TELIA LIETUVA, AB

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS' PERIOD ENDED 31 DECEMBER 2018
(UNAUDITED)

Beginning of the financial year	1 January 2018
End of reporting period	31 December 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
Telephone number	+370 5 262 1511
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E-mail address	info@telia.lt
Internet address	www.telia.lt
Main activities	Integrated telecommunication, IT and TV services to residential and business customers in Lithuania

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MANAGEMENT REPORT

Fourth quarter of 2018*:

- Total revenue amounted to EUR 96.8 million, down by 2 per cent over restated revenue of EUR 98.7 million in the fourth quarter of 2017.
- EBITDA, excluding non-recurring items, was EUR 33.1 million, an increase of 0.7 per cent over restated EBITDA, excluding non-recurring items, of EUR 32.8 million in the fourth quarter of 2017.
- Profit for the period was EUR 13.5 million, down by 4.9 per cent over restated profit of EUR 14.2 million a year ago.

Twelve months of 2018*:

- Total revenue amounted to EUR 376.5 million, up by 2.1 per cent over restated revenue of EUR 368.6 million for the twelve months of 2017.
- EBITDA, excluding non-recurring items, was EUR 128.7 million, an increase of 4.5 per cent over restated EBITDA, excluding non-recurring items, of EUR 123.2 million for the twelve months of 2017.
- Profit for the period was EUR 54.7 million, up by 9.2 per cent over profit of EUR 50.1 million a year ago.
- Operating free cash flow amounted to EUR 46.7 million (EUR 53.9 a year ago).

Management comment:

Year 2018 culminated with an entry into a 5G era in Lithuania. We were the first in the country to launch the next generation 5G mobile network, demonstrating a new mobile speed record – data was transmitted in an active network at the speed of 1.8 Gb/s. We reconfirmed our technological leadership in Lithuania and set the platform for digital future.

For better customers experience by the year end we have completed migration of residential customers that are using fixed communication service to a new customer care system based on SAP. Migration of residential mobile service users and all business customers is anticipated in 2019.

Digitalisation of the customers' experience was also prioritised while drafting the new organisation structure of the Company. From the beginning of 2019 a new Direct and Digital Channels unit rallied all employees involved in direct customer care, creation of digital channels, sale support and service implementation under one umbrella. Growing importance of communication and IT services integration led to the creation of a separate IT sales unit for business customers.

As it was promised two years ago during the merger of fixed and mobile activities, our customers are offered innovative converged solutions such as hybrid-type Internet combining 4G mobile and DSL Internet, and IPTV over 4G LTE mobile network service, while more than 33 thousand customers using both fixed and mobile services are enjoying higher speed, more data and more TV content by taking an advantage of the converged "Telia One" offer which is unique in the market.

During January-December of 2018 the intake of new customers continued despite tough competition on the market:

- Number of IPTV users increased by 9 per cent up to 230 thousand,
- Number of FTTH Internet customers rose by 4.9 per cent up to 277 thousand,
- Number of post-paid service users grew by 4.7 per cent up to 1,126 thousand.

The fourth quarter was the best in 2018 in terms of revenue and strongly contributed to the full year revenue growth. Over the year:

- Revenue from mobile services grew by 13.2 per cent,
- Revenue from equipment sale increased by 12.5 per cent,
- Revenue from TV and IT services was up by 9.5 and 6.6 per cent, respectively.

By the end of 2018, we completed a major IP network upgrade project and our network is now ready for the data volume growth in forthcoming five years. During January-December of 2018, capital investments into fixed network amounted to EUR 32.9 million and accounted for more than a half of total capital investments. According to the data of the CRA, Telia Lietuva remains the heaviest investor into telecommunications infrastructure in Lithuania with a 50 per cent stake.

** 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 12 months period of 2017 was as follows: total revenue was reduced by EUR 1,487 thousand, while total operating expenses were increased by EUR 545 thousand, having a total negative effect of EUR 2,032 thousand on EBITDA and EBIT.*

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

KEY FIGURES OF THE GROUP

Financial figures	January–December 2018	January–December 2017 restated*	Change (%)
Revenue	376,494	368,636	2.1
EBITDA excluding non-recurring items	128,730	123,202	4.5
EBITDA margin excluding non-recurring items (%)	34.2	33.4	
EBITDA	127,437	120,186	6.0
EBITDA margin (%)	33.8	32.6	
Operating profit (EBIT) excluding non-recurring items	64,208	56,158	14.3
EBIT margin excluding non-recurring items (%)	17.1	15.2	
Operating profit (EBIT)	62,915	53,142	18.4
EBIT margin (%)	16.7	14.4	
Profit before income tax	63,234	52,686	20.0
Profit before income tax margin (%)	16.8	14.3	
Profit for the period	54,700	50,077	9.2
Profit for the period margin (%)	14.5	13.6	
Earnings per share (EUR)	0.094	0.086	
Number of shares (thousand)	582,613	582,613	-
Cash flow from operations	98,530	114,510	(14.0)
Operating free cash flow	46,738	53,873	(13.2)

