

**TEO LT, AB  
CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND  
CONSOLIDATED INTERIM REPORT  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2016  
(UNAUDITED)**

Beginning of the financial year	1 January 2016
End of reporting period	30 June 2016
Name of the company	<b>TEO LT, AB</b> (hereinafter – “Teo” or “the Company”)
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Code of enterprise	121215434
Name of Register of Legal Entities	State Enterprise Centre of Registers
Registered office	Lvovo str. 25, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 1511
Fax number	+370 5 212 6665
Internet address	<a href="http://www.teo.lt">www.teo.lt</a>
Main activities	Integrated telecommunication, IT and TV services to residential and business customers in Lithuania

**Note regarding the financial data presented herein**

*As on 4 January 2016, TEO LT, AB acquired a 100 per cent stake in Omnitel, financial data of Teo Group for the second quarter and the first half of 2016 presented herein is the consolidated data of TEO LT, AB and its subsidiaries including Omnitel. Comparable data of financial statements for the second quarter and the first half of 2015 is the actual reported data of Teo Group for those periods.*

*In order to present an approximate measure of the performance of the combined group, the comparable combined data of comprehensive income statement, as it is used in the Management Report of Consolidated Financial Statements for the second quarter and the first half of 2015, is data combined by simple aggregation after elimination of intragroup transactions as if Omnitel was at the time part of the Teo Group.*

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

## MANAGEMENT REPORT

### Another successful quarter of Teo and Omnitel operating together

#### Second quarter of 2016\*:

- Total consolidated revenue amounted to EUR 84.2 million, up by 3.6 per cent over the comparable combined revenue of EUR 81.2 million in Q2 2015.
- Consolidated EBITDA, excluding non-recurring items, reached EUR 29.1 million, up by 11.1 per cent over comparable combined EBITDA, excluding non-recurring items, of EUR 26.2 million in Q2 2015.

#### First half of 2016\*:

- Total consolidated revenue amounted to EUR 166.7 million, up by 2.8 per cent over the comparable combined revenue of EUR 162.1 million in H1 2015.
- Consolidated EBITDA, excluding non-recurring items, reached EUR 58.3 million, up by 11 per cent over comparable combined EBITDA, excluding non-recurring items, of EUR 52.6 million in H1 2015.
- Free cash flow amounted to EUR 20.8 million and was by 1.4 times higher than a year ago.

#### Management comment:

The synergy of Teo and Omnitel operating together is giving positive results: with the intake of new broadband Internet, IPTV and post-paid mobile communication customers, and growing mobile data usage, revenues continue to grow, operating expenses are under control and profitability of operations is increasing.

With the number of broadband Internet customers reaching almost 400 thousand, revenue from fixed services during the first half of 2016 increased by 3.3 per cent and revenue from mobile services went up by 10.1 per cent, driven by the persistently growing appetite for mobile data (more than 1.5 times growth) not only domestically but also while travelling abroad with the “roam like at home” offer in the Nordic countries and a special Internet offer for the U.S.A.

Omnitel completed the installation and launch of 300 new 4G LTE base stations, and now has nearly 1,000 4G base stations across Lithuania. It has been officially confirmed by the Communications Regulatory Authority that Omnitel is the first to cover the entire populated territory of the country with 4G connectivity – namely, 97 per cent. This means that the fastest 4G mobile Internet is currently available to nearly 100 per cent of the population in Lithuania. According to this indicator, Lithuania is among the world leaders.

In addition, in June the speed of 4G LTE technology in Vilnius and the surrounding areas was increased by 30 per cent, and by the end of June this was rolled out across Lithuania (with the exception of major cities, where the 4G speed will be increased during the summer in each city individually). According to the latest data of the Communications Regulatory Authority, the average 4G speed in the Omnitel network amounts to 36 Mb/s.

During the first half of 2016, investments into the development of the mobile network amounted to EUR 7.2 million (compared to EUR 3.3 million a year ago), while the total combined investments stood at EUR 23.5 million, up by 31.3 per cent over the comparable combined investments of EUR 17.9 million a year ago.

During the second quarter of 2016, the last remaining analogue fixed telephone lines in remote areas were connected to digital exchanges and Teo fully digitalised its fixed telephony network. Teo also optimised its DVB-T rebroadcasting by increasing the capacity of its own DVB-T network by 30 per cent, using 2 instead of 3 networks for rebroadcasting of digital terrestrial TV programs as of the 1<sup>st</sup> of July 2016.

Teo and Omnitel entered into the largest Internet of Things (IoT) project in Lithuania – to ensure smart electricity metering data transmission and management services for business customers of Energijos Skirstymo Operatorius (ESO). Omnitel will provide ESO with up to 80 thousand SIM cards adapted for the IoT.

The legal merger of Omnitel and the Baltic Data Center (BDC) with Teo is on track and in progress: following Teo shareholders' approval to go ahead with reorganisation, Omnitel and BDC changed their legal status from closed joint-stock (UAB) into joint-stock (AB) companies, and the Boards of Teo, Omnitel and BDC have approved the merger terms.

