TELIA LIETUVA, AB

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR 31 DECEMBER 2018

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CONTENTS

	PAGES
INDEPENDENT AUDITOR'S REPORT	**3 – 6**
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS	**7 – 58**
CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	7
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION	8
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY	9
CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS	10 – 11
NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS	12 – 58
CONSOLIDATED ANNUAL REPORT	**59 – 102**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Telia Lietuva, AB:

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Telia Lietuva, AB (the Company) and consolidated financial statements of Telia Lietuva, AB and subsidiaries (the Group), which comprise the statements of financial position of the Company and the Group as at 31 December 2018, 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 2018, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment analysis	
Refer to pages 19, 30-31, 37-38 of the financial statements As at 31 December 2018, the Company and the Group had goodwill amounting to 26,769 thousand Eur. Goodwill with an indefinite useful life is subject to impairment assessments annually and when there is an indication of impairment. The assessment of the value in use requires numerous estimates and judgments made by the Company and the Group, as described in Note 15, and in particular the assessment of the competitive, economic and financial environment of the country in which the Company and the Group operates, the ability to realize operating cash flows from strategic plans, the level of investment to be made and the discount and growth rates used in calculating recoverable amounts.	Our audit procedures in relation to management's impairment assessment included, among others: • assessing the appropriateness of the valuation methodologies used; • challenging the reasonableness of key assumptions utilised in valuing the goodwill based on our knowledge of the business and industry; • performing sensitivity analyses on the key assumptions where we flexed the growth rates and discount rates as these are the key assumptions against which the value in use calculations are most sensitive to; and

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

Revenue recognition	
Refer to pages 24-25, 32, 54-57 of the financial statements The Company's and the Group's net sales amounted to 377,728 thousand Eur and 376,494 thousand Eur respectively for the year then ended 2018. 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. The Company's and the Group's adoption of IFRS 15 "Revenue from contracts with customers" during 2018, required the assessment of its impact on financial information, the update of revenue recognition processes. IFRS 15 was adopted 1 January 2018 using the full retrospective method with adjustments to all periods presented. Complex products and services and a combination of those requires significant management judgment about the timing and value of revenue to be recognised and impose the risk of accuracy and completeness of revenue related accounting records. Due to this, we considered this to be a key audit matter.	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 rateably 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 renewed annually and the period of total uninterrupted engagement is five years.

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

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

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

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

Deloitte Lietuva UAB
Audit Company License No 001275

Simonas Rimašauskas
Lithuanian Certified Auditor
License No 000466

Vilnius, Republic of Lithuania
2 April 2019

(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 2019

	Notes	GROUP 2018	GROUP 2017 restated	COMPANY 2018	COMPANY 2017 restated
		Year ended 31 December			
Revenue	5	**376,494**	**368,636**	**377,728**	**357,809**
Cost of goods and services	6	(151,682)	(148,187)	(162,295)	(143,342)
Employee related expenses		(51,220)	(54,391)	(42,163)	(43,936)
Other operating expenses	8	(46,309)	(46,229)	(46,392)	(55,345)
Other income	7	-	-	295	1,070
Other gain / (loss) – net	9	154	357	98	379
Depreciation, amortisation and impairment of fixed assets and assets classified as held for sale	14	(64,522)	(67,044)	(64,112)	(63,761)
Operating profit		**62,915**	**53,142**	**63,159**	**52,874**
Gain/loss from investment activities		683	-	92	-
Finance income		2,009	1,949	2,009	1,874
Finance costs		(2,373)	(2,405)	(2,373)	(2,349)
Finance and investment activities – net	10	319	(456)	(272)	(475)
Profit before income tax		**63,234**	**52,686**	**62,887**	**52,399**
Income tax	11	(8,534)	(2,609)	(8,440)	(1,821)
Profit for the year		**54,700**	**50,077**	**54,447**	**50,578**
Other comprehensive income:					
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**54,700**	**50,077**	**54,447**	**50,578**
Profit and comprehensive income attributable to:					
Owners of the Parent		54,700	50,077	54,447	50,578
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**	**0.086**	**0.093**	**0.087**

The notes on pages 12 to 58 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 58 have been approved for issue by the Board of Directors as at 2 April 2019 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 2019

	Notes	GROUP 2018	GROUP 2017 restated	GROUP 2016 restated	COMPANY 2018	COMPANY 2017 restated	COMPANY 2017 restated
		As at 31 December					
ASSETS							
Non-current assets							
Property, plant and equipment	14	276,537	290,435	291,818	272,390	285,900	210,403
Goodwill	15	26,769	26,769	26,769	26,769	26,769	-
Intangible assets	15	104,742	95,632	97,743	104,721	95,590	10,147
Investment property	16	-	1,277	1,277	-	-	-
Investments in associates and subsidiaries	17	-	650	-	4,122	6,817	151,434
Costs to obtain contract	31	5,175	3,470	4,015	5,175	3,470	4,015
Contract asset	32	530	544	324	530	544	324
Trade and other receivables	20	8,704	9,459	10,349	8,704	9,459	4,882
		422,457	**428,236**	**432,295**	**422,411**	**428,549**	**381,205**
Current assets							
Inventories	18	8,182	11,242	10,135	8,182	11,242	1,157
Contract asset	32	1,352	1,303	1,408	1,352	1,303	1,408
Trade and other receivables	20	101,566	101,650	93,011	101,638	101,561	35,570
Current income tax assets		-	174	722	-	-	-
Cash and cash equivalents	21	28,725	23,166	56,650	26,612	21,297	31,015
		139,825	**137,535**	**161,926**	**137,784**	**135,403**	**69,150**
Assets classified as held for sale		1,823	2,743	-	1,343	1,973	-
Total assets		**564,105**	**568,514**	**594,221**	**561,538**	**565,925**	**450,355**
EQUITY							
Capital and reserves attributable to equity holders of the Company							
Issued capital	22	168,958	168,958	168,958	168,958	168,958	168,958
Legal reserve	23	16,896	16,896	16,896	16,896	16,896	16,896
Retained earnings		133,922	120,005	87,407	131,617	117,953	70,991
Equity attributable to owners of the Company		319,776	305,859	273,261	317,471	303,807	256,845
Non-controlling interests		-	-	-	-	-	-
Total equity		**319,776**	**305,859**	**273,261**	**317,471**	**303,807**	**256,845**
LIABILITIES							
Non-current liabilities							
Borrowings	25	99,753	130,626	97,500	99,753	130,626	97,500
Deferred tax liabilities	26	21,049	19,080	20,801	20,392	18,384	9,819
Deferred revenue and accrued liabilities	24	8,104	9,151	9,897	8,104	9,151	972
Contract liability	32	-	50	8	-	50	8
Provisions	27	10,934	10,728	6,627	10,934	10,728	-
		139,840	**169,635**	**134,833**	**139,183**	**168,939**	**108,299**
Current liabilities							
Trade, other payables and accrued liabilities	24	43,988	59,018	55,114	44,315	59,177	31,263
Current income tax liabilities		2,024	1,959	1,068	2,092	1,959	1,068
Borrowings	25	58,365	31,385	129,500	58,365	31,385	52,500
Contract liability	32	75	645	42	75	645	42
Provisions	27	37	13	403	37	13	338
		104,489	**93,020**	**186,127**	**104,884**	**93,179**	**85,211**
Total liabilities		**244,329**	**262,655**	**320,960**	**244,067**	**262,118**	**193,510**
Total equity and liabilities		**564,105**	**568,514**	**594,221**	**561,538**	**565,925**	**450,355**

The notes on pages 12 to 58 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 58 have been approved for issue by the Board of Directors as at 2 April 2019 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 2019

GROUP	Notes	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2017 restated		**168,958**	**16,896**	**87,407**	**273,261**
Profit for the year, restated		-	-	50,077	50,077
Other comprehensive income for the year, net of income tax		-	-	-	-
Total comprehensive income for the year, restated		**-**	**-**	**50,077**	**50,077**
Dividends paid for 2016	13	-	-	(17,479)	(17,479)
Balance at 31 December 2017 restated		**168,958**	**16,896**	**120,005**	**305,859**
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**

COMPANY	Notes	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2017 restated		**168,958**	**16,896**	**70,991**	**256,845**
Profit for the year, restated		-	-	50,578	50,578
Other comprehensive income for the year, net of income tax		-	-	-	-
Total comprehensive income for the year, restated		**-**	**-**	**50,578**	**50,578**
Dividends paid for 2016	13	-	-	(17,479)	(17,479)
Result from legal merger		-	-	13,863	13,863
Balance at 31 December 2017 restated		**168,958**	**16,896**	**117,953**	**303,807**
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**

The notes on pages 12 to 58 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 58 have been approved for issue by the Board of Directors as at 2 April 2019 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 2019

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2018	2017 restated	2018	2017 restated
Operating activities					
Profit for the year		54,700	50,077	54,447	50,577
Adjustments for:					
Income tax expenses recognized in profit or loss	11	8,534	2,609	8,440	1,821
Depreciation, amortisation and impairment charge	14	65,402	67,044	64,992	63,761
Dividends received from subsidiaries	7	-	-	(295)	(1,070)
Other gain / (loss) – net	9	-	(407)	-	373
Write off of property, plant and equipment and intangible assets		927	393	927	365
Impairment of investments in subsidiaries	17	-	-	-	-
Interest income	10	(467)	(150)	(467)	(150)
Interest expenses		1,782	1,991	1,782	1,991
Other non-cash transactions		617	(48)	663	-
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories / Assets held for sale		5,204	(3,006)	5,237	(599)
Trade and other receivables		(222)	(7,749)	(175)	(5,150)
Decrease/(increase) in contract assets	32	(1,705)	545	(1,705)	545
Decrease/(increase) in contract costs	33	(35)	(115)	(35)	(115)
Trade, other payables and accrued liabilities, deferred tax liability		(18,748)	4,530	(21,344)	9,853
Increase/(decrease) in contract liabilities	33	(620)	645	(620)	645
Increase/(decrease) in deferred income	33	(1,047)	(746)	(1,047)	8,179
Provisions	27	230	3,710	230	3,740
Cash generated from operations		**114,552**	**119,323**	**111,030**	**134,767**
Interest paid		(1,766)	(2,073)	(1,766)	(2,073)
Interest received		467	150	467	150
Income taxes paid		(6,486)	(2,890)	(6,300)	(2,564)
Net cash generated by operating activities		**106,767**	**114,510**	**103,431**	**130,280**
Investing activities					
Purchase of property, plant and equipment (PPE) and intangible assets		(57,267)	(61,929)	(55,496)	(60,629)
Proceeds from disposal of PPE and intangible assets		599	1,292	325	1,353
Disposal of subsidiary	30, 34	836	-	2,086	-
Acquisition of subsidiaries and investment in an associate	30	(700)	-	(650)	5,565
Legal merger (cash acquired)		-	-	-	-
Dividends received	7	-	-	295	1,070
Net cash used in investing activities		**(56,532)**	**(60,637)**	**(53,440)**	**(52,641)**

(Continued in the next page)

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

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)

	Note	GROUP 2018	GROUP 2017 restated	COMPANY 2018	COMPANY 2017 restated
		Year ended 31 December			
Financing activities					
Repayment of borrowings	25	(41,430)	(144,879)	(41,430)	(144,879)
Proceeds from borrowings	25	37,537	75,000	37,537	75,000
Dividends paid to shareholders	13	(40,783)	(17,478)	(40,783)	(17,478)
Net cash received in financing activities		**(44,676)**	**(87,357)**	**(44,676)**	**(87,357)**
Increase (decrease) in cash and cash equivalents		**5,559**	**(33,484)**	**5,315**	**(9,718)**
Movement in cash and cash equivalents					
At the beginning of the financial year		**23,166**	**56,650**	**21,297**	**31,015**
Increase (decrease) in cash and cash equivalents		5,559	(33,484)	5,315	(9,718)
At the end of the financial year	21	**28,725**	**23,166**	**26,612**	**21,297**

(Concluded)

The notes on pages 12 to 58 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 7 to 58 have been approved for issue by the Board of Directors as at 2 April 2019 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 Lvovo St. 25, LT-03501, Vilnius, Lithuania.

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

The shareholders' structure of the Company was as follows:

	31 December 2018		31 December 2017	
	Number of shares	%	Number of shares	%
Telia Company AB (Sweden)	513,594,774	88.15	513,594,774	88.15
Other shareholders	69,018,364	11.85	69,018,364	11.85
	582,613,138	**100.00**	**582,613,138**	**100.00**

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

The Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an operator with significant market power (SMP) in 8 telecommunications markets.

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

The number of full time staff employed by the Group at the end of 2018 amounted to 2,482 (2017: 2,733). The number of full time staff employed by the Company at the end of 2018 amounted to 1,864 (2017: 1,981).

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

Subsidiary / associate	Country of incorporation	Ownership interest in % 31 December 2018	Ownership interest in % 31 December 2017	Profile
Telia Customer Service LT, UAB	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and customer care services to customers of the Company.
Telia Global Services Lithuania, UAB	Lithuania	-	100%	On 1 June 2018, 196 employees of the Company were moved to earlier dormant subsidiary (until 30 January 2018 known as UAB Kompetencijos Ugdymo Centras) and on 1 June 2018 subsidiary was acquired by Telia Company AB, which holds 88.15% of the Company's shares.
UAB Verslo Investicijos	Lithuania	-	100%	On 26 October 2018, the subsidiary that was implementing an investment project in Vilnius, at Lvovo str. 21A, was disposed to the third party.

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

Subsidiary / associate	Country of incorporation	Ownership interest in % 31 December 2018	31 December 2017	Profile
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.

The following standards have been adopted by the Company and the Group for the first time for the financial year beginning on or after January 2018.

IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). The Group and the Company has applied the standard using the full retrospective method (subject to practical expedients in the standard), with adjustments to all periods presented. IFRS15 is applied on financial statements of the year 2018 in full. Previous year reported figures are restated in year 2018 financial statements accordingly.

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

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

Bundled offerings: The Group's and the Company's prior accounting and recognition of revenue for bundled offerings and allocation of the consideration between equipment and service was in line with IFRS 15. A detailed analysis of the performance obligations and the revenue recognition for each type of customer contract has been performed and the model previously used has been slightly refined for some types of customer contracts.

Incremental costs for obtaining a contract: sales commissions and equipment granted to dealers for obtaining a specific contract should be capitalized and deferred over the period over which the Group and the Company expects to provide services to the customer. The amortization of capitalized contract costs over the service period is classified as operating expenses within EBITDA. Under the Group's and the Company's prior accounting principles, costs for obtaining contracts were expensed as incurred. The main effect of implementing IFRS 15 for the Group and the Company is related to capitalization of costs.

Financing: If the period between payment and transfer of goods and services is beyond one year, adjustments for the time value of money are made at the prevailing interest rates in the relevant market. The Group and the Company currently was applying discounting, using the rate close to market discount rate. Therefore, no effect on implementing of IFRS 15.

Contract combination, contract modifications arising from various orders, variable consideration: guidance is included on when to account for modifications retrospectively or progressively. The new guidance had no material revenue effect for the Group and the Company.

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

The amount of adjustment for each financial statement line item affected by the application of IFRS 15 illustrated in Note 35.

IFRS 9 "Financial instruments" is effective as of 1 January 2018, and replaces IAS 39 "Financial instruments: Recognition and Measurement". As permitted by IFRS 9, the Group and the Company has chosen to implement the new standard without restating comparative figures for 2017. The standard's three main projects have been classification and measurement, impairment and hedge accounting. The Group and the Company performed an analysis of the effects on the financial assets and financial liabilities and the impact is not material to the Group's and the Company's financial statements.

The following new and amended standards and interpretations relevant to the Group and the Company are in certain cases in line with already applied interpretations and otherwise have had no or very limited impact on the financial statements:

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

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

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

- **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 Group and the Company has elected not to adopt new standard, amendments to existing standard and interpretation in advance of their effective dates. The Group and the Company anticipates that except for IFRS 16 the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Group and the Company in the period of initial application. The effect of IFRS 16 implementation is presented in Note 29.

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 (the effective dates stated below is for IFRS as issued by IASB):

- **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,

- **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 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),

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

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.

2.2 Consolidated financial statements

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

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

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

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

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

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

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

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

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of 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.

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

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

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

The 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 Company and the Group in future periods have finite useful life and are measured at acquisition cost less any accumulated amortisation and any accumulated impairment losses.

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

Licenses 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.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company and the Group are recognised as intangible assets when the following criteria are met:
- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

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

2.6 Investment property

Property that 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 16.

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.

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).

Amortised cost and effective interest method
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.

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 Company and the Group), transportation, handling and other costs directly attributable to the acquisition of inventories. Net realisable value is the estimate of the selling price in the ordinary course of business, less the applicable selling expenses. All inventories held by the Group and by the Company attribute to the materials and goods for resale categories.

2.13 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 Company and the Group, until the remedies are agreed upon and accepted by management. The determination if and when non-current assets and disposal groups should be classified 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 25.

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.

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 future effect of IFRS16 is presented in Note 29.

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 future effect of IFRS16 is presented in Note 29.

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 2018 is taxable at a rate of 15% (2017: 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 2018 are carried forward indefinitely except for tax loss arising from the transfer of securities.

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

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

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

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

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 Company's and the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Withholding tax on dividends paid to legal entities amounts to 15% (2017: 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 2017 restated:

	January – December 2017			
	B2B	**B2C**	**Other**	**Total**
Revenue from external customers	**157,928**	**208,042**	**2,666**	**368,636**
Operating expenses external	(82,256)	(94,006)	(72,545)	(248,807)
Operational result	**75,672**	**114,036**	**(69,879)**	**119,829**
Impairment of fixed assets		-	-	-
Other income				-
Other gain/ (loss) – net				357
Depreciation and amortisation of non-current assets				(67,044)
Operating profit				**53,142**

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**

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

3 Financial risk management

3.1 Financial risk factors

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

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

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 Company's and the Group's trade payables and trade receivables in foreign currency are short-term and insignificant as compared to total cash pool in EUR. As the foreign exchange risk is insignificant, the sensitivity analysis of foreign exchange risk is not disclosed. The Group manages foreign exchange risk by minimising the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Notes 20, 21, 24 and 25.

Cash flow and interest rate risk
The Company 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:

	2018
Financial assets	
Accounts receivables with differed payments	61,081
Financial liabilities	
Loans with variable interest rate	60,000
ARO	10,934
Pensions accruals	259
Accounts payables with differed payment	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%	61,726	60,436	645
Financial liabilities				
Loans with variable interest rate	0,84%	62,988	56,988	2,988 / (3,012)
ARO	2,70%	12,584	10,106	1,650 / (828)
Pensions accruals	2,70%	237	262	22 / (3)
Accounts payables with differed payment	2,21%	9,147	8,047	574 / (526)
Total				

Credit risk

The financial assets exposed to credit risk represent cash deposits and trade receivables. The Company and the Group did not have any held-to-maturity investments at the end of 2018.

