1 January 2018, the amount of free data provided with the most popular mobile communication plans in the EU and EEA countries increased by 10-33 per cent.

Subscribers of a special Unlimited plan are allowed to use an unlimited amount of mobile data in Lithuania on a monthly basis. They also get 5 GB for data which they are able to use every month when travelling in the EU and Scandinavian countries.

From August 2017, the Company's customers are paying up to 98 per cent less for mobile Internet access in more than 70 countries outside the European Union, too. In spring, the Company significantly reduced the price for browsing the Internet for its customers traveling in Belarus and Russia and this reduction has proved to be effective – consumption of data in these countries increased several times. Travellers in non-EU countries subscribing to a special data package are offered 150 MB of mobile data per day, and 300 or 600 MB per week. After subscribing to one of the service plans, the price per MB of mobile data range from EUR 0.03 to EUR 0.10.

In December, the Company launched new pre-paid mobile communication service plans, that besides additional GBs of data, call minutes and SMS offer unlimited GBs of data for music and social network usage via a single order.

During 2017, the number of fixed telephone lines in service contracted by 49.9 thousand and the total retail fixed **voice telephony** traffic decreased by 13.3 per cent. As a result, the revenue from retail voice telephony services for the year 2017 went down by 11.8 per cent, while revenue from network interconnection services (mainly voice transit services) went up by 37.4 per cent and fully offset the decline in revenue for retail voice services. The total revenue from voice telephony services for the year 2017 amounted to EUR 77.5 million, an increase of 8.8 per cent over the voice telephony revenue of EUR 71.2 million in 2016.

Over 2017, the total number of **broadband Internet access** users increased by 8 thousand. The number of FTTH/B connections increased by 17.6 thousand and reached 264 thousand at the end of December 2017, while the number of copper DSL connections eased by 9.6 thousand to 148 thousand. By the end of 2017, the number of Internet connections over the fiber-optic access network amounted to 64 per cent of all 412 thousand broadband Internet connections.

Revenue from Internet services for the year 2017 amounted to EUR 58.7 million and was 2.4 per cent higher than revenue from Internet services of EUR 57.3 million a year ago.

From February 2017, the Company increased the speed of the fastest fiber-optic Internet payment plan for residential customers up to 1 Gbps. In March, the Company presented a unique hybrid-type Internet service that integrates copper access with the fastest 4G mobile Internet. This solution, which has no analogues in the region, in places where fiber-optic access is currently not yet available by combining xDSL connection with a router for unlimited 4G mobile Internet ensures the speed of up to 100 Mbps. For home users, this speed is sufficient for both smart TV (IPTV) and fast browsing on different devices, while for businesses it provides more speed and guarantees reliable operation of the Internet.

During 2017, revenue from **equipment sales**, compared with revenue of EUR 56.5 million for the year 2016, went up by 17.5 per cent and amounted to EUR 66.4 million due to relentless demand for the latest smart-phones, tablets, PCs, TV sets and various gadgets. Majority of equipment sold to private customers is based on deferred payments, thus the discounting is negatively affecting EBITDA and equipment sales values.

During 2017, the number of IPTV (including "Interneto.tv") service users increased by 19.6 thousand and by the end of December 2017 amounted to 211 thousand. The Company is encouraging its DVB-T users to migrate to the more advanced IPTV platform that besides other functionalities features more than 40 national and international channels in HD. During the last twelve months, the number of digital terrestrial television (DVB-T) users decreased by 7 thousand and amounted to 31 thousand. Over the year, the total number of **television** service customers went up by 12.6 thousand.

Revenue from television services during the 2017 went up by 10.4 per cent and amounted to EUR 27 million, while a year ago revenue from television services was EUR 24.5 million.

Compared with the year 2016, revenue from **data communication** services alone during 2017 decreased by 3.9 per cent, and revenue from **network capacity** services alone declined by 8.8 per cent. The total revenue from data communication and network capacity services for the year 2017 amounted to EUR 19.2 million, a decrease by 6 per cent over the same revenue of EUR 20.4 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 for the year 2017 amounted to EUR 9.6 million, a decline of 13.2 per cent over the same revenue of EUR 11 million a year ago. The data centers owned by the Company create the largest IT infrastructure in Lithuania. The newest data center, which was opened in April 2016, is certified according to TIER III security standards.

In the beginning of 2016, the high level of the Company's IT management and security was confirmed by Inspecta, the largest certification company in the Nordic region. The Company has been granted ISO certificates in IT Services (ISO 20000) and Information Security (ISO 27001) Management Systems.

Revenue from **other services** consists of the non-telecommunication services such as Contact Center services, lease of premises, discount refunds and other. During 2017, revenue from Contact Center services, compared with the year 2016, decreased by 83.6 per cent, as the Company's subsidiary Contact Center ceased to provide services to external customers, except the Directory Inquiry service 118. Revenue from other non-core business services, compared with the previous year, increased 2.1 times. As a result, the total revenue from other services for the year 2017 amounted to EUR 4.7 million and were 31.7 per cent higher than revenue from other services of EUR 3.5 million in 2016.

In September 2017, the Company in cooperation with CyberGym, a private Israeli company developing cyber security solutions, opened the first remote cyber security training centre in Lithuania and Northern Europe. The distinct feature of specialised training offered in CyberGym is that it simulates cyber-attacks that reproduce realistic threats which are posed to a specific company or industry. During the training, focus is put on the analysis of tactics and efficiency of actions to make the training useful to the specialists of all fields ranging from IT to top management.

Gain or loss from the sale of property, plant and equipment, as well as gain or loss on currency exchange is recorded at net value as **other gain (loss)**.

In 2017, the Company started to put premises and buildings, a total of 52 properties throughout Lithuania, on the market for public auction. The total area of premises on sale is around 22 thousand square metres, while the initial value of the portfolio of assets on sale amounted to EUR 11 million. During the auction rounds, the buyers can purchase assets not only in the largest cities of Lithuania, such as office or customer care premises, but also in remote locations, where analogue telephony stations used to operate.

During the first two rounds held in 2017, 18 real estate objects were sold for the total value of EUR 6.27 million. Among others the administrative buildings of a total of 5 thousand sq. meters' space located in Vilnius at T. Ševčenkos str. 25 and Muitinės str. 35 were sold for EUR 4.34 million, part of administrative building in Klaipėda (Danės str.) – for EUR 600 thousand, administrative premises in Klaipėda (H. Manto str.) – for EUR 261 thousand, and administrative premises in Kaunas (Laisvės ave.) – for EUR 900 thousand. The Company also signed an agreement for the sale of an administrative building of around 5 thousand sq. meters at Vytenio str. 18 in Vilnius. Final settlement for some buildings which are still used by the Company will be completed when the Company's employees move to other premises and buildings are emptied.

Market information

According to the latest Report of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue increased by 2 per cent in the fourth quarter of 2017 compared with the fourth quarter of 2016 and amounted to EUR 172 million. Market revenue for the year 2017, compared with the year 2016, increased by 3.8 per cent, and amounted to EUR 681 million.

According to the Report of the CRA, on 31 December 2017, broadband Internet penetration per 100 residents of Lithuania was 41.7 per cent (44.7 per cent a year ago) and pay-TV penetration per 100 households was 56.8 per cent (55.6 per cent a year ago). The penetration of active mobile communication users per 100 residents was 152.8 per cent (147.6 per cent a year ago) and penetration of fixed voice telephony lines per 100 residents – 16.9 per cent (18.3 per cent a year ago).

Telia Lietuva remains the largest telecommunications' service provider in Lithuania with the market share (in term of revenue) of 42.2 per cent for the fourth quarter of 2017.

	The market shares in terms of customers (%)		The market shares in terms of revenue (%)	
	Q4 2017	**Change (p.p.) (y-o-y)**	**Q4 2017**	**Change (p.p.) (y-o-y)**
Fixed voice telephony services	85.4	(2.3)	91.3	(0.4)
Mobile voice telephony services	30.1	0.2	27.0	(2.9)
Internet access services (total):	45.1	(1.7)	52.0	(1.2)
- Fixed access	51.3	4.4	61.5	4.6
- Mobile access	31.7	(14.8)	27.2	(12.9)
Pay-TV services	33.5	1.4	40.7	1.8
Data communication services	n/a	n/a	69.2	(5.5)

Operating expenses

Cost of goods and services for the year 2017 amounted to EUR 148.2 million, an increase of 15 per cent over the cost of goods and services of EUR 128.9 million a year ago, mainly due to higher volumes of equipment sales and higher networks' interconnection traffic in 2017.

Operating expenses (excluding cost of goods and services, and non-recurring items) for the year 2017 were 2.9 per cent lower than in 2016, while operating expenses (excluding cost of goods and services, and including non-recurring items) for the year 2017 amounted to EUR 100 million and were 5.3 per cent lower than a year ago (EUR 105.7 million in 2016).

