

TELIA LIETUVA, AB

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND
CONSOLIDATED INTERIM REPORT
FOR THE SIX MONTHS' PERIOD ENDED 30 JUNE 2018
(UNAUDITED)**



Beginning of the financial year	1 January 2018
End of reporting period	30 June 2018
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
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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

Second quarter of 2018*:

- Total revenue amounted to EUR 93.1 million, down by 1.6 per cent over the revenue of EUR 94.6 million in the second quarter of 2017.
- EBITDA, excluding non-recurring items, was EUR 31.4 million, an increase of 8.2 per cent over restated EBITDA, excluding non-recurring items, of EUR 29 million in the second quarter of 2017.
- Profit for the period was EUR 13.8 million, up by 16.1 per cent over the profit of EUR 11.9 million a year ago.

First half of 2018*:

- Total revenue amounted to EUR 183.8 million, up by 2.4 per cent over the revenue of EUR 179.5 million in the first half of 2017.
- EBITDA, excluding non-recurring items, was EUR 62.4 million, an increase by 8.4 per cent over restated EBITDA, excluding non-recurring items, of EUR 57.5 million in the first half of 2017.
- Profit for the period was EUR 25.8 million, up by 20.2 per cent over the profit of EUR 21.4 million a year ago.
- Free cash flow amounted to EUR 23.4 million (EUR 15.8 million a year ago).

Management comment:

The second quarter of 2018 was marked with another converged technology offer – IPTV over LTE. Telia Smart TV, a synonym of quality content at home, is now available not only via cable but all over the Lithuania via the fastest Telia Lietuva mobile LTE 4G network. This innovation represents one more example of the synergy of our services and technologies, which provides our customers with new possibilities and extra value. In addition, IPTV over LTE as a modern substitute allows to terminate provision of outdated digital terrestrial television (DVB-T) service in fall of 2018.

The foundation for all innovations, offers and quality of services is a modern and reliable telecommunications network. To meet the growing customers' demand for data and content, the Company is finalising the upgrade of its IP network that started a year ago. During the first half of 2018, an amount of EUR 24.7 million was invested into upgrade and extension of the fixed and mobile networks of the Company. In addition, EUR 7.4 million was allocated for development of IT systems under business transformation program. The total investments in January-June of 2018 amounted to EUR 33.2 million, an increase by 23.4 per cent over the total investments of EUR 26.9 million a year ago.

During April-June of 2018, the number of customers who took advantage of converged offer "Telia One" doubled and in the beginning of July exceeded 20 thousand. Unique on the market offer provides higher speed, more data and more TV content to those who use both fixed and mobile services of Telia Lietuva.

Launched in October 2017 "Telia One" strongly contributes to an intake of a new customers. As a result, over the year:

- Number of IPTV users increased by 10.6 per cent up to 220 thousand,
- Number of post-paid service users grew by 6.9 per cent up to 1,112 thousand,
- Number of FTTH Internet customers rose by 6.3 per cent up to 271 thousand.

Even though reduction of low margin voice transit volumes had a negative effect on the total revenue for Q2 2018, the total revenue for H1 2018 increased thanks to new customers' intake, higher data usage and equipment sales, whereof:

- Revenue from equipment sales grew by 18.3 per cent,
- Revenue from mobile services was up by 12.8 per cent,
- Revenue from TV services increased by 11 per cent.

Revenue growth in combination with cost control and operational efficiency led to a double-digit growth of profitability. Business transformation program is ongoing with two thirds of home service users migrated into a new SAP system.

In May, we paid-out a record-high EUR 0.07 dividend per share (in total EUR 40.8 million) for the year 2017. In June, Telia Lietuva was awarded as The Most Desired Employer of the Year for second year in a row. On 4 July 2018, Dan Strömberg stepped in as a new CEO of Telia Lietuva following the resignation of Kęstutis Šliužas, who hold the position of CEO of the Company since November 2013.

** Note. Starting from 1 January 2018, the Company adopted International Financial Reporting Standard 15 "Revenue from Contracts with Customers" (IFRS 15) and to compare financial results for the year 2018 with financial results a year ago the Company restated financial data for the year 2017. An effect of restatement of financial data for the first half of 2017 was as follows: total revenue was reduced by EUR 395 thousand, while total operating expenses were increased by EUR 486, having a total negative effect of EUR 881 thousand on EBITDA and EBIT.*

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

KEY FIGURES OF THE GROUP

Financial figures	January-June		Change (%)
	2018	2017 (restated)*	
Revenue	183,849	179,497	2.4
EBITDA excluding non-recurring items	62,352	57,507	8.4
EBITDA margin excluding non-recurring items (%)	33.9	32.0	
EBITDA	62,045	55,382	12.0
EBITDA margin (%)	33.7	30.9	
Operating profit (EBIT) excluding non-recurring items	31,046	26,001	19.4
EBIT margin excluding non-recurring items (%)	16.9	14.5	
Operating profit (EBIT)	30,739	23,876	26.3
EBIT margin (%)	16.5	13.3	
Profit before income tax	30,729	23,461	31.0
Profit before income tax margin (%)	16.7	13.1	
Profit for the period	25,757	21,431	20.2
Profit for the period margin (%)	14.0	11.9	
Earnings per share (EUR)	0.044	0.036	
Number of shares (thousand)	582,613	582,613	-
Cash flow from operations	58,426	49,525	18.0
Operating free cash flow	23,420	15,844	47.8
Operating figures	30-06-2018	30-06-2017	Change (%)
Mobile service subscriptions, in total (thousand)	1,383	1,328	4.1
- Post-paid (thousand)	1,112	1,040	6.9
- Pre-paid (thousand)	271	288	(5.9)
Broadband Internet connections (excl. Wi-Fi), in total (thousand)	411	405	1.5
- Fiber-optic (FTTH/B) (thousand)	271	255	6.3
- Copper (DSL) (thousand)	140	150	(6.7)
Fixed telephone lines in service (thousand)	389	441	(11.8)
TV services customers, in total (thousand)	247	234	5.6
- IPTV (thousand)	220	199	10.6
- Digital terrestrial TV (DVB-T) (thousand)	27	35	(22.9)
Number of personnel (head-counts)	2,722	3,104	(12.3)
Number of full-time employees	2,469	2,817	(12.4)
Financial ratios	30-06-2018	30-06-2017*	
Return on capital employed (%)	13.4	9.6	
Return on average assets (%)	10.8	8.0	
Return on shareholders' equity (%)	18.0	15.1	
Operating cash flow to sales (%)	33.1	30.7	
Gearing ratio (%)	52.1	62.0	
Debt to equity ratio (%)	57.1	66.6	
Current ratio (%)	115.3	125.1	
Rate of turnover of assets (%)	67.2	64.1	
Equity to assets ratio (%)	53.0	51.7	

*Note: In 2018, the Company introduced IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the second quarter, the first half and the full year of 2017 presented in this report are restated retrospectively in line with IFRS 15.

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

Breakdown of revenue by services	April-June		Change (%)	January-June		Change (%)
	2018	2017 (restated)		2018	2017 (restated)	
Fixed services	45,504	53,104	(14.3)	91,641	99,132	(7.6)
Voice telephony services	14,924	24,266	(38.5)	31,566	41,944	(24.7)
Internet services	14,574	14,468	0.7	29,061	28,872	0.7
Data communication and network capacity services	4,804	4,804	-	9,495	9,657	(1.7)
TV services	6,707	5,872	14.2	13,028	11,741	11.0
IT services	2,351	2,390	(1.6)	4,961	4,810	3.1
Other services	2,144	1,304	64.0	3,530	2,108	67.3
Mobile services	29,946	26,149	14.5	58,339	51,733	12.8
Billed services	24,630	21,885	12.5	48,219	43,021	12.1
Other mobile service	5,316	4,264	24.7	10,120	8,712	16.2
Equipment	17,632	15,354	14.8	33,869	28,632	18.3
Total	93,082	94,607	(1.6)	183,849	179,497	2.4

REVENUE

Due to introduction of IFRS 15 "Revenue from Contracts with Customers" and to have comparable data, revenue for the second quarter and the first half of 2017 was restated. The major impact was that amounts of EUR 806 thousand for the second quarter of 2017 and EUR 1,622 thousand for the first half of 2017 representing revenue from leased end equipment were reclassified and moved from revenue line "TV services" to revenue line "Equipment" and fair value of equipment sold with deferred payment (mainly mobile phones and other gadgets) was recalculated. As a result, the restated total revenue for the second quarter of 2017 was increased by EUR 9 thousand, while the restated total revenue for the first half of 2017 were reduced by EUR 395 thousand.