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

## KEY FIGURES OF TEO GROUP\*

Financial figures	January - June			Change to comparable combined
	2016	2015 comparable combined	2015	
Revenue	166,712	162,129	99,365	2.8%
EBITDA	55,600	50,932	37,099	9.2%
EBITDA margin (%)	33.4	31.4	37.3	
EBITDA excluding non-recurring items	58,333	52,554	38,284	11.0%
EBITDA margin excluding non-recurring items (%)	35.0	32.4	38.5	
Operating profit (EBIT)	27,923	22,520	18,526	24.0%
EBIT margin (%)	16.7	13.9	18.6	
Operating profit (EBIT) excluding non-recurring items	30,656	24,142	19,711	27.0%
EBIT margin excluding non-recurring items (%)	18.4	14.9	19.8	
Profit before income tax	27,247	22,463	18,307	21.3%
Profit before income tax margin (%)	16.3	13.9	18.4	
Profit for the period	23,643	20,268	16,257	16.7%
Profit for the period margin (%)	14.2	12.5	16.4	
Earnings per share (EUR)	0.041	0.035	0.028	
Number of shares (thousand)	582,613	582,613	582,613	-
Cash flow from operations	51,683		30,655	68.6%
Operating free cash flow	20,754		14,544	42.7%

  

Operating figures	30-06-2016	30-06-2015 comparable combined	30-06-2015	Change to comparable combined
	Fixed telephone lines in service (thousand)	485	512	
Broadband Internet connections (thousand)	398	378	378	5.3%
TV services customers (thousand)	222	195	195	13.8%
Post-paid mobile service subscriptions (thousand)	995	956	-	4.0%
Pre-paid mobile service subscriptions (thousand)	323	374	-	(13.6)%
Number of personnel (head-counts)	3,083	3,210	2,609	(4.0)%
Number of full-time employees	2,750	2,891	2,352	(4.9)%

  

Financial ratios	30-06-2016	30-06-2015
Return on capital employed (%)	11.8	14.1
Return on average assets (%)	10.2	13.7
Return on shareholders' equity (%)	18.7	14.7
Operating cash flow to sales (%)	31.0	30.9
Gearing ratio (%)	76.8	8.5
Debt to equity ratio (%)	89.9	16.2
Current ratio (%)	80.7	85.8
Rate of turnover of assets (%)	61.2	68.9
Equity to assets ratio (%)	46.3	77.3

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

Breakdown of Teo Group revenue by services	April - June			Change to comparable combined
	2016	2015 comparable combined	2015	
<b>Fixed services</b>	<b>46,616</b>	<b>44,633</b>	<b>45,700</b>	<b>4.4%</b>
Voice telephony services	17,682	17,592	18,033	0.5%
Internet services	14,258	13,501	13,566	5.6%
Data communication and network capacity	5,144	5,184	5,371	(0.8)%
TV services	5,991	5,012	5,012	19.5%
IT services	2,559	2,498	2,702	2.4%
Other services	982	846	1,016	16.1%
<b>Mobile services</b>	<b>25,485</b>	<b>23,353</b>	-	<b>9.1%</b>
Billed services	20,248	18,773	-	7.9%
Other mobile service	5,237	4,580	-	14.3%
<b>Equipment</b>	<b>12,063</b>	<b>13,247</b>	<b>3,711</b>	<b>(8.9)%</b>
<b>Total</b>	<b>84,164</b>	<b>81,233</b>	<b>49,411</b>	<b>3.6%</b>

Breakdown of Teo Group revenue by services	January - June			Change to comparable combined
	2016	2015 comparable combined	2015	
<b>Fixed services</b>	<b>93,703</b>	<b>90,717</b>	<b>92,746</b>	<b>3.3%</b>
Voice telephony services	35,992	37,001	37,847	(2.7)%
Internet services	28,274	26,871	27,001	5.2%
Data communication and network capacity	10,366	10,418	10,793	(0.5)%
TV services	11,879	9,872	9,872	20.3%
IT services	5,348	4,928	5,336	8.5%
Other services	1,844	1,627	1,897	13.3%
<b>Mobile services</b>	<b>50,261</b>	<b>45,635</b>	-	<b>10.1%</b>
Billed services	40,097	37,000	-	8.4%
Other mobile service	10,164	8,635	-	17.7%
<b>Equipment</b>	<b>22,748</b>	<b>25,777</b>	<b>6,619</b>	<b>(11.8)%</b>
<b>Total</b>	<b>166,712</b>	<b>162,129</b>	<b>99,365</b>	<b>2.8%</b>

## REVENUE

The **total consolidated revenue** of Teo Group (including Omnitel) during the second quarter of 2016 amounted to EUR 84.2 million and increased by 3.6 per cent over the total comparable combined revenue (including Omnitel) of EUR 81.2 million during the second quarter of 2015. Compared with first quarter of 2016 revenue increase by 2 per cent.

In April-June 2016, revenue from all services with the exception of data communication and network capacity were growing while equipment sale contracted.

The total revenue for the first six months of 2016 was EUR 166.7 million, an increase by 2.8 per cent over the total comparable combined revenue of EUR 162.1 million a year ago.

During January-June 2016, revenue from Internet, TV, IT and mobile communication services continued to grow whereas revenue from fixed voice services and equipment sale was lower than in 2015.

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The total **revenue from fixed and mobile services** during the second quarter and the first half of 2016 were up by 6.1 and 5.6 per cent, respectively compared with the same periods in 2015. **Revenue from equipment sale** to fixed and mobile communication customers in 2016 were lower by 8.9 and 11.8 per cent than in respective periods a year ago.

Share of revenue from fixed and mobile services amounted to 56 and 30 per cent, respectively, from the total amount of the Group revenue for the six months of 2016. Share of revenue from equipment sale was 14 per cent.

During the second quarter of 2016, revenue from fixed **voice telephony** services increased by 0.5 per cent. This was mainly due to revenue from transit voice services, which was 19.1 per cent higher than a year ago. Meanwhile, revenue from retail voice services continued to decline by 9.2 per cent.