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

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

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

Liquidity risk

Liquidity risk is the risk that the Company and the Group 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% 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 Company's and the Group's borrowings, into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date see Note 25.

Operational transaction exposure sensitivity

In most cases, the Company and Group 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 2018 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.

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

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

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

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

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

Assets and liabilities for which fair value is disclosed

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

3.2 Capital management

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

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

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

Pursuant to the Lithuanian Law on Companies the authorised share capital of a joint stock company must be not less than EUR 40,000, and the shareholders' equity should not be lower than 50% of the company's registered share capital. As at 31 December 2018 and as at 31 December 2017 the Company complied with these requirements.

The Company's and the Group's operations are financed by the external parties as well as by the shareholders' capital. The Group had finance lease and vendor financing liabilities plus outstanding EUR 127.5 million external loans with Lithuanian and foreign banks and outstanding EUR 10 million internal loan from Telia Company AB at the end of 2018. For more detailed borrowings related information see Note 25.

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

3.3 Fair value estimation

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

(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	
	2018	2017 restated	2018	2017 restated
Trade and other receivable				
Gross amounts of recognized financial assets	110,359	109,507	110,431	109,567
Gross amounts of recognized financial liabilities set off in the statement of financial position	(2,269)	(3,892)	(2,269)	(3,892)
Net amounts of financial assets presented in the statement of financial position	**108,090**	**105,615**	**108,162**	**105,675**
Related amounts not set off in the statement of financial position	-	-	-	-
Net amount	**108,090**	**105,615**	**108,162**	**105,675**

Financial liabilities

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Trade payables				
Gross amounts of recognized financial liabilities	190,810	209,767	191,137	210,145
Gross amounts of recognized financial assets set off in the statement of financial position	(2,269)	(3,892)	(2,269)	(3,892)
Net amounts of financial liabilities presented in the statement of financial position	**188,541**	**205,875**	**188,868**	**206,253**
Related amounts not set off in the statement of financial position	-	-	-	-
Net amount	**188,541**	**205,875**	**188,868**	**206,253**

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. 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 2018 and at 31 December 2017. 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 amount of customers and the disconnected amount of customers over the period.

Based on the assumptions above no changes of useful lives for intangible assets were made over 2018.

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

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

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

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

5 Revenue

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Mobile services	121,120	106,957	121,305	98,130
Voice telephony services	59,076	76,302	58,779	77,440
Equipment sales revenue	77,732	69,115	77,735	66,134
Internet services	57,839	58,388	57,839	58,431
TV services	26,076	23,810	26,076	23,809
Data communication and network capacity services	19,125	19,157	19,128	19,271
IT services	10,204	9,574	10,519	9,472
Other services	5,322	5,333	6,347	5,122
Total	**376,494**	**368,636**	**377,728**	**357,809**

6 Cost of goods and services

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Costs of goods and services purchased	88,895	74,427	99,508	71,537
Network's interconnection	49,872	60,066	49,872	58,695
Network capacity costs	12,915	13,694	12,915	13,110
Total	**151,682**	**148,187**	**162,295**	**143,342**

7 Other income

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Income from dividends (Note 30)	-	-	295	1,070
Total	**-**	**-**	**295**	**1,070**

8 Other operating expenses and employee related expenses

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Energy, premises and transport costs	15,131	14,381	15,422	14,676
Marketing expenses	12,639	13,732	12,639	13,234
Maintenance and other services	6,795	7,593	6,686	7,252
Consultations and other services from group	5,936	5,589	5,936	4,909
Impairment of accounts receivable	1,627	1,211	1,627	1,200
Other expenses	4,181	3,723	4,082	14,074
Total	**46,309**	**46,229**	**46,392**	**55,345**

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

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

9 Other gain (loss)

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Gain on sales of property, plant and equipment	926	853	927	825
Loss on sales of property, plant and equipment	-	(460)	-	(460)
Gain/loss from investments in associates	(697)	-	(754)	-
Other gain (loss)	(75)	(36)	(75)	14
Total	**154**	**357**	**98**	**379**

10 Financial and investment activities

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Gain/loss from investments in subsidiaries	**683**	**-**	**92**	**-**
Interest income from instalments amortisation	1,367	1,314	1,367	1,239
Interest income on cash and cash equivalents	467	488	467	488
Foreign exchange gain (loss) on financing activities	58	-	58	-
Other finance income	117	147	117	147
Finance income	**2,009**	**1,949**	**2,009**	**1,874**
Interest expenses	(1,782)	(1,839)	(1,782)	(1,829)
Foreign exchange gain (loss) on financing activities	(422)	(158)	(422)	(157)
Other finance costs	(169)	(408)	(169)	(363)
Finance costs	**(2,373)**	**(2,405)**	**(2,373)**	**(2,349)**
Financial and investment activities – net	**319**	**(456)**	**(272)**	**(475)**

11 Income tax

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Current tax expenses	6,565	3,813	6,433	3,252
Deferred tax change (Note 26)	1,969	(1,204)	2,007	(1,431)
Income tax expenses	**8,534**	**2,609**	**8,440**	**1,821**

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 2018 to EUR 3.4 million (2017: EUR 4.7 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 Company's and the Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

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

11 Income tax (continued)

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Profit before income tax	**63,234**	**52,686**	**62,887**	**52,399**
Tax calculated at a tax rate of 15% (2017: 15%)	9,485	7,903	9,433	7,860
Non-taxable dividends received (tax effect)	-	-	(44)	(161)
Income not subject to tax (-) and expenses not deductible for tax purposes (+)	2,337	(10)	2,337	(779)
Tax relief	(3,363)	(4,698)	(3,363)	(4,546)
Other	75	(586)	77	(553)
Income tax expense recognized in profit or loss and other comprehensive income statement	**8,534**	**2,609**	**8,440**	**1,821**
Effective tax rate	13.50%	4.95%	13.42%	3.48%

12 Earnings per share

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

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Net profit	**54,700**	**50,077**	**54,447**	**50,578**
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613	582,613	582,613
Basic earnings per share (EUR)	**0.094**	**0.086**	**0.093**	**0.087**

13 Dividends per share

The dividends per share declared in respect of 2017 and 2016 and paid in 2018 and 2017 were EUR 0.07 and EUR 0.03 respectively.

14 Property, plant and equipment

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Depreciation of property, plant and equipment	49,723	48,401	49,436	46,144
Impairment of property, plant and equipment	1,178	1,518	1,074	1,518
Amortisation of intangible assets (Note 15)	13,621	12,637	13,602	12,246
Impairment of intangible assets (Note 15)	-	3,584	-	3,584
Impairment of investment property (Note 16)	-	-	-	-
Total	**64,522**	**66,140**	**64,112**	**63,492**
Impairment of assets classified as held for sale	132	904	28	269
Total	**64,654**	**67,044**	**64,140**	**63,761**

(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 2017 restated					
Opening net book amount	**22,704**	**238,257**	**4,852**	**26,005**	**291,818**
Additions	-	4,118	282	48,311	52,711
Reclassifications	(2,741)	68	-	183	(2,490)
Disposals and write-offs	(1,407)	(254)	(24)	-	(1,685)
Transfers from construction in progress	58	37,736	4,851	(42,645)	-
Depreciation charge	(1,079)	(45,276)	(2,046)	-	(48,401)
Impairment charge	(248)	(1,270)	-	-	(1,518)
Closing net book amount	**17,287**	**233,379**	**7,915**	**31,854**	**290,435**
At 31 December 2017 restated					
Cost	40,021	973,008	32,445	31,854	1,077,328
Accumulated depreciation	(22,734)	(736,730)	(24,530)	-	(783,994)
Impairment Charge	-	(2,899)	-	-	(2,899)
Net book amount	**17,287**	**233,379**	**7,915**	**31,854**	**290,435**
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**

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

14 Property, plant and equipment (continued)

COMPANY	Land and buildings	Ducts and telecommunication equipment	Other tangible fixed assets	Construction in progress	Total
Year ended 31 December 2017 restated					
Opening net book amount	**8,531**	**177,270**	**2,553**	**22,049**	**210,403**
Legal merger	8,227	59,390	2,271	4,563	74,451
Additions	-	4,115	282	47,142	51,539
Disposals and write-offs	(1,434)	(260)	(24)	-	(1,718)
Reclassifications	(1,319)	23	-	183	(1,113)
Transfers from construction in progress	58	37,368	4,658	(42,084)	-
Depreciation charge	(873)	(43,327)	(1,944)	-	(46,144)
Impairment charge	(248)	(1,270)	-	-	(1,518)
Closing net book amount	**12,942**	**233,309**	**7,796**	**31,853**	**285,900**
At 31 December 2017 restated					
Cost	32,778	970,244	30,617	31,853	1,065,492
Accumulated depreciation	(19,836)	(734,036)	(22,821)	-	(776,693)
Impairment charge	-	(2,899)	-	-	(2,899)
Net book amount	**12,942**	**233,309**	**7,796**	**31,853**	**285,900**
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**

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 criterias the Company has written-off fully depreciated assets for EUR 137,698 thousand of acquisition cost.

The Company still uses depreciated property, plant and equipment with acquisition cost as at 31 December 2018 amounting to EUR 400,452 thousand (2017: EUR 495,889 thousand), comprising buildings with acquisition cost as at 31 December 2018 amounting to EUR 5,847 thousand (2017: EUR 6,265 thousand), plant and machinery with acquisition cost of EUR 377,959 thousand (2017: EUR 473,441 thousand) and other fixtures, fitting, tools and equipment with acquisition cost of EUR 16,646 thousand (2017: EUR 16,182 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	
	2018	2017 restated	2018	2017 restated
Cost	53,312	52,026	53,312	52,026
Accumulated depreciation at 1 January	(33,233)	(30,263)	(33,233)	(30,263)
Depreciation charge for the year	(7,890)	(7,449)	(7,890)	(7,449)
Disposals and write-offs accumulated depreciation	8,467	4,479	8,467	4,479
Net book amount	**20,656**	**18,793**	**20,656**	**18,793**

15 Intangible assets

GROUP	Licenses and software	Goodwill	Other intangible assets*	Construction in progress*	Total
Year ended 31 December 2017					
Opening net book amount restated	**40,182**	**26,769**	**53,044**	**4,517**	**124,512**
Additions	5	-	-	11,182	11,187
Transfer from assets in construction	5,914	-	13	(5,927)	-
Reclassifications	-	-	-	2,923	2,923
Amortisation charge	(8,599)	-	(4,038)	-	(12,637)
Impairment charge	-	-	(3,584)	-	(3,584)
Closing net book amount	**37,502**	**26,769**	**45,435**	**12,695**	**122,401**
At 31 December 2017 restated					
Cost	109,998	29,408	61,733	12,695	213,834
Accumulated amortisation	(72,496)	(2,639)	(12,714)	-	(87,849)
Impairment charge	-	-	(3,584)	-	(3,584)
Net book amount	**37,502**	**26,769**	**45,435**	**12,695**	**122,401**
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**

*Construction in progress comprise intangible assets developed for internal use and provision of services, are expected to be completed within 2019.

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 2017					
Opening net book amount restated	**7,114**	**-**	**354**	**2,679**	**10,147**
Legal merger	32,673	26,769	52,680	1,940	114,062
Additions	-	-	-	11,057	11,057
Transfer from assets in construction	5,898	-	13	(5,911)	-
Reclassifications	-	-	-	2,923	2,923
Amortisation charge	(8,214)	-	(4,032)	-	(12,246)
Impairment charge	-	-	(3,584)	-	(3,584)
Closing net book amount	**37,471**	**26,769**	**45,431**	**12,688**	**122,359**
At 31 December 2017 restated					
Cost	107,809	29,408	61,578	12,688	211,483
Accumulated amortisation	(70,338)	(2,639)	(12,563)	-	(85,540)
Impairment charge	-	-	(3,584)	-	(3,584)
Net book amount	**37,471**	**26,769**	**45,431**	**12,688**	**122,359**
Year ended 31 December 2018					
Opening net book amount	**37,941**	**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**

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

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

The Company still uses amortised software and licenses with acquisition cost as at 31 December 2018 amounting to EUR 42,137 thousand (2017: EUR 41,910 thousand).

16 Investment property

As at 31 December 2018, 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.

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

17 Investments in associates and subsidiaries

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
At the beginning of year	**650**	**-**	**6,817**	**151,434**
Acquisition / increase of share capital of associates[1]	650	700	650	700
Legal merger	-	-	-	(145,317)
Divestment/ reclass of subsidiaries and associates[1]	(637)	-	(3,345)	-
Result of associates	(663)	(50)	-	-
At end of year	**-**	**650**	**4,122**	**6,817**

[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 amounts to EUR 2.1 million. Mobilieji Mokėjimai is creating the first instant payments platform in the Baltic States, which will be called MoQ ("móku") and will function as a means of payment at points of sale, on the Internet, and will allow customers to make money transfers between themselves. All payments between MoQ users will be made instantaneously and at any time of the day. In May 2017, the Bank of Lithuania granted a limited activity electronic money institution license to Mobilieji Mokėjimai required for activities related to instant payments. In July, the mobile operators got the permission of the European Commission to jointly create a common platform for the provision of the mobile payments service. In 2018 UAB Mobilieji Mokėjimai was reclassified as held for sale.

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.

18 Inventories

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Goods for resale	2,230	6,307	2,230	6,307
Supplies and consumables	5,952	4,935	5,952	4,935
Total	**8,182**	**11,242**	**8,182**	**11,242**

19 Financial instruments by category

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

	GROUP	
	2018	2017 restated
Assets as per statement of financial position		
Available-for-sale financial assets	596	-
Trade and other receivables	108,090	105,615
Cash and cash equivalents	28,725	23,166
Total	**137,411**	**128,781**

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

19 Financial instruments by category (continued)

	COMPANY	
	2018	2017 restated
Assets as per statement of financial position		
Available-for-sale financial assets	596	-
Trade and other receivables	108,162	105,675
Cash and cash equivalents	26,612	21,297
	135,370	**126,972**

All financial liabilities of the Group amounting to EUR 188,541 thousand (2017: EUR 205,875 thousand) and of the Company amounting to EUR 188,868 thousand (2017: EUR 206,253 thousand) fell under the category of other financial liabilities, there are no liabilities at fair value through profit and loss.

20 Trade and other receivables

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Trade receivables from business customers and residents	107,356	103,956	107,322	103,735
Trade receivables from other operators	3,032	4,029	3,032	4,029
Total trade receivables	**110,388**	**107,985**	**110,354**	**107,764**
Less: provision for impairment of receivables	(9,194)	(8,341)	(9,194)	(8,341)
Trade receivables – net	**101,194**	**99,644**	**101,160**	**99,423**
Receivables from companies collecting payments for telecommunication services	357	453	357	453
Prepaid expenses and other receivables	4,938	8,474	4,918	8,474
Receivables from related parties (Note 30)	3,781	2,538	3,907	2,670
	110,270	**111,109**	**110,342**	**111,020**
Less: non-current portion	(8,704)	(9,459)	(8,704)	(9,459)
Current portion	**101,566**	**101,650**	**101,638**	**101,561**

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

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

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

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

As at 31 December 2018, the Group's trade receivables of EUR 110,388 thousand (2017: EUR 9,262 thousand) and the Company's trade receivable of EUR 110,354 thousand (2017: EUR 9.261 thousand) were impaired and provided for. The amount of the Group's provision was EUR 9,194 thousand as at 31 December 2018 (2017: EUR 8,341 thousand) and the amount of the Company's provision was EUR 9,194 thousand as at 31 December 2018 (2017: EUR 8,341 thousand). Impairment allowance by major part has been recognised on an issued invoices, based on the impairment rates assessed by management.

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

20 Trade and other receivables (continued)

The ageing of these receivables is as follows:

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Trade receivable total	**110,388**	**107,985**	**110,354**	**107,764**
Of which not overdue	97,062	89,225	97,028	89,004
Overdue up to 3 months	6,809	9,499	6,809	9,499
4 to 6 months	1,373	1,168	1,373	1,168
7 to 12 months	2,068	1,244	2,068	1,244
Over 12 months	3,076	6,849	3,076	6,849

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Total	**1,620**	**2,449**	**1,620**	**2,449**
Overdue up to 3 months	1,336	1,805	1,336	1,805
4 to 6 months	73	407	73	407
7 to 12 months	148	124	148	124
Over 12 months	63	113	63	113

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

Total	**80,008**	**83,713**	**79,968**	**83,713**
Of which not overdue	68,302	67,402	68,262	67,402
Overdue up to 3 months	5,473	7,694	5,473	7,694
4 to 6 months	1,300	761	1,300	761
7 to 12 months	1,920	1,120	1,920	1,120
Over 12 months	3,013	6,736	3,013	6,736

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Currency				
EUR	109,391	107,829	109,463	107,740
Other currency	879	3,280	879	3,280
Total	**110,270**	**111,109**	**110,342**	**111,020**

Movements of impairment for trade receivables are as follows:

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
At the beginning of year	**8,341**	**8,666**	**8,341**	**3,454**
Acquirement during business combination	-	-	-	5,212
Receivables written off during the year as uncollectible	(945)	(1,231)	(945)	(1,231)
Provision for receivables impairment / Unused amount reversed (-)	1,798	906	1,798	906
At the end of year	**9,194**	**8,341**	**9,194**	**8,341**

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

20 Trade and other receivables (continued)

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

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

21 Cash and cash equivalents

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Cash in hand and at bank	28,725	23,166	26,612	21,297
Total	**28,725**	**23,166**	**26,612**	**21,297**

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Currency				
EUR	28,709	23,163	26,596	21,294
USD	16	3	16	3
Total	**28,725**	**23,166**	**26,612**	**21,297**

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
AA-	21,336	10,477	21,336	10,464
A+	5,827	7,380	3,714	5,524
A	223	3,057	223	3,057
Other	1,339	2,252	1,339	2,252
Total	**28,725**	**23,166**	**26,612**	**21,297**

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.

22 Share capital

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

23 Legal reserve

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

At the end of year 2018 legal reserve – EUR 16.9 million.

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

24 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Trade payables	18,200	31,038	16,831	30,862
Taxes, salaries and social security payable	8,959	10,297	9,815	9,912
Accrued liabilities	5,612	6,445	5,612	6,445
Amounts payable to related parties (Note 30)	1,605	2,080	2,747	3,158
Accruals to operators	1,981	1,841	1,981	1,841
Trade payables to operators	363	1,783	363	1,783
Other payables and deferred revenue	15,372	14,685	15,070	14,327
	52,092	**68,169**	**52,419**	**68,328**
Less non-current portion	(8,104)	(9,151)	(8,104)	(9,151)
Current portion	**43,988**	**59,018**	**44,315**	**59,177**

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Currency				
EUR	51,213	64,479	51,540	64,638
Other currency	879	3,690	879	3,690
Total	**52,092**	**68,169**	**52,419**	**68,328**

25 Borrowings

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Current				
Borrowings	40,000	30,000	40,000	30,000
Reverse factoring	17,538		17,538	
Finance lease liabilities	827	1,385	827	1,385
	58,365	**31,385**	**58,365**	**31,385**
Non-current (due between 2 and 5 years)				
Borrowings	97,500	127,500	97,500	127,500
Finance lease liabilities	2,253	3,126	2,253	3,126
	99,753	**130,626**	**99,753**	**130,626**
Total borrowings	**158,118**	**162,011**	**158,118**	**162,011**

In 2018, the Company did not conclude any new lease agreements. In 2017, the Company concluded five lease agreements with SEB bank AB. Company's finance leases concern company cars for employees, and other vehicles. Cars lease agreements are for 5 years. All the borrowings denominated in EUR.