The **total consolidated revenue** in April-June of 2018 amounted to EUR 93.1 million and was by 1.6 per cent lower than the restated revenue of EUR 94.6 million for the second quarter of 2017, but compared with revenue for first quarter of 2018 increase by 2.6 per cent.

During the second quarter of 2018, revenue from low margin voice transit service, compared with the same quarter a year ago, went down by 54.4 per cent and had a negative impact on the total revenue while revenue from equipment sales, television, mobile communication and broadband Internet services continued to grow.

Nevertheless, the total revenue for the first six months of 2018 increased by 2.4 per cent, over the total restated revenue of EUR 179.5 million a year ago, and amounted to EUR 183.8 million.

Share of revenue from fixed and mobile communication services amounted to 49.9 and 31.7 per cent, respectively, from the total revenue for the first half of 2018. Share of revenue from equipment sales was 18.4 per cent.

Revenue from services provided to residential customers amounted to 57.3 per cent, to business customers – 41.6 per cent and others – 1.1 per cent of the total revenue for the first six months of 2018.

During April-June of 2018, the number of customers that took advantage of our converged offer "Telia One" doubled and by the end of June reached almost 20 thousand. Launched in October 2017 "Telia One" gives more value – higher speed, more data and more TV content – to those who have both fixed and mobile services of Telia Lietuva.

During January-June of 2018, the number of post-paid **mobile** communication service users increased by 37 thousand, while the number of pre-paid service users eased by 6 thousand. Over the last twelve months, the number of post-paid service users went up by 72 thousand and the number of pre-paid service users contracted by 17 thousand. Over the year, the total number of active mobile subscriptions increased by 55 thousand.

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

Growing number of active mobile communication subscriptions especially of post-paid service users in combination with accelerating usage of mobile data led to a double-digit growth in billed revenue from mobile services. During January-June of 2018, the amount of data used by mobile devices was by 1.7 times higher than a year ago, and amount of data used by Telia Lietuva customers while abroad over the year more than doubled thanks to elimination of roaming charges in the European Union from 15 June 2017.

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

Revenue from **other mobile services** include revenue from the Company's mobile network interconnections as well as roaming charges to country's visitors and other network services. Over the year, revenue from roaming charges to country's visitors increased by 1.5 times. Already last year and especially after elimination of roaming charges in the EU from 15 June 2017 the Company observes an increasing data usage by Lithuania's visitors from more than 110 countries that use Telia Lietuva mobile network for Internet access.

During January-June of 2018, the number of fixed telephone lines in service eased by 27 thousand and over the last twelve months – by 52 thousand. Over the year, the total retail fixed voice telephony traffic decreased by 11.3 per cent. As a result, revenue from retail **voice telephony** services for the first six months of 2018 went down by 14.2 per cent. During the first half of 2018 revenue from low margin voice transit service went down by 33.9 per cent, over revenue from voice transit services for the same period a year ago, dragging down the total revenue from fixed voices telephony services by 24.7 per cent.

During the second quarter of 2018, revenue from retail fixed voice telephony services decreased by 14.4 per cent, while revenue from voice transit services went down by 54.4 per cent, compared with the second quarter of 2017. The total revenue from fixed voice telephony services for the second quarter of 2018, compared with the same quarter a year ago, dropped by 38.5 per cent.

During the first half of 2018, the number of fixed **broadband Internet access** users over fiber-optic network using FTTH/B technologies increased by 6.6 thousand, while number of broadband Internet service users over the copper DSL connections eased by 3.6 thousand. The total net increase in the number of broadband Internet (excluding Wi-Fi) access users was 3 thousand.

Over the last twelve months, the total number of broadband Internet (excluding Wi-Fi) access users increased by 6.3 thousand. The number of Internet connections over the fiber-optic network increased by 16 thousand and reached 271 thousand at the end of June 2018, while the number of copper DSL connections eased by 9.7 thousand to 140 thousand. By the end of the second quarter of 2018, the number of Internet connections over the fiber-optic access network amounted to 65.8 per cent of all 411 thousand broadband Internet (excluding Wi-Fi) connections.

In January 2018, the Company introduced "Super VDSL" (S-VDSL) technology, which depending on the length of the copper line connecting the Company's exchange and end equipment provides up to 250 Mbps Internet speed. By the end of June, more than 7 thousand of Internet connections over the copper line were already migrated from traditional DSL to S-VDSL technology and up to 25 thousand could be potentially migrated.

Compared with the same periods in 2017, revenue from **data communication** services alone during the second quarter and the first half of 2018 increased by 1.9 and 2.7 per cent, while revenue from **network capacity** services alone went down by 2.5 and 7.5 per cent, respectively.

During January-June of 2018, the number of IPTV (including "Interneto.tv") service users increased by 9 thousand, while over the year it rose by 21 thousand and by the end of June 2018 amounted to 220 thousand. During the last twelve months the number of digital terrestrial television (DVB-T) users decreased by 8 thousand and amounted to 27 thousand. Over the year, the total number of **television** service customers went up by 13 thousand.

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

In June 2018, Telia Lietuva started to provide IPTV service via mobile LTE 4G network all over the Lithuania. From now on Smart TV service is reaching homes not only via cables, but also through the fastest 4G network covering almost entire population of the country. The same as provided via cable, IPTV through the 4G connection offers over 100 channels, the majority whereof are high definition. Also, users can manage broadcasts, watch two-week-old records, choose the most recent films in video on demand or series in Kino Klubas (Cinema Club), while Vaikų Kampelis (Kids' Corner) features the content intended only for the youngest viewers.

IPTV over LTE will replace the outdated digital terrestrial television (DVB-T) service whereof will be terminated in stages starting from August 2018.

Another novelty – flexible IPTV service payment plans adjusted for the various customer needs with the fees starting at EUR 6 per month was introduced in June as well. Plan MINI with 22 TV channels is intended for the lovers of Lithuanian television, plan MIDI with 55 channels is adapted for various tastes, whereas plan MAXI will meet the needs of the pickiest viewers with its offer of as many as 90 channels, thematic packages as well as films and series of Kino Klubas (Cinema Club).

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

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

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

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

Revenue from **other services** consists of the non-telecommunication services such as Contact Center services to external customers, lease of premises, discount refunds and other. During the first half of 2018, revenue from Contact Center services, compared with the first six months' period in 2017, decreased by 61.3 per cent, because the Company's subsidiary ceased to provide services to external customers (except the Directory Inquiry service 118) from 1 February 2017. Revenue from other non-core business services for January-June of 2018, compared with the same period a year ago, increased by 78.9 per cent.

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

Gain or loss from sale of property, plant and equipment, as well as gain or loss on currency exchange is recorded at net value as **other gain (loss)**. During the first half of 2018, the non-recurring gain from sales of property amounted to EUR 424 thousand.

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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 first quarter of 2018 decreased by 2.3 per cent compared with the fourth quarter of 2017, while compared with the first quarter of 2017 increased by 1.6 per cent, and amounted to EUR 167.9 million.

Telia Lietuva remains the largest telecommunications' service provider in Lithuania with the market share (in term of revenue) of 42 per cent for the first quarter of 2018, an increase by 0.1 percentage point over the last twelve months.

	The market shares in terms of customers (%)		The market shares in terms of revenue (%)	
	Q1 2018	Change (p.p.) (y-o-y)	Q1 2018	Change (p.p.) (y-o-y)
Fixed voice telephony services	85.0	(2.9)	91.0	(0.7)
Mobile voice telephony services	28.8	1.3	29.1	1.4
Fixed Internet access	51.6	2.1	60.2	1.5
Mobile Internet access	29.3	(9.4)	31.7	(2.9)
Pay-TV services	34.3	2.1	38.3	(1.4)
Data communication services	n/a	n/a	67.7	(6.5)

According to the Report of the CRA, on 31 March 2018, broadband Internet penetration per 100 residents of Lithuania was 42.8 per cent (39 per cent a year ago) and pay-TV penetration per 100 households was 52.4 per cent (56.2 per cent a year ago). The penetration of active mobile voice communication users per 100 residents was 136 per cent (131.1 per cent a year ago) and penetration of fixed voice telephony lines per 100 households – 34.1 per cent (40.3 per cent a year ago).

OPERATING EXPENSES

During April-June of 2018, **cost of goods and services** decreased by 8.6 per cent over the cost of goods and services for the same period a year ago, due to lower voice transit traffic. Nevertheless, cost of goods and services for the first six months of 2018 were 2.6 per cent higher than the same cost for the first half of 2017, because voice transit traffic during the first quarter of 2018 was higher than for the same period a year ago. Besides, volumes of equipment sales in 2018 are higher than in 2017.