Operating figures	31-12-2018	31-12-2017	Change (%)
Mobile service subscriptions, in total (thousand)	1,389	1,352	2.7
- Post-paid (thousand)	1,126	1,075	4.7
- Pre-paid (thousand)	263	277	(5.1)
Broadband Internet connections (excl. Wi-Fi), in total (thousand)	414	408	1.5
- Fiber-optic (FTTH/B) (thousand)	277	264	4.9
- Copper (DSL) (thousand)	137	144	(4.9)
Fixed telephone lines in service (thousand)	354	416	(14.9)
IPTV services customers (thousand)	230	211	9.0
Number of personnel (head-counts)	2,733	3,027	(9.7)
Number of full-time employees	2,482	2,733	(9.2)

Financial ratios**	31-12-2018	31-12-2017*
Return on capital employed (%)	13.8	11.8
Return on average assets (%)	11.3	9.7
Return on shareholders' equity (%)	17.7	17.3
Operating cash flow to sales (%)	26.2	31.1
Gearing ratio (%)	41.6	45.4
Debt to equity ratio (%)	50.5	53.0
Current ratio (%)	134.5	147.9
Rate of turnover of assets (%)	67.7	67.0
Equity to assets ratio (%)	56.9	53.8

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 fourth quarter and the twelve months of 2017 presented in this report are restated retrospectively in line with IFRS 15.*
*** Description of financial ratios and their calculation is provided at the Company's website* https://www.telia.lt/eng/investors/financial-results

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REVENUE

Due to the introduction of IFRS 15 “Revenue from Contracts with Customers” and to have comparable data, revenue for the fourth quarter and the twelve months of 2017 was restated. The major impact was that amounts of EUR 797 thousand for the fourth quarter of 2017 and EUR 3,217 thousand for the twelve 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 fourth quarter of 2017 was reduced by EUR 1,254 thousand, and the restated total revenue for the twelve months of 2017 were reduced by EUR 1,487 thousand.

Breakdown of revenue by services	October–December 2018	October–December 2017 (restated)	Change (%)	January–December 2018	January–December 2017 (restated)	Change (%)
Fixed services	**41,512**	**48,210**	**(13.9)**	**177,642**	**192,564**	**(7.7)**
Voice telephony services	11,744	18,545	(36.7)	59,076	76,302	(22.6)
Internet services	14,307	14,835	(3.6)	57,839	58,388	(0.9)
Data communication and network capacity services	4,828	4,839	(0.2)	19,125	19,157	(0.2)
TV services	6,621	6,143	7.8	26,076	23,810	9.5
IT services	2,687	2,249	19.5	10,204	9,574	6.6
Other services	1,325	1,599	(17.1)	5,322	5,333	(0.2)
Mobile services	**31,340**	**26,982**	**16.2**	**121,120**	**106,957**	**13.2**
Billed services	25,520	22,124	15.3	99,206	87,250	13.7
Other mobile service	5,820	4,858	19.8	21,914	19,707	11.2
Equipment	**23,935**	**23,540**	**1.7**	**77,732**	**69,115**	**12.5**
Total	**96,787**	**98,732**	**(2.0)**	**376,494**	**368,636**	**2.1**

Even though the **total revenue** of the Company for the fourth quarter of 2018 was the highest in 2018 and amounted to EUR 96.8 million, compared with the restated total revenue of EUR 98.7 million for the fourth quarter of 2017 when the Company had a record volume of equipment sales, the results went down by 2 per cent. Growing revenue from mobile services did not offset the decline from fixed voice telephony services (mainly transit service) as revenue from equipment sale were almost on the same level as year ago.

Nevertheless, the total revenue for the twelve months of 2018 amounted to EUR 376.5 million and was by 2.1 per cent higher than the restated total revenue of EUR 368.6 million a year ago. Revenue from mobile services and equipment sales were the main drivers of the total revenue growth in 2018 supported by higher than in 2017 revenue from TV and IT services.

Share of revenue from fixed and mobile communication services amounted to 47.2 and 32.2 per cent, respectively, from the total revenue for January-December of 2018. Share of revenue from equipment sales was 20.6 per cent.

During the twelve months of 2018, revenue from services provided to residential customers (B2C) amounted to 58 per cent, to business customers (B2B) – 41.2 per cent and others – 0.8 per cent of the total revenue.

