

TELIA LIETUVA, AB

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS' PERIOD ENDED 31 DECEMBER 2017
(UNAUDITED)**



Beginning of the financial year	1 January 2017
End of reporting period	31 December 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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(All tabular amounts are in EUR '000 unless otherwise stated)

MANAGEMENT REPORT

Fourth quarter of 2017:

- Total revenue amounted to EUR 100 million, up by 8.2% over the revenue of EUR 92.4 million in Q4 2016.
- EBITDA, excluding non-recurring items, was EUR 34.1 million, an increase of 20% over the EBITDA, excluding non-recurring items, of EUR 28.4 in Q4 2016.

Twelve months of 2017:

- Total revenue amounted to EUR 370.1 million, up by 7% over the revenue of EUR 345.9 million for 2016.
- EBITDA, excluding non-recurring items, was EUR 125.3 million, an increase of 7% over EBITDA, excluding non-recurring items, of EUR 117 million for 12 months of 2016.
- Free cash flow amounted to EUR 54.3 million, an increase by 22.8% over EUR 44.3 million a year ago.

Management comment:

We started the year by merging the mobile and fixed broadband operations into a single entity and successful rebranding, continued with offers that are unique in the market and that combine various technologies, such as hybrid-type Internet. And now Telia Lietuva has finished the year with exceptional fourth quarter in terms of record revenue and profitability growth.

Successful legal merger as prerequisite for ongoing operational and structural improvements, retrieval of synergies and cost efficiency, combined with the market recovery, growing appetite for mobile data, high quality TV and video content as well as a boom in smart devices and gadgets, have resulted in both revenue and EBITDA for the last quarter of 2017 being the highest over the last eight quarters since the beginning of joint operations in January 2016.

The end of 2017 was marked with the launch of unique in the market converged offer "Telia One". It gives more value – higher speed, more data and more TV content – to those who have both fixed and mobile services. It is convenient because customers can get fixed and mobile home offers by visiting one portal, one retail outlet, or calling one customer care number.

Successful launch of "Telia One" in October boosted the intake of new customers during the fourth quarter of 2017:

- The number of IPTV users increased by 6.5 thousand up to 211 thousand,
- The number of FTTH Internet customers grew by 5.1 thousand up to 264 thousand,
- The number of post-paid mobile service users rose by 17 thousand up to 1,075 thousand.

Growing number of customers, accelerating usage of mobile data and strong sale of smart phones, gadgets and other equipment led to the total annual revenue growth of 7 per cent, whereof:

- Revenue from equipment sales went up by 17.5 per cent,
- Revenue from TV services increased by 10.4 per cent,
- Revenue from billed mobile services was up by 8.2 per cent.

The highest quality level of services provided and standards used in the Company was confirmed by Quality Management (ISO 9001), Environmental Management (ISO 14001) and Occupational Health & Safety (OHSAS 18001) certificates obtain in October in addition to the IT Management (ISO 20000) and Information Security Management (ISO 27001) certificates we'd already held.

Quality of services could not be ensured without ongoing investments into fiber-optic and 4G networks, supporting IT systems and processes. During the twelve months of 2017, total investments amounted to EUR 63.8 million, an increase of 10.6 per cent over the year. 464 new base stations were added to the largest and fastest 4G/LTE network in the country owned by Telia Lietuva. Also, our customers are the first in Lithuania to use VoLTE technology since October.

We strive to be a leader not only in technologies, but in our approach to doing business. In November, during the National Responsible Business Awards Telia Lietuva was recognised as the Environmental Company of the Year among the international corporations, and was ranked 2nd among the most transparent, open and ethical largest companies in Lithuania according to Transparency International rating. In June, it also won the Best Employer award of Verslo Žinios, the leading business daily.

In December, Telia Lietuva jointly with other two Lithuanian operators – Tele2 and Bitė – in equal parts invested into UAB Mobilieji Mokėjimai, an entity that will create, operate and supervise the platform for the provision of instant payments. Entering into the instant payment market is in line with our strategy to explore possibilities close to the core business.

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

KEY FIGURES OF THE GROUP

Financial figures	January–December		Change (%)
	2017	2016 audited*	
Revenue	370,123	345,906	7.0
EBITDA excluding non-recurring items	125,284	117,041	7.0
EBITDA margin excluding non-recurring items (%)	33.8	33.8	
EBITDA	122,268	111,380	9.8
EBITDA margin (%)	33.0	32.2	
Operating profit (EBIT) excluding non-recurring items	61,642	53,808	14.6
EBIT margin excluding non-recurring items (%)	16.7	15.6	
Operating profit (EBIT)	58,625	48,147	21.8
EBIT margin (%)	15.8	13.9	
Profit before income tax	58,120	47,077	23.5
Profit before income tax margin (%)	15.7	13.6	
Profit for the period	54,669	41,494	31.8
Profit for the period margin (%)	14.8	12.0	
Earnings per share (EUR)	0.094	0.071	
Number of shares (thousand)	582,613	582,613	-
Cash flow from operations	117,487	112,429	4.5
Operating free cash flow	54,353	44,257	22.8

