

TELIA LIETUVA, AB

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND
CONSOLIDATED INTERIM REPORT
FOR THE SIX MONTHS' PERIOD ENDED 30 JUNE 2017
(UNAUDITED)**



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

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

MANAGEMENT REPORT

Second quarter of 2017:

- Total revenue amounted to EUR 94.6 million, up by 12.4 per cent over the revenue of EUR 84.2 million in Q2 2016.
- EBITDA, excluding non-recurring items, was EUR 29.2 million, an increase of 0.3 per cent over EBITDA, excluding non-recurring items, of EUR 29.1 in Q2 2016.

First half of 2017:

- Total revenue amounted to EUR 179.9 million, up by 7.9 per cent over the revenue of EUR 166.7 million in H1 2016.
- EBITDA, excluding non-recurring items, was almost the same as a year ago and amounted to EUR 58.4 million (EUR 58.3 in 2016).
- Free cash flow amounted to EUR 15.8 million (EUR 20.8 million a year ago).

Management comment:

On 1 February 2017, the legal merger of Omnitel and BDC into the Company was completed and we have the first five months when the Company under new name, Telia Lietuva, AB is offering a wide spectrum of fixed and mobile communications services with IT expertise from a single point.

Q2 2017 was marked with the preparation for abolition of roaming charges in the EU as of 15 June 2017. On that day, the Company launched new mobile payment plans where customers can enjoy their services at the same price travelling within the EU, subject to certain restrictions set out by the EU and the fair usage policy. In addition, some of the plans have a travel insurance included. The amount of mobile data offered in most of the new packages has increased from 25 to 400 per cent, and the price for 1 GB of mobile data has fallen by up to 23 per cent.

Preparing for the forthcoming 5G and Internet of Things era, Telia Lietuva installed 4.5G / LTE Advanced Pro base stations in five major cities of Lithuania and started a major upgrade of its back-bone IP network. The Company continued investing into fiber-optic and 4G networks: 1786 base stations ensure the largest 4G network coverage and highest average speed of 40 Mbps.

The total investments during the first half of 2017 amounted to EUR 26.9 million, an increase of 14.5 per cent over investments of EUR 23.5 million a year ago.

In spite of tough competition and market saturation positive intake of a new customers over the year continued:

- Number of IPTV users increased by 12.1 per cent up to 199 thousand,
- Number of FTTH Internet customers grew by 7.9 per cent up to 255 thousand,
- Number of post-paid service users rose by 4.5 per cent up to 1,040 thousand.

Higher number of customers and growing demand for the mobile data (1.7 times higher than a year ago) in combination with relentless demand for equipment (sales were up by 18.7 per cent) and higher revenue from networks' interconnection services led to a growth in total revenue for H1 2017 by 7.9 per cent, whereof:

- Revenue from TV services increased by 12.5 per cent,
- Revenue from billed mobile services was up by 7.3 per cent,
- Revenue from broadband Internet services grew by 3.4 per cent.

Notwithstanding higher revenue stream, EBITDA, excluding non-recurring items, for both Q2 and H1 2017 was on the same level as a year ago due to higher cost of networks' interconnection and equipment acquisition, as well as increased employee related (salaries increase in Q2 2017) and marketing (rebranding in Q1) expenses.

During 2017, the Company repaid EUR 37.5 million from the long-term loan of EUR 150 million for the acquisition of Omnitel, and took the opportunity to refinance the loan previously extended by Telia Company to Omnitel by signing an agreement with the banks for a 5 years' term loan of EUR 60 million.

Following the decision of the Annual General Meeting of Shareholders, in May the Company paid-out EUR 0.03 dividend per share (in total EUR 17.5 million) for the year 2016.

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

KEY FIGURES OF THE GROUP

Financial figures	January-June		Change (%)
	2017	2016 (restated)*	
Revenue	179,892	166,712	7.9
EBITDA excluding non-recurring items	58,387	58,333	0.1
EBITDA margin excluding non-recurring items (%)	32.5	35.0	
EBITDA	56,262	55,600	1.2
EBITDA margin (%)	31.3	33.4	
Operating profit (EBIT) excluding non-recurring items	26,882	28,091	(4.3)
EBIT margin excluding non-recurring items (%)	14.9	16.9	
Operating profit (EBIT)	24,757	25,358	(2.4)
EBIT margin (%)	13.8	15.2	
Profit before income tax	24,342	24,682	(1.4)
Profit before income tax margin (%)	13.5	14.8	
Profit for the period	22,181	21,463	3.3
Profit for the period margin (%)	12.3	12.9	
Earnings per share (EUR)	0.038	0.037	
Number of shares (thousand)	582,613	582,613	-
Cash flow from operations	49,525	51,683	(4.2)
Operating free cash flow	15,844	20,754	(23.7)

Operating figures	30-06-2017	30-06-2016	Change (%)
Post-paid mobile service subscriptions (thousand)	1,040	995	4.5
Pre-paid mobile service subscriptions (thousand)	288	323	(10.8)
Fixed telephone lines in service (thousand)	441	485	(9.0)
Broadband Internet connections (thousand)	406	398	1.9
TV services customers (thousand)	234	222	5.6
Number of personnel (head-counts)	3,104	3,083	0.7
Number of full-time employees	2,817	2,749	2.5

Financial ratios	30-06-2017	30-06-2016*
Return on capital employed (%)	9.4	10.8
Return on average assets (%)	8.0	9.3
Return on shareholders' equity (%)	15.5	17.0
Operating cash flow to sales (%)	28.4	32.2
Gearing ratio (%)	62.5	76.8
Debt to equity ratio (%)	67.1	89.9
Current ratio (%)	125.5	80.7
Rate of turnover of assets (%)	64.4	61.2
Equity to assets ratio (%)	51.6	46.3

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

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

Breakdown of revenue by services	April-June		Change (%)	January-June		Change (%)
	2017	2016		2017	2016	
Fixed services	53,645	46,616	15.1	100,662	93,703	7.4
Voice telephony services	24,266	17,682	37.2	41,944	35,992	16.5
Internet services	14,654	14,258	2.9	29,240	28,274	3.4
Data communication and network capacity services	4,804	5,144	(6.6)	9,658	10,366	(6.8)
TV services	6,678	5,991	11.5	13,363	11,879	12.5
IT services	2,390	2,559	(6.6)	4,810	5,348	(10.1)
Other services	853	982	(13.1)	1,647	1,844	(10.7)
Mobile services	26,618	25,485	4.4	52,229	50,261	3.9
Billed services	21,886	20,248	8.1	43,021	40,097	7.3
Other mobile service	4,732	5,237	(9.6)	9,208	10,164	(9.4)
Equipment	14,335	12,063	18.8	27,001	22,748	18.7
Total	94,598	84,164	12.4	179,892	166,712	7.9

REVENUE

The **total consolidated revenue** of the Company in April-June of 2017 was EUR 94.6 million, an increase of 12.4 per cent over the total consolidated revenue of EUR 84.2 million in the second quarter of 2016. Compared with first quarter of 2017 revenue increase by 10.9 per cent.

During the second quarter of 2017, the total revenue growth was driven by higher revenue from networks' interconnection services, equipment sale, television, mobile communication and fixed broadband Internet services.

As a results, the total revenue for the first six months of 2017 increased by 7.9 per cent, over the total revenue of EUR 166.7 million a year ago, and amounted to EUR 179.9 million.

The total **revenue from fixed and mobile services** during the second quarter and the first half of 2017 went up by 11.3 and 6.2 per cent respectively, compared with the same periods in 2016. **Revenue from equipment sale** for the second quarter and the first six months of 2016 was higher by 18.8 and 18.7 per cent compare to the respective periods a year ago.