Over the year the number of customers that took advantage of the converged “Telia One” offer, which gives more value – higher speed, more data and more TV content – to those who have both fixed and mobile services, increased by 28 thousand and exceeded 33 thousand by the end of December 2018.

During the fourth quarter of 2018, the number of post-paid **mobile** communication service users increased by 6 thousand, while the number of active pre-paid service users eased by 15 thousand. Over the year, the number of post-paid service users went up by 51 thousand and the number of active pre-paid service users contracted by 14 thousand. During 2018, the total number of active mobile subscriptions increased by 37 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.

The double-digit growth in billed revenue from mobile services was driven by net increase in number of active mobile subscriptions and continuous growth of mobile data usage. During January-December 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 increased by 2.3 times 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 1.6 times. After elimination of roaming charges in the EU from 15 June 2017 the Company has observed an increasing data usage by Lithuania's visitors from more than 110 countries that use Telia Lietuva mobile network for Internet access.

During the fourth quarter of 2018, revenue from retail fixed **voice telephony** services decreased by 14.6 per cent, while revenue from network interconnection services contracted by 55.7 per cent, compared with the fourth quarter of 2017, mainly due to lower voice transit traffic.

During October-December of 2018, the number of fixed telephone lines in service contracted by 18 thousand, while over the last twelve months it went down by 62 thousand. Over the year the total retail fixed voice telephony traffic decreased by 18.8 per cent. As a result, the revenue from retail voice telephony services for the twelve months of 2018, compared with the same period a year ago, went down by 14.5 per cent, while revenue from network interconnection services dropped by 30 per cent due to lower voice transit traffic during 2018.

During the fourth quarter of 2018, the number of fixed **broadband Internet access** users over fiber-optic network using FTTH/B technologies increased by 4 thousand, while the number of broadband Internet service users over the copper DSL connections eased by 2 thousand. The total net increase in the number of broadband Internet access users was 2 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 13 thousand and reached 277 thousand at the end of 2018, while the number of copper DSL connections eased by 7 thousand to 137 thousand. By the end of December 2018, the number of Internet connections over the fiber-optic access network amounted to 67 per cent of all 414 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 December 2018, almost 21 thousand of Internet connections over the copper line migrated from traditional DSL to S-VDSL technology and more than 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 fourth quarter and the twelve months of 2018 increased by 2.6 and 1.6 per cent, respectively, while revenue from **network capacity** services alone during October-December increased by 3.5 per cent, but for the twelve months' period was lower by 2.5 per cent than a year ago.

During October-December of 2018, the number of smart **television** (IPTV) service (including "Interneto.tv") users increased by 3 thousand, while over the year it rose by 19 thousand and by the end of December 2018 amounted to 230 thousand.

In September 2018, the Company terminated the provision of digital terrestrial television (DVB-T). For a number of years, the Company was encouraging its DVB-T users to migrate to the more advanced IPTV platform. At the beginning of 2018 there were 31 thousand of digital terrestrial television users. Majority of them migrated to IPTV over the cable or IPTV over LTE service.

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

Since August 2018, the Company's IPTV service users can exclusively enjoy world class TV series, movies and documentaries from HBO. In December, another 4 Lithuanian national channels started to broadcast in HD and the total number HD channels on Telia IPTV increased up to 60.

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Revenue from **IT services** is generated from the data centers, information system management and web-hosting services provided to local and multinational enterprises. Three years ago, the Company as Microsoft partner in Lithuania started the 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 twelve months of 2018, revenue from Contact Center services, compared with the year 2017, decreased by 72 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-December of 2018, compared with the same period a year ago, eased by 3.1 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 twelve months of 2018, the non-recurring gain from sales of property amounted to EUR 481 thousand (EUR 28 thousand a year ago).

MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue in the third quarter of 2018 increased by 0.8 per cent compared with the second quarter of 2018 or by 4.6 per cent compared with the third quarter of 2017, and amounted to EUR 176.6 million.

Telia Lietuva remains the largest telecommunications' service provider in Lithuania with the market share (in term of revenue) of 40 per cent for the third quarter of 2018, a decrease of 0.6 percentage point compared with the second quarter of 2018 and a 1.6 percentage point over the last twelve months.

	The market shares in terms of customers (%)		**The market shares in terms of revenue (%)**	
	Q3 2018	**Change (p.p.) (y-o-y)**	**Q3 2018**	**Change (p.p.) (y-o-y)**
Fixed voice telephony services	84.0	(2.4)	90.1	(1.1)
Mobile voice telephony services	29.4	1.8	27.1	1.6
Fixed Internet access	51.8	0.9	60.7	(0.7)
Mobile Internet access	28.5	(3.2)	29.9	(3.2)
Pay-TV services	33.0	(0.1)	39.1	(1.1)
Data communication services	n/a	n/a	68.4	(2.6)

According to the Reports of the CRA, on 30 September 2018, broadband Internet penetration per 100 residents of Lithuania was 46.3 per cent (40.7 per cent a year ago) and pay-TV penetration per 100 households was 50.4 per cent (56.8 per cent a year ago). The penetration of active mobile communication users per 100 residents was 135.8 per cent (131.5 per cent a year ago) and penetration of fixed voice telephony lines per 100 households – 32 per cent (38.7 per cent a year ago).