Employee-related expenses (excluding one-time redundancy pay-outs) for the year 2017 were 1.1 per cent lower than employee-related expenses (excluding one-time redundancy pay-outs) a year ago. Employee-related expenses (including one-time redundancy pay-outs) for the year 2017 amounted to EUR 57.8 million, a decrease of 2.8 per cent over the same expense in 2016. During 2017, the Company had a non-recurring redundancy charge that amounted to EUR 2.1 million (EUR 3.1 million a year ago).

During 2017, the **number of employees** (headcount) decreased by 119 – from 3,146 to 3,027. In terms of full-time employees, the total number of employees during 2017 decreased by 86 – from 2,819 to 2,733.

Other operating expenses (excluding non-recurring expenses) for the year 2017 were 5.2 per cent lower than a year ago, while other operating expenses (including non-recurring expenses) for January-December of 2017 amounted to EUR 42.3 million and were 8.5 per cent lower than other operating expenses (including non-recurring expenses) of EUR 46.2 million in 2016 despite the higher marketing expenses at the beginning of 2017 related to the merger of subsidiaries and rebranding of the Company. During 2017, non-recurring expenses amounted to EUR 0.9 million (EUR 2.6 million in 2016)

Earnings

EBITDA (excluding non-recurring items) for January-December of 2017 amounted to EUR 125.2 million and was 7 per cent higher than in 2016 when EBITDA (excluding non-recurring items) amounted to EUR 117 million. EBITDA (excluding non-recurring items) margin for the year 2017 was the same as year ago and stood at 33.8 per cent.

EBITDA (including non-recurring items) for the year 2017 amounted to EUR 122.2 million and was 9.7 per cent higher than the EBITDA (including non-recurring items) of EUR 111.4 million a year ago. EBITDA (including non-recurring items) margin in 2017 amounted to 33 per cent (32.2 per cent a year ago).

Depreciation, amortisation and impairment charges for the year 2017 over depreciation, amortisation and impairment charges a year ago increased by 6 per cent, and for January-December of 2017 amounted to 18.1 per cent of the total revenue (18.3 per cent a year ago).

Operating profit (EBIT) (excluding non-recurring items) for January-December of 2017 was 8.1 per cent higher than operating profit (EBIT) (excluding non-recurring items) for the year 2016, and the operating profit (excluding non-recurring items) margin was 15.7 per cent (margin of 15.6 per cent a year ago).

Operating profit (EBIT) (including non-recurring items) during 2017 increased by 14.6 per cent over the operating profit (EBIT) (including non-recurring items) for the year 2016. Operating profit (including non-recurring items) margin was 14.9 per cent (margin of 13.9 per cent a year ago).

Net financial income for during 2017 was negative and amounted to EUR 456 thousand (in 2016 it was also negative and amounted to EUR 1,070 thousand).

Profit before income tax for the twelve months of 2017 grew by 16.2 per cent and amounted to EUR 54.7 million (profit before income tax for the year 2016 was EUR 47.1 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 2017 amounted to EUR 4.7 million (EUR 2.9 million in 2016). **Income tax expenses** for the year 2017 were 47.8 per cent lower than income tax expenses a year ago.

Profit for the period of twelve months of 2017 amounted to EUR 51.8 million, an increase by 24.8 per cent over the profit of EUR 41.5 million a year ago. The profit margin amounted to 14 per cent while profit margin in 2016 was 12 per cent.

Statement of financial position and cash flow

During January-December of 2017, **total assets** decreased by 4.1 per cent mainly due to repayment of the loans.

Total **non-current assets** increased by 0.8 per cent and amounted to 75.1 per cent of total assets. Total **current assets** decreased by 14.6 per cent due to a decrease in cash and amounted to 24.5 per cent of total assets, whereof cash alone represented 4.1 per cent of total assets.

During 2017, **shareholders' equity** increased by 12.7 per cent and amounted to 53.8 per cent of total assets.

On 27 April 2017, the Annual General Meeting of Shareholders allocated an amount of EUR 17.5 million for payment of **dividends** for the year 2016 from the Company's distributable profit of EUR 68.1 million, i. e. EUR 0.03 dividend per share, and carried forward to the next financial year an amount of EUR 50.6 million as retained earnings (undistributed profit). In May 2017, dividends for the year 2016 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 2017, **retained earnings** of the Parent company amounted to EUR 116.7 million, while consolidated retained earnings of Telia Lietuva Group amounted to EUR 118.8 million.

During 2017, the Company repaid in total of EUR 52.5 million from the long-term loan of EUR 150 million that was taken in 2016 to finance the acquisition of AB Omnitel as well as EUR 92 million of internal loans from Telia Company, a shareholder of the Company.

In May 2017, the Company signed a syndicated EUR 60 million loan with three banks – AB SEB Bank (Lithuania), Danske Bank A/S (Denmark) and Nordea Bank AB (Sweden). The full amount of the loan will be repaid in five years. Proceeds from this loan were used to refinance an internal loan of EUR 77 million extended to Omnitel a few years ago by Telia Company. During 2017, the Company had borrowed from Telia Company and repaid short term loans for the total amount of EUR 15 million.

At the end of December 2017, the total amount of the Company's **borrowings** amounted to EUR 162 million (EUR 227 million as of 31 December 2016), whereof EUR 157.5 million were loans from banks and EUR 4.5 million – obligation under financial lease agreements. At the end of December 2017, the Company had no borrowings from Telia Company, the largest shareholder of Telia Lietuva.

As of 31 December 2017, the net debt amounted to EUR 138.8 million (EUR 170.4 million as of 31 December 2016) and net debt to equity (Gearing) ratio was 45.6 per cent (63 per cent at the end of 2016).

The Dividend Policy that was approved by the Board of Telia Lietuva in 2017 provides that the Company must maintain the net debt to EBITDA ratio not higher than 1.5 and to pay out up to 80 per cent of free cash flow as dividend. As of 31 December 2017, the Company's net debt to EBITDA ratio was 1.14.

Net **cash flow from operating activities** during 2017 was 1.9 per cent higher than the cash flow in 2016 and amounted to EUR 114.5 million (EUR 112.4 million a year ago). **Operating free cash flow** (operating cash flow excluding capital investments) during 2017 was 21.7 per cent higher than a year ago (EUR 44.3 million) and amounted to EUR 53.9 million.

During 2017, the total **capital investments** amounted to EUR 63.8 million and were 10.6 per cent higher than capital investments of EUR 57.7 million a year ago. Most of capital investments (EUR 23 million) went to the expansion of the core fixed network and development of fiber-optic access network. An amount of EUR 12 million was invested into the development of mobile network, EUR 20.3 million – into the development of IT systems under business transformation program and EUR 8.5 million were other investments (transport, renovation of premises, office equipment, etc.).

In 2017, the Company started an upgrade of its IP network, which is used for the provision of all Telia LIetuva Internet, television, telephony, fixed and mobile communication services. During this EUR 5 million project more than 170 communication nodes will be changed all over the country. The upgrade will last until the spring of 2018 and will allow to increase the Company's network capacity and ensure the potential for the data volume growth in the forthcoming five years.

During 2017, the Company installed and launched 464 new LTE 4G base stations and at the end of 2017 had 1,997 4G base stations across Lithuania. According to the latest data of the Communications Regulatory Authority, 4G mobile telecommunications service of the Company is available in 99 per cent of populated areas in Lithuania and is the fastest in the country: the current average 4G speed in the Telia Lietuva network exceeds 50 Mbps.

By the end of December 2017, the Company had 890 thousand households passed (870 thousand a year ago), or 73 per cent of the country's households, by the fiber-optic network. Juodkrantė, a resort in Neringa peninsula, became the first settlement in Lithuania were all fixed Internet connections are connected to fiber-optic network.

In May, the Company installed 4.5G / LTE Advanced Pro base in five major cities of the country. The base stations will allow users to download data at up to 500 Mb/s. In February 2016, the Company was the first company in the Baltic states to install the newest Huawei mobile telecommunications technology in Vilnius. Then, the speed in the operating network was up to 750 Mb/s. Now, 4.5G base stations already operate not only in Vilnius, but also in Kaunas, Klaipėda, Šiauliai, and Panevėžys.

During 2017 **cash and cash equivalents** decreased by EUR 33.5 million due to repayment of the loans.

During 2017, the Group paid EUR 64.6 million of **taxes and contributions**, not including taxes and contributions that were withheld and paid on behalf of other persons. An amount of EUR 20.6 million was contributed to the State Social Insurance Fund and a total of EUR 44 million was paid to the State Tax Inspectorate.

Information about related party transactions

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 2017.