Due to introduction of IFRS 15 and restatement of Statement of Comprehensive Income for the year 2017, employee-related expenses for the second quarter of 2017 were reduced by EUR 788 thousand, while other expenses for the same period were increased by EUR 1 million. Employee-related expenses for the first half of 2017 were reduced by EUR 1.5 million, and other expenses for the same period were increased by EUR 2 million. As a result, restated total operating expenses (excluding cost of goods and services) for January-April of 2017 were increased by EUR 230 thousand, and for the first six months of 2017 – by EUR 486 thousand.

Operating expenses (excluding cost of goods and services, and non-recurring items) for the second quarter of 2018 were 6.2 per cent lower than restated operating expenses in April-June of 2017, and operating expenses for the first half of 2018 were 7.2 per cent lower than a year ago.

Employee-related expenses (excluding one-time redundancy pay-outs) during April-June of 2018 decreased by 7.2 per cent over restated employee-related expenses (excluding one-time redundancy pay-outs) for the second quarter of 2017. Employee-related expenses (excluding one-time redundancy pay-outs) for the first half of 2018 were 5 per cent lower than a year ago. During January-June of 2018, the Company had non-recurring redundancy charge that amounted to EUR 0.7 million (EUR 1.4 million a year ago).

During the first half of 2018, the total **number of employees** (headcount) decreased by 305, and over the last twelve months, the total number of Telia Lietuva Group employees decreased by 382 – from 3,104 to 2,722. On 1 June 2018, 196 employees of the Company, that were providing services to Telia Company Group, were moved to the Company's subsidiary, Telia Global Services Lithuania, UAB, which on the same day was acquired by Telia Company and became a shared services center of Telia Group based in Vilnius. In addition, over the year, the number of

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consultants at the Company's subsidiary, Telia Customer Service LT, UAB, that remotely takes care of the Company's customers, went down by 166.

In terms of full-time employees (FTE), the total number of Telia Lietuva Group employees during January-June of 2018 contracted by 264 (196 whereof moved to Telia shared service center), while over the last twelve months the total number of FTE decreased by 348 (130 whereof at Telia Customer Service LT) from 2,817 to 2,469.

Other expenses for the second quarter of 2018 were 1.4 per cent higher than restated other expenses a year ago, while other expenses for the first six months of 2018 were 7.8 per cent lower than restated expenses in 2017. During January-June of 2017, the Company incurred non-recurring expenses related to rebranding that amounted to EUR 0.7 million.

EARNINGS

Restatement of financial data for year 2017 following the introduction of IFRS 15 from 1 January 2018 had a negative effect on EBITDA and EBIT of EUR 221 thousand and EUR 881 thousand for the second quarter and the first half of 2017, accordingly.

EBITDA excluding non-recurring items for the second quarter of 2018 amounted to EUR 31.4 million and was 8.2 per cent higher than restated EBITDA excluding non-recurring items for the same period in 2017 when it amounted to EUR 29 million. EBITDA excluding non-recurring items margin for the second quarter of 2018 amounted to 33.7 per cent, while a year ago it was 30.6 per cent.

EBITDA excluding non-recurring items for the first half of 2018 amounted to EUR 62.4 million and was by 8.4 per cent higher than for the same period in 2017 when restated EBITDA excluding non-recurring items amounted to EUR 57.5 million. EBITDA excluding non-recurring items margin for the first half of 2018 stood at 33.9 per cent, while a year ago it amounted to 32 per cent.

EBITDA including non-recurring items in April-June of 2018 was EUR 31.2 million and was by 12.1 per cent higher than a year ago, when restated EBITDA including non-recurring items amounted to EUR 27.8 million. EBITDA including non-recurring items margin in April-June of 2018 was 33.5 per cent (29.4 per cent a year ago).

EBITDA including non-recurring items for the first six months of 2018 was EUR 62 million, an increase by 12 per cent over EBITDA including non-recurring items of EUR 55.4 million for the same period in 2017. EBITDA including non-recurring items margin in January-June of 2018 amounted to 33.7 per cent (30.9 per cent a year ago).

Depreciation, amortisation and impairment charges for the second quarter of 2018 increased by 3.7 per cent over the depreciation, amortisation and impairment charges a year ago, and in April-June of 2018 amounted to 16.7 per cent of the total revenue (15.9 per cent a year ago).

Depreciation, amortisation and impairment charges for the first half of 2018 over the depreciation, amortisation and impairment charges a year ago slightly decreased by 0.6 per cent, and for the first six months of 2018 amounted to 17 per cent of the total revenue (17.6 per cent a year ago).

Operating profit (EBIT) excluding non-recurring items for the second quarter of 2018 was 13.1 per cent higher than restated operating profit (EBIT) excluding non-recurring items for the same period in 2017, and the operating profit excluding non-recurring items margin amounted to 16.9 per cent (restated margin of 14.7 per cent in 2017).

Operating profit (EBIT) excluding non-recurring items for the first half of 2018 was 19.4 per cent higher than restated operating profit (EBIT) excluding non-recurring items for the same period in 2017, and the operating profit excluding non-recurring items margin was 16.9 per cent (restated margin of 14.5 per cent a year ago).

Operating profit (EBIT) including non-recurring items for April-June of 2018 increased by 21.9 per cent over the restated operating profit (EBIT) including non-recurring items for the second quarter of 2017. Operating profit including non-recurring items margin stood at 16.7 per cent (restated margin of 13.5 per cent in 2017).

Operating profit (EBIT) including non-recurring items for the first six months of 2018 increased by 26.3 per cent over the restated operating profit (EBIT) including non-recurring items for the first half of 2017. Operating profit including non-recurring items margin was 16.5 per cent (restated margin of 13.3 per cent a year ago).

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Net financial income in January-June of 2018 was negative and amounted to EUR 10 thousand (net financial income a year ago was also negative and amounted to EUR 415 thousand).

Profit before income tax for the second quarter of 2018 was up by 24.9 per cent and amounted to EUR 15.7 million (restated profit before income tax for the same period a year ago was EUR 12.6 million), while profit before income tax for the first half of 2018 went up by 31 per cent and amounted to EUR 30.7 million (restated profit before income tax for the same period in 2017 was EUR 23.5 million)

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the first half of 2017 amounted to EUR 2 million, while in 2018 the profit tax relief for investments was not applicable for the Company. Therefore, **income tax expenses** for the first six months of 2018 were 2.4 times higher than restated income tax expenses a year ago.

Profit for the period in April-June of 2018 amounted to EUR 13.8 million, an increase by 16.1 per cent over restated profit of EUR 11.9 million for the same period in 2017. The profit margin stood at 14.8 per cent while restated profit margin a year ago was 12.5 per cent.

Profit for the period for the first half of 2018 amounted to EUR 25.8 million, an increase by 20.2 per cent over the restated profit of EUR 21.4 million a year ago. The profit margin was 14 per cent while restated profit margin a year ago amounted to 11.9 per cent.

FINANCIAL POSITION AND CASH FLOW

Due to introduction of IFRS 15 “Revenue from Contracts with Customers” the audited Statement of Financial Position for the year 2017 was restated and new items on the balance sheet such as “Cost to obtain a contract”, “Contract assets” and “Contract liabilities” were created. As a result, the restated total assets as of 31 December 2017 were by EUR 2.2 million higher than audited total assets at the end of the year 2017 and amounted to EUR 568.5 million. During the first half of 2018, **total assets** decreased by 3.6 per cent.

During January-June of 2018, total **non-current assets** eased by just 0.4 per cent and amounted to 77.8 per cent of total assets. Total **current assets** decreased by 13.4 per cent due to decrease in cash and amounted to 21.7 per cent of total assets, whereof cash alone represented 2.6 per cent of total assets.

During the first six months of 2018, **shareholders' equity** decreased by 4.9 per cent due to dividend payment, and at the end of June 2018 amounted to 53 per cent of total assets.

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

During the second quarter of 2018, the Company repaid another tranche of EUR 7.5 million from the total long-term loan of EUR 150 million. At the end of June 2018, the total amount of **borrowings** amounted to EUR 166.1 million (EUR 184.5 million a year ago), whereof EUR 142.5 million were loans from banks, EUR 20 million was a short term internal loan from Telia Company, a largest shareholder of the Company, and EUR 3.6 million – obligation under financial lease agreements.

