

# TELIA LIETUVA, AB

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS' PERIOD ENDED 30 SEPTEMBER 2018  
(UNAUDITED)**



Beginning of the financial year	1 January 2018
End of reporting period	30 September 2018
Name of the company	<b>Telia Lietuva, AB</b> (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

### Third quarter of 2018\*:

- Total revenue amounted to EUR 96.4 million, up by 6.7 per cent over restated revenue of EUR 90.4 million in the third quarter of 2017.
- EBITDA, excluding non-recurring items, was EUR 33.9 million, an increase of 3.2 per cent over restated EBITDA, excluding non-recurring items, of EUR 32.9 million in the third quarter of 2017.
- Profit for the period was EUR 16 million, up by 10.9 per cent over restated profit of EUR 14.4 million a year ago.

### First nine months of 2018\*:

- Total revenue amounted to EUR 279.7 million, up by 3.6 per cent over restated revenue of EUR 269.9 million for the nine months of 2017.
- EBITDA, excluding non-recurring items, was EUR 95.7 million, an increase of 5.9 per cent over restated EBITDA, excluding non-recurring items, of EUR 90.4 million for the nine months of 2017.
- Profit for the period was EUR 41.2 million, up by 14.8 per cent over profit of EUR 35.9 million a year ago.
- Free cash flow amounted to EUR 32 million (EUR 31.3 million a year ago).

### Management comment:

During the third quarter we closed one chapter of pay-TV history in Lithuania – terminated provision of digital terrestrial (DVB-T) television to our customers, and lifted it up to another level by offering award winning HBO content on our IPTV platform. Successful launch of converged IPTV over LTE service in June of 2018 was a bridge for smooth transition from outdated terrestrial TV rebroadcasting to interactive and modern IPTV experience even in remote and rural areas.

Another change that occurred in August was a facelift of our pre-paid mobile communication service brand “Ežys” and simplification of pre-paid payment plans to suit the real needs of our customers – just services that are required. And as a result, we stopped the decline in number of pre-paid service users that we had experienced during the last years.

Cooperation of three major telecommunications operators in Lithuania is finally bearing fruit – the Beta version of the instant mobile payment platform MoQ created by Bitė Lietuva, Tele2 and Telia Lietuva was successfully launched in August 2018. More than 30 thousand customers already downloaded the application and could use it for instant settlements at more than 700 locations (shops, cafés, gas stations, etc.) and at majority of the on-line shops in Lithuania.

Innovative converged solutions such as hybrid-type Internet and IPTV over LTE together with Super VDSL (S-VDSL) not only prevent the churn of customers of outdated technologies, but provide the customers with the modern experience and broader possibilities. Almost 25 thousand of our customers are already enjoying higher speed, more data and more TV content by taking an advantage of unique on the market converged offer “Telia One”.

In spite of tough competition, over the last twelve months we managed to increase the number of our customers:

- Number of IPTV users increased by 11.3 per cent up to 227 thousand,
- Number of post-paid service users grew by 5.9 per cent up to 1,120 thousand,
- Number of FTTH Internet customers rose by 5.4 per cent up to 273 thousand.

In general, the third quarter was the best in 2018 in terms of both revenue and profitability. Over the year:

- Revenue from equipment sales grew by 18 per cent,
- Revenue from mobile services was up by 12.3 per cent,
- Revenue from TV services increased by 10.1 per cent.

We continue to invest into expansion of fiber-optic and 4G networks to ensure connectivity and high speed of data transmission all over the country. During the nine months of 2018, in total EUR 33.1 million or 28.8 per cent more than a year ago was invested into mobile and fixed networks. The Company has already started preparations for the 5G era.

On 3 October 2018, Lithuania joined European Commission's initiative Diversity Charter. Following a sustainable development strategy, Telia Lietuva was one of almost 30 Lithuanian companies that signed the Charter. By signing the Charter Telia Lietuva commits to promote diversity and equal opportunities at the workplace.

*\* 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 9 months period of 2017 was as follows: total revenue was reduced by EUR 233 thousand, while total operating expenses were increased by EUR 598 thousand, having a total negative effect of EUR 831 thousand on EBITDA and EBIT.*