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

Reverse factoring or Supplier Invoice Financing (SIF) is a program where invoices are paid by 3rd party bank per 7days for the agreed fee which is covered by supplier. 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 are 15 suppliers which participated in SIF program during 2018 and generated over 15 million Eur cash flow.

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

25 Borrowings (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 2017	872	3,940	-	4,812
Less future finance charges	(14)	(78)	-	(92)
Present value of minimum lease payments at 31 December 2017 restated	**858**	**3,862**	**-**	**4,720**
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**

26 Deferred income taxes

On 1 February 2017 AB Omnitel was merged into AB TEO LT, therefore, tax goodwill of 71,2 mio EUR was recognised upon the merger. The Company calculated deferred tax asset on the whole amount of goodwill of 10,7 million EUR, however, due to the negative binding ruling received from the Tax Authorities, allowance for the whole amount of deferred tax asset was also calculated. The negative binding ruling was appealed to the Supreme Administrative Court.

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

Deferred tax liabilities	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
At the beginning of year	**19,080**	**20,284**	**18,384**	**9,302**
Deferred tax liability from a business combination	-	-	-	10,513
Charged/ (credited) to profit or loss (Note 11)	1,969	(1,204)	2,008	(1,431)
At the end of year	**21,049**	**19,080**	**20,392**	**18,384**

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

Deferred tax liabilities	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Deferred tax asset to be recovered / liability settled after more than 12 months	20,647	18,741	19,985	18,038
Deferred tax asset to be recovered / liability settled within 12 months	402	339	407	346
	21,049	**19,080**	**20,392**	**18,384**

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.

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 2017 restated	**2,998**	**9,169**	**9,517**	**21,684**
Charged / (credited) to profit or loss	(417)	872	1,245	1,700
At 31 December 2018	**2,581**	**10,041**	**10,762**	**23,384**

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

26 Deferred income taxes (continued)

GROUP – deferred tax asset	Tax losses	Other	Total
At 31 December 2017 restated	-	(2,604)	(2,604)
Charged / (credited) to profit or loss	-	269	269
At 31 December 2018	-	(2,335)	(2,335)

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 2017 restated	2,379	18,209	392	20,980
Charged / (credited) to profit or loss	(305)	1,118	928	1,741
At 31 December 2018	2,074	19,327	1,320	22,721

COMPANY – deferred tax asset	Tax losses	Other	Total
At 31 December 2017 restated	-	(2,596)	(2,596)
Charged / (credited) to profit or loss	-	267	267
At 31 December 2018	-	(2,329)	(2,329)

[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	
	2018	2017 restated	2018	2017 restated
Deferred tax asset	(2,335)	(2,604)	(2,329)	(2,492)
Offset with deferred tax liabilities	2,335	2,604	2,329	2,492
Deferred tax asset as per statement of financial position	-	-	-	-
Deferred tax liabilities	23,384	21,684	22,721	20,980
Offset with deferred tax asset	(2,335)	(2,604)	(2,329)	(2,596)
Deferred tax liabilities as per statement of financial position	21,049	19,080	20,392	18,384

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

27 Provisions

Group provisions movement during January-December 2018:

	Provision for restructuring	Assets retirement obligation	Total
Opening net book amount at 31 December 2017 restated	**13**	**10,728**	**10,741**
Acquisition of subsidiaries	-	-	-
Additions	37	247	284
Used provisions	(13)	(41)	(54)
Closing net book amount at 31 December 2018	**37**	**10,934**	**10,971**

The restructuring provision comprises of compensation to employees as a result of the restructuring plan approved by the Company and the Group. Provisions for restructuring are expected to be fully utilized during the year 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 recognised. The Group expects that assets retirement obligation will be realised later than after one year. Therefore, the whole amount of assets retirement obligation has been classified as non-current provision for other liabilities and charges.

28 Contingent liabilities and contingent assets

Guarantees
As at 31 December 2018, 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 Company and the Group amounts to EUR 625 million (2017: EUR 1,187 million).

As at 31 December 2018, tender and performance guarantees represented the following expected maturities:

Expected maturity EUR in thousand	Jan-Mar 2019	Apr-Jun 2019	Jul-Sep 2019	Oct-Dec 2019	2020	2021	2022	2023 and later	Total
Guarantees	196	10	34	79	119	67	20	100	**625**

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Not later than 1 year	5,372	3,954	5,372	3,954
Later than 1 year but not later than 5 years	2,749	1,761	2,749	1,761
Total	**8,121**	**5,715**	**8,121**	**5,715**

Minimum lease payments recognized in the statement of profit or loss and other comprehensive income during 2018 were EUR 7,527 thousand (2017: EUR 3,539 thousand).

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

	GROUP		COMPANY	
	2018	2017 restated	2018	2017 restated
Property, plant and equipment	8,848	10,227	8,848	10,227
Intangible assets	656	1,179	656	1,179
	9,504	**11,406**	**9,504**	**11,406**

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

Operating lease commitments – where the Group is the lessee (AP)
The Company and the Group 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	
	2018	**2017 restated**	**2018**	**2017 restated**
Minimum lease payments	9,982	8,638	9,743	8,495
	9,982	**8,638**	**9,743**	**8,495**

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

	GROUP		COMPANY	
	2018	**2017 restated**	**2018**	**2017 restated**
Not later than 1 year	10,447	7,908	10,380	7,908
Later than 1 year but not later than 5 years	11,582	11,783	11,314	11,783
Later than 5 years	9,767	10,532	9,748	10,532
Total	**31,796**	**30,223**	**31,442**	**30,223**

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.

29 IFRS 16 "Leases"

IFRS 16 "Leases" replaces the current IAS 17 "Leases" and its associated interpretative guidance. The new standard is effective as at 1 January 2019. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the lessee. The new standard removes the classification of leases as operating leases or finance leases, for lessees, as is required by IAS 17 and, instead introduces a single accounting model. According to the new model, leases result in the lessee obtaining the right to use an asset during the estimated leas term and, if lease payments are made over time, also obtaining financing. The Group's and the Company's long term operating leases will be recognized as non-current assets and financial liabilities in the consolidated statement of financial position instead of operating lease expenses. The Group and the Company will recognize depreciation and interest expenses in the consolidated statement of comprehensive income. Lease payments will affect cash flow from operating activities (e.g. interest, low value asset leases and short-term leases), and cash flow from financing activities (repayment of the lease liability) in the cash flow statement. The new standard does not include significant changes to the requirements for accounting by lessors.

The Group and the Company will apply the new standard using the modified retrospective approach, which means that comparative figures will not be restated. The cumulative effect of applying IFRS 16 will be recognized at 1 January 2019. The lease liabilities attributable to leases which have previously been classified as operating leases under IAS 17 will be 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 will recognize 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, will be the carrying amount of the lease asset and lease liability accounted for under IAS 17 immediately before transition to IFRS 16.

29 IFRS 16 "Leases" (continued)

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

Preliminary IFRS 16 effects **Eur in thousand**	**1 January, 2019**
Right-of-use-asset	31,442
Deferred tax asset	4,716
Increase total assets	**36,158**
Lease liability, non-current	26,561
Deferred tax liability	4,716
Lease liability, current	4,881
Increase total liabilities	**36,158**

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 will be 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.

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

29 IFRS 16 "Leases" (continued)

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

Preliminary IFRS 16 effects
Eur in thousand

	1 January, 2019
Right-of-use-asset	(2,797)
Trade receivables	3,077
Deferred tax asset	(420)
Increase total assets	**(140)**
Equity	322
Deferred tax liability	(462)
Increase total liabilities	**(140)**

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

On 6 December 2017, the Company together with UAB Tele2 and UAB Bitė Lietuva acquired an equal 33.3 per cent stakes in UAB Mobilieji Mokėjimai, each. In July 2017, the mobile operators got the permission of the European Commission to jointly create a common platform for the provision of the mobile payments service. The entity holds a limited activities electronic money institution license issued by the Bank of Lithuania for activities related to instant payments. In August 2018, UAB Mobilieji Mokėjimai started to provide instant payments service.

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.

The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2018	2017	2018	2017
Telia Company AB and its subsidiaries	7,884	6,889	7,884	6,889
Sales of assets	983		983	
Divestment of subsidiary	151		151	
Subsidiaries of the Company	-	-	1,684	1,313
Total sales of telecommunication and other services	**9,018**	**6,889**	**10,702**	**8,202**
Sales of assets to subsidiaries	-	-	-	68
Total sales of assets and services	**9,018**	**6,889**	**10,702**	**8,270**

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

30 Related party transactions (continued)

Purchases of assets and services:

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Purchases of assets from:				
Telia Company AB and its subsidiaries	2,176	356	2,176	356
Subsidiaries of the Company	-	-	-	-
	2,176	**356**	**2,176**	**356**
Purchases of services from:				
Telia Company AB and its subsidiaries	14,159	13,860	14,159	13,860
Subsidiaries of the Company	-	-	8,625	11,927
	14,159	**13,860**	**22,784**	**25,787**
Total purchases of assets and services	**16,335**	**14,216**	**24,960**	**26,143**

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

Receivables and accrued revenue from related parties:

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Receivables from related parties:				
Long term receivables:				
Telia Company AB and its subsidiaries	195	251	195	251
Short-term receivables:				
Telia Company AB and its subsidiaries	4,490	1,974	4,490	1,974
Subsidiaries of the Company	-	-	195	132
	4,685	**2,225**	**4,880**	**2,357**
Accrued revenue from related parties:				
Telia Company AB and its subsidiaries	401	313	401	313
	401	**313**	**401**	**313**
Total receivables and accrued revenue from related parties	**5,086**	**2,538**	**5,281**	**2,670**

The receivables from related parties arise mainly from sale transactions and due one month after the date of sale. The receivables are unsecured in nature and bear no interest. No provision are held against receivables from related parties as at 31 December 2018 and 2017.

Payables and accrued expenses to related parties:

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Payables to related parties:				
Telia Company AB and its subsidiaries	2,521	1,946	2,521	1,946
Subsidiaries of the Company	-	-	1,145	1,078
	2,521	**1,946**	**3,666**	**3,024**
Accrued expenses to related parties:				
Telia Company AB and its subsidiaries	14	134	14	134
	14	**134**	**14**	**134**
Total payables and accrued expenses to related parties	**2,535**	**2,080**	**3,680**	**3,158**

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

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

30 Related party transactions (continued)

Borrowings from related parties:

	GROUP		COMPANY	
	2018	2017	2018	2017
Beginning of the year	-	**77,004**	-	-
Acquisition of subsidiaries	-	-	-	77,004
Borrowings	20,000	20,000	20,000	20,000
Repayments of borrowings (in cash)	(10,000)	(97,000)	(10,000)	(97,000)
Interest charged (including VAT)	73	150	73	150
Interest paid (including VAT)	(59)	(154)	(59)	(154)
End of the year	**10,014**	-	**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 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	0.38%
Telia Company AB	21 August 2018	EUR	10,000	21 February 2019	0.384%
Year ended 31 December 2017					
AB Omnitel[2]	2 January 2017	EUR	1,200	1 February 2017	0.83%
AB Omnitel[2]	4 January 2017	EUR	3,800	1 February 2017	0.83%
Telia Company AB[3]	30 January 2017	EUR	70,000	30 May 2017	0.30%
Telia Company AB	29 May 2017	EUR	2,000	29 August 2017	0.321%
Telia Company AB	30 May 2017	EUR	10,000	30 November 2017	0.40%
Telia Company AB	3 July 2017	EUR	3,000	3 October 2017	0.32%

[2] As at 1 February 2018, AB Omnitel was merged into the Company.
[3] Prolongation of outstanding 29 December 2016 loan from Telia Company AB of EUR 77 million minus repayment of EUR 7 million.

As of 31 December 2018, the Company had an outstanding short-term internal loan of EUR 10 million provided by Telia Company AB under the Revolver Loan Agreement signed on 23 May 2017.

During 2018, the Company extended loans in total of EUR 350 thousand to UAB Mobilieji Mokėjimai, an associated entity where the Company holds 33.3 per cent. On 28 September 2018, the loan was converted into the share capital of UAB Mobilieji Mokėjimai and additional contribution to the share capital of EUR 300 thousand was made.

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

During 2018, dividends paid out to Telia Company AB amounted to EUR 35,952 thousand (2017: EUR 15,408 thousand dividends).

During 2018, dividends received by the Company from subsidiaries amounted to EUR 295 thousand (2017: EUR 1,070 thousand).

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

	2018	2017
Remuneration of key management personnel	3,487	3,919
Social security contributions on remuneration	1,087	1,181
Total remuneration	**4,574**	**5,100**

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 2018 was 53 (as at 31 December 2017: 50).

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

30 Related party transactions (continued)

The total amount of annual payments (tantiemes) assigned to two independent members of the Board of the Company for the year 2017 during 2018 amounted to EUR 31 thousand (2017: for two members amounted to EUR 31 thousand). As at 31 December 2018, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010, was not paid to one member of the Board. All remuneration of the Company's and the Group's key management falls under short term employee benefits.

31 Costs to obtain a contract

Contract cost assets balance roll forward:

	Company	
	2018	**2017 restated**
Contract cost assets at the beginning of the year	**3,470**	**4,015**
Increase of contract assets due to new contracts within the year	6,762	4,319
Amortization expense of costs to obtain contracts	(5,057)	(4,864)
Contract cost assets as at 31 December	**5,175**	**3,470**

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.

32 Contract assets and liabilities

Contract assets balance roll forward:

	Company	
	2018	**2017 restated**
Current contract assets at 1 January	**1,303**	**1,408**
Increase in the balance due to new contract modification	1,626	1,024
Decrease in balance due to normal unwind or contract modification	(1,577)	(1,842)
Balance transfer from non-current to current contract assets	-	713
Current contract assets as at 31 December	**1,352**	**1,303**
Non-current contract assets at 1 January	**543**	**324**
Increase in the balance due to new contract modification	153	984
Decrease in balance due to normal unwind or contract modification	(166)	-
Balance transfer from non-current to current contract assets	-	(764)
Non-current contract assets as at 31 December	**530**	**544**
Total contract assets as at 31 December	**1,882**	**1,847**

Contract liability balance rollforward:

	Company	
	2018	**2017 restated**
Current contract liabilities at 1 January	**645**	**42**
Increase in contract liability during the year	86	635
Derecognition of contract liability	(656)	(61)
Balance transfer from non-current to current contract liabilities	-	29
Current contract liabilities as at 31 December	**75**	**645**

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

32 Contract assets and liabilities (continued)

	Company	
	2018	2017 restated
Non-current contract liabilities at 1 January	**50**	**8**
Increase in the balance due to new contract modification	-	71
Decrease in balance due to normal unwind or contract modification	-	-
Balance transfer from non-current to current contract liabilities	(50)	(29)
Non-current contract liabilities as at 31 December	**-**	**50**
Total contract liabilities as at 31 December	**75**	**695**

33 Notes to the cash flow statement

	Group		Company	
	2018	2017 restated	2018	2017 restated
Cash in hand and at bank	28,725	23,166	26,612	21,297

	Group		Company	
	2018	2017 restated	2018	2017 restated
Dividends received	-	-	295	1,070
Interest received	467	150	467	150
Interest paid	1,766	(2,073)	1,766	(2,073)
Income taxes paid	(6,486)	(2,890)	(6,300)	(2,564)

34 Disposal of subsidiary

As referred to in note 17, 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

34 Disposal of subsidiary (continued)

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 17.

The gain on disposal is included in the profit for the year from discontinued operations (Note 17).

35 Restatement effects on consolidated and separate statement of financial position

The tables below present the impact of initial application of IFRS 15 on consolidated and separate financial statements for 2016 and 2017:

IFRS 15 effects on Consolidated and separate statements of financial position

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

35 Restatement effects on consolidated and separate statement of financial position (continued)

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

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

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

35 Restatement effects on consolidated and separate statement of financial position (continued)

IFRS 15 effects on Consolidated and separate statements of financial position

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

35 Restatement effects on consolidated and separate statement of financial position (continued)

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

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

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

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

c) The deferred tax relating to the IFRS 15 adjustments increased deferred tax liabilities and assets at the date of transition 1 January 2017 and decreased deferred tax liabilities at 31 December 2017. The tax effect on net income 2017 was EUR 304 thousand.

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

36 Events after the reporting period

On 1 January 2019, following the agreement as of 21 December 2018 the Company transferred the part of its economic activities – People HUB (26 employees of Human Resource unit and related assets and liabilities) – to Telia Global Services Lithuania, UAB.

On 8 January 2019, the Company signed a Share subscription agreement regarding an increase of share capital of UAB Mobilieji Mokėjimai by additional contribution of EUR 350 thousand.

On 14 January, 2019 there was received a recommendation from Bank of Lithuania to review and where necessary adjust useful lives of assets so that they comply with IAS 17 and 38.

There is a standard and regular process performed in a Company regarding assets useful lives review according international accounting standards. As a usual step, Company performed the review at the year end and starting from 2019 January there were changes in some of assets useful lives categories. After a Company received Bank of Lithuania recommendation, there was performed additional check and validation and by the time of financial statements issue major part of assets categories review process was completed. Estimated impact of changes of assets useful lives will not have any material impact on a Company costs.

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

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 2018 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position, profit or loss and cash flows of the Company and the Group of undertakings.

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

CONSOLIDATED ANNUAL REPORT

Approved by the Board
as of 2 April 2019

GENERAL INFORMATION

Reporting period

Year ended 31 December 2018

Issuer and its contact details

Name of the Issuer	**Telia Lietuva, AB** (hereinafter – 'the Company')
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Name of Register of Legal Entities	State Enterprise Centre of Registers
Code of enterprise	1212 15434
LEI code	5299007A0LO7C2YYI075
Registered office	Lvovo str. 25, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 1511
Fax number	+370 5 212 6665
E-mail address	info@telia.lt
Internet address	www.telia.lt

Main activities of the Group

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

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

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

The Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an **operator with significant market power** (SMP) in Lithuania on the following markets of:
- voice call termination on the mobile network;
- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- wholesale calls termination on individual public telephone networks provided at a fixed location;
- wholesale local access provided at a fixed location;
- wholesale central access for mass market products;
- wholesale high quality data transmission services via terminating segment;
- digital terrestrial television broadcasting transmission services provided by the Company in the territory of the Republic of Lithuania.