Net **cash flow from operating activities** in the first six months of 2018 was 18 per cent higher than the restated cash flow for same period in 2017. **Operating free cash flow** (operating cash flow excluding capital investments) in January-June of 2018 was 47.8 per cent higher than a year ago and amounted to EUR 23.4 million.

During January-June of 2018, the total **capital investments** amounted to EUR 33.2 million and were 23.4 per cent higher than capital investments of EUR 26.9 million a year ago. Most of capital investments (EUR 18.9 million or 56.8 per cent) went to upgrade of the core fixed network and development of fiber-optic access network. An amount of EUR 5.8 million was invested into development of mobile network, EUR 7.4 million – into development of IT systems under ongoing business transformation program (migration of customers, finance and business management systems into SAP) and EUR 1.2 million were other investments.

In April 2017, the Company started its IP network upgrade project to increase the network capacity and ensure the potential for the data volume growth in forthcoming five years. All the Company's Internet, television, telephony, fixed

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

and mobile communication services are provided using the IP network. By the end of June 2018, the main stage of the project was completed – all services were migrated to a new Huawei network. The capacity of Metro network was increased by 5 times and number of network nodes reduced by 2 times. The new IPTV solution, that was implemented during this stage, will ensure reliability and high quality of IPTV service. The last stage of the Company's IP network upgrade project will be completed by October 2018.

During the first half of 2018, the Company installed and launched 240 new LTE 4G base stations and now has 2,235 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 amounts to 44 Mbps.

By the end of June 2018, the Company had 900 thousand households passed (878 thousand a year ago), or 73 per cent of the country's households, by the fiber-optic network.

Cash and cash equivalents during the first six months of 2018 decreased by EUR 8.5 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.

The number of **shareholders** on the shareholders' registration day (18 April 2018) for the Annual General Meeting of Shareholders, which was held on 25 April 2018, was 11,083.

Shareholders, holding more than 5 per cent of the share capital and votes, as on 30 June 2018:

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

Information about **trading in Telia Lietuva shares** on Nasdaq Vilnius stock exchange in January-June of 2018:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	0.966	1.170	0.956	1.120	1.095	4,566,243	5,000,935

The Company's **market capitalisation** as on 30 June 2018 was EUR 652.5 million, an increase by 25.4 per cent over the market capitalisation of EUR 520.3 million a year ago.

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

OTHER MATERIAL INFORMATION

On 25 April 2018, the Annual General Meeting decided to approve the audited annual consolidated and separate financial statements of the Company for the year 2017. The consolidated annual report of the Company for the year 2017, prepared by the Company, assessed by the auditors and approved by the Board, was presented to the shareholders. The shareholders decided to allocate from the Company's distributable profit of EUR 116,746 thousand EUR 40,783 thousand for the payment of dividends for the year 2017, i.e. EUR 0.07 dividend per share, and carry forward to the next financial year an amount of EUR 75,962 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 2018 and 2019, and to assess the consolidated annual report of the Company for the year 2018 and 2019.

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

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

On 14 June 2018, Telia Lietuva withdrawn its application for a concentration permit submitted to the Competition Council of Lithuania in February 2018 relating to the planned acquisition of UAB Duomenų Logistikos Centras (DLC) from UAB Lietuvos Energija and AB Litgrid. The transaction for the acquisition of DLC signed in August of 2017 will not be continued, and parties to the original acquisition agreement – namely, Telia Lietuva, Lietuvos Energija and Litgrid – have signed a termination agreement. According to the preliminary market assessment of the Competition Council, after the concentration the Company's share in the market of data centres would increase significantly, thus the Company would have to dispose a part of its own or the acquired company's activities to a third party.

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.

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

The shareholders also decided to allocate for two independent members to the Board, who resigned from the Board as of 24 April 2018, – Inga Skisaker and Rolandas Viršilas – the total amount of EUR 31,280, or EUR 15,640 each, as a tantiemes (annual payment) for the year 2017.

In June 2018, the Board appointed member of the Board, Agneta Wallmark, and both independent members of the Board – Tomas Balžekas and Mindaugas Glodas – as the members of the Audit Committee for the term of their membership in the Board. Agneta Wallmark was elected as the Chairwoman of the Audit Committee. Also, the Board elected the following members of the Board Henriette Wendt, Claes Nycander and Mindaugas Glodas (independent member of the Board) as the members of the Remuneration Committee for the term of one year but in any case, not longer than until the term of their membership in the Board. Henriette Wendt was 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 June 2018:

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), Senior Vice President and Head of LED (Lithuania, Estonia, Denmark) cluster until 1 June 2018	-
Agneta Wallmark	Member of the Board, Chairwoman of the Audit Committee	Telia Company AB (Sweden), Vice President and Head of Treasury	-
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	-
Hannu-Matti Mäkinen	Member of the Board	Telia Company AB (Sweden), Vice President and Head of Legal at Corporate Holdings unit	-
Tomas Balžekas	Member of the Board, member of the Audit Committee	UAB Media Bitės (Lithuania), General Manager (CEO)	-
Mindaugas Glodas	Member of the Board, member of the Audit and Remuneration Committees	UAB Nextury Ventures (Lithuania), Partner & General Manager	-

Following 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 Tomas Balžekas and Mindaugas Glodas are regarded as independent members of the Board. Information about participation of the members of the Company's Board in activities of other entities is provided at the Company's webpage www.telia.lt.

On 3 July 2018, the Board appointed Dan Strömberg as a new CEO of Telia Lietuva starting from 4 July 2018, following the resignation of Kęstutis Šliužas from the CEO position as of 3 July 2018.

Management Team as of 30 June 2018:

Name, surname	Position in the Company	Involvement into activities of other entities	Ownership of the Company's shares
Kęstutis Šliužas	CEO till 3 July 2018	Telia Company AB (Sweden), LED (Lithuania, Estonia, Denmark) cluster, member of the management team; UAB Mobilieji Mokėjimai (Lithuania), member of the Supervisory Council; Kaunas Technology University (Lithuania), member of the Council; Vilnius Tech Park (Lithuania), member of the Council; Investors' Forum (Lithuania), member of the Board; Baltic Institute of Corporate Governance, member of the Board; Young Presidents Organization Lithuania Chapter, member of the Board.	-
Dan Strömberg	CEO from 4 July 2018	Lattelecom SIA (Latvia), Deputy Chairman of the Supervisory Council	-
Mindaugas Ubartas	Head of Business to Business (B2B)	Association INFOBALT (Lithuania), member of the Board	-
Haval van Drumpt	Head of Business to Consumer (B2C)		-

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

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, and Chief Analytics Officer	Telia Company AB (Sweden), LED (Lithuania, Estonia and Denmark) cluster member of the management team responsible for Legal issues; LMT SIA (Latvia), member of the Supervisory Council; UAB Litexpo (Lithuania), Chairwoman of the Board; Association Lyderė (Lithuania), member of the Board	-
Vaida Jurkonienė	Head of Marketing and Communication	-	-
Mantas Goštautas	Head of Business Development	Vilnius Tech Park (Lithuania), member of the Selection Committee	
Vytautas Bučinskas	Head of Operational Excellence	Member of the Cyber Security Council (Lithuania); Association INFOBALT (Lithuania), Deputy Chairman of Cybersecurity Group; 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	April-June		January-June	
		2018	2017 restated*	2018	2017 restated*
Revenue		93,082	94,607	183,849	179,497
Cost of goods and services		(36,545)	(39,996)	(72,628)	(70,794)
Employee-related expenses		(12,804)	(14,642)	(26,864)	(28,902)
Other expenses		(12,409)	(12,243)	(22,694)	(24,518)
Other gain/ (loss) - net		(168)	75	382	99
Depreciation, amortisation and impairment of fixed assets	2	(15,594)	(15,033)	(31,306)	(31,506)
Operating profit		15,562	12,768	30,739	23,876
Finance income		843	338	1,153	661
Finance costs		(675)	(514)	(1,163)	(1,076)
Finance income/ costs - net		168	(176)	(10)	(415)
Profit before income tax		15,730	12,592	30,729	23,461
Income tax	6	(1,952)	(720)	(4,972)	(2,030)
Profit for the period		13,778	11,872	25,757	21,431
Other comprehensive income:					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		13,778	11,872	25,757	21,431
Profit and comprehensive income attributable to:					
Owners of the Parent		13,778	11,872	25,757	21,431
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in euro per share)	7	0.024	0.020	0.044	0.037