OPERATING EXPENSES

During the last quarter of 2018, **cost of goods and services** decreased by 7.2 per cent over the cost of goods and services for the same period a year ago, mainly due to lower volumes of voice transit traffic. However, cost of goods and services for the twelve months of 2018 were 2.4 per cent higher than cost of goods and services for January-December of 2017 due to higher equipment sale.

Due to introduction of IFRS 15 and restatement of Statement of Comprehensive Income for the year 2017, employee-related expenses for the fourth quarter of 2017 were reduced by EUR 983 thousand, while other expenses for the same period were increased by EUR 930 thousand. Accordingly, employee-related expenses for the twelve months of 2017 were reduced by EUR 3.4 million, and other expenses for the same period were increased by EUR 3.9 million. As a result, restated total operating expenses (excluding cost of goods and services) for October-December of 2017 were reduced by EUR 53 thousand, while for the twelve months of 2017 increased by EUR 545 thousand.

Operating expenses (excluding cost of goods and services, and non-recurring items) for the fourth quarter of 2018 were 2.8 per cent higher than restated operating expenses in October-December of 2017, but operating expenses for the twelve months of 2018 were 1.9 per cent lower than a year ago.

Employee-related expenses (excluding one-time redundancy pay-outs) during the fourth quarter of 2018 increased by 1.3 per cent over restated employee-related expenses (excluding one-time redundancy pay-outs) for the fourth quarter of 2017. Employee-related expenses (excluding one-time redundancy pay-outs) for the twelve months of 2018 were 5.5 per cent lower than a year ago mainly because of 196 employees of the Company were transferred to a disposed subsidiary on 1 June 2018. During January-December of 2018, the Company had a non-recurring redundancy charge that amounted to EUR 1.8 million (EUR 2.1 million a year ago).

During October-December of 2018, the total **number of employees** (headcount) increased by 30. 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. Over the last twelve months, the total number of Telia Lietuva Group employees decreased by 294 – from 3,027 to 2,733.

In terms of full-time employees (FTE), the total number of Telia Lietuva Group employees during October-December of 2018 increased by 30, while over the last twelve months the total number of FTE decreased by 251 (196 whereof moved to Telia shared service center) from 2,733 to 2,482.

Other expenses for the fourth quarter of 2018 were 4.6 per cent higher than restated other expenses (excluding non-recurring items) a year ago, while other expenses for January-December of 2018 were 2.2 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 0.9 million.

EARNINGS

Restatement of financial data for year 2017 following the introduction of IFRS 15 from 1 January 2018 had a negative effect of EUR 1.2 million on EBITDA and EBIT for the fourth quarter of 2017 and EUR 2 million negative effect on EBITDA and EBIT for the twelve months of 2017.

EBITDA excluding non-recurring items for the fourth quarter of 2018 amounted to EUR 33.1 million and was 0.7 per cent higher than restated EBITDA excluding non-recurring items of EUR 32.8 million a year ago. EBITDA excluding non-recurring items margin for the fourth quarter of 2018 was 34.2 per cent, while a year ago it was 33.3 per cent.

EBITDA excluding non-recurring items for the twelve months of 2018 amounted to EUR 128.7 million and was 4.5 per cent higher than for the same period in 2017 when restated EBITDA excluding non-recurring items amounted to EUR 123.2 million. EBITDA excluding non-recurring items margin for January-December of 2018 stood at 34.2 per cent, while a year ago it amounted to 33.4 per cent.

EBITDA in October-December of 2018 was EUR 32.9 million, an increase by 2 per cent over restated EBITDA of EUR 32.3 million a year ago. EBITDA margin in October-December of 2018 was 34 per cent (32.7 per cent a year ago).

EBITDA for the twelve months of 2018 was EUR 127.4 million, an increase by 6 per cent over restated EBITDA of EUR 120.2 million for the same period in 2017. EBITDA margin in January-December of 2018 amounted to 33.8 per cent (32.6 per cent in 2017).

Depreciation, amortisation and impairment charges for the fourth quarter of 2018 over the depreciation, amortisation and impairment charges a year ago decreased by 8.6 per cent, and in October-December of 2018 amounted to 18 per cent of the total revenue (19.3 per cent a year ago).