Share of revenue from fixed and mobile communication services amounted to 56 and 29 per cent, respectively, from the total revenue for the first six months of 2017. Share of revenue from equipment sales was 15 per cent.

During the first half of 2017, revenue from services provided to residential customers amounted to 55 per cent, to business customers – 44 per cent and others – 1 per cent of the total revenue.

During January-June of 2017, number of post-paid **mobile** communication service users increased by 28 thousand, while the number of pre-paid service users decreased by 18 thousand. Over the last twelve months, the number of post-paid service users went up by 45 thousand and the number of pre-paid service users contracted by 35 thousand. As of 30 June 2017, the total number of active mobile subscriptions amounted to 1,328 thousand (1,318 thousand a year ago).

Net increase in the number of active mobile subscriptions and the continuously growing usage of mobile data, which was 1.7 times higher than a year ago, resulted in 8.1 and 7.3 per cent higher billed revenue from mobile services for the second quarter and the first half of 2017, respectively.

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

The amount of mobile data offered to clients in most of new packages has increased from 25 to 400 per cent. For instance, those who choose package S will get 200 MB instead of 50 MB per month, package L – 6 GB instead of 4

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

Subscribers of a special Unlimited plan are allowed to use an unlimited amount of mobile data in Lithuania on a monthly basis. They also get 5 GB for data which they are able to use every month when travelling in the EU and Scandinavian countries.

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

During the second quarter of 2017, revenue from retail fixed **voice telephony** services decreased by 10.7 per cent, while revenue from networks' interconnection services went up by 2 times, compared with the second quarter of 2016.

During January-June of 2017, the number of fixed telephone lines in service eased by 24 thousand and over the last twelve months – by 44 thousand. Over the year, the total retail fixed voice telephony traffic decreased by 13.1 per cent. As a result, revenue from retail voice telephony services for the first six months of 2017 went down by 10.7 per cent, while revenue from network interconnection services went up by 55.7 per cent, fully offsetting the decline in revenue for retail voice services.

During the first half of 2017, the number of fixed **broadband Internet access** users over fiber-optic network using FTTH/B technologies increased by 8.1 thousand, while number of broadband Internet service users over the copper DSL connections eased by 6.7 thousand. The total net increase in the number of broadband Internet access users was 1.4 thousand.

Over the last twelve months, the total number of broadband Internet access users increased by 7.4 thousand. The number of Internet connections over the fiber-optic network increased by 18.7 thousand (or 7.9 per cent) and reached 255 thousand at the end of June 2017, while the number of copper DSL connections eased by 11.3 thousand (or 7 per cent) to 151 thousand. By the end of the second quarter of 2017, the number of Internet connections over the fiber-optic access network amounted to 63 per cent of all 406 thousand broadband Internet connections.

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

Compared with the same periods in 2016, revenue from **data communication** services alone during the second quarter and the first half of 2017 decreased by 5.3 and 7 per cent, and revenue from **network capacity** services alone declined by 8.3 and 6.6 per cent, respectively.

During January-June of 2017, the number of IPTV (including "Interneto.tv") service users increased by 8.2 thousand, while over the year it rose by 21.5 thousand (or 12.1 per cent) and by the end of June 2017 amounted to 199 thousand. During the last twelve months the number of digital terrestrial television (DVB-T) users decreased by 9.1 thousand (or 20.8 per cent) and amounted to 35 thousand. The Company is encouraging its DVB-T users to migrate to the more advanced IPTV platform. Over the year, the total number of **television** service customers went up by 12.4 thousand.

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

The Telia Cloud service, which was presented to business customers in March, is one of the first OpenStack-based cloud computing services in the Nordic region. It allows businesses to manage their IT resources in a flexible manner and pay only as much as needed at a particular time. Telia Lietuva has developed its new Telia Cloud platform together with partners such as Huawei, Intel, Mirantis and Talligent.

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Revenue from **other services** consists of the non-telecommunication services such as Contact Center services, lease of premises, discount refunds and other. During the first half of 2017, revenue from Contact Center services, compared with the first six months' period in 2016, decreased by 75.4 per cent, as the Company's subsidiary operating Contact Center ceased to provide services to external customers, except the Directory Inquiry service 118. Revenue from other non-core business services, compared with the same period a year ago, increased by 29.8 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)**.

MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue in the first quarter of 2017 decreased by 1.8 per cent compared with the fourth quarter of 2016, while compared with the first quarter of 2016 increased by 2.9 per cent, and amounted to EUR 165 million.

Telia Lietuva remains the largest telecommunications' service provider in Lithuania with the market share (in term of revenue) of 41.8 per cent for the first quarter of 2017, an increase of 0.4 percentage points compared with the fourth quarter of 2016.

According to the Reports of CRA, on 31 March 2017, broadband Internet penetration per 100 residents of Lithuania was 39.4 per cent (42.1 per cent a year ago) and pay-TV penetration per 100 households was 56.2 per cent (56.1 per cent a year ago). The penetration of active mobile communication users per 100 residents was 148 per cent (144.5 per cent a year ago) and penetration of phone fixed voice telephony lines per 100 residents – 18 per cent (19 per cent a year ago).

	The market shares in terms of customers (%)		The market shares in terms of revenue (%)	
	Q1 2017	Change (p.p.) (y-o-y)	Q1 2017	Change (p.p.) (y-o-y)
Fixed voice telephony services	87.5	(1.0)	91.5	(0.9)
Internet access services (total):	46.1	(1.8)	52.8	(1.3)
- Fixed access	48.8	2.1	58.8	3.2
- Mobile access	38.6	(12.0)	34.5	(6.0)
Pay-TV services	32.3	2.4	39.7	2.6
Mobile services	30.0	(0.4)	27.7	(1.0)
Data communication services	n/a	n/a	70.5	(3.8)

OPERATING EXPENSES

During April-June of 2017, **cost of goods and services** increased by 30.3 per cent over the cost of goods and services for the same period a year ago, due to higher equipment sales and higher networks' interconnection traffic. Accordingly, cost of goods and services for the first six months of 2017 were 19.8 per cent higher than cost of goods and services for the first half of 2016.

Operating expenses (excluding cost of goods and services, and non-recurring items) for the second quarter of 2017 were 4.1 per cent higher than operating expenses in April-June of 2016, and operating expenses for the first half of 2017 were 2.9 per cent higher than a year ago.

Employee-related expenses (excluding one-time redundancy pay-outs) during April-June of 2017 increased by 6.1 per cent over employee-related expenses (excluding one-time redundancy pay-outs) for the second quarter of 2016 due to increased average employee salary in the second quarter of 2017. As a result, employee-related expenses (excluding one-time redundancy pay-outs) for the first half of 2017 were 3.5 per cent higher than a year ago. During January-June of 2017, the Company had non-recurring redundancy charge that amounted to EUR 1.4 million (EUR 1.9 million a year ago).

During the first half of 2017, the total **number of employees** (headcount) decreased by 42, because the number of consultants additionally employed in the Contact Center due to rebranding of the Company went down. Nevertheless, over the last twelve months, the total number of employees increased by 21 – from 3,083 to 3,104.

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In terms of full-time employees, the total number of employees during January-June of 2017 eased by 2, while over the last twelve months it increased by 68 from 2,749 to 2,817.