Operating figures	31-12-2017	31-12-2016	Change (%)
Mobile service subscriptions, in total (thousand)	1,352	1,318	2.6
- Post-paid (thousand)	1,075	1,012	6.2
- Pre-paid (thousand)	277	306	(9.5)
Fixed telephone lines in service (thousand)	416	466	(10.7)
Broadband Internet connections (thousand)	412	404	2.0
TV service customers, in total (thousand)	242	229	5.7
- IPTV (thousand)	211	191	10.5
- Digital terrestrial TV (DVB-T) (thousand)	31	38	(18.4)
Number of personnel (head-counts)	3,027	3,146	(3.8)
Number of full-time employees	2,733	2,819	(3.1)

Financial ratios	31-12-2017	31-12-2016*
Return on capital employed (%)	13.0	10.2
Return on average assets (%)	10.7	8.6
Return on shareholders' equity (%)	19.0	16.1
Operating cash flow to sales (%)	31.7	32.5
Gearing ratio (%)	44.9	63.0
Debt to equity ratio (%)	52.5	84.0
Current ratio (%)	151.0	87.1
Rate of turnover of assets (%)	67.6	61.7
Equity to assets ratio (%)	54.2	45.8

Note: Audited financial statements for the full year of 2016 slightly differs from unaudited interim financial statements for the twelve months of 2016 announced on 27 January 2017 due to additional amortisation and depreciation charges, therefore data of Consolidated Statement of Comprehensive Income for the fourth quarter of 2016 presented in this report is restated, while data of Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the twelve months of 2016 is audited.

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Breakdown of revenue by services	October–December		Change (%)	January–December		Change (%)
	2017	2016		2017	2016	
Fixed services	49,042	47,669	2.9	196,645	187,981	4.6
Voice telephony services	18,814	17,860	5.3	77,512	71,234	8.8
Internet services	14,745	14,608	0.9	58,709	57,320	2.4
Data communication and network capacity services	4,838	4,935	(2.0)	19,157	20,381	(6.0)
TV services	6,940	6,369	9.0	27,027	24,473	10.4
IT services	2,248	3,105	(27.6)	9,574	11,030	(13.2)
Other services	1,457	792	84.0	4,666	3,543	31.7
Mobile services	27,515	24,921	10.4	107,122	101,467	5.6
Billed services	22,768	20,414	11.5	87,895	81,247	8.2
Other mobile service	4,747	4,507	5.3	19,227	20,220	(4.0)
Equipment	23,429	19,787	18.4	66,356	56,458	17.5
Total	99,986	92,377	8.2	370,123	345,906	7.0

REVENUE

The **total consolidated revenue** of the Company for the fourth quarter of 2017 was the highest over the last eight quarters and amounted to EUR 100 million, an increase of 8.2 per cent over the total consolidated revenue of EUR 92.4 million in the fourth quarter of 2016.

The total revenue for the twelve months of 2017 increased by 7.0 per cent, over the total revenue of EUR 345.9 million a year ago, and amounted to EUR 370.1 million.

The total revenue increase was driven by continuous growth of revenue from equipment sale, television, mobile communication, network interconnection and fixed broadband Internet services.

Share of revenue from fixed and mobile communication services amounted to 53.1 and 29 per cent, respectively, from the total revenue for January-December 2017. Share of revenue from equipment sales reached 17.9 per cent.

During the twelve months of 2017, revenue from services provided to residential customers (B2C) amounted to 56.6 per cent, to business customers (B2B) – 42.5 per cent, and others – 0.9 per cent of the total revenue.

In October 2017, the Company launched a converged offer “Telia One” that gives more value – higher speed, more data and more TV content – to those who have both fixed and mobile services. It is convenient and worth it. Customers can get fixed and mobile connectivity home offer by visiting one portal, one retail outlet, or calling one customer care number.

During the fourth quarter of 2017, the number of post-paid **mobile** communication service users increased by 17 thousand, while the number of pre-paid service users eased by 15 thousand. Over the year, the number of post-paid service users went up by 63 thousand and the number of pre-paid service users contracted by 29 thousand. During 2017, the total number of active mobile subscriptions increased by 34 thousand.

The growth in billed revenue from mobile services was driven by increased number of active mobile subscriptions, continuous customers' migration from pre-paid to higher ARPU post-paid mobile services and accelerating usage of mobile data. Over the year amount of data used by mobile devices increased by 1.8 times, and especially after the elimination of roaming charges in the European Union from 15 June 2017.