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

## KEY FIGURES OF THE GROUP

Financial figures	January–September		Change (%)
	2018	2017 restated*	
Revenue	279,707	269,904	3.6
EBITDA excluding non-recurring items	95,675	90,365	5.9
EBITDA margin excluding non-recurring items (%)	34.2	33.5	
EBITDA	94,512	87,918	7.5
EBITDA margin (%)	33.8	32.6	
Operating profit (EBIT) excluding non-recurring items	48,581	42,393	14.6
EBIT margin excluding non-recurring items (%)	17.4	15.7	
Operating profit (EBIT)	47,418	39,946	18.7
EBIT margin (%)	17.0	14.8	
Profit before income tax	47,353	39,099	21.1
Profit before income tax margin (%)	16.9	14.5	
Profit for the period	41,197	35,878	14.8
Profit for the period margin (%)	14.7	13.3	
Earnings per share (EUR)	0.071	0.062	
Number of shares (thousand)	582,613	582,613	-
Cash flow from operations	77,033	79,434	(3.0)
Operating free cash flow	32,005	31,286	2.3
<b>Operating figures</b>	<b>30-09-2018</b>	<b>30-09-2017</b>	<b>Change (%)</b>
Mobile service subscriptions, in total (thousand)	1,398	1,350	3.6
- Post-paid (thousand)	1,120	1,058	5.9
- Pre-paid (thousand)	278	292	(4.8)
Broadband Internet connections (excl. Wi-Fi), in total (thousand)	412	406	1.5
- Fiber-optic (FTTH/B) (thousand)	273	259	5.4
- Copper (DSL) (thousand)	139	147	(5.4)
Fixed telephone lines in service (thousand)	372	428	(13.1)
TV services customers, in total (thousand)	244	237	3.0
- IPTV (thousand)	227	204	11.3
- Digital terrestrial TV (DVB-T) (thousand)	17	33	(48.5)
Number of personnel (head-counts)	2,703	3,017	(10.4)
Number of full-time employees	2,452	2,709	(9.5)
<b>Financial ratios</b>	<b>30-09-2018</b>	<b>30-09-2017*</b>	
Return on capital employed (%)	13.5	11.2	
Return on average assets (%)	10.9	9.2	
Return on shareholders' equity (%)	18.2	16.4	
Operating cash flow to sales (%)	29.6	30.0	
Gearing ratio (%)	48.1	53.7	
Debt to equity ratio (%)	55.0	61.6	
Current ratio (%)	121.2	153.0	
Rate of turnover of assets (%)	67.8	65.1	
Equity to assets ratio (%)	54.8	53.2	

\*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 third quarter, the nine months 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)

## REVENUE

During the third quarter of 2018 the Company issued a restatement of revenue for the first and second quarters, and the first half of 2017. Due to introduction of IFRS 15 restated and earlier reported total revenue for the first and second quarters, and the first half of 2017 remain unchanged. An amount of EUR 275 thousand was moved from revenue line "Voice telephony services" to revenue lines "Other services" (EUR 36 thousand) and "Other mobile services" (EUR 239 thousand) for the first quarter of 2017. An amount of EUR 352 thousand was moved from revenue line "Voice telephony services" to revenue line "Other mobile services" for the second quarter of 2017. In addition, the revenue for the second quarter and the first half of 2018 was restated due to changed revenue treatment related to divestment of Telia Global Services Lithuania, UAB and an amount of EUR 577 thousand was deducted from revenue line "Other services" for the second quarter and the first half of 2018.

Restated breakdown of revenue by services	January-March		April-June		January-June	
	2018	2017	2018	2017	2018	2017
<b>Fixed services</b>	<b>46,136</b>	<b>45,788</b>	<b>44,927</b>	<b>52,752</b>	<b>91,063</b>	<b>98,540</b>
Voice telephony services	16,642	17,403	14,924	23,914	31,566	41,317
Internet services	14,487	14,403	14,574	14,468	29,061	28,871
Data communication and network capacity services	4,690	4,853	4,804	4,804	9,494	9,657
TV services	6,321	5,870	6,707	5,872	13,028	11,742
IT services	2,610	2,420	2,351	2,390	4,961	4,810
Other services	1,386	839	1,567	1,304	2,953	2,143
<b>Mobile services</b>	<b>28,394</b>	<b>25,823</b>	<b>29,946</b>	<b>26,502</b>	<b>58,340</b>	<b>52,325</b>
Billed services	23,589	21,136	24,630	21,885	48,219	43,021
Other mobile service	4,805	4,687	5,316	4,617	10,121	9,304
<b>Equipment</b>	<b>16,237</b>	<b>13,278</b>	<b>17,632</b>	<b>15,353</b>	<b>33,869</b>	<b>28,632</b>
<b>Total</b>	<b>90,767</b>	<b>84,889</b>	<b>92,505</b>	<b>94,607</b>	<b>183,272</b>	<b>179,497</b>

Due to the introduction of IFRS 15 "Revenue from Contracts with Customers" and to have comparable data, revenue for the third quarter and the nine months of 2017 was restated. The major impact was that amounts of EUR 799 thousand for the third quarter of 2017 and EUR 2,421 thousand for the nine months 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 third quarter of 2017 was increased by EUR 161 thousand, while the restated total revenue for the nine months of 2017 were reduced by EUR 233 thousand.

Breakdown of revenue by services	July-September		Change (%)	January-September		Change (%)
	2018	2017 (restated)		2018	2017 (restated)	
<b>Fixed services</b>	<b>45,066</b>	<b>45,814</b>	<b>(1.6)</b>	<b>136,130</b>	<b>144,354</b>	<b>(5.7)</b>
Voice telephony services	15,765	16,440	(4.1)	47,331	57,757	(18.1)
Internet services	14,471	14,682	(1.4)	43,532	43,553	-
Data communication and network capacity services	4,803	4,661	3.0	14,297	14,318	(0.1)
TV services	6,427	5,925	8.5	19,455	17,667	10.1
IT services	2,556	2,515	1.6	7,517	7,325	2.6
Other services	1,044	1,591	(34.4)	3,998	3,734	7.1
<b>Mobile services</b>	<b>31,440</b>	<b>27,650</b>	<b>13.7</b>	<b>89,780</b>	<b>79,975</b>	<b>12.3</b>
Billed services	25,467	22,105	15.2	73,686	65,126	13.1
Other mobile service	5,973	5,545	7.7	16,094	14,849	8.4
<b>Equipment</b>	<b>19,929</b>	<b>16,943</b>	<b>17.6</b>	<b>53,797</b>	<b>45,575</b>	<b>18.0</b>
<b>Total</b>	<b>96,435</b>	<b>90,407</b>	<b>6.7</b>	<b>279,707</b>	<b>269,904</b>	<b>3.6</b>

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

Driven by the growth of revenue from mobile communication and TV services, and supported by continuously increase in volume of equipment sale the **total consolidated revenue** in July-September of 2018 amounted to EUR 96.4 million and was by 6.7 per cent higher than the restated revenue of EUR 90.4 million for the third quarter of 2017. Compared with revenue for the first and second quarter of 2018 revenue for the third quarter was higher by 6.2 and 4.2 per cent, respectively.

