

TELIA LIETUVA, AB

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS' PERIOD ENDED 30 SEPTEMBER 2017
(UNAUDITED)**



Beginning of the financial year	1 January 2017
End of reporting period	30 September 2017
Name of the company	Telia Lietuva, AB (hereinafter – “Telia Lietuva” or “the Company”)
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Code of enterprise	121215434
LEI code	5299007A0LO7C2YYI075
Name of Register of Legal Entities	State Enterprise Centre of Registers
Registered office	Lvovo str. 25, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 1511
Fax number	+370 5 212 6665
Internet address	www.telia.lt
Main activities	Integrated telecommunication, IT and TV services to residential and business customers in Lithuania

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MANAGEMENT REPORT

Third quarter of 2017:

- Total revenue amounted to EUR 90.2 million, up by 3.9% over the revenue of EUR 86.8 million in Q3 2016.
- EBITDA, excluding non-recurring items, was EUR 32.8 million, an increase of 8.2% over the EBITDA, excluding non-recurring items, of EUR 30.3 in Q3 2016.

First nine months of 2017:

- Total revenue amounted to EUR 270.1 million, up by 6.6% over the revenue of EUR 253.5 million for 9 months of 2016.
- EBITDA, excluding non-recurring items, was EUR 91.2 million, an increase of 2.9% over EBITDA, excluding non-recurring items, of EUR 88.6 for 9 months of 2016.
- Free cash flow amounted to EUR 31.3 million (EUR 36.9 million a year ago).

Management comment:

The merger of mobile and fixed broadband operations into single entity and rebranding is bearing fruit: customers are offered offers that are unique in the market and that combine various technologies, and the Company records growth in term of both revenue and profitability. Our top line shows further potential, especially in data monetization and further positive market share improvement. Growing demand for high quality video content, modern TV services, has contributed to growth in fixed broadband business. And after the legal merger and successful rebranding, we can now focus on further operational and structural improvements in the cost base; this is reflected in the EBITDA improvement in Q3 2017.

In spring, we offered a unique hybrid-type Internet service that integrates xDSL connection with fast 4G mobile internet, and in the autumn, we are ready to launch a converged offer “Telia One” that gives more value – higher speed, more data and more TV channels – to those who have both fixed and mobile services. It is convenient and worth it. Customers can get fixed and mobile home offer by visiting one portal, one retail outlet, or calling one customer care number.

We also observe the changing behaviour of our customers – especially their growing appetite for mobile data abroad. It started last year when we launched the “roam like at home” offer for customers travelling in the Nordic and Baltic countries, and accelerated after 15 June 2017 when roaming charges were eliminated in the European Union. Mobile data usage abroad rocketed by 2.4 times, while total mobile data usage increased by 1.8 times over the year.

To ensure customer connectivity we continued our investments in 4G and fiber-optic network. During the first nine months of 2017, total investments amounted to EUR 42.1 million, an increase of 15 per cent over the year. More than 300 base stations were added to the largest and the fastest 4G/LTE network in the country owned by Telia Lietuva.

Despite decline in customer numbers in the Lithuanian market, we have managed to increase our customer numbers over the year:

- The number of IPTV users over the year increased by 11.1 per cent up to 204 thousand,
- The number of FTTH Internet customers grew by 7.4 per cent up to 259 thousand,
- The number of post-paid service users rose by 5.4 per cent up to 1,058 thousand.

The intake of new customers in combination with higher mobile data usage and ongoing demand for smart phones and tablets, had a positive effect on total revenue growth whereof:

- Revenue from equipment sales went up by 17.1 per cent,
- Revenue from TV services increased by 11 per cent,
- Revenue from billed mobile services was up by 7.1 per cent.

During Q3 2017, our costs were under control and in combination with revenue growth, we had the highest EBITDA, excluding non-recurrent items, margin of 36.4 per cent since the beginning of joint operations in January 2016.

Exploring possibilities close to the core business, Telia Lietuva together with other two Lithuanian operators – Tele2 and Bité – are planning to enter the instant payment market. The European Commission’s permit for the creation of a common platform for provision of instant payments was received in July 2017. The next step will be investment into a jointly owned entity that will create, operate and supervise the platform required for the provision of instant payments.

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

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

KEY FIGURES OF THE GROUP

Financial figures	January–September		Change (%)
	2017	2016 restated*	
Revenue	270,137	253,528	6.6
EBITDA excluding non-recurring items	91,196	88,645	2.9
EBITDA margin excluding non-recurring items (%)	33.8	35.0	
EBITDA	88,749	84,346	5.2
EBITDA margin (%)	32.9	33.3	
Operating profit (EBIT) excluding non-recurring items	43,224	40,994	5.4
EBIT margin excluding non-recurring items (%)	16.0	16.2	
Operating profit (EBIT)	40,777	36,694	11.1
EBIT margin (%)	15.1	14.5	
Profit before income tax	39,930	35,672	11.9
Profit before income tax margin (%)	14.8	14.1	
Profit for the period	36,584	31,257	17.9
Profit for the period margin (%)	13.5	12.3	
Earnings per share (EUR)	0.063	0.054	
Number of shares (thousand)	582,613	582,613	-
Cash flow from operations	79,433	81,572	(2.6)
Operating free cash flow	31,285	36,905	(15.2)

Operating figures	30-09-2017	30-09-2016	Change (%)
Post-paid mobile service subscriptions (thousand)	1,058	1,004	5.4
Pre-paid mobile service subscriptions (thousand)	292	328	(11.0)
Fixed telephone lines in service (thousand)	428	477	(10.2)
Broadband Internet connections (thousand)	408	402	1.4
TV services customers (thousand)	237	226	4.9
Number of personnel (head-counts)	3,017	3,099	(2.6)
Number of full-time employees	2,709	2,765	(2.0)