The amount of mobile data used by the Company's customers abroad during the last quarter of 2017 was 3.3 times higher than during the same quarter a year ago, while mobile data used abroad during the twelve months of 2017 was by 2.7 times higher than in 2016.

On 15 June 2017, when roaming charges in the European Union (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

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time and data set in the new plan can be used while travelling in the 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. Although the price of data packages, subject to their size, has increased, the price for 1 GB of mobile data has fallen by up to 23 per cent. Moreover, starting from 1 January 2018, the amount of free data provided with the most popular mobile communication plans in the EU and EEA countries increased by 10-33 per cent.

From August 2017, the Company's customers are paying up to 98 per cent less for mobile Internet access in more than 70 countries outside the European Union, too.

In December, the Company launched new pre-paid mobile communication service plans, that besides additional GBs of data, call minutes and SMS offer unlimited GBs of data for music and social network usage via a single order.

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

During the fourth quarter of 2017, revenue from retail fixed **voice telephony** services decreased by 13.6 per cent, while revenue from network interconnection services increased by 29.1 per cent, compared with the fourth quarter of 2016.

During October-December of 2017, the number of fixed telephone lines in service contracted by 12.3 thousand, while over the last twelve months it reduced by 49.9 thousand. Over the year the total retail fixed voice telephony traffic decreased by 13.3 per cent. As a result, the revenue from retail voice telephony services for the twelve months of 2017 went down by 11.8 per cent, while revenue from network interconnection services went up by 37.4 per cent and fully offset the decline in revenue for retail voice services.

During the fourth quarter of 2017, the number of fixed **broadband Internet access** users over fiber-optic network using FTTH/B technologies increased by 5.1 thousand, while the number of broadband Internet service users over the copper DSL connections eased by just 0.7 thousand. The total net increase in the number of broadband Internet access users was 4.4 thousand.

Over the twelve months of 2017, the total number of broadband Internet access users increased by 8 thousand. The number of FTTH/B connections increased by 17.6 thousand (or 7.1 per cent) and reached 264 thousand at the end of December 2017, while the number of copper DSL connections eased by 9.6 thousand (or 6.1 per cent) to 148 thousand. By the end of 2017, the number of Internet connections over the fiber-optic access network amounted to 64 per cent of all 412 thousand broadband Internet connections.

Compared with the same periods in 2016, revenue from **data communication** services alone during the fourth quarter of 2017 increased by 5.5 per cent, while decreasing by 3.9 per cent over the 12 months' period. Revenue from **network capacity** services alone for the fourth quarter and twelve months of 2017, compared with the same periods a year ago, declined by 11.4 and 8.8 per cent, respectively.

During October-December of 2017, the number of IPTV (including "Interneto.tv") service users increased by 6.5 thousand, while over the year it rose by 19.6 thousand and by the end of December 2017 amounted to 211 thousand. The Company is encouraging its DVB-T users to migrate to the more advanced IPTV platform. During the last twelve months, the number of digital terrestrial television (DVB-T) users decreased by 7 thousand and amounted to 31 thousand. Over the year, the total number of **television** service customers went up by 12.6 thousand.

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

Revenue from **other services** consists of the non-telecommunication services such as Contact Center services, lease of premises, discount refunds and other. During 2017, revenue from Contact Center services, compared with the year 2016, decreased by 83.6 per cent, as the Company's subsidiary 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 previous year, increased 2.1 times.

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)**.

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MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue in the third quarter of 2017 increased by 1.7 per cent compared with the third quarter of 2016, but decreased by 3.3 per cent compared with the second quarter of 2017, and amounted to EUR 169 million. Market revenue for the first nine months of 2017, compared with the same period a year ago, increased by 4.4 per cent, and amounted to EUR 509 million.

Telia Lietuva remains the largest telecommunications' service provider in Lithuania with the market share (in term of revenue) of 41.5 per cent for the third quarter of 2017.

	The market shares in terms of customers (%)		The market shares in terms of revenue (%)	
	Q3 2017	Change (p.p.) (y-o-y)	Q3 2017	Change (p.p.) (y-o-y)
Fixed voice telephony services	86.4	(1.6)	91.2	(1.5)
Mobile voice telephony services	30.0	(0.1)	25.1	(3.5)
Internet access services (total):	45.6	(1.8)	53.2	(1.0)
- Fixed access	50.9	4.1	61.8	4.9
- Mobile access	33.3	(15.3)	30.1	(14.2)
Pay-TV services	33.1	1.5	41.2	2.9
Data communication services	n/a	n/a	66.7	(7.9)

According to the Reports of the CRA, on 30 September 2017, broadband Internet penetration per 100 residents of Lithuania was 40.7 per cent (43.6 per cent a year ago) and pay-TV penetration per 100 households was 56.6 per cent (55.5 per cent a year ago). The penetration of active mobile communication users per 100 residents was 152.6 per cent (148.2 per cent a year ago) and penetration of fixed voice telephony lines per 100 residents – 17.3 per cent (18.6 per cent a year ago).

