

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.

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 prolonged 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
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 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 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 signed 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		Tantiemes for 2017 paid-out in 2018 (EUR)	
		Board (13)	Audit Committee (6)		Remuneration Committee (4)
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 Denmark 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, Märbackagatan 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, Warfvings 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, Dzirnau iela 105, Rīga, LV-1011 Latvia, code 40003052786, member of the Supervisory Council. Hannu-Matti Mäkinen has no direct interest in the share capital of Telia Lietuva, 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 Doktoras, Kęstučio g. 25, LT-08120 Vilnius, Lithuania, code 303085208, a subsidiary of UAB Media Bitės, General Manager (CEO), UAB Balžeko Bitės, Aukštaičių g. 6, LT-11341 Vilnius, Lithuania, code 302833809, shareholder (100 per cent), UAB InsurTech Solutions, Debesų g. 11, Kleivinė, 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 Vilnius 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 Dzirnau 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 continues 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 Deloitte 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
- <i>whereof Technology unit</i>	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 on 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