Financial ratios	30-09-2017	30-09-2016*
Return on capital employed (%)	11.4	10.2
Return on average assets (%)	9.4	8.7
Return on shareholders' equity (%)	16.8	15.8
Operating cash flow to sales (%)	29.9	32.2
Gearing ratio (%)	54.1	67.4
Debt to equity ratio (%)	62.1	86.1
Current ratio (%)	153.3	69.9
Rate of turnover of assets (%)	65.5	60.3
Equity to assets ratio (%)	53.1	47.0

Note: In the fourth quarter of 2016, the Company completed Omnitel purchase price allocation. As a result, the Company booked an additional depreciation and amortisation charge of EUR 5.5 million. This additional depreciation and amortisation charge was allocated into respective quarters of 2016, and consequently had an effect on reported in 2016 operating profit (EBIT), profit before income tax, income tax and profit for the periods of the first, second and third quarter of 2016. Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the third quarter and the nine months of 2016 presented in this report are restated.

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Breakdown of revenue by services	July–September		Change (%)	January–September		Change (%)
	2017	2016		2017	2016	
Fixed services	46,750	46,609	0.3	147,412	140,311	5.1
Voice telephony services	16,755	17,382	(3.6)	58,699	53,374	10.0
Internet services	14,724	14,438	2.0	43,964	42,712	2.9
Data communication and network capacity services	4,661	5,080	(8.2)	14,319	15,446	(7.3)
TV services	6,724	6,225	8.0	20,088	18,103	11.0
IT services	2,514	2,577	(2.4)	7,325	7,925	(7.8)
Other services	1,372	907	51.3	3,017	2,751	9.7
Mobile services	27,569	26,285	4.9	79,798	76,546	4.2
Billed services	22,106	20,737	6.6	65,127	60,834	7.1
Other mobile service	5,463	5,548	(1.5)	14,671	15,712	(6.6)
Equipment	15,927	13,923	14.4	42,927	36,671	17.1
Total	90,246	86,817	3.9	270,137	253,528	6.6

REVENUE

The **total consolidated revenue** of the Company in July-September of 2017 was EUR 90.2 million, an increase of 3.9 per cent over the total consolidated revenue of EUR 86.8 million in the third quarter of 2016.

The total revenue for the first nine months of 2017 increased by 6.6 per cent, over the total revenue of EUR 253.5 million a year ago, and amounted to EUR 270.1 million.

The total revenue growth was driven by higher revenue from equipment sale, television, mobile communication, networks' interconnection and fixed broadband Internet services.

Share of revenue from fixed and mobile communication services amounted to 54.6 and 29.5 per cent, respectively, from the total revenue for January-September of 2017. Share of revenue from equipment sales was 15.9 per cent.

During the first nine months of 2017, revenue from services provided to residential customers (B2C) amounted to 56.1 per cent, to business customers (B2B) – 43.1 per cent and others – 0.8 per cent of the total revenue.

During January-September of 2017, the number of post-paid **mobile** communication service users increased by 46 thousand, while the number of pre-paid service users eased by 14 thousand. Over the last twelve months, the number of post-paid service users went up by 54 thousand and the number of pre-paid service users contracted by 36 thousand. As of 30 September 2017, the total number of active mobile subscriptions amounted to 1,350 thousand (1,332 thousand a year ago).

Net increase in the number of active mobile subscriptions and the continuously growing usage of mobile data, which was 1.8 times higher than a year ago, resulted in 6.6 and 7.1 per cent higher billed revenue from mobile services for the third quarter and the first nine months of 2017, respectively.

After the elimination of roaming charges in the European Union from 15 June 2017, mobile data usage abroad rocketed: the amount of mobile data used by the Company's customers abroad during the third quarter of 2017 was 2.4 times higher than during the same quarter a year ago and exceeded the total amount of data used aboard during the nine months of 2016 by almost the fifth.

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

The amount of mobile data offered to clients in most of new packages has increased between 25 and 400 per cent. For instance, those who choose package S will get 200 MB instead of 50 MB per month, package L – 6 GB instead

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of 4 GB, package XL – 10 GB instead of 8 GB, and package XXL – 20 GB instead of 16 GB. Although the price of data packages, subject to their size, has increased from EUR 0.9 to EUR 1.95, the price for 1 GB of mobile data has fallen by up to 23 per cent.

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

Revenue from **other mobile services** include revenue from the Company's mobile network interconnections and other network services.

During the third quarter of 2017, revenue from retail fixed **voice telephony** services decreased by 12.3 per cent, while revenue from networks' interconnection services increased by 8.8 per cent, compared with the third quarter of 2016.

During January-September of 2017, the number of fixed telephone lines in service contracted by 37.6 thousand and over the last twelve months – by 48.4 thousand. Over the year, the total retail fixed voice telephony traffic decreased by 12.9 per cent. As a result, the revenue from retail voice telephony services for the first nine months of 2017 went down by 11.2 per cent, while revenue from network interconnection services went up by 40.3 per cent, fully offsetting the decline in revenue for retail voice services.

During January-September of 2017, the number of fixed **broadband Internet access** users over fiber-optic network using FTTH/B technologies increased by 12.5 thousand, while number of broadband Internet service users over the copper DSL connections eased by 8.9 thousand. The total net increase in the number of broadband Internet access users was 3.6 thousand.

Over the last twelve months, the total number of broadband Internet access users increased by 6.1 thousand. The number of FTTH/B connections increased by 17.9 thousand (or 7.4 per cent) and reached 259 thousand at the end of September 2017, while the number of copper DSL connections eased by 11.7 thousand (or 7.3 per cent) to 149 thousand. By the end of the third quarter of 2017, the number of Internet connections over the fiber-optic access network amounted to 63.5 per cent of all 408 thousand broadband Internet connections.

