

Telia Lietuva, AB

**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS,
CONSOLIDATED ANNUAL REPORT AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Telia Lietuva, AB:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of Telia Lietuva, AB (the Company) and consolidated financial statements of Telia Lietuva, AB and subsidiaries (the Group), which comprise the statement of financial position of the Company and the Group as at 31 December 2016, and the statements of profit or loss and comprehensive income, the statements of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Lithuania on accounting and financial reporting, and International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

| Key Audit Matter: | How our audit addressed the Key Audit Matter |
|---|---|
| Acquisition of AB Omnitel – purchase price allocation | |
| <p><i>Refer to pages 14-15, 40-41 of the financial statements</i></p> <p>On 4 January 2016, the Group acquired 100% of the shares in AB Omnitel for consideration of 144,107 thousand Eur.</p> <p>The accounting for this transaction is complex due to the significant judgments and estimates that are required to identify and measure the fair value of the assets acquired and liabilities assumed.</p> <p>Due to the size and complexity of the acquisition, we considered this to be a key audit matter.</p> | <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • involving our own valuation specialists to support us in challenging the valuations produced by the Group and the methodology used to identify the assets and liabilities acquired; in particular: <ul style="list-style-type: none"> – the methodologies adopted and key assumptions utilised in valuing the tangible fixed assets by comparing with market information and quoted prices for similar assets; and – the key assumptions used to determine the fair value of the customer relationship intangible asset, which included recalculating historical customer retention rates and growth trends, and reconciling underlying data to customer contracts and relationship databases; – challenging the fair value of the contingent consideration, which included assessing future forecast business performance by agreeing amounts to approved forecasts, underlying contracts and comparing forecasts against historical performance and results since the acquisition date; and • evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities. |

| | |
|---|--|
| <p>Revenue recognition</p> | |
| <p><i>Refer to pages 20, 25 of the financial statements</i></p> <p>The Company's and the Group's net sales amounted to 204,065 thousand Eur and 345,906 thousand Eur respectively for the year then ended 2016.</p> <p>The net sales encompass several revenue streams such as traffic charges, including interconnect and roaming, subscription fees, installation fees, other services and sale of equipment. Furthermore, all these services and products give rise to multiple customer offerings (bundle services) which are subject to fair price allocation among the services and related products, incentives and discounts.</p> <p>Multiple billing systems and other interrelated data applications are used to maintain the accurate and complete accounting records within the Company and the Group.</p> <p>Complex products and services and a combination of those requires significant management judgment about the timing and value of revenue to be recognised and impose the risk of accuracy and completeness of revenue related accounting records. Due to this we considered this to be a key audit matter.</p> | <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • evaluating the design and operational effectiveness of key internal controls, including relevant IT systems, used for billing and monitoring of revenue recognition; • assessing based on sample of customer bills for accuracy for new products and tariffs introduced in the year; • under multiple-element contractual arrangements (bundled product offers), evaluating each of the deliverables to determine whether they represent separate element and testing the value allocated to the undelivered elements based on their respective fair values; • evaluating revenues allocated to undelivered elements (deferred and recognized rateably over the estimated term of provision of these elements); • reconciling revenue accruals to actual data traffic available after month closing; • challenging the adequacy of disclosures related to the various revenue streams. |

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Deloitte Lietuva UAB
Audit Company License No 001275



Simonas Rimašauskas
Lithuanian Certified Auditor
License No 000466

Vilnius, Republic of Lithuania
3 April 2017

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

Approved by the Annual General Meeting
of Shareholders as at 27 April 2017

| | Notes | Year ended 31 December | | | |
|---|-------|------------------------|----------------|----------------|----------------|
| | | GROUP | | COMPANY | |
| | | 2016 | 2015 | 2016 | 2015 |
| Revenue | 5 | 345,906 | 204,598 | 204,065 | 198,028 |
| Cost of goods and services | 6 | (128,878) | (61,632) | (63,425) | (59,276) |
| Employee related expenses | | (59,446) | (48,264) | (39,862) | (42,711) |
| Other operating expenses | 8 | (46,211) | (20,325) | (28,186) | (26,203) |
| Other income | 7 | - | - | 4,400 | 2,626 |
| Other gain / (loss) – net | 9 | 9 | 2,091 | 103 | 630 |
| Depreciation, amortisation and impairment of fixed assets | 14 | (63,233) | (37,929) | (35,204) | (34,958) |
| Impairment of investments in subsidiaries | 17 | - | - | (1,850) | (430) |
| Operating profit | | 48,147 | 38,539 | 40,041 | 37,706 |
| Finance income | | 1,415 | 135 | 338 | 133 |
| Finance costs | | (2,485) | (395) | (1,707) | (376) |
| Finance income (costs) – net | 10 | (1,070) | (260) | (1,369) | (243) |
| Profit before income tax | | 47,077 | 38,279 | 38,672 | 37,463 |
| Income tax | 11 | (5,583) | (4,103) | (4,682) | (3,442) |
| Profit for the year | | 41,494 | 34,176 | 33,990 | 34,021 |
| Other comprehensive income: | | | | | |
| Other comprehensive income for the year | | - | - | - | - |
| Total comprehensive income for the year | | 41,494 | 34,176 | 33,990 | 34,021 |
| Profit and comprehensive income attributable to: | | | | | |
| Owners of the Parent | | 41,494 | 34,176 | 33,990 | 34,021 |
| Non-controlling interests | | - | - | - | - |
| Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in EUR per share) | 12 | 0.071 | 0.059 | 0.058 | 0.058 |

The notes on pages 11 to 44 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 6 to 44 have been approved for issue by the Board of Directors as at 3 April 2017 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas
CEO



Laimonas Devyžis
Head of Finance



CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

Approved by the Annual General Meeting of Shareholders as at 27 April 2017

| | | As at 31 December | | | | |
|---|--|-------------------|----------------|----------------|----------------|----------------|
| | | GROUP | | COMPANY | | |
| Notes | | 2016 | 2015 | 2016 | 2015 | |
| ASSETS | | | | | | |
| Non-current assets | | | | | | |
| | Property, plant and equipment | 14 | 291,818 | 214,882 | 210,403 | 206,995 |
| | Goodwill | 15 | 26,769 | 2,038 | - | - |
| | Intangible assets | 15 | 97,743 | 10,332 | 10,147 | 10,147 |
| | Investment property | 16 | 1,277 | 3,126 | - | - |
| | Investments in associates and subsidiaries | 17 | - | - | 151,434 | 12,176 |
| | Trade and other receivables | 19 | 10,944 | 7,768 | 5,477 | 6,861 |
| | Deferred tax asset | 25 | - | - | - | - |
| | | | 428,551 | 238,146 | 377,461 | 236,179 |
| Current assets | | | | | | |
| | Inventories | | 10,135 | 1,371 | 1,157 | 1,370 |
| | Trade and other receivables | 19 | 94,661 | 33,568 | 37,220 | 31,663 |
| | Current income tax assets | | 722 | 902 | - | 874 |
| | Cash and cash equivalents | 20 | 56,650 | 12,898 | 31,015 | 7,061 |
| | | | 162,168 | 48,739 | 69,392 | 40,968 |
| | Total assets | | 590,719 | 286,885 | 446,853 | 277,147 |
| EQUITY | | | | | | |
| Capital and reserves attributable to equity holders of the Company | | | | | | |
| | Issued capital | 21 | 168,958 | 168,958 | 168,958 | 168,958 |
| | Legal reserve | 22 | 16,896 | 16,896 | 16,896 | 16,896 |
| | Retained earnings | | 84,472 | 48,804 | 68,056 | 39,892 |
| | Amounts recognized directly in equity relating to assets classified as held for sale | | - | - | - | - |
| | Equity attributable to owners of the Company | | 270,326 | 234,658 | 253,910 | 225,746 |
| | Non-controlling interests | | - | - | - | - |
| | Total equity | | 270,326 | 234,658 | 253,910 | 225,746 |
| LIABILITIES | | | | | | |
| Non-current liabilities | | | | | | |
| | Borrowings | 24 | 97,500 | - | 97,500 | - |
| | Deferred tax liabilities | 25 | 20,284 | 8,922 | 9,302 | 8,081 |
| | Deferred revenue and accrued liabilities | 23 | 9,897 | 424 | 972 | 424 |
| | Provisions | 26 | 6,627 | - | - | - |
| | | | 134,308 | 9,346 | 107,774 | 8,505 |
| Current liabilities | | | | | | |
| | Trade, other payables and accrued liabilities | 23 | 55,114 | 26,861 | 31,263 | 26,995 |
| | Current income tax liabilities | | 1,068 | 119 | 1,068 | - |
| | Borrowings | 24 | 129,500 | 15,061 | 52,500 | 15,061 |
| | Provisions | 26 | 403 | 840 | 338 | 840 |
| | | | 186,085 | 42,881 | 85,169 | 42,896 |
| | Total liabilities | | 320,393 | 52,227 | 192,943 | 51,401 |
| | Total equity and liabilities | | 590,719 | 286,885 | 446,853 | 277,147 |

The notes on pages 11 to 44 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 6 to 44 have been approved for issue by the Board of Directors as at 3 April 2017 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas
CEO



Laimonas Devyžis
Head of Finance



CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

Approved by the Annual General Meeting of Shareholders as at 27 April 2017

| GROUP | Notes | Share capital | Legal reserve | Retained earnings | Total equity |
|--|-------|----------------|---------------|-------------------|----------------|
| Balance at 1 January 2015 | | 168,736 | 22,498 | 48,643 | 239,877 |
| Profit for the year | | - | - | 34,176 | 34,176 |
| Other comprehensive income for the year, net of income tax | | - | - | - | - |
| Total comprehensive income for the year | | - | - | 34,176 | 34,176 |
| Dividends paid for 2014 | 13 | - | - | (39,617) | (39,617) |
| Share capital value adjustment due to conversion to euro | 21 | 222 | - | - | 222 |
| Reduction of legal reserve | 22 | - | (5,602) | 5,602 | - |
| Balance at 31 December 2015 | | 168,958 | 16,896 | 48,804 | 234,658 |
| Balance at 1 January 2016 | | 168,958 | 16,896 | 48,804 | 234,658 |
| Profit for the year | | - | - | 41,494 | 41,494 |
| Other comprehensive income for the year, net of income tax | | - | - | - | - |
| Total comprehensive income for the year | | - | - | 41,494 | 41,494 |
| Dividends paid for 2015 | 13 | - | - | (5,826) | (5,826) |
| Balance at 31 December 2016 | | 168,958 | 16,896 | 84,472 | 270,326 |

| COMPANY | Notes | Share capital | Legal reserve | Retained earnings | Total equity |
|--|-------|----------------|---------------|-------------------|----------------|
| Balance at 1 January 2015 | | 168,736 | 22,498 | 39,886 | 231,120 |
| Profit for the year | | - | - | 34,021 | 34,021 |
| Other comprehensive income for the year, net of income tax | | - | - | - | - |
| Total comprehensive income for the year | | - | - | 34,021 | 34,021 |
| Dividends paid for 2014 | 13 | - | - | (39,617) | (39,617) |
| Share capital value adjustment due to conversion to euro | 21 | 222 | - | - | 222 |
| Reduction of legal reserve | 22 | - | (5,602) | 5,602 | - |
| Balance at 31 December 2015 | | 168,958 | 16,896 | 39,892 | 225,746 |
| Balance at 1 January 2016 | | 168,958 | 16,896 | 39,892 | 225,746 |
| Profit for the year | | - | - | 33,990 | 33,990 |
| Other comprehensive income for the year, net of income tax | | - | - | - | - |
| Total comprehensive income for the year | | - | - | 33,990 | 33,990 |
| Dividends paid for 2015 | 13 | - | - | (5,826) | (5,826) |
| Balance at 31 December 2016 | | 168,958 | 16,896 | 68,056 | 253,910 |

The notes on pages 11 to 44 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 6 to 44 have been approved for issue by the Board of Directors as at 3 April 2017 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas
CEO



Laimonas Devyžis
Head of Finance



CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

Approved by the Annual General Meeting of Shareholders as at 27 April 2017

| | Notes | Year ended 31 December | | | |
|---|-------|------------------------|-----------------|------------------|-----------------|
| | | GROUP | | COMPANY | |
| | | 2016 | 2015 | 2016 | 2015 |
| Operating activities | | | | | |
| Profit for the year | | 41,494 | 34,176 | 33,990 | 34,021 |
| Adjustments for: | | | | | |
| Income tax expenses recognized in profit or loss | 11 | 5,583 | 4,103 | 4,682 | 3,442 |
| Depreciation, amortisation and impairment charge | 14 | 63,233 | 37,929 | 35,204 | 34,958 |
| Dividends received from subsidiaries | 7 | - | - | (4,400) | (2,626) |
| Other gain / (loss) - net | 9 | (9) | (2,090) | (103) | (630) |
| Write off of property, plant and equipment and intangible assets | | - | 342 | 196 | 337 |
| Impairment of investments in subsidiaries | 17 | | - | 1,850 | 430 |
| Interest income | 7,10 | (174) | (135) | (173) | (133) |
| Interest expenses | | 2,310 | 88 | 1,608 | 91 |
| Other non-cash transactions | | (53) | 503 | - | 468 |
| Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries): | | | | | |
| Inventories | | (4,291) | (624) | 213 | (625) |
| Trade and other receivables | | (5,135) | (9,487) | (4,173) | (7,837) |
| Trade, other payables and accrued liabilities, deferred tax liability | | 16,357 | (583) | 3,574 | (196) |
| Provisions | 26 | (502) | 840 | (502) | 840 |
| Cash generated from operations | | 118,813 | 65,062 | 71,966 | 62,540 |
| Interest paid | | (1,961) | (82) | (1,981) | (11) |
| Interest received | | 174 | 134 | 173 | 133 |
| Income taxes paid | | (4,597) | (2,706) | (1,519) | (2,210) |
| Net cash generated by operating activities | | 112,429 | 62,408 | 68,639 | 60,452 |
| Investing activities | | | | | |
| Purchase of property, plant and equipment (PPE) and intangible assets | | (68,253) | (33,865) | (37,322) | (33,539) |
| Proceeds from disposal of PPE and intangible assets | | 81 | 2,416 | 207 | 609 |
| Acquisition of subsidiaries | 29 | (129,618) | - | (141,083) | - |
| Loans repaid | 30 | - | - | - | 200 |
| Dividends received | 7 | - | - | 4,400 | 2,626 |
| Net cash used in investing activities | | (197,790) | (31,449) | (173,798) | (30,104) |

(Continued in the next page)

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)

| | Note | Year ended 31 December | | | |
|---|------|------------------------|-----------------|----------------|-----------------|
| | | GROUP | | COMPANY | |
| | | 2016 | 2015 | 2016 | 2015 |
| Financing activities | | | | | |
| Repayment of borrowings | | (15,061) | (30,306) | (15,061) | (30,306) |
| Proceeds from borrowings | 30 | 150,000 | 35,000 | 150,000 | 35,000 |
| Dividends paid to shareholders | 13 | (5,826) | (39,617) | (5,826) | (39,617) |
| Net cash received in financing activities | | 129,113 | (34,923) | 129,113 | (34,923) |
| Increase (decrease) in cash and cash equivalents | | 43,752 | (3,964) | 23,954 | (4,575) |
| Movement in cash and cash equivalents | | | | | |
| At the beginning of the financial year | | 12,898 | 16,862 | 7,061 | 11,636 |
| Increase (decrease) in cash and cash equivalents | | 43,752 | (3,964) | 23,954 | (4,575) |
| At the end of the financial year | 20 | 56,650 | 12,898 | 31,015 | 7,061 |

(Concluded)

The notes on pages 11 to 44 form an integral part of these consolidated and separate financial statements.

The consolidated and separate financial statements on pages 6 to 44 have been approved for issue by the Board of Directors as at 3 April 2017 and signed on their behalf by the CEO and the Head of Finance:

Kęstutis Šliužas
CEO



Laimonas Devyžis
Head of Finance



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1 General information

Telia Lietuva, AB until 1 February 2017 was named as TEO LT, AB (hereinafter – the Company) is a public company (joint-stock company) incorporated on 6 February 1992. The Company is domiciled in Vilnius, the capital of the Republic of Lithuania. Address of its registered office is Lvovo St. 25, LT-03501, Vilnius, Lithuania.

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

The shareholders' structure of the Company was as follows:

| | 31 December 2016 | | 31 December 2015 | |
|---|--------------------|---------------|--------------------|---------------|
| | Number of shares | % | Number of shares | % |
| Telia Company AB (until 13 April 2016 called TeliaSonera AB) (Sweden) | 513,594,774 | 88.15 | 513,594,774 | 88.15 |
| Other shareholders | 69,018,364 | 11.85 | 69,018,364 | 11.85 |
| | 582,613,138 | 100.00 | 582,613,138 | 100.00 |

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

The Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an operator with significant market power (SMP) in 8 telecommunications markets. On 4 January 2016, the Company acquired Lithuanian mobile operator AB Omnitel and therefore is considered as SMP in the market of voice call termination in public mobile network of AB Omnitel.

The number of full time staff employed by the Group at the end of 2016 amounted to 2,819 (2015: 2,309). The number of full time staff employed by the Company at the end of 2016 amounted to 1,738 (2015: 1,764).

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

| Subsidiary/ associate | Country of incorporation | Ownership interest in % | | Profile |
|---|-----------------------------|-------------------------|---------------------|--|
| | | 31 December 2016 | 31 December 2015 | |
| AB Omnitel | Lithuania | 100% | - | The subsidiary, a provider of mobile communications services, was acquired on 4 January 2016 and on 1 February 2017 was merged into the Company. |
| AB Baltic Data Center | Lithuania | 100% | 100% | The subsidiary, a provider of information technology infrastructure services, on 1 February 2017 was merged into the Company. |
| UAB Lintel (now Telia Customer Service LT, UAB) | Lithuania | 100% | 100% | The subsidiary provides Directory Inquiry Service 118 and Contact Center services. On 1 February 2017 changed name Telia Customer Service LT, UAB. |
| Baltic Data Center SIA | Latvia | - | 100% | The dormant subsidiary of Baltic Data Center was liquidated in January 2016. |
| UAB Kompetencijos Ugdyimo Centras | Lithuania | 100% | 100% | The dormant subsidiary of the Company. |
| UAB Verslo Investicijos | Lithuania | 100% | 100% | The subsidiary for implementation of the investment project. |
| VšĮ Ryšių Istorijos Muziejus | Lithuania | - | 100% | A not-for-profit organisation established and owned by the Company for management of the Communications History Museum in Kaunas was handed over to Kaunas City Municipality free of charge in April 2016. |

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

| Subsidiary/ associate | Country of incorporation | Ownership interest in % | | Profile |
|--------------------------|-----------------------------|-------------------------|---------------------|--|
| | | 31 December 2016 | 31 December 2015 | |
| VšĮ Numerio Perkėlimas | Lithuania | 50% | 25% | A non-profit organization established by four Lithuanian telecommunications operators (the Company and Omnitel initially owned a 25% stakes each) from 1 January 2016 started to administer central database to ensure telephone number portability. |
| VšĮ SOS Projektai | Lithuania | - | - | A non-profit organization established by Omnitel and Swedbank (Lithuania) for implementation of professional volunteering project. Omnitel handed over its 50% stake to Swedbank free of charge in July 2016. |

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

The financial statements have been prepared under the going concern basis.

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

The following standards have been adopted by the Company and the Group for the first time for the financial year beginning on or after January 2016.

Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016). The amendments did not have any material effect on the Company's and Group's financial statements.

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

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016). The amendments did not have any material effect on the Company's and Group's financial statements.

Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016). The amendments did not have any material effect on the Company's and Group's financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016). The amendments did not have any material effect on the Company's and Group's financial statements.

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016). The amendments did not have any material effect on the Company's and Group's financial statements.

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

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016). The amendments did not have any material effect on the Company’s and Group’s financial statements.

Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015). The amendments did not have any material effect on the Company’s and Group’s financial statements.

Amendments to IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016). The amendments did not have any material effect on the Company’s and Group’s financial statements.

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

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

IFRS 9 “Financial Instruments” – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).

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

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

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

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

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

IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019).

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

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

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

Amendments to IFRS 15 “Revenue from Contracts with Customers” – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the standard on its financial statements.

Amendments to IAS 7 “Statement of Cash Flows” – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017), The Group is currently assessing the impact of the standard on its financial statements.

Amendments to IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017). The Group is currently assessing the impact of the standard on its financial statements.

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

Amendments to IAS 7 “Statement of Cash Flows” – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017), The Group is currently assessing the impact of the standard on its financial statements.

Amendments to IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017). The Group is currently assessing the impact of the standard on its financial statements.

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

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

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

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

2.2 Consolidated financial statements

Basis of consolidation

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

Subsidiaries

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

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

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

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

Associates

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

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

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

Business combination

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

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

2.3 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

2.4 Property, plant and equipment

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

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

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

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

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

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

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

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included within 'Other gain / (loss) - net' in the statement of profit or loss.