Depreciation, amortisation and impairment charges for the twelve months of 2018 over the depreciation, amortisation and impairment charges a year ago decreased by 3.8 per cent, and for January-December of 2018 amounted to 17.1 per cent of the total revenue (18.2 per cent a year ago).

Operating profit (EBIT) excluding non-recurring items for the fourth quarter of 2018 was 13.5 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 16.1 per cent (13.9 per cent in 2017).

Operating profit (EBIT) excluding non-recurring items for January-December of 2018 was 14.3 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 17.1 per cent (15.2 per cent a year ago).

Operating profit (EBIT) for the fourth quarter of 2018 increased by 17.4 per cent over restated operating profit (EBIT) the fourth quarter of 2017. Operating profit margin stood at 16 per cent (13.4 per cent in 2017).

Operating profit (EBIT) for the twelve months of 2018 increased by 18.4 per cent over restated operating profit (EBIT) for the twelve months of 2017. Operating profit margin was 16.7 per cent (14.4 per cent a year ago).

During the fourth quarter of 2018, the Company recorded a net gain from investment activities of EUR 683 thousand related to divestment of subsidiaries. On 1 June 2018, the Company sold a subsidiary Telia Global Services Lithuania, UAB to Telia Company AB (Sweden), a largest shareholder of the Company, and on 26 October 2018 – subsidiary UAB Verslo Investicijos to a third party. As a result, **net from finance and investment activities** for the fourth quarter of 2018 amounted to EUR 384 thousand (EUR 391 thousand a year ago) and for January-December of 2018 – EUR 319 thousand, while a year ago it was negative and amounted to EUR 456 thousand.

Profit before income tax for the fourth quarter of 2018 went up by 16.9 per cent and amounted to EUR 15.9 million (restated profit before income tax for the same period a year ago was EUR 13.5 million), and profit before income tax for the twelve months of 2018 was up by 20 per cent and amounted to EUR 63.2 million (restated profit before income tax for the same period in 2017 was EUR 52.7 million).

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for January-December of 2018 amounted to EUR 3.4 million (EUR 4.7 million in 2017). **Income tax expenses** for the twelve months of 2018 were 3.3 times higher than restated income tax expenses a year ago.

Profit for the period in October-December of 2018 amounted to EUR 13.5 million, a decrease by 4.9 per cent over the restated profit of EUR 14.2 million for the same period in 2017. The profit margin stood at 14 per cent while restated profit margin a year ago was 13.8 per cent.

Profit for the period for the twelve months of 2018 amounted to EUR 54.7 million, an increase by 9.2 per cent over the restated profit of EUR 50.1 million a year ago. The profit margin was 14.5 per cent while restated profit margin a year ago amounted to 13.6 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-December of 2018, **total assets** decreased by 1.1 per cent mainly due to depreciation and amortisation of non-current assets.

Total **non-current assets** shrunk by 1.3 per cent and amounted to 75.2 per cent of total assets. Total **current assets** increased by 2.3 per cent and amounted to 24.5 per cent of total assets, whereof cash alone represented 5.1 per cent of total assets.

During the twelve months of 2018, **shareholders' equity** increased by 4.6 per cent and amounted to 56.9 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.

According to the Law on Companies of the Republic of Lithuania, dividends should be paid from retained earnings of the Parent company. As of 31 December 2018, **retained earnings** of the Parent company amounted to EUR 131.6 million, while consolidated retained earnings of Telia Lietuva Group amounted to EUR 133.9 million.

During the fourth quarter of 2018, the Company repaid another EUR 7.5 million tranche from the total long-term loan of EUR 150 million and EUR 10 million borrowed from Telia Company, a largest shareholder of the Company. At the end of December 2018, the total amount of **borrowings** amounted to EUR 161.6 million (EUR 162 million a year ago), whereof EUR 127.5 million were loans from banks, EUR 10 million was a short term internal loan from Telia Company, EUR 21 million – obligation under vendor financing arrangements and EUR 3.1 million – financial lease agreements.

As of 31 December 2018, the net debt amounted to EUR 132.9 million (EUR 138.8 million a year ago) and net debt to equity (Gearing) ratio was 41.6 per cent (45.4 per cent at the end of December 2017).

The Dividend Policy that was approved by the Board of Telia Lietuva in 2017 provides that the Company must maintain the net debt to EBITDA ratio not higher than 1.5 and to pay out up to 80 per cent of free cash flow as dividend. As of 31 December 2018, the Company's net debt to EBITDA ratio was 1.04 (1.16 a year ago).

Net **cash flow from operating activities** during the twelve months of 2018 was 14 per cent lower than the restated cash flow for the twelve months of 2017 mainly due to implementation of vendor financing arrangement of EUR 21 million value at the end of 2018. Therefore, **operating free cash flow** (operating cash flow excluding capital investments) in January-December of 2018 was 13.2 per cent lower than a year ago and amounted to EUR 46.7 million.