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

Compared with the same periods in 2016, revenue from **data communication** services alone during the third quarter and the first nine months of 2017 decreased by 6.4 and 6.8 per cent, and revenue from **network capacity** services alone declined by 10.6 and 7.9 per cent, respectively.

During January-September of 2017, the number of IPTV (including "Interneto.tv") service users increased by 12.9 thousand, while over the year it rose by 20 thousand (or 11.1 per cent) and by the end of September 2017 amounted to 204 thousand. During the last twelve months, the number of digital terrestrial television (DVB-T) users decreased by 9.3 thousand (or 21.9 per cent) and amounted to 33 thousand. The Company is encouraging its DVB-T users to migrate to the more advanced IPTV platform. Over the year, the total number of **television** service customers went up by 10.7 thousand.

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

Telia Cloud service, which was presented to business customers in March, is one of the first OpenStack-based cloud computing services in the Nordic region. It allows businesses to manage their IT resources in a flexible manner and

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pay only as much as needed at a particular time. Telia Lietuva has developed its new Telia Cloud platform together with partners such as Huawei, Intel, Mirantis and Talligent.

Revenue from **other services** consists of the non-telecommunication services such as Contact Center services, lease of premises, discount refunds and other. During January-September of 2017, revenue from Contact Center services, compared with the same period in 2016, decreased by 82.1 per cent, as the Company's subsidiary operating Contact Center ceased to provide services to external customers, except the Directory Inquiry service 118. Revenue from other non-core business services, compared with the same period a year ago, increased by 69.5 per cent.

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

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

MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue in the second quarter of 2017 increased by 5.7 per cent compared with the first quarter of 2017 or by 8.8 per cent compared with the second quarter of 2016, and amounted to EUR 175 million.

Telia Lietuva remains the largest telecommunications' service provider in Lithuania with the market share (in term of revenue) of 44 per cent for the second quarter of 2017, an increase of 2.1 percentage points compared with the first quarter of 2017 and a 1.4 percentage point increase over the last 12 months.

	The market shares in terms of customers (%)		The market shares in terms of revenue (%)	
	Q2 2017	Change (p.p.) (y-o-y)	Q2 2017	Change (p.p.) (y-o-y)
Fixed voice telephony services	87.5	(0.5)	91.7	(1.4)
Mobile voice telephony services	30.1	(0.1)	27.2	(1.8)
Internet access services (total):	46.3	(1.4)	53.0	(1.2)
- Fixed access	50.4	3.5	60.1	4.0
- Mobile access	32.1	1.4	33.0	(5.6)
Pay-TV services	32.7	1.9	39.5	2.0
Data communication services	n/a	n/a	68.1	(6.5)

According to the Reports of the CRA, on 30 June 2017, broadband Internet penetration per 100 residents of Lithuania was 39.7 per cent (42.8 per cent a year ago) and pay-TV penetration per 100 households was 56.2 per cent (55.7 per cent a year ago). The penetration of active mobile communication users per 100 residents was 149.5 per cent (145.7 per cent a year ago) and penetration of phone fixed voice telephony lines per 100 residents – 17.6 per cent (18.9 per cent a year ago).

OPERATING EXPENSES

During July-September of 2017, **cost of goods and services** increased by 7 per cent over the cost of goods and services for the same period a year ago, mainly due to higher equipment sales and higher networks' interconnection traffic. Accordingly, cost of goods and services for the first nine months of 2017 were 15.2 per cent higher than cost of goods and services for January-September of 2016.

Operating expenses (excluding cost of goods and services, and non-recurring items) for the third quarter of 2017 were 4.1 per cent lower than operating expenses in July-September 2016, and operating expenses for the first nine months of 2017 were just 0.6 per cent higher than a year ago.

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Employee-related expenses (excluding one-time redundancy pay-outs) during July-September of 2017 decreased by 3 per cent over employee-related expenses (excluding one-time redundancy pay-outs) for the third quarter of 2016. Employee-related expenses (excluding one-time redundancy pay-outs) for the first nine months of 2017 were just 1.4 per cent higher than a year ago. During January-September of 2017, the Company had a non-recurring redundancy charge that amounted to EUR 1.6 million (EUR 2.3 million a year ago).

During January-September of 2017, the total **number of employees** (headcount) decreased by 129, while over the last twelve months, the total number of employees decreased by 82 – from 3,099 to 3,017. The Company had employed an additional number of consultants at Contact Centre during the merger and rebranding process at the end of last and begging of this year.

In terms of full-time employees, the total number of employees during January-September of 2017 decreased by 110, while over the last twelve months it went down by 56 from 2,765 to 2,709.

Other expenses (excluding non-recurring expenses) for the third quarter of 2017 were 5.7 per cent lower than a year ago, and other expenses (excluding non-recurring expenses) for January-September of 2017 were 0.4 per cent lower than in 2016 despite higher marketing expenses at the beginning of 2017 related to rebranding. During the first nine months of 2017 non-recurring expenses amounted to EUR 0.8 million (EUR 2 million a year ago).

EARNINGS

EBITDA (excluding non-recurring items) for the third quarter of 2017 amounted to EUR 32.8 million and was 8.2 per cent higher than for the same period in 2016 when EBITDA (excluding non-recurring items) amounted to EUR 30.3 million. EBITDA (excluding non-recurring items) margin for the third quarter of 2017 reached 36.4 per cent, while a year ago it was 34.9 per cent.

