TELIA LIETUVA, AB

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

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Telia Lietuva, AB:

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

Deloitte Lietuva UAB
Audit Company License No 001275

Saulius Bakas
Lithuanian Certified Auditor
License No 000604

Vilnius, Republic of Lithuania
25 March 2020

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

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

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

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

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

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

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

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

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

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

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

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

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

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

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

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

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

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

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

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

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

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

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

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

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

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

(Continued in the next page)

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

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)

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

(Concluded)

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

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

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1 General information

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

The Company’s shares are traded on Nasdaq Vilnius stock exchange from 16 June 2000. Nasdaq Vilnius stock exchange is a home market for the Company’s shares. From January 2011, the Company’s shares are included into the trading lists of the Berlin Stock Exchange, the Frankfurt Stock Exchange, the Munich Stock Exchange and the Stuttgart Stock Exchange.

The shareholders’ structure of the Company was as follows:

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

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

The Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an operator with significant market power (SMP) in 8 telecommunications markets. Following the provisions of the Law on Electronic Communications of the Republic of Lithuania the Company is obliged to provide access to other undertakings, to follow obligation of non-discrimination, obligation of transparency, obligations of price control and cost accounting, obligation of accounting separation. Also, to publish public offer regarding the access.

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

The number of full-time employees of the Group at the end of 2019 amounted to 2,336 (2018: 2,482). The number of full-time employees of the Company at the end of 2019 amounted to 1,607 (2018: 1,864).

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

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

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

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

2.2 Consolidated financial statements

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

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

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

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

2.2 Consolidated financial statements (continued)

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

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

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

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

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

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

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

2.3 Foreign currency translation

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

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

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

2.4 Property, plant and equipment

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

2.4 Property, plant and equipment (continued)

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

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

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

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

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

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

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

2.5 Intangible assets

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

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

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

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

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

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

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

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

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

2.5 Intangible assets (continued)

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

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

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

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

2.6 Investment property

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

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

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

2.7 Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

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

2.8 Goodwill

Goodwill is initially recognised and measured as set out above.

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

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

2.9 Financial assets

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

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

2.9.1 Classification of financial assets

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

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

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

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

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

2.9.1 Classification of financial assets (continued)

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

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

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

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

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

2.9.2 Impairment of financial assets

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

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

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

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

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

2.9.3 Derecognition of financial assets

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

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

2.10 Financial liabilities

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

2.10.1 Financial liabilities measured subsequently at amortised cost

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

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

2.10.2 Derecognition of financial liabilities

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

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

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

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

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

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

2.12 Inventories

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

2.13 Cash and cash equivalents

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

2.14 Assets held for sale

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

2.15 Issued capital

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

2.16 Trade payables

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

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

2.17 Borrowings

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

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

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

Borrowings are disclosed in the Note 26.

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

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

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

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

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

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

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

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

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

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

2.20 Provisions

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

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

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

2.21 Income tax

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

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

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

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

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

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

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

2.21 Income tax (continued)

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

2.22 Revenue recognition

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

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

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

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

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

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

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

2.23 Interest income

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

Interest income on held-to-maturity investments, loans granted are classified as “Other income”, interest income on cash and cash equivalents are classified into ‘Finance income’.

2.24 Dividend income

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

2.25 Employee benefits

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

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

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

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

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

2.26 Dividend distribution

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

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

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

2.27 Segment information

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

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

Other segment includes technology division and support units financial performance.

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

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

Group's segment reporting 2018:

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

Group's segment reporting 2019:

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

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

3 Financial risk management

3.1 Financial risk factors

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

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

Market risk

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

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

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

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

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

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

3.1 Financial risk factors (continued)

Credit risk

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

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

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

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

Liquidity risk

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

Liquidity risk relates to the availability of sufficient funds for debt service, capital expenditure and working capital requirement or dividend payment. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Accordingly, the Group’s management implemented formal procedures for liquidity risk management, where minimum required liquidity position (calculated as cash and cash equivalents plus undrawn committed credit facilities) should at any time exceed the level of 2 per cent of planned annual revenue.