Following the International Financial Reporting Standards as adopted by the EU, the parties related to the Company are the Company's subsidiaries, 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 2017, the Company and its subsidiaries are providing to each other telecommunications, Call Center, IT and other services. As of 31 December 2017, the Company had no outstanding loan granted to subsidiaries. The Company's subsidiaries have no interest in the share capital of the Company.

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 are Telia Carrier AB (Sweden), Telia Eesti AS (Estonia), LMT (Latvia), Telia Finland Oyj (Finland).

As of 31 December 2016, the outstanding balance of the loan granted by Telia Company to the then subsidiary of the Company, Omnitel, was EUR 77 million. The loan was repaid during 2017 and in addition over the year the Company had borrowed from Telia Company and fully repaid short term loans for the total amount of EUR 15 million. At the end of December 2017, the Company had no borrowings from Telia Company.

Research and development activities

During 2017, besides the on-going development and improvement of services and continues testing of the latest technologies, the Company launched first converged offer combining fixed and mobile communication technologies.

In March 2017, the Company presented a unique hybrid-type Internet service that integrates copper access with the fastest 4G mobile Internet. This solution, which has no analogues in the region, in places where fiber-optic access is currently not yet available by combining xDSL connection with a router for unlimited 4G mobile Internet ensures the speed of up to 100 Mbps. For home users, this speed is sufficient for both smart TV (IPTV) and fast browsing on different devices, while for businesses it provides more speed and guarantees reliable operation of the Internet.

The Telia Cloud service, which was presented to business customers in March 2017, is one of the first OpenStack-based cloud computing services in the Nordic region. It allows businesses to manage their IT resources in a flexible manner and pay only as much as needed at a particular time. The Company has developed its new Telia Cloud platform together with partners such as Huawei, Intel, Mirantis and Talligent.

On 15 June 2017, when roaming charges in the European Union were eliminated, the Company introduced new mobile connection service plans. The existing or new Telia clients in Lithuania get up to four times more mobile data, and part of the time and data set in the plan is allowed to be used while travelling in EU for no additional charge. In addition, some of the plans have a travel insurance included.

In February 2016, the Company was the first in the Baltic countries and one of the first in the world to implement the latest mobile technology 4.5G / LTE Advanced PRO. In an actually operating network, it has demonstrated a data download speed of 750 Mbps. And from October 2017, customers of the Company having the latest smartphones with the Android operating system can use VoLTE technology, that ensures up to three times faster connectivity, HD voice quality, and the biggest advantage is the possibility to talk on the phone and use the Internet simultaneously.

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.

On 18 December 2015, the Company signed an agreement with SEB Bank and Danske Bank for a long-term loan of EUR 150 million to finance the acquisition of shares in Omnitel and by 31 December 2017 the Company had repaid an amount of EUR 52.5 million from this loan.

In May 2017, the Company signed a syndicated loan agreement with three banks: AB SEB Bank (Lithuania), Danske Bank A/S (Denmark) and Nordea Bank AB (Sweden). Proceeds from a 5-years tenor EUR 60 million loan were used to refinance Telia Company's previously extended loan to Omnitel which was merged into the Company on 1 February 2017.

At the end of December 2017, the total amount of the Company's borrowings amounted to EUR 162 million (EUR 227 million as of 31 December 2016), while the cash of the Group amounted to EUR 23.2 million (EUR 56.7 million in 2016). Thus, the net debt amounted to EUR 138.8 million (EUR 170.4 million a year ago) and net debt to equity (Gearing) ratio was 45.6 per cent (63 per cent at the end of 2016).

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 Policy for Treasury Management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group.

The Company's financial risk management is carried out by employees responsible for the Group's treasury management at the Finance unit under policies approved by the Board. The employees responsible for the Group's treasury management identify and evaluate financial risks in close co-operation with the Group's operating units.

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 2017.

Plans and forecasts

After coping with challenges of two companies' integration and launch of a new brand in 2017, we set the four major goals based on our competitive advantages and willingness to win for the next three years: we will win the mobile market – not just to be the biggest, but to be a true leader; we will digitalise a customers' experience; we will win with the unique on the market converged "Telia One" offer, and we will win business customers choice for communication and IT services. This would lead us to creation of a New Generation Telco.

Our strategy remains unchanged. Everything we do should reflect our purpose: bringing the world closer – on the customer's terms. To deliver on our purpose, we have four ambitions as our targets. We succeed when we have the most loyal and satisfied customers in our markets. We deliver strong total shareholder return which is on par with the top performers among the relevant European peers. We lead the way in responsible business among large corporations in the world. We are the place to work.

Our strategy is based on continuous development of our core business combined with focused bets in areas that are strengthening the core but also build new businesses in growing areas. To enhance the core, we will create value through superior network connectivity. We will secure the transition from voice to data through future proof network access to end customers. We increase customer loyalty through convergence, by creating a seamless customer experience across technologies, services and channels. We ensure competitive operations, by simplifying operations and transform legacy to create agility and cost efficiency. To explore opportunities that are close to the core we will invest in areas that complement and strengthen the core business. M2M, e-health, music, security, financial services and TV are just some of those areas.

In 2018, the focus areas will be digitalisation of the customer journey and improvement of services to our customers, taking of analytics to a whole new level and using the data we have to be really anticipating our customer needs, and continue simplification of our business and facing out new technologies.

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 Chairperson 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 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. 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 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 valid from 1 January 2010.

Following the **Governance Code**, all members of the current Board are considered non-executive directors, whereby two out of six members are independent members of the Board. The members of the Audit Committee are elected for the two years' term and members of the Remuneration Committee are elected every year for the one-year term by the Board. Two members of the current Audit Committee have financial background and one member of this Committee is an independent member of the Board.

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 2017, which is available at the Company webpage www.telia.lt

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 2017:

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 (20 April 2017) for the Annual General Meeting of Shareholders, which was held on 27 April 2017, was 11,344.

Treasury stocks

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

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. As of 31 December 2017, 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.

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 2017, the Company's **share price** on Nasdaq Vilnius stock exchange increased by EUR 0.031 or 3.3 per cent. The shares' turnover, compared to the year 2016, went up by 20.7 per cent.

Information about trading in the Company's shares on Nasdaq Vilnius stock exchange in 2017:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	0.933	0.979	0.888	0.964	0.937	6,920,289	6,487,323

The Company's **market capitalisation** as on 31 December 2017 was EUR 561.6 million, while a year ago it amounted to EUR 543.6 million.

Dividends

On 25 May 2017, the Company paid out to the shareholders an amount of EUR 17.5 million of dividends or EUR 0.03 per share for the year 2016. 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, 12 May 2017, i.e. the tenth business day after the Annual General Meeting of Shareholders. Dividends to all shareholders were paid in cash.

The Board Activities

Upon termination of the two-years term of the Board on 29 April 2017, Telia Company, as a shareholder of the Company holding 88.15 per cent of the Company's shares and votes, proposed to the Annual General Meeting of Shareholders, which was held on 27 April 2017, to re-elect Stefan Block, Claes Nycander, Inga Skisaker and Rolandas Viršilas (the last two as independent member of the Board) for a new two-years term of the Board, and instead of Robert Andersson and Hannu-Matti Mäkinen to elect new members of the Board – Henriette Wendt and Ole Stenkil.

The Annual General Meeting, held on 27 April 2017, elected Henriette Wendt, Stefan Block, Claes Nycander, Ole Stenkil, Inga Skisaker and Rolandas Viršilas (the last two as independent member of the Board) to the Board of Telia Lietuva for the two-years term.

Following the Governance Code for the Companies Listed on Nasdaq Vilnius stock exchange all six members of the Board are non-executive directors. Four members of the Board represent Telia Company and two members of the Board – Inga Skisaker and Rolandas Viršilas – are regarded as independent members of the Board.

The Board elected Henriette Wendt as the Chairwoman of the Company's Board for the current term of the Board, i.e. till 27 April 2019.

In June 2017, the Board appointed the following members of the Board Stefan Block, Ole Stenkil and Inga Skisaker (independent member of the Board) as the members of the Audit Committee for the term of two years (but in any case, not longer than until the term of their membership in the Board). Stefan Block was elected as the Chairman of the Audit Committee.

Also, the Board elected the following members of the Board Henriette Wendt, Claes Nycander and Rolandas Viršilas (independent member of the Board) as the members of the Remuneration Committee for the term of one year (until 8 June 2018). Henriette Wendt was elected as the Chairwoman of the Remuneration Committee.

Information about the Board members' attendance of the meetings in 2017 (number of attended meetings):

	General Meeting of Shareholders	Board Meeting	Meeting of the Audit Committee	Meeting of the Remuneration Committee
The total number of meetings	**1**	**14**	**4**	**4**
Robert Andersson (till 27-04-2017)	1	6	n/a	1
Henriette Wendt (from 27-04-2017)	1	8	n/a	3
Stefan Block	-	12	4	n/a
Claes Nycander	-	13	n/a	4
Hannu-Matti Mäkinen (till 27-04-2017)	-	5	1	n/a
Ole Stenkil (from 27-04-2017)	1	8	3	n/a
Inga Skisaker	-	9	3	n/a
Rolandas Viršilas	-	13	n/a	4

The then Chairman of the Board, Robert Andersson, and nominees for election to the Board – Henriette Wendt and Ole Stenkil, as well as CEO of the Company participated at the **Annual General Meeting** of Shareholders on 27 April 2017.