*Note: In 2018, the Company introduced IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the second quarter, the first half and the full year of 2017 presented in this report are restated retrospectively in line with IFRS 15.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2018	31 December 2017 restated*
ASSETS			
Non-current assets			
Property, plant and equipment	2	292,563	290,435
Intangible assets	2	121,027	122,401
Investment property		1,277	1,277
Investments in associates and subsidiaries		436	650
Cost to obtain a contract (non-current)		3,820	3,470
Other contract assets (non-current)		375	544
Trade and other receivables		7,129	9,459
		426,627	428,236
Current assets			
Inventories		8,727	11,242
Other current contract assets		1,298	1,303
Trade and other receivables		94,468	101,650
Current income tax receivable		-	174
Cash and cash equivalents		14,640	23,166
		119,133	137,535
Assets held for sale		2,500	2,743
Total assets		548,260	568,514
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		104,979	120,005
Total equity		290,833	305,859
LIABILITIES			
Non-current liabilities			
Borrowings		115,306	130,626
Deferred tax liabilities		19,076	19,080
Deferred revenue and accrued liabilities		8,989	9,151
Other non-current contract liabilities		-	50
Provisions	5	10,697	10,728
		154,068	169,635
Current liabilities			
Trade, other payables and accrued liabilities		49,288	59,018
Current income tax liabilities		2,919	1,959
Borrowings		50,825	31,385
Other current contract liabilities		327	645
Provisions	5	-	13
		103,359	93,020
Total liabilities		257,427	262,655
Total equity and liabilities		548,260	568,514

*Note: In 2018, the Company introduced IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the second quarter, the first half and the full year of 2017 presented in this report are restated retrospectively in line with IFRS 15.

(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 2017	168,958	16,896	87,407	273,261
Net profit	-	-	21,431	21,431
Total comprehensive income for the period	-	-	22,181	22,181
Dividends paid for 2016			(17,479)	(17,479)
Balance at 30 June 2017	168,958	16,896	91,359	277,213
Balance at 1 January 2018	168,958	16,896	120,005	305,859
Net profit	-	-	25,757	25,757
Total comprehensive income for the period	-	-	25,757	25,757
Dividends paid for 2017			(40,783)	(40,783)
Balance at 30 June 2018	168,958	16,896	104,979	290,833

*Note: In 2018, the Company introduced IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the second quarter, the first half and the full year of 2017 presented in this report are restated retrospectively in line with IFRS 15.

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January-June	
	2018	2017 restated*
Operating activities		
Profit for the period	25,757	21,432
Income tax	4,972	2,030
Depreciation, amortisation and impairment of fixed assets	31,306	31,506
Other gains and losses	(382)	(99)
Interest income	(178)	(729)
Interest expenses	978	984
Other non-cash transactions	-	382
Changes in working capital:		
Inventories	4,665	2,168
Trade and other receivables	8,146	6,518
Trade, other payables and accrued liabilities	(12,537)	(13,105)
Cash generated from operations	62,727	51,087
Interest paid	(936)	(1,027)
Interest received	178	729
Tax paid	(4,002)	(1,264)
Net cash from operating activities	57,967	49,525
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(36,718)	(33,681)
Proceeds from disposal of PPE and intangible assets	1,907	-
Acquisition of subsidiaries	214	-
Net cash used in investing activities	(34,597)	(33,681)
Financing activities		
Repayment of borrowings	(15,233)	(114,500)
Borrowings	24,120	72,000
Dividends paid to shareholders of the Company	(40,783)	(17,478)
Net cash used in financing activities	(31,896)	(59,978)
Increase (decrease) in cash and cash equivalents	(8,526)	(44,134)
Movement in cash and cash equivalents		
At the beginning of the year	23,166	56,650
Increase (decrease) in cash and cash equivalents	(8,526)	(44,134)
At the end of the period	14,640	12,516

*Note: In 2018, the Company introduced IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the second quarter, the first half and the full year of 2017 presented in this report are restated retrospectively in line with IFRS 15.

(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 six months' period ending 30 June 2018 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 2017.

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 June 2018 are not audited. Financial statements for the year ended 31 December 2017 are audited by the external auditor UAB Deloitte Lietuva.

2 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
Six months ended 30 June 2017		
Opening net book amount as at 31 December 2016	291,818	124,512
Additions	23,209	3,676
Disposals and retirements	(115)	-
Reclassification	(29)	-
Depreciation and amortisation charge	(25,216)	(6,290)
Closing net book amount as at 30 June 2017	289,667	121,898
Six months ended 30 June 2018		
Opening net book amount as at 31 December 2017	290,435	122,401
Additions	29,385	4,728
Disposals and retirements	(146)	-
Reclassification	(1,907)	-
Depreciation and amortisation charge	(25,204)	(6,102)
Closing net book amount as at 30 June 2018	292,563	121,027

Note: In 2018, the Company introduced IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). Therefore, Consolidated Statements of Comprehensive Income, Financial Position, Changes in Equity and Cash Flow for the second quarter, the first half and the full year of 2017 presented in this report are restated retrospectively in line with IFRS 15.

(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 June 2018	31 December 2017	
Telia Customer Service LT, UAB	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and customer care services to customers of the Company.
Telia Global Services Lithuania, UAB	Lithuania	-	100%	On 1 June 2018, 196 employees of the Company were moved to earlier dormant subsidiary (until 30 January 2018 known as UAB Kompetencijos Ugdymo Centras) and on 1 June 2018 subsidiary was acquired by Telia Company AB, which holds 88.15% of the Company's shares.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary is implementing investment project.
VšĮ Numerio Perkėlimas	Lithuania	50%	50%	A non-profit organization established by Lithuanian telecommunications operators administers central database to ensure telephone number portability.
UAB Mobilieji Mokėjimai	Lithuania	33.3%	33.3%	An associated company is equally owned by three Lithuanian telecommunications operators 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-June 2018:

	Provision for restructuring	Assets retirement obligation	Total
Opening net book amount at 31 December 2017	13	10,728	10,741
Additions	-	-	-
Used provisions	(13)	(31)	(44)
Closing net book amount at 30 June 2018	0	10,697	10,697

The restructuring provision comprises of compensation to employees as a result of the restructuring plan approved by the Company. Provisions for restructuring were fully 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 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 2018 is taxable at a rate of 15 per cent in accordance with Lithuanian regulatory legislation on taxation (2017: 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 2 million. In 2018, the profit tax relief for investments was not applicable for the Company.

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–June	
	2018	2017 restated
Net profit	25,757	21,431
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613
Earnings per share (euro)	0.044	0.037

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

8 Dividends per share

A dividend that relates to the period to 31 December 2017 was approved by the Annual General Meeting of Shareholders on 25 April 2018. The total amount of allocated dividend, that was paid off in May 2018 was EUR 40,783 thousand or EUR 0.07 per ordinary share.

9 Business combination

On 1 February 2017, continuing plan for increasing synergies and cost saving, the Company's 100 per cent controlled subsidiaries – AB Omnitel and AB Baltic Data Center – were merged into the Company. The merger transaction was accounted at carrying values, used in the Group consolidated financial statements.

At the date of legal merger, the net assets of merged companies were the following:

	<u>1 February 2017</u>
Assets	
Non-current assets	
Property, plant and equipment	74,451
Goodwill	26,769
Intangible assets	87,293
Long term non-interest-bearing receivables	<u>10,315</u>
	198,828
Current assets	<u>71,283</u>
Total assets	270,111
Liabilities	
Non-current liabilities	25,850
Current liabilities	<u>85,081</u>
Total liabilities	110,931
Net assets of merged companies	159,180
Cost of investments	<u>145,317</u>
Result of legal merger	13,863

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.

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

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

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

9 Business combination (continued)

Goodwill arising on acquisition

Purchase consideration	144,107
Fair value of net assets acquired	<u>(119,376)</u>
Goodwill	24,731

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	74,845
Intangible assets	16,453	79,837
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)	(11,390)
Borrowings	<u>(77,000)</u>	<u>(77,000)</u>
Net assets acquired	<u>62,873</u>	<u>119,376</u>

*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>

(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 June 2018 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–June	
	2018	2017
Sales of telecommunication and other services	3,342	2,542
Total sales of telecommunication and other services	3,342	2,542
Purchases of services	12,331	5,865
Purchases of assets	7	254
Total purchases of services and assets:	12,338	5,939

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

	As at 30 June	
	2018	2017
Long-term receivables from related parties	223	251
Receivables from related parties	2,430	1,513
Accrued revenue from related parties	412	619
Total receivables and accrued revenue from related parties	3,065	2,383
Short-term borrowings from related parties	20,000	12,000
Payables to related parties	1,321	1,192
Accrued expenses to related parties	89	41
Total borrowings, payables and accrued expenses to related parties	21,410	13,233

As of 30 June 2018, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010, was not paid to one member of the Board.