As a result, the total revenue for the nine months of 2018 increased by 3.6 per cent, over the restated total revenue of EUR 269.9 million a year ago, and amounted to EUR 279.7 million.

Share of revenue from fixed and mobile communication services amounted to 48.7 and 32.1 per cent, respectively, from the total revenue for January-September of 2018. Share of revenue from equipment sales was 19.2 per cent.

During the first nine months of 2018, revenue from services provided to residential customers (B2C) amounted to 57.7 per cent, to business customers (B2B) – 41.5 per cent and others – 0.8 per cent of the total revenue.

More customers took advantage of our converged offer “Telia One”, that was launched a year ago and gives more value – higher speed, more data and more TV content – to those who have both fixed and mobile services of Telia Lietuva. By the end of September 2018, the number of such customers reached almost 25 thousand.

During January-September of 2018, the number of post-paid **mobile** communication service users was up by 45 thousand and the number of pre-paid service users also increased by 1 thousand. Over the last twelve months, the number of post-paid service users went up by 62 thousand, while the number of pre-paid service users contracted by 14 thousand. Over the year, the total number of active mobile subscriptions increased by 48 thousand.

In August 2018, pre-paid mobile communication service “Ežys” was facelifted and is now offering a simplified payment plan portfolio – just the services that customer really need: only voice minutes, only mobile data or combination of both.

Net increase in the number of active mobile subscriptions and the continuously growing usage of mobile data resulted in a double-digit growth in billed revenue from mobile services. During January-September of 2018, the amount of data used by mobile devices was by 1.6 times higher than a year ago, while the amount of data used by Telia Lietuva customers while abroad over the year almost doubled due to the elimination of roaming charges in the European Union from 15 June 2017.

Revenue from **other mobile services** include revenue from the Company's mobile network interconnections as well as roaming charges to country visitors and other network services. Over the year, revenue from roaming charges to country visitors increased by 1.4 times. 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 the third quarter of 2018, revenue from retail fixed **voice telephony** services decreased by 14.8 per cent, while revenue from network interconnection services mainly due to higher voice transit traffic increased by 8.6 per cent, compared with the third quarter of 2018.

During January-September of 2018, the number of fixed telephone lines in service contracted by 44 thousand and over the last twelve months – by 56 thousand. Over the year, the total retail fixed voice telephony traffic decreased by 19.2 per cent. As a result, the revenue from retail voice telephony services for the first nine months of 2018 went down by 14.4 per cent, while revenue from network interconnection services decreased by 21.4 per cent due to lower voice transit traffic during the first six months of 2018.

During January-September of 2018, the number of fixed **broadband Internet access** users over fiber-optic network using FTTH/B technologies increased by 9 thousand, while the number of broadband Internet service users over the copper DSL connections eased by 5 thousand. The total net increase in the number of broadband Internet (excluding Wi-Fi) access users was 4 thousand.

Over the last twelve months, the total number of broadband Internet access (excluding Wi-Fi) users increased by 6 thousand. The number of FTTH/B connections increased by 14 thousand and reached 273 thousand at the end of September 2018, while the number of copper DSL connections eased by 8 thousand to 139 thousand. By the end of the third quarter of 2018, the number of Internet connections over the fiber-optic access network amounted to 66 per cent of all 412 thousand broadband Internet (excluding Wi-Fi) connections.

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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 September 2018, more than 12 thousand of Internet connections over the copper line migrated from traditional DSL to S-VDSL technology and up to 30 thousand could be potentially migrated in the nearest future.

Compared with the same periods in 2017, revenue from **data communication** services alone during the third quarter and the first nine months of 2018 increased by 3.8 and 3 per cent, respectively, while revenue from **network capacity** services alone during July-September increased by 2 per cent, but for the nine months’ period was lower by 4.5 per cent than a year ago.

During January-September of 2018, the number of IPTV (including “Interneto.tv”) service users increased by 16 thousand, while over the year it rose by 23 thousand and by the end of September 2018 amounted to 227 thousand. During the last twelve months, the number of digital terrestrial television (DVB-T) users decreased by 16 thousand and amounted to 17 thousand on 30 September 2018. Over the year, the total number of **television** service customers went up by 7 thousand.

IPTV service via mobile LTE 4G network was launched in June 2018 and is available almost all over the country. The same as provided via cable, IPTV through the 4G connection offers over 100 channels and the same features as over the cable. IPTV over LTE is a substitute to outdated digital terrestrial television (DVB-T) service in remote or rural areas where cable network is not accessible.