Other expenses (excluding non-recurring expenses) for the second quarter of 2017 were 1.6 per cent higher than a year ago due to higher marketing expenses, and other expenses (excluding non-recurring expenses) for the first six months of 2017 were 2.3 per cent higher than in 2016. The total expenses related to rebranding during January-June of 2017 amounted to EUR 1.6 million, whereof non-recurring expenses amounted to EUR 0.7 million (EUR 0.9 million a year ago).

EARNINGS

EBITDA (excluding non-recurring items) for the second quarter of 2017 amounted to EUR 29.2 million and was 0.3 per cent higher than for the same period in 2016 when EBITDA (excluding non-recurring items) amounted to EUR 29.1 million. EBITDA (excluding non-recurring items) margin for the second quarter of 2017 amounted to 30.9 per cent, while a year ago it was 34.6 per cent.

EBITDA (excluding non-recurring items) for the first half of 2017 amounted to EUR 58.4 million and was also slightly (0.1 per cent) higher than for the same period in 2016 when EBITDA (excluding non-recurring items) amounted to EUR 58.3 million. EBITDA (excluding non-recurring items) margin for the first half of 2017 stood at 32.5 per cent, while a year ago it amounted to 35 per cent.

EBITDA (including non-recurring items) in April-June of 2017 was EUR 28 million and was almost the same as a year ago, when EBITDA (including non-recurring items) amounted to EUR 27.9 million. EBITDA (including non-recurring items) margin in April-June of 2017 was 29.6 per cent (33.2 per cent a year ago).

EBITDA (including non-recurring items) for the first six months of 2017 was EUR 56.3 million, an increase by 1.2 per cent over EBITDA (including non-recurring items) of EUR 55.6 million for the same period in 2016. EBITDA (including non-recurring items) margin in January-June of 2017 amounted to 31.3 per cent (33.4 per cent a year ago).

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

Depreciation, amortisation and impairment charges for the second quarter of 2017 over the restated depreciation, amortisation and impairment charges a year ago decreased by 2.3 per cent, and in April-June of 2017 amounted to 15.9 per cent of the total revenue (18.2 per cent a year ago).

Depreciation, amortisation and impairment charges for the first half of 2017 over the restated depreciation, amortisation and impairment charges a year ago increased by 4.2 per cent, and for the first six months of 2017 amounted to 17.5 per cent of the total revenue (18.1 per cent a year ago).

Operating profit (EBIT) (excluding non-recurring items) for the second quarter of 2017 was 3.2 per cent higher than restated operating profit (EBIT) (excluding non-recurring items) for the same period in 2016, and the operating profit (excluding non-recurring items) margin amounted to 15 per cent (restated margin of 16.3 per cent in 2016).

Operating profit (EBIT) (excluding non-recurring items) for the first half of 2017 was 4.3 per cent lower than restated operating profit (EBIT) (excluding non-recurring items) for the same period in 2016, and the operating profit (excluding non-recurring items) margin was 14.9 per cent (restated margin of 16.9 per cent a year ago).

Operating profit (EBIT) (including non-recurring items) for April-June of 2017 increased by 3.3 per cent over the restated operating profit (EBIT) (including non-recurring items) for the second quarter of 2016. Operating profit (including non-recurring items) margin stood at 13.7 per cent (restated margin of 14.9 per cent in 2016).

Operating profit (EBIT) (including non-recurring items) for the first six months of 2017 decreased by 2.4 per cent over the restated operating profit (EBIT) (including non-recurring items) for the first half of 2016. Operating profit (including non-recurring items) margin was 13.8 per cent (restated margin of 15.2 per cent a year ago).

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Net financial income in January-June of 2017 was negative and amounted to EUR 415 thousand (net financial income a year ago was also negative and amounted to EUR 676 thousand).

Profit before income tax for the second quarter of 2017 was up by 4.9 per cent and amounted to EUR 12.8 million (restated profit before income tax for the same period a year ago was EUR 12.2 million), while profit before income tax for the first half of 2017 was down by 1.4 per cent and amounted to EUR 24.3 million (restated profit before income tax for the same period in 2016 was EUR 24.7 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 the first half of 2017 amounted to EUR 2 million (EUR 1.5 million in 2016). **Income tax expenses** for the first six months of 2017 were 32.9 per cent lower than restated income tax expenses a year ago.

Profit for the period in April-June of 2017 amounted to EUR 12.1 million, an increase by 13.3 per cent over restated profit of EUR 10.6 million for the same period in 2016. The profit margin stood at 12.7 per cent while restated profit margin a year ago was 12.6 per cent.

Profit for the period for the first half of 2017 amounted to EUR 22.2 million, an increase by 3.3 per cent over the restated profit of EUR 21.5 million a year ago. The profit margin was 12.3 per cent while restated profit margin a year ago amounted to 12.9 per cent.

FINANCIAL POSITION AND CASH FLOW

During the first half of 2017, **total assets** decreased by 9.7 per cent mainly due to repayment of the loans.

Total **non-current assets** eased by 2.1 per cent and amounted to 78.7 per cent of total assets. Total **current assets** decreased by 29.9 per cent due to decrease in cash and amounted to 21.3 per cent of total assets, whereof cash alone represented 2.3 per cent of total assets.

During the first six months of 2017, **shareholders' equity** increased just by 1.7 per cent as EUR 17.5 million of dividends for the year 2016 were paid in May, and amounted to 51.6 per cent of total assets.

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

During January-June of 2017, the Company repaid a first and a second tranches (in total EUR 37.5 million) from the total long-term loan of EUR 150 million that was taken in 2016 to finance acquisition of Omnitel.

In May 2017, the Company signed a syndicated EUR 60 million loan with three banks – AB SEB Bank (Lithuania), Danske Bank A/S (Denmark) and Nordea Bank AB (Sweden). Proceeds from the loan were used to refinance the loan extended to Omnitel a few years ago for the development of 4G network by Telia Company, a shareholder of the Company. Lithuanian SEB bank together with SEB bank in Sweden (Skandinaviska Enskilda Banken AB) has coordinated a syndicated loan with equal commitments of EUR 20 million provided by the three above mentioned banks. The tenor of the loan is 5 years.

During the second quarter of 2017, the Company borrowed EUR 12 million from its shareholder, Telia Company AB, on short-term basis.

At the end of June 2017, the total amount of **borrowings** amounted to EUR 184.5 million (EUR 227 million as of 31 December 2016).

Net cash flow from operating activities in the first six months of 2017 was 4.2 per cent lower than the restated cash flow for same period in 2016. **Operating free cash flow** (operating cash flow excluding capital investments) in January-June 2017 was 23.7 per cent lower than a year ago and amounted to EUR 15.8 million.

During January-June of 2017, the total **capital investments** amounted to EUR 26.9 million and were 14.5 per cent higher than capital investments of EUR 23.5 million a year ago. The majority of capital investments (EUR 9.4 million) went to the expansion of the core fixed network and development of the next-generation fiber-optic access network.

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

An amount of EUR 7.8 million was invested into development of mobile network, EUR 8.2 million – into development of IT systems and EUR 1.6 million were other investments.

During January-June of 2017, the Company installed and launched 278 new LTE 4G base stations and now has 1,786 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 40 Mbps.

By the end of June 2017, the Company had 878 thousand households passed (861 thousand a year ago), or 72 per cent of the country's households, by the fiber-optic network.

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

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

Cash and cash equivalents during the first six months of 2017 decreased by EUR 44.1 million.

SHARE CAPITAL AND SHAREHOLDERS

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

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

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

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

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

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

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

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

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	0.933	0.979	0.888	0.893	0.933	3,976,624	3,708,643

The Company's **market capitalisation** as on 30 June 2017 was EUR 520.3 million while a year ago it amounted to EUR 518.5 million.