On 1 June 2018, Telia Company AB for an amount of EUR 151 thousand acquired from the Company a 100% stake in the Company's subsidiary, Telia Global Services Lithuania, UAB, which was chosen as the base for the establishment of Telia Company Group shared service centre. Prior that 196 employees of the Company providing services to Telia Company Group were transferred to Telia Global Services Lithuania, UAB.

(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 Information Disclosure of the Bank of Lithuania, we, Dan Strömberg, 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 six months' period ended 30 June 2018, 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.

Dan Strömberg
CEO

Laimonas Devyžis
Head of Finance

Vilnius, 19 July 2018

INTERIM CONSOLIDATED REPORT

Approved by the Board

Reporting period

January-June of 2018

Issuer and its contact details

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

Main activities of the Group

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

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

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

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

- voice call termination on the mobile network;
- access to the public telephone network at a fixed location for residential customers;
- access to the public telephone network at a fixed location for non-residential customers;
- wholesale calls termination on individual public telephone networks provided at a fixed location;
- wholesale local access provided at a fixed location;
- wholesale central access for mass market products;
- wholesale high quality data transmission services via terminating segment;
- digital terrestrial television broadcasting transmission services provided by the Company in the territory of the Republic of Lithuania.

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

As of 30 June 2018, **Telia Lietuva Group** (hereinafter – ‘the Group’) consisted of the parent company, Telia Lietuva, AB, (registered on 6 February 1992, code 1212 15434, name of the Register of Legal Entities: State Enterprise Center of Registers; address: Lvovo str. 25, LT-03501 Vilnius tel.: +370 5 262 1511; fax. +370 5 212 6665; internet address: www.telia.lt), its subsidiaries and associates.

The following companies are **subsidiaries and associates** of Telia Lietuva, AB as of 30 June 2018:

Name of the company	Date of registration, code, name of the Register of Legal Entities	Contact details	The Company's share in the share capital of the company (%)	The Company's share of votes (%)
Telia Customer Service LT, UAB	27 July 1992, code 1104 01957, State Enterprise Center of Registers	Vytenio str. 18, LT-03503 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5 278 3322, www.118.lt	100.00	100.00
UAB Verslo Investicijos	13 November 2008, code 3022 47778, State Enterprise Center of Registers	Vytenio str. 18, LT-03229 Vilnius, Lithuania tel. + 370 5 262 1511, fax. +370 5 212 6665	100.00	100.00
VšĮ Numerio Perkėlimas	5 September 2014, code 303386211, State Enterprise Center of Registers	Jogailos str. 9, LT- 01116 Vilnius, Lithuania	-	50.00
UAB Mobilieji Mokėjimai	12 December 2016, code 3044 31143, State Enterprise Center of Registers	A. Tumėno str. 4, LT-01109 Vilnius, Lithuania tel. +370 699 23530	33.33	33.33

Telia Customer Service LT, UAB takes care of the Company's customers and provides Directory Inquiry service 118 in Lithuania.

Verslo Investicijos is implementing an investment project in Vilnius, at Lvovo str. 21A.

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

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

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

The decision to establish the first Telia Group shared service center in Lithuania was made in the autumn of 2017. A dormant subsidiary of Telia Lietuva, UAB Kompetencijos Ugdymo Centras, was chosen as the base for the establishment of the service centre. Therefore, on 30 January 2018 the company's name was changed to Telia Global Services Lithuania, UAB.

The Company has no branches or representative offices.

Agreements with intermediaries of public trading in securities

Since 1 December 2000, the Company and AB SEB Bankas (code 112021238), Gedimino ave. 12, LT-01103 Vilnius, have an agreement on accounting of the Company's securities and services related to the accounting of securities.

Data about securities traded on regulated market

Nasdaq Vilnius stock exchange is a home market for the Company's shares. Since January 2011, the Company's ordinary shares are included into the trading lists of the Berlin Stock Exchange (Berlin Open Market called *Freiverkehr*),

the Frankfurt Stock Exchange (Open Market (*Freiverkehr*)), the Munich Stock Exchange and the Stuttgart Stock Exchange. The Company's share symbol on German stock exchanges is ZWS.

The following securities of the Company are included into the Main List of Nasdaq Vilnius stock exchange, which is the home market for Telia Lietuva shares (code: TEL1L), as of 30 June 2018:

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

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

Information about related party transactions

Information about related party transactions is provided in Note 10 of Telia Lietuva, AB Consolidated Interim Financial Statements for the six months' period ended 30 June 2018.

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

The Company and its subsidiaries are providing to each other telecommunications, Contact Center and other services. The Company's subsidiaries have no interest in the share capital of the Company.

Telia Lietuva and Telia Lietuva Group through its largest shareholder, Telia Company AB, are related to Telia Company Group that provides telecommunication services in Nordic and Baltic countries. The main buyers and providers of telecommunications services to Telia Lietuva are Telia Carrier AB (Sweden), Telia Eesti AS (Estonia), LMT (Latvia), Telia Finland Oyj (Finland).

As of 30 June 2018, Telia Company AB had an outstanding short-term loan of EUR 20 million granted to Telia Lietuva.

Following the Law on Companies of the Republic of Lithuania, the Company provides information about related parties transactions on the Company's website www.telia.lt.

Risk management

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

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

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

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

On 18 December 2015, the Company signed an agreement with SEB Bank and Danske Bank for a long-term loan of EUR 150 million to finance the acquisition of shares in Omnitel and by 30 June 2018 the Company had repaid an amount of EUR 67.5 million from this loan.

In May 2017, the Company signed a syndicated loan agreement with three banks: AB SEB Bank (Lithuania), Danske Bank A/S (Denmark) and Nordea Bank AB (Sweden). Proceeds from a 5-years tenor EUR 60 million loan were used to refinance Telia Company's previously extended loan to Omnitel which was merged into the Company on 1 February 2017.

At the end of June 2018, the total amount of the Company's borrowings amounted to EUR 166.1 million (EUR 184.5 million a year ago), while the cash of the Group amounted to EUR 14.6 million (EUR 12.5 million in 2017). Thus, the net debt amounted to EUR 151.5 million (EUR 172 million a year ago) and net debt to equity (Gearing) ratio was 52.1 per cent (62 per cent at the end of June 2017).

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

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

Information about the Company's financial risk management is provided in Note 3 of the Company's Consolidated and Separate Financial Statements for the year ended 31 December 2017.

Plans and forecasts

After coping with challenges of two companies' integration and launch of a new brand in 2017, we set the four major goals based on our competitive advantages and willingness to win for the next three years: we will win the mobile market – not just to be the biggest, but to be a true leader; we will digitalise a customers' experience; we will win with the unique on the market converged "Telia One" offer, and we will win business customers choice for communication and IT services. This would lead us to creation of a New Generation Telco.

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

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

In 2018, the focus areas are digitalisation of the customer journey and improvement of services to our customers, taking of analytics to a whole new level and using the data we have to be really anticipating our customer needs, and continue simplification of our business and facing out new technologies.

Research and development activities

During 2018, besides the on-going development and improvement of existing services, the Company continues to create client offers combining fixed and mobile communication technologies as well as to test the latest technologies.

In January 2018, the Company introduced "Super VDSL" (S-VDSL) technology, which depending on the length of the copper line connecting the Company's exchange and end equipment provides up to 250 Mbps Internet speed. For comparison, traditional DSL technology ensures just up to 19 Mbps speed over the copper line. According to estimates,

more than 70 thousand businesses and residents having the Company's DSL lines especially in regional centres and smaller neighbourhoods where a lot of people live in private houses will be able to use high speed Internet provided by S-VDSL technology.

In June 2018, Telia Lietuva started a new era of Smart TV (IPTV) in Lithuania by launching IPTV service via mobile LTE 4G network all over the Lithuania. From now on Smart TV service is reaching homes not only via cables, but also through the fastest 4G network covering almost entire population of the country. The same as provided via cable, IPTV through the 4G connection offers over 100 channels, the majority whereof are high definition. Also, users can manage broadcasts, watch two-week-old records, choose the most recent films in video on demand or series in Kino Klubas (Cinema Club), while Vaikų Kampelis (Kids' Corner) features the content intended only for the youngest viewers. The Company is among the first in Europe to offer such a wide range of television content and possibilities via the mobile 4G connection.

Corporate Governance

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

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

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

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

The Company essentially follows a recommendatory Corporate Governance Code for the Companies Listed on Nasdaq Vilnius stock exchange (hereinafter 'the Governance Code') adopted in August 2006, amended in December 2009 and valid from 1 January 2010.