On 27 April 2017, the shareholders resolved to allocate for two independent members to the Board – Inga Skisaker and Rolandas Viršilas – the total amount of EUR 31,280, or EUR 15,640 each, as a tantiemes (annual payment) for the year 2016. As of 31 December 2017, 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.

During 2017, eight ordinary and six extraordinary **meetings of the Board** were held. Seven ordinary meetings were convened according to the preliminary approved schedule of the Board meetings, while the date of one ordinary meeting for approval of audited annual financial results was changed, and six extraordinary meetings were convened following the procedure provided by the Regulation of the Company's Board Activities for convocation of extraordinary meetings. During all Board meetings, there was quorum prescribed by legal acts.

During its meetings, the Board approved financial statements for the 12 months of 2016 and 3, 6 and 9 months of 2017, consolidated and separate financial statements and the consolidated annual report for the year ended 31 December 2016, convoked the Annual General Meetings of Shareholders and proposed to the Annual General Meeting to allocate profit for the year 2016. The Board also approved agreement regarding the construction of a new head-office of the Company, unused real-estate sale program, conclusion of loan agreements, network reconstruction program, acquisition of UAB Duomenų Logistikos Centras and investment into UAB Mobilieji Mokėjimai, lease of premises for shared services centre. The Board approved number of the Company's policies, the Company's and Personnel strategies, annual bonuses to the employees, goals for the year 2017, changes of organizational structure and appointment of new managers, elected the Chairperson of the Board and members of the Audit and Remuneration Committees. The Board followed up implementation of the business transformation and investment plans, analyzed management, Audit and Remuneration Committees reports.

In 2017, four meeting of the **Remuneration Committee** were held. The following issues were considered during the meetings: approval of the annual variable pay to the top management of Telia Lietuva for the year 2016; review of the top management salaries (including CEO), the Company's management team substitution plan, occupational health and safety key performance indicators and performance of pension saving plan „Save with Telia"; adoption of Telia Company personnel and remuneration policies. The Remuneration Committee also discussed proposals regarding a new Head of B2C. All members of the Committee attended all meetings of the Committee. The first meeting was chaired by the then Chairman of the Committee, Robert Andersson, and the rest – by newly elected Chairwoman of the Committee, Henriette Wendt.

During January-December 2017, two meetings of the **Audit Committee** were held, during which the report by external auditors regarding the financial statements for the year 2016 as well ongoing internal audit and risk management reports were considered. During the last meeting of the Committee the external auditors from Deloitte Lietuva presented an audit plan for the year 2017, team of auditors and officially stated about their independence. All members of the Committee attended three meetings of the Committee, while Inga Skisaker was not present at the last meeting. The meetings were chaired by the Chairman of the Committee, Stefan Block.

Members of the Board

Henriette Wendt (born in 1969) – Chairwoman of the Board, member of the Board since 27 April 2017 (nominated by Telia Company AB), Chairwoman of the Remuneration Committee. Education: ESSEC Business School Paris (France), Master's degree in Business Administration; Copenhagen Business School (Denmark), Bachelor's degree in Economics. Employment – Telia Company AB (Sweden), Senior Vice President, Head of cluster LED (Lithuania, Estonia and Denmark). Current Board assignments: Telia Eesti AS (Estonia), member of the Supervisory Council, and PJSC MegaFon (Russia), member of the Board. Henriette Wendt has no direct interest in the share capital of Telia Lietuva. She owns 8,500 of Telia Company's shares. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Stefan Block (born in 1967) – member of the Board since 29 April 2014, re-elected for the two-year terms on 29 April 2015 and 27 April 2017 (nominated by Telia Company AB), Chairman of the Audit Committee. Education – University of Stockholm (Sweden), Bachelor of Science in Business and Administration. Employment – Telia Company AB (Sweden), Group Procurement, Deputy Chief Purchase Officer. Current Board Assignments: Telia Danmark A/S (Denmark), Chairman of the Board; Síminn Denmark A/S (Denmark), member of the Board; Telia Finance AB (Sweden), member of the Board; Telia Norge AS (Norway), member of the Board; LMT SIA (Latvia), member of the Supervisory Council, and Telia Eesti AS (Estonia), member of the Supervisory Council. Stefan Block 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.

Claes Nycander (born in 1963) – member of the Board since 29 April 2014, re-elected for the two-year terms on 29 April 2015 and 27 April 2017 (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 (Sweden), Vice President and Head of Special Projects & LED (Lithuania, Estonia, Denmark) Management at Group Service Operations. Current Board Assignments: TT Nätverket A/S (Denmark), Chairman of the Board; Systecon AB (Sweden), member of the Board; Svenska UMTS-Nät AB (Sweden), member of the Board, and LMT SIA (Latvia), Chairman of Supervisory Council. Claes Nycander 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.

Ole Stenkil (born in 1973) – member of the Board since 27 April 2017 (nominated by Telia Company AB), member of the Audit Committee. Education: Copenhagen Business School, MBA in Executive Management; The Danish Bar & Law Society, Legal Professional Degree/Attorney; Århus University (Denmark), Master of Laws; Svendborg Business School (Denmark), Higher Commercial Examination Programme. Employment – Telia Danmark A/S (Denmark), Vice President and General Counsel. Current Board Assignments: Argon A/S (Denmark), member of the Board; Mit Telia I/S (Denmark), member of the Board; OCH A/S (Denmark), Chairman of the Board; Tilts Communications A/S (Denmark), member of the Board and Telia Eesti AS (Estonia), member of the Supervisory Council. Ole Stenkil 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.

Inga Skisaker (born in 1971) – member of the Board since 28 April 2011, for the two-year term re-elected on 25 April 2013, 29 April 2015 and 27 April 2017 (as independent member of the Board nominated by Telia Company AB), member of the Audit Committee. Education – Vilnius University (Lithuania), Master of International Business Administration. Employment – Nordea Bank AB (Sweden), Norway branch, Head of Business Risk Implementation and Support for Personal Banking. Current Board Assignments: Baltic Management Institute (Lithuania), member of the Board, and Investors Forum (Lithuania), member of the Board. Inga Skisaker 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.

Rolandas Viršilas (born in 1963) – member of the Board since 25 April 2013, for the two-year term re-elected on 29 April 2015 and 27 April 2017 (as independent member of the Board nominated by Telia Company AB), member of the Remuneration Committee. Education – Vilnius University (Lithuania), Faculty of Mathematics, Master's degree. Employment: UAB Švyturys-Utenos Alus (Lithuania), Chief Executive Officer, and Carlsberg Baltic States, Chief Executive Officer. Current Board Assignments: Lithuanian Brewers´ Guild (Lithuania), Chairman of the Council; VšĮ Užstato Sistemos Administratorius (Lithuania), member of the Board, and Dayton Group Oy (Finland), member of the Board. Rolandas Viršilas has 75,000 shares of Telia Lietuva that accounts to 0.0129 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.

Management Team

Kęstutis Šliužas (born in 1972) – CEO of the Company from 1 November of 2013. Education – Vilnius University (Lithuania), Bachelor's and Master's degrees. Involvement in activities of other entities: Telia Company AB (Sweden), cluster of Lithuania, Estonia and Denmark, member of the management team; UAB Mobilieji Mokėjimai (Lithuania), member of Supervisory Council; Kaunas Technology University (Lithuania), member of the Council; Vilnius Tech Park (Lithuania), member of the Council; Investors' Forum (Lithuania), member of the Board; Association INFOBALT (Lithuania), member of the Board; Baltic Institute of Corporate Governance, member of the Board, and Young Presidents Organization Lithuania Chapter, member of the Board. Kęstutis Šliužas 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.

Mindaugas Ubartas (born in 1978) – Head of Business to Business (B2B) from April 2017. Education – Vytautas Magnus University (Lithuania), Management Faculty, Bachelor's degree (2000) and Master's degree (2002). He is not involved in activities of other entities. Mindaugas Ubartas has no direct interest in the share capital of Telia Lietuva. He is a sole shareholder of UAB Galvaninė Chemija (Lithuania)

On 22 December 2017, Norbertas Žioba, Head of Business to Consumer (B2C) since 1 January 2016, left the Company, and Haval van Drumpt, CEO of Zitius (Sweden), a part of Telia Company Group, was appointed as new Head of B2C at Telia Lietuva.