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

As of 31 December 2018, the **Group** consisted of the parent company, Telia Lietuva, AB, (registered on 6 February 1992, code 1212 15434, name of the Register of Legal Entities: State Enterprise Center of Registers; address: Lvovo str. 25, LT- 03501 Vilnius tel.: +370 5 262 1511; fax. +370 5 212 6665; internet address: www.telia.lt), its subsidiaries and associates.

The following entities were **subsidiaries and associates** of the Company as of 31 December 2018:

Name of the company	Date of registration, code, name of Register of Legal Entities	Contact details	The Company's share in the share capital of the entity (%)	The Company's share of votes (%)
Telia Customer Service LT, UAB	27 July 1992, code 1104 01957, State Enterprise Center of Registers	Vytenio str. 18, LT-03503 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5 278 3322, www.118.lt	100.00	100.00
VšĮ Numerio Perkėlimas	5 September 2014, code 3033 86211, State Enterprise Center of Registers	Jogailos str. 9, LT- 01116 Vilnius, Lithuania	-	50.00
UAB Mobilieji Mokėjimai	12 December 2016, code 3044 31143, State Enterprise Center of Registers	A. Tumėno str. 4, LT-01109 Vilnius, Lithuania tel. +370 699 23530	33.33	33.33

Telia Customer Service LT, UAB takes care of the Company's customers and provides Directory Inquiry service 118 in Lithuania. During 2018, there were more than 14 million contacts served over the phone or e-channels. In 2018, this subsidiary paid to the Company EUR 295 thousand in dividends for the year 2017.

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

On 6 December 2017, the Company together with other two Lithuanian mobile operators – UAB Bitė Lietuva and UAB Tele2 – each acquired a 33.3 per cent stake in **UAB Mobilieji Mokėjimai**, a creator of an instant payment platform. In July 2017, the mobile operators got the permission of the European Commission to jointly create a common platform for the provision of mobile payments services. In May 2017, the Bank of Lithuania granted a limited activities electronic money institution license to Mobilieji Mokėjimai required for activities related to instant payments. In August of 2018, the Beta version of the instant mobile payment platform MoQ was launched.

On 1 June 2018, 196 employees of the Company providing services to Telia Company Group were transferred to the then subsidiary of Telia Lietuva, **Telia Global Services Lithuania, UAB**, a shared service center of Telia Company Group based in Vilnius, and on the same day a 100 per cent stake in Telia Global Services Lithuania was acquired by Telia Company AB from Telia Lietuva for an amount of EUR 151 thousand.

The decision to establish the first Telia Group shared service center in Lithuania was made in the autumn of 2017. A dormant subsidiary of Telia Lietuva, UAB Kompetencijos Ugdymo Centras, was chosen as the base for the establishment of the service centre. Therefore, on 30 January 2018 the subsidiary's name was changed to Telia Global Services Lithuania, UAB. The service centre that serves the whole Telia Group provides a wide range of global services – starting from IT and technology to procurement, finance and other internal services. In the nearest future it is planned to increase the number of employees up to 400.

On 26 October 2018, following the strategy of disposing none core activities Telia Lietuva has sold a 100 per cent stake in subsidiary **UAB Verslo Investicijos** to the third party, UAB Netfundus (Lithuania). UAB Verslo Investicijos was developing project at Lvovo str. 21A in Vilnius.

The Company has no branches or representative offices.

Agreements with intermediaries of public trading in securities

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

Data about securities traded on regulated market

The following securities of the Company are included into the Main List of Nasdaq Vilnius stock exchange (symbol: TEL1L) as of 31 December 2018:

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

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

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

Other material information

On 14 June 2018, Telia Lietuva withdrawn its application for a concentration permit submitted to the Competition Council of Lithuania in February 2018 relating to the planned acquisition of UAB Duomenų Logistikos Centras (DLC) from UAB Lietuvos Energija and AB Litgrid. The transaction for the acquisition of DLC was signed in August of 2017, and parties to the original acquisition agreement – namely, Telia Lietuva, Lietuvos Energija and Litgrid – have signed a termination agreement. According to the preliminary market assessment of the Competition Council, after the concentration the Company's share in the market of data centres would increase significantly, thus the Company would have to dispose a part of its own or the acquired company's activities to a third party.

Recent events

On 1 January 2019, following the agreement as of 21 December 2018 the Company transferred the part of its economic activities – People HUB (26 employees of Human Resource unit and related assets and liabilities) – to Telia Global Services Lithuania, UAB, a subsidiary of Telia Company AB, for the remuneration of EUR 24 thousand.

On 8 January 2019, the Company signed a Share subscription agreement regarding an increase of share capital of UAB Mobilieji Mokėjimai by additional contribution of EUR 350 thousand.

Telia

FINANCIAL INFORMATION

Year 2018 was the second year of our merged mobile and fixed broadband operations under a single Telia brand and it was marked with continuous growth, number of technological novelties and improving customers experience pursuing our purpose – bringing the world closer on the customer´s terms.

As it was promised two years ago during the merger of fixed and mobile activities, our customers are offered innovative converged solutions such as hybrid-type Internet combining 4G mobile and DSL Internet, and IPTV over 4G LTE mobile network service, while more than 33 thousand customers using both fixed and mobile services are enjoying higher speed, more data and more TV content by taking an advantage of the converged "Telia One" offer which is unique in the market.

In January 2018, we were the first in Lithuania to present "Super VDSL" (S-VDSL) technology, which provides up to 250 Mbps Internet via copper lines. By the year end almost 21 thousand customers were switched from DSL to S-VDSL technology.

In September 2018, we closed one chapter of pay-TV history in Lithuania – terminated provision of digital terrestrial (DVB-T) television to our customers, and lifted it up to another level by offering award winning HBO content on our IPTV platform. Launch of converged IPTV over LTE service in June 2018 was a bridge for smooth transition from outdated terrestrial TV rebroadcasting to interactive and modern IPTV experience even in remote and rural areas. This innovation represents one more example of the synergy of our services and technologies, which provides our customers with new possibilities and extra value.

Another change that occurred in August 2018 was a facelift of our pre-paid mobile communication service brand "Ežys" and simplification of pre-paid payment plans to suit the real needs of our customers – just services that are required.

Cooperation of three major telecommunications operators in Lithuania is finally bearing fruit – the Beta version of the instant mobile payment platform MoQ created by Bitė Lietuva, Tele2 and Telia Lietuva was launched in August 2018 and in February 2019 it entered a new stage when mobile phone became a valet linked to mobile operators' customers' accounts. More than 40 thousand customers already downloaded the application and could use it for instant settlements at more than 1,000 locations (shops, cafés, gas stations, etc.) and at majority of the on-line shops in Lithuania.

Year 2018 culminated with an entry into a 5G era in Lithuania. Telia Lietuva was the first in the country to launch the next generation 5G mobile network, demonstrating a new mobile speed record – data was transmitted in an active network at the speed of 1.8 Gb/s. We reconfirmed our technological leadership in Lithuania and set the platform for digital future.

Positive intake of a new customers which accelerated with the launch of the converged offer "Telia One" in October 2017 continued in 2018. Despite tough competition on the market, over the year number of:

- IPTV users increased by 9 per cent up to 230 thousand,
- FTTH Internet customers rose by 4.9 per cent up to 277 thousand,
- post-paid service users grew by 4.7 per cent up to 1,126 thousand.

Starting from 1 January 2018, the Company adopted International Financial Reporting Standard 15 "Revenue from Contracts with Customers" (IFRS 15) and to compare financial results for the year 2018 with financial results a year ago the Company restated financial data for the year 2017. An effect of restatement of financial data for the year 2017 was as follows: total revenue was reduced by EUR 1,487 thousand, while total operating expenses were increased by EUR 545 thousand, having a total negative effect of EUR 2,032 thousand on EBITDA and EBIT.

The growing number of customers, galloping usage of mobile data and continuous demand for equipment during 2018 led to growth in total revenue by 2.1 per cent, whereof revenue from:

- mobile services grew by 13.2 per cent,
- equipment sale increased by 12.5 per cent,
- TV and IT services was up by 9.5 and 6.6 per cent, respectively.

Higher revenue in combination with cost control and operations efficiency improvements resulted in EBITDA, excluding non-recurring items, growth over the year by 4.5 per cent, and EBITDA, including non-recurring items, margin for the year 2018 stood at 34.2 per cent (33.4 per cent a year ago). As a result, profit for the year 2018 went up by 9.2 per cent. Operating free cash flow in 2018 amounted to EUR 50.2 million (EUR 53.9 million a year ago).

Our strategic priorities are leadership in network, customer experience and digitalisation.

Seamless connectivity and experience no matter of time, place, devices or technology could not be ensured without ongoing investments into fiber-optic and 4G networks. By the end of 2018, we completed a major IP network upgrade project and our network is now ready for the data volume growth in forthcoming five years. During 2018, capital investments into fixed network amounted to EUR 32.9 million and accounted for more than a half of total capital investments. According to the data of the Communications Regulatory Authority (CRA), Telia Lietuva remains the heaviest investor into telecommunications infrastructure in Lithuania with a 50 per cent stake.

Besides investment into expansion of network capacities EUR 17.2 million were allocated for development of IT systems under ongoing business transformation program. As a result, by the year end we have completed migration of residential customers that are using fixed communication service to a new customer care system based on SAP. Migration of residential mobile service users and all business customers is anticipated in 2019. Under transformation program we are also revising our services and products portfolio with the aim to terminate provision of less profitable services.

Digitalisation of the customers' experience was prioritised while drafting the new organisation structure of the Company. From the beginning of 2019 a new Direct and Digital Channels unit rallied all employees involved in direct customer care, creation of digital channels, sale support and service implementation under one umbrella. This will help to create a holistic approach to customer experience and facilitate digitisation. Growing importance of communication and IT services integration led to the creation of a separate IT sales unit for business customers.

In March 2018, Telia Lietuva has become the first IT company in the Baltic States to receive a certificate from the software manufacturer SAP, which allows the Company to serve the IT systems of the largest enterprises. At the same time, the Company announced the launch of Telia IT Academy in Šiauliai, where SAP top-level professionals will share their knowledge and experience with the academy participants.

Following the Company's dividend policy which requires that the Company's net debt to EBITDA ratio should not be higher than 1.5 and pay-out of dividends should not exceed 80 per cent of free cash flow, the Annual General Meeting in April 2018 decided to more than double dividend pay-out and to pay EUR 0.07 dividend per share for the year 2017, while for the year 2016 the dividend per share amounted to EUR 0.03. This was one of the highest dividends pay-out in the Company's history and is as result of combined operations' synergy.

Being the leader on the market, we also strive to be a leader in how we do the business. In our daily activities, we adopted the Code of Responsible Business Conduct of Telia Company which focuses on integrity, transparency and sustainability of business conduct.

In 2018, we continued leverage our core competencies and business to create shared value for society where we operate in. By combining social good with business benefits, we concentrated on four key areas: connecting the unconnected, education for all, a healthy and safe society, and digital innovation and entrepreneurship.

For ongoing investment into the progress of telecommunication industry, creation of the value to all stakeholders and contribution to the country's development Telia Lietuva in April 2018 was granted the award of Company of the Centenary by Investors' Forum, that unites foreign investors in Lithuania. In June, Telia Lietuva for second year in a row was awarded as The Most Desired Employer of the Year among the large corporations by Verslo Žinios, the leading business daily.

On 3 October 2018, Lithuania joined European Commission's initiative Diversity Charter. Following a sustainable development strategy, Telia Lietuva was one of almost 30 Lithuanian companies that signed the Charter. By signing the Charter Telia Lietuva commits to promote diversity and equal opportunities at the workplace.

Operating figures	**31-12-2018**	**31-12-2017**	**Change (%)**
Mobile service subscriptions, in total (thousand)	1,389	1,352	2.7
- Post-paid (thousand)	1,126	1,075	4.7
- Pre-paid (thousand)	263	277	(5.1)
Broadband Internet (excl. Wi-Fi) connections, in total (thousand)	414	408	1.5
- Fiber-optic (FTTH/B) (thousand)	277	264	4.9
- Copper (DSL, VDSL) (thousand)	137	144	(4.9)
Fixed telephone lines in service (thousand)	354	416	(14.9)
IPTV service customers (thousand)	230	211	9.0
Number of personnel (head-counts)	2,733	3,027	(9.7)
Number of full-time employees	2,482	2,733	(9.2)

The consolidated financial statements of the Group have been prepared according to the International Financial Reporting Standards as adopted by the European Union. In 2018, the Company introduced IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the year 2017 were restated retrospectively in line with IFRS 15.

Key financial figures (in thousands of EUR unless otherwise stated)	**2018**	**2017 restated**	**Change (%)**
Revenue	376,494	368,636	2.1
EBITDA excluding non-recurring items	128,730	123,202	4.5
EBITDA margin excluding non-recurring items (%)	34.2	33.4	
EBITDA	127,437	120,186	6.0
EBITDA margin (%)	33.8	32.6	
Operating profit (EBIT) excluding non-recurring items	64,208	56,158	14.3
EBIT margin excluding non-recurring items (%)	17.1	15.2	
Operating profit (EBIT)	62,915	53,142	18.4
EBIT margin (%)	16.7	14.4	
Profit before income tax	63,234	52,686	20.0
Profit before income tax margin (%)	16.8	14.3	
Profit for the period	54,700	50,077	9.2
Profit for the period margin (%)	14.5	13.6	
Earnings per share (EUR)	0.094	0.086	
Number of shares (thousand)	582,613	582,613	-
Share price (EUR)	1.105	0.964	14.6
Market capitalisation	643,788	561,639	14.6
Total assets	564,105	568,514	(0.8)
Shareholders' equity	319,776	305,859	4.6
Cash flow from operations	106,767	114,510	(6.8)
Operating free cash flow	50,235	53,873	(6.8)
Capital investments (Capex)	61,844	63,826	(3.1)
Net debt	129,393	138,845	(6.8)

Financial ratios	**31-12-2018**	**31-12-2017**
Return on capital employed (%)	13.8	11.8
Return on average assets (%)	11.3	9.7
Return on shareholders' equity (%)	17.7	17.3
Operating cash flow to sales (%)	28.4	31.1
Capex to sales (%)	16.4	17.3
Net debt to EBITDA ratio	1.02	1.16
Gearing ratio (%)	40.5	45.4
Debt to equity ratio (%)	49.4	53.0
Current ratio (%)	133.8	147.9
Rate of turnover of assets (%)	67.6	67.0
Equity to assets ratio (%)	56.7	53.8
Price to earnings (P/E) ratio	11.8	11.2

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

Revenue

Due to the introduction of IFRS 15 "Revenue from Contracts with Customers" and to have comparable data, revenue for the year 2017 was restated. The major impact was that amounts of EUR 3,217 thousand for the year 2017 representing revenue from leased end equipment were reclassified and moved from revenue line "TV services" to revenue line "Equipment" and fair value of equipment sold with deferred payment (mainly mobile phones and other gadgets) was recalculated. As a result, the restated total revenue for the year 2017 was reduced by EUR 1,487 thousand.

The **total consolidated revenue** for the year 2018 amounted to EUR 376.5 million and was by 2.1 per cent higher than the restated total revenue of EUR 368.6 million a year ago. Revenue from mobile services and equipment sales were the main drivers of the total revenue growth in 2018 supported by higher than in 2017 revenue from TV and IT services.

Share of revenue from fixed and mobile communication services amounted to 47.2 and 32.2 per cent, respectively, from the total revenue for 2018. Share of revenue from equipment sales was 20.6 per cent.

During 2018, revenue from services provided to residential customers (B2C) amounted to 58 per cent, to business customers (B2B) – 41.2 per cent and others – 0.8 per cent of the total revenue.

Over the year the number of customers that took advantage of the converged "Telia One" offer, which gives more value – higher speed, more data and more TV content – to those who have both fixed and mobile services, increased by 28 thousand and exceeded 33 thousand by the end of December 2018.

During 2018, the number of post-paid **mobile** communication service users went up by 51 thousand and the number of active pre-paid service users contracted by 14 thousand. Over the year, the total number of active mobile subscriptions increased by 37 thousand.

In August 2018, pre-paid mobile communication service "Ežys" was facelifted and is now offering a simplified payment plan portfolio – just the services that customer really need: only voice minutes, only mobile data or combination of both.

Revenue from mobile services for the year 2018 amounted to EUR 121.1 million, an increase of 13.2 per cent over the restated mobile revenue of EUR 107 million a year ago. The revenue from mobile services grew due to a 13.7 per cent increase in billed revenue from post-paid and pre-paid mobile services, and a 11.2 per cent increase in revenue from other mobile services.

The double-digit growth in billed revenue from mobile services was driven by net increase in number of active mobile subscriptions and continuous growth of mobile data usage. During 2018, the amount of data used by mobile devices was by 1.6 times higher than a year ago, while the amount of data used by Telia Lietuva customers while abroad over the year increased by 2.3 times due to the elimination of roaming charges in the European Union from 15 June 2017.

In June 2018, almost 3 thousand mobile service subscribers working at Kaunas Municipality and city's municipal institutions migrated to Telia Lietuva network. Overall, the Company provides mobile services to one fifth of Lithuanian municipalities.

In June, Telia Lietuva made another step into Internet of Things era by offering 'Smart home' solution, which is based on equipment of the German manufacturer Devolo. It allows to connect not only the wide range of Devolo equipment, but also devices of other manufacturers that support open wireless protocol Z-Wave into a single smart home system. The Company offers three smart home kits with a mobile app, and equipment, which allows to start creating smart home ecosystem. The prices of these solutions start at EUR 7.99 per month.

Revenue from other mobile services include revenue from the Company's mobile network interconnections as well as roaming charges to country visitors and other network services. Over the year, revenue from roaming charges to country visitors increased by 1.6 times. After elimination of roaming charges in the EU from 15 June 2017 the Company has observed an increasing data usage by Lithuania's visitors from more than 110 countries that use Telia Lietuva mobile network for Internet access.

During 2018, the number of fixed telephone lines in service contracted by 62 thousand and the total retail fixed **voice telephony** traffic decreased by 18.8 per cent. As a result, the revenue from retail voice telephony services for the year 2018, compared with a year ago, went down by 14.5 per cent, while revenue from network interconnection services dropped by 30 per cent due to lower voice transit traffic during 2018. The total revenue from voice telephony services for the year 2018 amounted to EUR 59.1 million, a decrease of 22.6 per cent over the restated voice telephony revenue of EUR 76.3 million in 2017.

Revenue from **equipment sales**, compared with the same restated revenue of EUR 69.1 million for the year 2017, went up by 12.5 per cent and for the year 2018 amounted to EUR 77.7 million due to high demand for the latest smart-phones, tablets, PCs, TV sets and various gadgets. Majority of equipment sold to private customers is based on deferred payments, thus the discounting is negatively affecting EBITDA and equipment sales values.