Since August 2018, the Company’s IPTV service was enriched with award-winning premium programming of HBO. Our customers can exclusively enjoy numerous world class TV series, movies and documentaries.

In September 2018, the Company terminated provision of digital terrestrial television and the majority of this service users migrated to IPTV over the cable or IPTV over LTE service. The remaining DVB-T service customers continue to use the TV set-top-boxes provided by the Company and could use “Interneto.tv” service.

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

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

Revenue from **other services** consists of the non-telecommunication services such as Contact Center services provided to external customers, lease of premises, discount refunds and other. During the first nine months of 2018, revenue from Contact Center services, compared with the same period in 2017, decreased by 66.4 per cent, because from 1 February 2017 the Company’s subsidiary ceased to provide services to external customers except the Directory Inquiry service 118. Revenue from other non-core business services for January-September of 2018, compared with the same period a year ago, increased by 11.1 per cent.

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 nine months of 2018, the non-recurring gain from sales of property amounted to EUR 424 thousand.

## MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue in the second quarter of 2018 increased by 3.8 per cent compared with the first quarter of 2018 or by 0.4 per cent compared with the second quarter of 2017, and amounted to EUR 175 million.

Telia Lietuva remains the largest telecommunications’ service provider in Lithuania with the market share (in term of revenue) of 40.8 per cent for the second quarter of 2018, a decrease of 1 percentage point compared with the first quarter of 2018 and a 3.2 percentage point over the last twelve months.



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

	The market shares in terms of customers (%)		The market shares in terms of revenue (%)	
	Q2 2018	Change (p.p.) (y-o-y)	Q2 2018	Change (p.p.) (y-o-y)
Fixed voice telephony services	84.6	(3.3)	90.7	(0.9)
Mobile voice telephony services	29.6	1.8	29.2	2.1
Fixed Internet access	52.0	1.5	61.1	1.0
Mobile Internet access	29.0	(2.2)	29.4	(3.3)
Pay-TV services	34.8	2.1	42.3	2.8
Data communication services	n/a	n/a	66.5	(4.3)

According to the Reports of the CRA, on 30 June 2018, broadband Internet penetration per 100 residents of Lithuania was 45.4 per cent (39.7 per cent a year ago) and pay-TV penetration per 100 households was 52 per cent (56.2 per cent a year ago). The penetration of active mobile communication users per 100 residents was 134 per cent (129.9 per cent a year ago) and penetration of fixed voice telephony lines per 100 households – 33.2 per cent (39.4 per cent a year ago).

## OPERATING EXPENSES

During July-September of 2018, **cost of goods and services** increased by 13.9 per cent over the cost of goods and services for the same period a year ago, mainly due to higher equipment sales and increased volume of voice transit traffic. Accordingly, cost of goods and services for the first nine months of 2018 were 6.3 per cent higher than cost of goods and services for January-September of 2017.

Due to introduction of IFRS 15 and restatement of Statement of Comprehensive Income for the year 2017, employee-related expenses for the third quarter of 2017 were reduced by EUR 868 thousand, while other expenses for the same period were increased by EUR 980 thousand. Accordingly, employee-related expenses for the first nine months of 2017 were reduced by EUR 2.4 million, and other expenses for the same period were increased by EUR 3 million. As a result, restated total operating expenses (excluding cost of goods and services) for July-September of 2017 were increased by EUR 112 thousand, and for the first nine months of 2017 – by EUR 598 thousand.

**Operating expenses** (excluding cost of goods and services, and non-recurring items) for the third quarter of 2018 were 0.2 per cent lower than restated operating expenses in July-September of 2017, and operating expenses for the first nine months of 2018 were 3.4 per cent lower than a year ago.

**Employee-related expenses** (excluding one-time redundancy pay-outs) during the third quarter of 2018 decreased by 13.4 per cent over restated employee-related expenses (excluding one-time redundancy pay-outs) for the third quarter of 2017 mainly because of 196 employees of the Company transfer to a disposed subsidiary. As a result, employee-related expenses (excluding one-time redundancy pay-outs) for the first nine months of 2018 were 7.6 per cent lower than a year ago. During January-September of 2018, the Company had a non-recurring redundancy charge that amounted to EUR 1.6 million (EUR 1.6 million a year ago).

During July-September of 2018, the total **number of employees** (headcount) decreased by 19, but during the first nine months of 2018 – by 324 mainly because 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, during January-September of 2018, the number of consultants at the Company's subsidiary, Telia Customer Service LT, UAB, that remotely takes care of the Company's customers, went down by 63. Over the last twelve months, the total number of Telia Lietuva Group employees decreased by 314 – from 3,017 to 2,703.

In terms of full-time employees (FTE), the total number of Telia Lietuva Group employees during January-September of 2018 contracted by 281 (196 whereof moved to Telia shared service center), while over the last twelve months the total number of FTE decreased by 257 from 2,709 to 2,452.

**Other expenses** for the third quarter of 2018 were 14.7 per cent higher than restated other expenses (excluding non-recurring items) a year ago, while other expenses for January-September of 2018 were just 1.5 per cent higher than restated operating expenses (excluding non-recurring items) in 2017. During January-September of 2017, the Company incurred non-recurring expenses related to rebranding that amounted to EUR 0.8 million.