Haval van Drumpt (born in 1971) – Head of B2C from 1 January 2018. Education: Stockholm School of Economics (Sweden), Strategy and Business Governance (2015); Företagsuniversitetet, Stockholm (Sweden), Diploma in Marketing (2008) and IHM Business School, Stockholm (Sweden), IHM Key Account Management (2006). He is not involved in activities of other entities. Haval van Drumpt 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 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.

Laimonas Devyžis (born in 1982) – Head of Finance from 1 January 2016. Education: ACCA (Association of Chartered and Certified Accountants) (Glasgow, UK); Stockholm School of Economics in Riga (Latvia), Bachelor of Science in Economics & Business Administration. Involvement in activities of other entities: UAB LD Corporate Consulting (Lithuania), 100 per cent owner and Director, and UAB Mobilieji Mokėjimai (Lithuania), member of the Board. Laimonas Devyžis has no direct interest in the share capital of Telia Lietuva, and has no other shareholdings that exceed 5 per cent of the share capital of any company.

Ramūnas Bagdonas (born in 1974) – Head of Human Resources 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: Telia Company AB (Sweden), cluster of Lithuania, Estonia and Denmark, member of the management team responsible for Human Resources; Association of Personnel Management Professionals (Lithuania), member of the Board, and State Enterprise Lithuanian Airports (Lithuania), member of the Board. Ramūnas Bagdonas has no direct interest in the share capital of Telia Lietuva. He has 450 shares of Telia Company AB (Sweden). He has no shareholdings that exceed 5 per cent of the share capital of any company.

In August 2017, the Company announced that it plans to concentrate corporate communication, brand and marketing competences into a new single unit of Marketing and Communication. Thus, Audronė Mažeikaitė, Head of Corporate Affairs since 1 January 2016, left the Company on 18 August 2017. The Head of a newly created Marketing and Communication unit, Vaida Jurkonienė, previously Head of Marketing and Brand at B2C of the Company, was appointed in February 2018. Until then Vija Valentukonytė, Head of Internal Communication, was responsible for the Company's communication. The responsibility for Public Affairs of the Company in August 2017 was moved to Giedrė Kaminskaitė-Salters, General Counsel.

Giedrė Kaminskaitė-Salters (born in 1978) – General Counsel and Head of Public Affairs from 7 December 2015. 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: Telia Company AB (Sweden), cluster of Lithuania, Estonia and Denmark, member of the management team responsible for Legal issues; UAB Litexpo (Lithuania), Chairwoman of the Board, and Association "Lyderė" (Lithuania), 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.

Vaida Jurkonienė (born in 1971) – Head of Marketing and Communication from 12 February 2018. Education: Kaunas Technology University (Lithuania), Bachelor of Business Administration (following Norwegian Business School BI program) (1994), and Kaunas Technology University (Lithuania), Master in Economics studies. She is not involved in activities of other entities. Vaida Jurkonienė 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.

Mantas Goštautas (born in 1981) – Head of Business Development from 17 August 2015. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration; CIMA (Chartered Institute of Management Accounting) (London, UK), Certificate in Business Accounting; Stockholm School of Economics in Riga (Latvia), Bachelor in Economics and Business Administration. Involvement in activities of other entities – Vilnius Tech Park (Lithuania), member of the Selection Committee. Mantas Goštautas 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.

In December 2017, the Board approved new governing structure of Telia Lietuva, where Competitive Customer Operation and Risk units were merged into a new Operational Excellence unit. From 15 December 2017, it is led by Vytautas Bučinskas, who until then was Head of Risk. Andrius Byčkovas, previously Head of Competitive Customer Operations since 1 January 2016, acted as a consultant at Operational Excellence unit until 12 January 2018.

Vytautas Bučinskas (born in 1974) – Head of Operational Excellence 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 Chairman of INFOBALT (Lithuania) Cybersecurity Committee; Deputy Chairman of European Telecommunications Network Operator's (ETNO) Association Cybersecurity Committee. 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 2017. 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 2016 paid in 2017 to key management personnel amounted to EUR 655.41 and an amount of EUR 2,250 of dividends for the year 2016 was paid to one member of the Board.

During 2017, 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 two females out of six are members of the Board and two 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 payments (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 Work Regulations 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 and 2017 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 27 April 2017, 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 2017 and to assess the consolidated annual report of the Company for the year 2017. The shareholders authorized 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 110,000 (one hundred and ten thousand) euro (VAT excluded) for the audit of the Company's annual consolidated and separate financial statements for the year 2017 and the assessment of the consolidated annual report.

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 5 April 2017 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 Deloite Lietuva on 23 November 2017 at the meeting of the Audit Committee of the Company officially stated about UAB Deloitte Lietuva independence from the Company.

PERSONNEL

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

	2017	2016	Change (%)
Number of personnel (head-counts)	3,027	3,146	(3.8)
Number of full-time employees	2,733	2,819	(3.1)

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.

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

Name of the company	31-12-2017	31-12-2016	Change
Telia Lietuva, AB	2,229	1,806	423
Telia Customer Service LT, UAB	798	786	12
AB Omnitel	-	552	(552)
AB Baltic Data Center	-	2	(2)
	3,027	**3,146**	**(119)**

On 1 February 2017, following the merger of AB Omnitel and AB Baltic Data Center into the Company, some employees of Omnitel, which were involved in provision of remote customer care to mobile service subscribers, were transferred into the Contact Center of Telia Customer Service LT.

People Policy

It is the Company's desire and responsibility to provide a sustainable working environment with fair terms of employment for all our workforce. The People policy provides that the Company and its employees and workforce respect and protect internationally recognized laws and standards for human rights and strive to ensure that the Company does not abuse any part of the human rights principles. In addition, our employees are expected to contribute by respecting, protecting and promoting human rights, not only within the workplace but also when representing Telia outside of the workplace.

The Company wants all employees to have 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. As part of our commitment to having a diverse and inclusive workplace, we have zero tolerance towards discrimination, harassment and bullying. Victimization at work, such as recurring negative actions directed against individual employees, is not permitted. All employees must treat one another with respect, dignity and common courtesy.

Child labor is not accepted in any of the Company's businesses, nor do we accept child labor at our suppliers, dealers or subcontractors. Forced labor is not accepted too. All employees of the Company have the right to form or join associations of their own choice concerning the relationship between the employer and the employees, and to bargain collectively.

All the Company's recruitments are based on respect for the individual no matter of age, gender, marital or parental status, colour, religion, race, ethnic origin, nationality, handicap, sexual orientation or political opinion. The demands stated in the job profile must be based on our common values. The selection processes must be fair, based on objective and transparent criteria, and include proper feedback to all applicants.

The Company offers and maintains a safe and sound working environment that meets or exceeds global standards and national legislation. A safe and healthy workplace is not only about preventing accidents, it involves both physical and psychosocial wellbeing aspects. Employees share responsibility for their own health and are expected to contribute to a safe working environment.

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:

- the total remuneration should be market competitive without leading relative to the competition, and also factor in the affordability for the business;
- remuneration structure should take the competence required, responsibility, complexity and business contribution of the positions into consideration when identifying the relevant remuneration levels;
- in identifying remuneration levels for individuals, corporate, team and individual performance should be considered. 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;
- 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;
- remuneration programs should be delivered to employees in an optimally effective manner, both in terms of cost effectiveness and administrative efficiency;
- remuneration structures should comply with statutory requirements, collective bargaining agreements and internal policies and instructions.

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 performance and skills of the employee and consequently is individual and differentiates within acceptable ranges;
- annual variable pay, which is based on the achievement of annual performance objectives (both financial and non-financial objectives which are measurable);
- functional variable pay in positions related to direct sales to customers, where employees may have a sales incentive component tied to sales performance;
- the Company may introduce long-term incentive programs 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 March. In 2017, the remuneration was increased to almost 51 per cent of the Company employees and annual bonuses amounting to one monthly salary on average were paid to all employee of the Company which in 2016 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.

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

Name of the company	**2017**	**2016**	**Change (%)**
Telia Lietuva, AB	47,354	39,951	18.5
Telia Customer Service LT, UAB	9,216	6,213	48.3
AB Omnitel	1,208	13,157	(90.8)
AB Baltic Data Center	-	64	(100.0)
Other subsidiaries	3	61	(95.1)
	57,781	**59,446**	**(2.8)**

Data for AB Omnitel and AB Baltic Data Center is presented till their legal merger into the Company on 1 February 2017.

Information about employees of Telia Lietuva, AB as of 31 December 2017:

Group of employees	**Number of employees**	**Average monthly salary (in EUR)**
Managers	50	5,082
Middle level managers	187	2,752
Specialists	1,992	1,358
	2,229	**1,559**

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. In 2017, in total 2,454 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 allocates EUR 8 every month, and if the employee is willing to contribute to the pension saving from his own finances by additionally allocating 1 or 2 per cent of his/her salary, then the Company also transfers an amount equal to employee's contribution from his/her salary.