Over the year, the total number of **broadband Internet** access (excluding Wi-Fi) users increased by 6 thousand. The number of FTTH/B connections increased by 13 thousand and reached 277 thousand at the end of 2018, while the number of copper DSL connections eased by 7 thousand to 137 thousand. By the end of December 2018, the number of Internet connections over the fiber-optic access network amounted to 67 per cent of all 414 thousand broadband Internet (excluding Wi-Fi) connections.

In January 2018, the Company introduced "Super VDSL" (S-VDSL) technology, which depending on the length of the copper line connecting the Company's exchange and end equipment provides up to 250 Mbps Internet speed. By the end of December 2018, almost 21 thousand of Internet connections over the copper line migrated from traditional DSL to S-VDSL technology and more than 30 thousand could be potentially migrated in the nearest future.

Revenue from broadband Internet services for the year 2018 amounted to EUR 57.8 million and was 0.9 per cent lower than restated revenue from Internet services of EUR 58.4 million a year ago due to contracted average revenue per user (ARPU).

During 2018, the number of smart **television** (IPTV) service (including "Interneto.tv") users increased by 19 thousand and by the end of December 2018 amounted to 230 thousand.

From April 2018, the Company's customers travelling in EU could use Telia Lietuva "Interneto.tv" services, that offers 35 TV channels and possibility to watch three-days-old-records, without additional charges like at home. Starting from April, IPTV service providers in all EU countries started providing content portability service without any additional charges.

In September 2018, the Company terminated the provision of digital terrestrial television (DVB-T). For several years, the Company was encouraging its DVB-T users to migrate to the more advanced IPTV platform. At the beginning of 2018 there were 31 thousand of digital terrestrial television users. Majority of them migrated to IPTV over the cable or IPTV over LTE service.

In June 2018, Telia Smart TV, a synonym of quality content at home, became available not only via cable but all over the Lithuania via the Telia Lietuva mobile LTE 4G network. IPTV over LTE 4G network was a substitute to outdated DVB-T service in remote or rural areas where cable network is not accessible.

Since August 2018, the Company's IPTV service users can exclusively enjoy world class TV series, movies and documentaries from HBO. In December, another 4 Lithuanian national channels started to broadcast in HD and the total number HD channels on Telia IPTV increased up to 60.

Revenue from television services during the 2018 went up by 9.5 per cent and amounted to EUR 26.1 million, while a year ago restated revenue from television services was EUR 23.8 million.

Compared with the year 2017, revenue from **data communication** services alone during 2018 increased by 1.6 per cent, while revenue from **network capacity** services alone declined by 2.5 per cent. As a result, the total revenue from data communication and network capacity services for the year 2018 amounted to EUR 19.1 million, and was almost the same (declined by just 0.2 per cent) as revenue of EUR 19.2 million a year ago.

Revenue from **IT services** generated from the data center, information system management and web-hosting services provided to local and multinational enterprises for the year 2018 amounted to EUR 10.2 million, an increase of 6.6 per cent over the same revenue of EUR 9.6 million a year ago. The data centers owned by the Company create the largest IT infrastructure in Lithuania. The latest data center, which was opened in April 2016, is certified according to TIER III security standards.

In February 2018, the Company opened the second largest Telia Lietuva IT competence centre in Šiauliai. The Company plans to create 50 new jobs in Šiauliai in the upcoming few years and to expand its IT team up to 200 employees.

In March 2018, Telia Lietuva obtained certificate from SAP, a German-based one of the largest software manufacturers in the world and the business applications market leader. The audit carried out by SAP experts confirmed that the Company meet all the criteria, and has all the required competences and sufficient experience in maintaining IT SAP systems of large enterprises.

In 2018, high competence of the Company's IT specialists for the second year in a row was evaluated with Platinum Partner certificate by Hewlett Packard Enterprise for active data center, servers, network equipment and HPE maintenance service sale. The Company also was recognised as Microsoft partner of the year in Lithuania for the innovations offered by Telia Lietuva and its cutting-edge Microsoft technology-based solutions. Three years ago, the Company started active sale of Office 365. In 2018, Telia was the first in Lithuania to offer a new Microsoft 365 cloud computing service.

In March 2018, the Company and Šiaulių Bankas signed an agreement regarding the Bank's computerized work places management. Under this agreement, Telia Lietuva leases all necessary computer hardware to Šiaulių Bankas and took over its maintenance. Lease and maintenance of computerized working places created specifically to meet the need of Šiaulių Bankas is a completely new service provided by Telia Lietuva. It will reduce IT costs and, at the same time, have the highest level of excellence in IT maintenance. Another advantage of this integrated service is the introduction of the security systems and technologies latest on the market which meet extremely stringent requirements of the General Data Protection Regulation (GDPR). This not only ensures higher level of personal data security but also guarantees cyber security to banking systems.

During 2018, the high level of the Company's IT management and security was re-confirmed and the Company's ISO certificates in IT Services (ISO 20000) and Information Security (ISO 27001) Management Systems were prolong till 2021.

Revenue from **other services** consists of the non-telecommunication services such as Contact Center services provided to external customers, lease of premises, discount refunds and other. From 1 February 2017 the Company's subsidiary ceased to provide Contact Center services to external customers except the Directory Inquiry service 118. As a result, the total revenue from other services for the year 2018 amounted to EUR 5.3 million and was almost the same (eased by 0.2 per cent) as restated revenue from other services of EUR 5.3 million in 2017.

In May 2018, the Company completed installation of more than 100 new modern video surveillance cameras in Vilnius city for EUR 900 thousand. Images from the new surveillance system are transmitted to the city police station using 4G and fibre-optic networks of Telia Lietuva at up to 1 Gbps speed. The Company will provide system's maintenance services for seven years.

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

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

During the four auctions 23 properties were sold for the total amount of EUR 9.5 million. Final settlement for some larger buildings that were sold at the auction but are still used by the Company will be completed when the Company's employees move to other premises during 2019 and buildings are emptied. During 2018, the non-recurring gain from sales of property amounted to EUR 481 thousand (EUR 28 thousand a year ago).

Market information

According to the latest Report of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue increased by 1.3 per cent in the fourth quarter of 2018 compared with the fourth quarter of 2017 and amounted to EUR 174 million. Market revenue for the year 2018, compared with the year 2017, increased by 1.9 per cent, and amounted to EUR 693 million.

Telia Lietuva remains the largest telecommunications' service provider in Lithuania with the market share (in term of revenue) of 38.7 per cent for the fourth quarter of 2018, a decrease of 3.5 percentage point compared with the fourth quarter of 2017.

	The market shares in terms of customers (%)		The market shares in terms of revenue (%)	
	Q4 2018	**Change (p.p.) (y-o-y)**	**Q4 2018**	**Change (p.p.) (y-o-y)**
Fixed voice telephony services	82.9	(2.5)	89.8	(1.5)
Mobile voice telephony services	29.3	1.4	27.3	(0.1)
Fixed Internet access	52.0	0.6	60.3	(1.4)
Mobile Internet access	29.6	(1.7)	28.9	(3.7)
Pay-TV services	34.1	0.3	39.4	(1.3)
Data communication services	n/a	n/a	65.5	(3.0)

According to the Report of the CRA, on 31 December 2018, broadband Internet penetration per 100 residents of Lithuania was 47.3 per cent (41.7 per cent a year ago) and pay-TV penetration per 100 households was 50.3 per cent (56.8 per cent a year ago). The penetration of active mobile communication users per 100 residents was 135.2 per cent (133 per cent a year ago) and penetration of fixed voice telephony lines per 100 households – 30.7 per cent (37.8 per cent a year ago).

Operating expenses

Cost of goods and services for the year 2018 amounted to EUR 151.7 million, an increase of 2.4 per cent over the cost of goods and services of EUR 148.2 million a year ago, mainly due to higher volumes of equipment sales in 2018.

Due to introduction of IFRS 15 and restatement of Statement of Comprehensive Income for the year 2017, employee-related expenses for the year 2017 were reduced by EUR 3.4 million, while other expenses were increased by EUR 3.9 million. As a result, restated total operating expenses (excluding cost of goods and services) for the year 2017 increased by EUR 545 thousand.

Total **operating expenses** (excluding cost of goods and services, and non-recurring items) for the year 2018 were 1.9 per cent lower than restated operating expenses in 2017, while total operating expenses (excluding cost of goods and services, but including non-recurring items) for the year 2018 amounted to EUR 97.5 million and were 3.1 per cent lower than restated total operating expenses a year ago (EUR 100.6 million in 2017).

Employee-related expenses (excluding one-time redundancy pay-outs) for the year 2018 were 5.5 per cent lower than restated employee-related expenses (excluding one-time redundancy pay-outs) a year ago. Employee-related expenses (including one-time redundancy pay-outs) for the year 2018 amounted to EUR 51.2 million, a decrease of 5.8 per cent over the same restated expense in 2017, mainly because of 196 employees of the Company were transferred to a disposed subsidiary on 1 June 2018. During 2018, the Company had a non-recurring redundancy charge that amounted to EUR 1.8 million (EUR 2.1 million a year ago).

On 1 June 2018, 196 employees of the Company, that were providing services to Telia Company Group, were moved to the Company's subsidiary, Telia Global Services Lithuania, UAB, which on the same day was acquired by Telia Company and became a shared services center of Telia Group based in Vilnius. During 2018, the total **number of employees** (headcount) decreased by 294 – from 3,027 to 2,733. In terms of full-time employees (FTE), the total number of employees during 2018 decreased by 251 (196 whereof moved to Telia shared service center) from 2,733 to 2,482.

Other operating expenses for the year 2018 amounted to EUR 46.3 million and were 2.2 per cent higher than restated operating expenses (excluding non-recurring items) in 2017, when the Company incurred EUR 0.9 million of non-recurring expenses related to rebranding. Other operating expenses for the year 2018 were almost on the same level (0.2 per cent higher) as restated other operating expenses (including non-recurring items) a year ago when they amounted to EUR 46.2 million.

Earnings

Restatement of financial data for year 2017 following the introduction of IFRS 15 from 1 January 2018 had a negative effect of EUR 2 million on EBITDA and EBIT for the year 2017.

EBITDA excluding non-recurring items for the year 2018 amounted to EUR 128.7 million and was 4.5 per cent higher than in 2017 when restated EBITDA excluding non-recurring items amounted to EUR 123.2 million. EBITDA excluding non-recurring items margin for the year 2018 stood at 34.2 per cent, while a year ago it amounted to 33.4 per cent.

EBITDA for the year 2018 was EUR 127.4 million, an increase by 6 per cent over restated EBITDA of EUR 120.2 million for the year 2017. EBITDA margin in 2018 amounted to 33.8 per cent (32.6 per cent in 2017).

Depreciation, amortisation and impairment charges for the year 2018 over the depreciation, amortisation and impairment charges a year ago decreased by 3.8 per cent, and for the year 2018 amounted to 17.1 per cent of the total revenue (18.2 per cent a year ago).

Operating profit (EBIT) excluding non-recurring items for January-December of 2018 was 14.3 per cent higher than restated operating profit (EBIT) excluding non-recurring items for the same period in 2017, and the operating profit excluding non-recurring items margin was 17.1 per cent (15.2 per cent a year ago).

Operating profit (EBIT) for the year 2018 increased by 18.4 per cent over restated operating profit (EBIT) for the year 2017. Operating profit margin was 16.7 per cent (14.4 per cent a year ago).

In 2018, the Company recorded a net gain from **investment activities** of EUR 683 thousand related to divestment of subsidiaries. On 1 June 2018, the Company sold a subsidiary Telia Global Services Lithuania, UAB to Telia Company AB (Sweden), a largest shareholder of the Company, and on 26 October 2018 – subsidiary UAB Verslo Investicijos to a third party. As a result, **net from finance and investment activities** for the year 2018 was EUR 319 thousand, while a year ago it was negative and amounted to EUR 456 thousand.

Profit before income tax for the year 2018 was up by 20 per cent and amounted to EUR 63.2 million (restated profit before income tax for the year 2017 was EUR 52.7 million).

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the year 2018 amounted to EUR 3.4 million (EUR 4.7 million in 2017). **Income tax expenses** for the year 2018 were 3.3 times higher than restated income tax expenses a year ago.

Profit for the period for the twelve months of 2018 amounted to EUR 54.7 million, an increase by 9.2 per cent over the restated profit of EUR 50.1 million a year ago. The profit margin was 14.5 per cent while restated profit margin a year ago amounted to 13.6 per cent.

Statement of financial position and cash flow

Due to introduction of IFRS 15 "Revenue from Contracts with Customers" the Statement of Financial Position for the year 2017 was restated and new items on the balance sheet such as "Cost to obtain a contract", "Contract assets" and "Contract liabilities" were created. As a result, the restated total assets as of 31 December 2017 were by EUR 2.2 million higher than the reported total assets at the end of the year 2017 and amounted to EUR 568.5 million.

During 2018, **total assets** decreased by 0.8 per cent mainly due to depreciation and amortisation of non-current assets.

Total **non-current assets** shrunk by 1.3 per cent and amounted to 74.9 per cent of total assets. Total **current assets** increased by 1.7 per cent and amounted to 24.8 per cent of total assets, whereof cash alone represented 5.1 per cent of total assets.

During 2018, **shareholders' equity** increased by 4.6 per cent and amounted to 56.7 per cent of total assets.

On 25 April 2018, the Annual General Meeting of Shareholders allocated an amount of EUR 40.8 million for payment of **dividends** for the year 2017 from the Company's distributable profit of EUR 116.7 million, i. e. EUR 0.07 dividend per share, and carried forward to the next financial year an amount of EUR 76 million as retained earnings (undistributed profit). In May 2018, dividends for the year 2017 were paid to the shareholders of the Company.

According to the Law on Companies of the Republic of Lithuania, dividends should be paid from retained earnings of the Parent company. As of 31 December 2018, **retained earnings** of the Parent company amounted to EUR 131.6 million, while consolidated retained earnings of Telia Lietuva Group amounted to EUR 133.9 million.

During 2018, the Company repaid in total EUR 30 million from the long-term loan of EUR 150 million that was taken in 2016 to finance the acquisition of AB Omnitel. Also, during 2018 the Company borrowed EUR 20 million as a short-term loan from Telia Company, a largest shareholder of the Company. At the end of December 2018, the total amount of **borrowings** amounted to EUR 158.1 million (EUR 162 million a year ago), whereof EUR 127.5 million were outstanding loans from banks, EUR 10 million was an outstanding amount of short-term loan from Telia Company, EUR 17.5 million – obligation under vendor financing arrangements and EUR 3.1 million – financial lease agreements.

As of 31 December 2018, the net debt amounted to EUR 129.4 million (EUR 138.8 million a year ago) and net debt to equity (Gearing) ratio was 40.5 per cent (45.4 per cent at the end of December 2017).

The Dividend Policy that was approved by the Board of Telia Lietuva in 2017 provides that the Company must maintain the net debt to EBITDA ratio not higher than 1.5 and to pay out up to 80 per cent of free cash flow as dividend. As of 31 December 2018, the Company's net debt to EBITDA ratio was 1.02 (1.16 a year ago).

Net **cash flow from operating activities** during the year 2018 was 6.8 per cent lower than the restated cash flow for the year 2017 and amounted to EUR 106.8 million (EUR 114.5 million a year ago) mainly due to implementation of vendor financing arrangement of EUR 17.5 million value at the end of 2018. Therefore, **operating free cash flow** (operating cash flow excluding capital investments) in 2018 was 6.8 per cent lower than a year ago and amounted to EUR 50.2 million.

During 2018, the total **capital investments** amounted to EUR 61.8 million and were 3.2 per cent lower than capital expenditure of EUR 63.8 million a year ago. Most of capital investments (EUR 32.9 million or 53.3 per cent) went to upgrade of the core fixed network and development of fiber-optic access network. An amount of EUR 9.8 million was invested into development of mobile network, EUR 17.2 million – into development of IT systems under ongoing business transformation program (migration of customers, finance and business management systems into SAP) and EUR 1.9 million were other investments.

In April 2017, the Company started IP network upgrade project to increase the network capacity and ensure the potential for the data volume growth in forthcoming five years. All the Company's Internet, television, telephony, fixed and mobile communication services are provided using the IP network. The main stage of the project is already completed – all services are migrated to a new Huawei network. The capacity of Metro network was increased by 5 times and number of network nodes reduced by 2 times. The new IPTV solution, that was implemented during this stage, will ensure reliability and high quality of IPTV service. The last stage of the Company's IP network upgrade project was completed in October 2018.

During 2018, the Company installed and launched 793 new LTE 4G base stations and at the end of 2018 had 2,790 4G base stations across Lithuania. According to the latest data of the Communications Regulatory Authority (CRA), 4G mobile telecommunications service of the Company is available in 99 per cent of populated areas in Lithuania and the current average 4G speed in the Telia Lietuva network amounts to 41.3 Mbps. In 2018, 97 per cent of the customers' mobile data has been transferred via 4G network.

By the end of December 2018, the Company had 913 thousand households passed (890 thousand a year ago), or 68 per cent of the country's households, by the fiber-optic network.

Cash and cash equivalents during 2018 increased by EUR 5.6 million.

During 2018, the Group paid EUR 70.5 million of **taxes and contributions**, not including taxes and contributions that were withheld and paid on behalf of other persons. An amount of EUR 19.7 million was contributed to the State Social Insurance Fund and a total of EUR 50.8 million was paid to the State Tax Inspectorate.

Information about related party transactions

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

In 2018, the Company and its subsidiaries and associates were providing to each other telecommunications, Contact Center and other services based on earlier signed agreements. In 2018, subsidiary Telia Customer Service LT, UAB paid to the Company EUR 295 thousand in dividends for the year 2017. The Company's subsidiaries and associates have no interest in the share capital of the Company. As of 31 December 2018, the Company had no outstanding loan granted to subsidiaries or associates.

During 2018, the Company in several instalments extended loan to associate UAB Mobilieji Mokėjimai for the total amount of EUR 350 thousand. In September 2018, this loan was converted into the share capital of UAB Mobilieji Mokėjimai and additional contribution of EUR 300 thousand into share capital of associate was made. The Company hold a 33.3 per cent stake in UAB Mobilieji Mokėjimai.

The Company and the Group through its largest shareholder, Telia Company AB, are related to Telia Company Group that provides telecommunication services in Nordic and Baltic countries. The main buyers and providers of telecommunications services to the Group based on earlier signed agreements are Telia Carrier AB (Sweden), Telia Eesti AS (Estonia), LMT (Latvia), Telia Finland Oyj (Finland). In 2018, the Company paid out to Telia Company an amount of EUR 36 million as dividend for the year 2017.