EBITDA (excluding non-recurring items) for the first nine months of 2017 amounted to EUR 91.2 million and was 2.9 per cent higher than for the same period in 2016 when EBITDA (excluding non-recurring items) amounted to EUR 88.6 million. EBITDA (excluding non-recurring items) margin for January-September of 2017 stood at 33.8 per cent, while a year ago it amounted to 35 per cent.

EBITDA (including non-recurring items) in July-September of 2017 was EUR 32.5 million, an increase by 13 per cent over EBITDA (including non-recurring items) of EUR 28.7 million a year ago. EBITDA (including non-recurring items) margin in July-September of 2017 was 36 per cent (33.1 per cent a year ago).

EBITDA (including non-recurring items) for the first nine months of 2017 was EUR 88.7 million, an increase by 5.2 per cent over EBITDA (including non-recurring items) of EUR 84.3 million for the same period in 2016. EBITDA (including non-recurring items) margin in January-September of 2017 amounted to 32.9 per cent (33.3 per cent a year ago).

In the fourth quarter of 2016, the Company completed Omnitel purchase price allocation. As a result, the Company booked an additional depreciation and amortisation charge of EUR 5.5 million. This additional depreciation and amortisation charge was allocated into respective quarters of 2016 and had a negative effect on profitability reported in 2016. Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the third quarter and the first nine months of 2016 were restated.

Depreciation, amortisation and impairment charges for the third quarter of 2017 over the restated depreciation, amortisation and impairment charges a year ago decreased by 5.4 per cent, and in July-September of 2017 amounted to 18.2 per cent of the total revenue (20.1 per cent a year ago).

Depreciation, amortisation and impairment charges for the first nine months of 2017 over the restated depreciation, amortisation and impairment charges a year ago increased by just 0.7 per cent, and for January-September of 2017 amounted to 17.8 per cent of the total revenue (18.8 per cent a year ago).

Operating profit (EBIT) (excluding non-recurring items) for the third quarter of 2017 was 26.7 per cent higher than restated operating profit (EBIT) (excluding non-recurring items) for the same period in 2016, and the operating profit (excluding non-recurring items) margin amounted to 18.1 per cent (restated margin of 14.9 per cent in 2016).

Operating profit (EBIT) (excluding non-recurring items) for January-September of 2017 was 5.4 per cent higher than restated operating profit (EBIT) (excluding non-recurring items) for the same period in 2016, and the operating profit (excluding non-recurring items) margin was 16 per cent (restated margin of 16.2 per cent a year ago).

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Operating profit (EBIT) (including non-recurring items) for the third quarter of 2017 increased by 41.3 per cent over the restated operating profit (EBIT) (including non-recurring items) for the third quarter of 2016. Operating profit (including non-recurring items) margin stood at 17.8 per cent (restated margin of 13.1 per cent in 2016).

Operating profit (EBIT) (including non-recurring items) for the first nine months of 2017 increased by 11.1 per cent over the restated operating profit (EBIT) (including non-recurring items) for the first nine months of 2016. Operating profit (including non-recurring items) margin was 15.1 per cent (restated margin of 14.5 per cent a year ago).

Net financial income in January-September of 2017 was negative and amounted to EUR 847 thousand (net financial income a year ago was also negative and amounted to EUR 1,022 thousand).

Profit before income tax for the third quarter of 2017 went up by 41.8 per cent and amounted to EUR 15.6 million (restated profit before income tax for the same period a year ago was EUR 11 million), and profit before income tax for the first nine months of 2017 was up by 11.9 per cent and amounted to EUR 39.9 million (restated profit before income tax for the same period in 2016 was EUR 35.7 million).

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for January-September of 2017 amounted to EUR 3.5 million (EUR 2.4 million in 2016). **Income tax expenses** for the first nine months of 2017 were 24.2 per cent lower than restated income tax expenses a year ago.

Profit for the period in July-September of 2017 amounted to EUR 14.4 million, an increase by 47.1 per cent over the restated profit of EUR 9.8 million for the same period in 2016. The profit margin stood at 16 per cent while restated profit margin a year ago was 11.3 per cent.

Profit for the period for the first nine months of 2017 amounted to EUR 36.6 million, an increase by 17 per cent over the restated profit of EUR 31.3 million a year ago. The profit margin was 13.5 per cent while restated profit margin a year ago amounted to 12.3 per cent.

FINANCIAL POSITION AND CASH FLOW

During January-September of 2017, **total assets** decreased by 7.7 per cent mainly due to repayment of the loans.

Total **non-current assets** eased by 2.3 per cent and amounted to 76.8 per cent of total assets. Total **current assets** decreased by 22 per cent due to decrease in cash and amounted to 23.2 per cent of total assets, whereof cash alone represented 4.3 per cent of total assets.

During the first nine months of 2017, **shareholders' equity** increased by 7.1 per cent and amounted to 53.1 per cent of total assets.

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

During January-September of 2017, the Company repaid in total EUR 45 million from the long-term loan of EUR 150 million that was taken in 2016 to finance acquisition of Omnitel.

In May 2017, the Company signed a syndicated EUR 60 million loan with three banks – AB SEB Bank (Lithuania), Danske Bank A/S (Denmark) and Nordea Bank AB (Sweden). Proceeds from the loan were used to refinance the loan extended to Omnitel a few years ago for the development of 4G network by Telia Company, a shareholder of the Company. The tenor of the loan is 5 years.

At the end of September 2017, the total amount of the Company's **borrowings** amounted to EUR 179.8 million (EUR 227 million as of 31 December 2016), whereof EUR 165 million were loans from banks, EUR 13 million – short term loans from Telia Company, a shareholder of the Company, and EUR 1.8 million – obligation under financial lease agreements.

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As of 30 September 2017, the net debt amounted to EUR 156.5 million (EUR 170.4 million as of 31 December 2016) and net debt to equity (Gearing) ratio was 54.1 per cent (63 per cent at the end of 2016).