In June 2017, Telia Lietuva was awarded as The Most Desired Employer among the large corporations in Lithuania according to the public voting arranged by Lithuania business daily Verso Žinios.

Collective Bargaining Agreement

The Collective Bargaining Agreement between the Company, as the employer, and employees of the Company, represented by joint representation of Trade Unions, that came into force from 25 April 2007, was valid during the year 2017.

This Collective Bargaining Agreement applies only to employees of the Company. If provisions of the Collective Bargaining Agreement are more favourable than the same provisions of individual labour agreements, then provisions of the Agreement will apply. If provisions of the Agreement are more favourable than new legislation imposed during the period of the Agreement validity, provisions of the Agreement will apply.

The Collective Bargaining Agreement of the Company grants several additional social guarantees to employees of the Company such as a flexible working time regime can be set in certain units; additional 30 calendar days of unpaid vacation can be granted because of family circumstances, sanatorium treatment, or for other important reasons; in case of death of the employee's father, mother, wife, husband, child, brother or sister, or birth of a child, the employee gets additional 3 calendar days of paid vacations; vacation for studies is granted on the bases of advance reference from educational institution for the period of time indicated in that reference; the Company's employees are paid 1.75 employee's hourly wage (basic salary) amount for overtime and work during the night (from 22.00 till 6.00) and 2 employee's hourly wage (basic salary) amount for working during weekends and public holidays; if the employee falls ill, the Employer for first two days of illness pays 90 per cent of the employee's average remuneration; the Employer could make a written agreement with the employee regarding payment for his/her university level studies that are in line with his/her individual competence development needs, and pay for such studies on agreed terms; the Employer commits itself to additionally insure the Company employees against accidents at work and on the way to/from work with its own funds; with the Company's funds to vaccinate the employees, who are likely to be exposed to occupational risk factors at work; to provide the employees, who perform the works containing risk factors, with necessary special outfit, shoes and other personal protective equipment in a timely manner and free of charge.

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 be managed by the Committee of the Social Needs Fund formed of representatives of the Employer and Trade Unions.

The Fund allocates funds to improve health of the employees: rent of sports premises and grounds, support of sports and culture events arranged on the Company level. The Fund organizes and finances a culture and sports event of the Company's employees. In case of death of the employee's father, mother, wife, husband or child, he/she is paid an allowance amounting to 10 Minimum Standard of Living (MSL) from the Social Needs Fund; in case of death of the Company employee, his/her family members are paid all funeral expenses, excluding a funeral dinner, and his/her spouse or children maintained by him/her are paid a relief amounting to 12 MSL. The Fund also commits itself to buy Christmas presents to the employees' children (under 10 years of age), to allocate a bonus amounting to 10 MSL on the occasion of 20, 30 and 40 years of continuous record of service in telecommunications. The Fund may grant an allowance if, due to difficult financial situation of the employee or his/her family, the employee or his/her family has incurred substantial material loss.

In 2017, the Social Needs Fund allocated EUR 77.5 thousand for the above-mentioned purposes.

SUSTAINABILITY

We as an IT and telecommunications company are perfectly aware of the significance of the role of technologies nowadays. We feel responsible for their proper use and application. We aim not only to be financially successful but also beneficial to the society – to reduce digital and social exclusion, to help people to share knowledge and information more easily, and to promote innovation.

Principles of responsible business and investment in the progress of the society are an integral part of our long-term strategy.

We understand responsible business as consistent activities that cover business culture and practice in the Company and its environment conducted considering economic, social and environmental business aspects, assuming responsibility for short-term and long-term consequences of our activities.

From our viewpoint, **acting responsibly means**:

- Doing more than required by laws or other legislation;
- Acting ethically, honestly and transparently with regards to the market, the environment and employees, and seeking to create long-term value for them;
- Sharing experience and continuously improving.

Our guidelines

In September of 2016, Telia Company approved the new Code of Responsible Business Conduct to be observed by all employees of Telia Company Group, including Telia Lietuva. 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.

The Company also integrated into its strategy the All In approach of Telia Company. It has four main directions, including the assurance of access for all, adaptation of technology for safe and healthy society, sharing technology knowledge and promoting the development of innovation.

The main principles of sustainable business, such as ethics, corruption prevention, non-discrepancy, freedom of expression, personal privacy protection, occupational health and safety, and environmental protection, are our way of life. All these **principles** which we follow in our business are defined in the following documents:

- Code of Responsible Business Conduct,
- Anti-Bribery and Anti-Corruption Policy,
- Policy of Freedom of Expression in Telecommunications,
- Privacy Policy and Personal Data Processing Rules,
- Occupational Health and Safety Policy,
- Suppliers’ Code of Conduct,
- Environment Policy.

In the implementation of the Anti-Bribery and Anti-Corruption Policy, Telia Company has approved the procedure valid for the whole Telia Company Group of using the Speak-Up Line.

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

From 2017, all employees of the Company have been obliged to attend interactive **e-trainings** on the Code of Responsible Business Conduct – to get familiar with main aspects of the Code in an attractive way and to follow them.

We have been creating sustainable business relations with partners and promoting the development of socially responsible business, thus we carefully assess and check the **reputation and transparency of partners**, and consistently require them to follow requirements for socially responsible and transparent activities applicable to partners established in the Suppliers' Code of Conduct and conditions of anti-corruption agreements.

We respect and protect the **right of our customers to expression** and privacy, thus we observe the Policy of Freedom of Expression in Telecommunications approved by Telia Company, which helps reduce the risk of violations of human rights in cases where governmental and law enforcement authorities seek to limit human's freedom of expression, for example, require tracking customer's communication or to restrict access.

Following the policy of freedom of self-expression, we apply procedures ensuring that respective information was presented to controlling entities only in presence of a proper legal basis, for example, a reasoned court's decision (a sanction). Based on this policy, the Company has committed to informing about its actions related to the restriction of services or content, whenever possible.

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 are preparing to implement the General Data Protection Regulation (GDPR), a regulation by which the European Parliament, the Council of the European Union and the European Commission intend to strengthen and unify data protection for all individuals within the European Union (EU). Regulation will come into force on 25 May 2018.

We are committed to respecting human rights and **employees' rights**, creating safe and healthy workplaces, having a zero tolerance towards any manifestations of violence, psychological harassment or the like at work, and any forms of discrimination in respect of employment. An active Diversity Working Group within Telia Lietuva is bringing grassroots initiatives to increase gender, age and other diversity mix within the Company.

The average pay gap between men and women in Lithuania is 13 per cent (in line with the EU average). Telia Lietuva has a similar pay gap, dictated by the lack of women in technology and senior positions. We are spearheading the "Women Go Tech" initiative aimed at attracting women to technology professions and are active members of the industry association "Lyderė" which leads on legislative, educational and other initiatives to promote women in senior management.

We want to protect and improve the **health and safety** of everyone who works for or with Telia. Accidents, incidents, injuries, work-related illnesses and unsafe acts and conditions are preventable and unnecessary. The Company aims to provide and regularly improve a safe and healthy workplace by making sure our work environment and processes are safe; by preventing and reacting to conditions of ill-health and by supporting measures to promote health and wellbeing.

In October 2017, besides Quality Management (ISO 9001) and Environmental Management (ISO 14001) certificates we obtained Occupational Health & Safety (OHSAS 18001) certificate and it shows that we view employee's health and safety as a priority within our organisation.

In respect of **customers**, we are committed to develop innovative and easy-to-use digital technology and IT solutions, enhancing efficiency and sustainable use of resources, to educate customers about IT innovations and online security, to ensure data privacy, to create and develop simple, easy-to-use and resource-friendly services at a reasonable price, to expand the fiber-optic network, and to develop IT equipment rental services. The Company is also committed to educate society about the opportunities, benefits and risks of information technologies, and to ensure product safety and responsible communication. For example, smartphone tested and approved by the specialists from Lithuanian Association of the Blind and Visually Handicapped as suitable for partially sighted people are marked with special labels at all our retail outlets and on the on-line shop at telia.lt.

We respect and support **children´s rights**. It is a part of UN Global Goals (Sustainable Development Goals (SDGs) Children's Rights and Business Principles. We work closely with other stakeholders to promote anti-bullying on-line among children and youths.

We work with **suppliers** and partners who have the same approach to sustainable and responsible business as we do, thus when concluding contracts, we invite them to sign the Suppliers Code of Conduct. We familiarize them with ethical requirements holding "live" meetings and training sessions. We raise requirements for ethical behaviour, anti-corruption, human rights, occupational health and safety, environmental protection, and prevention of corruption, follow the principle of zero tolerance towards corruption, and require our suppliers to do the same. Suppliers must also ensure absence of any environmentally-unfriendly, banned substances in their products. For this purpose, a list of banned substances is enclosed to the Suppliers Code of Conduct.