2.5 Intangible assets

Goodwill

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

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

Other intangible assets

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

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

| | |
|-------------------------------|--------------|
| Licenses | 2 – 20 years |
| Software | 2 – 5 years |
| Client base* | 15 years |
| Trademarks** | 10 years |
| Other intangible fixed assets | 5 years |

* Useful life of client base was estimated based on existing clients number as at 31 December 2016 and statistics of churn rates.

**Useful life of trademarks was estimated based on assumption that telecoms appear to rebrand themselves over the years. Based on market study 10 years seems to be fair estimate for telecom company trademark lifetime.

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

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

Contractual customer relationships acquired in the business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using straight-line method over the expected life of the customer relationship.

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

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

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

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

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

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

2.6 Investment property

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

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

Investment properties of the Group are stated at cost less accumulated depreciation and any accumulated impairment losses. Transaction costs are included on initial recognition. The fair values of investment properties are disclosed in the Note 16.

2.7 Impairment of non-financial assets

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

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

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

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

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

2.8 Financial assets

2.8.1 Classification

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

Loans and receivables

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

2.8.2 Recognition and measurement

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

2.8.3 Impairment of financial assets

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

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

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

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

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

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

2.10 Inventories

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

2.11 Trade receivables

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

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

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

2.12 Cash and cash equivalents

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

2.13 Issued capital

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

2.14 Trade payables

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

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

2.15 Borrowings

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

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

2.16 Accounting for leases - where the Company or the Group is the lessee

Finance lease

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

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

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

Operating lease

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

2.17 Accounting for leases - where the Company or the Group is the lessor

Operating lease

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

2.18 Provisions

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

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

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

2.19 Income tax

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

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

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

Profit for 2016 is taxable at a rate of 15% (2015: 15%) in accordance with Lithuanian regulatory legislation on taxation.

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

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

According to Lithuanian legislation, tax losses accumulated as at 31 December 2016 are carried forward indefinitely except for tax loss arising from the transfer of securities.

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

2.20 Revenue recognition

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

Revenue is recognized in the period in which the service is performed, based on actual traffic or over the contract term, as applicable. Revenue from rendering of services is recognized when it is probable that the economic benefits associated with a transaction will flow to Group and the amount of revenue, and the associated costs incurred, or to be incurred, can be measured reliably. Revenue from voice and data services is recognized when the services are used by the customer. Revenue from interconnect traffic with other telecom operators is recognized at the time of transit across Teo groups network. When invoicing end-customers for third-party content services, amounts collected on behalf of the principal are excluded from revenue.

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

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

Multiple element arrangements

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

Arrangements of discounts

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

2.21 Interest income

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

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

2.22 Dividend income

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

2.23 Employee benefits

Social security contributions

The Company and the Group pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Company and the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions amounting to EUR 14.7 million for the Group and EUR 10.3 million for the Company (2015: EUR 11.8 million for the Group and EUR 10.5 million for the Company) are recognised as an expense on an accrual basis and are included within employee related expenses.

Termination benefits

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

Bonus plans

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

Supplementary health insurance

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

Contributions to Pension Fund

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

2.24 Dividend distribution

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

Withholding tax on dividends paid to legal entities amounts to 15% (2015: 15%). According to statutory law, participation exemption (i.e. no withholding tax on dividends) could be applied when shareholder holds more than 10% of share capital and retains the holding for more than one year. There is also withholding tax exemption on dividends paid to pension and investment funds.

2.25 Segment information

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

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

Other segment includes technology division, support units and Lintel financial performance.

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

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

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

Group's segment reporting 2015:

| | January – December 2015 | | | |
|---|-------------------------|---------------|-----------------|----------------|
| | B2B | B2C | Other | Total |
| Revenue from external customers | 103,160 | 97,751 | 3,687 | 204,598 |
| Operating expenses external | (48,739) | (26,695) | (54,787) | (130,221) |
| Operational result | 54,421 | 71,056 | (51,100) | 74,377 |
| Impairment of fixed assets | - | (1,375) | - | (1,375) |
| Other income | | | | - |
| Other gain/ (loss) – net | | | | 2,091 |
| Depreciation and amortisation of non-current assets | | | | (36,554) |
| Operating profit | | | | 38,539 |

Group's segment reporting 2016:

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

3 Financial risk management

3.1 Financial risk factors

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

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

Market risk

Foreign exchange risk

The Company and the Group operate internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US Dollar (USD). Foreign exchange risk arises from commercial transactions, recognised assets and liabilities. Substantially all the Company's and the Group's trade payables and trade receivables in foreign currency are short-term and insignificant as compared to total cash pool in EUR. The Group manages foreign exchange risk by minimising the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Notes 19, 20 and 23.

Cash flow and fair value interest rate risk

The Company's and Group's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

The financial assets exposed to credit risk represent cash deposits and trade receivables. The Company and the Group didn't have any held-to-maturity investments at the end of 2016.

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

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

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

Liquidity risk

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

For the maturity analysis of the undiscounted cash flows of the Company's and the Group's borrowings, into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date see Note 24.

3.2 Capital management

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

In order to maintain or adjust the capital structure, the Company and the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders and issue new shares. Capital is calculated as 'Equity' as shown in the statement of financial position.

Pursuant to the Lithuanian Law on Companies the authorised share capital of a joint stock company must be not less than EUR 40,000, and the shareholders' equity should not be lower than 50% of the company's registered share capital. As at 31 December 2016 and as at 31 December 2015 the Company complied with these requirements.

The Company's and the Group's operations are financed by the external parties as well as by the shareholders' capital. The Group had finance lease liabilities, plus EUR 150 million external loan with Lithuanian banks and EUR 77 million internal loan with Telia Company AB at the end of 2016. For more detailed borrowings related information see Notes 24 and 30.

3.3 Fair value estimation

The carrying value less impairment losses of trade receivables and carrying value of payables are assumed to approximate their fair value.

3.4 Offsetting financial assets and financial liabilities

Financial assets

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

| | GROUP | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| <i>Trade and other receivable</i> | | | | |
| Gross amounts of recognized financial assets | 101,342 | 40,487 | 42,572 | 37,824 |
| Gross amounts of recognized financial liabilities set off in the statement of financial position | (1,961) | (917) | (1,961) | (917) |
| Net amounts of financial assets presented in the statement of financial position | 99,381 | 39,570 | 40,611 | 36,907 |
| Related amounts not set off in the statement of financial position | - | - | - | - |
| Net amount | 99,381 | 39,570 | 40,611 | 36,907 |

Financial liabilities

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

| | GROUP | | COMPANY | |
|--|----------------|---------------|----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| <i>Trade payables</i> | | | | |
| Gross amounts of recognized financial liabilities | 264,218 | 36,234 | 175,698 | 37,188 |
| Gross amounts of recognized financial assets set off in the balance sheet | (1,961) | (917) | (1,961) | (917) |
| Net amounts of financial liabilities presented in the balance sheet | 262,257 | 35,317 | 173,737 | 36,271 |
| Related amounts not set off in the balance sheet | - | - | - | - |
| Net amount | 262,257 | 35,317 | 173,737 | 36,271 |

4 Critical Accounting Estimates

Impairment of goodwill

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

Intangibles

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

Based on the assumptions above no changes of useful lives for intangible assets were made over 2016.

Property, plant and equipment

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

Impairment allowance for accounts receivable

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

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

Investment property

Investment property require a value assessment. Impairment allowance for investment property was determined based on the independent valuation (Note 16).

5 Revenue

| | GROUP | | COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Mobile services | 101,467 | - | - | - |
| Voice telephony services | 71,234 | 73,871 | 72,851 | 73,314 |
| Internet services | 57,320 | 54,641 | 57,767 | 54,737 |
| Equipment sales revenue | 56,458 | 18,711 | 15,156 | 17,342 |
| TV services | 24,473 | 20,648 | 24,473 | 20,648 |
| Data communication and network capacity services | 20,381 | 21,753 | 21,611 | 22,078 |
| IT services | 11,030 | 10,947 | 5,807 | 3,140 |
| Other services | 3,543 | 4,027 | 6,400 | 6,769 |
| Total | 345,906 | 204,598 | 204,065 | 198,028 |

6 Cost of goods and services

| | GROUP | | COMPANY | |
|---------------------------------------|----------------|---------------|----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Costs of goods and services purchased | 64,053 | 25,344 | 23,543 | 23,067 |
| Network's interconnection | 48,489 | 26,735 | 30,775 | 26,735 |
| Network capacity costs | 16,336 | 9,553 | 9,107 | 9,474 |
| Total | 128,878 | 61,632 | 63,425 | 59,276 |

7 Other income

| | GROUP | | COMPANY | |
|---------------------------------|--------------|-------------|----------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Income from dividends (Note 30) | - | - | 4,400 | 2,626 |
| Total | - | - | 4,400 | 2,626 |

8 Other operating expenses

| | GROUP | | COMPANY | |
|---|---------------|---------------|----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Energy, premises and transport costs | 15,034 | 10,916 | 10,377 | 10,979 |
| Marketing expenses | 10,254 | 3,004 | 3,449 | 3,013 |
| Maintenance and other services | 8,253 | 3,845 | 10,952 | 9,647 |
| Consultations and other services from group | 5,199 | 518 | 392 | 518 |
| Impairment of accounts receivable | 1,872 | (360) | 592 | (361) |
| Other expenses | 5,599 | 2,402 | 2,424 | 2,407 |
| Total | 46,211 | 20,325 | 28,186 | 26,203 |

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

9 Other gain (loss) – net

| | GROUP | | COMPANY | |
|--|----------|--------------|------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Gain on sales of property, plant and equipment | 193 | 2,027 | 179 | 569 |
| Loss on sales of property, plant and equipment | (69) | (21) | (69) | (21) |
| Other gain (loss) | (115) | 85 | (7) | 82 |
| Total | 9 | 2,091 | 103 | 630 |

10 Finance income and costs

| | GROUP | | COMPANY | |
|--|----------------|--------------|----------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest income from AR amortisation | 1,072 | - | - | - |
| Interest income on cash and cash equivalents | 167 | 5 | 166 | 4 |
| Foreign exchange gain (loss) on financing activities | - | - | - | - |
| Other finance income | 176 | 130 | 172 | 129 |
| Finance income | 1,415 | 135 | 338 | 133 |
| Interest expenses | (2,145) | (78) | (1,602) | (89) |
| Foreign exchange gain (loss) on financing activities | (112) | (32) | (55) | (23) |
| Other finance costs | (228) | (285) | (50) | (264) |
| Finance costs | (2,485) | (395) | (1,707) | (376) |
| Finance income (costs) – net | (1,070) | (260) | (1,369) | (243) |

11 Income tax

| | GROUP | | COMPANY | |
|-------------------------------|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Current tax expenses | 5,611 | 2,967 | 3,461 | 2,281 |
| Deferred tax change (Note 25) | (28) | 1,136 | 1,221 | 1,161 |
| Income tax expenses | 5,583 | 4,103 | 4,682 | 3,442 |

As at 1 January 2009 amendments to Law on Corporate Profit Tax came into effect which provides tax relief for investments in new technologies. As a result the Company's calculated profit tax relief amounts for 2016 to EUR 2.9 million (2015: EUR 2.0 million). Investments in new technologies are capitalised as property, plant and equipment, and their depreciation is deductible for tax purposes, therefore, the tax relief does not create any deferred tax liability.

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. The Company's and the Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

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

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

| | GROUP | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Profit before income tax | 47,077 | 38,279 | 38,673 | 37,463 |
| Tax calculated at a tax rate of 15% (2015: 15%) | 7,062 | 5,742 | 5,801 | 5,619 |
| Non-taxable dividends received (tax effect) | - | - | (660) | (394) |
| Income not subject to tax (-) and expenses not deductible for tax purposes (+) | 2,202 | 130 | 588 | (25) |
| Tax relief | (2,937) | (2,020) | (1,142) | (2,020) |
| Other | (744) | 251 | 95 | 262 |
| Income tax expense recognized in profit or loss and other comprehensive income statement | 5,583 | 4,103 | 4,682 | 3,442 |
| Effective tax rate | 11.86% | 10.72% | 12.11% | 9.19% |

12 Earnings per share

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

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

| | GROUP | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net profit | 41,494 | 34,176 | 33,990 | 34,021 |
| Weighted average number of ordinary shares in issue (thousands) | 582,613 | 582,613 | 582,613 | 582,613 |
| Basic earnings per share (EUR) | 0,071 | 0,059 | 0,058 | 0,058 |

13 Dividends per share

The dividends per share declared in respect of 2015 and 2014 and paid in 2016 and 2015 were EUR 0.01 and EUR 0.068 respectively.

14 Property, plant and equipment

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

| | GROUP | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Depreciation of property, plant and equipment | 48,874 | 33,426 | 32,167 | 31,960 |
| Impairment of property, plant and equipment | 426 | 276 | 81 | 276 |
| Amortisation of intangible assets (Note 15) | 12,085 | 3,128 | 2,956 | 2,722 |
| Impairment of intangible assets (Note 15) | - | 1,099 | - | - |
| Impairment of investment property (Note 16) | 1,848 | - | - | - |
| Total | 63,233 | 37,929 | 35,204 | 34,958 |

In 2016, the Company revised the useful lives of its property, plant and equipment. This revision will be used for 2017. The useful lives of particular items in equipment group were mostly shorted. The effect of the revision of the useful lives will result to the increase of depreciation and amortisation charge by EUR 2.2 million in 2017.

14 Property, plant and equipment (continued)

| GROUP | Land and buildings | Ducts and telecommunication equipment | Other tangible fixed assets | Construction in progress | Total |
|---|---------------------------|--|------------------------------------|---------------------------------|----------------|
| Year ended 31 December 2015 | | | | | |
| Opening net book amount | 17,489 | 189,756 | 4,110 | 7,406 | 218,761 |
| Additions | 8 | 212 | 16 | 30,534 | 30,770 |
| Reclassifications | (110) | 67 | (65) | (7) | (115) |
| Disposals and retirements | (426) | (352) | (54) | - | (832) |
| Transfers from construction in progress | 20 | 27,478 | 1,588 | (29,086) | - |
| Depreciation charge | (1,198) | (30,548) | (1,680) | - | (33,426) |
| Impairment charge | - | (276) | - | - | (276) |
| Closing net book amount | 15,783 | 186,337 | 3,915 | 8,847 | 214,882 |
| At 31 December 2015 | | | | | |
| Cost | 35,994 | 776,089 | 21,331 | 8,847 | 842,261 |
| Accumulated depreciation | (20,211) | (589,752) | (17,416) | - | (627,379) |
| Net book amount | 15,783 | 186,337 | 3,915 | 8,847 | 214,882 |
| Year ended 31 December 2016 | | | | | |
| Opening net book amount | 15,783 | 186,337 | 3,915 | 8,847 | 214,882 |
| Acquisition of subsidiaries | 8,519 | 60,955 | 2,682 | 2,688 | 74,844 |
| Additions | 36 | 7,385 | 737 | 43,425 | 51,583 |
| Reclassifications | (34) | 520 | (18) | - | 468 |
| Disposals and retirements | (17) | (313) | (329) | - | (659) |
| Transfers from construction in progress | 9 | 28,268 | 678 | (28,955) | - |
| Depreciation charge | (1,247) | (44,814) | (2,813) | - | (48,874) |
| Impairment charge | (345) | (81) | - | - | (426) |
| Closing net book amount | 22,704 | 238,257 | 4,852 | 26,005 | 291,818 |
| At 31 December 2016 | | | | | |
| Cost | 49,365 | 961,133 | 31,389 | 26,005 | 1,067,892 |
| Accumulated depreciation | (26,316) | (722,795) | (26,537) | - | (775,648) |
| Impairment Charge | (345) | (81) | - | - | (426) |
| Net book amount | 22,704 | 238,257 | 4,852 | 26,005 | 291,818 |

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

14 Property, plant and equipment (continued)

| COMPANY | Land and buildings | Ducts and telecommunication equipment | Other tangible fixed assets | Construction in progress | Total |
|---|--------------------|---------------------------------------|-----------------------------|--------------------------|----------------|
| Year ended 31 December 2015 | | | | | |
| Opening net book amount | 10,296 | 187,770 | 3,793 | 7,398 | 209,257 |
| Additions | - | 1 | - | 30,534 | 30,535 |
| Disposals and write-offs | (45) | (348) | (52) | - | (445) |
| Reclassifications | (115) | (3) | 2 | - | (116) |
| Transfers from construction in progress | 20 | 27,477 | 1,589 | (29,086) | - |
| Depreciation charge | (919) | (29,461) | (1,580) | - | (31,960) |
| Impairment charge | - | (276) | - | - | (276) |
| Closing net book amount | 9,237 | 185,160 | 3,752 | 8,846 | 206,995 |
| At 31 December 2015 | | | | | |
| Cost | 25,806 | 763,214 | 19,496 | 8,846 | 817,362 |
| Accumulated depreciation | (16,569) | (578,054) | (15,744) | - | (610,367) |
| Net book amount | 9,237 | 185,160 | 3,752 | 8,846 | 206,995 |
| Year ended 31 December 2016 | | | | | |
| Opening net book amount | 9,237 | 185,160 | 3,752 | 8,846 | 206,995 |
| Additions | - | 21 | 10 | 35,949 | 35,980 |
| Disposals and write-offs | - | (247) | (45) | - | (292) |
| Reclassifications | (28) | 6 | (10) | - | (32) |
| Transfers from construction in progress | 9 | 22,237 | 500 | (22,746) | - |
| Depreciation charge | (687) | (29,826) | (1,654) | - | (32,167) |
| Impairment charge | - | (81) | - | - | (81) |
| Closing net book amount | 8,531 | 177,270 | 2,553 | 22,049 | 210,403 |
| At 31 December 2016 | | | | | |
| Cost | 23,994 | 759,972 | 17,663 | 22,049 | 823,678 |
| Accumulated depreciation | (15,463) | (582,702) | (15,110) | - | (613,275) |
| Net book amount | 8,531 | 177,270 | 2,553 | 22,049 | 210,403 |

The Company still uses depreciated property, plant and equipment with acquisition cost as at 31 December 2016 amounting to EUR 201,853 thousand (2015: EUR 445,383 thousand), comprising buildings with acquisition cost as at 31 December 2016 amounting to EUR 1,693 thousand (2015: EUR 4,831 thousand), plant and machinery with acquisition cost of EUR 194,104 thousand (2015: EUR 366,669 thousand) and other fixtures, fitting, tools and equipment with acquisition cost of EUR 6,055 thousand (2015: EUR 73,883 thousand).

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

| | GROUP | | COMPANY | |
|---------------------------------------|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Cost | 3,273 | 4,457 | 3,273 | 4,457 |
| Accumulated depreciation at 1 January | (146) | (445) | (146) | (445) |
| Depreciation charge for the year | (501) | (667) | (501) | (667) |
| Net book amount | 2,626 | 3,345 | 2,626 | 3,345 |

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

15 Intangible assets

| GROUP | Licenses | Software | Goodwill | Other intangible assets* | Construction in progress** | Total |
|--|---------------|--------------|---------------|--------------------------|----------------------------|----------------|
| Year ended 31 December 2015 | | | | | | |
| Opening net book amount | 1,577 | 5,236 | 3,137 | 960 | 1,834 | 12,744 |
| Additions | - | 1 | - | - | 3,852 | 3,853 |
| Transfer from assets in construction | - | 2,935 | - | 376 | (3,311) | - |
| Amortisation charge | (513) | (1,882) | - | (733) | - | (3,128) |
| Impairment charge | - | - | (1,099) | - | - | (1,099) |
| Closing net book amount | 1,064 | 6,290 | 2,038 | 603 | 2,375 | 12,370 |
| At 31 December 2015 | | | | | | |
| Cost | 5,168 | 51,241 | 3,137 | 4,660 | 2,375 | 66,581 |
| Accumulated amortization and impairment charge | (4,104) | (44,951) | (1,099) | (4,057) | - | (54,211) |
| Net book amount | 1,064 | 6,290 | 2,038 | 603 | 2,375 | 12,370 |
| Year ended 31 December 2016 | | | | | | |
| Opening net book amount | 1,064 | 6,290 | 2,038 | 603 | 2,375 | 12,370 |
| Acquisition of subsidiaries | 9,536 | - | 24,731 | 64,865 | 5,435 | 104,567 |
| Additions | 12,391 | - | - | 252 | 6,821 | 19,464 |
| Transfer from assets in construction | - | 2,639 | - | 7,671 | (10,114) | 196 |
| Amortisation charge | (2,981) | (1,015) | - | (8,089) | - | (12,085) |
| Closing net book amount | 20,010 | 7,914 | 26,769 | 65,302 | 4,517 | 124,512 |
| At 31 December 2016 | | | | | | |
| Cost | 27,158 | 54,429 | 27,868 | 84,744 | 4,517 | 198,716 |
| Accumulated amortisation | (7,148) | (46,515) | - | (19,442) | - | (73,105) |
| Impairment charge | - | - | (1,099) | - | - | (1,099) |
| Net book amount | 20,010 | 7,914 | 26,769 | 65,302 | 4,517 | 124,512 |

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

**Construction in progress comprise intangible assets developed for internal use and provision of services, are expected to be completed within 2017.