During January-June 2016, number of fixed telephone lines in services eased by 15.6 thousand and over the last 12 months – by 27.4 thousand. Over the year, the total retail fixed voice telephony traffic decreased by 10.3 per cent. As a result, revenue from retail telephony services for the first six months of 2016 went down by 9.1 per cent, while revenue from fixed network interconnection (mainly voice transit) services went up by 8.1 per cent, but was not enough to offset decline in retail voice.

During the first half of 2016, the total number of fixed **broadband Internet access** users increased by 7.3 thousand, while over the last twelve months – by 20 thousand.

Over the year the number of fixed Internet connections over the next-generation fiber-optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies increased by 12.2 per cent and reached 235 thousand at the end of June 2016, while the number of copper DSL connections eased by 3.5 per cent to 163 thousand. By the end of June 2016, the number of Internet connections over the fiber-optic access network amounted to 59 per cent of all 398 thousand broadband Internet connections.

Compared with the same periods in 2015, revenue from **data communication** services alone during the second quarter and the first half of 2016 decreased by 1.2 and 0.3 per cent, and revenue from **network capacity** services alone declined by 0.1 and 0.7 per cent, respectively.

During January-June 2016, the number of IPTV (including “Interneto.tv”) service users increased by 12.9 thousand, while over the year by 33.9 thousand and by the end of June 2016 amounted to 178 thousand. During the last twelve months number of digital terrestrial television (DVB-T) users decreased by 6.9 thousand and amounted to 44 thousand. Over the year, the total number of **television** service customers went up by 27 thousand.

Following the agreement reached with the Lithuanian Radio and Television Center, the Company ceased to rebroadcast TV channels using the second network of Lithuanian Radio and Television Center (LRTC-2) from 1 July 2016. The Lithuanian Radio and Television Commission agreed to cancel the validity of the rebroadcasting licence as of 1 July 2016. At the same time, Teo increased the capacity of its own digital terrestrial broadcasting (DVB-T) network by 30 per cent. Available technological possibilities allow consolidation and better use of existing Teo resources for TV channels’ transmission and rebroadcasting. Until 1 July 2016, the Company’s digital terrestrial television programs were rebroadcasted all over Lithuania using 3 networks, and after channel consolidation they are rebroadcasted using 2 networks.

Revenue from **IT services** is generated from the data center, information system management and web-hosting services provided to local and multinational enterprises. In April 2016, Teo opened a new data center in Vilnius that is certified according to TIER III security standards. Currently, the Company owns 8 data centers and is the largest provider of IT infrastructure services in Lithuania.

In 2016, revenue from IT and other electronic equipment sale to Teo customers was separated from IT services and together with revenue from equipment sale to Omnitel customers formed a separate group of revenue from **equipment sale**.

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Revenue from **other services** consists of the following non-telecommunication services: Contact Center services of UAB Lintel to external customers, lease of premises, discount refund and other. Over the year, revenue from Contact Center services for the first six months of 2016 went up by 9.7 per cent, while from other non-core business services by 15.6 per cent.

Billed revenue from **mobile services** (post-paid and pre-paid) for the second quarter of 2016 was by 7.9 per cent and for the first six months of 2016 by 8.4 per cent higher than a year ago due to the increase in revenue from data usage and by almost 40 thousand higher number of post-paid customers. Migration from pre-paid to post-paid service continues. The total number of active mobile subscriptions as of 30 June 2016 amounted to 1,318 thousand, while a year ago it was 1,330 thousand, a decline by 0.9 per cent. Nevertheless, the growing data usage resulted in a higher ARPU per one mobile customer and higher total revenue from mobile services.

Teo and Omnitel won the public tender to ensure smart electricity metering data transmission and management services for business customers of Energijos Skirstymo Operatorius (ESO). It is the largest Internet of Things project in Lithuania. In the course of 7 years, Omnitel will transfer to ESO up to 80 thousand personalized SIM cards adapted to the Internet of Things and will perform management and maintenance of their data platform. The total value of the contract – EUR 756 thousand.

In June 2016, Omnitel, increased the speed of 4G LTE technology in Vilnius and surrounding areas by 30 percent. This increase in mobile Internet speed was achieved by increasing the radio frequency spectrum range intended for 4G technology. By the end of June, the speed of Omnitel mobile Internet technology was increased throughout Lithuania, except for major cities, where 4G speed will be increased during the summer in each city individually. According to the latest data of the Communications Regulatory Authority, the average 4G speed in the Omnitel network amounts to 36 Mb/s.

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

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 2016 increased by 1 per cent compared with the fourth quarter of 2015, while compared with the first quarter of 2015 increased by 5 per cent, and amounted to EUR 160 million.

	Teo market share in terms of customers (%)		Teo market share in terms of revenue (%)	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Fixed voice telephony services	88.5	89.8	93.4	94.5
Fixed Internet access services	46.7	46.3	55.6	55.8
Internet access services (total)	32.5	33.2	44.9	43.0
Pay-TV services	29.9	26.6	37.1	32.1
Network interconnection services	n/a	n/a	22.6	24.5
Data communication services	n/a	n/a	84.3	77.0
Leased line services	n/a	n/a	57.7	55.7



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	Omnitel market share in terms of customers (%)		Omnitel market share in terms of revenue (%)	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Mobile services	30.4	30.9	31.0	30.4
Mobile Internet access services	47.6	55.9	50.6	59.4
Internet access services (total)	15.4	15.8	9.2	9.7
Network interconnection services	n/a	n/a	13.5	11.4

On 31 March 2016, broadband Internet penetration per 100 residents of Lithuania was 42.1 per cent (a year ago – 38.6 per cent): penetration of broadband Internet using fixed connection was 29.3 per cent (27.7 per cent a year ago), while penetration of Internet using mobile connection was 12.9 per cent (10.9 per cent a year ago). Pay-TV penetration per 100 households was 56.1 per cent (in 2015 – 55.4 per cent). The penetration of active mobile communication users per 100 residents was 144.5 per cent (143.3 per cent a year ago) and penetration of phone fixed voice telephony lines per 100 residents – 19 per cent (19.5 per cent a year ago).