We pay special attention to **environmental protection** – year on year we work towards reducing the consumption of resources and the environmental impact. We encourage our employees as well as partners and suppliers to protect the environment.

Since 2016, more than 80 per cent of the electricity used by the Company is electricity from renewable energy sources.

By implementing the latest communication technologies, such as fiber-optic (FTTH) Internet access, which reduce energy consumption. The technological solutions (for example, video conferencing), which are offered to our customers and used within the Company, reduce the number of trips. We pay attention to sustainable use of energy, prevention of the use of hazardous materials, waste management, requirements for working conditions and product quality, and the monitoring of data on the organisation's environmental impact.

During 2017, we collected 7.5 thousand obsolete mobile phones, tablet computers and modems from customers, which were handed over for recycling. From September 2017, all documents of the Company's business customers could be handled electronically. Telia Lietuva is the first telecommunications company in Lithuania offering companies to sign contracts using an electronic or mobile e-signature, which is equivalent to a physical signature in written documents.

Investment in the society

Our investment in the society is guided by All In approach common for the whole Telia Company Group. The aim of All In is to leverage our core competencies and business to create shared value – combining social good with business benefits. It focuses on four key areas: connecting the unconnected, education for all, a healthy and safe society, and digital innovation and entrepreneurship.

In February 2017, we introduced a safety on-line initiative named "Augu Internete" ("Growing up on the Internet") and the website www.auguinternete.lt. On this website, parents, children and teachers could find comprehensive and useful information and tips on how to recognize dangers and to protect themselves against virtual threats. "Augu Internete" is contributing to development of the skills of safe online behaviour with the help of lectures in schools, video streaming, and meetings with parents. This initiative is being developed with the help of "Vaikų Linija" ("Child Line") and UNICEF experts.

In September, we launched a training programme, Telia IT Akademija (Telia IT Academy), intended for young specialists who would like to work in the areas of IT services management or business applications. In 2017, the first 30 selected candidates started a half-a-year-long training programme. The best will be invited to work for Telia Lietuva permanently.

Recognitions

Based on OEKOM Corporate Rating Telia Lietuva shares qualify for sustainable investments. Prime status with C+ rating was granted in June 2017. In April 2017, for application of socially responsible and transparent business practices, active involvement in community activities, caring for employees and minimizing negative environmental impact the Company was awarded with Responsible business award by Investors' Forum, an organisation uniting foreign investors in Lithuania. In November, during the National Responsible Business Awards Telia Lietuva was recognised as the Environmental Company of the Year among the international corporations. Also, the Company is one of the most transparent companies when it comes to publishing anticorruption measures, shows the latest research by Transparency International Lithuania.

More detailed information about the Company's activities in corporate social responsibility area is provided in the on-line version of our Sustainability Report at www.telia.lt.

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, Kęstutis Šliužas, CEO of Telia Lietuva, AB, and Laimonas Devyžis, 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 2017 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.

Kęstutis Šliužas
CEO

Laimonas Devyžis
Head of Finance

CORPORATE GOVERNANCE REPORTING FORM FOR THE YEAR ENDED 31 DECEMBER 2017

Telia Lietuva, AB (hereinafter 'the Company') acting in compliance with Article 21(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 are indicated and the reasons for such non-compliance are specified. In addition, other explanatory information indicated in this form is provided.

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. There is no Supervisory Council in the Company. The Board represents the shareholders, and performs supervision and control functions. The Board consists of six members elected for the term of two years. All members of the Board are considered non-executive directors, whereby two out of six members are independent members of the Board. The Board elects members of the Audit Committee for a term of two years and members of the Remuneration Committee for a term of one year. Three members of the Board, whereof one is independent, comprise each committee. The Board elects and recalls CEO of the Company, sets his/her remuneration and other conditions of the employment agreement.

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 2017.

Structured table for disclosure

PRINCIPLES/ RECOMMENDATIONS	YES/NO/NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The main Company's development directions and strategies are publicized in the Annual and Interim Reports and the Company's performance presentations, that are available on the Company's webpage, and are discussed during meetings with investors and etc.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	All management bodies of the Company are acting in order to implement the Company's purpose: bringing the world closer – on the customer´s terms.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company has the Board that represents the shareholders of the Company, is responsible for strategic management of the Company, supervises and controls activities of CEO of the Company, on a regular basis convokes meetings of the Board, where management team of the Company on a regular basis informs the Board about the Company's performance.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	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 publicised on the Company's webpage.

Principle II: The corporate governance framework

The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	There is no Supervisory Council in the Company but its functions in essence are performed by the Board that represents not only the majority but the minority shareholders as well, and its members are not involved in daily activities of the Company. Regular meetings of the Board when the management team of the Company reports on the Company's performance ensures effective supervision and control of the Company's activities.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The functions set in the recommendation are fulfilled by the Board of the Company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	The Company in substance complies with this recommendation even though only one collegial body – the Board – exists in the Company, but the Board's competence provided in the By-Laws of the Company in essence complies with the competence of the Supervisory Council.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	Following the By-Laws of the Company, the Board consists of six Board members elected for a two-year term. All members of the Board are non-executive directors.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	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 2011 and has been re-elected three times – in April 2013, April 2015 and April 2017. Another was elected in April 2013 and two times re-elected in April 2015 and April 2017. Two members were elected in April 2014 and two times re-elected – in April 2015 and April 2017. Two members were elected in April 2017. The By-Laws of the Company do not provide any possibility to recall a member of the Board. This can be done following the Laws.

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairwoman of the Board who was elected in May 2017 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.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	While electing the collegial body, the Company's shareholders well before or during the Annual General Meeting can be acquainted with the detailed information about the nominees. In the Company, there exists the practice that the majority shareholder nominates independent candidates to the collegial body. As a result, the Board contains two independent members of the Board that were nominated by the majority shareholder. There are two out of six independent members of the Board. Annual compensations (tantiemes) to the members of the Board shall be approved by the Annual General Meeting of Shareholders. Before 2016, during the last 14 years the same amount of annual compensation (tantieme) (EUR 15.6 thousand) was allocated to each member of the Board. Starting from 2016, the annual compensation of EUR 15.6 thousand per person is allocated only to two independent members of the Board.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	CVs of the candidates to the Board (including information about candidate's participation in activities of other companies) are included into the material for the Annual General Meeting (AGM) 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 at the end of each quarter corrected and updated by contacting each member of the Board. Then information is provided in the Company's interim reports and placed on the webpage of the Company.

3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	CVs of the Board nominees presented to the Shareholders Meeting contain information about nominees' education, employment history and other competence. Information about the composition of the Board is presented in the Company's interim and annual reports for each preceding year.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	There are two members of the Board having degrees in Business Administration, one has degree in Business Administration and Economics, one has degree in Business Administration, Electrical Engineering and Mathematics, one is a lawyer and has MBA degree, and one has a degree in Mathematics. Four out of six are working in the telecommunications company; one – in managerial position in banking sector and one – as CEO of brewery. Two members of the Audit Committee have business administration background: one works in a bank and another – in finance area. One member of the Audit Committee is a lawyer. All members of the Remuneration Committee hold the positions of senior managers in enterprises other than the Company.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	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.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	Yes	In spite of the fact that the largest shareholder has a majority of votes during the Shareholders Meeting and none of other shareholders has more than 10 per cent of votes, the Company's Board consists of four members that are employees of the majority shareholder and two independent members of the Board in order to ensure proper resolution of conflicts of interest.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:		According to the recommendations, at present there are two members of the Board who comply with the criteria for an independent member of the collegial body. The other four members of the Board are employees of the majority shareholder and represent the interests of the majority shareholder. The Board work regulations do not provide criteria for the Board members' independence, but when electing the Board, the unformalised independence criteria are taken into account.

1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		

3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Yes	
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	When electing the current Board in April 2017 it was disclosed that two out of six nominees to the Board were regarded as independent members of the Board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	In its periodic disclosure the Company regularly discloses the Board members' relations with the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Annual compensations (tantiemes) to the members of the Board shall be approved by the Annual General Meeting of Shareholders. Before 2016, during the last 14 years the same amount of annual compensation (tantieme) (EUR 15.6 thousand) was allocated to each member 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. Following the International Financial Reporting Standards, annual compensations (tantiemes) to the members of the Board are considered as operating expenses.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Board approves and proposes for the AGM approval annual financial statements of the Company, draft of profit distribution, the Company's Consolidated Annual Report. In addition, the Board approves interim (quarterly and half-year) financial statements. During regular meetings of the Board, the management team of the Company provides information about the Company's performance.

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the information possessed by the Company, all members of the Board 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.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Each member devotes sufficient time and attention to perform his duties as a member of the collegial body. During all Board meetings in 2017 there was the quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's managing bodies follow the principles of communication with the shareholders set by the laws and before making material decisions, which criteria are set in the By-laws of the Company, evaluate their impact on the shareholders and provide material information about the Company's actions in periodic reports.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The managing bodies of the Company conclude and approve transactions following the requirements of legal acts and the By-Laws of the Company in the interest of the Company.