Goodwill was tested for impairment at 31 December 2016 and at 31 December 2015. For the purposes of impairment testing, goodwill is allocated to group's cash-generating units (CGUs). As at 31 December 2016 there was one cash generating unit identified with the goodwill amount allocated to UAB Baltic Data Center EUR 2,038 thousand, which comprise also goodwill from Hostex UAB company which was merged into UAB Baltic Data Center in 2015, (2015: 1 cash generating unit identified with goodwill amount allocated to UAB Baltic Data Center 2,038 thousand). These calculations use post-tax cash flow projections based on financial budgets approved by management covering a five-year period.

Management determined budgeted profit after tax based on past performance, valued contracts with customers and its expectations of market development. Cash flows beyond the five-year period are extrapolated using the estimated rates as follows: growth rate perpetuity: 0%; discount rate: 8%. The discount rates used are post- tax and reflect specific risks relating to the relevant operating segments. Based on analysis performed, the management concluded no impairment loss.

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

15 Intangible assets (continued)

| COMPANY | Licenses | Software | Other intangible assets | Construction in progress | Total |
|--------------------------------------|--------------|--------------|-------------------------|--------------------------|---------------|
| Year ended 31 December 2015 | | | | | |
| Opening net book amount | 1,578 | 4,865 | 742 | 1,833 | 9,018 |
| Additions | - | - | - | 3,851 | 3,851 |
| Transfer from assets in construction | - | 2,935 | 377 | (3,312) | - |
| Amortisation charge | (513) | (1,672) | (537) | - | (2,722) |
| Closing net book amount | 1,065 | 6,128 | 582 | 2,372 | 10,147 |
| At 31 December 2015 | | | | | |
| Cost | 5,168 | 47,555 | 3,783 | 2,372 | 58,878 |
| Accumulated amortisation | (4,103) | (41,427) | (3,201) | - | (48,731) |
| Net book amount | 1,065 | 6,128 | 582 | 2,372 | 10,147 |
| Year ended 31 December 2016 | | | | | |
| Opening net book amount | 1,065 | 6,128 | 582 | 2,372 | 10,147 |
| Additions | - | - | - | 2,956 | 2,956 |
| Transfer from assets in construction | - | 2,639 | 10 | (2,649) | - |
| Amortisation charge | (513) | (2,205) | (238) | - | (2,956) |
| Closing net book amount | 552 | 6,562 | 354 | 2,679 | 10,147 |
| At 31 December 2016 | | | | | |
| Cost | 5,168 | 49,463 | 3,793 | 2,679 | 61,103 |
| Accumulated amortisation | (4,616) | (42,901) | (3,439) | - | (50,956) |
| Net book amount | 552 | 6,562 | 354 | 2,679 | 10,147 |

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

The Company still uses amortised software and licenses with acquisition cost as at 31 December 2016 amounting to EUR 12,914 thousand (2015: EUR 30,583 thousand).

16 Investment property

As at 31 December 2016 the Group as investment property accounted construction in progress (2015: construction in progress).

At 31 December 2016 and 2015, the fair value of the investment property approximates the carrying value. The investment property was externally valued as at 6 June 2016 valuations, by using comparative method determining value of the asset and revenue method determining value of land plot.

Management applied judgment in determining the classification of the construction in progress as investment property and, based on past experience, considered that, since the future use of the asset is undetermined, it is appropriate to classify it as investment property. Possible outcomes of the future use are selling the asset or completing it and using it by the Group.

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

17 Investments in associates and subsidiaries

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

| | GROUP | | COMPANY | |
|--|-------|------|----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| At the beginning of year | - | 1 | 12,176 | 12,607 |
| Acquisition of subsidiaries ¹ | - | - | 144,107 | - |
| Impairment of investments | - | - | (1,849) | (430) |
| Decrease share capital of subsidiary | - | - | (8,319) | - |
| Contribution to cover losses of subsidiary | - | - | 5,319 | - |
| Result of associates | - | (1) | - | (1) |
| At end of year | - | - | 151,434 | 12,176 |

¹ On 4 January 2016, the Company acquired a 100 per cent stake in AB Omnitel.

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

| | Year ended 31 December | |
|-------------------------|------------------------|--------------|
| | 2016 | 2015 |
| AB Baltic Data Center | - | (430) |
| UAB Verslo Investicijos | (1,849) | - |
| | (1,849) | (430) |

Recoverable amount of the investments in AB Baltic Data Center was determined as value in use. Recoverable amount of the investments in UAB Verslo Investicijos was determined as fair value less cost to sell.

18 Financial instruments by category

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

| GROUP | Loans and receivables | |
|--|-----------------------|---------------|
| | 2016 | 2015 |
| Assets as per statement of financial position | | |
| Trade and other receivables | 99,381 | 39,570 |
| Cash and cash equivalents | 56,650 | 12,898 |
| Total | 156,031 | 52,468 |
| | | |
| COMPANY | Loans and receivables | |
| | 2016 | 2015 |
| Assets as per statement of financial position | | |
| Trade and other receivables | 40,611 | 36,907 |
| Cash and cash equivalents | 31,015 | 7,061 |
| Total | 71,626 | 43,968 |

All financial liabilities of the Group amounting to EUR 262,257 thousand (2015: EUR 35,317 thousand) and of the Company amounting to EUR 173,737 thousand (2015: EUR 36,271 thousand) fell under the category of other financial liabilities, there are no liabilities at fair value through profit and loss.

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

19 Trade and other receivables

| | GROUP | | COMPANY | |
|---|----------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Trade receivables from business customers and residents | 96,706 | 40,640 | 37,777 | 37,830 |
| Trade receivables from other operators | 5,384 | 1,849 | 2,002 | 1,479 |
| Total trade receivables | 102,090 | 42,489 | 39,779 | 39,309 |
| Less: provision for impairment of receivables | (8,666) | (5,302) | (3,454) | (5,294) |
| Trade receivables – net | 93,424 | 37,187 | 36,325 | 34,015 |
| Receivables from companies collecting payments for telecommunication services | 1,547 | 213 | 315 | 213 |
| Prepaid expenses and other receivables | 7,329 | 1,646 | 2,085 | 1,618 |
| Receivables from related parties (Note 30) | 3,305 | 2,290 | 3,972 | 2,678 |
| | 105,605 | 41,336 | 42,697 | 38,524 |
| Less non-current portion | (10,944) | (7,768) | (5,477) | (6,861) |
| Current portion | 94,661 | 33,568 | 37,220 | 31,663 |

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

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

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

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

As at 31 December 2016, the Group's trade receivables of EUR 11,596 thousand (2015: EUR 6,580 thousand) and the Company's trade receivable of EUR 4,523 thousand (2015: EUR 6,575 thousand) were impaired and provided for. The amount of the Group's provision was EUR 8,666 thousand as at 31 December 2016 (2015: EUR 5,302 thousand) and the amount of the Company's provision was EUR 3,454 thousand as at 31 December 2016 (2015: EUR 5,294 thousand). Impairment allowance by major part has been recognised on a collective basis, based on the impairment rates assessed by management.

The ageing of these receivables is as follows:

| | GROUP | | COMPANY | |
|-------------------------------|----------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Trade receivable total | 102,090 | 42,489 | 39,779 | 39,309 |
| Of which not overdue | 83,639 | 33,895 | 31,844 | 30,725 |
| Overdue up to 3 months | 6,855 | 2,014 | 3,412 | 2,009 |
| 4 to 6 months | 2,657 | 325 | 900 | 325 |
| 7 to 12 months | 1,520 | 1,016 | 605 | 1,015 |
| Over 12 months | 7,419 | 5,239 | 3,018 | 5,235 |

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

| | GROUP | | COMPANY | |
|------------------------|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Total | 3,674 | 1,134 | 1,753 | 1,128 |
| Overdue up to 3 months | 2,384 | 381 | 1,339 | 376 |
| 4 to 6 months | 681 | 121 | 412 | 121 |
| 7 to 12 months | 542 | 628 | 23 | 627 |
| Over 12 months | 67 | 4 | (21) | 4 |

19 Trade and other receivables (continued)

The age of impairment accounts receivables is as follows:

| Total | 41,879 | 21,949 | 22,252 | 21,945 |
|------------------------|---------------|---------------|---------------|---------------|
| Of which not overdue | 27,102 | 14,489 | 16,070 | 14,489 |
| Overdue up to 3 months | 4,471 | 1,633 | 2,073 | 1,633 |
| 4 to 6 months | 1,976 | 204 | 488 | 204 |
| 7 to 12 months | 978 | 388 | 582 | 388 |
| Over 12 months | 7,352 | 5,235 | 3,039 | 5,231 |

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

| Currency | GROUP | | COMPANY | |
|-----------------|----------------|---------------|----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| EUR | 104,598 | 40,345 | 41,872 | 37,537 |
| Other currency | 1,007 | 991 | 825 | 987 |
| Total | 105,605 | 41,336 | 42,697 | 38,524 |

Movements of impairment for trade receivables are as follows:

| | GROUP | | COMPANY | |
|--|--------------|--------------|----------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| At the beginning of year | 5,302 | 6,487 | 5,294 | 6,473 |
| Acquisition of subsidiaries | 4,617 | - | - | - |
| Receivables written off during the year as uncollectible | (2,667) | (828) | (2,666) | (828) |
| Provision for receivables impairment/ Unused amount reversed (-) | 1,414 | (357) | 826 | (351) |
| At the end of year | 8,666 | 5,302 | 3,454 | 5,294 |

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

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

20 Cash and cash equivalents

| | GROUP | | COMPANY | |
|--------------------------|---------------|---------------|----------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Cash in hand and at bank | 56,650 | 12,898 | 31,015 | 7,061 |
| Total | 56,650 | 12,898 | 31,015 | 7,061 |

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

| Currency | GROUP | | COMPANY | |
|-----------------|---------------|---------------|----------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| EUR | 56,589 | 12,743 | 30,956 | 6,906 |
| USD | 61 | 155 | 59 | 155 |
| Total | 56,650 | 12,898 | 31,015 | 7,061 |

20 Cash and cash equivalents (continued)

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

| | GROUP | | COMPANY | |
|--------------|---------------|---------------|---------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| AA- | 47,381 | 4,858 | 24,263 | 3,056 |
| A+ | 1,701 | 6,901 | 220 | 2,870 |
| A | 6,545 | 1,119 | 6,420 | 1,120 |
| Other | 1,023 | 20 | 112 | 15 |
| Total | 56,650 | 12,898 | 31,015 | 7,061 |

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

21 Share capital

From 5 June 2015 the authorised share capital comprises of 582,613,138 ordinary shares of EUR 0.29 nominal value each. Until 5 June 2015 the authorised share capital was comprised of 582,613,138 ordinary shares of then LTL 1 nominal value each.

On 1 January 2015, the Republic of Lithuania joined the euro zone. Following the Law on expression of nominal value of authorized capital and securities of the public and limited companies in euro and amendment of the By-laws of such companies of the Republic of Lithuania, on 29 April 2015 the Company's shareholders passed a decision to determine that the nominal value of one Company's share is equal to EUR 0.29 and established that the Company's authorized capital is equal to EUR 168,957,810.02.

22 Legal reserve

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

On 29 April 2015, the Annual General Meeting of shareholders decided to reduce the Company's legal reserve by EUR 5.6 million to EUR 16.9 million and to reallocate an amount of EUR 5.6 million to the Company's retained earnings. At the end of year 2016 legal reserve – EUR 16.9 million.

23 Trade, other payables and accrued liabilities

| | GROUP | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Trade payables | 37,768 | 15,579 | 17,124 | 15,381 |
| Taxes, salaries and social security payable | 10,257 | 6,189 | 6,613 | 5,567 |
| Accruals to operators | 5,800 | 2,243 | 1,769 | 2,243 |
| Accrued liabilities | 2,513 | 1,424 | 2,513 | 1,416 |
| Other payables and deferred revenue | 4,329 | 1,014 | 2,008 | 753 |
| Trade payables to operators | 566 | 647 | 566 | 647 |
| Amounts payable to related parties (Note 30) | 3,778 | 189 | 1,642 | 1,412 |
| | 65,011 | 27,285 | 32,235 | 27,419 |
| Less non-current portion | (9,897) | (424) | (972) | (424) |
| Current portion | 55,114 | 26,861 | 31,263 | 26,995 |

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

23 Trade, other payables and accrued liabilities (continued)

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

| | GROUP | | COMPANY | |
|-----------------|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Currency | | | | |
| EUR | 64,148 | 26,380 | 31,903 | 26,523 |
| Other currency | 863 | 905 | 332 | 896 |
| Total | 65,011 | 27,285 | 32,235 | 27,419 |

24 Borrowings

| | GROUP | | COMPANY | |
|---------------------------|----------------|---------------|----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Current | | | | |
| Borrowings | 129,500 | 15,000 | 52,500 | 15,000 |
| Finance lease liabilities | - | 61 | - | 61 |
| | 129,500 | 15,061 | 52,500 | 15,061 |
| Non-current | | | | |
| Borrowings | 97,500 | - | 97,500 | - |
| | 97,500 | - | 97,500 | - |
| Total borrowings | 227,000 | 15,061 | 150,000 | 15,061 |

Fair value of borrowings approximate to their carrying values.

In 2005, the Company concluded an agreement with a third party for sales and leaseback of certain technical and administrative premises. Leaseback of three administrative premises in substance qualified as a finance lease, whereas leaseback of other premises is accounted for as operating lease. All technical premises rented for 10 year period, at end of which all mentioned contracts could be renewed for an additional 10 years at agreed rent fee. If agreements are cancelled before the end of rent as stated in agreements, the forfeit should be paid.

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

| | Due in 1 year | Due between 2 and 5 years | Due after 5 years | Total |
|--|---------------|---------------------------|-------------------|-----------|
| Minimum lease payments at 31 December 2015 | 61 | - | - | 61 |
| Less future finance charges | - | - | - | - |
| Present value of minimum lease payments at 31 December 2015 | 61 | - | - | 61 |
| Minimum lease payments at 31 December 2016 | - | - | - | - |
| Less future finance charges | - | - | - | - |
| Present value of minimum lease payments at 31 December 2016 | - | - | - | - |

Net carrying amount of assets owned by the Company and the Group under the finance leases is as follows:

| | GROUP | | COMPANY | |
|----------|----------|-----------|----------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Premises | - | 52 | - | 52 |
| | - | 52 | - | 52 |

25 Deferred income taxes

On 4 January 2016 the Company acquired 100% of AB Omnitel shares, therefore closing balances of the deferred tax as at 31 December 2015, the movement of the deferred tax and closing balances as at 31 December 2016 of AB Omnitel are identified and consolidated.

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

| | GROUP | | COMPANY | |
|--|---------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Deferred tax liabilities | | | | |
| At the beginning of year | 8,922 | 7,823 | 8,081 | 6,920 |
| Deferred tax liability from a business combination (Note 29) | 11,390 | - | - | - |
| Charged/ (credited) to profit or loss (Note 11) | (28) | 1,099 | 1,221 | 1,161 |
| At the end of year | 20,284 | 8,922 | 9,302 | 8,081 |

| | GROUP | | COMPANY | |
|---|-------|------|---------|------|
| | 2016 | 2015 | 2016 | 2015 |
| Deferred tax assets | | | | |
| At the beginning of year | - | (37) | - | - |
| Deferred tax assets from a business combination (Note 29) | - | - | - | - |
| Charged/ (credited) to profit or loss (Note 11) | - | 37 | - | - |
| At the end of year | - | - | - | - |

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

| | GROUP | | COMPANY | |
|--|---------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Deferred tax liabilities | | | | |
| Deferred tax asset to be recovered / liability settled after more than 12 months | 17,888 | 7,597 | 8,227 | 6,789 |
| Deferred tax asset to be recovered / liability settled within 12 months | 2,396 | 1,325 | 1,075 | 1,292 |
| | 20,284 | 8,922 | 9,302 | 8,081 |

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

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

| GROUP – deferred tax liabilities | Investment relief ¹ | Difference in useful lives ² | Other | Total |
|--|--------------------------------|---|--------------|---------------|
| At 31 December 2015 | 4,035 | 5,291 | 7 | 9,333 |
| Deferred tax liability from acquisition of subsidiaries (Note 29) ³ | 94 | 2,000 | 315 | 2,409 |
| Deferred tax liability from business combination (Note 29) ³ | - | - | 10,162 | 10,162 |
| Charged/ (credited) to profit or loss | (581) | 1,812 | (812) | 419 |
| At 31 December 2016 | 3,548 | 9,103 | 9,672 | 22,323 |

25 Deferred income taxes (continued)

| GROUP – deferred tax asset | Tax losses | Other | Total |
|---|-------------------|----------------|----------------|
| At 31 December 2015 | - | (411) | (411) |
| Deferred tax assets from a business combination (Note 29) | - | (1,181) | (1,181) |
| Charged/ (credited) to profit or loss | - | (447) | (447) |
| At 31 December 2016 | - | (2,039) | (2,039) |

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

| COMPANY – deferred tax liabilities | Investment relief¹ | Difference in useful lives² | Other | Total |
|---|--------------------------------------|---|--------------|--------------|
| At 31 December 2015 | 3,343 | 5,134 | 7 | 8,484 |
| Charged/ (credited) to profit or loss | (534) | 1,585 | (4) | 1,047 |
| At 31 December 2016 | 2,809 | 6,719 | 3 | 9,531 |

| COMPANY – deferred tax asset | Tax losses | Other | Total |
|---------------------------------------|-------------------|--------------|--------------|
| At 31 December 2015 | - | (403) | (403) |
| Charged/ (credited) to profit or loss | - | 174 | 174 |
| At 31 December 2016 | - | (229) | (229) |

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

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

³ On 4 January 2016 the Company acquired 100% of AB Omnitel shares, therefore closing balances of the deferred tax as at 31 December 2015, the movement of the deferred tax and closing balances as at 31 December 2016 of AB Omnitel are identified and consolidated. In a business combination the Company recognises deferred tax liability and this affects the amount of goodwill.

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

| | GROUP | | COMPANY | |
|--|---------------|--------------|----------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Deferred tax asset | (2,039) | (411) | (229) | (403) |
| Offset with deferred tax liabilities | 2,039 | 411 | 229 | 403 |
| Deferred tax asset as per statement of financial position | - | - | - | - |
| Deferred tax liabilities | 22,323 | 9,333 | 9,531 | 8,484 |
| Offset with deferred tax asset | (2,039) | (411) | (229) | (403) |
| Deferred tax liabilities as per statement of financial position | 20,284 | 8,922 | 9,302 | 8,081 |

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

26 Provisions

Group provisions movement during January-December 2016:

| | Provision for restructuring | Assets retirement obligation | Total |
|--|--------------------------------|---------------------------------|--------------|
| Opening net book amount at 31 December 2015 | 840 | - | 840 |
| Acquisition of subsidiaries | 200 | 6,627 | 6,827 |
| Additions | 2,731 | - | 2,731 |
| Used provisions | (3,368) | - | (3,368) |
| Closing net book amount at 31 December 2016 | 403 | 6,627 | 7,030 |

The restructuring provision comprises of compensation to employees as a result of the restructuring plan approved by the Company and the Group. Provisions for restructuring are expected to be fully utilized during the year 2017.

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

27 Contingent liabilities and contingent assets

Guarantees

As at 31 December 2016 the aggregate of bank guarantees (obligations guaranteed under tender, agreement performance arrangements) provided by SEB bankas AB on behalf of the Company and the Group amounts to EUR 1.88 million (2015: EUR 0.95 million).

As at December 31, 2016, credit and performance guarantees represented the following expected maturities:

| Expected maturity EUR in thousand | Jan-Mar 2017 | Apr-Jun 2017 | Jul-Sep 2017 | Oct-Dec 2017 | 2018 | 2019 | 2020 | 2021 | Total |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|------|------|------|------|--------------|
| Guarantees | 70 | 198 | 1,204 | 90 | 253 | 54 | 11 | 4 | 1,884 |

Minimum lease payments receivable

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

| | GROUP | | COMPANY | |
|--|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Not later than 1 year | 4,759 | 5,404 | 4,759 | 5,404 |
| Later than 1 year but not later than 5 years | 1,331 | 2,003 | 1,331 | 2,003 |
| Total | 6,090 | 7,407 | 6,090 | 7,407 |

Minimum lease payments recognized in the statement of profit or loss and other comprehensive income during 2016 were EUR 6,842 thousand (2015: EUR 6,561 thousand).