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

The Company prepared the disclosure of compliance with the principles and recommendation set by the Governance Code in Telia Lietuva, AB Corporate governance reporting form for the year ended 31 December 2017, which is available at the Company webpage as the Annex to Consolidated and Separate Financial Statements, Consolidated Annual Report and Independent Auditor's Report for the year ended 31 December 2017 at www.telia.lt.

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. As of 30 June 2018, the number of the Company's shares that provide voting rights during the General Meeting of

Shareholders amounted to 582,613,138. One ordinary registered share of the Company gives one vote in the General Meeting of Shareholders.

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

Treasury stocks

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

Dividends

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

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

The Board's activities

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

During its meetings the Board approved financial statements for the 12 months of 2017 and 3 months of 2018, financial statements and the consolidated annual report for the year ended 31 December 2017, convoked the Annual General Meetings of Shareholders and proposed to the Annual General Meeting to allocate profit for the year 2017. The Board also approved agreements with TV content providers, equipment vendors, electricity suppliers and related party transactions with subsidiaries UAB Mobilieji Mokėjimai and Telia Global Services Lithuania, UAB, appointed Head of Marketing and Communication, approved the Annual Variable Pay Instruction and the Remuneration Instruction as well as scorecard for 2018, elected members of the Audit and Remuneration Committees, approved network investment strategy. The Board followed up implementation of the business and investment plans for the year 2018.

The members of the Board Stefan Block, Ole Stenkil, Inga Skisaker and Rolandas Viršilas have resigned from the Board as of 24 April 2018 and were substituted by Agneta Wallmark, Hannu-Matti Mäkinen, Tomas Balžekas and Mindaugas Glodas who were elected to the Board (for the current term of the Board) at the Annual General Meeting, held on 25 April 2018.

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

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

During the first half of 2018 two meetings of the Remuneration Committee were held. The following issues were considered during these meetings: the Company's Management team members' performance review for the year 2017, review of salary market movement and proposed salary increase budget for 2018, update on the Remuneration Instructions, election of the Chairperson of the newly elected Remuneration Committee, review of the Company's top management salary, update on People roundtable action points and follow up of Occupational Health and Safety KPI's. All at that time members of the Committee attended all meetings of the Committee. Both meetings were chaired by Chairwoman of the Committee, Henriette Wendt.

During January-June 2018, three meetings of the Audit Committee were held, during which the report by external auditors regarding the financial statements for the year 2017 as well internal audit and risk management reports were considered. In addition, following the requirements of the Law on Companies of the Republic of Lithuania, the Audit Committee produced written opinions regarding not typical to the Company's activities related parties' transactions and submitted their opinions to the Board for the final approval of transactions. During the first half of 2018, there were four related parties' transaction that the Audit Committee had to consider. The first two meetings of the Audit Committee were attended by all the then members of the Committee and were chaired by the then Chairman of the Committee, Stefan Block. The third meeting was attended by two newly elected members of the Audit Committee – Agneta Wallmark and Tomas Balžekas, while the third newly elected member of the Committee, Mindaugas Glodas, who is also a member of the Remuneration Committee, was attending the Remuneration Committee meeting, which was held at the same time. The third meeting was chaired by newly elected Chairwoman of the Committee, Agneta Wallmark.

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

	General Meeting of Shareholders	Board Meeting	Meeting of the Audit Committee	Meeting of the Remuneration Committee
The total number of meetings	1	6	3	2
Henriette Wendt	1	6	n/a	2
Claes Nycander	1	6	n/a	2
Stefan Block (till 24-04-2018)	-	4	2	n/a
Ole Stenkil (till 24-04-2018)	-	4	2	n/a
Inga Skisaker (till 24-04-2018)	-	2	2	n/a
Rolandas Viršilas (till 24-04-2018)	-	2	n/a	1
Agneta Wallmark (from 25-04-2018)	1	2	1	n/a
Hannu-Matti Mäkinen (from 25-04-2018)	1	2	n/a	n/a
Tomas Balžekas (from 25-04-2018)	1	2	1	n/a
Mindaugas Glodas (from 25-04-2018)	1	2	-	1

The Chairwoman of the Board Henriette Wendt, member of the Board Claes Nycander and all four nominees for election to the Board – Agneta Wallmark, Hannu-Matti Mäkinen, Tomas Balžekas and Mindaugas Glodas – as well as the then CEO of the Company Kęstutis Šliužas participated at the Annual General Meeting of Shareholders on 25 April 2018.

On 25 April 2018, the shareholders resolved to allocate for two independent members to the Board who resigned from the Board as of 24 April 2018 – Inga Skisaker and Rolandas Viršilas – the total amount of EUR 31,280, or EUR 15,640 each, as a tantiemes (annual payment) for the year 2017. As of 30 June 2018, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010 was not paid to the then member of the Board who had not provided written requests to the Company.

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

Members of the Board as of 30 June 2018

Henriette Wendt (born in 1969) – Chairwoman of the Board, member of the Board since 27 April 2017 (nominated by Telia Company AB), Chairwoman of the Remuneration Committee. Education: ESSEC Business School Paris (France), Master's degree in Business Administration; Copenhagen Business School (Denmark), Bachelor's degree in Economics. Employment – Telia Company AB (Sweden), Senior Vice President, Head of cluster LED (Lithuania, Estonia and Denmark) until 1 June 2018. Current Board assignments – Telia Eesti AS (Estonia), member of the Supervisory Council. Henriette Wendt has no direct interest in the share capital of Telia Lietuva. She owns 8,500 of Telia Company's shares. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Agneta Wallmark (born in 1960) – member of the Board since 25 April 2018 (nominated by Telia Company AB), Chairwoman of the Audit Committee. Education: Stockholm School of Economics (Sweden), B. Sc. Econ with special focus on Accounting and Finance and Stockholm University (Sweden), LL M with special focus on Tax and Economics. Employment – Telia Company AB (Sweden), Vice President, Head of Treasury. Current Board assignments: Telia Insurance AB (Sweden), Chairwoman of the Board, and Swedish Pension Fund of Telia (Sweden), Member of the Board.

Agneta Wallmark has no direct interest in the share capital of Telia Lietuva and has no shareholdings that exceed 5 per cent of the share capital of any company.

Claes Nycander (born in 1963) – member of the Board since 29 April 2014, re-elected for the two-year term on 29 April 2015 and 27 April 2017 (nominated by Telia Company AB), member of the Remuneration Committee. Education: Uppsala University (Sweden), Master of Business and Administration, Stanford University Palo Alto (U.S.A.), Master of Science in Electrical Engineering, Institute of Technology at University of Linköping (Sweden), Master of Science in Electrical Engineering, and University of Linköping (Sweden), Bachelor of Science in Mathematics. Employment – Telia Company AB (Sweden), Vice President and Head of Special Projects & LED (Lithuania, Estonia, Denmark) Management at Group Service Operations. Current Board Assignments: TT Nätverket A/S (Denmark), Chairman of the Board; Telia Towers Sweden AB (Sweden), Chairman of the Board; Telia Company Danmark A/S (Denmark), Chairman of the Board; Systecon AB (Sweden), member of the Board; Svenska UMTS-Nät AB (Sweden), member of the Board; LMT SIA (Latvia), member of the Supervisory Council, and Telia Eesti AS (Estonia), member of the Supervisory Council. Claes Nycander has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Hannu-Matti Mäkinen (born in 1970) – member of the Board since 25 April 2018 (nominated by Telia Company AB). Education: University of Arizona (U.S.A), College of Law, LL.M (Masters of Laws) in International Trade Law, and University of Lapland (Finland), School of Law, LL. B (Bachelor of Laws) and LL.M (Masters of Laws) in Finnish and EU-Law. Employment – Telia Company AB (Sweden), Vice President, Head of Legal at Corporate Holdings unit. Current Board Assignments: Telia Finland Oyj (Finland), member of the Board; Tilts Communications A/S (Denmark), member of the Board; Turkcell Holding A.S. (Turkey), member of the Board, and Lattelecom SIA (Latvia), member of the Supervisory Council. Hannu-Matti Mäkinen has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Tomas Balžekas (born in 1977) – member of the Board since 25 April 2018 (as independent member of the Board nominated by Telia Company AB), member of the Audit Committee. Education: Concordia University Wisconsin (U.S.A.), Master of Business Administration (MBA), Finance; Concordia University Wisconsin (U.S.A.), Bachelor of International Business, and Concordia International University Estonia, Bachelor of International Business. Employment: UAB Media Bitės (Lithuania), General Manager (CEO). Involvement in activities of other entities: UAB Media Bitės (Lithuania), shareholder (51 per cent); UAB Mano Daktaras (Lithuania), a subsidiary of UAB Media Bitės, General Manager (CEO); UAB Balžeko Bitės (Lithuania), shareholder (100 per cent); UAB Lions Share (Lithuania), shareholder (24 per cent); UAB InsurTech Solutions (Lithuania), shareholder (18 per cent); VšĮ Kino Pasaka (Lithuania), founder and owner (50 per cent); VšĮ Tiriamosios Žurnalistikos Centras (Lithuania), owner (100 per cent), and VšĮ Lietuvos Nacionalinis Radijas ir Televizija (Lithuanian National Radio and Television), member of the Council. Tomas Balžekas has no direct interest in the share capital of Telia Lietuva