OTHER MATERIAL INFORMATION

On 1 February 2017, the Company's subsidiaries AB Omnitel and AB Baltic Data Center were merged into the Company and the Company changed its name into Telia Lietuva, AB. On 1 February 2017, the Company subsidiary UAB Lintel changed its name into Telia Customer Service LT, UAB.

On 15 February 2017, the Company signed a long-term construction and lease agreement regarding the new head-office of the Company in Vilnius at Saltoniškių str. 7. At the beginning of 2019, about 1,200 employees of the Company will settle in the six-storey and more than 15 thousand sq. m building in the block of modern offices developed by M.M.M. Project Group. Currently the Company's employees in Vilnius are spread out in six different locations.

In March 2017, the Company and the Lithuanian Radio and Television Center (Telecentras) settled the disputes that started in mid-2013 regarding the tariffs for the storage of digital terrestrial television (DVB-T) transmitters. According to the Company and Telecentras' peace agreement, which was confirmed by the Court, the Company will pay to Telecentras additionally EUR 1.01 million for the period from 1 August 2013 until 31 January 2017. The companies agreed on volumes of transmitters stored as well as contractual terms, and continue their cooperation on mutually beneficial conditions. From now on the Company will pay to Telecentras according to the valid standard service tariffs, gradually reducing number of transmitters.

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

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

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

MEMBERS OF THE MANAGING BODIES

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

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

The Annual General Meeting, held on 27 April 2017, elected Henriette Wendt, Stefan Block, Claes Nycander, Ole Stenkil, Inga Skisaker and Rolandas Viršilas (the last two as independent member of the Board) to the Board of Telia

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

Lietuva for the two-years term. The shareholders also decided to allocate for two independent members to the Board – Inga Skisaker and Rolandas Viršilas – the total amount of EUR 31,280, or EUR 15,640 each, as a tantiemes (annual payment) for the year 2016.

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

Members of the Board as of 30 June 2017:

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

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

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

Management Team as of 30 June 2017:

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

Appointment of a new Head of B2B, Mindaugas Ubartas, was announced on 11 April 2017. Until 9 June 2017, he was also a CEO of JSC Indigo Tajikistan (Tcell), a mobile operator owned by Telia Company in Tajikistan.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	April-June		January-June	
		2017	2016 restated*	2017	2016 restated*
Revenue		94,598	84,164	179,892	166,712
Cost of goods and services		(39,996)	(30,692)	(70,794)	(59,118)
Employee-related expenses		(15,430)	(14,100)	(30,441)	(29,929)
Other expenses		(11,225)	(11,526)	(22,493)	(22,148)
Other gain/ (loss) - net		75	119	99	83
Depreciation, amortisation and impairment of fixed assets	2	(15,033)	(15,387)	(31,506)	(30,242)
Operating profit		12,989	12,578	24,757	25,358
Finance income		338	246	661	466
Finance costs		(514)	(609)	(1,076)	(1,142)
Finance income/ costs - net		(176)	(363)	(415)	(676)
Profit before income tax		12,813	12,215	24,342	24,682
Income tax	6	(752)	(1,572)	(2,161)	(3,219)
Profit for the period		12,061	10,643	22,181	21,463
Other comprehensive income:					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		12,061	10,643	22,181	21,463
Profit and comprehensive income attributable to:					
Owners of the Parent		12,061	10,643	22,181	21,463
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in euro per share)	7	0.021	0.018	0.038	0.037

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	2	289,677	291,818
Intangible assets	2	121,898	124,512
Investment property		1,277	1,277
Trade and other receivables		6,835	10,944
		419,687	428,551
Current assets			
Inventories		7,967	10,135
Trade and other receivables		92,970	94,661
Current income tax receivable		221	722
Cash and cash equivalents		12,516	56,650
		113,674	162,168
Total assets		533,361	590,719
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	4	168,958	168,958
Legal reserve		16,896	16,896
Retained earnings		89,174	84,472
Total equity		275,028	270,326
LIABILITIES			
Non-current liabilities			
Borrowings		130,500	97,500
Deferred tax liabilities		20,780	20,284
Deferred revenue and accrued liabilities		9,876	9,897
Provisions	5	6,627	6,627
		167,783	134,308
Current liabilities			
Trade, other payables and accrued liabilities		35,425	55,114
Current income tax liabilities		1,116	1,068
Borrowings		54,000	129,500
Provisions	5	9	403
		90,550	186,085
Total liabilities		258,333	320,393
Total equity and liabilities		533,361	590,719

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2016	168,736	16,896	48,804	234,658
Net profit	-	-	21,463	21,463
Total comprehensive income for the period	-	-	21,463	21,463
Dividends paid for 2015			(5,826)	(5,826)
Balance at 30 June 2016*	168,736	16,896	64,441	250,295
Balance at 1 January 2017	168,958	16,896	84,472	270,326
Net profit	-	-	22,181	22,181
Total comprehensive income for the period	-	-	22,181	22,181
Dividends paid for 2016			(17,479)	(17,479)
Balance at 30 June 2017	168,958	16,896	89,174	275,028

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

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January-June	
	2017	2016 restated*
Operating activities		
Profit for the period	22,181	21,463
Income tax	2,161	3,219
Depreciation, amortisation and impairment of fixed assets	31,506	30,242
Other gains and losses	(99)	(83)
Interest income	(729)	(95)
Interest expenses	984	1,007
Other non-cash transactions	384	(1,161)
Changes in working capital:		
Inventories	2,168	(941)
Trade and other receivables	5,801	5,448
Trade, other payables and accrued liabilities	(13,270)	(5,479)
Cash generated from operations	51,087	53,620
Interest paid	(1,027)	(468)
Interest received	729	95
Tax paid	(1,264)	(1,564)
Net cash from operating activities	49,525	51,683
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(33,681)	(30,929)
Proceeds from disposal of PPE and intangible assets	-	73
Acquisition of subsidiaries	-	(129,618)
Net cash used in investing activities	(33,681)	(160,474)
Financing activities		
Repayment of borrowings	(114,500)	(15,061)
Borrowings	72,000	150,000
Dividends paid to shareholders of the Company	(17,478)	(5,826)
Net cash used in financing activities	(59,978)	129,113
Increase (decrease) in cash and cash equivalents	(44,134)	20,322
Movement in cash and cash equivalents		
At the beginning of the year	56,650	12,898
Increase (decrease) in cash and cash equivalents	(44,134)	20,322
At the end of the period	12,516	33,220

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

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

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

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

2 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
Six months ended 30 June 2016*		
Opening net book amount as at 31 December 2015	214,882	12,370
Additions	20,699	104,567
Acquisition of subsidiaries	75,771	17,117
Disposals and retirements	(108)	-
Reclassification	(9)	-
Depreciation and amortisation charge	(24,593)	(5,649)
Closing net book amount as at 30 June 2016*	286,642	128,405
Six months ended 30 June 2017		
Opening net book amount as at 31 December 2016	291,818	124,512
Additions	23,209	3,676
Acquisition of subsidiaries	-	-
Disposals and retirements	(115)	-
Reclassification	(29)	-
Depreciation and amortisation charge	(25,216)	(6,290)
Closing net book amount as at 30 June 2017	289,667	121,898

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

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

3 Investments in subsidiaries and associates

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

Name	Country of incorporation	Ownership interest in %		Profile
		30 June 2017	31 December 2016	
AB Omnitel	Lithuania	-	100%	The subsidiary, a provider of mobile communications services, was acquired on 4 January 2016 and on 1 February 2017 was merged into the Company.
AB Baltic Data Center	Lithuania	-	100%	The subsidiary, a provider of information technology infrastructure services, on 1 February 2017 was merged into the Company.
Telia Customer Service LT, UAB	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and Contact Center services. On 1 February 2017 changed name from UAB Lintel to Telia Customer Service LT, UAB.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary is implementing investment project.
UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary of the Company.
VšĮ Numerio Perkėlimas	Lithuania	50%	50%	A non-profit organization established by four Lithuanian telecommunications operators (the Company and Omnitel initially owned a 25% stakes each) from 1 January 2016 started to administer central database to ensure telephone number portability.