28 Commitments

Capital commitments

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

| | GROUP | | COMPANY | |
|-------------------------------|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Property, plant and equipment | 4,915 | 3,152 | 4,915 | 3,152 |
| | 4,915 | 3,152 | 4,915 | 3,152 |

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

28 Commitments (continued)

Operating lease commitments – where the Group is the lessee (AP)

The Company and the Group lease passenger cars, IT equipment and premises under operating lease agreements.

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

| | GROUP | | COMPANY | |
|------------------------|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Minimum lease payments | 7,153 | 3,638 | 5,885 | 3,453 |
| | 7,153 | 3,638 | 5,885 | 3,453 |

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

| | GROUP | | COMPANY | |
|--|---------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Not later than 1 year | 4,952 | 1,852 | 2,038 | 1,850 |
| Later than 1 year but not later than 5 years | 9,591 | 2,008 | 3,152 | 2,008 |
| Later than 5 years | 6,861 | 1,200 | 3,331 | 1,200 |
| Total | 21,404 | 5,060 | 8,521 | 5,058 |

29 Business combination

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

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

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

Goodwill arising on acquisition

| | |
|-----------------------------------|------------------|
| Purchase consideration | 144,107 |
| Fair value of net assets acquired | <u>(120,457)</u> |

Goodwill **23,650**

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

Assets acquired and liabilities recognised at the date of acquisition

| | Fair value | Acquiree's carrying amount |
|-------------------------------|-----------------|----------------------------|
| Cash and cash equivalents | 14,489 | 14,489 |
| Property, plant and equipment | 74,845 | 71,564 |
| Intangible assets | 80,918 | 16,453 |
| Inventories | 4,473 | 4,473 |
| Trade and other receivables | 59,331 | 59,331 |
| Trade and other payables | (25,209) | (25,209) |
| Deferred tax liability | (11,390) | (1,228) |
| Borrowings | <u>(77,000)</u> | <u>(77,000)</u> |
| Net assets acquired | 120,457 | 62,873 |

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

29 Business combination (continued)

Net cash outflow on acquisition of subsidiaries

| | |
|--|-----------------------|
| Purchase consideration settled in cash | 144,107 |
| Cash and cash equivalents in subsidiaries acquired | <u>(14,489)</u> |
| Cash outflow on acquisition | <u>129,618</u> |

30 Related party transactions

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

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

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

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

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

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

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

The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

| | <u>GROUP</u> | | <u>COMPANY</u> | |
|--|---------------------|---------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Telia Company AB and its subsidiaries | 8,143 | 9,715 | 5,758 | 8,090 |
| Subsidiaries of the Company | - | - | 8,624 | 5,557 |
| Total sales of telecommunication and other services | <u>8,143</u> | <u>9,715</u> | <u>14,382</u> | <u>13,647</u> |

Purchases of assets and services:

| | <u>GROUP</u> | | <u>COMPANY</u> | |
|---|----------------------|---------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 |
| <i>Purchases of assets from:</i> | | | | |
| Telia Company AB and its subsidiaries | - | 16 | - | 16 |
| Subsidiaries of the Company | - | - | 374 | 3 |
| | - | 16 | 374 | 19 |
| <i>Purchases of services from:</i> | | | | |
| Telia Company AB and its subsidiaries | 11,695 | 4,220 | 2,894 | 4,170 |
| Subsidiaries of the Company | - | - | 12,326 | 6,691 |
| | <u>11,695</u> | <u>4,220</u> | <u>15,220</u> | <u>10,861</u> |
| Total purchases of assets and services | <u>11,695</u> | <u>4,236</u> | <u>15,594</u> | <u>10,880</u> |

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

30 Related party transactions (continued)

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

Receivables and accrued revenue from related parties:

| | GROUP | | COMPANY | |
|---|--------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| <i>Receivables from related parties:</i> | | | | |
| <i>Long term receivables:</i> | | | | |
| Telia Company AB and its subsidiaries | 251 | 279 | 251 | 279 |
| <i>Short-term receivables:</i> | | | | |
| Telia Company AB and its subsidiaries | 2,506 | 1,035 | 589 | 861 |
| Subsidiaries of the Company | | - | 2,461 | 588 |
| | 2,757 | 1,314 | 3,301 | 1,728 |
| <i>Accrued revenue from related parties:</i> | | | | |
| Telia Company AB and its subsidiaries | 548 | 976 | 671 | 950 |
| | 548 | 976 | 671 | 950 |
| Total receivables and accrued revenue from related parties | 3,305 | 2,290 | 3,972 | 2,678 |

The receivables from related parties arise mainly from sale transactions and due one month after the date of sale. The receivables are unsecured in nature and bear no interest. No provision are held against receivables from related parties as at 31 December 2016 and 2015.

Payables and accrued expenses to related parties:

| | GROUP | | COMPANY | |
|---|--------------|------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| <i>Payables to related parties:</i> | | | | |
| Telia Company AB and its subsidiaries | 3,743 | 183 | 43 | 171 |
| Subsidiaries of the Company | - | - | 1,440 | 1,235 |
| | 3,743 | 183 | 1,483 | 1,406 |
| <i>Accrued expenses to related parties:</i> | | | | |
| Telia Company AB and its subsidiaries | 35 | 6 | 159 | 6 |
| | 35 | 6 | 159 | 6 |
| Total payables and accrued expenses to related parties | 3,778 | 189 | 1,642 | 1,412 |

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

Loans to related parties:

| | GROUP | | COMPANY | |
|------------------------------------|----------|----------|----------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Beginning of the year | - | - | - | 200 |
| Loans advanced during year | - | - | - | - |
| Loan repayments received (in cash) | - | - | - | (200) |
| Interest charged (including VAT) | - | - | - | - |
| Interest received (including VAT) | - | - | - | - |
| End of the year | - | - | - | - |

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

30 Related party transactions (continued)

The loans advanced to related parties have the following terms and conditions:

| Name of the related party | Date of agreement | Original currency of agreement | Outstanding balance | Maturity | Interest rate |
|------------------------------------|-------------------|--------------------------------|---------------------|----------------------------------|---------------|
| Year ended 31 December 2014 | | | | | |
| UAB Hostex | 6 August 2013 | EUR | 200 | till 06 August 2016 ¹ | 0.93% |

¹ As at 31 December 2014, the loan of LTL 691 thousand (EUR 200 thousand) was classified as current assets due to UAB Hostex intention to repay this loan during 2015. The loan was repaid during 2015 Q1. In December 2015, UAB Hostex was merged into the Company's subsidiary AB Baltic Data Center.

Borrowings from related parties:

| | GROUP | | COMPANY | |
|------------------------------------|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Beginning of the year | 15,006 | 10,006 | 15,006 | 10,006 |
| Acquisition of subsidiaries | 77,023 | - | - | - |
| Borrowings | - | 35,000 | - | 35,000 |
| Repayments of borrowings (in cash) | (15,006) | (30,000) | (15,006) | (30,000) |
| Interest charged (including VAT) | 558 | 80 | 15 | 80 |
| Interest paid (including VAT) | (577) | (80) | (15) | (80) |
| End of the year | 77,004 | 15,006 | - | 15,006 |

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

| Name of the related party | Date of agreement | Original currency of agreement | Outstanding balance | Maturity | Interest rate |
|------------------------------------|-------------------|--------------------------------|---------------------|------------------|---------------|
| Year ended 31 December 2016 | | | | | |
| Telia Company AB | 29 December 2016 | EUR | 77,000 | 1 February 2017 | 0.83% |
| Year ended 31 December 2015 | | | | | |
| Telia Company AB | 22 May 2015 | EUR | 15,000 | 25 February 2016 | 0.38% |

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

During 2016 dividends paid out to Telia Company AB amounted to EUR 5,136 thousand (2015: EUR 34,924 thousand dividends).

During 2016 dividends received by the Company from subsidiaries amounted to EUR 4,400 thousand (2015: EUR 2,626 thousand).

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

| | 2016 | 2015 |
|---|--------------|--------------|
| Remuneration of key management personnel | 3,896 | 3,187 |
| Social security contributions on remuneration | 1,098 | 901 |
| Total remuneration | 4,994 | 4,088 |

Key management includes CEO, Heads of Units directly reporting to CEO and Heads of the largest Units of the Company. The total number of top management personnel employed as at 31 December 2016 was 58 (as at 31 December 2015: 27).

The total amount of annual payments (tantiemes) assigned to two members of the Board of the Company for the year 2015 during 2016 amounted to EUR 31 thousand (2015: for six members – EUR 94 thousand). As at 31 December 2016, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010, was not paid to one member of the Board.

31 Events after the reporting period

On 1 February 2017, the Company's subsidiaries AB Omnitel and AB Baltic Data Center were merged into the Company and the Company changed its name into Telia Lietuva, AB. The Company provides telecommunications, IT and TV services from a single source to residents and businesses in Lithuania. On 1 February 2017, the Company subsidiary UAB Lintel change its name into Telia Customer Service LT, UAB.

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

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

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, CEO of Telia Lietuva, AB, and Laimonas Devyžis, Head of Finance of Telia Lietuva, AB, hereby confirm that, to the best of our knowledge, Telia Lietuva, AB Financial Statements as of and for the year ended 31 December 2016 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position, profit or loss and cash flows of the Company and the Group of undertakings.

Kęstutis Šliužas
CEO



Laimonas Devyžis
Head of Finance



CONSOLIDATED ANNUAL REPORT

Approved by the Board
as at 3 April 2017

I. GENERAL INFORMATION

Reporting period

Year ended 31 December 2016

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 | 121215434 |
| Registered office | Lvovo str. 25, LT-03501 Vilnius, Lithuania |
| Telephone number | +370 5 262 1511 |
| Fax number | +370 5 212 6665 |
| E-mail address | info@telia.lt |
| Internet address | www.telia.lt |

Main activities of the Group

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

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

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

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

- voice call termination on the mobile network;
- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- wholesale calls origination on public telephone network provided at a fixed location;
- 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 2016, the **Group** consisted of the parent company, then known as TEO LT, 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 2016:

| 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 (%) |
|----------------------------------|---|--|---|---|
| AB Omnitel | 26 November 1991, code 1103 05282, State Enterprise Center of Registers | T. Ševčenkos str. 25, LT-03503 Vilnius, Lithuania tel. +370 698 63333, fax. +370 5 274 5574, www.omnitel.lt | 100.00 | 100.00 |
| AB Baltic Data Center | 17 December 2001, code 1258 30791, State Enterprise Center of Registers | Žirmūnų str. 141, LT-09128 Vilnius, Lithuania tel. +370 5 274 8360, fax. +370 5 278 3399, www.bdc.lt | 100.00 | 100.00 |
| UAB Lintel | 27 July 1992, code 1104 01957, State Enterprise Center of Registers | Ukmergės str. 223, LT-07156 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5 278 3322, www.lintel.lt | 100.00 | 100.00 |
| UAB Verslo Investicijos | 13 November 2008, code 3022 47778, State Enterprise Center of Registers | Jogailos str. 9A/A.Smetonos str. 1, LT-01116, Vilnius, Lithuania tel. + 370 5 236 7330, fax. +370 5 278 3613 | 100.00 | 100.00 |
| UAB Kompetencijos Ugdymo Centras | 5 July 1995, code 1345 17169, State Enterprise Center of Registers | Palangos str. 4, 3rd Floor LT-01117 Vilnius, Lithuania | 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 |

The **parent company** of the Group was offering fixed voice telephony, Internet access, data communication, television, IT and telecommunications network services to residential and business customers in Lithuania.

On 4 January 2016, the Company acquired a 100 per cent stake in **Omnitel** from Telia Company AB (then known as TeliaSonera AB), which also owns 88.15 per cent of the Company shares, for EUR 220 million on a cash and debt free basis. Until 1 February 2017, when it was merged into the Company, Omnitel was providing mobile telecommunications services to residential and business customers in Lithuania.

Baltic Data Center was merged into the Company on 1 February 2017. In January 2016, Baltic Data Center SIA, a dormant subsidiary of Baltic Data Center in Latvia, was liquidated. In 2016, Baltic Data Center paid to the Company EUR 2.4 million in dividends for the year 2015.

On 1 February 2017, **Lintel** changed its name into Telia Customer Service LT, UAB. The Contact Centers of this subsidiary are taking care of the Company's customers and providing Directory Inquiry service 118 in Lithuania. In 2016, this subsidiary paid to the Company EUR 2 million in dividends for the year 2015.

Verslo Investicijos is implementing an investment project in Vilnius, and **Kompetencijos Ugdymo Centras** is a dormant subsidiary of the Company.

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

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

The Company has no branches or representative offices.

Agreements with intermediaries of public trading in securities

Since 1 December 2000, the Company and AB SEB Bankas (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 2016:

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

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

Securities of the Company’s subsidiaries are not traded publicly as the subsidiaries are 100 per cent (except VšĮ Numerio Perkėlimas) owned by the Company.

II. FINANCIAL INFORMATION

As on 4 January 2016, the Company acquired a 100 per cent stake in Omnitel, financial data of the Group for the year 2016 presented herein is the consolidated data of the Company and its subsidiaries including Omnitel. Comparable data of financial statements for the year 2015 is the actual reported data of the Group. In order to present an approximate measure of the performance of the combined group, the comparable combined data of comprehensive income statement, as it is used in this Consolidated Annual Report for the year 2015, is data combined by simple aggregation after elimination of intragroup transactions as if Omnitel was at the time part of the Group.

The year 2016, actually started in October 2015 when the Company announced about its intention to join the efforts of Teo and Omnitel for the creation of a new generation telco in Lithuania, and ended on 1 February 2017, when following the merger of Omnitel and Baltic Data Center into Teo and the Company’s name change, Telia Lietuva opened a new chapter in the Company’s history.

Our strategic journey in creation of a new generation telco formally started on 4 January 2016 when the Company acquired a 100 per cent stake in Omnitel and the two companies started operating together, while some preparations were already done in 2015, namely, setting of the strategic goals, formation of the joint management team, and unification of organisational structures of both companies.

The year 2016 was marked with the month-by-month accelerating integration of two organisations, melting of two different corporate cultures into one, formation of joint employee teams, employee co-seating, creation of new offerings, optimizing management of the networks, IT systems and resources, seeking out synergies and preparing the legal merger into one entity.

By the end of 2016, our customers already had a feeling that they were dealing with a single company. By the year-end, we had completed the integration of retail outlets, introduced joint phone numbers for customer care and had one account manager for business customers.

We could state that the main goal of the year 2016 – the integration of two companies – was successfully completed in order to bring maximum value for our customers.

Thanks to the two companies’ integration, the total revenue in 2016 continuously grew quarter by quarter and peaked in the fourth quarter. The last quarter of 2016 was marked with increased sales of equipment, especially mobile devices and domestic appliances.

Total consolidated revenue for the year 2016 amounted to EUR 345.9 million, up by 2.5 per cent over the comparable combined revenue of EUR 337.6 million for the year 2015.

During the year, growth of revenue from TV (particularly from IPTV service by 28.1%), broadband Internet and mobile services came from the continued intake of new customers.

Ongoing investments into expansion of fiber-optic access network and service development paid off in a solid intake of new customers over the last year:

- the number of IPTV users increased by 15.8% and reached 191 thousand,
- fiber optic Internet connections grew by 9.3% and amounted to 246 thousand, while the total number of broadband Internet connections exceeded 400 thousand,
- the number of post-paid subscriptions increased by 3.7% and exceeded 1 million.

Consolidated operating expenses (excl. non-recurring items) were under control and combined with an increase in the total revenue resulted in an annual EBITDA margin (excl. non-recurring items) of 33.8 per cent (32.7 per cent for 2015). In 2016, consolidated EBITDA (excl. non-recurring items), reached EUR 117 million, up by 5.9 per cent over the comparable combined EBITDA (excl. non-recurring items) of EUR 110.6 million in 2015.

Free cash flow for the year 2016 amounted to EUR 44.1 million and was 1.5 times higher than a year ago.

In the fourth quarter of 2016, the Company completed Omnitel's purchase price allocation. As a result, an additional depreciation and amortisation charge of EUR 5.5 million has been booked for 2016 and thus negatively affecting profitability.

As a result, consolidated profit for the period of January-December of 2016 amounted to EUR 41.5 million, while a year ago comparable combined profit for the period of twelve months of 2015 was EUR 44.3 million, a decrease by 6.4 per cent. The profit margin for the year 2016 was 12 per cent (13.1 per cent a year ago).

The level of financial leverage due to acquisition of Omnitel shares, conservative approach to the debt management and thinking about long-term value creation, led to the Board's proposal to the Annual General Meeting of Shareholders held on 26 April 2016 to approve a 0.01 euro dividend per share for the year 2015.

We continuously invested into the development of 4G network and expansion of fiber-optic access network. Our leadership in 4G development by end of 2016 was officially confirmed by the latest measurements of the CRA. During 2016, more than 600 new 4G base stations were installed and according to the latest data of CRA our 4G connectivity covers 99 per cent, i.e. almost all populated territory of Lithuania, and offers the highest speed. Over the year, capital investments into mobile network amounted to EUR 13.5 million and into fixed network – EUR 26.6 million.

In January, we won the CRA auction for the right to use 900/1800 spectrum radio frequencies and for EUR 14.3 million secured the licence for further development of our mobile network.

We also continued to lead adoption of the latest communication technologies in Lithuania. In February, we were the first in the Baltic countries and one of the first in the world to implement the latest mobile technology 4.5G / LTE Advanced PRO. In an actually operating network, the data download speed was 750 Mbps. In addition, we were the first in Lithuania to implement a next-generation voice transmission technology VoLTE (Voice over LTE) in our 4G network.

In February, being part of Telia Company Group we erased the borders for our mobile service users traveling in the Baltic and Nordic countries. From then on, our customers could make calls and browse the Internet over the mobile network under the same conditions as in Lithuania. As a result, mobile data usage abroad rocketed by 12 times.

During the second quarter of 2016, the last remaining analogue fixed telephone lines in remote areas were connected to digital exchanges and the Company fully digitalised its fixed telephony network. The Company also optimised its DVB-T rebroadcasting by increasing the capacity of its own DVB-T network by 30 per cent, using 2 instead of 3 networks for rebroadcasting of digital terrestrial TV programs as of 1 July 2016.

Development of fiber-optic access network allowed offering of new broadband Internet payment plans of higher browsing speed to business customers. New plans also have an integrated IT system protection.

Combination of fixed and mobile communication technologies allowed us to offer solutions for both business and residential customers that had no access to fiber-optic network – an unlimited high-speed 4G mobile Internet at a fixed location for a flat monthly fee. In October, we increased the data bundle in all mobile connection payment plans for residential customers and reduced the average price of its data by up to 40 per cent.

To strengthen the position on IT infrastructure service market, in April 2016 the Company opened a new data center in Vilnius that is certified according to TIER III security standards. We remain the largest provider of IT infrastructure services in Lithuania. High level of IT management and security was confirmed by Inspecta, the largest certification company in the Nordic region. The Company has been granted ISO certificates in IT Services (ISO 20000) and Information Security (ISO 27001) Management Systems.

In 2016, a number of big IT projects was implemented. In July, the Company successfully completed consolidation of IT infrastructure of Lietuvos Draudimas (Lithuanian Insurance) and companies belonging to PZU Group in the Baltic States at the two data centers of the Company. During the migration, more than 250 servers were moved from five data centers in Latvia, Estonia and Sweden to Lithuania. In addition, the first contract involving the Company and Telia Company Group companies in Latvia and Estonia for providing pan-Baltic IT system support and telecommunication services was signed with Coca-Cola Hellenic Bottling Company Baltic.

In 2016, the Company entered into the largest Internet of Things (IoT) project in Lithuania – to ensure smart electricity metering data transmission and management services for business customers of Energijos Skirstymo Operatorius (ESO). ESO was provided with up to 80 thousand SIM cards adapted for the IoT.

With customer experience in mind, we integrated 70 retail outlets of the two companies. This has made it possible for more people all over the country to get acquainted with both mobile and broadband services as well as to test and acquire smart devices, TV sets or other IT equipment. In addition, joint short phone numbers for customer care serve residential and business customers.

In September 2016, Telia Company launched a new Code of Responsible Business Conduct that was adopted by the Company as well. It replaces the previous code of ethics and conduct, focusing even further on integrity, transparency and sustainability of our business conduct. The Company also integrated the Telia Company All In approach into our business strategy. The aim of All In is to leverage our core competencies and business to create shared value – combining social good with business benefits. It focuses on four key areas: connecting the unconnected, education for all, a healthy and safe society, and digital innovation and entrepreneurship.

As a contribution to the development of digital society, in 2016 the Company together with its partners installed 10 smart classrooms in Kaunas at the start of the new school year. In addition, we have provided connectivity for the Internet of things e-health project CARRE implemented by the Vilnius University Hospital Santariškių Klinikos.