OPERATING EXPENSES

During the last quarter of 2017, **cost of goods and services** increased by 14.3 per cent over the cost of goods and services for the same period a year ago, mainly due to higher volumes of equipment sales and higher networks' interconnection traffic. Accordingly, cost of goods and services for the twelve months of 2017 were 15 per cent higher than cost of goods and services for January-December of 2016.

Operating expenses (excluding cost of goods and services, and non-recurring items) for the fourth quarter of 2017 were the lowest over the last eight quarters and were 12.8 per cent lower than operating expenses in October-December of 2016. As a result, operating expenses for the full year of 2017 were 2.9 per cent lower than in 2016.

Employee-related expenses (excluding one-time redundancy pay-outs) during October-December of 2017 decreased by 8.3 per cent over employee-related expenses (excluding one-time redundancy pay-outs) for the fourth quarter of 2016. Employee-related expenses (excluding one-time redundancy pay-outs) for the twelve months of 2017 were 1.1 per cent lower than a year ago. During January-December of 2017, the Company had a non-recurring redundancy charge that amounted to EUR 2.1 million (EUR 3.1 million a year ago).

During the fourth quarter of 2017, the **number of employees** (headcount) increased by 10 (mainly in Group service centre), while during January-December of 2017 it decreased by 119 – from 3,146 to 3,027. In terms of full-time employees, the total number of employees during the twelve months of 2017 decreased by 86 – from 2,819 to 2,733.

Other expenses (excluding non-recurring expenses) for the fourth quarter of 2017 were 18.3 per cent lower than a year ago, and other expenses (excluding non-recurring expenses) for January-December of 2017 were 5.2 per cent lower than in 2016 despite the higher marketing expenses at the beginning of 2017 related to the merger of subsidiaries and rebranding of the Company. During 2017, non-recurring expenses amounted to EUR 0.9 million (EUR 2.6 million a year ago).

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EARNINGS

EBITDA (excluding non-recurring items) for the fourth quarter of 2017 amounted to EUR 34.1 million, an increase of 20 per cent over the EBITDA (excluding non-recurring items) of EUR 28.4 million a year ago. EBITDA (excluding non-recurring items) margin for the last quarter of 2017 was 34.1 per cent, while a year ago it amounted to 30.7 per cent.

EBITDA (excluding non-recurring items) for January-December of 2017 amounted to EUR 125.3 million and was 7 per cent higher than in 2016 when EBITDA (excluding non-recurring items) amounted to EUR 117 million. EBITDA (excluding non-recurring items) margin for the full year of 2017 was that same as year ago and stood at 33.8 per cent.

EBITDA (including non-recurring items) for October-December of 2017 was EUR 33.5 million, an increase of 24 per cent over the EBITDA (including non-recurring items) of EUR 27 million for the same period in 2016. EBITDA (including non-recurring items) margin in the fourth quarter of 2017 was 33.5 per cent (29.3 per cent a year ago).

EBITDA (including non-recurring items) for the twelve months of 2017 amounted to EUR 122.3 million and was 9.8 per cent higher than the EBITDA (including non-recurring items) of EUR 111.4 million a year ago. EBITDA (including non-recurring items) margin in January-December of 2017 amounted to 33 per cent (32.2 per cent a year ago).

In the fourth quarter of 2016, the Company completed AB Omnitel purchase price allocation. Audited financial statements for the full year of 2016 slightly differs from the unaudited interim financial statements for the twelve months of 2016 announced on 27 January 2017 due to additional amortisation and depreciation charges, therefore data of Consolidated Statement of Comprehensive Income for the fourth quarter of 2016 presented in this report is restated, while data of Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the twelve months of 2016 is audited.

Depreciation, amortisation and impairment charges for the fourth quarter of 2017 over the restated depreciation, amortisation and impairment charges a year ago increased by 0.6 per cent, and in October-December of 2017 amounted to 15.7 per cent of the total revenue (16.9 per cent a year ago).

Depreciation, amortisation and impairment charges for the twelve months of 2017 over audited depreciation, amortisation and impairment charges a year ago increased by 0.6 per cent, and for January-December of 2017 amounted to 17.2 per cent of the total revenue (18.3 per cent a year ago).

Operating profit (EBIT) (excluding non-recurring items) for the last quarter of 2017 was 43.7 per cent higher than the 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 18.4 per cent (restated margin of 13.9 per cent in 2016).

Operating profit (EBIT) (excluding non-recurring items) for January-December of 2017 was 14.6 per cent higher than audited operating profit (EBIT) (excluding non-recurring items) for the full year of 2016, and the operating profit (excluding non-recurring items) margin was 16.7 per cent (margin of 15.6 per cent a year ago).