Net **cash flow from operating activities** in the first nine months of 2017 was 2.6 per cent lower than the restated cash flow for the same period in 2016. **Operating free cash flow** (operating cash flow excluding capital investments) in January-September 2017 was 15.2 per cent lower than a year ago and amounted to EUR 31.3 million.

During January-September of 2017, the total **capital investments** amounted to EUR 42.1 million and were 15 per cent higher than capital investments of EUR 36.6 million a year ago. Most of capital investments (EUR 15.5 million) went to the expansion of the core fixed network and development of the next-generation fiber-optic access network. An amount of EUR 10.2 million was invested into the development of mobile network, EUR 13 million – into development of IT systems and EUR 3.4 million were other investments.

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

During January-September of 2017, the Company installed and launched 341 new LTE 4G base stations and now has 1,869 4G base stations across Lithuania. According to the latest data of the Communications Regulatory Authority (CRA), 4G mobile telecommunications service of the Company is available in 99 per cent of populated areas in Lithuania and is the fastest in the country: the current average 4G speed in the Telia Lietuva network exceeds 40 Mbps.

By the end of September 2017, the Company had 881 thousand households passed (865 thousand a year ago), or 72 per cent of the country's households, by the fiber-optic network. Juodkrantė, a resort in Neringa peninsula, is the first settlement in Lithuania where all fixed Internet connections are connected to fiber-optic network.

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

Cash and cash equivalents during the first nine months of 2017 decreased by EUR 33.4 million.

SHARE CAPITAL AND SHAREHOLDERS

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.

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

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

Information about trading in Telia Lietuva shares on Nasdaq Vilnius stock exchange in January-September of 2017:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	0.933	0.979	0.888	0.928	0.934	5,329,367	4,979,422

The Company's **market capitalisation** as on 30 September 2017 was EUR 540.7 million while a year ago it amounted to EUR 538.9 million.

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

The number of **shareholders** on the shareholders' registration day (20 April 2017) for the Annual General Meeting of Shareholders, which was held on 27 April 2017, was 11,344.

Shareholders, holding more than 5 per cent of the share capital and votes, as on 30 September 2017:

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

OTHER MATERIAL INFORMATION

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 changed 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 the six-storey 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 the Lithuanian Radio and Television Center (Telecentras) settled the disputes that started in mid-2013 regarding the tariffs for the storage of digital terrestrial television (DVB-T) transmitters. According to the Company and Telecentras' peace agreement, which was confirmed by the Court, the Company 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.

On 27 April 2017, the Annual General Meeting decided to approve the audited annual consolidated and separate financial statements of the Company for the year 2016. The consolidated annual report of the Company for the year 2016, prepared by the Company, assessed by the auditors and approved by the Board, was presented to the shareholders. The shareholders decided to allocate EUR 17,478 thousand from the Company's distributable profit of EUR 68,057 thousand for the payment of dividends for the year 2016, i.e. EUR 0.03 dividend per share, and carry forward to the next financial year an amount of EUR 50,578 thousand as retained earnings (undistributed profit).

UAB Deloitte Lietuva was elected by the shareholders as the Company's audit enterprise to perform the audit of the annual consolidated and separate financial statements of the Company for the year 2017 and to assess the consolidated annual report of the Company for the year 2017.

In June 2017, the Company announced that during 2017 Telia Lietuva will put premises and buildings, a total of 52 properties throughout Lithuania, on the market for public auction. The total area of premises on sale is around 22,000 square metres, while the initial value of the portfolio of assets on sale amounted to EUR 11 million. During the auction rounds, the buyers will be able to purchase assets not only in the largest cities of Lithuania, such as office or customer care premises, but also in remote locations, where analogue telephony stations used to operate.

During the first two auction held in August and September 18 real estate objects were sold for the total value of EUR 6.26 million. Among the others the administrative buildings of a total of 5 thousand sq. meters' space located in Vilnius at T. Ševčenkos str. 25 and Muitinės str. 35 were sold for EUR 4.34 million, part of administrative building in Klaipėda (Danės str.) – for EUR 600 thousand, administrative premises in Klaipėda (H. Manto str.) – for EUR 261 thousand, and administrative premises in Kaunas (Laisvės ave.) – for EUR 900 thousand.

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

In July 2017, the largest Lithuanian mobile operators – Bite, Tele2 and Telia Lietuva – received the European Commission's permit to create a common platform for the provision of instant payments. The company Mobilūs Mokėjimai (Mobile payments), an entity jointly owned by the three operators, will create a platform required for the provision of instant payments. It will also be the main operator and supervisor of this platform. In May 2017, UAB Mobilūs Mokėjimai was granted a limited activities electronic money institution licence by the Bank of Lithuania. The licence is required for the provision of instant payment activities. Instant payment for the users of mobile communication will allow to use the mobile phone in a variety of settings for settlements for goods and services as well as instantaneously make a money transfers at any time of a day – even during public holidays and weekends. As of 30 September 2017, Telia Lietuva had not acquired shares of UAB Mobilūs Mokėjimai yet.

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

MEMBERS OF THE MANAGING BODIES

According to the By-laws of Telia Lietuva, the managing bodies of the Company are General Meeting, Board and General Manager. The Company does not have a Supervisory Council.

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

The Annual General Meeting, held on 27 April 2017, elected Henriette Wendt, Stefan Block, Claes Nycander, Ole Stenkil, Inga Skisaker and Rolandas Viršilas (the last two as independent member of the Board) to the Board of Telia Lietuva for the two-years term. The shareholders also decided to allocate for two independent members to the Board – Inga Skisaker and Rolandas Viršilas – the total amount of EUR 31,280, or EUR 15,640 each, as a tantiemes (annual payment) for the year 2016.