On 1 February 2017, as a result of concerted and united teamwork during 2016, the reorganization of the Company, Omnitel and Baltic Data Center was successfully completed and a new brand, Telia, was introduced in Lithuania.

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

| Key financial figures of the Group | 2015 comparable combined | | | Change to comparable combined |
|---|--------------------------------|---------|---------|-------------------------------------|
| | 2016 | 2015 | 2015 | |
| Revenue | 345,906 | 337,612 | 204,598 | 2.5% |
| EBITDA excluding non-recurring items | 117,041 | 110,550 | 80,765 | 5.9% |
| EBITDA margin excluding non-recurring items (%) | 33.8 | 32.7 | 39.5 | |
| EBITDA | 111,380 | 107,931 | 76,469 | 3.2% |
| EBITDA margin (%) | 32.2 | 32.0 | 37.4 | |
| Operating profit (EBIT) excluding non-recurring items | 54,199 | 51,853 | 42,835 | 4.5% |
| EBIT margin excluding non-recurring items (%) | 15.7 | 15.4 | 20.9 | |
| Operating profit (EBIT) | 48,147 | 49,234 | 38,539 | (2.2)% |
| EBIT margin (%) | 13.9 | 14.6 | 18.8 | |
| Profit before income tax | 47,077 | 49,249 | 38,279 | (4.4)% |
| Profit before income tax margin (%) | 13.6 | 14.6 | 20.6 | |
| Profit for the period | 41,494 | 44,336 | 34,176 | (6.4)% |
| Profit for the period margin (%) | 12.0 | 13.1 | 16.7 | |
| Earnings per share (EUR) | 0.071 | 0.076 | 0.059 | |
| Number of shares (thousand) | 582,613 | 582,613 | 582,613 | - |
| Cash flow from operations | 112,429 | | 62,408 | 80.2% |
| Operating free cash flow | 44,176 | | 28,543 | 54.8% |

| Operating figures of the Group | 31-12-2015 comparable combined | | | Change to comparable combined |
|---|--------------------------------------|------------|------------|-------------------------------------|
| | 31-12-2016 | 31-12-2015 | 31-12-2015 | |
| Fixed telephone lines in service (thousand) | 466 | 500 | 500 | (6.9)% |
| Broadband Internet connections (thousand) | 404 | 391 | 391 | 3.4% |
| TV services customers (thousand) | 229 | 212 | 212 | 8.1% |
| Post-paid mobile service subscriptions (thousand) | 1,012 | 976 | - | 3.7% |
| Pre-paid mobile service subscriptions (thousand) | 446 | 514 | - | (13.2)% |
| Number of personnel (head-counts) | 3,146 | 3,200 | 2,603 | (1.7)% |
| Number of full-time employees | 2,819 | 2,851 | 2,309 | (1.1)% |

| Financial ratios of the Group | 31-12-2016 | 31-12-2015 |
|--------------------------------------|-------------------|-------------------|
| Return on capital employed (%) | 10.2 | 14.1 |
| Return on average assets (%) | 8.6 | 13.6 |
| Return on shareholders' equity (%) | 16.1 | 15.0 |
| Operating cash flow to sales (%) | 34.3 | 30.5 |
| Gearing ratio (%) | 63.0 | 0.9 |
| Debt to equity ratio (%) | 84.0 | 6.4 |
| Current ratio (%) | 87.1 | 113.7 |
| Rate of turnover of assets (%) | 61.7 | 72.4 |
| Equity to assets ratio (%) | 45.8 | 81.8 |

Revenue

The **total consolidated revenue** of the Group for the year 2016 was EUR 345.9 million, an increase of 2.5 per cent over the total comparable combined revenue of EUR 337.6 million a year ago.

During 2016, revenue from all services was growing except the continuously declining revenue from retail voice telephony, data communication and network capacity services.

The total **revenue from fixed and mobile services** during 2016 increased by 3.8 per cent, while the **revenue from sales of equipment** in 2016 was lower by 4 per cent than a year ago in spite of a 7.6 per cent yearly growth in sales of equipment during the fourth quarter of 2016.

Share of revenue from fixed and mobile services amounted to 54.5 and 29.2 per cent, respectively, from the total amount of the Group revenue for the year 2016. Share of revenue from sale of equipment was 16.3 per cent.

During 2016, the number of fixed telephone lines in services decreased by 34 thousand and the total retail fixed voice telephony traffic decreased by 11 per cent. As a result, the revenue from retail fixed telephony services for the year 2016 went down by 9.5 per cent, while the revenue from voice transit services went up by 12.8 per cent. In 2016, revenue from fixed **voice telephony** services were by 1.3 per cent lower than a year ago.

During January-December 2016, the total number of fixed **broadband Internet access** users increased by 13 thousand. Over the year the number of fixed Internet connections over the fiber-optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies increased by 9.3 per cent and reached 246 thousand at the end of 2016, while the number of copper DSL connections eased by 4.7 per cent to 158 thousand. By the end of 2016, the number of Internet connections over the fiber-optic access network amounted to 61 per cent of all 404 thousand broadband Internet connections.

Compared with the year 2015, revenue from **data communication** services alone during 2016 decreased by 4.2 per cent, and revenue from **network capacity** services alone declined by 1.3 per cent.

The Company is optimising its digital terrestrial **television** (DVB-T) network and is actively encouraging its DVB-T users to migrate to the more advanced IPTV platform. During 2016, the number of IPTV (including "Interneto.tv") service users increased by 26 thousand and by the end of 2016 amounted to 191 thousand. Over the year the number of DVB-T users decreased by 9 thousand and amounted to 38 thousand. During January-December of 2016, the total number of television service customers went up by 17 thousand.

Consolidated revenue from **IT services** is generated from the data center, information system management and web-hosting services provided to local and multinational enterprises.

The Company is the largest provider of IT infrastructure services in Lithuania. The last data center, which was opened in April 2016, is certified according to TIER III security standards.

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

From July, all IT infrastructure of non-life insurance company Lietuvos Draudimas and companies of the PZU Group in the Baltic States are managed by the Company's IT professionals and maintained at the two data centers of the Company. During the migration of the IT infrastructure of the four companies (including their branches), more than 250 servers were moved from five data centers in Latvia, Estonia and Sweden to Lithuania. The total amount of migrated data was more than 100 TB. The migration of all systems, including the installation of telephone lines, the ordering of required hardware and software and the preparation of the platform, took 9 months.

During the third quarter of 2016, the Company in cooperation with the companies of the Telia Company Group in Latvia and Estonia started to provide IT system support and telecommunication services in all Baltic countries. Coca-Cola Hellenic Bottling Company Baltic was the first company to sign a contract with the Company and its partners for the maintenance of IT systems and the provision of telecommunication services.

In 2016, revenue from IT and other electronic equipment sale to the Company's customers was separated from IT services and together with revenue from equipment sale to Omnitel customers formed a separate group of revenue from **equipment sales**. Majority of equipment sold to private customers is based on deferred payments, thus the discounting is negatively affecting EBITDA and equipment sales values.

Revenue from **other services** consists of the following non-telecommunication services: Contact Center services of subsidiary to external customers, lease of premises, discount refund and other. During 2016, revenue from Contact Center services eased by 6.9 per cent, while revenue from other non-core business services increased by 36.3 per cent.

It is planned to cease the provision of services to external customers by Contact Centers and instead to focus all efforts on improvement of the Group's customer experience and quality of service. The 118 service, a paid inquiry service, will continue to be provided and developed through new web channels.

During 2016, the migration of customers from pre-paid to post-paid **mobile communication services** continued. Over the year, the number of post-paid subscription increased by 36 thousand, while the number of pre-paid subscriptions went down by 68 thousand. The total number of active mobile subscriptions as of 31 December 2016 amounted to 1,458 thousand, a decline by 2.1 per cent over the number of active subscriptions of 1,490 thousand a year ago.

The total revenue from mobile services in 2016 was by 4.2 per cent higher than a year ago, mainly due to the higher number and higher revenue from post-paid service users as customers are enjoying 4G services and consequently using more data. Revenue from mobile services also include revenue from mobile networks' interconnections and other network services.

According to official data of the CRA, we have the fastest and broadest 4G network in Lithuania. During 2016, the share of transmitted 4G data in Omnitel network alone increased by a third and in December accounted for 77 per cent. Over the year the number of active 4G customers increased by 42 percent to 280 thousand, while the average amount of actually used 4G data per month per customer increased by almost a fifth – to 6.06 gigabytes (GB).

From February 2016, our customers are able to make phone calls and browse the Internet while travelling in Baltic and Nordic states under the same conditions as in Lithuania. The new roaming pricing offer includes practically everything: phone calls within any of these countries and to Lithuania, all incoming calls, SMS and mobile data usage. 4G roaming is already available in all these countries, therefore our customers can use the high-speed and high-quality 4G Internet access while traveling abroad.

In 2016, we won the public tender to ensure smart electricity metering data transmission and management services for business customers of Energijos Skirstymo Operatorius (ESO). It is the largest Internet of Things project in Lithuania. In the course of 7 years, we will transfer up to 80 thousand personalized SIM cards adapted to the Internet of Things to ESO and will perform management and maintenance of their data platform. The total value of the contract is EUR 756 thousand.

In June 2016, we increased the speed of 4G LTE technology in Vilnius and the surrounding areas by 30 per cent. This increase in mobile Internet speed was achieved by increasing the radio frequency spectrum range intended for 4G technology. By the end of June, the speed of Omnitel mobile Internet technology was increased throughout Lithuania, except for major cities, where 4G speed was increased during the summer in each city individually. According to the latest data of CRA, the average 4G speed in our network amounts to 36 Mb/s.

Gain or loss from the sale of property, plant and equipment, as well as gain or loss on currency exchange is recorded at net value as **other gain (loss)**. In December 2015, the Group sold the buildings in the Old Town of Kaunas, in which the Communications History Museum, supported by the Company, was located. In March 2016, the Museum ceased its activities and in April, the Company transferred its ownership rights in the not-for-profit organisation that was established for management of the Museum to Kaunas City Municipality free of charge.

Market information

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market increased by 4.8 per cent in terms of revenue during the 2016 to EUR 656 million, compared with EUR 626 million for the year 2015.

In 2016, the Group (including Omnitel) remained the largest telecommunication market player in Lithuania. Its total market share in terms of revenue from telecommunication services was 42 per cent (42 per cent in 2015).

| | The Group market share in terms of customers (%) | | The Group market share in terms of revenue (%) | |
|----------------------------------|--|---------|--|---------|
| | Q4 2016 | Q4 2015 | Q4 2016 | Q4 2015 |
| Fixed voice telephony services | 87.7 | 89.0 | 91.7 | 94.1 |
| Fixed Internet access services | 46.9 | 46.7 | 56.8 | 55.8 |
| Mobile Internet access services | 46.5 | 52.4 | 40.1 | 49.3 |
| Internet access services (total) | 46.8 | 48.4 | 53.2 | 54.6 |
| Pay-TV services | 32.1 | 29.3 | 38.9 | 36.7 |
| Mobile services | 29.9 | 30.6 | 29.8 | 31.1 |
| Network interconnection services | n/a | n/a | 35.3 | 33.1 |
| Data communication services | n/a | n/a | 82.0 | 84.4 |
| Leased line services | n/a | n/a | 69.8 | 55.2 |

According to the Reports of CRA, on 31 December 2016, broadband Internet penetration per 100 residents of Lithuania was 44.7 per cent (41.1 per cent a year ago); penetration of broadband Internet using fixed connection was 30.1 per cent (28.8 per cent a year ago), while penetration of the Internet using mobile connection was 14.6 per cent (12.2 per cent a year ago). Pay-TV penetration per 100 households was 55.6 per cent, while a year ago it was 56.7 per cent. The penetration of active mobile communication users per 100 residents was 147.6 per cent (144.8 per cent a year ago) and penetration of phone fixed voice telephony lines per 100 residents – 18.3 per cent (19.1 per cent a year ago).

Operating expenses

During 2016, consolidated **cost of goods and services** was 1.2 per cent higher than the comparable combined cost of goods and services for the year 2015 due to higher volume of sales of equipment and higher voice transit traffic.

Consolidated **operating expenses** (excluding cost of goods and services, and non-recurring items) for the year 2016 were 0.4 per cent lower than comparable combined operating expenses in 2015, in spite of higher marketing and other expenses at the year-end.

Consolidated **employee-related expenses** (excluding one-time redundancy pay-outs) were 0.5 per cent lower than the comparable combined employee-related expenses (excluding one-time redundancy pay-outs) for the year 2015, in spite of higher average monthly salary. During 2016, the Company had a non-recurring redundancy charge that amounted to EUR 3.1 million.

Over the year, the total number of employees in Group (including Omnitel) decreased by 54 – from 3,200 to 3,146. The number of employees in the Company went down by 33, in Omnitel – by 45, in other subsidiaries – by 6, while in Lintel it increased by 30.

In terms of full-time employees, the total number of employees in the Group over 2016 (including Omnitel) went down by 32 from 2,851 to 2,819.

Consolidated **other expenses** (excluding non-recurring expenses) for the year 2016 compared with the comparable combined other expenses for the year 2015 were down by 0.2 per cent. Non-recurring expenses during January-December of 2016 amounted to EUR 2.6 million.

Earnings

Consolidated **EBITDA** (excluding non-recurring items) for the year 2016 went up by 5.9 per cent to EUR 117 million over the comparable combined EBITDA (excluding non-recurring items) of EUR 110.6 million for the year 2015. Consolidated EBITDA (excluding non-recurring items) margin for the year 2016 amounted to 33.8 per cent (32.7 per cent in 2015).

Consolidated EBITDA (including non-recurring items) for the year 2016 was up by 3.2 per cent to EUR 111.4 million over comparable combined EBITDA (including non-recurring items) of EUR 107.9 million for the year 2015. Consolidated EBITDA (including non-recurring items) margin for the year 2016 amounted to 32.2 per cent (32 per cent in 2015).

In the fourth quarter of 2016, the Company completed the Omnitel purchase price allocation: part of purchase price exceeding net asset value at the date of transaction was attributed to existing assets as well as new types of assets (e.g., client base, trademarks). As a result, the Company booked an additional depreciation and amortisation charge of EUR 5.5 million.

Consolidated **depreciation, amortisation and impairment charges** for the year 2016 were 7.7 per cent higher than the comparable combined depreciation, amortisation and impairment charges a year ago. In 2016 depreciation, amortisation and impairment charges amounted to 18.3 per cent of the total revenue, while comparable combined depreciation, amortisation and impairment charges in 2015 amounted to 17.4 per cent of the total comparable combined revenue.

Consolidated **operating profit (EBIT)** (excluding non-recurring items) for the year 2016 was 3.8 per cent higher than the comparable combined operating profit (EBIT) (excluding non-recurring items) for the year 2015. Operating profit (excluding non-recurring items) margin for the year 2016 was 15.6 per cent (comparable combined margins in 2015 was 15.4 per cent).

Consolidated operating profit (EBIT) (including non-recurring items) for the year 2016 was 2.2 per cent lower than comparable combined operating profit (EBIT) (including non-recurring items) a year ago. Operating profit (including non-recurring items) margin for the year 2016 was 13.9 per cent (a year ago comparable combined margins was 14.6 per cent).

Consolidated **net financial income** in January-December of 2016 was negative and amounted to EUR 1.1 million (comparable combined net financial income in 2015 amounted to EUR 16 thousand).

Consolidated **profit before income tax** for the year 2016, compared with the comparable combined profit before income tax of EUR 49.3 million for the year 2015, decreased by 4.4 per cent and amounted to EUR 47.1 million.

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the year 2016 amounted to EUR 2.9 million (EUR 2 million in 2015). Consolidated income tax expenses for the year 2016 were 13.6 per cent higher than comparable combined income tax expenses in 2015.

Consolidated **profit for the period** of January-December of 2016 amounted to EUR 41.5 million, while a year ago the comparable combined profit for the period was EUR 44.3 million, a decrease by 6.4 per cent. The profit margin for the year 2016 was 12 per cent, while comparable combined profit margin a year ago stood at 13.1 per cent.

Statement of financial position and cash flow

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

During 2016, **total assets** of the Group increased by more than 2 times due to acquisition of Omnitel. Total **non-current assets** increased by 1.8 times and amounted to 72.5 per cent of total assets. **Total current assets** increased by 3.3 times and amounted to 27.5 per cent of total assets, whereof cash alone represented 9.6 per cent of total assets.

During 2016, **shareholders' equity** increased by 15.2 per cent and amounted to 45.8 per cent of the total assets.

On 26 April 2016, the Annual General Meeting of Shareholders decided to pay a **dividend** of EUR 0.01 per share (in total EUR 5.8 million) for the year 2015, while an amount of distributable profit of EUR 34.1 million was carried forward to the next financial year. In May 2016, dividends for the year 2015 were paid in cash to the shareholders of the Company.

As of 31 December 2016, consolidated **retained earnings** of the Group amounted to EUR 84.5 million, while retained earnings of the Company amounted to EUR 68.1 million. According to the provisions of the Law of the Republic of Lithuania on Companies, dividends should be paid from retained earnings of the Parent company.

On 18 December 2015, the Company signed an agreement with SEB Bank and Danske Bank for a long-term loan of EUR 150 million to finance the acquisition of Omnitel.

At the end of December of 2016, the total amount of **borrowings** of the Group amounted to EUR 227 million. An amount of EUR 77 million represents the borrowings of the acquired subsidiary.

Net **cash flow from operating activities** in 2016 was 1.8 times higher than that in 2015. Operating **free cash flow** (operating cash flow excluding capital investments) in January-December of 2016 was 1.5 times higher than a year ago.

The cash amount (EUR 11.4 million) spent during 2016 for capital investments was payments for investments made in 2015.

During 2016, the total **capital investments** of the Group amounted to EUR 57.7 million (comparable combined capital investments was EUR 50.8 million a year ago). The majority of capital investments (EUR 26.6 million) went to the expansion of the core fixed network and development of the fiber-optic access network. Investments into the development of mobile network amounted to EUR 13.5 million and EUR 16.7 million was invested into the development of IT systems of both companies. Other investments amounted to EUR 0.9 million.

On 27 January 2016, Omnitel was recognised as the winner of the radio frequencies block bundle No. C1 at Communications Regulatory Authority auction for the right to use radio frequencies (channels) from paired radio frequencies bandwidth of 880–915 MHz and 925–960 MHz, and paired radio frequencies bandwidth of 1710–1785 MHz and 1805–1880 MHz. Omnitel offered the highest price (EUR 14.3 million) for this radio frequencies block bundle and got the priority right to choose the preferred A and B category radio frequencies block. Omnitel decided to use A2 (i.e. radio frequencies from paired radio frequencies bandwidth of 891.7–903.3 MHz and 936.7–948.3 MHz) and B1 (i.e. radio frequencies from paired radio frequencies bandwidth of 1710–1735 MHz and 1805–1830 MHz) radio frequencies blocks.

In 2016, the Company completed the network digitization process, which had lasted for more than a decade, and turned off the last analogue network exchange. During the final phase of modernisation of the voice telephony network, in total more than 800 analogue exchanges were replaced throughout Lithuania, while investment in the digitization of analogue exchanges during this phase amounted to EUR 6 million.

During 2016, the Company invested EUR 9.8 million into expansion of fiber-optic access network and as a result, by the end of December, there were 870 thousand households passed (854 thousand a year ago), or 71 per cent of the country's households, by the Company's FTTH network.

Over the year, Omnitel installed and launched more than 600 new LTE 4G base stations and by the end of 2016 had more than 1,500 4G base stations across Lithuania. According to the latest data of CRA, our 4G connectivity has covered 99 per cent of the populated territory of Lithuania and remains the fastest in the country. The highest levels of 4G coverage were achieved because of intensive development of base stations in the most sparsely populated areas along the Lithuanian state border with Belarus and in the Panemunė region. Lithuania is a leader in Europe and one of the world's leaders in terms of the coverage and availability of 4G connectivity.

In August, the first new-concept joint customer care unit, where fixed and mobile communication services are offered together, was opened in Kaunas. In December, fixed and mobile communication services as well as equipment became available in 70 retail outlets all over Lithuania.

In April 2016, the Company opened a new data center in Vilnius that is certified according to TIER III security standards. The 500 kW data center has nearly 100 server cabinets and one of the world's most efficient cooling systems, KyotoCooling, installed in it. The KyotoCooling cooling system uses outside air temperature for cooling servers, therefore the new data center stands out for its ultra-high energy efficiency – its overall PUE ratio is just 1.25. The total value of these investments is more than EUR 3 million.

Cash and cash equivalents during January–December of 2016 increased by EUR 43.8 million.

During 2016, the Group (including Omnitel) paid EUR 68.3 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 48.6 million was paid to the State Tax Inspectorate.

Information about related party transactions

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 2016.

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

In 2016, the Company and its subsidiaries are providing to each other telecommunications, Call Center, IT and other services. As of 31 December 2016, the Company had no outstanding loan granted to subsidiaries. The Company's subsidiaries have no interest in the share capital of the Company.