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.	Yes	The collegial body is mainly dependent on the majority shareholder that operates in the same business area but in decision-making acts in the interest of the Company. The Company provides the Board and its Committees with the resources needed for fulfilment of their functions (for instance, the Board members are reimbursed for expenses of traveling to the Board meetings), and employees of the Company who are responsible for the discussed area participate in the meetings of the Board and the Committees and provide all necessary information to the Board. The Company ensures the collegial body's right to contact an independent law, accounting or other specialist in order to get required information.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	The Board institutes two Committees: 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. Members of the Audit Committee are two members of the Board having education in business administration (one of them is an independent member of the Board) and one member of the Board having lawyer's education. 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. The Remuneration Committee 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.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	The annual and interim financial statements at first are discussed at the Audit Committee and then, with the conclusions of the Committee, are presented for the Board's approval. Before submitting for the Board's approval nominees to the management team of the Company and their remuneration terms, nominees at first shall be discussed and approved at the Remuneration Committee.

4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	All six members of the Board are involved in the activities of the Board committees. Three members of the Board constitute each committee. All members of the Audit Committee are non-executive directors and one of them is independent one. Three non-executive directors (one of them is independent) are elected to the Remuneration Committee.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	Responsibilities and work regulations of the Board committees are approved by the Board. The names of the Committee members are announced in the Company's periodic reports and on the webpage of the Company. In 2017, four meetings of the Remuneration Committee were held. In June 2017, the Board elected members of the Remuneration Committee for a one-year term. Following the Remuneration Committee's work regulations, the secretary of the meetings is Head of Human Resources of the Company. In 2017, four meetings of the Audit Committee were held. The members of the Committee were elected in June 2016. During all meetings, there was a required quorum; meetings were chaired by the Chairman of the Audit Committee. Following the Audit Committee's work regulations, the secretary of the meetings is Head of Finance of the Company.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	Employees of the Company who are responsible for the discussed area participate in the Committees' meetings and provide all necessary information.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;	No	In the Company, the function of the Nomination Committee is performed by the Remuneration Committee.

2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies;	Yes	The Remuneration Committee must 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. Twice per year the Committee should present updated information to the Board about the Committee's activities, if any. 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 Chairperson of the Board in the recruitment of CEO and supports CEO in recruitment of the managers directly reporting to CEO. Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2017.

6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;	Yes	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 internal orders.

4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.		
4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.		

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2017 but no assessment of its activities is provided as no significant improvements to the current ways of working were deemed necessary.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company's Board meetings are chaired by the Chairperson of the Board. General Counsel of the Company is the Secretary of the Board and assists in organizing activities of the Board.

5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	The meetings of the Company's Board are convoked following the schedule, preliminary agreed and approved by the Board. Not less than two meetings are convoked per quarter. It is publicly announced about the Board meetings that are approving financial statements and then, accordingly, financial statements are made publicly available.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents 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 are present or certain issues of great importance 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.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	No	The Company could not fulfil this recommendation as only the Board is instituted at the Company.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. 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 their holders.	Yes	The share capital of the Company consists of 582,613,138 ordinary registered shares of 0.29 euro nominal value each. Each share gives one vote during the shareholders meeting. All shares of the Company are given equal rights.
6.2. 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.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The shareholders approve only transactions that, following the Law on Companies and the By-Laws of the Company, should be approved by the shareholders.

6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	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. The Annual General Meeting in 2017 was convened on 27 April 2017 at 1 p.m.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Notice of the General Meetings as well as draft decisions proposed by the Board to the GM and accompanied by draft documents were publicly announced and simultaneously placed on the webpage of the Company on 5 April 2017 for the Annual General Meeting. Accordingly, adopted resolutions (including information about voting for each resolution) and documents approved by the shareholders were placed on the webpage of the Company. All information and documents for investors were presented in Lithuanian and English on Nasdaq Vilnius stock exchange information systems and on the Company's webpage.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting 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 Shareholders' 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.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	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.

Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	Members of the managing bodies are acting in a manner that avoids conflicts of interest; therefore there have not been any such cases in practice.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	Yes	The principles of the Company's remuneration policy, which was updated and approved by the Board in June 2017, is described in the Company's Consolidated Annual Report for the year 2017. General information about the remuneration policy, employee-related expenses and the total amount of remuneration paid over the year to the key management personnel of the Company is publicly announced in the Company's Annual Report and Consolidated Financial Statements.

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8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	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.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	No	The standard agreements with the members of the Management Team of the Company are approved by the Board. These agreements are considered confidential and their content and terms are not publicly disclosed. The principles of the Company's remuneration policy is described in the Company's Consolidated Annual Reports. The Company does not have any share options system for employees' remuneration. The Company has a program "Save with Telia", which enables employee pension savings at 3rd tier pension funds. The terms are the same for all employees of the Company.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	The Board approves the main conditions of agreements with the members of the Management Team of the Company. These agreements are considered confidential and their content and terms are not publicly disclosed. Information about compensation to the member of the Management Team in case he/she is dismissed without a due reason is provided in the Consolidated Annual Report.

8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.	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. Also the Consolidated Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other pay-outs to the members of the Board or employees of the Company for being members of their managing bodies. The Consolidated Annual Report is publicly available on the Company's webpage. The Company does not have any share options system for employees' remuneration. The Company has a program "Save with Telia", which enables employee pension savings at 3rd tier pension funds. The terms are the same for all employees of the Company. The Company does not apply any schemes for directors' remuneration in shares, share options or any other rights to purchase shares or be remunerated on the basis of share price movements.

8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	Remuneration of the Company's salespersons consists of non-variable and variable components, depending on sales results. For the rest of personnel there is possibility to get annual bonuses for the Company's yearly results following the rules set by the Company.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Yes	The decision on payment of annual bonuses to employees of the Company, including members of Management Team, is taken only after approval of the Audited Annual Financial Statements by the Board.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	Key functions of the Company's Remuneration Committee, its formation and composition are described herein in Recommendation 4.13. The names of members of the Remuneration Committee are announced in the Company's periodic reports and on the webpage of the Company.
8.13. Shares should not vest for at least three years after their award.	Not applicable	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Yes	
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	The Annual General Meeting of Shareholders approves only annual compensations (tantiemes) to the members of the Board.

8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		

8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company and trade unions that represent employees of the Company have signed a Collective Bargaining Agreement, which obligates the management of the Company to inform employees, on a regular basis, about implementation of the Collective Agreement, the Company's performance, changes in the market and 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. 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.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		

Principle X: Information disclosure and transparency The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes (except item 4)	Information about the financial situation, performance and management of the Company and its subsidiaries is disclosed on a regular basis by disseminating press and stock releases, annual and interim reports of the Company, financial statements of the Group, and presentations to the investors. All above-mentioned documents are publicly available on the Company's webpage in Lithuanian and English. The Group prepares its financial statements in accordance with the International Financial Reporting Standards as adopted by the EU. In the Consolidated Annual Report and Consolidated and Separate Financial Statements, the Company discloses information about 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. Also, the Consolidated Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other pay-outs to the members of the Board or employees of the Company for being members of their managing bodies. The Company's Consolidated Annual Report and Consolidated and Separate Financial Statements are publicly available on the Company's webpage. Information about the education, working experience, current employment, participation in activities of other companies, possession of shares of the Company by the members of the Board or the management team of the Company is publicly disclosed in periodic reports and available on the Company's webpage.
10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	No	
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	No	
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on Nasdaq Vilnius stock exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company is submitting information (both in English and Lithuanian) to the information system operated by Nasdaq Vilnius stock exchange which ensures that the information is disseminated simultaneously to all markets. The Company strives to announce information before or after trading hours on Nasdaq Vilnius stock exchange and simultaneously disseminate information to all the markets where the Company's securities are traded. The Company strictly follows the principle of not disclosing information that might have an effect on the price of issued securities in comments, interviews or in any other manner until such information is announced through the stock exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	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, thus ensuring fair, timely and cost-efficient access to relevant information.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company's webpage contains the Company's annual and interim reports, presentations of the Company's performance, audited financial statements, By-Laws of the Company, stock releases and information about changes in the price of the Company's shares on Nasdaq Vilnius stock exchange in both Lithuanian and English.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	An independent audit firm carries out an audit of the annual stand-alone and consolidated (including subsidiaries) financial statements of the Company prepared in accordance with the International Financial Reporting Standards as adopted by the EU. This independent audit firm also reviews Consolidated Annual Reports for any inconsistencies with audited financial statements.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Board proposes the candidacy of an independent audit firm to the Annual General Meeting of Shareholders.

11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	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.