Information about related party transactions entered by the Company during 2018:

Related party	Transaction	Value
UAB Mobilieji Mokėjimai, code 304431143, Antano Tumėno str. 4, Vilnius, Lithuania, Register of Legal Entities	13-02-2018 agreement on wholesale SMS message transmission to mobile communication service customers using Telia Lietuva wholesale SMS transmission system	No fixed value
	30-03-2018 loan provided by the Company at an annual interest rate of 3.35 per cent	EUR 150 thousand
	25-07-2018 loan amount increased by the Company at the same annual interest rate of 3.35 per cent	EUR 100 thousand
	28-08-2018 loan amount increased by the Company at the same annual interest rate of 3.35 per cent	EUR 100 thousand
	28-09-2018 EUR 350 thousand loan provided by the Company converted into share capital of Mobilieji Mokėjimai	EUR 350 thousand
	28-09-2018 additional contribution by the Company to the share capital of Mobilieji Mokėjimai	EUR 300 thousand
Telia Company AB, code 556103-4249, 169 94 Solna, Sweden	21-05-2018 3 months loan provided to the Company at interest rate of 0.324 per cent	EUR 10 million
	21-05-2018 6 months loan provided to the Company at interest rate of 0.38 per cent	EUR 10 million
	01-06-2018 acquisition of a 100 per cent of shares of Telia Global Services Lithuania, UAB from Telia Lietuva	EUR 151 thousand
	21-08-2018 6 months loan provided to the Company at interest rate of 0.384 per cent	EUR 10 million
Telia Global Services Lithuania, UAB, code 134517169, Konstitucijos ave. 29-1, Vilnius, Lithuania, Register of Legal Entities	31-05-2018 agreement for purchase of assets, takeover of lease and service agreements from the Company and takeover of employment agreement of 196 employees of the Company	EUR 952 thousand
	14-06-2018 service agreement for provision of Human Resource Management, Business Control, Legal, Communication, Internal Training & Development, Risk Management and other Services by the Company	No fixed value
	25-07-2018 service agreement for the provision of development services related to shared service centre functions to the Company	No fixed value
	25-07-2018 agreement for purchase of assets from the Company	EUR 997 thousand
	21-12-2018 agreement on transfer of People HUB of the Company (26 employees of Human Resource unit and related assets and liabilities) to Telia Global Services Lithuania, UAB	EUR 24 thousand

On 1 June 2018, Telia Company 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 to that an agreement between the Company and Telia Global Services Lithuania for purchase of asset, takeover of lease and service agreements, and takeover of employment contracts of 196 employees of Telia Lietuva by Telia Global Services Lithuania was signed. In December 2018, an agreement whereof the Company as of 1 January 2019 transfered the part of its economic activities – People HUB (26 employees of Human Resource unit and related assets and liabilities) – to Telia Global Services Lithuania was signed. The Board of the Company has approved all related party transactions involving Telia Global Services Lithuania based on the written opinion of the Audit Committee.

As of 31 December 2018, the outstanding balance of the loan granted by Telia Company to the Company was EUR 10 million. On 21 May 2018, the Company borrowed from Telia Company in total EUR 20 million under Revolver Loan Agreement dated 23 May 2017. An amount of EUR 10 million was repaid in November 2018 and the remaining EUR 10 million in February 2019.

Information about related party transactions is provided in Note 30 of the Company's Consolidated and Separate Financial Statements for the year ended 31 December 2018. Following the Law on Companies of the Republic of Lithuania requirements, information about related party transaction concluded starting from 1 January 2018 was placed on the Company's website.

Research and development activities

During 2018, besides the on-going development and improvement of services and continues testing of the latest technologies, the Company offered another converged offer combining fixed and mobile communication technologies – IPTV over LTE. The same as provided via cable, IPTV through the 4G connection offers over 100 channels and the same features as IPTV over the cable. Also, users can manage broadcasts, watch two-week-old records, choose the most recent films in video on demand or series in Kino Klubas (Cinema Club), while Vaikų Kampelis (Kids' Corner) features the content intended only for the youngest viewers. IPTV over LTE as a modern substitute allowed to terminate provision of outdated digital terrestrial television (DVB-T) service in fall of 2018.

In January 2018, the Company was the first in Lithuania to present "Super VDSL" (S-VDSL) technology, which depending on the length of the copper line connecting Telia Lietuva exchange and end equipment provides up to 250 Mbps Internet speed. For comparison, DSL technology ensures just up to 19 Mbps speed over the copper line. According to estimates, more than 70 thousand businesses and residents having the Company's DSL lines especially in regional centres and smaller neighbourhoods where a lot of people live in private houses will be able to use high speed Internet provided by S-VDSL technology.

On 21 December 2018, the era of 5G mobile networks has started in Lithuania: Telia Lietuva was the first operator in Lithuania to launch the next generation 5G connection and demonstrated a new mobile speed record – in an active Telia Lietuva network data was transmitted at the speed of 1.8 Gbps. The 5G allows achieving high speed, imperceptible delay and secured storage, so devices connected to the network can use its resources to the maximum. The first Telia Lietuva 5G mobile network stations were installed in Vilnius – Žvėrynas, which has a high concentration of business centres, and in Saulėtekis, which brings together research centres. The company is currently using a non-commercial frequency for the 5G that is in the 3.75 gigahertz range. It was provided by the CRA on Telia Lietuva request. Provision of the commercial 5G networks services should start in Lithuania after a frequency auction that is planned to be held in 2019.

Risk management

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

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

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

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

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

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

The Company's income and operating cash flows are substantially independent of changes in market interest rates. Since most of the borrowings' interest rate is fixed, the interest rate risk is insignificant. On 18 December 2015, the Company signed an agreement with SEB Bank (Lithuania) and Danske Bank (Lithuania) for a long-term loan of EUR 150 million with the fixed interest rate to finance the acquisition of shares in Omnitel and by 31 December 2018 the Company had repaid an amount of EUR 82.5 million from this loan. The interest rate of a syndicated 5-years tenor EUR 60 million loan provided by SEB Bank (Lithuania), Danske Bank A/S (Denmark) and Nordea Bank AB (Sweden) in May 2017 is set semi-annually and is based on a 6 months EURIBOR interest rate. This loan shall be repaid in full on maturity in May 2022. The Company does not use any interest rate hedging tools.

The Company's financial assets' exposure to credit risk is related to cash deposits and trade receivables. Credit risk of cash deposits is managed by limiting the cash exposure to financial institutions with lower than A (according to Fitch or equivalent by Standard & Poor's) long-term credit ratings. As of 31 December 2018, majority (95 per cent) of the Group's cash deposits were held in AA-, A+ and A rated banks. The Company and the Group did not have any held-to-maturity investments at the end of 2018.

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

Liquidity risk relates to the availability of sufficient funds for the Company debt service, capital expenditure, working capital requirement and dividend pay-out. Prudent liquidity risk management implies maintaining sufficient level of cash and cash equivalents. The goal of the Company's liquidity risk management is to ensure that minimum liquidity position (calculated as cash and cash equivalents plus undrawn committed credit facilities) should at any time exceed the level of 2 per cent of the annual revenue. During 2018, the Company's liquidity position on average was above 5 per cent of the annual revenue. Besides, the Company has a Revolver Loan Agreement with Telia Company and could draw up to EUR 20 million for 3 or 6 months period within 2 business days. During 2018, the Company has borrowed EUR 20 million from Telia Company and by the end of 2018 an amount of EUR 10 million was outstanding and was repaid in February 2019.

At the end of December 2018, the total amount of outstanding borrowings amounted to EUR 158.1 million (EUR 162 million a year ago), whereof EUR 127.5 million were outstanding loans from banks, EUR 10 million was an outstanding short-term loan from Telia Company, EUR 17.5 million – obligation under vendor financing arrangements and EUR 3.1 million – financial lease agreements. The net debt amounted to EUR 129.4 million (EUR 138.8 million a year ago) and net debt to equity (Gearing) ratio was 40.5 per cent (45.4 per cent at the end of December 2017). The Company's net debt to EBITDA ratio was 1.02 (1.16 a year ago).

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

More information about the Company's financial risk management is provided in Note 3 of the Company's Consolidated and Separate Financial Statements for the year ended 31 December 2018.

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

Plans and forecasts

In 2018, Telia Company updated its strategy but our purpose – bringing the world closer – and our ambitions to have the most loyal and satisfied customers, deliver strong total shareholder return, being industry leader in digital impact through United Nation's Sustainable Development Goals and have the most engaged employees remains unchanged. To reach our ambitions we will enhance our core and execute opportunities close to the core. To do that we are building on connectivity leadership closer to what matters to our customers based on speed, innovation and great people.

We will do that by:

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

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

The Telia Lietuva strategic goals for the forthcoming years are:

- leadership in network – seamless connectivity and experience no matter of time, place, devices or technology,
- leadership in customer experience – always having the customers' interest first by acting upon real insights and offering multichannel service,
- leadership in digitalisation – being the hub to digital experience and enabling our customers' further digitalisation.

The Company has an ambition that by 2022 our customers will be able to interact with us fully digitally without the need for human intervention. We will offer digital and personalised interactions with customers throughout their customer journey. Using shops and customer care would be an option of convenience.

In terms of technology, Lithuania is entering 5G era and provision of the commercial 5G networks services should start after a frequency auction that is planned to be held in 2019. Telia Lietuva already presented 5G connectivity in Lithuania and is planning to be a front-runner.

By April 2019, the Company plans to move its head-office in Vilnius from Lvovo str. 25 to Saltoniškių str. 7. Long-term construction and lease agreement regarding the Company's new head-office was singed in February 2017. More than 1,000 employees of the Company will settle in a six-story and more than 15 thousand sq. m building in a block of modern offices. Currently the Company's employees in Vilnius are spread out in six different locations. The building is developed following the international BREEAM certificate requirement with the aim to minimise building's impact on environment.

CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

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

The Company prepared the disclosure of compliance with the principles and recommendation set by the Governance Code in Telia Lietuva, AB Corporate governance reporting form for the year ended 31 December 2018, which is an annex to this Annual Report.

Share capital

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

Shareholders

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 2018:

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

The number of **shareholders** on the shareholders' registration day (2 November 2018) for the Extraordinary General Meeting of Shareholders, which was held on 9 November 2018, was 10,968.

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. As of 31 December 2018, the number of the Company's shares that provide voting rights during the General Meeting of Shareholders amounted to 582,613,138. One ordinary registered share of the Company gives one vote in the General Meeting of Shareholders.

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

Shareholders meetings

The Annual General Meeting of shareholders was held on 25 April 2018. During the meeting the shareholders decided to:

- approve the audited annual financial statements for the year 2017,
- allocate the Company's profit for the year 2017,
- elect UAB Deloitte Lietuva as the Company's audit enterprise for the year 2018 and 2019,
- approve the new wording of the Company's By-Laws,
- elect four new members of the Board instead of the resigned four members of the Board.

The Extraordinary General Meeting of shareholders for election of a new member of the Board instead of the resigned member of the Board was held on 9 November 2018.

Procedure for amending the Company's By-laws

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

Information about trading in the Company's securities

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

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

During 2018, the Company's **share price** on Nasdaq Vilnius stock exchange increased by EUR 0.141 or 14.6 per cent. The shares' turnover, compared to the year 2017, went up by 26.1 per cent. The Company's **market capitalisation** as on 31 December 2018 was EUR 643.8 million, an increase by 14.6 per cent over the market capitalisation of EUR 561.6 a year ago.

Information about trading in the Company's shares on Nasdaq Vilnius stock exchange in 2018:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	0.966	1.170	0.956	1.105	1.102	7,421,426	8,179,333

Dividends

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

On 24 May 2018, the Company paid out to the shareholders an amount of EUR 40.8 million of dividends or EUR 0.07 per share for the year 2017. In accordance with the relevant legislation, dividends were paid to the shareholders who were on the Shareholders' List of the Company on the dividend record day, 10 May 2018, i.e. the tenth business day after the Annual General Meeting of Shareholders. Dividends to all shareholders were paid in cash.

Treasury stocks

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

The Board Activities

On 25 April 2018, the Annual General Meeting taking into consideration the resignation of Stefan Block, Ole Stenkil, Inga Skisaker and Rolandas Viršilas from the Board as of 24 April 2018, and following the proposal of Telia Company AB, elected Agneta Wallmark, Hannu-Matti Mäkinen, Tomas Balžekas and Mindaugas Glodas to the Board of the Company for the current term of the Board (till 27 April 2019). Following provisions of The Governance Code for the Companies Listed on the Nasdaq Vilnius stock exchange all elected members of the Board are regarded as non-executive member of the Board, while Tomas Balžekas and Mindaugas Glodas besides are regarded as independent members of the Board.

In June 2018, the Board appointed member of the Board Agneta Wallmark and both independent members of the Board – Tomas Balžekas and Mindaugas Glodas – as the members of the Audit Committee for the term of their membership in the Board. Agneta Wallmark was elected as the Chairwoman of the Audit Committee. Previous members of the Audit Committee – Stefan Block (Chairman of the Committee), Ole Stenkil and Inga Skisaker (independent member of the Board) – have resigned from the Board as of 24 April 2018.

In June 2018, the Board also re-elected members of the Board Henriette Wendt and Claes Nycander, and elected Mindaugas Glodas (independent member of the Board) as the members of the Remuneration Committee for the term of one year but in any case, not longer than until the term of their membership in the Board. Henriette Wendt was re-elected as the Chairwoman of the Remuneration Committee.

On 9 November 2018, the Extraordinary General Meeting of shareholders taking into consideration the resignation of Henriette Wendt, a member and Chairwoman of the Board, as of 8 November 2018 decided to elect Emil Nilsson to the Board of Telia Lietuva for the current term of the Board (till 27 April 2019). He was proposed by Telia Company AB and following provisions of The Governance Code for the Companies Listed on the Nasdaq Vilnius stock exchange is regarded as non-executive member of the Board. On 22 November 2018, the Board elected Emil Nilsson as a new Chairman of the Board and the Chairman of the Remuneration Committee for the current term of the Board, i. e. till 27 April 2019.

Information about the Board members' attendance of the meetings in 2018 (number of attended/to be attended meetings):

Name, surname	Position	Meeting attendance: Board (13)	Meeting attendance: Audit Committee (6)	Meeting attendance: Remuneration Committee (4)	Tantiemes for 2017 paid-out in 2018 (EUR)
Henriette Wendt (till 08-11-2018)	Chair of the Board, Chair of the Remuneration Committee	11/11		3/3	-
Emil Nilsson (from 09-11-2018)	Chair of the Board, Chair of the Remuneration Committee	2/2		1/1	-
Claes Nycander	Member of the Board, member of the Remuneration Committee	13/13		4/4	-
Stefan Block (till 24-04-2018)	Member of the Board, Chair of the Audit Committee	4/4	2/2		-
Ole Stenkil (till 24-04-2018)	Member of the Board, member of the Audit Committee	4/4	2/2		-
Inga Skisaker (till 24-04-2018)	Member of the Board, member of the Audit Committee	2/4	2/2		15,640
Rolandas Viršilas (till 24-04-2018)	Member of the Board, member of the Remuneration Committee	2/4		1/1	15,640
Agneta Wallmark (from 25-04-2018)	Member of the Board, Chair of the Audit Committee	8/9	4/4		-
Hannu-Matti Mäkinen (from 25-04-2018)	Member of the Board	8/9			-
Tomas Balžekas (from 25-04-2018)	Member of the Board, member of the Audit Committee	9/9	4/4		-
Mindaugas Glodas (from 25-04-2018)	Member of the Board, member of the Audit and Remuneration Committees	9/9	3/4	3/3	-

The then Chairwoman of the Board Henriette Wendt, member of the Board Claes Nycander and all four nominees for election to the Board – Agneta Wallmark, Hannu-Matti Mäkinen, Tomas Balžekas and Mindaugas Glodas – as well as the then CEO of the Company, Kęstutis Šliužas, participated at the Annual **General Meeting** of Shareholders held on 25 April 2018. None of the Board members participated at the Extraordinary General Meeting of Shareholders held on 9 November 2018. It was attended by the new CEO of the Company, Dan Strömberg.

On 25 April 2018, the shareholders decided to allocate for two independent members to the Board, who resigned from the Board as of 24 April 2018, – Inga Skisaker and Rolandas Viršilas – the total amount of EUR 31,280, or EUR 15,640 each, as a tantiemes (annual payment) for the year 2017. Except tantiemes paid to two independent members of the Board, there were no other payments to the members of the Board in 2018. As of 31 December 2018, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010 was not paid to the then member of the Board who had not provided written requests to the Company.

Following the Governance Code for the Companies Listed on Nasdaq Vilnius stock exchange all current members of the Board are non-executive directors. Four members of the Board represent Telia Company and two members of the Board – Tomas Balžekas and Mindaugas Glodas – are regarded as independent members of the Board.

During 2018, eight ordinary and five extraordinary **meetings of the Board** were held. All eight ordinary meetings were convened according to the preliminary approved schedule of the Board meetings, and five extraordinary meeting were convened following the procedure provided by the Regulation of the Company's Board Activities for convocation of extraordinary meetings. During all Board meetings there was quorum prescribed by legal acts.

During its meetings the Board approved:

- financial statements for the 12 months of 2017 and 3, 6 and 9 months of 2018,
- financial statements and the consolidated annual report for the year ended 31 December 2017,
- convocation of the Annual and Extraordinary General Meetings of Shareholders;
- proposal of profit allocation for the year 2017,
- the Company's scorecard for the year 2018,
- the Company's network investment strategy,
- updated Security Policy, Suppliers' Code of Conduct, the Annual Variable Pay Instruction, the Remuneration Instruction and Privacy and Data Protection Policy,
- agreements with TV content providers, equipment vendors and electricity suppliers,
- related party transactions with subsidiaries UAB Mobilieji Mokėjimai and Telia Global Services Lithuania, UAB,
- investments into UAB Mobilieji Mokėjimai,
- disposal of Telia Global Services Lithuania, UAB,
- new organisational structure of the Company.

In 2018, the Board elected new members of the Audit and Remuneration Committees, new Chairman of the Board and appointed a new CEO of the Company as well as Head of Communication. The Board followed up implementation of the business transformation and investment plans for the year 2018, on a regular base considered reports of the Audit and Remuneration Committees as well as reports of the Company's management.

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

During 2018 four meetings of the Remuneration Committee were held. The following issues were considered during these meetings:

- the Company's Management team members' performance review for the year 2017,
- review of salary market movement and proposed salary increase budget for 2018,
- update on the Remuneration Instructions,
- review of the Company's top management salary,
- update on People roundtable action points,
- follow up of Occupational Health and Safety KPI's,
- update on Telia Lietuva talent assessment and development approach,
- status on appointment of new top managers.

In June, the newly elected Remuneration Committee elected the Chair of the Committee and in November – a new Chair of the Committee upon the resignation of the previous one. All at that time members of the Committee attended all meetings of the Committee. Three meetings were chaired by the then Chair of the Committee, Henriette Wendt, and the last one by a new Chair of the Committee, Emil Nilsson.

The purpose of the **Audit Committee** is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its internal orders. During 2018, six meetings of the Audit Committee were held, during which the following issues were considered:

- report of external auditors regarding the financial statements for the year 2017,
- regular internal audit and risk management reports,
- reports of local Governance, Risk, Ethics and Compliance meetings,
- plan of the committee meetings and topics for discussion for the year 2019,
- plan of external auditors regarding the audit of financial statements.