4 Share capital

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

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

5 Provisions

Provisions movement during January-June 2017:

	Provision for restructuring	Assets retirement obligation	Total
Opening net book amount at 31 December 2016	403	6,627	7,030
Acquisition of subsidiaries	-	-	-
Additions	1,342	-	1,342
Used provisions	(1,736)	-	(1,736)
Closing net book amount at 30 June 2017	9	6,627	6,636

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

The Company leases land for the construction of mobile stations. Upon expiry of the lease term the mobile stations should be disassembled and land restored so that it could be returned to the land owner in a condition it was before the lease. Similarly, the Company has telecommunication equipment installed in the premises or on the buildings leased from third parties. This equipment will have to be disassembled when the lease agreement expires. To cover these estimated future costs, assets retirement obligation has been recognised. The Company expects that assets retirement obligation will be realised later than after one year. Therefore, the whole amount of assets retirement obligation has been classified as non-current provision for other liabilities and charges.

6 Income tax

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

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

According to amendments to the Law on Corporate Profit Tax which provides tax relief for investments in new technologies, the Company's calculated profit tax relief in 2017 amounted to EUR 2 million (2016: EUR 1.5 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–June	
	2017	2016 restated
Net profit	22,181	21,463
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613
Earnings per share (euro)	0.038	0.037

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

8 Dividends per share

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

9 Business combination

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

On 1 February 2017, the Company's subsidiaries AB Omnitel and AB Baltic Data Center were merged into the Company and the Company changed its name into Telia Lietuva, AB.

Goodwill arising on acquisition*

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

Goodwill arose in the acquisition because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Assets acquired and liabilities recognised at the date of acquisition*

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

Net cash outflow on acquisition of subsidiaries*

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

* till 1 February 2017

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

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

10 Related party transactions

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

Sales and purchases from Telia Company AB and its subsidiaries:

	January–June	
	2017	2016
Sales of telecommunication and other services	2,542	3,497
Total sales of telecommunication and other services	2,542	3,497
Purchases of services	5,865	4,301
Purchase of shares (Note 9)	-	144,107
Purchases of assets	254	258
Total purchases of services and assets:	6,119	148,666

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

	As at 30 June	
	2017	2016
Long-term receivables from related parties	251	279
Receivables from related parties	1,513	1,552
Receivables from related party due to purchase consideration adjustment (Note 9)	-	-
Accrued revenue from related parties	619	593
Total receivables and accrued revenue from related parties	2,383	2,424
Short-term borrowings from related parties	12,000	77,000
Payables to related parties	1,192	1,285
Accrued expenses to related parties	41	222
Total borrowings, payables and accrued expenses to related parties	24,277	78,507

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

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

MANAGEMENT CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, CEO of Telia Lietuva, AB, and Laimonas Devyžis, Head of Finance of Telia Lietuva, AB, hereby confirm that, to the best of our knowledge, the not audited Telia Lietuva, AB Interim Consolidated Financial Statements for the six months period ended 30 June 2017, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, profit and cash flows of Telia Lietuva, AB and the Group of undertakings.

Kęstutis Šliužas
CEO

Laimonas Devyžis
Head of Finance

Vilnius, 19 July 2017

INTERIM CONSOLIDATED REPORT

Approved by the Board
as at 19 July 2017

Reporting period

January-June 2017

Issuer and its contact details

Name of the Issuer	Telia Lietuva, AB (hereinafter – ‘the Company’)
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Name of the Register of Legal Entities	State Enterprise Centre of Registers
Company code	121215434
Registered office	Lvovo str. 25, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 1511
Fax number	+370 5 212 6665
Internet address	www.telia.lt

Main activities of the Group

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

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

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

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

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

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

As of 30 June 2017, **Telia Lietuva Group** (hereinafter – ‘the Group’) consisted of the parent company, Telia Lietuva, AB, (registered on 6 February 1992, code 1212 15434, name of the Register of Legal Entities: State Enterprise Center of Registers; address: Lvovo str. 25, LT-03501 Vilnius tel.: +370 5 262 1511; fax: +370 5 212 6665; internet address: www.telia.lt), its subsidiaries and associates.

The following companies are **subsidiaries and associates** of Telia Lietuva, AB:

Name of the company	Date of registration, code, name of the Register of Legal Entities	Contact details	The Company's share in the share capital of the company (%)	The Company's share of votes (%)
Telia Customer Service LT, UAB	27 July 1992, code 110401957, State Enterprise Center of Registers	Vytenio str. 18, LT-03503 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5 278 3322, www.118.lt	100.00	100.00
UAB Kompetencijos Ugdymo Centras	5 July 1995, code 134517169, State Enterprise Center of Registers	Palangos str. 4, 3rd Floor LT-01117 Vilnius, Lithuania	100.00	100.00
UAB Verslo Investicijos	13 November 2008, code 302247778, State Enterprise Center of Registers	Vytenio str. 18, LT-03229 Vilnius, Lithuania tel. + 370 5 262 1511, fax. +370 5 212 6665	100.00	100.00
VšĮ Numerio Perkėlimas	5 September 2014, code 303386211, State Enterprise Center of Registers	Jogailos str. 9, LT- 01116 Vilnius, Lithuania	-	50.00

On 1 February 2017, AB Omnitel, a provider of mobile communications services to residential and business customers in Lithuania, and AB Baltic Data Center were merged into the Company, and the Company changed its name to Telia Lietuva, AB. From 1 February 2017, the Company provides integrated telecommunications, IT and TV services from a single source to residents and businesses in Lithuania.

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 shares, for EUR 220 million on a cash and debt free basis.

On 1 February 2017, the Company's subsidiary which Contact Centers takes care of the Company's customers and provides Directory Inquiry service 118 in Lithuania, changed its name from UAB Lintel to **Telia Customer Service LT, UAB**.

Verslo Investicijos is implementing an investment project in Vilnius, and **Kompetencijos Ugdymo Centras** is a dormant subsidiary of the Company.

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

The Company has no branches or representative offices.

Agreements with intermediaries of public trading in securities

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

Data about securities traded on regulated market

The following securities of the Company are included into the Main List of Nasdaq Vilnius stock exchange, which is the home market for Telia Lietuva shares (code: TEL1L), as of 30 June 2017:

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

Telia Lietuva shares are also 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.

Securities of the Company's subsidiaries are not traded publicly as subsidiaries are 100 per cent (except VŠĮ Numerio Perkėlimas) owned by the Company.

Information about results of the Company's activities

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

Total revenue for the first half of 2017 amounted to EUR 179.9 million, up by 7.9 per cent over the revenue of EUR 166.7 million in the first half of 2016. EBITDA, excluding non-recurring items, was almost the same as a year ago and amounted to EUR 58.4 million (EUR 58.3 in 2016). Free cash flow amounted to EUR 15.8 million (EUR 20.8 million a year ago).