## OPERATING EXPENSES

During April-June of 2016, consolidated **cost of goods and services** increased by 4.1 per cent over the comparable combined cost of goods and services for April-June of 2015, nevertheless cost of goods and services for the first six months of 2016 were by 0.2 lower than for the same period a year ago. During the second quarter of 2016, cost of goods and services increased mainly due to higher voice transit traffic.

Consolidated **operating expenses** (excluding cost of goods and services, and non-recurring items) for the second quarter of 2016 were by 4.4 per cent lower than comparable combined operating expenses in April-June 2015. Operating expenses in January-June 2016 were by 2.4 per cent lower than a year ago.

Consolidated **employee-related expenses** (excluding one-time redundancy pay-outs) for the second quarter of 2016 decreased by 2.9 per cent over comparable combined employee-related expenses (excluding one-time redundancy pay-outs) for the second quarter of 2015. Employee-related expenses for the first half of 2016 were by 1.6 per cent lower than a year ago. During the second quarter and the first half of 2016, the Company had non-recurring redundancy charge that amounted to EUR 563 thousand and EUR 1.9 million, respectively.

During January-June 2016, the total number of employees (headcount) decreased by 117: in Teo – by 38, in Lintel – by 48, in Omnitel – by 25 and in other subsidiaries – by 6. Over the year, the total number of employees in Group (including Omnitel) decreased by 127 – from 3,210 to 3,083.

In terms of full-time employees, the total number of employees in Group during the first half of 2016 contracted by 101, while over the last twelve months (including Omnitel) – by 141 from 2,891 to 2,750.

Consolidated **other expenses** (excluding non-recurring expenses) were under control and during the second quarter and the first half of 2016 decreased by 6.2 and 3.3 per cent, respectively. Non-recurring expenses during January-June 2016 amounted to EUR 851 thousand.

## EARNINGS

Consolidated **EBITDA** (excluding non-recurring items) for the second quarter of 2016 increased by 11.1 per cent, compared with comparable combined EBITDA (excluding non-recurring items) of EUR 26.2 million for the second quarter of 2015, and amounted to EUR 29.1 million. Consolidated EBITDA (excluding non-recurring items) margin for the second quarter of 2016 reached 34.6 per cent, while a year ago comparable combined EBITDA (excluding non-recurring items) was 32.3 per cent.

Consolidated EBITDA (excluding non-recurring items) for the first half of 2016 went up by 11 per cent to EUR 58.3 million over comparable combined EBITDA (excluding non-recurring items) of EUR 52.6 million for the

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same period a year ago. Consolidated EBITDA (excluding non-recurring items) margin for the first half of 2016 increased and amounted to 35 per cent (32.4 per cent in 2015).

Consolidated EBITDA (including non-recurring items) for the second quarter of 2016 increased by 9.8 per cent to EUR 28 million over comparable combined EBITDA (including non-recurring items) of EUR 25.5 million in the second quarter of 2015. Consolidated EBITDA (including non-recurring items) margin for the second quarter of 2016 amounted to 33.2 per cent, while a year ago comparable combined EBITDA (including non-recurring items) was 31.3 per cent.

Consolidated EBITDA (including non-recurring items) for the first half of 2016 was up by 9.2 per cent to EUR 55.6 million over comparable combined EBITDA (including non-recurring items) of EUR 50.9 million for the same period a year ago. Consolidated EBITDA (including non-recurring items) margin for the first half of 2016 amounted to 33.4 per cent (31.4 per cent in 2015).

Consolidated **depreciation, amortisation and impairment charges** were by 2.6 per cent lower during the both second quarter and the first half of 2016, compared with the comparable combined depreciation, amortisation and impairment charges during the respective periods a year ago. In January-June 2016 depreciation, amortisation and impairment charges amounted to 16.6 per cent of the total revenue (comparable combined 17.5 per cent a year ago).

Consolidated **operating profit (EBIT)** (excluding non-recurring items) for the second quarter and the first half of 2016 was by 27.5 and 27 per cent, respectively, higher than comparable combined operating profit (EBIT) (excluding non-recurring items) for the respective periods in 2015. Operating profit (excluding non-recurring items) margin for the second quarter and the first half of 2016 was 18.1 and 18.4 per cent, respectively (comparable combined margins in 2015 were 14.7 and 14.9 per cent, respectively).

Consolidated operating profit (EBIT) (including non-recurring items) for the second quarter and the first half of 2016 was by 25.7 and 24 per cent, respectively, higher than comparable combined operating profit (EBIT) (including non-recurring items) for the same periods a year ago. Operating profit (including non-recurring items) margin for the second quarter and the first half of 2016 was the same and amounted to 16.7 per cent (a year ago comparable combined margins were 13.8 and 13.9 per cent, respectively).

Consolidated **net financial income** in January-June 2016 was negative and amounted to EUR 676 thousand (comparable combined net financial income a year ago was negative and amounted to EUR 57 thousand).