Following the requirements of the Law on Companies of the Republic of Lithuania, the Audit Committee produced written opinions regarding not typical to the Company's activities related parties' transactions and submitted their opinions to the Board for the final approval of transactions. During 2018, there were seven related parties' transaction that the Audit Committee had to consider, namely, extension of the loan to associate UAB Mobilieji Mokėjimai, several assets purchase and employees transfer agreements with Telia Global Services Lithuania, UAB and disposal of Telia Global Services Lithuania, UAB to Telia Company AB.

The first two meetings of the Audit Committee were attended by all the then members of the Committee and were chaired by the then Chairman of the Committee, Stefan Block. The third meeting was attended by two newly elected members of the Audit Committee – Agneta Wallmark and Tomas Balžekas, while the third newly elected member of the Committee, Mindaugas Glodas, who is also a member of the Remuneration Committee, was attending the Remuneration Committee meeting, which was held at the same time. Starting from the third meeting the rest meetings were chaired by newly elected Chair of the Committee, Agneta Wallmark. The last three meetings of the Committee in 2018 were attended by all members of the Committee.

During the last meeting of the Audit Committee the external auditors from Deloitte Lietuva presented an audit plan for the year 2018, team of auditors and officially stated about their independence.

Members of the Board

Emil Nilsson (born in 1971) – Chairman of the Board, member of the Board since 9 November 2018 (nominated by Telia Company AB), Chairman of the Remuneration Committee. Education – University of Stockholm (Sweden), Bachelor of Science in Finance. Employment – Telia Company AB, 169 94 Solna, Sweden, code 556103-4249, Senior Vice President & Head of cluster Lithuania, Estonia and Denmark (LED) and Region Eurasia. Current Board Assignments: Moldcell S.A., Belgrad str. 3, MD2060 Chisinau, Moldova, code 1002600046027, Chairman of the Board; Fintur Holdings B.V., Rodezand 34K, Rotterdam, 3011, Netherlands, code 24111385, member of the Board, and Svenska Handbollslandslaget AB, Arsenalsgatan 2, 111 47 Stockholm, Sweden, code 556768-4906, member of the Board. Emil Nilsson has no direct interest in the share capital of Telia Lietuva. He has 27,003 shares of Telia Company AB (Sweden).

Agneta Wallmark (born in 1960) – member of the Board since 25 April 2018 (nominated by Telia Company AB), Chairwoman of the Audit Committee. Education: Stockholm School of Economics (Sweden), B. Sc. Econ with special focus on Accounting and Finance and Stockholm University (Sweden), LL M with special focus on Tax and Economics. Employment – Telia Company AB, 169 94 Solna, Sweden, code 556103-4249, Vice President, Head of Treasury. Current Board assignments: Telia Försäkring AB (Telia Insurance), 169 94 Solna, Sweden, code 516401-8490, Chairwoman of the Board; Swedish Pension Fund of Telia, 169 94 Solna, Sweden, member of the Board; Telia Towers Sweden AB, 169 94 Solna, Sweden, code 559162-3342, member of the Board, and Telia Towers AB, 169 94 Solna, Sweden, code 559196-5164, member of the Board. Agneta Wallmark has no direct interest in the share capital of Telia Lietuva and has no shareholdings that exceed 5 per cent of the share capital of any company.

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

(Denmark), Chairman of the Board; Telia Towers AB, 169 94 Solna, Sweden, code 559196-5164, Chairman of the Board; Telia Towers Sweden AB, 169 94 Solna, Sweden, code 559162-3342, Chairman of the Board; Telia Company Danmark A/S, Holmbladsgade 139, 2300 København S, Denmark, code 18530740, Chairman of the Board; Telia Mobile Holding AB, 169 94 Solna, Sweden, code 556855-9040, Chairman of the Board Telia Nättjänster Norden AB, Mårbackagatan 11, 123 43 Farsta, Sweden, code 556459-3076, Chairman of the Board; Systecon AB, Rehnsgatan 20, 113 57 Stockholm, Sweden, code 556536-6605, member of the Board; Svenska UMTS-Nät AB, Warfvinges Väg 45 4tr, 11251 Stockholm, Sweden, code 556606-7996, member of the Board; Latvijas Mobilais Telefons (LMT) SIA, Ropažu iela 6, Rīga, LV-1039 Latvia, code 50003050931, member of the Supervisory Council and Telia Eesti AS, Mustamäe tee 3, 15033 Tallinn, Estonia, code 10234957, member of the Supervisory Council. Claes Nycander has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Hannu-Matti Mäkinen (born in 1970) – member of the Board since 25 April 2018 (nominated by Telia Company AB). Education: University of Arizona (U.S.A), College of Law, LL.M (Masters of Laws) in International Trade Law, and University of Lapland (Finland), School of Law, LL. B (Bachelor of Laws) and LL.M (Masters of Laws) in Finnish and EU-Law. Employment – Telia Company AB, 169 94 Solna, Sweden, code 556103-4249, Vice President and Head of Legal Practice Group B2B & Carrier. Current Board Assignments: Telia Finland Oyj, PL 106, FI-0051 Sonera, Finland, code 1475607-9, member of the Board; Tilts Communications A/S, Holmbladsgade 139, 2300 København, Denmark, code 17260642, member of the Board, Turkcell Holding A.S., Levent Mah. Cömert Sok. Yapı Kredi Plaza No: 1 / A Floor: 16 34330 Beşiktaş, Istanbul, Turkey, code 430991, member of the Board and Lattelecom SIA, Dzirnavu iela 105, Rīga, LV-1011 Latvia, code 40003052786, member of the Supervisory Council. Hannu-Matti Mäkinen has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Tomas Balžekas (born in 1977) – member of the Board since 25 April 2018 (as independent member of the Board nominated by Telia Company AB), member of the Audit Committee. Education: Concordia University Wisconsin (U.S.A.), Master of Business Administration (MBA), Finance; Concordia University Wisconsin (U.S.A.), Bachelor of International Business, and Concordia International University Estonia, Bachelor of International Business. Employment: UAB Media Bitės, Kęstučio g. 25, LT-08121 Vilnius, Lithuania, code 304552458, General Manager (CEO). Involvement in activities of other entities: UAB Media Bitės, Kęstučio g. 25, LT-08121 Vilnius, Lithuania, code 304552458, shareholder (51 per cent), UAB Mano Daktaras, Kęstučio g. 25, LT-08120 Vilnius, Lithuania, code 303085208, a subsidiary of UAB Media Bitės, General Manager (CEO), UAB Balžeko Bitės, Aukštaičių g. 6, LT-11341 Vilnius, Lithuania, code 302833809, shareholder (100 per cent), UAB InsurTech Solutions, Debesų g. 11, Klevinė, LT-14180 Vilniaus r., Lithuania, code 304726880, shareholder (18 per cent), VšĮ Kino Pasaka, Aukštaičių g. 6-203, LT-11341 Vilnius, Lithuania, code 300620545, founder and owner (50 per cent), VšĮ Tiriamosios Žurnalistikos Centras, Vasario 16-osios g. 4-21, Vilnius, Lithuania, code 303211621, owner (100 per cent) and VšĮ Lietuvos Nacionalinis Radijas ir Televizija (Lithuanian National Radio and Television), S. Konarskio g. 49, LT-03123 Vilnius, Lithuania, code 124241078, member of the Council. Tomas Balžekas has no direct interest in the share capital of Telia Lietuva.

Mindaugas Glodas (born in 1972) – member of the Board since 25 April 2018 (as independent member of the Board nominated by Telia Company AB), member of the Audit and Remuneration Committees. Education: University of Antwerp, Centre for Business Administration UFSIA (Belgium), Master in Business Administration (MBA), and Vilniaus University, Faculty of Economics (Lithuania), Bachelor in Business Administration (BBA). Employment – Norway Registers Development AS Lithuanian branch, Gynėjų g. 14, LT-01109 Vilnius, Lithuania, code 304897486, General Manager. Involvement in activities of other entities: UAB Nextury Ventures, Gedimino pr. 20-35, LT-01103 Vilnius, Lithuania, code 303213451, Partner; UAB Energijos Sprendimų Centras, Lukšio g. 1, LT-08221 Vilnius, Lithuania, code 304178932, member of the Board; Council for Research, Development and Innovations at the Government of Lithuania, Gedimino pr. 11, LT-01103 Vilnius, code 188604574, member of the Council; Agency for Science, Innovations and Technologies, A. Goštauto g. 12-219, LT-01108 Vilnius, Lithuania, code 188730854, member of Coordinating Council; Association Žinių Ekonomikos Forumas, Saulėtekio al. 15, LT-10221, Vilnius, Lithuania, code 2257 09520, Chairman of the Council; MB Vox Proxima, Perkūno g. 32, Gilužių k., LT-14195 Vilniaus r., Lithuania, code 303481474, member of partnership (50 per cent); General Manager of the following Lithuanian start-ups: UAB Baltic Arrow, Gedimino pr. 20-35, LT-01103 Vilnius, Lithuania, code 304323502; UAB Airthemes (under liquidation), Gedimino pr. 20-35, LT-01103 Vilnius, Lithuania, code 304257109 and Zedge Lithuania, UAB, J. Basanavičiaus g. 26, LT-03244 Vilnius, Lithuania, code 304890634. Mindaugas Glodas has no direct interest in the share capital of Telia Lietuva.

Management Team

Dan Strömberg (born in 1958) – CEO of the Company from 4 July 2018. Education: IHM/Stockholm University (Sweden), Finance and IHM Business School (Sweden), Marketing. Involvement in activities of other entities – Lattelecom SIA Dzirnavu iela 105, Rīga, LV-1011 Latvia, code 40003052786, Deputy Chairman of the Supervisory Council. Dan Strömberg has no direct interest in the share capital of Telia Lietuva.

Kęstutis Šliužas, CEO of the Company from 1 November 2013, has resigned from his position as of 3 July 2018, and the Board appointed Dan Strömberg as a new CEO of Telia Lietuva starting from 4 July 2018.

Mindaugas Ubartas (born in 1978) – Head of Business to Business (B2B) from April 2017 and acting Head of Business to Consumer since October 2018. Education – Vytautas Magnus University (Lithuania), Management Faculty, Bachelor's degree and Master's degree. Involved in activities of other entities – Association INFOBALT, Mokslininkų g. 2A, LT-08412 Vilnius, Lithuania, code 122361495, member of the Board. Mindaugas Ubartas has no direct interest in the share capital of Telia Lietuva. He is a sole shareholder of UAB Galvaninė Chemija, Akademijos g. 7, LT-08412 Vilnius, Lithuania, code 123873178.

On 3 October 2018, the Company announced that Haval van Drumpt, Head of Business to Consumer (B2C) from 1 January 2018, decided to leave the Company for family reasons and to come back to his home country Sweden, and Mindaugas Ubartas, Head of B2B, temporarily took a responsibility for Business to Consumer unit until a new Head of B2C is appointed. On 21 March 2019, the Company announced that Mindaugas Ubartas will leave the Company from 12 April 2019.

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

Giedrė Kaminskaitė-Salters (born in 1978) – Head of Direct and Digital Channels from 8 January 2019. Education: Maastricht University (The Netherlands), Doctor of Law; BPP Law School, London (United Kingdom), law conversion studies, juris doctor equivalent; Oxford University (United Kingdom), MPhil in Russian and East European Studies; London School of Economics (United Kingdom), Bachelor of Science in International Relations. Involvement in activities of other entities: Latvijas Mobilais Telefons (LMT) SIA, Ropažu iela 6, Rīga, LV-1039 Latvia, code 50003050931, member of the Supervisory Council; UAB Litexpo, Laisvės pr. 5, LT-04215 Vilnius, Lithuania, code 120080713, Chairwoman of the Board; UAB Mobilieji Mokėjimai, Antano Tumėno g. 4, LT-01109 Vilnius, Lithuania, code 304431143, member of the Board and Association "Lyderė", Jogailos g. 9, LT-01116 Vilnius, Lithuania, code 304439065, member of the Board. Giedrė Kaminskaitė-Salters has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

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

Laimonas Devyžis (born in 1982) – Head of Finance from 1 January 2016. In December 2018, the Company announced that Laimonas Devyžis decided to leave the Company from 1 April 2019. Education: ACCA (Association of Chartered and Certified Accountants) (Glasgow, UK); Stockholm School of Economics in Riga (Latvia), Bachelor of Science in Economics & Business Administration. Involvement in activities of other entities – UAB LD Corporate Consulting, Voronecko g. 3-40, Varėna, Lithuania, code 302310381, 100 per cent owner and Director. Laimonas Devyžis has no direct interest in the share capital of Telia Lietuva, and has no other shareholdings that exceed 5 per cent of the share capital of any company.

On 8 March 2019, the Company announced that Arūnas Lingė will be a new Head of Finance of the Company from 25 March 2019 Arūnas Lingė (born in 1975) has more than 20 years' experience in finance management and accounting, improvement of business processes and control. He has a Masters' degree in Management from Kaunas Technology University and is Member and Fellow of Association of Chartered Certified Accountants. Arūnas Lingė is not involved in activities of other entities and has no direct interest in the share capital of Telia Lietuva.

Ramūnas Bagdonas (born in 1974) – Head of Human Resources from 1 June 2014. Education: Vytautas Magnus University (Lithuania), Master of Business Administration; Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration. Involvement in activities of other entities: Telia Company AB, 169 94 Solna, Sweden, code 556103-4249, cluster of Lithuania, Estonia and Denmark, member of the management team responsible for Human Resources; Association of Personnel Management Professionals, Galvydžio g. 5, LT-08236 Vilnius, Lithuania, code 300563101, member of the Board, and State Enterprise Lithuanian Airports, Rodūnios kel. 10A, LT-02189 Vilnius, Lithuania, code 120864074, member of the Board. Ramūnas Bagdonas has no direct interest in the share capital of Telia Lietuva. He has 4713 shares of Telia Company AB (Sweden). He has no shareholdings that exceed 5 per cent of the share capital of any company.

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

Following the implementation of the Company's new organizational structure as of 1 January 2019, Marketing and Communications unit from 12 February 2018 led by Vaida Jurkonienė was split: marketing and brand function was moved to B2C unit and separate Communication unit was formed. Vaida Jurkonienė continuous to lead Marketing and Brand unit, while Birutė Eimontaitė, previously Head of Integrated communication team, became a Head of Communication from 1 January 2019.

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

Vytautas Bučinskas (born in 1974) – Head of Business Assurance and Transformation from 15 December 2017. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration; Kaunas Technology University (Lithuania), Bachelor of Management of Production and Master of Marketing. Involvement in activities of other entities: Member of the Cyber Security Council (Lithuania) and Deputy Chairman of INFOBALT, Mokslininkų g. 2A, LT-08412 Vilnius, Lithuania, code 122361495, Cybersecurity Committee. Vytautas Bučinskas has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Information about remuneration of key management personnel is provided in Note 31 of the Company's Consolidated and Separate Financial Statements for the year ended 31 December 2018. Key management includes CEO, Heads of Units directly reporting to CEO and Heads of the largest Units of the Company. The total amount of the Company's dividends for the year 2017 paid in 2018 to key management personnel amounted to 1,277.22 euro and an amount of 5,250 euro of dividends for the year 2017 was paid to Rolandas Viršilas, member of the Board till 24 April 2018.

During 2018, there were no loans, guarantees or sponsorship granted to the members of the Board or members of the Management Team by the Company as well as none of subsidiaries paid salaries or other payouts to the members of the Board or members of the Management Team of the Company for being members of their managing bodies.

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

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

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

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

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

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

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

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

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

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

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

Auditors

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

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

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

Following the Law of the Republic of Lithuania on Audit, UAB Deloite Lietuva on 22 November 2018 at the meeting of the Audit Committee of the Company officially stated about UAB Deloitte Lietuva independence from the Company. During 2018, UAB Deloitte Lietuva did not provided any other than audit services to the Company and did not received any other remuneration from the Company except for audit services for the total amount of EUR 105 thousand.

PERSONNEL

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

	2018	2017	Change (%)
Number of personnel (head-counts)	2,733	3,027	(9.7)
Number of full-time employees	2,482	2,733	(9.2)

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

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

Name of the company	31-12-2018	31-12-2017	Change
Telia Lietuva, AB	1,977	2,229	(252)
Telia Customer Service LT, UAB	756	798	(42)
	2,733	**3,027**	**(294)**

On 1 June 2018, 196 employees of Telia Lietuva, that were providing services to Telia Company Group, were moved to the Company's subsidiary, Telia Global Services Lithuania, UAB, which on the same day was acquired by Telia Company and became a shared services center of Telia Group based in Vilnius.

People Policy

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

The Company wants all employees to have equal opportunities based on competence, experience and performance, regardless of gender, race, ethnicity, religion, age, disability, sexual orientation, nationality, political opinion, union affiliation, social background and/or other characteristics protected by applicable law. As part of our commitment to having a diverse and inclusive workplace, we have zero tolerance towards discrimination, harassment and bullying. Victimization at work, such as recurring negative actions directed against individual employees, is not permitted. All employees must treat one another with respect, dignity and common courtesy.

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

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

The breakdown of the Group employees (head-counts) by gender and the companies as of 31 December 2018:

Name of the company	Female	(%)	Male	(%)
Telia Lietuva, AB	702	35.5	1,275	64.5
- *whereof Technology unit*	*198*	*16.8*	*979*	*83.2*
Telia Customer Service LT, UAB	624	82.5	132	17.5
	1,326	**48.5**	**1,407**	**51.5**

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

Remuneration Policy

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

The remuneration policy sets out the following principles:

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

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

- fixed base pay, which reflects the performance and skills of the employee and consequently is individual and differentiates within acceptable ranges;
- annual variable pay, which is based on the achievement of annual performance objectives (both financial and non-financial objectives which are measurable);
- functional variable pay in positions related to direct sales to customers, where employees may have a sales incentive component tied to sales performance;
- the Company may introduce long-term incentive programs for some of its employees to create confidence in and commitment to the Group's long-term financial performance;
- other financial and non-financial benefits such as additional health insurance, pension plans, etc.

The remuneration of all employees is assessed once a year, usually in spring. In 2018, the remuneration was increased to 70 per cent (51 per cent in 2017) of the Company employees on average by 4.6 per cent and annual bonuses amounting to roughly one monthly salary on average were paid to all employee of the Company which in 2017 worked in the Company for more than 3 months and did not received sales incentive pays. According to the policy, the remuneration structure and levels for the members of the Company's Management Team are supervised and governed by the Remuneration Committee of the Company.