The Board elected Henriette Wendt as the Chairwoman of the Company's Board for the current term of the Board, i.e. till 27 April 2019. In June 2017, the Board appointed the following members of the Board: Stefan Block, Ole Stenkil and Inga Skisaker (independent member of the Board) as the members of the Audit Committee for the term of two years (but in any case, not longer than until the term of their membership in the Board). Stefan Block was elected as the Chairman of the Audit Committee. Also, the Board elected the following members of the Board: Henriette Wendt, Claes Nycander and Rolandas Viršilas (independent member of the Board) as the members of the Remuneration Committee for the term of one year (until 8 June 2018). Henriette Wendt was elected as the Chairwoman of the Remuneration Committee.

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

Members of the Board as of 30 September 2017:

Name, surname	Position in the Board	Employment	Ownership of the Company's shares
Henriette Wendt	Chairwoman of the Board, Chairwoman of the Remuneration Committee	Telia Company AB (Sweden), Head of LED (Lithuania, Estonia, Denmark) cluster	-
Stefan Block	Member of the Board, Chairman of the Audit Committee	Telia Company AB (Sweden), Group Procurement, Deputy CPO	-
Claes Nycander	Member of the Board, member of the Remuneration Committee	Telia Company AB (Sweden), Vice President and Head of Special Projects & LED (Lithuania, Estonia, Denmark) Management at Group Service Operations	-
Ole Stenkil	Member of the Board, member of the Audit Committee	Telia Company AB (Sweden), Head of Legal for LED (Lithuania, Estonia and Denmark) cluster, and Vice President and General Counsel for Telia Danmark (Denmark)	-
Inga Skisaker	Member of the Board, member of the Audit Committee	Nordea Bank AB Lithuania Branch (Sweden), General Manager and Head of Banking Baltic Countries till 30 September 2017	-
Rolandas Viršilas	Member of the Board, member of the Remuneration Committee	UAB Švyturys-Utenos Alus (Lithuania), CEO; Carlsberg Baltic countries, CEO	75,000 shares or 0.0129% of the total number of shares and votes

Following the provisions of The Governance Code for the Companies Listed on Nasdaq Vilnius stock exchange, all members of the Board are regarded as non-executive members of the Board, and Inga Skisaker and Rolandas Viršilas are regarded as independent members of the Board. Information about other Board assignments of the members of the Company's Board is provided at the Company's webpage www.telia.lt.

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

Management Team as of 30 September 2017:

Name, surname	Position in the Company	Involvement into activities of other entities	Ownership of the Company's shares
Kęstutis Šliužas	CEO	Telia Company AB (Sweden), LED (Lithuania, Estonia, Denmark) cluster, member of the management team; Kaunas Technology University (Lithuania), member of the Business Council; Vilnius Tech Park (Lithuania), member of the Council; Investors' Forum (Lithuania), member of the Board; Association INFOBALT (Lithuania), member of the Board; Baltic Institute of Corporate Governance, member of the Board	-
Mindaugas Ubartas	Head of Business to Business (B2B)	-	-
Norbertas Žioba	Head of Business to Consumer (B2C)	UAB BIOK Laboratorija (Lithuania), an independent member of the Board	3,601 shares or 0.0006% of the total number of shares and votes
Andrius Šemeškevičius	Head of Technology	-	8,761 shares or 0.0015% of the total number of shares and votes
Laimonas Devyžis	Head of Finance	UAB LD Corporate Consulting (Lithuania), 100 per cent owner & Director	-
Ramūnas Bagdonas	Head of Human Resources	Telia Company AB (Sweden), LED (Lithuania, Estonia, Denmark) cluster, member of the management team responsible for Human Resources; Association of Personnel Management Professionals (Lithuania), Member of the Board	-
Giedrė Kaminskaitė-Salters	General Counsel and Head of Public Affairs	UAB Litexpo (Lithuania), Chairwoman of the Board; Association Lyderė (Lithuania), member of the Board	-
Mantas Goštautas	Head of Business Development	-	-
Andrius Byčkovas	Head of Competitive Customer Operations	-	-
Vytautas Bučinskas	Head of Risk	Member of the Cyber Security Council (Lithuania); Association INFOBALT (Lithuania), Deputy Chairman of Cybersecurity Committee; European Telecommunications Network Operator's (ETNO) Association, Deputy Chairman of Cybersecurity Committee	-

In August 2017, the Company announced that it plans to concentrate corporate communication, brand and marketing competences into a new single unit. Thus, Audronė Mažeikaitė, Head of Corporate Affairs, left the Company as of 18 August 2017. The structure and the Head of a newly created unit will be announced in autumn. Until then Vija Valentukonytė, Head of Internal Communication, will be acting Head of Corporate Affairs. The responsibility for Public Affairs of the Company was moved to Giedrė Kaminskaitė-Salters, Head of Legal (General Counsel).