Consolidated **profit before income tax** in the second quarter of 2016 went up by 21.7 per cent and amounted to EUR 14 million (comparable combined profit before income tax a year ago was EUR 11.3 million). Consolidated profit before income tax in the first half of 2016 increased by 21.3 per cent and amounted to EUR 27.2 million (comparable combined profit before income tax in 2015 was EUR 22.5 million).

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the first half of 2016 amounted to EUR 1.5 million (EUR 1 million in 2015). Consolidated **income tax expenses** for the first six months of 2016 were by 1.6 times higher than comparable combined income tax expenses a year ago.

Consolidated **profit for the period** in April-June 2016 amounted to EUR 11.9 million, an increase by 22.1 per cent over comparable combined profit of EUR 9.7 million for April-June 2015. The consolidated profit margin for the second quarter of 2016 stood at 14.1 per cent while comparable combined profit margin a year ago was 12 per cent.

Consolidated profit for the period in January-June 2016 amounted to EUR 23.6 million, while a year ago it was EUR 20.3 million, an increase by 16.6 per cent. The profit margin for the first half of 2016 was 14.2 per cent (12.5 per cent a year ago).

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## FINANCIAL POSITION AND CASH FLOW

On 4 January 2016, Teo acquired from Telia Company AB (till 13 April 2016 called TeliaSonera AB), which also owns 88.15 per cent of Teo shares, a 100 per cent stake in Omnitel for EUR 220 million on a cash and debt free basis.

During the first six months of 2016, **total assets** of the Group increase by 1.9 times due to acquisition of Omnitel.

Total **non-current assets** increased by 1.8 times and amounted to 77 per cent of total assets. Total **current assets** increased by 2.6 times and amounted to 23 per cent of total assets, whereof cash alone represented 6.1 per cent of total assets.

During the first half of 2016, **shareholders' equity** increased by 7.6 per cent and amounted to 46.3 per cent of total assets.

On 26 April 2016, the Annual General Meeting of Shareholders decided to pay a **dividend** of EUR 0.01 per share (in total EUR 5.8 million) for the year 2015, while an amount of distributable profit of EUR 34.1 million was carried forward to the next financial year. In May, dividends for the year 2015 were paid to the shareholders of the Company.

On 18 December 2015, Teo signed an agreement with SEB Bank and Danske Bank for a long-term loan of EUR 150 million to finance acquisition of Omnitel.

At the end of June 2016, total amount of **borrowings** amounted to EUR 227 million. An amount of EUR 77 million represents borrowings of acquired subsidiary.

Net **cash flow from operating activities** in the first six months of 2016 was by 1.7 times higher than that for same period in 2015. **Operating free cash flow** (operating cash flow excluding capital investments) in January-June 2016 was by 1.4 times higher than a year ago.

The part of cash (EUR 11.4 million) spent during January-June 2016 for capital investments was payments for investments made in 2015.

During the first half of 2016, the total **capital investments** of Teo and Omnitel amounted to EUR 23.5 million (comparable combined capital investments was EUR 17.9 million a year ago). The majority of capital investments (EUR 10.5 million) went to expansion of the core fixed network and development of the next-generation fiber-optic access network. An amount of EUR 7.2 million was invested into development of mobile network and EUR 5.6 million – into development of IT systems of both companies.

By the end of June 2016, Teo had 861 thousand households passed (842 thousand a year ago), or 70 per cent of the country's households, by the FTTH network.

On 27 January 2016, Omnitel was recognised the winner of radio frequencies block bundle No. C1 at Communications Regulatory Authority auction for the right to use radio frequencies (channels) from paired radio frequencies bandwidth of 880–915 MHz and 925–960 MHz, and paired radio frequencies bandwidth of 1710–1785 MHz and 1805–1880 MHz. Omnitel offered the highest price (EUR 14.3 million) for this radio frequencies block bundle and got the priority right to choose the preferred A and B category radio frequencies block. Omnitel decided to use A2 (i.e. radio frequencies from paired radio frequencies bandwidth of 891.7–903.3 MHz and 936.7–948.3 MHz) and B1 (i.e. radio frequencies from paired radio frequencies bandwidth of 1710–1735 MHz and 1805–1830 MHz) radio frequencies blocks.

In February 2016, Omnitel was the first in the Baltic states and one of the first in the world to take a step in the direction of 5G mobile telecommunications of the future generation: it installed the newest mobile connection technology, 4.5G. Data download speeds in the operating network exceeded 750 Mb/s.

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

During January-June 2016, Omnitel installed and launched about 300 new LTE 4G base stations and already has nearly 1,000 4G base stations across Lithuania. The latest measurements conducted by the Communications Regulatory Authority showed that Omnitel is the first to cover the entire populated territory of Lithuania with 4G connectivity – 97 per cent – and to reach the most remote places in Lithuania. This means that the fastest 4G mobile Internet is currently available to nearly 100 per cent of the population in the country.

In April 2016, Teo opened a new data center in Vilnius that is certified according to TIER III security standards. The 500 kW data center has nearly 100 server cabinets and one of the world's most efficient cooling systems, KyotoCooling, installed in it. The total value of these investments is more than EUR 3 million. Currently, the Company owns 8 data centers and is the largest provider of IT infrastructure services in Lithuania.

**Cash and cash equivalents** during the first six months of 2016 increased by EUR 20.3 million.

## SHARE CAPITAL AND SHAREHOLDERS

From 5 June 2015, 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 Teo shares that provide voting rights during the General Meeting is 582,613,138.

On 29 March 2015, the Annual General Meeting of Shareholders decided to change the expression of the nominal value of the Company's shares and the authorized capital in litas into expression in euro, i.e. to determine that the nominal value of one Company's share is equal to 0.29 euro and to establish that the Company's authorized capital is equal to 168,957,810.02 euro.