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

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

Operational transaction exposure sensitivity

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

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

Fair value estimation

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

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

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

3.1 Financial risk factors (continued)

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

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

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

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

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

<u>Assets and liabilities for which fair value is disclosed</u>

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

3.2 Capital management

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

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

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

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

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

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

3.3 Fair value estimation

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

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

3.4 Offsetting financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

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

4 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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

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

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

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

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

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

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

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

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

5 Revenue

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

6 Cost of goods and services

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

7 Other income

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

8 Other operating expenses and employee related expenses

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

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

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

9 Other gain (loss)

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

10 Financial and investment activities

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

11 Income tax

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

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

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

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

11 Income tax (continued)

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

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

12 Earnings per share

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

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

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

13 Dividends per share

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

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

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

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

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

14 Property, plant and equipment (continued)

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

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

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

14 Property, plant and equipment (continued)

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

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

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

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

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

14 Property, plant and equipment (continued)

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

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

15 Intangible assets

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

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

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

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

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

15 Intangible assets (continued)

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

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

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

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

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

16 Right-of-use-asset

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

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

17 Investment property

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

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

18 Investments in associates and subsidiaries

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

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

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

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

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

19 Inventories

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

20 Financial instruments by category

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

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

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

20 Financial instruments by category (continued)

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

21 Trade and other receivables

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

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

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

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

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

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

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

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

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

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

21 Trade and other receivables (continued)

The ageing of these receivables is as follows:

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

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

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

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

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

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

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

Movements of impairment for trade receivables are as follows:

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

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

21 Trade and other receivables (continued)

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

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

22 Cash and cash equivalents

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

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

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

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

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

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

23 Share capital

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

24 Legal reserve

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

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

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

25 Trade, other payables and accrued liabilities

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

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

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

26 Borrowings and lease liabilities

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

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

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

Reverse factoring or Supplier Invoice Financing (SIF) is a program where invoices are paid by 3rd party bank in 7 days for the agreed fee which is covered by supplier. The Company does not pay any credit fees and does not provide any additional collateral or guarantee to the bank. Company pays bank full amount in approximately one-year period (actual term depends on few variables agreed between all 3 parties). There were 17 suppliers which participated in SIF program during 2019 and generated over EUR 20 million cash flow.

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

26 Borrowings and lease liabilities (continued)

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

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

27 Deferred income taxes

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

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

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

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

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

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

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

27 Deferred income taxes (continued)

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

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

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

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

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

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

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

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

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

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

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

28 Provisions

Group provisions movement during January-December 2019:

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

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

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

29 Contingent liabilities and contingent assets

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

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

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

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

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

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

The future minimum lease payments to be received:

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

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

29 Contingent liabilities and contingent assets (continued)

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

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

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

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

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

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

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

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

30 IFRS 16 "Leases"

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

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

30 IFRS 16 "Leases" (continued)

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

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

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

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

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

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

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

When the intermediate lessor enters into the sublease, the intermediate lessor:

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

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

30 IFRS 16 "Leases" (continued)

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

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

The following amounts are recognised in profit or loss:

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

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

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

31 Related party transactions

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

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

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

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

31 Related party transactions (continued)

The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

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

Purchases of assets and services:

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

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

Receivables and accrued revenue from related parties:

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

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

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

31 Related party transactions (continued)

Payables and accrued expenses to related parties:

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

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

Borrowings from related parties:

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

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

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

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

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

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

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

31 Related party transactions (continued)

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

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

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

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

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

32 Costs to obtain a contract

Contract cost assets balance roll forward:

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

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

33 Contract assets and liabilities

Contract assets balance roll forward:

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

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

33 Contract assets and liabilities (continued)

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

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

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

34 Notes to the cash flow statement

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

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

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

35 Disposal of subsidiary

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

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

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

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

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

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

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

IFRS 16 effects on consolidated and separate statements of financial position

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

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

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

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

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

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

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

37 Events after the reporting period

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

In March 2020, the shareholders of UAB Mobilieji Mokėjimai (the Company holds a 33.3 per cent stake) decided to cease operations of the entity from 18 May 2020.

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

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

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No 22 of the Law on Securities of the Republic of Lithuania and Rules on Information Disclosure of the Bank of Lithuania, we, Dan Strömberg, CEO of Telia Lietuva, AB, and Arūnas Lingė, Head of Finance of Telia Lietuva, AB, hereby confirm that, to the best of our knowledge, Telia Lietuva, AB Consolidated and Separate Financial Statements as of and for the year ended 31 December 2019 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position, profit or loss and cash flows of the Group and the Company of undertakings.

Dan Strömberg	Arūnas Lingė
CEO	Head of Finance