During January-December of 2018, the total **capital investments** amounted to EUR 61.8 million and were 3.2 per cent lower than capital expenditure of EUR 63.8 million a year ago. Most of capital investments (EUR 32.9 million or 53.3 per cent) went to upgrade of the core fixed network and development of fiber-optic access network. An amount of EUR 9.8 million was invested into development of mobile network, EUR 17.2 million – into development of IT systems under ongoing business transformation program (migration of customers, finance and business management systems into SAP) and EUR 1.9 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 was completed in October 2018.

During the twelve months of 2018, the Company installed and launched 793 new LTE 4G base stations and now has 2,790 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 43.4 Mbps.

By the end of December 2018, the Company had 913 thousand households passed (890 thousand a year ago), or 68 per cent of the country's households, by the fiber-optic network.

Cash and cash equivalents during the twelve months of 2018 increased by EUR 5.6 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.

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

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

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	0.966	1.170	0.956	1.105	1.102	7,421,426	8,179,333

The Company’s **market capitalisation** as on 31 September 2018 was EUR 643.8 million, an increase by 14.6 per cent over the market capitalisation of EUR 561.6 a year ago.

The number of **shareholders** on the shareholders’ registration day (2 November 2018) for the Extraordinary General Meeting of Shareholders, which was held on 9 November 2018, was 10,968.

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

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 Centas (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.

On 26 October 2018, following the strategy of disposing none core activities Telia Lietuva has sold a 100 per cent stake in subsidiary UAB Verslo Investicijos to UAB Netfundus (Lithuania). UAB Verslo Investicijos was developing project at Lvovo str. 21A in Vilnius.

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

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 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 resigned from the Board as of 8 November 2018.

On 9 November 2018, taking into consideration the resignation of Henriette Wendt the Extraordinary General Meeting of Telia Lietuva shareholders decided to elect Per Emil Nilsson to the Board of Telia Lietuva for the current term of the Board. He was proposed by Telia Company AB (Sweden), a shareholder of Telia Lietuva holding 88.15 per cent of the Company's shares and votes. Following provisions of The Governance Code for the Companies Listed on the Nasdaq Vilnius stock exchange Emil Nilsson is regarded as non-executive member of the Board.

On 22 November 2018, the Board elected Emil Nilsson as the Chairman of the Board and the Chairman of the Remuneration Committee of Telia Lietuva for the current term of the Board, i. e. till 27 April 2019.

Members of the Board:

Name, surname	Position in the Board	Employment	Ownership of the Company's shares
Emil Nilsson	Chairman of the Board, Chairman of the Remuneration Committee	Telia Company AB (Sweden), Senior Vice President & Head of LED (Lithuania, Estonia, Denmark) cluster and Region Eurasia	-
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)	-

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

Mindaugas Glodas	Member of the Board, member of the Audit and Remuneration Committees	Norway Registers Development AS Lithuanian branch (Lithuania), General Manager (CEO)	-

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.

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, temporarily took a responsibility for Business to Consumer unit until a new Head of B2C is appointed.

In December 2018, the Company announced that Laimonas Devyžis, Chief Financial Officer of Telia Lietuva, will step down as of 1 April 2019 and the Company has already started a selection of a new CFO.

Following the implementation of the new organizational structure of the Company as of 1 January 2019, whereby a new Direct and Digital Channels unit was formed, and Marketing and Communications functions were split, Birutė Eimontaitė was appointed as a Head of Communication from 1 January 2019 and Giedrė Kaminskaitė-Salters became a Head of Direct and Digital Channels from 8 January 2019. Previously Birutė Eimontaitė led a team of Integrated communication while Giedrė Kaminskaitė-Salters was a Head of Legal and Corporate Affairs unit.

A new unit of Direct and Digital Channels from 1 January 2019 unites specialists of direct customer care, digital channels and sales support from the Business to Consumers (B2C) and Business to Business (B2B) units as well as specialists of service implementation from the Technology unit. This will help to create a holistic approach to customer experience and facilitate digitisation.