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

## EARNINGS

Restatement of financial data for year 2017 following the introduction of IFRS 15 from 1 January 2018 had a positive effect of EUR 49 thousand on EBITDA and EBIT for the third quarter of 2017 but a negative effect of EUR 831 thousand on EBITDA and EBIT for the nine months of 2017.

**EBITDA excluding non-recurring items** for the third quarter of 2018 amounted to EUR 33.9 million and was 3.2 per cent higher than restated EBITDA excluding non-recurring items of EUR 32.9 million a year ago. EBITDA excluding non-recurring items margin for the third quarter of 2018 was 35.2 per cent, while a year ago it was 36.3 per cent.

EBITDA excluding non-recurring items for the first nine months of 2018 amounted to EUR 95.7 million and was 5.9 per cent higher than for the same period in 2017 when restated EBITDA excluding non-recurring items amounted to EUR 90.4 million. EBITDA excluding non-recurring items margin for January-September of 2018 stood at 34.2 per cent, while a year ago it amounted to 33.5 per cent.

**EBITDA** including non-recurring items in July-September of 2018 was EUR 33 million, an increase by 1.6 per cent over restated EBITDA of EUR 32.5 million a year ago. EBITDA including non-recurring items margin in July-September of 2018 was 34.3 per cent (36 per cent a year ago).

EBITDA including non-recurring items for the first nine months of 2018 was EUR 94.5 million, an increase by 7.2 per cent over restated EBITDA of EUR 87.9 million for the same period in 2017. EBITDA including non-recurring items margin in January-September of 2018 amounted to 33.8 per cent (32.6 per cent in 2017).

**Depreciation, amortisation and impairment charges** for the third quarter of 2018 over the depreciation, amortisation and impairment charges a year ago decreased by 4.1 per cent, and in July-September of 2018 amounted to 16.4 per cent of the total revenue (18.2 per cent a year ago).

Depreciation, amortisation and impairment charges for the first nine months of 2018 over the depreciation, amortisation and impairment charges a year ago decreased by 1.8 per cent, and for January-September of 2018 amounted to 16.8 per cent of the total revenue (17.8 per cent a year ago).

**Operating profit (EBIT) excluding non-recurring items** for the third quarter of 2018 was 10.5 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 18.8 per cent (18.1 per cent in 2017).

Operating profit (EBIT) excluding non-recurring items for January-September of 2018 was 14.6 per cent higher than restated operating profit (EBIT) excluding non-recurring items for the same period in 2017, and the operating profit excluding non-recurring items margin was 17.4 per cent (15.7 per cent a year ago).

**Operating profit (EBIT) including non-recurring items** for the third quarter of 2018 increased by 7.4 per cent over restated operating profit (EBIT) including non-recurring items for the third quarter of 2017. Operating profit including non-recurring items margin stood at 17.9 per cent (17.8 per cent in 2017).

Operating profit (EBIT) including non-recurring items for the first nine months of 2018 increased by 18.7 per cent over restated operating profit (EBIT) including non-recurring items for the first nine months of 2017. Operating profit including non-recurring items margin was 17 per cent (14.8 per cent a year ago).

**Net financial income** in January-September of 2018 was negative and amounted to EUR 65 thousand (net financial income a year ago was also negative and amounted to EUR 55 thousand).

**Profit before income tax** for the third quarter of 2018 went up by 10 per cent and amounted to EUR 17.2 million (restated profit before income tax for the same period a year ago was EUR 15.6 million), and profit before income tax for the first nine months of 2018 was up by 21.1 per cent and amounted to EUR 47.4 million (restated profit before income tax for the same period in 2017 was EUR 39.1 million).

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for January-September of 2018 amounted to EUR 1.6 million (EUR 3.5 million in 2017). **Income tax expenses** for the first nine months of 2018 were 1.9 times higher than restated income tax expenses a year ago.

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

**Profit for the period** in July-September of 2018 amounted to EUR 16 million, an increase by 10.9 per cent over the restated profit of EUR 14.4 million for the same period in 2017. The profit margin stood at 16.6 per cent while restated profit margin a year ago was 16 per cent.

Profit for the period for the first nine months of 2018 amounted to EUR 41.2 million, an increase by 14.8 per cent over the restated profit of EUR 35.9 million a year ago. The profit margin was 14.7 per cent while restated profit margin a year ago amounted to 13.3 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 January-September of 2018, **total assets** decreased by 1.7 per cent mainly due to repayment of the loans.

Total **non-current assets** remained almost unchanged (increase of 0.1 per cent) and amounted to 76.7 per cent of total assets. Total **current assets** decreased by 6.6 per cent and amounted to 23 per cent of total assets, whereof cash alone represented 3.8 per cent of total assets.

During the first nine months of 2018, **shareholders' equity** increased by 0.1 per cent and amounted to 54.8 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 third quarter of 2018, the Company repaid EUR 7.5 million from the total long-term loan of EUR 150 million. At the end of September 2018, the total amount of **borrowings** amounted to EUR 168.5 million (EUR 179.8 million a year ago), whereof EUR 135 million were loans from banks, EUR 20 million was a short term internal loan from Telia Company, a largest shareholder of the Company, EUR 10.2 million – obligation under vendor financing arrangements and EUR 3.3 million – financial lease agreements.

As of 30 September 2018, the net debt amounted to EUR 147.3 million (EUR 156.5 million a year ago) and net debt to equity (Gearing) ratio was 48.1 per cent (53.7 per cent at the end of September 2017).