The total investments during the first half of 2017 amounted to EUR 26.9 million, an increase of 14.5 per cent over investments of EUR 23.5 million a year ago.

In spite of tough competition and market saturation positive intake of a new customers over the year continued:

- Number of IPTV users increased by 12.1 per cent up to 199 thousand,
- Number of FTTH Internet customers grew by 7.9 per cent up to 255 thousand,
- Number of post-paid service users rose by 4.5 per cent up to 1,040 thousand.

Higher number of customers and growing demand for the mobile data (1.7 times higher than a year ago) in combination with relentless demand for equipment (sales were up by 18.7 per cent) and higher revenue from networks' interconnection services led to a growth in total revenue for the first six months of 2017 by 7.9 per cent, whereof:

- Revenue from TV services increased by 12.5 per cent,
- Revenue from billed mobile services was up by 7.3 per cent,
- Revenue from broadband Internet services grew by 3.4 per cent.

Notwithstanding higher revenue stream, EBITDA, excluding non-recurring items, for the first half of 2017 was on the same level as a year ago due to higher cost of networks' interconnection and equipment acquisition, as well as increased employee related (salaries increase in the second quarter of 2017) and marketing (rebranding in the first quarter of 2017) expenses.

During 2017, the Company repaid EUR 37.5 million from the long-term loan of EUR 150 million for the acquisition of Omnitel, and took the opportunity to refinance the loan previously extended by Telia Company to Omnitel by signing an agreement with the banks for a 5 years' term loan of EUR 60 million.

Following the decision of the Annual General Meeting of Shareholders, in May the Company paid-out EUR 0.03 dividend per share (in total EUR 17.5 million) for the year 2016.

More information about the Company's activities and financial results for the first six months of 2017 is provided in Telia Lietuva, AB Consolidated Interim Financial Statements for the period of six months ended 30 June 2017.

Information about related party transactions

Information about related party transactions is provided in Note 10 of Telia Lietuva, AB Consolidated Interim Financial Statements for the six months' period ended 30 June 2017.

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

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

Telia Lietuva and Telia Lietuva Group through its largest shareholder, Telia Company AB, are related to Telia Company Group that provides telecommunication services in Nordic and Baltic countries. The main buyers and providers of telecommunications services to Telia Lietuva are Telia Carrier (Sweden), Telia Eesti AS (Estonia), LMT (Latvia), Telia (Finland). As of 30 June 2017, Telia Company AB had an outstanding short-term loan of EUR 12 million granted to Telia Lietuva.

Risk management

The main risk factors associated with the activities of the Company are as follows:

- Changes in the legal regulation of the Company's activities.
- Competition with other telecommunications market players.
- Acceptance of new products of the Company by the market.
- Currency exchange rates fluctuations.
- General economic situation in the Republic of Lithuania.
- Changes in the regulation of accounting and taxation systems.

On 18 December 2015, the Company signed an agreement with SEB Bank and Danske Bank for a long-term loan of EUR 150 million to finance an acquisition of Omnitel shares and by 30 June 2017 the Company had repaid an amount of EUR 37.5 million from this loan.

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

As of 30 June 2017, the total amount of borrowings amounted to EUR 184.5 million, while cash amounted to EUR 12.5 million.

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

The Company's financial risk management is carried out by employees responsible for the Group's treasury management at Finance unit under policies approved by the Board of Directors. The employees responsible for the Group's treasury management identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

Information about the Company's financial risk management is provided in Note 3 of the Company's Financial Statements for the year ended 31 December 2016.

Plans and forecasts

After consolidation of employees, customers, services, technologies, systems and processes into one company, Telia Lietuva together with the whole Telia Company Group is ready to move to the next level and create a New Generation Telco.

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

Our strategy is based on continuous development of our core business combined with focused bets in areas that are strengthening the core but also build new businesses in growing areas. To enhance the core we will create value through superior network connectivity. We will secure the transition from voice to data through future proof network access to end customers. We increase customer loyalty through convergence, by creating a seamless customer experience across

technologies, services and channels. We ensure competitive operations, by simplifying operations and transform legacy to create agility and cost efficiency. To explore opportunities close to the core we will invest in areas that complement and strengthen the core business. M2M, e-health, music, security, financial services and TV are just some of those areas.

The Company also integrated the Telia Company's All In approach into our business strategy. The aim of All In is to leverage our core competencies and business to create shared value – combining social good with business benefits. It focuses on four key areas: connecting the unconnected, education for all, a healthy and safe society, and digital innovation and entrepreneurship.

Research and development activities

During 2017, besides the on-going development and improvement of existing services, the Company continues to create client offers combining fixed and mobile communication technologies as well as to test the latest technologies.

In March 2017, the Company presented a unique hybrid-type Internet service in Lithuania which has no analogues in the region and which was created by integrating copper access with the fastest 4G mobile Internet covering the whole country. The Telia Cloud service, which has been presented to businesses, is one of the first OpenStack-based cloud computing services in the Nordic region.

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

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

Share capital

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.

Information about treasury stocks

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

Shareholders

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

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

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

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. As of 30 June 2017, the number of the Company's shares that provide voting rights during the General Meeting of Shareholders amounted to 582,613,138. One ordinary registered share of Telia Lietuva gives one vote in the General Meeting of Shareholders.

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

Dividends

On 25 May 2017, the Company paid out to the shareholders an amount of EUR 17.5 million of dividends or EUR 0.03 per share for the year 2016. In accordance with the relevant legislation, dividends were paid to the shareholders who were on the Shareholders' List of the Company on the dividend record day, 12 May 2017, i.e. the tenth business day after the Annual General Meeting of Shareholders. Dividends to all shareholders were paid in cash.

Other material events during the reporting period

On 15 February 2017, the Company signed a long-term construction and lease agreement regarding the new head-office of the Company in Vilnius at Saltoniškių str. 7. At the beginning of 2019, about 1,200 employees of the Company will settle in a six-storey and more than 15 thousand sq. m building in the block of modern offices developed by M.M.M. Project Group.

In March 2017, the Company and Lithuanian Radio and Television Center (Telecentras) settled the disputes that started in mid-2013 regarding the tariffs for the storage of digital terrestrial television (DVB-T) transmitters.

On 27 April 2017, the Annual General Meeting decided to approve the audited annual consolidated and separate financial statements of the Company for the year 2016. The consolidated annual report of the Company for the year 2016, prepared by the Company, assessed by the auditors and approved by the Board, was presented to the shareholders.

In June 2017, the Company announced that Telia Lietuva will put premises and buildings, a total of 52 properties throughout Lithuania, on the market during the public auctions. The total area of premises on sale is around 22,000 square metres, while the initial value of the portfolio of assets on sale amounts to EUR 11 million.

All material events related to the activity of the Company have been submitted to the Financial Services and Market Supervision Department of the Bank of Lithuania, Nasdaq Vilnius Stock Exchange, Lietuvos Rytas daily, BNS and ELTA news agencies and posted on the Company's Internet page www.telia.lt.

Personnel

Number of Telia Lietuva Group employees:

	30 June 2017	30 June 2016	Change (%)
Number of personnel (headcounts)	3,104	3,083	0.7
Number of full time employees	2,817	2,749	2.5

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

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

Name of the company	30 June 2017	30 June 2016	Change
Telia Lietuva, AB (former TEO LT, AB)	2,219	1,801	418
AB Omnitel (merged into the Company)	-	572	(572)
AB Baltic Data Center (merged into the Company)	-	2	(2)
Telia Customer Service LT, UAB (former UAB Lintel)	885	708	177
	3,104	3,083	21

On 1 February 2017, following the merger of AB Omnitel and AB Baltic Data Center into the Company, some employees of Omnitel, which were involved in provision of remote customer care to mobile service subscribers, were transferred into the Contact Center of Telia Customer Service LT.