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	July–September		January–September	
		2017	2016 restated*	2017	2016 restated*
Revenue		90,246	86,817	270,137	253,528
Cost of goods and services		(34,350)	(32,116)	(105,144)	(91,235)
Employee-related expenses		(13,564)	(14,178)	(44,005)	(44,107)
Other expenses		(10,089)	(11,728)	(32,582)	(33,874)
Other gain/ (loss) – net		244	(48)	343	34
Depreciation, amortisation and impairment of fixed assets	2	(16,466)	(17,409)	(47,972)	(47,652)
Operating profit		16,021	11,338	40,777	36,694
Finance income		379	273	1,040	739
Finance costs		(810)	(619)	(1,887)	(1,761)
Finance income/ costs – net		(431)	(346)	(847)	(1,022)
Profit before income tax		15,590	10,922	39,930	35,672
Income tax	6	(1,186)	(1,198)	(3,346)	(4,418)
Profit for the period		14,404	9,794	36,584	31,254
Other comprehensive income:					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		14,404	9,794	36,584	31,254
Profit and comprehensive income attributable to:					
Owners of the Parent		14,404	9,794	36,584	31,254
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in euro per share)	7	0.025	0.017	0.063	0.054

Note: In the fourth quarter of 2016, the Company completed Omnitel purchase price allocation. As a result, the Company booked an additional depreciation and amortisation charge of EUR 5.5 million. This additional depreciation and amortisation charge was allocated into respective quarters of 2016, and consequently had an effect on reported in 2016 operating profit (EBIT), profit before income tax, income tax and profit for the periods of the first, second and third quarter of 2016. Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the third quarter and the nine months of 2016 presented in this report are restated.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	2	290,559	291,818
Intangible assets	2	119,762	124,512
Investment property		1,277	1,277
Trade and other receivables		6,898	10,944
		418,496	428,551
Current assets			
Inventories		9,222	10,135
Trade and other receivables		93,892	94,661
Current income tax receivable		183	722
Cash and cash equivalents		23,256	56,650
		126,553	162,168
Total assets		545,049	590,719
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	4	168,958	168,958
Legal reserve		16,896	16,896
Retained earnings		103,577	84,472
Total equity		289,431	270,326
LIABILITIES			
Non-current liabilities			
Borrowings		136,427	97,500
Deferred tax liabilities		20,194	20,284
Deferred revenue and accrued liabilities		9,839	9,897
Provisions	5	6,621	6,627
		173,081	134,308
Current liabilities			
Trade, other payables and accrued liabilities		37,277	55,114
Current income tax liabilities		1,888	1,068
Borrowings		43,372	129,500
Provisions	5	-	403
		82,537	186,085
Total liabilities		255,618	320,393
Total equity and liabilities		545,049	590,719

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2016	168,958	16,896	48,804	234,658
Net profit	-	-	31,254	31,254
Total comprehensive income for the period	-	-	31,254	31,254
Dividends paid for 2015			(5,826)	(5,826)
Balance at 30 September 2016*	168,958	16,896	74,232	260,086
Balance at 1 January 2017	168,958	16,896	84,472	270,326
Net profit	-	-	36,584	36,584
Total comprehensive income for the period	-	-	36,584	36,584
Dividends paid for 2016			(17,479)	(17,479)
Balance at 30 September 2017	168,958	16,896	103,577	289,431

Note: In the fourth quarter of 2016, the Company completed Omnitel purchase price allocation. As a result, the Company booked an additional depreciation and amortisation charge of EUR 5.5 million. This additional depreciation and amortisation charge was allocated into respective quarters of 2016, and consequently had an effect on reported in 2016 operating profit (EBIT), profit before income tax, income tax and profit for the periods of the first, second and third quarter of 2016. Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the third quarter and the nine months of 2016 presented in this report are restated.

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January–September	
	2017	2016 restated*
Operating activities		
Profit for the period	36,584	31,254
Income tax	3,346	4,418
Depreciation, amortisation and impairment of fixed assets	47,972	47,651
Other gains and losses	(343)	(34)
Interest income	(726)	(96)
Interest expenses	1,482	1,195
Other non-cash transactions	530	(247)
Changes in working capital:		
Inventories	913	(1,465)
Trade and other receivables	4,816	4,450
Trade, other payables and accrued liabilities	(12,440)	(1,883)
Cash generated from operations	82,134	85,244
Interest paid	(1,350)	(506)
Interest received	726	96
Tax paid	(2,077)	(3,262)
Net cash from operating activities	79,433	81,572
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(48,148)	(44,745)
Proceeds from disposal of PPE and intangible assets	-	78
Acquisition of subsidiaries	-	(129,618)
Net cash used in investing activities	(48,148)	(174,285)
Financing activities		
Repayment of borrowings	(129,000)	(15,061)
Borrowings	81,799	150,000
Dividends paid to shareholders of the Company	(17,478)	(5,826)
Net cash used in financing activities	(64,679)	129,113
Increase (decrease) in cash and cash equivalents	(33,394)	36,400
Movement in cash and cash equivalents		
At the beginning of the year	56,650	12,898
Increase (decrease) in cash and cash equivalents	(33,394)	36,400
At the end of the period	23,256	49,298

Note: In the fourth quarter of 2016, the Company completed Omnitel purchase price allocation. As a result, the Company booked an additional depreciation and amortisation charge of EUR 5.5 million. This additional depreciation and amortisation charge was allocated into respective quarters of 2016, and consequently had an effect on reported in 2016 operating profit (EBIT), profit before income tax, income tax and profit for the periods of the first, second and third quarter of 2016. Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the third quarter and the nine months of 2016 presented in this report are restated.

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The consolidated interim financial statements for the nine months' period ending 30 September 2017 are prepared in accordance with the International Financial Accounting Standards, as adopted by the European Union, includes IAS 34. In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2016.

The presentation currency is euro. The financial statements are presented in thousands of euro, unless indicated otherwise. The financial statements are prepared under the historical cost convention.

Financial statements for the period ended 30 September 2017 are not audited. Financial statements for the year ended 31 December 2016 are audited by the external auditor UAB Deloitte Lietuva.

The application of the IFRS 15 standard from 1 January 2018 and its impact on the Company's results are valued by the Group and the Company. In principle, most of the requirements of IFRS 15 standard are already applied in the accounting of the Company. Therefore, no additional disclosures before application of IFRS 15 standard from 1 January 2018 are presented in the interim financial statements for the year 2017.