The number of **shareholders** on the shareholders' registration day (19 April 2016) for the Annual General Meeting of Shareholders, which was held on 26 April 2016, was 11,495.

Shareholders, holding more than 5 per cent of the share capital and votes, as on 30 June 2016 were:

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

582,613,138 ordinary registered shares of TEO LT, AB (ISIN code LT0000123911) are listed on the Main List of Nasdaq Vilnius stock exchange (code: TEO1L). Nasdaq Vilnius is a home market for Teo shares.

From January 2011 Teo 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. Teo share's symbol on German stock exchanges is ZWS.

Information about **trading in Teo shares** on Nasdaq Vilnius stock exchange in January-June of 2016:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	1.010	1.030	0.879	0.890	0.959	2,779,254	2,665,379

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

Teo **market capitalisation** as on 30 June 2016 was EUR 518.5 million while a year ago it amounted to EUR 605.9 million.

## **OTHER MATERIAL INFORMATION**

In January 2016, Baltic Data Center SIA, a dormant subsidiary of Baltic Data Center in Latvia, was liquidated.

On 26 April 2016, the Annual General Meeting of Shareholders decided to approve the audited annual consolidated and separate financial statements of the Company for the year 2015, prepared according to the International Financial Reporting Standards. The Shareholders also approved the Company's profit allocation for the year 2015 and allocated EUR 5,826 thousand from the Company's distributable profit for the payment of dividends for the year 2015, or EUR 0.01 dividend per share. The amount of EUR 31,280 was allocated for tantiems for the year 2015 to two independent members of the Board – Inga Skisaker and Rolandas Viršilas, i.e. EUR 15,640 per one member of the Board.

The Annual General Meeting of Shareholders also approved the preparation of reorganisation terms, under which the Company's subsidiaries Omnitel and Baltic Data Center would be merged into TEO LT, AB.

On 29 April 2016, the Company transferred its ownership rights of VŠĮ Ryšių Istorijos Muziejus (The Communications History Museum) to Kaunas City Municipality free of charge. A not-for-profit organisation was established in 2010 for the management of the Communications History Museum in Kaunas funded by the Company. Teo was a sole founder and owner of VŠĮ Ryšių Istorijos Muziejus.

On 8 June 2016, Omnitel and Baltic Data Center changed their legal form from closed joint-stock companies (UAB) into joint-stock companies (AB). After change of legal form, the companies operate as AB Omnitel and AB Baltic Data Center.

On 9 June 2016, the Boards of Teo and its subsidiaries – Omnitel and Baltic Data Center (BDC) – approved the Terms of Merger of Teo, Omnitel and BDC. Based on the Terms of Merger, Teo, Omnitel and BDC will undergo a merger pursuant to Part 3 of Article 2.97 of the Civil Code of the Republic of Lithuania by way of a merger of Omnitel and BDC (both of which will terminate their activities as legal entities after the merger) into Teo, which after the merger will continue the activities currently carried out by Teo, Omnitel and BDC.

On 5 July 2016, Teo joined the Memorandum of Understanding on the enhancement of the functionality of the Bank of Lithuania retail payment system, prepared by the Bank of Lithuania. The Bank of Lithuania is developing the retail payment system SEPA-MMS by enhancing its functionality with a new function – the possibility to execute payments among the accounts of the customers of payment service providers. The Company supports the initiative of the Bank of Lithuania to develop the market of retail payment services, i.e. instant payments.

In July 2016, Omnitel transferred its 50 per cent stake of ownership rights of VŠĮ SOS Projektai to Swedbank (Lithuania) free of charge. SOS Projektai was jointly established by Omnitel and Swedbank (each owning a 50 per cent stake) as a not for profit organisation for implementation of professional volunteering project "Kam to reikia?!" ("Who needs it?!").

## **MEMBERS OF THE MANAGING BODIES**

According to the By-laws of TEO LT, AB the managing bodies of the Company are General Meeting, Board and CEO. The Company does not have a Supervisory Council.

On 26 April 2016, the Annual General Meeting of Shareholders elected Hannu-Matti Mäkinen, General Counsel and Head of Legal of Region Europe at Telia Company AB, to the Board of Teo for the current term of the Board following the resignation of Tiia Tuovinen from the Board as of 25 April 2016. Notification about Tiia Tuovinen, General Counsel of Global Services and Operations (GSO) at Telia Company AB, resignation was received on 23 March 2016. Telia Company AB, as the largest shareholder of Teo, proposed Hannu-Matti Mäkinen for election to the Board.

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

**Members of the Board** as of 30 June 2016:

<b>Name, surname</b>	<b>Position in the Board</b>	<b>Employment</b>	<b>Ownership of Teo shares</b>
Robert Andersson	Chairman of the Board, member of the Remuneration Committee	Telia Company AB (Sweden), Executive Vice President and Head of Region Europe	-
Stefan Block	Member of the Board, Chairman of the Audit Committee	Telia Company AB (Sweden), Chief Financial Officer of Region Europe	-
Claes Nycander	Member of the Board, member of the Remuneration Committee	Telia Company AB (Sweden), Chief Technology Officer of Region Europe	-
Hannu-Matti Mäkinen	Member of the Board	Telia Company AB (Sweden), General Counsel Region Europe and Head of Legal of Region Europe	-
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	75,000 shares or 0.0129% of the total number of Teo 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.teo.lt](http://www.teo.lt).