Management Team:

Name, surname	Position in the Company	Involvement into activities of other entities	Ownership of the Company’s shares
Dan Strömberg	CEO	Lattelecom 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 till 1 April 2019	UAB LD Corporate Consulting (Lithuania), 100 per cent owner & Director	-
Ramūnas Bagdonas	Head of Human Resources	Telia Company AB (Sweden), LED (Lithuania, Estonia, Denmark) cluster, member of the management team responsible for Human Resources; Association of Personnel Management Professionals (Lithuania), member of the Board; State Enterprise Lithuanian Airports (Lithuania), member of the Board	-

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

Giedrė Kaminskaitė-Salters	Head of Direct and Digital Channels; acting General Counsel and Head of Public Affairs	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; UAB Mobilieji Mokėjimai (Lithuania), member of the Board; Association Lyderė (Lithuania), member of the Board	-
Birutė Eimontaitė	Head of Communication	-	-
Vytautas Bučinskas	Head of Operational Excellence	Member of the Cyber Security Council (Lithuania); Association INFOBALT (Lithuania), Deputy Chairman of Cybersecurity Group	-

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	October–December 2018	October–December 2017 restated*	January–December 2018	January–December 2017 restated*
Revenue		**96,787**	**98,732**	**376,494**	**368,636**
Cost of goods and services		(39,930)	(43,043)	(151,682)	(148,187)
Employee-related expenses		(12,711)	(12,793)	(51,220)	(54,391)
Other expenses		(11,015)	(10,642)	(46,309)	(46,229)
Other gain/ (loss) – net		(206)	14	154	357
Depreciation, amortisation and impairment of fixed assets	2	(17,428)	(19,072)	(64,522)	(67,044)
Operating profit		**15,497**	**13,196**	**62,915**	**53,142**
Gain/loss from investment activities		683	-	683	**-**
Finance income		349	909	2,009	1,949
Finance costs		(648)	(518)	(2,373)	(2,405)
Finance and investment activities – net		384	391	319	(456)
Profit before income tax		**15,881**	**13,587**	**63,234**	**52,686**
Income tax	6	(2,378)	612	(8,534)	(2,609)
Profit for the period		**13,503**	**14,199**	**54,700**	**50,077**
Other comprehensive income:					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		**13,503**	**14,199**	**54,700**	**50,077**
Profit and comprehensive income attributable to:					
Owners of the Parent		13,503	14,199	54,700	50,077
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in euro per share)	7	0.023	0.024	0.094	0.086

**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 fourth quarter 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	31 December 2018	31 December 2017 restated*
ASSETS			
Non-current assets			
Property, plant and equipment	2	276,507	290,435
Intangible assets	2	131,511	122,401
Investment property		-	1,277
Investments in associates and subsidiaries		-	650
Cost to obtain a contract (non-current)		5,175	3,470
Other contract assets (non-current)		530	544
Trade and other receivables		8,734	9,459
		422,457	**428,236**
Current assets			
Inventories		8,182	11,242
Other current contract assets		1,352	1,303
Trade and other receivables		99,408	101,650
Current income tax receivable		-	174
Cash and cash equivalents		28,725	23,166
		137,667	**137,535**
Assets held for sale		1,823	2,743
Total assets		**561,947**	**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		133,922	120,005
Total equity		**319,776**	**305,859**
LIABILITIES			
Non-current liabilities			
Borrowings		99,823	130,626
Deferred tax liabilities		20,934	19,080
Deferred revenue and accrued liabilities		8,104	9,151
Other non-current contract liabilities		-	50
Provisions	5	10,934	10,728
		139,795	**169,635**
Current liabilities			
Trade, other payables and accrued liabilities		38,333	59,018
Current income tax liabilities		2,139	1,959
Borrowings		61,792	31,385
Other current contract liabilities		75	645
Provisions	5	37	13
		102,376	**93,020**
Total liabilities		**242,171**	**262,655**
Total equity and liabilities		**561,947**	**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 fourth quarter 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	-	-	50,077	50,077
Total comprehensive income for the period	**-**	**-**	**50,077**	**50,077**
Dividends paid for 2016			(17,479)	(17,479)
Balance at 31 December 2017	**168,958**	**16,896**	**120,005**	**305,859**
Balance at 1 January 2018	**168,958**	**16,896**	**120,005**	**305,859**
Net profit	-	-	54,700	54,700
Total comprehensive income for the period	**-**	**-**	**54,700**	**54,700**
Dividends paid for 2017			(40,783)	(40,783)
Balance at 31 December 2018	**168,958**	**16,896**	**133,922**	**319,776**

**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 fourth quarter 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–December	
	2018	2017 restated*
Operating activities		
Profit for the period	54,700	50,077
Income tax	8,534	2,609
Depreciation, amortisation and impairment of fixed assets	64,522	67,044
Other gains and losses	(154)	(357)
Interest income	(125)	(150)
Interest expenses	1,835	1,991
Other non-cash transactions	75	245
Changes in working capital:		
Inventories	4,596	(3,006)
Trade and other receivables	522	(7,319)
Trade, other payables and accrued liabilities	(27,721)	8,189
Cash generated from operations	**106,784**	**119,323**
Interest paid	(1,893)	(2,073)
Interest received	125	150
Tax paid	(6,486)	(2,890)
Net cash from operating activities	**98,530**	**114,510**
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(55,508)	(61,929)
Proceeds from disposal of PPE and intangible assets	2,329	1,292
Acquisition/divestment of subsidiaries	1,387	-
Net cash used in investing activities	**(51,792)**	**(60,637)**
Financing activities		
Repayment of borrowings	(43,150)	(144,878)
Borrowings	42,754	75,000
Dividends paid to shareholders of the Company	(40,783)	(17,479)
Net cash used in financing activities	**(41,179)**	**(87,357)**
Increase (decrease) in cash and cash equivalents	**5,559**	**(33,484)**
Movement in cash and cash equivalents		
At the beginning of the year	23,166	56,650
Increase (decrease) in cash and cash equivalents	5,559	(33,484)
At the end of the period	**28,725**	**23,166**