Operating profit (EBIT) (including non-recurring items) for the fourth quarter of 2017 increased by 55.9 per cent over the restated operating profit (EBIT) (including non-recurring items) for the fourth quarter of 2016. Operating profit (including non-recurring items) margin stood at 17.9 per cent (restated margin of 12.4 per cent in 2016).

Operating profit (EBIT) (including non-recurring items) for the full year of 2017 increased by 21.8 per cent over the audited operating profit (EBIT) (including non-recurring items) for the twelve months of 2016. Operating profit (including non-recurring items) margin was 15.8 per cent (margin of 13.9 per cent a year ago).

Net financial income for October-December of 2017 amounted to EUR 391 thousand (a year ago it was negative and amounted to EUR 49 thousand), although for the twelve months of 2017 the net financial income was negative and amounted to EUR 456 thousand (in 2016 it was also negative and amounted to EUR 1,070 thousand).

Loss of EUR 50 thousand from associated entities represents a share of the result for the year 2017 of UAB Mobilieji Mokėjimai, that was acquired in December 2017 and in which Telia Lietuva holds a 33.3 per cent stake.

Profit before income tax for the fourth quarter of 2017 went up by 59.5 per cent and amounted to EUR 18.2 million (restated profit before income tax for the same period a year ago was EUR 11.4 million), and profit before income tax

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for the twelve months of 2017 grew by 23.5 per cent and amounted to EUR 58.1 million (audited profit before income tax for the year 2016 was 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 January-December of 2017 amounted to EUR 4.7 million (EUR 2.9 million in 2016). **Income tax expenses** for the twelve months of 2017 were 38.2 per cent lower than income tax expenses a year ago.

Profit for the period in October-December of 2017 amounted to EUR 18.1 million, an increase of 1.8 times over the restated profit of EUR 10.2 million for the same period in 2016. The profit margin reached 18.1 per cent while the restated profit margin a year ago was 11.1 per cent.

Profit for the period of twelve months of 2017 amounted to EUR 54.7 million, an increase by 31.8 per cent over the audited profit of EUR 41.5 million a year ago. The profit margin amounted to 14.8 per cent while profit margin a year ago was 12 per cent.

FINANCIAL POSITION AND CASH FLOW

During January-December of 2017, **total assets** decreased by 3.9 per cent mainly due to repayment of the loans.

Total **non-current assets** increased by 0.6 per cent and amounted to 76 per cent of total assets. Total **current assets** decreased by 16 per cent due to a decrease in cash and amounted to 24 per cent of total assets, whereof cash alone represented 4.1 per cent of total assets.

During the twelve months of 2017, **shareholders' equity** increased by 13.8 per cent and amounted to 54.2 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 2017, dividends for the year 2016 were paid to the shareholders of the Company.

According to the Law on Companies of the Republic of Lithuania, dividends should be paid from retained earnings of the Parent company. As of 31 December 2017, **retained earnings** of the Parent company amounted to EUR 119.6 million, while consolidated retained earnings of Telia Lietuva Group amounted to EUR 121.7 million.

During 2017, the Company repaid in total of EUR 52.5 million from the long-term loan of EUR 150 million that was taken in 2016 to finance the acquisition of AB Omnitel as well as EUR 92 million of internal loans from Telia Company, a shareholder of the Company.

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). The full amount of the loan will be repaid in five years. Proceeds from this loan were used to refinance an internal loan of EUR 77 million extended to Omnitel a few years ago by Telia Company. During 2017, the Company had borrowed from Telia Company and repaid short term loans for the total amount of EUR 15 million.

At the end of December 2017, the total amount of the Company's **borrowings** amounted to EUR 161.4 million (EUR 227 million as of 31 December 2016), whereof EUR 157.5 million were loans from banks and EUR 3.9 million – obligation under financial lease agreements. As of 31 December 2017, the Company had no borrowings from Telia Company, the largest shareholder of Telia Lietuva.

As of 31 December 2017, the net debt amounted to EUR 138.2 million (EUR 170.4 million as of 31 December 2016) and net debt to equity (Gearing) ratio was 44.9 per cent (63 per cent at the end of 2016).

The Dividend Policy that was approved by the Board of Telia Lietuva in 2017 provides that the Company must maintain the net debt to EBITDA ratio not higher than 1.5 and to pay out up to 80 per cent of free cash flow as dividend. As of 31 December 2017, the Company's net debt to EBITDA ratio was 1.13.

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Net cash flow from operating activities during 2017 was 4.5 per cent higher than the cash flow in 2016. Operating free cash flow (operating cash flow excluding capital investments) in January-December of 2017 was 22.8 per cent higher than a year ago and amounted to EUR 54.4 million.