As of 30 June 2017 valid Collective Bargaining Agreement between the Company, as the employer, and employees of the Company, represented by joint representation of Trade Unions, came into force from 25 April 2007.

This Collective Bargaining Agreement applies only to employees of the Company. If provisions of the Collective Bargaining Agreement are more favourable than the same provisions of individual labour agreements, then provisions of the Agreement shall apply. If provisions of the Agreement are more favourable than new legislation imposed during the period of the Agreement validity, provisions of the Agreement shall apply. More detailed information about the Collective Bargaining Agreement is provided in the Company's Consolidated Annual Report for the year ended 31 December 2016.

For a number of years, the Company provides additional health insurance to all employees of the Company as well as those having a longer employment record employees of Telia Customer Service LT.

The Company has an agreement with SEB Investicijų Valdymas (SEB Investment Management) regarding the Company employees' pension savings at 3rd tier pension funds. The employees working in the Group for at least a year could participate in a program "Save with Telia". The essence of the program is that the funds allocated by employer are invested into one of the SEB Investicijų Valdymas' fund of the employee's choice. For all the Company's employees participating in the program the Company allocates EUR 8 every month, and if the employee is willing to contribute to the pension saving from his own finances by additionally allocating 1, 2 or more percent of his/her salary, then the Company also transfers an amount equal to employee's contribution from his salary but in any case not exceeding 2 percent of his/her salary.

In June 2017, Telia Lietuva was awarded as The Most Desired Employer among the large corporations in Lithuania according to the public voting arranged by Lithuania business daily Verso Žinios.

Managing Bodies

According to the By-laws the managing bodies of the Company are the General Meeting, the Board and the CEO. The Company does not have a Supervisory Council. The Board of the Company represents the shareholders and performs supervision and control functions.

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

The members of the Board serving on the Board of the Company are acting jointly as a managing body of the Company. The Board consist of six members. The members of the Board are elected for a term of two years. The Chairperson of the Board is elected by the Board from its members for two years. The members of the Board are elected by the General Meeting in accordance with the procedure established by the Law on Companies of the Republic of Lithuania. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

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

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

The Annual General Meeting, held on 27 April 2017, elected Henriette Wendt, Stefan Block, Claes Nycander, Ole Stenkil, Inga Skisaker and Rolandas Viršilas (the last two as independent member of the Board) to the Board of Telia Lietuva for the two-years term.

The Board elected Henriette Wendt as the Chairwoman of the Company's Board for the current term of the Board, i.e. till 27 April 2019.

In June 2017, the Board appointed the following members of the Board Stefan Block, Ole Stenkil and Inga Skisaker (independent member of the Board) as the members of the Audit Committee for the term of two years (but in any case not longer than until the term of their membership in the Board). Stefan Block was elected as the Chairman of the Audit Committee.

Also, the Board elected the following members of the Board Henriette Wendt, Claes Nycander and Rolandas Viršilas (independent member of the Board) as the members of the Remuneration Committee for the term of one year (until 8 June 2018). Henriette Wendt was elected as the Chairwoman of the Remuneration Committee.

The Board's activities

During January-June 2017, four ordinary and four extraordinary meetings of the Board were held. Three ordinary meetings were convened according to the preliminary approved schedule of the Board meetings, while the date of one ordinary meeting for approval of audited annual financial results was changed, and four extraordinary meeting were convened following the procedure provided by the Regulation of the Company's Board Activities for convocation of extraordinary meetings. During all Board meetings there was quorum prescribed by legal acts.

During its meetings the Board approved financial statements for the 12 months of 2016 and 3 months of 2017, financial statements and the consolidated annual report for the year ended 31 December 2016, convoked the Annual General Meetings of Shareholders and proposed to the Annual General Meeting to allocate profit for the year 2016. The Board also approved agreement regarding the construction of a new head-office of the Company, unused real-estate sale program, conclusion of loan agreements, a number of the Company's policies, annual bonuses to the employees, goals for the year 2017 and elected the Chairperson of the Board as well as members of the Audit and Remuneration Committees. The Board followed up implementation of the business and investment plans for the year 2017.

During the first half of 2017 two meeting of the Remuneration Committee were held. The following issues were considered during the meetings: approval of the annual variable pay to the top management of Telia Lietuva for the year 2016, review of the top management salaries (including CEO) and adoption of Telia Company's Personnel and Remuneration policies. All members of the Committee attended all meetings of the Committee. The first meeting was chaired by the then Chairman of the Committee, Robert Andersson, and the second – by newly elected Chairwoman of the Committee, Henriette Wendt.

During January-June 2017, two meetings of the Audit Committee were held, during which the report by external auditors regarding the financial statements for the year 2016 as well internal audit and risk management reports were considered. All members of the Committee attended all meetings of the Committee. The meetings were chaired by the Chairman of the Committee.

Information about the Board members' attendance of the meetings in 2017 (number of attended meetings):

	General Meeting of Shareholders	Board Meeting	Meeting of the Audit Committee	Meeting of the Remuneration Committee
The total number of meetings	1	8	2	2
Robert Andersson (till 27-04-2017)	1	6	n/a	1
Henriette Wendt (from 27-04-2017)	1	2	n/a	1
Stefan Block	-	7	2	n/a
Claes Nycander	-	8	n/a	2
Hannu-Matti Mäkinen (till 27-04-2017)	-	5	1	n/a
Ole Stenkil (from 27-04-2017)	1	2	1	n/a
Inga Skisaker	-	8	2	n/a
Rolandas Viršilas	-	8	n/a	2

The then Chairman of the Board, Robert Andersson, and nominees for election to the Board – Henriette Wendt and Ole Stenkil, as well as CEO of the Company participated at the Annual General Meeting of Shareholders on 27 April 2017.

On 27 April 2017, the shareholders resolved to allocate for two independent members to the Board – Inga Skisaker and Rolandas Viršilas – the total amount of EUR 31,280, or EUR 15,640 each, as a tantiemes (annual payment) for the year 2016. As of 30 June 2017, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010 was not paid to the then member of the Board who had not provided written requests to the Company.

Following The Governance Code for the Companies Listed on Nasdaq Vilnius stock exchange all six members of the Board are non-executive directors. Four members of the Board represent Telia Company and two members of the Board – Inga Skisaker and Rolandas Viršilas – are regarded as independent members of the Board.