**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 fourth quarter and the full year of 2017 presented in this report are restated retrospectively in line with IFRS 15.*

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The consolidated interim financial statements for the twelve months' period ending 31 December 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 31 December 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
Twelve months ended 31 December 2017*		
Opening net book amount as at 31 December 2016	**291,818**	**124,512**
Additions	52,711	11,187
Disposals and retirements	(3,203)	(3,584)
Reclassification	(2,490)	2,923
Depreciation and amortisation charge	(48,401)	(12,637)
Closing net book amount as at 31 December 2017*	**290,435**	**122,401**
Twelve months ended 31 December 2018		
Opening net book amount as at 31 December 2017	**290,435**	**122,401**
Additions	39,252	22,723
Disposals and retirements	(1,251)	-
Reclassification	(1,026)	6
Depreciation and amortisation charge	(50,903)	(13,619)
Closing net book amount as at 31 December 2018	**276,507**	**131,511**

**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 fourth quarter 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 % 31 December 2018	Ownership interest in % 31 December 2017	Profile
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%	On 26 October 2018, the subsidiary that was implementing an investment project was disposed to the third party.
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.

5 Provisions

Provisions movement during January-December 2018:

	Provision for restructuring	Assets retirement obligation	Total
Opening net book amount at 31 December 2017	**13**	**10,728**	**10,741**
Additions	37	247	284
Used provisions	(13)	(41)	(54)
Closing net book amount at 31 December 2018	**37**	**10,934**	**10,971**

The restructuring provision comprises of compensation to employees because of the restructuring plan approved by the Company. Provisions for restructuring increased 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 3.4 million (in 2017 – EUR 4.7 million).

7 Earnings per share

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

	January–December	
	2018	**2017 (restated)**
Net profit	**54,700**	**50,077**
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613
Earnings per share (euro)	**0.094**	**0.086**

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:

	1 February 2017
Assets	
Non-current assets	
Property, plant and equipment	74,451
Goodwill	26,769
Intangible assets	87,293
Long term non-interest-bearing receivables	10,315
	198,828
Current assets	71,283
Total assets	**270,111**
Liabilities	
Non-current liabilities	25,850
Current liabilities	85,081
Total liabilities	**110,931**
Net assets of merged companies	**159,180**
Cost of investments	145,317
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	(119,376)
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	(77,000)	(77,000)
Net assets acquired	**62,873**	**119,376**

Net cash outflow on acquisition of subsidiaries

Purchase consideration settled in cash	144,107
Cash and cash equivalents in subsidiaries acquired	(14,489)
Cash outflow on acquisition	129,618

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

10 Related party transactions

The Group is controlled by Telia Company AB, which as of 31 December 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–December	
	2018	**2017**
Sales of telecommunication and other services	7,884	6,889
Sales of assets	983	-
Divestment of subsidiary	151	-
Total sales of services and assets:	**9,018**	**6,889**
Purchases of services	14,159	13,860
Purchases of assets	537	356
Total purchases of services and assets:	**14,696**	**14,216**

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

	As at 31 December	
	2018	**2017**
Long-term receivables from related parties	195	251
Receivables from related parties	3,185	1,974
Accrued revenue from related parties	401	313
Total receivables and accrued revenue from related parties	**3,781**	**2,538**
Short-term borrowings from related parties	10,000	-
Payables to related parties	1,591	1,946
Accrued expenses to related parties	14	134
Total borrowings, payables and accrued expenses to related parties	**11,605**	**2,080**

As of 31 December 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.

During 2018, the Company extended loans in total of EUR 350 thousand to UAB Mobilieji Mokėjimai, an associated entity where the Company holds 33.3 per cent. On 28 September 2018, the loan was converted into the share capital of UAB Mobilieji Mokėjimai and additional contribution to the share capital of EUR 300 thousand was made.

As of 31 December 2018, the Company had an outstanding short-term loan of EUR 10 million provided by Telia Company AB under the Revolver Loan Agreement signed on 23 May 2017.

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 twelve months’ period ended 31 December 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, 24 January 2019