The Company and the Group through its largest shareholder, Telia Company AB, are related to Telia Company Group that provides telecommunication services in Nordic and Baltic countries. The main buyers and providers of telecommunications services to the Group are Telia Carrier (Sweden), Telia Eesti AS (Estonia), LMT (Latvia), TeliaSonera Finland Oyj (Finland). As of 31 December 2016, the outstanding balance of the loan granted by Telia Company to Omnitel was EUR 77 million.

Other material information

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

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

On 9 June 2016, the Boards of the Company and its subsidiaries – Omnitel and Baltic Data Center (BDC) – approved the Terms of the Merger of the Company, Omnitel and BDC, and on 15 December 2016, the Extraordinary General Meeting of the Company's shareholders decided to reorganize the Company, Omnitel and BDC according to the approved Terms of Merger. Based on the Terms of Merger, on 1 February 2017 the Company, Omnitel and BDC were merged pursuant to Part 3 of Article 2.97 of the Civil Code of the Republic of Lithuania by way of a merger of Omnitel and BDC (both of them terminated their activities as legal entities after the merger) into the Company, which after the merger continues the activities carried out by the Company, Omnitel and BDC under a new name, Telia Lietuva, AB.

On 15 December 2016, the shareholders of the Company decided to change the Company's name from TEO LT, AB to Telia Lietuva, AB, as of the date of registration of the new By-laws of the Company that continues its business activities after the reorganization of the Company, Omnitel and BDC within the Register of Legal Entities of the Republic of Lithuania.

On 5 July 2016, the Company joined the Memorandum of Understanding on the enhancement of the functionality of the Bank of Lithuania retail payment system, prepared by the Bank of Lithuania. The Bank of Lithuania is developing the retail payment system SEPA-MMS by enhancing its functionality with a new function – the possibility to execute payments among the accounts of the customers of payment service providers. The Company supports the initiative of the Bank of Lithuania to develop the market of retail payment services, i.e. instant payments.

On 13 October 2016, the Bank of Lithuania decided to grant a limited activity electronic money institution licence to the Company. The licence grants the right to issue electronic money and provide payment services set in the Article 5 of the Payments Law of the Republic of Lithuania. The purpose of obtaining this licence was the intended takeover of payment activities of Omnitel and intended provision of instant payment services according to the above mentioned Memorandum of Understanding, prepared by the Bank of Lithuania and joined by the Company on 5 July 2016.

In October 2016, the Supervisory Authority of the Bank of Lithuania upon the requests regarding the reorganisation by Omnitel, a holder of the licence of Limited activities payments institution issued on 28 July 2011, and the Company, a holder of the licence of Limited activities electronic money institution issued on 13 October 2016, approved the reorganisation of Omnitel by way of merger into the Company.

Recent events

On 1 February 2017, the Company's subsidiaries AB Omnitel and AB Baltic Data Center were merged into the Company and the Company changed its name into Telia Lietuva, AB. On 1 February 2017, the Company subsidiary UAB Lintel change its name into Telia Customer Service LT, UAB.

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

In March 2017, the Company presented a unique hybrid-type Internet service in Lithuania which has no analogues in the region and which was created by integrating copper access with the fastest 4G mobile Internet covering the whole country. The Telia Cloud service, which has been presented to businesses, is one of the first OpenStack-based cloud computing services in the Nordic region.

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

Research and development activities

During 2016, besides the on-going development and improvement of services, we started to create offering combining fixed and mobile communication technologies as well as to test the latest technologies.

In February 2016, Omnitel was the first in the Baltic countries and one of the first in the world to implement the latest mobile technology 4.5G / LTE Advanced PRO. In an actually operating network, it has demonstrated a data download speed of 750 Mbps.

In September 2016, Omnitel was the first in Lithuania to implement a next-generation voice transmission technology VoLTE (Voice over LTE) in its 4G network. This technology ensures a high data transfer rate, which does not decrease while simultaneously making or receiving a call and surfing the Internet. It also improves call quality and speeds up the call connection process. The VoLTE technology used by Omnitel is implemented in the cloud-based IMS (IP Multimedia Subsystem) platform, which combines mobile and fixed-line communication technologies.

To promote safe surfing on the broadband Internet, the Company has developed a solution “Antivirus Plus”, which allows to protect up to three different devices (computers, smart phones and tablet computers) from malicious software and harmful content. The security solution based on the platform developed by F-Secure was launched in February 2016. A similar service applicable to up to five different devices (smartphones, tablets or a computers) connected via mobile Internet was launched in September. Such security solutions are also convenient for parents with school-age children, as they give the opportunity to manage the content accessible to children and applications on their smartphones.

From July 2016, passengers traveling between Vilnius and Kaunas by Lietuvos Geležinkeliai train can enjoy free access to the Internet without any limitations on speed or amount of data. The highest quality wireless Internet (Wi-Fi) connection, installed on all wagons of the train, operates on the basis of 4G Internet.

In September, the Company presented 4 new fiber-optic Internet payment plans for business and a possibility to have the Internet installed in one day. All new plans have an integrated IT system protection, which protects the enterprise’s network and sensitive data from theft or damage, hacking, viruses, malicious Internet links and spam. In addition to the fastest plan of 600 Mb/s “Business XL”, the Company also provides a possibility to choose from plans “Business S”, “Business M” and “Business L”, which allow browsing the net at the speed of 40 Mb/s, 100 Mb/s and 300 Mb/s. Along with its new plans for business, the Company also allows companies to use a 4G+ modem until the fiber-optic Internet is installed.

The Company together with its partners TAMO Group, Microsoft Lietuva and BMK installed 10 smart classrooms in Kaunas for the beginning of the school year in September 2016. One smart classroom consists of a smart board, 30 Hewlett-Packard (HP) tablets with class management software, Microsoft software, TAMO Group electronic teaching/learning content and e-diary, and the Company’s wireless network connecting all those items.

In October 2016, following the wishes of parents and their children the Company launched a separate “Kids Corner” on its IPTV platform. In a special, child-friendly environment, the kids are provided with content that is suitable for them, including educational programs, talking fairy-tales and songs.

In the autumn, Omnitel increased the data packages in all the mobile connection payment plans for residential customers and reduced the average price of its data by up to 40 per cent. Together with the new payment plans, Omnitel customers received additional benefits: access to the Lithuanian e-book reader “Milžinas” (“The Giant”), mobile phone insurance, a mobile signature, Spotify Premium, as well as the possibility to surf the Internet in the Nordic and Baltic countries under the same conditions as applied in Lithuania.

In addition, Omnitel have introduced a new mobile Internet payment plan for the home, Home Connect, with an unlimited amount of data. For a monthly fee of EUR 19, customers are able to use unlimited mobile Internet over 4G network at a fixed location. The plan Connect 200 providing 200 GB of data for EUR 19.90 per month allows customers to use the Internet anywhere in Lithuania.

For business customers Omnitel also offered the Internet solutions in areas where there is no access to fiber optic Internet network. A Huawei router and outside antenna installed in the office ensure a high speed of mobile Internet and for EUR 25 per month provide an unlimited amount of data.

Environmental protection

In its activities, the Company uses only the most innovative means and the most modern technological processes that meet the relevant ecological standards and help reduce the negative impact on the environment. More information about the Company’s activities in environmental protection as well as other corporate social responsibility activities is provided in the on-line version of our Corporate Social Responsibility Report issued on annual basis.

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 Procedure for Preparation of Financial Statements provides that financial statements will be prepared in a correct and timely manner. The annex to the Procedure 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.

Risk management

The main risk factors associated with the activities of the Company are as follows:

- Changes in the legal regulation of the Company's activities.
- Competition with other telecommunications market players.
- Acceptance of new products of the Company by the market.
- Currency exchange rates fluctuations.
- General economic situation in the Republic of Lithuania.
- Changes in the Lithuanian legislation.
- Changes in the regulation of accounting and taxation systems.

On 18 December 2015, the Company signed an agreement with SEB Bank and Danske Bank for a long-term loan of EUR 150 million to finance the acquisition of shares in Omnitel. At the end of December 2016, the total amount of **borrowings** of the Group amounted to EUR 227 million (EUR 15.1 million a year ago), whereof an amount of EUR 77 million represents the borrowings of the acquired subsidiary from Telia Company. As of 31 December 2016, the cash of the Group amounted to EUR 56.7 million (EUR 12.9 million in 2015).

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

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

Information about the Company's financial risk management is provided in Note 3 of the Company's Consolidated and Separate Financial Statements for the year ended 31 December 2016.

Plans and forecasts

After completion of the major task of 2016 – consolidation of employees, customers, services, technologies, systems and processes into one company, Telia Lietuva together with the whole Telia Company Group is ready to move to the next level and create a New Generation Telco.

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

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

III. INFORMATION ABOUT SHARE CAPITAL AND SHAREHOLDERS

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. The number of the Company's shares that provide voting rights during the General Meeting is 582,613,138.

Shareholders

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 2016:

| 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** during the last General Meeting of Shareholders, which was held on 15 December 2016, was 11,396.

Treasury stocks

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

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. As of 31 December 2016, 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.

Information about trading in the Company's securities

During 2016, the Company's **share price** on Nasdaq Vilnius stock exchange decreased by EUR 0.077 or 7.6 per cent. The shares' turnover, compared to the year 2015, decreased by 6.9 per cent.

Information about trading in the Company's shares on Nasdaq Vilnius stock exchange in 2016:

| Currency | Opening price | Highest price | Lowest price | Last price | Average price | Turnover (units) | Turnover |
|----------|---------------|---------------|--------------|------------|---------------|------------------|-----------|
| EUR | 1.010 | 1.030 | 0.875 | 0.933 | 0.936 | 5,731,176 | 5,366,840 |

The Company's market **capitalisation** as on 31 December 2016 was EUR 544 million while a year ago it amounted to EUR 588 million.

Dividends

On 24 May 2016, the Company paid out to the shareholders EUR 5.8 million of dividends or EUR 0.01 per share for the year 2015. Following the legal provisions, dividends were paid to the shareholders who on the dividend record day, 10 May 2016, i.e. the tenth business day after the Annual General Meeting of Shareholders, were on the Shareholders' List of the Company. Dividends to all shareholders were paid in cash.

IV. PERSONNEL

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

| | 2016 | 2015 | Change (%) |
|-----------------------------------|-------|-------|------------|
| Number of personnel (head-counts) | 3,146 | 2,603 | 20.9 |
| Number of full-time employees | 2,819 | 2,309 | 22.1 |

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

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

| Name of the company | 31-12-2016 | 31-12-2015 | Change |
|------------------------------|-------------------|-------------------|---------------|
| TEO LT, AB (parent company) | 1,806 | 1,839 | (33) |
| AB Omnitel | 552 | - | 552 |
| AB Baltic Data Center | 2 | 3 | (1) |
| UAB Lintel | 786 | 756 | 30 |
| VšĮ Ryšių Istorijos Muziejus | - | 5 | (5) |
| | 3,146 | 2,603 | 543 |

On 4 January 2016, the Company acquired Omnitel that as of 31 December 2015 had 597 employees. In April 2016, Ryšių Istorijos Muziejus (Communications History Museum) was handed over to Kaunas City Municipality.

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

| Name of the company | 2016 | 2015 | Change (%) |
|--|---------------|---------------|-------------------|
| TEO LT, AB (parent company) | 39,951 | 42,711 | (6.5) |
| AB Omnitel | 13,157 | - | - |
| AB Baltic Data Center and its subsidiaries | 64 | 234 | (72.6) |
| UAB Lintel | 6,213 | 5,244 | 18.5 |
| Other subsidiaries | 61 | 75 | (18.7) |
| | 59,446 | 48,264 | 23.2 |

Information about employees of the Company as of 31 December 2016:

| Group of employees | Number of employees | Education | | | Average monthly salary (in EUR) |
|---------------------------|----------------------------|-------------------|----------------|--------------------|--|
| | | University | College | High school | |
| Managers | 36 | 36 | - | - | 5,736.84 |
| Middle level managers | 153 | 136 | 14 | 3 | 2,083.42 |
| Specialists | 1,617 | 1,010 | 326 | 281 | 1,135.54 |
| | 1,806 | 1,182 | 340 | 284 | 1,307.57 |

Remuneration policy

On April 2016, the Board approved the Company's remuneration policy which aims to be the basis for further instructions and guidelines intended to clarify the Company's Group approach on designing and implementing remuneration practices for employees at all levels. The 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 taken into account. Performance assessment should not only reflect the results obtained. How the results have been obtained should also be part of the assessment;
- 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 total value of the remuneration implies:

- 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;
- other financial and non-financial benefits such as additional health insurance, pension plans, etc.

According to the policy, the remuneration structure and levels for the members of Management Team are supervised and governed by the Remuneration Committee of the Company.

For a number of years the Company provides additional health insurance to all employees of the Company and its subsidiary Omnitel as well as those having a longer employment record employees of Lintel.

On 27 March 2015, the Company signed an agreement with SEB Investicijų Valdymas (SEB Investment Management) regarding the Company employees' pension savings at 3rd tier pension funds. Starting from 1 April 2015, the Company employees working in the Company for at least a year and from 1 November 2016 – all employees of the Group could participate in a program "Save with Telia". The essence of the program is that the funds allocated by employer are invested into one of the SEB Investicijų Valdymas' fund of the employee's choice. For all the Company's employees participating in the program the Company allocates EUR 8 every month; this is then transferred into one of the funds chosen by the employee. If the employee is willing to contribute to the pension saving from his own finances by additionally allocating 1, 2 or more percent of his/her salary, then the Company also transfers an amount equal to employee's contribution from his salary but in any case not exceeding 2 per cent of his/her salary.

Collective Bargaining Agreement

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

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

The Collective Bargaining Agreement of the Company grants a number of additional social guarantees to employees of the Company:

- Information about vacant and new work places shall be publicly available within the Company and employees of the Company shall have priority to get the place, if their qualifications and other records fulfil requirements for that place.
- Taking into considering the type of activities and business conditions, and not violating interest of the employees, by order, regulation or command of the Employer, a flexible working time regime can be set in certain units: the beginning of the business day could range from 7 to 11 a.m. and the end of the business day could range from 4 p.m. to 8 p.m., respectively, but not exceeding the length of the business week of 40 hours established in the Company and not violating the length of non-interrupted rest time during 24 hours set by the Labour Code of the Republic of Lithuania. The business day can be split in two parts (each part shall not be shorter than 3 hours), but not exceeding 8 hours of daily and 40 hours of weekly business time.
- In case when a public holiday is Tuesday or Thursday, the Employer has a right without separate consent of the trade unions to move a business day that goes before or after a public holiday to another holiday or set it as an additional holiday (this condition is not applied to the list, set by the Employer, of employees that are involved in customer care or are on duty and have to ensure non-interrupted provision of services and care).
- On the day of the annual corporate event dedicated to improve corporate culture and communication as well as relations with very important customers and partners, employees can be granted with an additional holiday by the order of CEO.
- Additional 30 calendar days of unpaid vacation can be granted because of family circumstances, sanatorium treatment, or for other important reasons in case business conditions are favourable. Upon an employee's request for personal competence training abroad and if it is related to the interest of the Company, Head of Human Resources could grant additional unpaid vacations.
- In case of death of the employee's father, mother, wife, husband, child, brother or sister, or birth of a child, the employee gets additional 3 calendar days of paid vacations.
- Vacation for studies is granted on the bases of advance reference from educational institution for the period of time indicated in that reference.
- Being on duty at home is organised following the order set by Labour Code. During the duty employees are equipped with mobile phones.
- The Company's employee remuneration consists of regularly paid wage which consist of two parts: (1) fixed part – main salary, paid according to the employee's position and possessed competence, and (2) variable part – bonus which can be of two types: bonus for quarterly (monthly) results or bonus for achievement of annual goals. In exceptional cases, one-time bonus could be paid. The list of positions for which quarterly (monthly) or annual bonuses can be paid, bonus descriptions, amounts and payment conditions are set by a separate rules and procedures.
- During the validity of this Collective Bargaining Agreement, the minimal average salary for a full-time employee with a permanent employment contract for the fully worked month is 318.58 euro.
- The Company's employees are paid 1.75 employee's hourly wage (basic salary) amount for overtime and work during the night (from 22.00 till 6.00).
- The Company's employees are paid 2 employee's hourly wage (basic salary) amount for working during weekends and public holidays.
- At the end of financial year, employees can be paid bonuses for the Company's yearly results from the wage fund following the rules set by the Company.
- If the employee falls ill, the Employer for first two days of illness pays 90 per cent of the employee's average remuneration.

- Development of the Company's employee's competence and payment for it is executed following the annual competence development plans set after the evaluation of agreements reached by unit managers and employees in respect of training needs and with regards to the Company's development directions and financial abilities.
- The Employer, following valid documentation regulating support for employees' studies, 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. If the studies' programs and individual studies' plans are in line with the employee's competence development needs, an average salary could be paid during the studies' vacations.
- The Employer shall provide information about professional training in towns and districts organised by labor exchange to the employees, who have been notified about their intended dismissal.
- The Employer may provide conditions for the employees to be dismissed to attend professional training courses arranged by labor exchanges and, upon mutual agreement between the parties, to pay for them without exceeding the limit of 144,81 euro including VAT.
- The employee, who has been notified about his/her intended dismissal, during the period of notification, at his/her request, shall be entitled to unpaid educational leave and may be granted by the Employer up to 50 per cent of time off from work (the employee shall retain his/her average wage for this time) to seek for a new job or to retrain.
- The Employer commits itself to additionally insure the Company employees against accidents at work and on the way to/from work with its own funds; with the Company's funds to vaccinate the employees, who are likely to be exposed to occupational risk factors at work; to provide the employees, who perform the works containing risk factors, with necessary special outfit, shoes and other personal protective equipment in a timely manner and free of charge.
- The Company has established a Social Needs Fund. Its purpose is to improve the organisation's culture and to meet the social needs of the employees in accordance with the regulations of the Fund. The Fund shall be managed by the Committee of the Social Needs Fund formed of representatives of the Employer and Trade Unions.
- In case of death of the employee's father, mother, wife, husband or child, he/she shall be 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 shall be paid all funeral expenses, excluding a funeral dinner, and his/her spouse or children maintained by him/her shall be paid a relief amounting to 12 MSL.
- The Fund also commits itself to buy Christmas presents to the employees' children (under 10 years of age), to allocate a bonus amounting to 10 MSL on the occasion of 20, 30 and 40 years of continuous record of service in telecommunications.
- The Fund may grant an allowance if, due to difficult financial situation of the employee or his/her family, the employee or his/her family has incurred substantial material loss.
- The Fund shall allocate 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 shall organize and finance a culture and sports event of the Company's employees.

In 2016, the Social Needs Fund allocated EUR 68.9 thousand for the above-mentioned purposes.

V. MANAGING BODIES OF THE ISSUER

According to the By-laws the managing bodies of the Company are the General Meeting, the Board and the CEO. The Company does not have a Supervisory Council. The Board of the Company represents the shareholders and performs supervision and control functions.

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.

The members of the Board serving on the Board of the Company are acting jointly as a managing body of the Company. The Board consist of six members. The members of the Board are elected for a term of two years. The Chairperson of the Board is elected by the Board from its members for two years. 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 Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

The Board elects and recalls the CEO of the Company, sets his remuneration and other conditions of the employment agreement, approves his office regulations, induces and applies penalties to him. The CEO is the Head of the Company. The Head of the Company is a one-man management body of the Company and, within his scope of authority, organizes the day-to-day operation of the Company. The Work Regulations that are approved by CEO define the duties and authority of CEO and other officers of the Company in more details.

On 26 April 2016, the Annual General Meeting of Shareholders elected Hannu-Matti Mäkinen, General Counsel and Head of Legal of Region Europe at Telia Company AB, to the Board of the Company for the current term of the Board following the resignation of Tiia Tuovinen from the Board as of 25 April 2016. Notification about Tiia Tuovinen, General Counsel of Global Services and Operations (GSO) at Telia Company AB, resignation was received on 23 March 2016. Telia Company, as the largest shareholder of the Company, proposed Hannu-Matti Mäkinen for election to the Board.

On 19 July 2016, the Board elected member of the Board Hannu-Matti Mäkinen as the member of the Company's Audit Committee for the current term of the Audit Committee Board (but in any case not longer than until the term of his membership in the Board). Member of the Board Stefan Block (Chairman of the Committee) and independent member of the Board Inga Skisaker are members of the Audit Committee since 4 June 2015.

On 19 July 2016, the Board re-elected the following members of the Board as members of the Remuneration Committee for the new term of one year (but in any case not longer than until their term of the membership in the Board): Robert Andersson (Chairman of the Board), Claes Nycander and Rolandas Viršilas (independent member of the Board).

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.