Members of the Board as of 30 June 2017

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

Stefan Block (born in 1967) – member of the Board since 29 April 2014, re-elected for the two-year term on 29 April 2015 and 27 April 2017 (nominated by Telia Company AB), Chairman of the Audit Committee. Education – University of Stockholm (Sweden), Bachelor of Science in Business and Administration. Employment – Telia Company AB (Sweden), Group Procurement, Deputy Chief Purchase Officer. Current Board Assignments: Telia Danmark A/S (Denmark), Chairman of the Board; Síminn Denmark A/S (Denmark), member of the Board; Telia Finance AB (Sweden), member of the Board; Telia Norge AS (Norway), member of the Board; LMT SIA (Latvia), member of the Supervisory Council, and Telia Eesti AS (Estonia), member of the Supervisory Council. Stefan Block has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

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

Ole Stenkil (born in 1973) – member of the Board since 27 April 2017 (nominated by Telia Company AB), member of the Audit Committee. Education: Copenhagen Business School, MBA in Executive Management; The Danish Bar & Law Society, Legal Professional Degree/Attorney; Århus University (Denmark), Master of Laws; Svendborg Business School (Denmark), Higher Commercial Examination Programme. Employment: Telia Company AB (Sweden), Telia Company AB (Sweden), cluster LED (Lithuania, Estonia and Denmark), Head of Legal for LED; Telia Danmark (Denmark), Vice President, General Counsel for Telia Danmark. Current Board Assignments: Argon A/S (Denmark), member of the Board; DLG Tele I/S (Denmark), member of the Board; OCH A/S (Denmark), Chairman of the Board; Tilts Communications A/S (Denmark), member of the Board and Telia Eesti AS (Estonia), member of the Supervisory Council. Ole Stenkil has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Inga Skisaker (born in 1971) – member of the Board since 28 April 2011, for the two-year term re-elected on 25 April 2013, 29 April 2015 and 27 April 2017 (as independent member of the Board nominated by Telia Company AB), member of the Audit Committee. Education – Vilnius University (Lithuania), Master of International Business Administration. Employment – Nordea Bank AB Lithuania Branch (Sweden), General Manager and Head of Banking Baltic Countries. Current Board Assignments: Baltic Management Institute (Lithuania), member of the Board, and Investors Forum (Lithuania), member of the Board. Inga Skisaker has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Rolandas Viršilas (born in 1963) – member of the Board since 25 April 2013, for the two-year term re-elected on 29 April 2015 and 27 April 2017 (as independent member of the Board nominated by Telia Company AB), member of the Remuneration Committee. Education – Vilnius University (Lithuania), Faculty of Mathematics, Master's degree. Employment: UAB Švyturys-Utenos Alus (Lithuania), Chief Executive Officer, and Carlsberg Baltic States, Chief Executive Officer. Current Board Assignments: Lithuanian Brewers' Guild (Lithuania), Chairman of the Council; VšĮ Užsienio Sistemos Administratorius (Lithuania), member of the Board, and Dayton Group Oy (Finland), member of the Board. Rolandas Viršilas has 75,000 shares of Telia Lietuva that accounts to 0.0129 per cent of the total number of the Company's shares and votes. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Members of the Management Team as of 30 June 2017

Kęstutis Šliužas (born in 1972) – CEO from 1 November of 2013. Education – Vilnius University (Lithuania), Bachelor's and Master's degrees. Involvement in activities of other entities: Telia Company AB (Sweden), cluster of Lithuania, Estonia and Denmark, member of the management team; Kaunas Technology University (Lithuania), member of the Business Council; Vilnius Tech Park (Lithuania), member of the Council; Association INFOBALT (Lithuania), member of the Board, and Baltic Institute of Corporate Governance, member of the Board. Kęstutis Šliužas has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Mindaugas Ubartas (born in 1978) – Head of B2B from April 2017. Education – Vytautas Magnus University (Lithuania), Management Faculty, Bachelor's degree (2000) and Master's degree (2002). He is not involved in activities of other entities. Mindaugas Ubartas has no direct interest in the share capital of Telia Lietuva. He is a sole shareholder of UAB Galvaninė Chemija (Lithuania)

Norbertas Žioba (born in 1973) – Head of B2C from 1 January 2016. Education: Durham University (United Kingdom), Business School, Master in Business Administration (MBA); Vytautas Magnus University (Lithuania), Faculty of Social Sciences, Student for Master in Business Law; Vytautas Magnus University (Lithuania), Faculty of Business and Management, Bachelor of Science in Business Administration and Management. Involvement in activities of other entities – UAB BIOC Laboratorija (Lithuania), an independent member of the Board. Norbertas Žioba has 3,601 share of Telia Lietuva that accounts to 0.0006% per cent of the total number of the Company's shares and votes. He has no shareholdings that exceed 5 per cent of the share capital of any company.

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

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

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

Giedrė Kaminskaitė-Salters (born in 1978) – Head of Legal from 7 December 2015. Education: Maastricht University (The Netherlands), Doctor of Law; BPP Law School, London (United Kingdom), law conversion studies, juris doctor equivalent; Oxford University (United Kingdom), MPhil in Russian and East European Studies; London School of Economics (United Kingdom), Bachelor of Science in International Relations. Involvement in activities of other entities – Association "Lyderė" (Lithuania), member of the Board. Giedrė Kaminskaitė-Salters has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Audronė Mažeikaitė (born in 1970) – Head of Corporate Affairs from 1 January 2016. Education: Lugano University (Switzerland), Executive Master of Science in Communications Management; Durham University (United Kingdom),

Master of Business Administration; Vilnius University (Lithuania), Diploma in Economic Analysis. Involvement in activities of other entities – Human Rights Monitoring Institute (Lithuania), member of the Council. Audronė Mažeikaitė has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Mantas Goštautas (born in 1981) – Head of Business Development from 17 August 2015. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration; CIMA (Chartered Institute of Management Accounting) (London, UK), Certificate in Business Accounting; Stockholm School of Economics in Riga (Latvia), Bachelor in Economics and Business Administration. He is not involved in activities of other entities. Mantas Goštautas has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Andrius Byčkovas (born in 1977) – Head of Competitive Customer Operations from 1 January 2016. Education – Vilnius University (Lithuania), Master's Degree in Management and Business Administration. He is not involved in activities of other entities. Andrius Byčkovas has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

Vytautas Bučinskas (born in 1974) – Head of Risk from 1 June 2014. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration; Kaunas Technology University (Lithuania), Bachelor of Management of Production and Master of Marketing. Involvement in activities of other entities: Member of the Cyber Security Council (Lithuania); Deputy Chairman of INFOBALT (Lithuania) Cybersecurity Committee; Deputy Chairman of European Telecommunications Network Operator's (ETNO) Association Cybersecurity Committee. Vytautas Bučinskas has no direct interest in the share capital of Telia Lietuva, and has no shareholdings that exceed 5 per cent of the share capital of any company.

During January–June 2017, there were no loans, guarantees or sponsorship granted to the members of the Board or members of the Management Team by the Company as well as none of subsidiaries paid salaries or other payouts to the members of the Board or members of the Management Team for being members of their managing bodies.

Information about compliance with the Governance Code

The Company essentially follows a recommendatory Corporate Governance Code for the Companies Listed on Nasdaq Vilnius stock exchange (hereinafter 'the Governance Code') adopted in August 2006, amended in December 2009 and valid from 1 January 2010. According to the By-Laws of the Company, the governing bodies of the Company are the General Shareholder's Meeting, the Board and CEO. The Law of the Republic of Lithuania on Companies provides that Lithuanian companies at their discretion could have either two (Supervisory Council and Board) or only one collegial governing body. There is no Supervisory Council in Telia Lietuva. The Board of the Company consists of six members who are elected for the term of two years. The Board represents the shareholders, and performs supervision and control functions. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

Following the Governance Code, all members of the Board are considered non-executive directors, whereby two out of six members are independent members of the Board. Current members of the Audit Committee for the two years' term and members of the Remuneration Committee for a one-year term were elected in June 2017. Two members of the Audit Committee have financial background and one of them is an independent member of the Board.

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, CEO of Telia Lietuva, AB, and Laimonas Devyžis, Head of Finance of Telia Lietuva, AB, hereby confirm that, to the best of our knowledge, Telia Lietuva, AB Consolidated Interim Report for the six months period ended 30 June 2017 includes a fair review of the development and performance of the business and the position of the Company and the Group of undertakings in relation to the description of the main risks and contingencies faced thereby.

Kęstutis Šliužas
CEO

Laimonas Devyžis
Head of Finance