**Net cash flow from operating activities** during the nine months of 2018 was 3 per cent lower than the restated cash flow for same period in 2017. **Operating free cash flow** (operating cash flow excluding capital investments) in January-September of 2018 was 2.3 per cent higher than a year ago and amounted to EUR 32 million.

During January-September of 2018, the total **capital investments** amounted to EUR 46.6 million and were 17.8 per cent higher than capital expenditure of EUR 42.1 million a year ago. Most of capital investments (EUR 24.8 million or 50.1 per cent) went to upgrade of the core fixed network and development of fiber-optic access network. An amount of EUR 8.3 million was invested into development of mobile network, EUR 14.8 million – into development of IT systems under ongoing business transformation program (migration of customers, finance and business management systems into SAP) and EUR 1.7 million were other investments.

In April 2017, the Company started IP network upgrade project to increase the network capacity and ensure the potential for the data volume growth in forthcoming five years. All the Company's Internet, television, telephony, fixed and mobile communication services are provided using the IP network. The main stage of the project is already completed – all services are migrated to a new Huawei network. The capacity of Metro network was increased by 5 times and number of network nodes reduced by 2 times. The new IPTV solution, that was implemented during this stage, will ensure reliability and high quality of IPTV service. The last stage of the Company's IP network upgrade project will be completed in October 2018.

During the nine months of 2018, the Company installed and launched 421 new LTE 4G base stations and now has 2,416 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

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

Lithuania and is the fastest in the country: the current average 4G speed in the Telia Lietuva network amounts to 43 Mbps.

By the end of September 2018, the Company had 906 thousand households passed (881 thousand a year ago), or 70 per cent of the country's households, by the fiber-optic network.

**Cash and cash equivalents** during the first nine months of 2018 decreased by EUR 1.9 million.

## SHARE CAPITAL AND SHAREHOLDERS

The **authorised capital** of the Company amounts to 168,957,810.02 euro and consists of 582,613,138 ordinary registered shares with a nominal value of 0.29 euro each. The number of the Company's shares that provide voting rights during the General Meeting is 582,613,138.

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

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

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

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	0.966	1.170	0.956	1.130	1.101	6,108,804	6,727,177

The Company's **market capitalisation** as on 30 September 2018 was EUR 658.4 million, an increase by 21.8 per cent over the market capitalisation of EUR 540.7 million a year ago.

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 September 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	-
<b>TOTAL:</b>	<b>582,613,138</b>	<b>100.00</b>	<b>100.00</b>	<b>-</b>

## 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.

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

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.

On 25 April 2018, the Annual General Meeting taking into consideration the resignation of Stefan Block, Ole Stenkil, Inga Skisaker and Rolandas Viršilas from the Board as of the Company as of 24 April 2018, and following the proposal of Telia Company AB, elected Agneta Wallmark, Hannu-Matti Mäkinen, Tomas Balžekas and Mindaugas Glodas to the Board of the Company for the current term of the Board. 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.

In September, Telia Lietuva received the resignation letter from Henriette Wendt, member and Chairwoman of the Board of the Company since April 2017, nominated by Telia Company AB (Sweden). She resigns from the Board as of 8 November 2018.

Taking into consideration the resignation of Henriette Wendt, on 27 September 2018, the Board of the Company decided to convoke the Extraordinary General Meeting of Telia Lietuva shareholders on 9 November 2018 for the purposes of electing a new member of the Board for the current term.

Telia Company AB, as a shareholder of Telia Lietuva holding 88.15 per cent of the Company's shares and votes, proposes to the Extraordinary General Meeting of Shareholders to be held on 9 November 2018, to elect Per Emil Nilsson to the Board of Telia Lietuva for the current term of the Board. Emil Nilsson (born in 1971) is Senior Vice President & Head of cluster Lithuania, Estonia and Denmark (LED) and Region Eurasia at Telia Company AB, and upon election would be regarded as non-executive member of the Board.



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

**Members of the Board:**

<b>Name, surname</b>	<b>Position in the Board</b>	<b>Employment</b>	<b>Ownership of the Company's shares</b>
Henriette Wendt (will resign from the Board as of 8 November 2018)	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 Practice Group B2B & Carrier	-
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](http://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.

In September 2018, the Board approved a new governing structure of the Company, whereof Business Development unit lead by Mantas Goštautas as of 1 October 2018 became a part of B2B unit.

On 3 October 2018, the Company announced that Haval van Drumpt, Head of Business to Consumer (B2C), decided to leave the Company for family reasons and to come back to his home country Sweden. He was Head of B2C from 1 January 2018. Mindaugas Ubartas, Head of B2B, will temporarily take a responsibility for Business to Consumer unit until a new Head of B2C is appointed.