Mindaugas Glodas (born in 1972) – member of the Board since 25 April 2018 (as independent member of the Board nominated by Telia Company AB), member of the Audit and Remuneration Committees. Education: University of Antwerp, Centre for Business Administration UFSIA (Belgium), Master in Business Administration (MBA), and Vilnius University, Faculty of Economics (Lithuania), Bachelor in Business Administration (BBA). Employment – UAB Nextury Ventures (Lithuania), Partner & General Manager. Involvement in activities of other entities: UAB Energijos Sprendimų Centras (Lithuania), Member of the Board; Council for Research, Development and Innovations at the Government of Lithuania, Member of the Council; Agency for Science, Innovations and Technologies (Lithuania), Member of Coordinating Council; Association Žinių Ekonomikos Forumas (Lithuania), Chairman of the Council; MB Vox Proxima (Lithuania), Member of partnership (50 per cent), and General Manager of the following Lithuanian start-ups: UAB Sharecruit, UAB Baltic Arrow and UAB Airthemes. Mindaugas Glodas has no direct interest in the share capital of Telia Lietuva.

Members of the Management Team as of 30 June 2018

On 3 July 2018, the Board appointed Dan Strömberg as a new CEO of Telia Lietuva starting from 4 July 2018, following the resignation of Kęstutis Šliužas from the CEO position as of 3 July 2018.

Kęstutis Šliužas (born in 1972) – CEO from 1 November of 2013 till 3 July 2018. Education – Vilnius University (Lithuania), Bachelor's and Master's degrees. Involvement in activities of other entities: Telia Company AB (Sweden), cluster of Lithuania, Estonia and Denmark, member of the management team; UAB Mobilieji Mokėjimai (Lithuania), member of Supervisory Council; Kaunas Technology University (Lithuania), member of the Council; Vilnius Tech Park (Lithuania), member of the Council; Investors' Forum (Lithuania), member of the Board; Baltic Institute of Corporate Governance, member of the Board, and Young Presidents Organization Lithuania Chapter, member of the Board.

Kęstutis Šliužas has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Dan Strömberg (born in 1958) – CEO from 4 July 2018. Education: IHM/Stockholm University (Sweden), Finance and IHM Business School (Sweden), Marketing. Involvement in activities of other entities – Lattelecom SIA (Latvia), Deputy Chairman of the Supervisory Council. Dan Strömberg has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Mindaugas Ubartas (born in 1978) – Head of B2B from April 2017. Education – Vytautas Magnus University (Lithuania), Management Faculty, Bachelor's degree (2000) and Master's degree (2002). Involved in activities of other entities – Association INFOBALT (Lithuania), member of the Board. Mindaugas Ubartas has no direct interest in the share capital of Telia Lietuva. He is a sole shareholder of UAB Galvaninė Chemija (Lithuania)

Haval van Drumpt (born in 1971) – Head of B2C from 1 January 2018. Education: Stockholm School of Economics (Sweden), Strategy and Business Governance; Företagsuniversitetet, Stockholm (Sweden), Diploma in Marketing, and IHM Business School, Stockholm (Sweden), IHM Key Account Management. He is not involved in activities of other entities. Haval van Drumpt has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

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

Laimonas Devyžis (born in 1982) – Head of Finance from 1 January 2016. Education: ACCA (Association of Chartered and Certified Accountants) (Glasgow, UK); Stockholm School of Economics in Riga (Latvia), Bachelor of Science in Economics & Business Administration. Involvement in activities of other entities: UAB LD Corporate Consulting (Lithuania), 100 per cent owner and Director, and UAB Mobilieji Mokėjimai (Lithuania), member of the Board. Laimonas Devyžis has no direct interest in the share capital of Telia Lietuva, and has no other shareholdings that exceed 5 per cent of the share capital of any company.

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

Giedrė Kaminskaitė-Salters (born in 1978) – General Counsel and Head of Public Affairs from 7 December 2015 and Chief Analytics Officer from 1 May 2018. Education: Maastricht University (The Netherlands), Doctor of Law; BPP Law School, London (United Kingdom), law conversion studies, juris doctor equivalent; Oxford University (United Kingdom), MPhil in Russian and East European Studies; London School of Economics (United Kingdom), Bachelor of Science in International Relations. Involvement in activities of other entities: Telia Company AB (Sweden), cluster of Lithuania, Estonia and Denmark, member of the management team responsible for Legal issues; LMT SIA (Latvia), member of the Supervisory Council; UAB Litexpo (Lithuania), Chairwoman of the Board, and Association Lyderė (Lithuania), member of the Board. Giedrė Kaminskaitė-Salters has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Vaida Jurkonienė (born in 1971) – Head of Marketing and Communication from 12 February 2018. Education: Kaunas Technology University (Lithuania), Bachelor of Business Administration (following Norwegian Business School BI program), and Kaunas Technology University (Lithuania), Master in Economics studies. She is not involved in activities of other entities. Vaida Jurkonienė has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Mantas Goštautas (born in 1981) – Head of Business Development from 17 August 2015. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration; CIMA (Chartered Institute of Management Accounting) (London, UK), Certificate in Business Accounting; Stockholm School of Economics in Riga (Latvia), Bachelor in Economics and Business Administration. Involvement in activities of other entities – Vilnius Tech

Park (Lithuania), member of the Selection Committee. Mantas Goštautas has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Vytautas Bučinskis (born in 1974) – Head of Operational Excellence from 15 December 2017. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration; Kaunas Technology University (Lithuania), Bachelor of Management of Production and Master of Marketing. Involvement in activities of other entities: Member of the Cyber Security Council (Lithuania); Deputy Chairman of INFOBALT (Lithuania) Cybersecurity Group; Deputy Chairman of European Telecommunications Network Operator's (ETNO) Association Cybersecurity Committee. Vytautas Bučinskis has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

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

Personnel

Number of Telia Lietuva Group employees:

	30 June 2018	30 June 2017	Change (%)
Number of personnel (headcounts)	2,722	3,104	(12.3)
Number of full time employees	2,469	2,817	(12.4)

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

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

Name of the company	30 June 2018	30 June 2017	Change
Telia Lietuva, AB	2,003	2,219	(216)
Telia Customer Service LT, UAB	719	885	(166)
	2,722	3,104	(382)

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

As of 30 June 2018, valid Collective Bargaining Agreement between the Company, as the employer, and employees of the Company, represented by joint representation of Trade Unions, came into force from 25 April 2007.

This Collective Bargaining Agreement applies only to employees of the Company. If provisions of the Collective Bargaining Agreement are more favourable than the same provisions of individual labour agreements, then provisions of the Agreement shall apply. If provisions of the Agreement are more favourable than new legislation imposed during the period of the Agreement validity, provisions of the Agreement shall apply. More detailed information about the Collective Bargaining Agreement as well as People and Remuneration Policies is provided in the Company's Consolidated Annual Report for the year ended 31 December 2017.

For a number of years, the Company provides additional health insurance to all employees of the Company as well as those employees of Telia Customer Service LT that have a longer employment record. Employees also could insure their family members – spouses and children.

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

In June 2018, Telia Lietuva was awarded as The Most Desired Employer of the Year for a second year in a row by business daily Verslo Žinios. The Company won the title of The Most Desired Employer in Technology Sector as well.

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Information Disclosure of the Bank of Lithuania, we, Dan Strömberg, CEO of Telia Lietuva, AB, and Laimonas Devyžis, Head of Finance of Telia Lietuva, AB, hereby confirm that, to the best of our knowledge, Telia Lietuva, AB Consolidated Interim Report for the six months period ended 30 June 2018 includes a fair review of the development and performance of the business and the position of the Company and the Group of undertakings in relation to the description of the main risks and contingencies faced thereby.

Dan Strömberg
CEO

Laimonas Devyžis
Head of Finance