During January-December of 2017, the total capital investments amounted to EUR 63.8 million and were 10.6 per cent higher than capital investments of EUR 57.7 million a year ago. Most of capital investments (EUR 23 million) went to the expansion of the core fixed network and development of fiber-optic access network. An amount of EUR 12 million was invested into the development of mobile network, EUR 20.3 million – into the development of IT systems under business transformation program and EUR 8.5 million were other investments (transport, renovation of premises, office equipment, etc.).

In 2017, the Company started an upgrade of its IP network, which is used for the provision of all 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-December of 2017, the Company installed and launched 464 new LTE 4G base stations and now has 1,997 4G base stations across Lithuania. According to the latest data of the Communications Regulatory Authority, 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 50 Mbps.

By the end of December 2017, the Company had 890 thousand households passed (870 thousand a year ago), or 73 per cent of the country's households, by the fiber-optic network.

In May, the Company installed 4.5G / LTE Advanced Pro base stations, that allow users to download data at up to 500 Mbps, in five major cities of the country. And from October customers of the Company having the latest smartphones with the Android operating system can use VoLTE technology, that ensures up to three times faster connectivity, HD voice quality, and the biggest advantage is the possibility to talk on the phone and use the Internet simultaneously.

Cash and cash equivalents during the twelve months of 2017 decreased by EUR 33.5 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-December of 2017:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	0.933	0.979	0.888	0.964	0.937	6,920,289	6,487,323

The Company's market capitalisation as on 31 December 2017 was EUR 561.6 million, while a year ago it amounted to EUR 543.6 million.

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.

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

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 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 (mobile telecommunications services) and AB Baltic Data Center (IT infrastructure services) were merged into the Company and the Company changed its name from TEO LT, AB to Telia Lietuva, AB. On 1 February 2017, the Company's subsidiary UAB Lintel (Contact Center services) changed its name into Telia Customer Service LT, UAB.

On 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 paid to Telecentras an additional 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. Now the Company is paying 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 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 rounds held in 2017, 18 real estate objects were sold for the total value of EUR 6.27 million. Among 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.

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.

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

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 fibre-optic network, as well as the biggest and longest fibre-optic 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.

In December 2017, Telia Lietuva together with other two largest Lithuanian mobile operators – UAB Bitė Lietuva and UAB Tele2 – each acquired a 33.3 per cent stake in UAB Mobilieji Mokėjimai. The authorized capital of the company amounts to EUR 2.1 million. Mobilieji Mokėjimai is creating the first instant payments platform in the Baltic States, which will be called MoQ (“moku”) and will function as a means of payment at points of sale, on the Internet, and will allow customers to make money transfers between themselves. All payments between MoQ users will be made instantaneously and at any time of the day. In May 2017, the Bank of Lithuania granted a limited activities electronic money institution license to Mobilieji Mokėjimai required for activities related to instant payments. In July, the mobile operators got the permission of the European Commission to jointly create a common platform for the provision of the mobile payments service.

In October 2017, we announced about establishment of a Group service centre in Vilnius, with the ability to grow and serve Telia Company Group with a variety of global services – from IT and technology to sourcing and other internal services. The existing team of around 100 specialists in primarily IT technology and service operations in Vilnius moved into new premises in the business centre K29, with which an agreement has been signed for the rental of a 4.5 thousand square meter premises.

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 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-year 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 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 31 December 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 Danmark A/S (Denmark), Vice President and General Counsel	-
Inga Skisaker	Member of the Board, member of the Audit Committee	Nordea Bank AB (Sweden), Norway branch, Head of Business Risk Implementation and Support for Personal Banking	-
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.

In August 2017, the Company announced that it plans to concentrate corporate communication, brand and marketing competences into a new single unit of Marketing and Communication. Thus, Audronė Mažeikaitė, Head of Corporate Affairs, left the Company as of 18 August 2017. The Head of a newly created unit is not appointed yet. Until then Vija Valentukonytė, Head of Internal Communication, is responsible for the Company's communication. The responsibility for Public Affairs of the Company was moved to Giedrė Kaminskaitė-Salters, Head of Legal (General Counsel).

In December 2017, the Board approved new governing structure of Telia Lietuva, where Competitive Customer Operation and Risk units were merged into a new Operational Excellence unit. From 15 December 2017, it is led by Vytautas Bučinskis, who until then was Head of Risk. Andrius Byčkovas, previously Head of Competitive Customer Operations, acted as a consultant at Operational Excellence unit until 12 January 2018.

On 22 December 2017, Norbertas Žioba, Head of Business to Consumer (B2C), left the Company, and Haval van Drumpt, CEO of Zitius, a part of Telia Company Group, was appointed as new Head of B2C at Telia Lietuva from 1 January 2018.