The Board Activities

During 2016, eight ordinary and three extraordinary meetings of the Board were held. Seven ordinary meetings were convened according to the preliminary approved schedule of the Board meetings, the date of one ordinary meeting for approval of the audited annual financial results was changed and three extraordinary meetings were convened following the procedure provided by the Regulation of the Company's Board Activities for convocation of extraordinary meetings. During all Board meetings there was quorum prescribed by legal acts. The Board approved financial statements for the 12 months of 2015 and 3, 6 and 9 months of 2016, consolidated financial statements and consolidated annual report for the year ended 31 December 2015, convoked the Annual General Meeting of Shareholders and proposed to the Annual General Meeting to allocate profit for the year 2015. The Board of the Company approved Terms of Merger of the Company, Omnitel and BDC by the way of merger of Omnitel and BDC into the Company, and convoked the Extraordinary General Meeting of Shareholders for approval of reorganization. The Board also approved handing over of ownerships rights in VšĮ Ryšių Istorijos Muziejus and VšĮ SOS Projektai, elected a new member of the Audit Committee and re-elected members of the Remuneration Committee, proposed election of UAB Deloitte Lietuva as the Company's auditor, followed up implementation of the business and investment plans for the year 2016.

In 2016, four meetings of the Remuneration Committee were held. The following issues were considered during the meetings: approval of the Group Remuneration Policy, approval of the annual variable payout for 2015 to the Management Team of the Company, approval of the Annual Variable Pay Instructions, the Company's management team substitution plan, unification of salaries and additional benefits within the Group, labour and salary market trends, insights of Hay Group salary's research, update on pension saving plan „Save with Telia“, possible influence of a new Labour Code. Robert Andersson, the Chairman of the Committee, chaired all the meetings, except one when he was absent.

During January-December 2016, four meetings of the Audit Committee were held, during which the following issues were considered: report and conclusions by external auditors regarding the financial statements for the year 2015, results of legal due diligence of Omnitel, internal audit plan for the year 2016, internal audit report for the year 2015 and reports for the year 2016. In addition, identified risks and action plans related to them were reviewed, internal fraud cases and whistle blowing reports were analysed. The all meetings were chaired by Stefan Block, the Chairman of the Committee.

Three members of the Board – Robert Andersson, Stefan Block and Claes Nycander – and nominee for election to the Board, Hannu-Matti Mäkinen, as well as CEO of the Company participated at the Annual General Meeting of Shareholders on 26 April 2016. The Chairman of the Board Robert Andersson and member of the Board Hannu-Matti Mäkinen as well as the CEO of the Company attended the Extraordinary General Meeting of Shareholders, which was held on 15 December 2016.

On 26 April 2016, the shareholders resolved to assign the amount of EUR 31,280 for tantiems for the year 2015 to just independent members of the Board – Inga Skisaker and Rolandas Viršilas, i.e. EUR 15,640 per one member of the Board. As of 31 December 2016, 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.

Information about the Board members' attendance of the meetings in 2016 (number of attended meetings):

| | General Meeting of Shareholders | Board Meeting | Meeting of the Audit Committee | Meeting of the Remuneration Committee |
|---------------------------------------|------------------------------------|---------------|-----------------------------------|---|
| The total number of meetings | 2 | 11 | 4 | 4 |
| Robert Andersson | 2 | 11 | n/a | 3 |
| Stefan Block | 1 | 10 | 4 | n/a |
| Claes Nycander | 1 | 11 | n/a | 4 |
| Tiia Tuovinen (till 25-04-2016) | n/a | 3 | 1 | n/a |
| Hannu-Matti Mäkinen (from 26-04-2016) | 2 | 6 | 2 | n/a |
| Inga Skisaker | 0 | 8 | 2 | n/a |
| Rolandas Viršilas | 0 | 10 | n/a | 4 |

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

Members of the Board as of 31 December 2016

Robert Andersson (born in 1960) – Chairman of the Board, member of the Board since 29 April 2014, re-elected for the two-year term on 29 April 2015 (nominated by Telia Company AB), Chairman of the Remuneration Committee. Education: George Washington University, Washington DC, (U.S.A.), Master of Business Administration, International Business, and Swedish School of Economics and Business Administration, Helsinki (Finland), Master of Science, Accounting/Finance. Employment – Telia Company AB (Sweden), Executive Vice President and Head of Region Europe until 31 December 2016, from 1 January 2017 – Senior Vice President and Head of Corporate Holdings. Current Board Assignments: TeliaSonera Finland Oyj (Finland), Chairman of the Board; Telia Norge AS (Norway), Chairman of the Board; Telia Eesti AS (Estonia), Chairman of the Supervisory Council; Enea AB (Sweden), member of the Board, and PJSC MegaFon (Russia), member of the Board. Telia Company AB (Sweden) that nominated Robert Andersson to the Board of the Company has 88.15 per cent of the share capital and votes of the Company. Robert Andersson has no direct interest in the share capital of the Company. He owns 10,000 shares of Telia Company AB. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Stefan Block (born in 1967) – member of the Board since 29 April 2014, re-elected for the two-year term on 29 April 2015 (nominated by Telia Company AB), Chairman of the Audit Committee. Education – University of Stockholm (Sweden), Bachelor of Science in Business and Administration. Employment – Telia Company AB (Sweden), Chief Financial Officer of Region Europe until 31 December 2016, from 1 January 2017 – Chief Financial Officer of Lithuania, Estonia and Denmark (LED) cluster. Current Board Assignments: Telia Danmark A/S (Denmark), Chairman of the Board; Síminn Denmark A/S (Denmark), member of the Board; Telia Finance AB (Sweden), member of the Board; Telia Norge AS (Norway), member of the Board; LMT SIA (Latvia), member of the Supervisory Council, and Telia Eesti AS (Estonia), member of the Supervisory Council. Telia Company AB (Sweden) that nominated Stefan Block to the Board of the Company has 88.15 per cent of the share capital and votes of the Company. Stefan Block has no direct interest in the share capital of the Company. He 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 term on 29 April 2015 (nominated by Telia Company AB), member of the Remuneration Committee. Education: Uppsala University (Sweden), Master of Business and Administration; Stanford University Palo Alto (U.S.A.), Master of Science in Electrical Engineering; Institute of Technology at University of Linköping (Sweden), Master of Science in Electrical Engineering, and University of Linköping (Sweden), Bachelor of Science in Mathematics. Employment – Telia Company AB (Sweden), Chief Technology Officer of Region Europe until 31 December 2016, from 1 January 2017 – Vice President and Head of Special Projects & LED (Lithuania, Estonia, Denmark) Management at Group Service Operations. Current Board Assignments: TT Nätverket A/S (Denmark), Chairman of the Board; Systecon AB (Sweden), member of the Board; Svenska UMTS-Nät AB (Sweden), member of the Board, and LMT SIA (Latvia), Chairman of Supervisory Council. Telia Company AB (Sweden) that nominated Claes Nycander to the Board of the Company has 88.15 per cent of the share capital and votes of the Company. Claes Nycander has no direct interest in the share capital of the Company. He 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 26 April 2016 (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 (Sweden), General Counsel Region Europe and Head of Legal of Region Europe until 31 December 2016, from 1 January 2017 – Vice President and Head of Legal of Corporate Holdings. Current Board Assignments: TeliaSonera Finland Oyj (Finland), member of the Board; Telia Danmark A/S (Denmark), member of the Board; Tilts Communications A/S (Denmark), member of the Board; Telia Norge AS (Norway), member of the Board; Telia Eesti AS (Estonia), member of the Supervisory Council, and Lattelecom SIA (Latvia), member of the Supervisory Council. Telia Company AB (Sweden), that nominated Hannu-Matti Mäkinen to the Board of the Company, has 88.15 per cent of the share capital and votes of the Company. Hannu-Matti Mäkinen has no direct interest in the share capital of the Company. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Inga Skisaker (born in 1971) – an independent member of the Board since 28 April 2011, re-elected for the two-year term on 29 April 2015 (nominated by Telia Company AB), member of the Audit Committee. Education – Vilnius University (Lithuania), Master of International Business Administration. Employment – Nordea Bank AB Lithuania Branch (Sweden), General Manager and Head of Banking Baltic Countries. Current Board assignments: Baltic Management Institute (Lithuania), member of the Board, and Investors Forum (Lithuania), member of the Board. Telia Company AB (Sweden) that nominated Inga Skisaker as an independent candidate to the Board of the Company has 88.15 per cent of the share capital and votes of the Company. Inga Skisaker has no direct interest in the share capital of the Company. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Rolandas Viršilas (born in 1963) – an independent member of the Board since 25 April 2013, re-elected for the two-year term on 29 April 2015 (nominated by Telia Company AB), member of the Remuneration Committee. Education – Vilnius University (Lithuania), Faculty of Mathematics, Master's degree. Employment – UAB Švyturys-Utenos Alus (Lithuania), CEO. Current Board assignments: Lithuanian Brewers' Guild (Lithuania), Chairman of the Council; VŠĮ Užstato Sistemos Administratorius (Lithuania), member of the Board, and Dayton Group Oy (Finland), member of the Board. Telia Company AB (Sweden) that nominated Rolandas Viršilas as independent candidate to the Board of the Company has 88.15 per cent of the share capital and votes of the Company. Rolandas Viršilas has 75,000 shares of the Company that accounts to 0.0129 per cent of the total number of the Company's shares and votes. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Management Team as of 31 December 2016

Kęstutis Šliužas (born in 1972) – CEO of the Company from 1 November of 2013. Education – Vilnius University (Lithuania), Bachelor's and Master's degrees. Involvement in activities of other entities: AB Omnitel (Lithuania), CEO (until 1 February 2017); Kaunas Technology University (Lithuania), member of the Business Council; Vilnius Tech Park (Lithuania), member of the Council; Association INFOBALT (Lithuania), member of the Board, and Baltic Institute of Corporate Governance, member of the Board. Kęstutis Šliužas has no direct interest in the share capital of the Company. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Petteri Ahonen (born in 1970) – Head of B2B of the Company from 1 January 2016 until 31 December 2016. Education: Swedish School of Economics and Business Administration (Helsinki, Finland), Master of Science in Economics, and Espoo Commercial College (Espoo, Finland), Commercial Diploma. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of B2B until 31 December 2016. Petteri Ahonen had no direct interest in the share capital of the Company. He has no shareholdings that exceed 5 per cent of the share capital of any company.

After the expiry of employment contract Petteri Ahonen finished his career at the Company as of 31 December 2016. Kęstutis Šliužas, CEO of the Company, is temporary leading a Unit of Business Customers until the appointment of a new manager is announced.

Norbertas Žioba (born in 1973) – Head of B2C of the Company from 1 January 2016. Education: Durham University (United Kingdom), Business School, Master in Business Administration (MBA); Vytautas Magnus University (Lithuania), Faculty of Social Sciences, Student for Master in Business Law, and Vytautas Magnus University (Lithuania), Faculty of Business and Management, Bachelor of Science in Business Administration and Management. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of B2C (until 1 February 2017), and UAB BLOK Laboratorija (Lithuania), an independent member of the Board. Norbertas Žioba has 3601 share of the Company that accounts to 0.0006 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.

Andrius Šemeškevičius (born in 1976) – Head of Technology of the Company from 18 August 2014. Education – Vilnius Gediminas Technical University (Lithuania), Bachelor's degree in Engineering Informatics and Master's degree in Engineering Informatics. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of Technology (until 1 February 2017). Andrius Šemeškevičius has 8,761 share of the Company 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 of the Company from 1 January 2016. Education: ACCA (Association of Chartered and Certified Accountants) (Glasgow, UK) and Stockholm School of Economics in Riga (Latvia), Bachelor of Science in Economics & Business Administration. Involvement in activities of other entities: AB Omnitel (Lithuania), member of the Board and Head of Finance (until 1 February 2017); AB Baltic Data Center (Lithuania), member of the Board (until 1 February 2017); UAB LD Corporate Consulting (Lithuania), 100 per cent owner and Director. Laimonas Devyžis has no direct interest in the share capital of the Company, and has no other shareholdings that exceed 5 per cent of the share capital of any company.

Ramūnas Bagdonas (born in 1974) – Head of Human Resources of the Company from 1 June 2014. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration, and Vytautas Magnus University (Lithuania), Master of Business Administration. Involvement in activities of other entities: AB Omnitel (Lithuania), Head of Human Resources (until 1 February 2017); Association of Personnel Management Professionals (Lithuania), member of the Board. Ramūnas Bagdonas has no direct interest in the share capital of the Company. He has 450 shares of Telia Company AB (Sweden). He has no shareholdings that exceed 5 per cent of the share capital of any company.

Giedrė Kaminskaitė-Salters (born in 1978) – Head of Legal of the Company from 7 December 2015. Education: Maastricht University (The Netherlands), Doctor of Law; BPP Law School, London (United Kingdom), law conversion studies, juris doctor equivalent; Oxford University (United Kingdom), MPhil in Russian and East European Studies, and London School of Economics (United Kingdom), Bachelor of Science in International Relations. Involvement in activities of other entities: AB Omnitel (Lithuania), member of the Board and Head of Legal (until 1 February 2017); AB Baltic Data Center (Lithuania), member of the Board (until 1 February 2017). Giedrė Kaminskaitė-Salters has no direct interest in the share capital of the Company. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Audronė Mažeikaitė (born in 1970) – Head of Corporate Affairs of the Company from 1 January 2016. Education: Lugano University (Switzerland), Executive Master of Science in Communications Management; Durham University (United Kingdom), Master of Business Administration, and Vilnius University (Lithuania), Diploma in Economic Analysis. Involvement in activities of other entities: AB Omnitel (Lithuania), Head of Corporate Affairs (until 1 February 2017); Human Rights Monitoring Institute (Lithuania), member of the Council. Audronė Mažeikaitė has no direct interest in the share capital of the Company. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Mantas Goštautas (born in 1981) – Head of Business Development of the Company from 17 August 2015. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration; CIMA (Chartered Institute of Management Accounting) (London, UK), Certificate in Business Accounting, and Stockholm School of Economics in Riga (Latvia), Bachelor in Economics and Business Administration. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of Business Development (until 1 February 2017). Mantas Goštautas has no direct interest in the share capital of the Company. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Andrius Byčkovas (born in 1977) – Head of Competitive Customer Operations of the Company from 1 January 2016. Education – Vilnius University (Lithuania), Master's Degree in Management and Business Administration. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of Competitive Customer Operations (until 1 February 2017). Andrius Byčkovas has no direct interest in the share capital of the Company. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Vytautas Bučinskas (born in 1974) – Head of Risk of the Company from 1 June 2014. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration, and Kaunas Technology University (Lithuania), Bachelor of Management of Production and Master of Marketing. Involvement in activities of other entities: AB Omnitel (Lithuania), Head of Risk (until 1 February 2017); Member of the Cyber Security Council (Lithuania); Deputy Chairman of INFOBALT (Lithuania) Cybersecurity Committee, and Deputy Chairman of European Telecommunications Network Operator's (ETNO) Association Cybersecurity Committee. Vytautas Bučinskas has no direct interest in the share capital of the Company. He 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 30 of the Company's Consolidated and Separate Financial Statements for the year ended 31 December 2016. 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 2015 paid in 2016 to key management personnel amounted to EUR 260.49 and an amount of EUR 750 of dividends for the year 2015 was paid to one member of the Board.

During 2016, 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.

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 Labor Code of the Republic of Lithuania. Employees are employed and laid off following requirements of the Labor Code.

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

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 and 2016 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 15 December 2016, 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 2016 and to assess the consolidated annual report of the Company for the year 2016. The shareholders authorized the CEO of the Company to conclude the agreement for audit services, establishing the payment for services as agreed between the parties but in any case not more than 110,000 (one hundred and ten thousand) euro (VAT excluded) for the audit of the Company's annual consolidated and separate financial statements for the year 2016 and the assessment of the consolidated annual report.

Deloitte is a globally connected network of member firms in more than 150 countries and territories providing audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. The criteria for selection of Deloitte as the Company's audit enterprise was decision of the Annual General Meeting of Telia Company AB shareholders on 12 April 2016 to elect 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 7 March 2017 submitted to the Audit Committee of the Company a letter evidencing UAB Deloitte Lietuva independence from the Company.

VI. INFORMATION ABOUT COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company essentially follows a recommendatory Corporate Governance Code for the Companies Listed on Nasdaq Vilnius stock exchange (hereinafter 'the Governance Code') adopted in August 2006, amended in December 2009 and valid from 1 January 2010. 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. Following the By-laws, the Board of the Company consists of six members who are elected for the term of two years. The Board represents the shareholders, and performs supervision and control functions. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

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

The Company prepared the disclosure of compliance with the principles and recommendation set by the Governance Code that is attached as an appendix to this Consolidated Annual Report.

Publicly announced information

The By-Laws of the Company provide that the Company's notice of convocation of the General Meeting must be given in the manner defined in the Law on Securities of the Republic of Lithuania. The periodical and current information defined in the Law on Securities of the Republic of Lithuania (including information about material events) which the Company should disclose must be announced in the manner defined in the mentioned law. Any other information and notices (other than notice of convocation of the General Meeting, and periodical and current information defined in the Law on Securities of the Republic of Lithuania) which the Company should announce publicly (including notices about reorganization of the Company and reduction of the authorized capital) must be announced in the electronic publication published by the registrar of legal entities for announcement of public notices or shall be delivered to each Shareholder or any other person who should be notified by registered mail or against signature. In cases when notices cannot be announced in such publication due to technical obstacles, such notices must be announced in the daily Lietuvos Rytas or delivered to each Shareholder or any other person who should be notified by registered mail or against signature. The Company's notices must be announced and/or sent in observance of the terms set forth in the laws of the Republic of Lithuania, By-laws of the Company and appropriate decisions of the Company's bodies. Responsibility for timely announcement or delivery of notices lies with the CEO.

In 2016, following the By-Laws of the Company and legal requirements, announcements to the shareholders about convocation of the Annual and Extraordinary General Meetings of Shareholders as well as procedure of dividend payment were announced in the daily Lietuvos Rytas. These announcements to the shareholders and the rest of the announcements about material events of the Company were submitted to Financial Services and Markets Supervision Department of the Bank of Lithuania, Nasdaq Vilnius stock exchange, the daily Lietuvos Rytas, news agencies Baltic News Service and ELTA, and were posted on the Company's webpage.

The major regulatory news, except announcements of annual and interim results, during 2016 were related to acquisition of a 100 per cent stake in Omnitel, convocation of the General Meetings of Shareholders; proposed draft decisions and decisions of the meeting; election of a new member of the Board and Audit Committee, re-election of members of Remuneration Committees, and the process of reorganisation by merging Omnitel and Baltic Data Center into the Company.

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, CEO of Telia Lietuva, AB, and Laimonas Devyžis, Head of Finance of Telia Lietuva, AB, hereby confirm that, to the best of our knowledge, the Consolidated Annual Report of Telia Lietuva, AB, for the year 2016 includes a fair review of the development and performance of the business and the position of the Company and the Group of undertakings in relation to the description of the main risks and contingencies faced thereby.

Kęstutis Šliužas
CEO



Laimonas Devyžis
Head of Finance



APPENDIX TO THE CONSOLIDATED ANNUAL REPORT

CORPORATE GOVERNANCE REPORTING FORM FOR THE YEAR ENDED 31 DECEMBER 2016

Telia Lietuva, AB (hereinafter ‘the Company’) acting in compliance with Article 21(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB Nasdaq Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on Nasdaq Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with are indicated and the reasons for such non-compliance are specified. In addition, other explanatory information indicated in this form is provided.

Summary of the Corporate Governance Reporting Form

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

More information about the corporate governance, shareholders’ rights, activities of the Board and the Committees as well as members of the Board and Management Team, internal control and risk management systems are provided in the Consolidated Annual Report for the year ended 31 December 2016.