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

**Management Team:**

<b>Name, surname</b>	<b>Position in the Company</b>	<b>Involvement into activities of other entities</b>	<b>Ownership of the Company's shares</b>
Dan Strömberg	CEO	Latt telecom SIA (Latvia), Deputy Chairman of the Supervisory Council	-
Mindaugas Ubartas	Head of Business to Business (B2B), acting Head of Business to Consumers (B2C)	Association INFOBALT (Lithuania), member of the Board	-
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	-	-
Vytautas Bučinskis	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	July–September		January–September	
		2018	2017 restated*	2018**	2017 restated*
<b>Revenue</b>		96,435	90,407	279,707	269,904
Cost of goods and services		(39,124)	(34,350)	(111,752)	(105,144)
Employee-related expenses		(11,645)	(12,696)	(38,509)	(41,598)
Other expenses		(12,600)	(11,069)	(35,294)	(35,587)
Other gain/ (loss) – net		(22)	244	360	343
Depreciation, amortisation and impairment of fixed assets	2	(15,788)	(16,466)	(47,094)	(47,972)
<b>Operating profit</b>		17,256	16,070	47,418	39,946
Finance income		507	379	1,660	1,040
Finance costs		(562)	(810)	(1,725)	(1,887)
Finance income/ costs – net		(55)	(431)	(65)	(847)
<b>Profit before income tax</b>		17,201	15,639	47,353	39,099
Income tax	6	(1,184)	(1,192)	(6,156)	(3,221)
<b>Profit for the period</b>		16,017	14,447	41,197	35,878
<b>Other comprehensive income:</b>					
Other comprehensive income for the period		-	-	-	-
<b>Total comprehensive income for the period</b>		16,017	14,447	41,197	35,878
Profit and comprehensive income attributable to:					
Owners of the Parent		16,017	14,447	41,197	35,878
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in euro per share)	7	0.027	0.025	0.071	0.062

**Notes:**

\* 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 third quarter, the nine months and the full year of 2017 presented in this report are restated retrospectively in line with IFRS 15.

\*\* Previously reported revenue for the second quarter and the first half of 2018 was restated due to changed revenue treatment related to divestment of Telia Global Services Lithuania, UAB, and revenue for the second quarter and the first half of 2018 went down by EUR 577 thousand. Accordingly, earlier reported Operating profit, Profit before income tax and Profit for the period for the second quarter and the six months of 2018 were restated and reduced by EUR 577 thousand.



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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2018	31 December 2017 restated*
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	279,365	290,435
Intangible assets	2	135,706	122,401
Investment property		1,277	1,277
Investments in associates and subsidiaries		307	650
Cost to obtain a contract (non-current)		4,084	3,470
Other contract assets (non-current)		377	544
Trade and other receivables		7,532	9,459
		<b>428,648</b>	<b>428,236</b>
<b>Current assets</b>			
Inventories		10,412	11,242
Other current contract assets		1,309	1,303
Trade and other receivables		95,483	101,650
Current income tax receivable		-	174
Cash and cash equivalents		21,246	23,166
		<b>128,450</b>	<b>137,535</b>
Assets held for sale		1,494	2,743
<b>Total assets</b>		<b>558,592</b>	<b>568,514</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	4	168,958	168,958
Legal reserve		16,896	16,896
Retained earnings		<b>120,419</b>	120,005
<b>Total equity</b>		<b>306,273</b>	<b>305,859</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		107,461	130,626
Deferred tax liabilities		19,252	19,080
Deferred revenue and accrued liabilities		8,933	9,151
Other non-current contract liabilities		-	50
Provisions	5	10,691	10,728
		<b>146,337</b>	<b>169,635</b>
<b>Current liabilities</b>			
Trade, other payables and accrued liabilities		41,988	59,018
Current income tax liabilities		2,686	1,959
Borrowings		61,065	31,385
Other current contract liabilities		243	645
Provisions	5	-	13
		<b>105,982</b>	<b>93,020</b>
<b>Total liabilities</b>		<b>252,319</b>	<b>262,655</b>
<b>Total equity and liabilities</b>		<b>558,592</b>	<b>568,514</b>

\*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 third quarter, the nine months 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
<b>Balance at 1 January 2017</b>	<b>168,958</b>	<b>16,896</b>	<b>87,407</b>	<b>273,261</b>
Net profit	-	-	35,878	35,878
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>35,878</b>	<b>35,878</b>
Dividends paid for 2016			(17,479)	(17,479)
<b>Balance at 30 September 2017</b>	<b>168,958</b>	<b>16,896</b>	<b>105,806</b>	<b>291,660</b>
<b>Balance at 1 January 2018</b>	<b>168,958</b>	<b>16,896</b>	<b>120,005</b>	<b>305,859</b>
Net profit	-	-	41,197	41,197
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>41,197</b>	<b>41,197</b>
Dividends paid for 2017			(40,783)	(40,783)
<b>Balance at 30 September 2018</b>	<b>168,958</b>	<b>16,896</b>	<b>120,419</b>	<b>306,273</b>