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

Management Team as of 31 December 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 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; UAB Mobilieji Mokėjimai (Lithuania), member of the Supervisory Council	-
Mindaugas Ubartas	Head of Business to Business (B2B)	-	-
Haval van Drumpt	Head of Business to Consumer (B2C) from 1 January 2018	-	-
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; UAB Mobilieji Mokėjimai (Lithuania), member of the Board	-
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; State Enterprise Lithuanian Airports (Lithuania), Member of the Board	-
Giedrė Kaminskaitė-Salters	General Counsel and Head of Public Affairs	Telia Company AB (Sweden), Head of Legal for LED (Lithuania, Estonia and Denmark) cluster; UAB Litexpo (Lithuania), Chairwoman of the Board; Association Lyderė (Lithuania), member of the Board	-
Mantas Goštautas	Head of Business Development	-	-
Vytautas Bučinskas	Head of Operational Excellence	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	-

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	October–December		January–December	
		2017	2016 restated*	2017	2016
Revenue		99,986	92,377	370,123	345,906
Cost of goods and services		(43,043)	(37,643)	(148,187)	(128,878)
Employee-related expenses		(13,776)	(15,338)	(57,781)	(59,446)
Other expenses		(9,712)	(12,336)	(42,294)	(46,211)
Other gain/ (loss) – net		64	(26)	407	9
Depreciation, amortisation and impairment of fixed assets	2	(15,671)	(15,582)	(63,643)	(63,233)
Operating profit		17,848	11,452	58,625	48,147
Finance income		921	707	1,961	1,415
Finance costs		(530)	(756)	(2,417)	(2,485)
Finance income/ costs – net		391	(49)	(456)	(1,070)
Profit (loss) from associated entities		(50)	-	(50)	-
Profit before income tax		18,189	11,403	58,120	47,077
Income tax	6	(105)	(1,166)	(3,451)	(5,583)
Profit for the period		18,084	10,237	54,669	41,494
Other comprehensive income:					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		18,084	10,237	54,669	41,494
Profit and comprehensive income attributable to:					
Owners of the Parent		18,084	10,237	54,669	41,494
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in euro per share)	7	0.031	0.018	0.094	0.071

Note: Audited financial statements for the full year of 2016 slightly differs from unaudited interim financial statements for the twelve months of 2016 announced on 27 January 2017 due to additional amortisation and depreciation charges, therefore data of Consolidated Statement of Comprehensive Income for the fourth quarter of 2016 presented in this report is restated, while data of Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the twelve months of 2016 is audited.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2017	31 December 2016*
ASSETS			
Non-current assets			
Property, plant and equipment	2	300,754	291,818
Intangible assets	2	118,179	124,512
Investment property		1,277	1,277
Investments in associates and subsidiaries		650	-
Trade and other receivables		10,432	10,944
		431,292	428,551
Current assets			
Inventories		11,242	10,135
Trade and other receivables		101,724	94,661
Current income tax receivable		174	722
Cash and cash equivalents		23,166	56,650
		136,306	162,168
Total assets		567,598	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		121,662	84,472
Total equity		307,516	270,326
LIABILITIES			
Non-current liabilities			
Borrowings		130,539	97,500
Deferred tax liabilities		19,405	20,284
Deferred revenue and accrued liabilities		9,151	9,897
Provisions	5	10,728	6,627
		169,823	134,308
Current liabilities			
Trade, other payables and accrued liabilities		57,464	55,114
Current income tax liabilities		1,959	1,068
Borrowings		30,823	129,500
Provisions	5	13	403
		90,259	186,085
Total liabilities		260,082	320,393
Total equity and liabilities		567,598	590,719

Note: Audited financial statements for the full year of 2016 slightly differs from unaudited interim financial statements for the twelve months of 2016 announced on 27 January 2017 due to additional amortisation and depreciation charges, therefore data of Consolidated Statement of Comprehensive Income for the fourth quarter of 2016 presented in this report is restated, while data of Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the twelve months of 2016 is audited.

(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	-	-	41,494	41,494
Total comprehensive income for the period	-	-	41,494	41,494
Dividends paid for 2015			(5,826)	(5,826)
Balance at 31 December 2016*	168,958	16,896	84,472	270,326
Balance at 1 January 2017	168,958	16,896	84,472	270,326
Net profit	-	-	54,669	54,669
Total comprehensive income for the period	-	-	54,669	54,669
Dividends paid for 2016			(17,479)	(17,479)
Balance at 31 December 2017	168,958	16,896	121,662	307,516

Note: Audited financial statements for the full year of 2016 slightly differs from unaudited interim financial statements for the twelve months of 2016 announced on 27 January 2017 due to additional amortisation and depreciation charges, therefore data of Consolidated Statement of Comprehensive Income for the fourth quarter of 2016 presented in this report is restated, while data of Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the twelve months of 2016 is audited.