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

Name of the company	2018	2017 (restated)	Change (%)
Telia Lietuva, AB	42,163	43,964	(4.1)
Telia Customer Service LT, UAB	9,050	9,216	(1.8)
UAB Omnitel (till 1 February 2017)	-	1,208	-
Other subsidiaries	7	3	133.3
	51,220	**54,391**	**(5.8)**

Information about employees of Telia Lietuva, AB as of 31 December 2018:

Group of employees	Number of employees	Average monthly salary (in EUR)
Managers	36	5,901
Middle level managers	175	2,117
Specialists	1,766	1,268
	1,977	**1,427**

For several years, the Company provides additional health insurance to all employees of the Company as well as those employees of Telia Customer Service LT that have a longer employment record. By the end of 2018, in total 2,117 employees of the Group had an additional health insurance. Employees also could insure their family members – spouses and children.

The Company has an agreement with SEB Investicijų Valdymas (SEB Investment Management) regarding the Company employees' pension savings at 3rd tier pension funds. The Company employees working for at least a year and employees of Telia Customer Service LT working for at least three years within the Group could participate in a program "Save with Telia". The essence of the program is that the funds allocated by employer are invested into one of the SEB Investicijų Valdymas' fund of the employee's choice. During 2018 for all the Company's employees participating in the program the Company allocated EUR 8 every month, and if the employee was willing to contribute to the pension saving from his own finances by additionally allocating 1 or 2 per cent of his/her salary, then the Company also transferred an amount equal to employee's contribution. As of 31 December 2018, in total 927 employees of the Group were participating in a program.

In June 2018, Telia Lietuva was for second year in a row awarded as The Most Desired Employer among the large corporations in Lithuania according to the voting arranged by Lithuania business daily Verso Žinios.

Collective Bargaining Agreement

The Collective Bargaining Agreement between the Company, as the employer, and employees of the Company, represented by joint representation of Trade Unions, that came into force from 25 April 2007, was valid until the 31 December 2018. Following the requirements of a new Labour Code, the parties shall enter into new Collective Bargaining Agreement starting from 1 January 2019. The Company's and Trade Unions' negotiations regarding the new Agreement are still ongoing, thus the Company in 2019 continues to apply additional benefits that were provided by old Agreement.

The Collective Bargaining Agreement which was valid till 31 December 2018 applied only to employees of the Company. If provisions of the Collective Bargaining Agreement were more favourable than the same provisions of individual labour agreements, then provisions of the Agreement were applied. If provisions of the Agreement were more favourable than new legislation imposed during the period of the Agreement validity, provisions of the Agreement were applied.

The Collective Bargaining Agreement of the Company granted several additional social guarantees to employees of the Company such as setting of flexible working time regime in certain units; granting of additional 30 calendar days of unpaid vacation because of family circumstances, sanatorium treatment, or for other important reasons; in case of death of the employee's father, mother, wife, husband, child, brother or sister, or birth of a child, the employee was getting additional 3 calendar days of paid vacations; vacation for studies were granted on the bases of advance reference from educational institution for the period of time indicated in that reference; the Company's employees were paid 1.75 employee's hourly wage (basic salary) amount for overtime and work during the night (from 22.00 till 6.00) and 2 employee's hourly wage (basic salary) amount for working during weekends and public holidays; if the employee was fallen sick, the Employer for first two days of illness paid 70 per cent of the employee's average remuneration; the Employer could make a written agreement with the employee regarding payment for his/her university level studies that are in line with his/her individual competence development needs, and pay for such studies on agreed terms; the Employer was committed to insure the Company employees against accidents at work and on the way to/from work; to vaccinate the employees, who are likely to be exposed to occupational risk factors at work; to provide the employees, who perform the works containing risk factors, with necessary special outfit, shoes and other personal protective equipment in time manner and free of charge.

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

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

In 2018, the Social Needs Fund allocated EUR 78.9 thousand for the above-mentioned purposes.

SUSTAINABILITY

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

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

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

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

Our guidelines

In September of 2016, Telia Company approved the new Code of Responsible Business Conduct to be observed by all employees of Telia Company Group, including Telia Lietuva. Code of Responsible Business Conduct is a "compass" for our ethical behaviour at work. It reflects many situations of responsible performance of business, and applies to all employees. The Code of Responsible Business Conduct covers areas of gifts and business hospitality, relations with civil servants, personal data protection, responsible procurement procedures and many other relevant areas, and presents recommendations for proper behaviour in various situations.

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

The main principles of sustainable business, such as ethics, corruption prevention, non-discrepancy, freedom of expression, personal privacy protection, occupational health and safety, and environmental protection, are our way of life. All these **principles** which we follow in our business are defined in the following documents:
- Code of Responsible Business Conduct,
- Anti-Bribery and Anti-Corruption Policy,
- Policy of Freedom of Expression in Telecommunications,
- Privacy Policy and Personal Data Processing Rules,
- Occupational Health and Safety Policy,
- Suppliers' Code of Conduct,
- Environment Policy.

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

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

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

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

Implementation of principles of sustainable business

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

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

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

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

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

All employees of the Company take part in the mandatory personal data protection e-trainings and periodically renew their knowledge in this area.

In 2018, we have implemented the General Data Protection Regulation (GDPR), a regulation by which the European Parliament, the Council of the European Union and the European Commission intend to strengthen and unify data protection for all individuals within the European Union (EU).

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

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

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

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

In respect of **customers**, we are committed to develop innovative and easy-to-use digital technology and IT solutions, enhancing efficiency and sustainable use of resources, to educate customers about IT innovations and online security, to ensure data privacy, to create and develop simple, easy-to-use and resource-friendly services at a reasonable price, to expand the fiber-optic network, and to develop IT equipment rental services. The Company is also committed to educate society about the opportunities, benefits and risks of information technologies, and to ensure product safety and responsible communication.

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

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

We pay special attention to **environmental protection** – year on year we work towards reducing the consumption of resources and the environmental impact. We encourage our employees as well as partners and suppliers to protect the environment. All the electricity used by the Company is electricity from renewable energy sources.

By implementing the latest communication technologies, such as fiber-optic (FTTH) Internet access, which reduce energy consumption. The technological solutions (for example, video conferencing), which are offered to our customers and used within the Company, reduce the number of trips. We pay attention to sustainable use of energy, prevention of the use of hazardous materials, waste management, requirements for working conditions and product quality, and the monitoring of data on the organisation's environmental impact. During 2018, we collected 5.7 thousand obsolete mobile phones, tablet computers and modems from customers, which were handed over for recycling.

Recognitions

Based on ISS-oekom Corporate Rating Telia Lietuva shares qualify for sustainable investments. Prime status with C+ rating was granted in June 2017.

Sustainability report

The Company's Sustainability Report for the year 2018 where more detailed information about the Company's activities in social responsibility area is available on the Company's website at https://www.telia.lt/eng/sustainability/reporting.

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Information Disclosure of the Bank of Lithuania, we, Dan Strömberg, CEO of Telia Lietuva, AB, and Arūnas Lingė, Head of Finance of Telia Lietuva, AB, hereby confirm that, to the best of our knowledge, the Consolidated Annual Report of Telia Lietuva, AB, for the year 2018 includes a fair review of the development and performance of the business and the position of the Company and the Group of undertakings in relation to the description of the main risks and contingencies faced thereby.

Dan Strömberg
CEO

Arūnas Lingė
Head of Finance

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CORPORATE GOVERNANCE REPORTING FORM FOR THE YEAR ENDED 31 DECEMBER 2018

The public limited liability company **Telia Lietuva, AB** (hereinafter referred to as the "Company"), acting in compliance with Article 22 (3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB Nasdaq Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated and the reasons for such non-compliance must be specified. In addition, other explanatory information indicated in this form must be provided.

1. Summary of the Corporate Governance Reporting Form

According to the By-Laws of Telia Lietuva, AB, the governing bodies of the Company are the General Shareholder's Meeting, the Board and CEO. The Company does not have a Supervisory Council, but supervision functions set by the Law on Companies of the Republic of Lithuania are performed by the Board, which is a non-executive managing body of the Company and is comprised from four representatives of the largest shareholder, Telia Company, and two independent members of the Board. There are two committees in the Company: Audit and Remuneration. The Company does not have a Nomination Committee as its functions are performed by the Remuneration Committee. The Board elect members of the Audit Committee for a term of two years and members of the Remuneration Committee for a term of one year. Three members of the Board, whereof two are independent, comprise the Audit Committee, and three members of the Board, whereof one is independent, comprise the Remuneration Committee. The Board elects and recalls CEO of the Company, sets his/her remuneration and other conditions of the employment agreement.

The Company currently does not comply with the Code requirement that Chair of the Board should not serve as the Chair of committee, because historically the Chair of the Board of the Company is the Chair of the Remuneration Committee. This recommendation will be considered while electing a new Chair of the Remuneration Committee upon termination of the current term of the Remuneration Committee in 2019.

More information about the corporate governance, shareholders' rights, activities of the Board and the Committees as well as members of the Board and Management Team, internal control and risk management systems are provided in the Consolidated Annual Report of Telia Lietuva, AB, for the year ended 31 December 2018.

2. Structured table for disclosure:

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

1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	Yes	The shareholders approve all the transactions that, following the Law on Companies and the By-Laws of the Company, should be approved by the shareholders.
1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	Yes	The shareholders' meetings of the Company are convened at the head-quarters of the Company in Vilnius. The Annual General Meetings are usually held in the second half of April. In 2018, the Annual General Meeting was convened on 25 April 2018 at 1 p.m. and the Extraordinary General Meeting was held on 9 November 2018 at 10 a.m. The notices of the General Meetings of Shareholders specified that draft decisions could be submitted at any time before or at the General Meeting of Shareholders in writing.
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	All the documents and information related to the General Meeting of Shareholders including notices of the meetings, draft decisions, decisions and minutes of the meetings are publicly announced in two languages – Lithuanian and English – simultaneously via regulatory news dissemination system and on the Company's website. Draft decisions for the Annual General Meeting, held on 25 April 2018, were announced in two languages on 10 April 2018, and draft decisions for the Extraordinary General Meeting, held on 9 November 2018, were announced on 28 September 2018.
1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Shareholders of the Company may exercise their right to vote in the General Meeting of Shareholders in person or through a representative upon issuance of proper proxy or having concluded an agreement on the transfer of their voting rights in the manner compliant with the legal regulations, also the shareholder may vote by completing the general voting ballot in the manner provided by the Law on Companies.
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	No	The Company does not comply with this recommendation as there are no means to guarantee text protection and possibilities to identify the signatures of voting persons.
1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience	Yes	The nominees to the Board are publicly announced as soon as the Company receives nominations. Publicly announced and presented to the Shareholders Meeting CVs of the Board nominees contain information about their education, employment history and other competence. The amount of annual compensation (tantiemes) to the members of the Board is provided in the draft of the Profit allocation statemen presented as a draft

and other managerial positions held (or proposed) should be provided.		decision for the General Meeting. The name of proposed audit company and proposed remuneration for the audit services are presented in advance as a draft decision for the General Meeting.
1.10. Members of the company's collegial management body, heads of the administration or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	Yes	The Chair of the Board, member of the Board and all four nominees for election to the as well as CEO of the Company participated at the Annual General Meeting of Shareholders held on 25 April 2018. The Extraordinary General Meeting of Shareholders held on 9 November 2018 was attended by CEO of the Company.

Principle 2: Supervisory board

2.1. Functions and liability of the supervisory board

The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.

The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.

2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	Not applicable	
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	Not applicable	
2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	Not applicable	
2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	Not applicable	
2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	Not applicable	

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

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2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures.	Not applicable	
Principle 3: Management Board **3.1. Functions and liability of the management board** **The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.**		
3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	Yes	As there is no Supervisory Council in the Company, the Company's Board that performs supervisory functions set by the Law on Companies of the Republic of Lithuania approves the Company's strategy.
3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	Yes	The Company's approach towards employees, suppliers, customers and society are set up in respective Company's policies and Code of Responsible Business Conduct that are approved by the Board and are available on the Company's webpage.
3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	Yes	Internal policies of Telia Company Group are adopted by the Company's Board including the Code of Responsible Business Conduct, and their implementation in the Company is followed up at regular local Governance, Risk, Ethics and Compliance (GREC) meetings.
3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	The Company's Governance, Risk, Ethics and Compliance (GREC) meetings are held on a regular basis.
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	Yes	The new CEO of the Company, appointed by the Board from 4 July 2018, has a vast managerial experience in telecommunication industry and used to work in Lithuania for a couple of years.
3.2. Formation of the management board		
3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured	Yes	Three members of the current Board have MBA degrees, two have degrees in Finance and Accounting, and one has Masters' of Law degree. Four out of six members of the Board are working in the telecommunications company; one – in media business and one involved in promotion of ICT business and startups. Currently only one out of six members

that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.		of the Board is a female, while till November 2018 there were two women on the Board.
3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.	Yes	CVs of the nominees to the Board (including information about candidate's participation in activities of other companies) are included into the draft decisions for the General Meeting of Shareholders and are available at the Company's website, and shareholders may be acquitted with such information in advance. Information about employment of the Board members as well as their participation in the activities of other companies is continuously monitored and collected, and each quarter updated information is presented at the Company's website as well as in the Company's annual and interim reports.
3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company.	Yes	Upon election, all members of the Board were acquainted with their duties and responsibilities set by Lithuanian legislation as well as the By-laws of the Company. Members of the Board on the regular basis are informed about the Company's performance and its development, as well as major changes in the Company's activities legal framework and other circumstances having effect on the Company during the Board meetings and individually upon the need and request by the Board members.
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	Yes	Following the By-Laws of the Company, the Board members are elected for a two-year term, not limiting the number of terms. Thus, one member of the Board has been working in the Board since April 2014 and has been re-elected two times – in April 2015 and April 2017. Another was elected in April 2016 and worked till April 2017, and once again was elected in April 2018. Three members were elected in April 2018 and one – in November 2018. The current two-year term of the Board ends in April 2019.
3.2.5. Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	Yes	Previous (till November 2018) and current (from November 2018) Chair of the Board represents the majority shareholder of the Company and neither is involved in any daily activities of the Company, nor has at any time been working in the Company. Former CEOs of the Company are neither working in the Company nor in any collegial body.
3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof.	Yes	Each member devotes sufficient time and attention to perform his duties as a member of the collegial body. During all Board meetings in 2018 there was the quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings and information about attendance of the meetings by each member of the Board is presented in the Consolidated Annual Report for the year 2018.

3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent, it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances.	Yes	Two independent members of the Board elected in April 2017 have resigned from the Board in April 2018, and the Annual General Meeting in April 2018 elected two new independent members of the Board – Tomas Balžekas and Mindaugas Glodas. It was disclosed before the General Meeting that those two nominees to the Board upon election will regarded as independent members of the Board.
3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	Yes	While approving the Profit allocation statement the Annual General Meeting of the Company's Shareholders sets the annual compensations (tantiemes) to the members of the Board. Starting from 2016, annual compensation of EUR 15.6 thousand per person is paid only to two independent members of the Board.
3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	Yes	According to the information possessed by the Company, all members of the Board that perform supervisory functions provided by the Law are acting in a good faith in respect of the Company, in the interest of the Company but not in the interest of their own or third parties, pursuing principles of honesty and rationality, following obligations of confidentiality and property separation, thus striving to maintain their independence in decisions making.
3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	No	Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2018 but no separate assessment of its activities is provided as no significant improvements to the current ways of working were deemed necessary.
Principle 4: Rules of procedure of the supervisory board and the management board of the company **The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.**		
4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform he supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	Yes	The Company has the Board that represents the shareholders of the Company and is responsible for strategic management of the Company, supervision and control of activities of CEO of the Company. The management team of the Company on a regular basis informs the Board about the Company's performance.

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

Principle 5: Nomination, remuneration and audit committees

5.1. Purpose and formation of committees

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

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

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

5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.		
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	Not applicable	
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	Yes, except regarding chair of committee	Three members of the Board comprise each committee. Two independent members of the Board are member of the Audit Committee. All three members of the Audit committee have a financial background. One independent member of the Board is member of the Remuneration Committee. All three members of the Remuneration Committee have managerial experience. In 2018, Chair of the Board was the Chair of the Remuneration Committee.
5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	Yes	Responsibilities and work regulations of the committees are approved by the Board. The names of the Committee members are announced in the Company's periodic reports and on the webpage of the Company. Information about activities of the committees and attendance of the committees' meeting is provided in the Consolidated Annual Report for the year 2018.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	Yes	Following the committee's work regulations, the CFO of the Company is a secretary of the Audit Committee and Head of Human Resources – secretary of the Remuneration Committee. Employees of the Company who are responsible for the discussed area participate in the Committees' meetings and provide all necessary information.
5.2. Nomination committee		
5.2.1. The key functions of the nomination committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the	Yes	In the Company, the function of the Nomination Committee is performed by the Remuneration Committee.

functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning.		
5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.	Yes	
5.3. Remuneration committee		
5.3.1. The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	Yes	Information about activities of the Remuneration committee is provided in the Consolidated Annual Report for the year 2018.
5.4. Audit committee		
5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee. 5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.	Yes	
5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the	Yes	Following the Audit Committee work regulations, the CFO of the Company is a secretary of the Audit Committee and participates in the Audit Committee meetings.

relevant persons without members of the management bodies present.		
5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	Yes	Internal and external auditors present their activities plans and reports to the Audit Committee on a regular basis.
5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	Yes	Reports of the Company's Governance, Risk, Ethics and Compliance (GREC) meetings are presented to the Audit Committee on a regular basis.
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes	Reports of the Audit Committee are presented at the Board meetings on a regular basis.
Principle 6: Prevention and disclosure of conflicts of interest **The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.**		
Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	Yes	
Principle 7: Remuneration policy of the company **The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.**		
7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	Yes	The principles of the Company's Remuneration policy, which was updated and approved by the Board, is described in the Company's Consolidated Annual Report for the year 2018 and placed on the Company's website.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	Yes	

7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	Yes	Only two independent members of the Board receive the annual compensations (tantiemes) approved by the AGM. The amount of tantiemes was the same for a decade and amounted to EUR 15.6 thousand per person.
7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	No	The Company's Remuneration policy does not stipulate policy regarding termination payments. The Company follows provisions of respective Laws regarding termination payments.
7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	Not applicable	The Company does not have any share options system for employees' remuneration.
7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	No	In the Consolidated Annual Report and Consolidated Financial Statements, the Company discloses information about total employee-related expenses, remuneration of key management personnel and annual compensations (tantiemes) paid to members of the Board during the reporting period. Information about the Board and the management is provided separately. The Consolidated Annual Report is publicly available on the Company's webpage.
7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.	No	The Company does not apply any schemes for remuneration in shares, share options or any other rights to purchase shares or be remunerated on the basis of share price movements.
Principle 8: Role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.**		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	The Code of Responsible Business Conduct is approved by the Board and is available on the Company's webpage.
8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees	Yes	The Company and trade unions that represent employees of the Company have signed a Collective Bargaining Agreement. In 1999, following the Company's privatization program, almost 5 per cent of the Company's shares were sold to its employees. The current and former employees of the Company

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

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