\*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 third quarter, the nine months 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–September	
	2018	2017 restated*
<b>Operating activities</b>		
Profit for the period	41,197	35,878
Income tax	6,156	3,221
Depreciation, amortisation and impairment of fixed assets	47,094	47,972
Other gains and losses	(360)	(343)
Interest income	(137)	(726)
Interest expenses	1,279	1,482
Other non-cash transactions	-	675
Changes in working capital:		
Inventories	2,089	913
Trade and other receivables	8,005	5,490
Trade, other payables and accrued liabilities	(22,279)	(12,427)
<b>Cash generated from operations</b>	<b>83,044</b>	<b>82,135</b>
Interest paid	(904)	(1,350)
Interest received	137	726
Tax paid	(5,244)	(2,077)
<b>Net cash from operating activities</b>	<b>77,033</b>	<b>79,434</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment (PPE) and intangible assets	(45,028)	(48,148)
Proceeds from disposal of PPE and intangible assets	-	-
Net change of long-term investments	343	-
<b>Net cash used in investing activities</b>	<b>(44,685)</b>	<b>(48,148)</b>
<b>Financing activities</b>		
Repayment of borrowings	(23,723)	(129,000)
Borrowings	30,238	81,799
Dividends paid to shareholders of the Company	(40,783)	(17,479)
<b>Net cash used in financing activities</b>	<b>(34,268)</b>	<b>(64,680)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,920)</b>	<b>(33,394)</b>
<b>Movement in cash and cash equivalents</b>		
At the beginning of the year	23,166	56,650
Increase (decrease) in cash and cash equivalents	(1,920)	(33,394)
<b>At the end of the period</b>	<b>21,246</b>	<b>23,256</b>

\*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 third quarter, the nine months 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 nine months' period ending 30 September 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 September 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

	<b>Property, plant and equipment</b>	<b>Intangible assets</b>
<b>Nine months ended 30 September 2017*</b>		
<b>Opening net book amount as at 31 December 2016</b>	<b>291,818</b>	<b>124,512</b>
Additions	37,460	4,690
Disposals and retirements	(161)	-
Reclassification	(26)	-
Depreciation and amortisation charge	(38,532)	(9,440)
<b>Closing net book amount as at 30 September 2017*</b>	<b>290,559</b>	<b>119,762</b>
<b>Nine months ended 30 September 2018</b>		
<b>Opening net book amount as at 31 December 2017</b>	<b>290,435</b>	<b>122,401</b>
Additions	26,996	22,528
Disposals and retirements	(182)	-
Reclassification	8	(18)
Depreciation and amortisation charge	(38,892)	(9,205)
<b>Closing net book amount as at 30 September 2018</b>	<b>279,365</b>	<b>135,706</b>

\*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 third quarter, the nine months 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 September 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 provides instant payment service.

### 4 Share capital

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

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

## 5 Provisions

Provisions movement during January-September 2018:

	Provision for restructuring	Assets retirement obligation	Total
<b>Opening net book amount at 31 December 2017</b>	<b>13</b>	<b>10,728</b>	<b>10,741</b>
Additions	-	-	-
Used provisions	(13)	(37)	(50)
<b>Closing net book amount at 30 September 2018</b>	<b>-</b>	<b>10,691</b>	<b>10,691</b>

The restructuring provision comprises of compensation to employees because 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 2018 amounted to EUR 1.6 million (in 2017 – EUR 3.5 million).

## 7 Earnings per share

Basic earnings per share are calculated by dividing the net profit (loss) for the period by the weighted average number of ordinary shares in issue during the period. The Group has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as basic earnings per share. The weighted average number of shares for the both reporting periods amounted to 582,613 thousand.

	January–September	
	2018	2017 restated
<b>Net profit</b>	<b>41,197</b>	<b>35,878</b>
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613
<b>Earnings per share (euro)</b>	<b>0.071</b>	<b>0.062</b>

(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>
<b>Assets</b>	
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>
<b>Total assets</b>	<b>270,111</b>
<b>Liabilities</b>	
Non-current liabilities	25,850
Current liabilities	<u>85,081</u>
<b>Total liabilities</b>	<b>110,931</b>
<b>Net assets of merged companies</b>	<b>159,180</b>
Cost of investments	<u>145,317</u>
<b>Result of legal merger</b>	<b>13,863</b>

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>
<b>Goodwill</b>	<b>24,731</b>

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*

	<b>Acquirer's carrying amount</b>	<b>Fair value</b>
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>
<b>Net assets acquired</b>	<b><u>62,873</u></b>	<b><u>119,376</u></b>

*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 September 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:

	<b>January–September</b>	
	<b>2018</b>	<b>2017</b>
Sales of telecommunication and other services	4,407	3,988
<b>Total sales of telecommunication and other services</b>	<b>4,407</b>	<b>3,988</b>
Purchases of services	10,007	9,210
Purchases of assets	537	253
<b>Total purchases of services and assets:</b>	<b>10,544</b>	<b>9,463</b>

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

	<b>As at 30 September</b>	
	<b>2018</b>	<b>2017</b>
Long-term receivables from related parties	223	251
Receivables from related parties	2,479	1,186
Accrued revenue from related parties	806	342
<b>Total receivables and accrued revenue from related parties</b>	<b>3,508</b>	<b>1,779</b>
Short-term borrowings from related parties	20,000	13,000
Payables to related parties	2,947	1,653
Accrued expenses to related parties	119	11
<b>Total borrowings, payables and accrued expenses to related parties</b>	<b>23,066</b>	<b>14,664</b>

As of 30 September 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 per cent stake in the Company's subsidiary, Telia Global Services Lithuania, UAB, which was chosen as the base for the establishment of Telia Company Group shared service centre. Prior that 196 employees of the Company providing services to Telia Company Group were transferred to Telia Global Services Lithuania, UAB.

As of 30 September 2018, the Company had an outstanding short-term loan of EUR 20 million (EUR 13 million a year ago) provided by Telia Company AB under the Revolver Loan Agreement signed on 23 May 2017.

*(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 nine months' period ended 30 September 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, 18 October 2018