Structured table for disclosure

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

| Principle II: The corporate governance framework The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests. | | |
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| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | No | There is no Supervisory Council in the Company but its functions in essence are performed by the Board that represents not only the majority but the minority shareholders as well, and its members are not involved in daily activities of the Company. Regular meetings of the Board when the management team of the Company reports on the Company's performance ensures effective supervision and control of the Company's activities. |
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies. | Yes | The functions set in the recommendation are fulfilled by the Board of the Company. |
| 2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer. | No | The Company in substance complies with this recommendation even though only one collegial body – the Board – exists in the Company, but the Board's competence provided in the By-Laws of the Company in essence complies with the competence of the Supervisory Council. |
| 2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. | Yes | |
| 2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. | Yes | Following the By-Laws of the Company, the Board consists of six Board members elected for a two-year term. All members of the Board are non-executive directors. |
| 2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board. | Yes | Following the By-Laws of the Company, the Board members are elected for a two-year term, not limiting the number of terms. Thus, one member of the Board has been working in the Board since April 2011 and has been re-elected two times – in April 2013 and April 2015. Another was elected in April 2013 and re-elected in April 2015. Three members were elected in April 2014 and re-elected in April 2015. One member was elected in April 2016 and substituted a resigned from the Board member of the Board that was working in the Board since April 2009. The By-Laws of the Company do not provide any possibility to recall a member of the Board. This can be done following the Laws. |
| 2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision. | Yes | The Chairman of the Board who was elected in May 2014 and re-elected in June 2015 represents the majority shareholder of the Company and neither is involved in any daily activities of the Company, nor has at any time been working in the Company. Former CEOs of the Company are neither working in the Company nor in any collegial body. |

| Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting | | |
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| The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies. | | |
| <p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p> | <p>Yes</p> | <p>While electing the collegial body, the Company's shareholders well before or during the Annual General Meeting can be acquainted with the detailed information about the nominees.</p> <p>In the Company, there exists the practice that the majority shareholder nominates independent candidates to the collegial body. As a result, the Board contains two independent members of the Board that were nominated by the majority shareholder. There are two out of six independent members of the Board. Annual compensations (tantiemes) to the members of the Board shall be approved by the Annual General Meeting of Shareholders. Before 2016, during the last 14 years the same amount of annual compensation (tantieme) (EUR 15.6 thousand) was allocated to each member of the Board. In 2016, the shareholders decided that the annual compensation of EUR 15.6 thousand per person were paid only to two independent members of the Board for the year 2015.</p> |
| <p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p> | <p>Yes</p> | <p>CVs of the candidates to the Board (including information about candidate's participation in activities of other companies) are included into the material for the Annual General Meeting (AGM) and shareholders may be acquitted with such information in advance.</p> <p>Information about employment of the Board members as well as their participation in the activities of other companies is continuously monitored and collected, and at the end of each quarter corrected and updated by contacting each member of the Board. Then information is provided in the Company's interim reports and placed on the webpage of the Company.</p> |
| <p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p> | <p>Yes</p> | <p>CVs of the Board nominees presented to the Shareholders Meeting contain information about nominees' education, employment history and other competence.</p> <p>Information about the composition of the Board is presented in the Company's interim and annual reports for each preceding year.</p> |

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| <p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p> | <p>Yes</p> | <p>There are two members of the Board having degrees in Business Administration, one has degree in Business Administration and Finance, one has degree in Business Administration, Electrical Engineering and Mathematics, one is a lawyer and one has a degree in Mathematics. Four out of six are working in the telecommunications company; one – in managerial position in banking sector and one – as CEO of brewery.</p> <p>Two members of the Audit Committee have business administration background: one works in a bank and another – as a CFO. One member of the Audit Committee is a lawyer. All members of the Remuneration Committee hold the positions of senior managers in enterprises other than the Company.</p> |
| <p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p> | <p>Yes</p> | <p>Upon election, all members of the Board were acquainted with their duties and responsibilities set by Lithuanian legislation as well as the By-laws of the Company. Members of the Board on the regular basis are informed about the Company's performance and its development, as well as major changes in the Company's activities legal framework and other circumstances having effect on the Company during the Board meetings and individually upon the need and request by the Board members.</p> |
| <p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.</p> | <p>Yes</p> | <p>In spite of the fact that the largest shareholder has a majority of votes during the Shareholders Meeting and none of other shareholders has more than 10 per cent of votes, the Company's Board consists of four members that are employees of the majority shareholder and two independent members of the Board in order to ensure proper resolution of conflicts of interest.</p> |
| <p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form.</p> | <p>Yes</p> | <p>According to the recommendations, at present there are two members of the Board who comply with the criteria for an independent member of the collegial body.</p> <p>The other four members of the Board are employees of the majority shareholder and represent the interests of the majority shareholder.</p> <p>The Board work regulations do not provide criteria for the Board members' independence, but when electing the Board, the unformalised independence criteria are taken into account.</p> |

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| <p>The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. | <p>Yes</p> | <p>According to the recommendations, at present there are two members of the Board who comply with the criteria for an independent member of the collegial body.</p> <p>The other four members of the Board are employees of the majority shareholder and represent the interests of the majority shareholder.</p> <p>The Board work regulations do not provide criteria for the Board members' independence, but when electing the Board, the unformalised independence criteria are taken into account.</p> |
| <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meeats all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p> | <p>Yes</p> | |

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| <p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p> | <p>Yes</p> | <p>When electing the current Board in April 2015 it was disclosed that two out of six nominees to the Board were regarded as independent members of the Board.</p> |
| <p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p> | <p>Yes</p> | <p>In its periodic disclosure the Company regularly discloses the Board members' relations with the Company.</p> |
| <p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.</p> | <p>Yes</p> | <p>Annual compensations (tantiemes) to the members of the Board shall be approved by the Annual General Meeting of Shareholders. Before 2016, during the last 14 years the same amount of annual compensation (tantieme) (EUR 15.6 thousand) was allocated to each member of the Board. In 2016, the shareholders decided that annual compensation of EUR 15.6 thousand per person were paid only to two independent members of the Board for the year 2015. Following the International Financial Reporting Standards, annual compensations (tantiemes) to the members of the Board are considered as operating expenses.</p> |

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.

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| <p>4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.</p> | <p>Yes</p> | <p>The Board approves and proposes for the AGM approval annual financial statements of the Company, draft of profit distribution, the Company's Consolidated Annual Report. In addition, the Board approves interim (quarterly and half-year) financial statements. During regular meetings of the Board, the management team of the Company provides information about the Company's performance.</p> |
| <p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p> | <p>Yes</p> | <p>According to the information possessed by the Company, all members of the Board are acting in a good faith in respect of the Company, in the interest of the Company but not in the interest of their own or third parties, pursuing principles of honesty and rationality, following obligations of confidentiality and property separation, thus striving to maintain their independence in decisions making.</p> |

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| <p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p> | <p>Yes</p> | <p>Each member devotes sufficient time and attention to perform his duties as a member of the collegial body. During all Board meetings in 2016 there was the quorum prescribed by legal acts. Attendees of the meetings are registered in the minutes of the meetings.</p> |
| <p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p> | <p>Yes</p> | <p>The Company's managing bodies follow the principles of communication with the shareholders set by the laws and before making material decisions, which criteria are set in the By-laws of the Company, evaluate their impact on the shareholders and provide material information about the Company's actions in periodic reports.</p> |
| <p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p> | <p>Yes</p> | <p>The managing bodies of the Company conclude and approve transactions following the requirements of legal acts and the By-Laws of the Company in the interest of the Company.</p> |
| <p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.</p> | <p>Yes</p> | <p>The collegial body is mainly dependent on the majority shareholder that operates in the same business area but in decision-making acts in the interest of the Company. The Company provides the Board and its Committees with the resources needed for fulfilment of their functions (for instance, the Board members are reimbursed for expenses of traveling to the Board meetings), and employees of the Company who are responsible for the discussed area participate in the meetings of the Board and the Committees and provide all necessary information to the Board. The Company ensures the collegial body's right to contact an independent law, accounting or other specialist in order to get required information.</p> |

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| <p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p> | <p>Yes</p> | <p>The Board institutes two Committees: Audit and Remuneration. The Nomination Committee is not instituted as its functions are performed by the Remuneration Committee. Three members of the Board comprise each committee.</p> <p>Members of the Audit Committee are two members of the Board having education in business administration (one of them is an independent member of the Board) and one member of the Board having lawyer's education.</p> <p>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.</p> <p>The Remuneration Committee shall make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders.</p> |
| <p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p> | <p>Yes</p> | <p>The annual and interim financial statements at first are discussed at the Audit Committee and then, with the conclusions of the Committee, are presented for the Board's approval. Before submitting for the Board's approval nominees to the management team of the Company and their remuneration terms, nominees at first shall be discussed and approved at the Remuneration Committee.</p> |

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| <p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p> | <p>Yes</p> | <p>All six members of the Board are involved in the activities of the Board committees. Three members of the Board constitute each committee. All members of the Audit Committee are non-executive directors and one of them is independent one. Three non-executive directors (one of them is independent) are elected to the Remuneration Committee.</p> |
| <p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p> | <p>Yes</p> | <p>Responsibilities and work regulations of the Board committees are approved by the Board. The names of the Committee members are announced in the Company's periodic reports and on the webpage of the Company. In 2016, four meetings of the Remuneration Committee were held. In July 2016, the Board re-elected members of the Remuneration Committee for another one-year term. Following the Remuneration Committee's work regulations, the secretary of the meetings must be Head of Human Resources of the Company. In 2016, four meetings of the Audit Committee were held. A new member of the Committee to substitute a resigned from the Board member of the Board and Committee was elected in June 2016. During all meetings, there was a required quorum; meetings were chaired by the Chairman of the Audit Committee. Following the Audit Committee's work regulations, the secretary of the meetings is Head of Finance of the Company.</p> |
| <p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p> | <p>Yes</p> | <p>Employees of the Company who are responsible for the discussed area participate in the Committees' meetings and provide all necessary information.</p> |
| <p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</p> | <p>No</p> | <p>In the Company, the function of the Nomination Committee is performed by the Remuneration Committee.</p> |

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| <p>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</p> <p>4) Properly consider issues related to succession planning;</p> <p>5) Review the policy of the management bodies for selection and appointment of senior management.</p> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p> | No | |
| <p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. | Yes | <p>The Remuneration Committee must make recommendations to the Board on how to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company's compensation and benefit practices, tie compensation to performance and safeguard the interests of all shareholders.</p> <p>Twice per year the Committee should present updated information to the Board about the Committee's activities, if any.</p> <p>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 Chairman of the Board in the recruitment of CEO and supports CEO in recruitment of the managers directly reporting to CEO.</p> <p>Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2016.</p> |

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| <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ol style="list-style-type: none"> 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p> | | |
| <p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to | <p>Yes</p> | <p>The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and internal orders.</p> |

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| <p>the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</p> <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p> | | |
| <p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p> | No | Information about the Board and its Committees' activities is disclosed in the Consolidated Annual Report for the year 2016 but no assessment of its activities is provided. |

| Principle V: The working procedure of the company's collegial bodies | | |
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| The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies. | | |
| <p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p> | Yes | <p>The Company's Board meetings are chaired by the Chairman of the Board. Head Legal of the Company is the Secretary of the Board and assists in organizing activities of the Board.</p> |
| <p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.</p> | Yes | <p>The meetings of the Company's Board are convoked following the schedule, preliminary agreed and approved by the Board. Not less than two meetings are convoked per quarter. It is publicly announced about the Board meetings that are approving financial statements and then, accordingly, financial statements are made publicly available.</p> |
| <p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p> | Yes | <p>Following the Board's work regulations, information about the meeting convocation, agenda and all materials related to the agenda issues should be provided to each Board member not later than seven days before the meeting. The meeting agenda should not be changed during the meeting, unless all members present at the meeting agree or absentees inform that they agree with the changed agenda.</p> |
| <p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p> | No | <p>The Company could not fulfil this recommendation as only the Board is instituted at the Company.</p> |

| Principle VI: The equitable treatment of shareholders and shareholder rights | | |
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| The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders. | | |
| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. | Yes | The share capital of the Company consists of 582,613,138 ordinary registered shares of 0.29 euro nominal value each. Each share gives one vote during the shareholders meeting. All shares of the Company are given equal rights. |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | Yes | The Company's By-Laws, stipulating all the rights of shareholders, are publicly available on the Company's webpage. |
| 6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed. | No | The shareholders approve only transactions that, following the Law on Companies and the By-Laws of the Company, should be approved by the shareholders. |
| 6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. | Yes | The shareholders' meetings of the Company are convened at the head-quarters of the Company in Vilnius. The Annual General Meetings are usually held in the second half of April. The Annual General Meeting in 2016 was convened on 26 April 2016 at 1 p.m., and the Extraordinary General Meeting of shareholders was held on 15 December 2016 at 1 p.m. |
| 6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | Yes | Notice of the General Meetings as well as draft decisions proposed by the Board to the GM and accompanied by draft documents were publicly announced and simultaneously placed on the webpage of the Company on 1 April 2016 for the Annual General Meeting and on 23 November 2016 for the Extraordinary Meeting of Shareholders. Accordingly, adopted resolutions (including information about voting for each resolution) and documents approved by the shareholders were placed on the webpage of the Company. All information and documents for investors were presented in Lithuanian and English on Nasdaq Vilnius stock exchange information systems and on the Company's webpage. |
| 6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes | Shareholders of the Company may exercise their right to vote in the General Shareholders' Meeting in person or through a representative upon issuance of proper proxy or having concluded an agreement on the transfer of their voting rights in the manner compliant with the legal regulations, also the shareholder may vote by completing the general voting ballot in the manner provided by the Law on Companies. |

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| <p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p> | <p>No</p> | <p>The Company does not comply with this recommendation as there are no means to guarantee text protection and possibilities to identify the signatures of voting persons.</p> |
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Principle VII: The avoidance of conflicts of interest and their disclosure

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.

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| <p>7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.</p> | <p>Yes</p> | <p>Members of the managing bodies are acting in a manner that avoids conflicts of interest; therefore there have not been any such cases in practice.</p> |
| <p>7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.</p> | <p>Yes</p> | |
| <p>7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.</p> | <p>Yes</p> | |
| <p>7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.</p> | <p>Yes</p> | |

Principle VIII: Company's remuneration policy

Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.

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| <p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.</p> | <p>Yes</p> | <p>The principles of the Company's remuneration policy, which was approved by the Board in April 2016, is described in the Company's Consolidated Annual Report for the year 2016. General information about the remuneration policy, employee-related expenses and the total amount of remuneration paid over the year to the key management of the Company is publicly announced in the Company's Annual Report and Consolidated Financial Statements.</p> |
| <p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p> | <p>Yes</p> | <p>Information about the total amount of remuneration paid over the year to the management of the Company is publicly announced in the Company's Consolidated Annual Report.</p> |
| <p>8.3. Remuneration statement should leastwise include the following information:</p> <ol style="list-style-type: none"> 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information. | <p>No</p> | <p>The standard agreements with the members of the Management Team of the Company are approved by the Board. These agreements are considered confidential and their content and terms are not publicly disclosed. The principles of the Company's remuneration policy is described in the Company's Consolidated Annual Reports. The Company does not have any share options system for employees' remuneration. The Company has a program "Save with Telia", which enables employee pension savings at 3rd tier pension funds. The terms are the same for all employees of the Company.</p> |
| <p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p> | <p>No</p> | <p>The Board approves the main conditions of agreements with the members of the Management Team of the Company. These agreements are considered confidential and their content and terms are not publicly disclosed. Information about compensation to the member of the Management Team in case he/she is dismissed without a due reason is provided in the Consolidated Annual Report.</p> |

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| <p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 5) All changes in the terms and conditions of existing share options occurring during the financial year. <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p> | No | <p>In the Consolidated Annual Report and Consolidated Financial Statements the Company discloses information about total employee-related expenses, remuneration of key management personnel and annual compensations (tantiemes) paid to members of the Board during the reporting period. Information about the Board and the management is provided separately. Also the Consolidated Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other pay-outs to the members of the Board or employees of the Company for being members of their managing bodies.</p> <p>The Consolidated Annual Report is publicly available on the Company's webpage. The Company does not have any share options system for employees' remuneration. The Company has a program "Save with Telia", which enables employee pension savings at 3rd tier pension funds. The terms are the same for all employees of the Company.</p> <p>The Company does not apply any schemes for directors' remuneration in shares, share options or any other rights to purchase shares or be remunerated on the basis of share price movements.</p> |
| <p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p> | Yes | <p>Remuneration of the Company's salespersons consists of non-variable and variable components, depending on sales results. For the rest of personnel there is possibility to get bonuses for the Company's yearly results following the rules set by the Company.</p> |
| <p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p> | Yes | |

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| 8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration. | Yes | |
| 8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated. | Yes | The decision on payment of annual bonuses to employees of the Company, including members of Management Team, is taken only after approval of the Audited Annual Financial Statements by the Board. |
| 8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof. | Yes | |
| 8.11. Termination payments should not be paid if the termination is due to inadequate performance. | Yes | |
| 8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting. | No | Key functions of the Company's Remuneration Committee, its formation and composition are described herein in Recommendation 4.13. The names of members of the Remuneration Committee are announced in the Company's periodic reports and on the webpage of the Company. |
| 8.13. Shares should not vest for at least three years after their award. | Not applicable | |
| 8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria. | Not applicable | |
| 8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components). | Not applicable | |
| 8.16. Remuneration of non-executive or supervisory directors should not include share options. | Yes | |
| 8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration. | Yes | |
| 8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory. | No | The Annual General Meeting of Shareholders approves only annual compensations (tantiemes) to the members of the Board. |
| 8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes. | Not applicable | |

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| <p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. | | |
| <p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p> | | |
| <p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p> | | |
| <p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p> | | |
| <p>Principle IX: The role of stakeholders in corporate governance</p> <p>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</p> | | |
| <p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p> | <p>Yes</p> | <p>The Company and trade unions that represent employees of the Company have signed a Collective Bargaining Agreement, which obligates the management of the Company to inform employees, on a regular basis, about implementation of the Collective Agreement, the Company's performance, changes in the market and etc. In 1999, following the Company's privatization program, almost 5 per cent</p> |
| <p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p> | | |

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| <p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p> | | <p>of the Company's shares were sold to its employees. The current and former employees of the Company participate in the shareholders meetings, show interest in the Company's performance and results. Every year the Company pays dividends to the shareholders. The Company has approved Sponsorship and Support Policy and, on the basis of it, builds its relations with society and local communities. The Company prepares the Report on Corporate Social Responsibility, which discusses principles and practices in relation to the Company's cooperation with investors, employees, customers and local communities.</p> |
| <p>Principle X: Information disclosure and transparency</p> <p>The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</p> | | |
| <p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p> | <p>Yes (except item 4)</p> <p>No</p> <p>No</p> <p>Yes</p> | <p>Information about the financial situation, performance and management of the Company and its subsidiaries is disclosed on a regular basis by disseminating press and stock releases, annual and interim reports of the Company, financial statements of the Group, and presentations to the investors. All above-mentioned documents are publicly available on the Company's webpage in Lithuanian and English. The Group prepares its financial statements in accordance with the International Financial Reporting Standards as adopted by the EU. In the Consolidated Annual Report and Consolidated and Separate Financial Statements, the Company discloses information about employee-related expenses, remuneration of key management personnel and annual compensations (tantiemes) paid to members of the Board during the reporting period. Information about the Board and the management is provided separately. Also, the Consolidated Annual Report provides information whether loans, guarantees or sponsorship were granted to the members of the Board or the management of the Company as well as whether subsidiaries paid salaries or other pay-outs to the members of the Board or employees of the Company for being members of their managing bodies. The Company's Consolidated Annual Report and Consolidated and Separate Financial Statements are publicly available on the Company's webpage. Information about the education, working experience, current employment, participation in activities of other companies, possession of shares of the Company by the members of the Board or the management team of the Company is publicly disclosed in periodic reports and available on the Company's webpage.</p> |

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| <p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on Nasdaq Vilnius stock exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p> | <p>Yes</p> | <p>The Company is submitting information (both in English and Lithuanian) to the information system operated by Nasdaq Vilnius stock exchange which ensures that the information is disseminated simultaneously to all markets. The Company strives to announce information before or after trading hours on Nasdaq Vilnius stock exchange and simultaneously disseminate information to all the markets where the Company's securities are traded. The Company strictly follows the principle of not disclosing information that might have an effect on the price of issued securities in comments, interviews or in any other manner until such information is announced through the stock exchange information system.</p> |
| <p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.</p> | <p>Yes</p> | <p>All information is disseminated to the shareholders, investors and stock exchanges at the same time and in the same amount, in both Lithuanian and English, and all information is publicly available on the Company's webpage, thus ensuring fair, timely and cost-efficient access to relevant information.</p> |
| <p>10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.</p> | <p>Yes</p> | <p>The Company's webpage contains the Company's annual and interim reports, presentations of the Company's performance, audited financial statements, By-Laws of the Company, stock releases and information about changes in the price of the Company's shares on Nasdaq Vilnius stock exchange in both Lithuanian and English.</p> |
| <p>Principle XI: The selection of the company's auditor</p> <p>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</p> | | |
| <p>11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.</p> | <p>Yes</p> | <p>An independent audit firm carries out an audit of the annual stand-alone financial statements of the Company and consolidated financial statements of the Company together with its subsidiaries prepared in accordance with the International Financial Reporting Standards as adopted by the EU. This independent audit firm also reviews Consolidated Annual Reports for any inconsistencies with audited financial statements.</p> |
| <p>11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.</p> | <p>Yes</p> | <p>The Board proposes the candidacy of an independent audit firm to the Annual General Meeting of Shareholders.</p> |
| <p>11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.</p> | <p>Yes</p> | <p>Information about non-audit services provided to the Company by the audit firm following the laws is annually presented to the Audit Committee together with the audit firm's confirmations of auditors' independence from the Company. This information is presented in the Consolidated Annual Report of the Company.</p> |