2 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
Nine months ended 30 September 2016*		
Opening net book amount as at 31 December 2015	214,882	12,370
Additions	32,611	19,222
Acquisition of subsidiaries	75,771	104,567
Disposals and retirements	(506)	-
Reclassification	(9)	-
Depreciation and amortisation charge	(36,679)	(8,778)
Closing net book amount as at 30 September 2016*	286,070	127,381
Nine months ended 30 September 2017		
Opening net book amount as at 31 December 2016	291,818	124,512
Additions	37,460	4,690
Acquisition of subsidiaries	-	-
Disposals and retirements	(161)	-
Reclassification	(26)	-
Depreciation and amortisation charge	(38,532)	(9,440)
Closing net book amount as at 30 September 2017	290,559	119,762

Note: In the fourth quarter of 2016, the Company completed Omnitel purchase price allocation. As a result, the Company booked an additional depreciation and amortisation charge of EUR 5.5 million. This additional depreciation and amortisation charge was allocated into respective quarters of 2016, and consequently had an effect on reported in 2016 operating profit (EBIT), profit before income tax, income tax and profit for the periods of the first, second and third quarter of 2016. Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the third quarter and the nine months of 2016 presented in this report are restated.

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

3 Investments in subsidiaries and associates

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

Name	Country of incorporation	Ownership interest in %		Profile
		30 September 2017	31 December 2016	
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%	The subsidiary, a provider of information technology infrastructure services, on 1 February 2017 was merged into the Company.
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 from UAB Lintel to Telia Customer Service LT, UAB.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary is implementing investment project.
UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary of the Company.
VšĮ Numerio Perkėlimas	Lithuania	50%	50%	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.

4 Share capital

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

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

5 Provisions

Provisions movement during January-September 2017:

	Provision for restructuring	Assets retirement obligation	Total
Opening net book amount at 31 December 2016	403	6,627	7,030
Acquisition of subsidiaries	-	-	-
Additions	1,582	-	1,582
Used provisions	(1,985)	(6)	(1,991)
Closing net book amount at 30 September 2017	0	6,621	6,621

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

The Company 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 Company 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 Company 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.

6 Income tax

The tax expenses for the period comprise current and deferred tax.

Profit for 2017 is taxable at a rate of 15 per cent in accordance with Lithuanian regulatory legislation on taxation (2016: 15 per cent).

According to amendments to the Law on Corporate Profit Tax which provides tax relief for investments in new technologies, the Company's calculated profit tax relief in 2017 amounted to EUR 3.5 million (2016: EUR 2.4 million).

7 Earnings per share

Basic earnings per share are calculated by dividing the net profit (loss) for the period by the weighted average number of ordinary shares in issue during the period. The Group 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 the both reporting periods amounted to 582,613 thousand.

	January–September	
	2017	2016 restated
Net profit	36,584	31,254
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613
Earnings per share (euro)	0.063	0.054

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

8 Dividends per share

A dividend that relates to the period to 31 December 2016 was approved the Annual General Meeting of Shareholders on 27 April 2017. The total amount of allocated dividend, that was paid off in May 2017 was EUR 17,478 thousand or EUR 0.03 per ordinary share.

9 Business combination

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

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.

Goodwill arising on acquisition*

Purchase consideration	148,407
Purchase consideration adjustment per agreement clause**	<u>(4,300)</u>
Purchase consideration	144,107
Fair value of net assets acquired	<u>(117,564)</u>
Goodwill	26,543

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*

	Acquirer's carrying amount	Fair value
Cash and cash equivalents	14,489	14,489
Property, plant and equipment	71,564	78,737
Intangible assets	16,453	73,623
Inventories	4,473	4,473
Trade and other receivables	59,331	59,331
Trade and other payables	(25,209)	(25,209)
Deferred tax liability	(1,228)	(10,880)
Borrowings	<u>(77,000)</u>	<u>(77,000)</u>
Net assets acquired	62,873	117,564

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>

* till 1 February 2017

** Purchase consideration adjustment settled in cash was received from Telia Company AB on 5 April 2016 and was disclosed as adjustment of cash outflow on acquisition in later reporting periods.

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

10 Related party transactions

The Group is controlled by Telia Company AB, which as of 30 September 2017 owned 88.15 per cent (88.15 per cent a year ago) of the Company's shares. The following transactions were carried out with related parties:

Sales and purchases from Telia Company AB and its subsidiaries:

	January–September	
	2017	2016
Sales of telecommunication and other services	3,988	4,967
Total sales of telecommunication and other services	3,988	4,967
Purchases of services	9,210	6,315
Purchase of shares (Note 9)	-	144,107
Purchases of assets	253	
Total purchases of services and assets:	9,463	150,422

Balances arising from sales/purchase of assets/services and other transaction to/from Telia Company AB and its subsidiaries:

	As at 30 September	
	2017	2016
Long-term receivables from related parties	251	279
Receivables from related parties	1,186	1,391
Receivables from related party due to purchase consideration adjustment (Note 9)	-	-
Accrued revenue from related parties	342	708
Total receivables and accrued revenue from related parties	1,779	2,378
Short-term borrowings from related parties	13,000	77,000
Payables to related parties	1,653	912
Accrued expenses to related parties	11	395
Total borrowings, payables and accrued expenses to related parties	14,664	78,307

As of 30 September 2017, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010, was not paid to one member of the Board.

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

MANAGEMENT CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 not audited Telia Lietuva, AB Interim Consolidated Financial Statements for the nine months period ended 30 September 2017, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, profit and cash flows of Telia Lietuva, AB and the Group of undertakings.

Kęstutis Šliužas
CEO

Laimonas Devyžis
Head of Finance

Vilnius, 18 October 2017