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January–December	
	2017	2016*
Operating activities		
Profit for the period	54,669	41,494
Share of profit of associates	(50)	-
Income tax expenses recognised in profit or loss	3,451	5,583
Depreciation, amortisation and impairment charge	63,643	63,233
Other gain / (loss) – net	(407)	(9)
Interest income	(150)	(174)
Interest expenses	1,666	2,310
Other non-cash transactions	341	(53)
Changes in working capital:		
Inventories	(1,107)	(4,291)
Trade and other receivables	(6,721)	(5,135)
Trade, other payables and accrued liabilities, deferred tax liability	6,653	16,357
Provisions	(13)	(502)
Cash generated from operations	121,975	118,813
Interest paid	(1,748)	(1,961)
Interest received	150	174
Income taxes paid	(2,890)	(4,597)
Net cash from operating activities	117,487	112,429
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(65,070)	(68,253)
Proceeds from disposal of PPE and intangible assets	1,936	81
Acquisition of subsidiaries	(480)	(129,618)
Net cash used in investing activities	(63,614)	(197,790)
Financing activities		
Repayment of borrowings	(144,879)	(15,061)
Proceeds from borrowings	75,000	150,000
Dividends paid to shareholders of the Company	(17,478)	(5,826)
Net cash used in financing activities	(87,357)	129,113
Increase (decrease) in cash and cash equivalents	(33,484)	43,752
Movement in cash and cash equivalents		
At the beginning of the year	56,650	12,898
Increase (decrease) in cash and cash equivalents	(33,484)	43,752
At the end of the period	23,166	56,650

Note: Audited financial statements for the full year of 2016 slightly differs from unaudited interim financial statements for the twelve months of 2016 announced on 27 January 2017 due to additional amortisation and depreciation charges, therefore data of Consolidated Statement of Comprehensive Income for the fourth quarter of 2016 presented in this report is restated, while data of Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the twelve months of 2016 is audited.

(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 31 December 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 31 December 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, while all estimates that will be used in the financial statements following this standard and its implementation impact on the Company's performance are evaluated.

2 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
Year ended 31 December 2016*		
Opening net book amount as at 31 December 2015	214,882	12,370
Additions	51,583	19,464
Acquisition of subsidiaries	74,844	104,567
Disposals and retirements	(659)	196
Reclassification	468	-
Depreciation and amortisation charge	(49,300)	(12,085)
Closing net book amount as at 31 December 2016*	291,818	124,512
Year ended 31 December 2017		
Opening net book amount as at 31 December 2016	291 818	124 512
Additions	61,412	6,487
Acquisition of subsidiaries	-	-
Disposals and retirements	(1,653)	-
Reclassification	-	-
Depreciation and amortisation charge	(50,823)	(12,820)
Closing net book amount as at 31 December 2017	300,754	118,179

Note: Audited financial statements for the full year of 2016 slightly differs from unaudited interim financial statements for the twelve months of 2016 announced on 27 January 2017 due to additional amortisation and depreciation charges, therefore data of Consolidated Statement of Comprehensive Income for the fourth quarter of 2016 presented in this report is restated, while data of Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the twelve months of 2016 is audited.

(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
		31 December 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 Lithuanian telecommunications operators (the Company and Omnitel initially owned a 25% stakes each) administers central database to ensure telephone number portability.
UAB Mobilieji Mokėjimai	Lithuania	33.3%	-	An associated company is equally owned by three Lithuanian telecommunications operators and is engaged in development of instant payment platform.

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-December of 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	2,005	4,113	6,118
Used provisions	(2,395)	(13)	(2,408)
Closing net book amount at 30 December 2017	13	10,727	10,740

The restructuring provision comprises of compensation to employees because of the restructuring plan approved by the Company. Provisions for restructuring will be utilized during the year 2018.

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 the 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 4.7 million (2016: EUR 2.9 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–December	
	2017	2016
Net profit	54,669	41,494
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613
Earnings per share (euro)	0.094	0.071

(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 by 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 31 December 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–December	
	2017	2016
Sales of telecommunication and other services	6,889	8,143
Total sales of telecommunication and other services	6,889	8,143
Purchases of services	14,008	11,695
Purchase of shares (Note 9)	-	144,107
Purchases of assets	356	
Total purchases of services and assets:	14,364	155,802

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

	As at 31 December	
	2017	2016
Long-term receivables from related parties	251	251
Receivables from related parties	1,974	2,506
Receivables from related party due to purchase consideration adjustment (Note 9)	-	-
Accrued revenue from related parties	313	548
Total receivables and accrued revenue from related parties	2,538	3,305
Short-term borrowings from related parties	-	77,000
Payables to related parties	1,946	3,743
Accrued expenses to related parties	134	35
Total borrowings, payables and accrued expenses to related parties	2,080	80,778

The total amount of annual payments (tantiemes) assigned to two members of the Board of the Company for the year 2016 during 2017 amounted to EUR 31 thousand (2016: for two members – EUR 31 thousand). As of 31 December 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 twelve months period ended 31 December 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, 25 January 2018