**Management Team** as of 30 June 2016:

<b>Name, surname</b>	<b>Position in the Company</b>	<b>Current Board Assignments</b>	<b>Ownership of Teo shares</b>
Kęstutis Šliužas	CEO	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, CEO; Association INFOBALT (Lithuania), member of the Board; Baltic Institute of Corporate Governance, member of the Board; Kaunas Technology University (Lithuania), member of the Business Council; Vilnius Tech Park (Lithuania), member of the Council	-
Petteri Ahonen	Head of Business to Business	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Business to Business	-
Norbertas Žioba	Head of Business to Consumer	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Business to Consumer	3,601 share or 0.0006% of the total number of Teo shares and votes
Andrius Šemeškevičius	Head of Technology	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Technology	8,761 share or 0.0015% of the total number of Teo shares and votes

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

Laimonas Devyžis	Head of Finance	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, member of the Board and Head of Finance; AB Baltic Data Center (Lithuania), a subsidiary of TEO LT, AB, member of the Board; UAB LD Corporate Consulting (Lithuania), 100 per cent owner & Director	-
Ramūnas Bagdonas	Head of Human Resources	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Human Resources	-
Giedrė Kaminskaitė-Salters	Head of Legal	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, member of the Board and Head of Legal; AB Baltic Data Center (Lithuania), a subsidiary of TEO LT, AB, member of the Board	-
Audronė Mažeikaitė	Head of Corporate Affairs	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Corporate Affairs	-
Mantas Goštautas	Head of Business Development	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Business Development	-
Andrius Byčkovas	Head of Competitive Customer Operations	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Competitive Customer Operations	-
Vytautas Bučinskas	Head of Risk	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, 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	-

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

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	April - June		January - June	
		2016	2015	2016	2015
<b>Revenue</b>		84,164	49,410	166,712	99,365
Cost of goods sold		(30,691)	(13,912)	(59,118)	(28,692)
Employee-related expenses		(14,100)	(12,106)	(29,929)	(23,819)
Other expenses		(11,527)	(5,166)	(22,148)	(9,905)
Other gain/ (loss) - net		119	78	83	150
Depreciation, amortisation and impairment of fixed assets	2	(13,906)	(9,393)	(27,677)	(18,573)
<b>Operating profit</b>		14,059	8,911	27,923	18,526
Finance income		246	32	466	64
Finance costs		(609)	(41)	(1,142)	(283)
Finance income/ costs - net		(363)	(9)	(676)	(219)
<b>Profit before income tax</b>		13,696	8,902	27,247	18,307
Income tax	6	(1,795)	(1,118)	(3,604)	(2,050)
Profit for the period		11,901	7,784	23,643	16,257
<b>Other comprehensive income:</b>					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		11,901	7,784	23,643	16,257
Profit and comprehensive income attributable to:					
Owners of the Parent		11,901	7,784	23,643	16,257
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in euro per share)	7	0.020	0.013	0.041	0.028



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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

	Note	30 June 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	282,468	214,882
Intangible assets	2	123,674	12,370
Investment property		3,126	3,126
Trade and other receivables		10,208	7,768
		<b>419,476</b>	<b>238,146</b>
<b>Current assets</b>			
Inventories		6,785	1,371
Trade and other receivables		85,196	33,568
Current income tax receivable		436	902
Cash and cash equivalents		33,220	12,898
		<b>125,637</b>	<b>48,739</b>
<b>Total assets</b>		<b>545,113</b>	<b>286,885</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	4	168,958	168,958
Legal reserve		16,896	16,896
Retained earnings		66,621	48,804
<b>Total equity</b>		<b>252,475</b>	<b>234,658</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		120,000	-
Deferred tax liabilities		11,315	8,922
Deferred revenue and accrued liabilities		424	424
Provisions	5	5,181	-
		<b>136,920</b>	<b>9,346</b>
<b>Current liabilities</b>			
Trade, other payables and accrued liabilities		48,367	26,861
Current income tax liabilities		20	119
Borrowings		107,000	15,061
Provisions	5	331	840
		<b>155,718</b>	<b>42,881</b>
<b>Total liabilities</b>		<b>292,638</b>	<b>52,227</b>
<b>Total equity and liabilities</b>		<b>545,113</b>	<b>286,885</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP	Share capital	Legal reserve	Retained earnings	Total equity
<b>Balance at 1 January 2015</b>	<b>168,736</b>	<b>22,498</b>	<b>48,643</b>	<b>239,877</b>
Net profit	-	-	16,257	16,257
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>16,257</b>	<b>16,257</b>
Dividends paid for 2014	-	-	(39,617)	(39,617)
Share capital value adjustment due to conversion to euro	222	-	-	222
Reduction of legal reserve	-	(5,602)	5,602	-
<b>Balance at 30 June 2015</b>	<b>168,958</b>	<b>16,896</b>	<b>30,885</b>	<b>216,739</b>
<b>Balance at 1 January 2016</b>	<b>168,958</b>	<b>16,896</b>	<b>48,804</b>	<b>234,658</b>
Net profit	-	-	23,643	23,643
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>23,643</b>	<b>23,643</b>
Dividends paid for 2015	-	-	(5,826)	(5,826)
<b>Balance at 30 June 2016</b>	<b>168,958</b>	<b>16,896</b>	<b>66,621</b>	<b>252,475</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOW

	January - June	
	2016	2015
<b>Operating activities</b>		
Profit for the period	23,643	16,257
Income tax	3,604	2,050
Depreciation, amortisation and impairment of fixed assets	27,677	18,573
Other gains and losses	(83)	(62)
Interest income	(95)	(64)
Interest expenses	1,007	36
Share capital value adjustment due to conversion to euro	4	222
Other non-cash transactions	147	114
Changes in working capital:		
Inventories	(941)	(267)
Trade and other receivables	5,067	(2,247)
Trade, other payables and accrued liabilities	(6,406)	(2,888)
Cash generated from operations	<b>53,620</b>	<b>31,724</b>
Interest paid	(468)	(22)
Interest received	95	64
Tax paid	(1,564)	(1,111)
Net cash from operating activities	<b>51,683</b>	<b>30,655</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment (PPE) and intangible assets	(30,929)	(16,111)
Proceeds from disposal of PPE and intangible assets	73	86
Acquisition of subsidiaries	(129,618)	-
Net cash used in investing activities	<b>(160,474)</b>	<b>(16,025)</b>
<b>Financing activities</b>		
Repayment of borrowings	(15,061)	(10,152)
Borrowings	150,000	35,000
Dividends paid to shareholders of the Company	(5,826)	(39,618)
Net cash used in financing activities	<b>129,113</b>	<b>(14,770)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>20,322</b>	<b>(140)</b>
<b>Movement in cash and cash equivalents</b>		
At the beginning of the year	12,898	16,862
Increase (decrease) in cash and cash equivalents	20,322	(140)
At the end of the period	<b>33,220</b>	<b>16,722</b>

(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 2016 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 2015.

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 2016 are not audited. Financial statements for the year ended 31 December 2015 are audited by the external auditor UAB Deloitte Lietuva.

### 2 Property, plant and equipment and intangible assets

	<b>Property, plant and equipment</b>	<b>Intangible assets</b>
<b>Six months ended 30 June 2015</b>		
<b>Opening net book amount as at 31 December 2014</b>	<b>218,761</b>	<b>12,744</b>
Additions	10,371	1,579
Disposals and retirements	(85)	-
Reclassification	194	(251)
Depreciation and amortisation charge	(17,053)	(1,520)
<b>Closing net book amount as at 30 June 2015</b>	<b>212,188</b>	<b>12,552</b>
<b>Six months ended 30 June 2016</b>		
<b>Opening net book amount as at 31 December 2015</b>	<b>214,882</b>	<b>12,370</b>
Additions	20,699	97,967
Acquisition of subsidiaries	71,563	16,452
Disposals and retirements	(108)	-
Reclassification	(12)	-
Depreciation and amortisation charge	(24,556)	(3,115)
<b>Closing net book amount as at 30 June 2016</b>	<b>282,468</b>	<b>123,674</b>

(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:

Subsidiary	Country of incorporation	Ownership interest in %		Profile
		30 June 2016	31 December 2015	
AB Omnitel	Lithuania	100%	-	The subsidiary that provides mobile communications services was acquired by the Company in January 2016.
AB Baltic Data Center	Lithuania	100%	100%	The subsidiary provides information technology infrastructure services to the Group and third parties.
UAB Lintel	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and Contact Center services.
Baltic Data Center SIA	Latvia	-	100%	The dormant subsidiary of Baltic Data Center was liquidated in January 2016.
UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary of the Company.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of the investment project.
VšĮ Ryšių Istorijos Muziejus	Lithuania	-	100%	A not-for-profit organisation established and owned by the Company for management of the Communications History Museum in Kaunas was handed over to Kaunas City Municipality free of charge in April 2016.
VšĮ Numerio Perkėlimas	Lithuania	50%	25%	A non-profit organisation established by four Lithuanian telecommunications operators (Teo and Omnitel own a 25% stakes each) from 1 January 2016 started to administer central database to ensure telephone number portability.
VšĮ SOS Projektai	Lithuania	50%	-	A non-profit organisation established by Omnitel and Swedbank (Lithuania) for implementation of professional volunteering project. Omnitel handed over its stake to Swedbank free of charge in July 2016.

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

#### 4 Share capital

From 5 June 2015 the authorised share capital comprises of 582,613,138 ordinary shares of EUR 0.29 nominal value each. From 20 October 2014 until 5 June 2015 the authorised share capital was comprised of 582,613,138 ordinary shares of LTL 1 nominal value each. All shares are fully paid up.

On 1 January 2015, the Republic of Lithuania joined the euro zone. Following the Law on expression of nominal value of authorized capital and securities of the public and limited companies in euro and amendment of the By-laws of such companies of the Republic of Lithuania, on 29 April 2015 the Company's shareholders passed a decision to determine that the nominal value of one Company's share is equal to EUR 0.29 and established that the Company's authorized capital is equal to EUR 168,957,810.02.

#### 5 Provisions

Provisions movement during January-June 2016:

	Provision for restructuring	Assets retirement obligation	Total
<b>Opening net book amount at 31 December 2015</b>	<b>840</b>	-	<b>840</b>
Acquisition of subsidiaries	200	5,191	5,391
Additions	1,592	-	1,592
Used provisions	(2,301)	(10)	(2,311)
<b>Closing net book amount at 30 June 2016</b>	<b>331</b>	<b>5,181</b>	<b>5,512</b>

The restructuring provision comprises of compensation to employees as a result of the restructuring plan approved by the Company and the Group. Provisions for restructuring are expected to be fully utilized during the year 2016.

The Group 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 Group 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 Group 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

Tax expenses for the period comprise current and deferred tax.

Profit for 2016 is taxable at a rate of 15 per cent in accordance with Lithuanian regulatory legislation on taxation (2015: 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 2016 amounted to EUR 1.5 million (2015: EUR 1.0 million).

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

## 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.

	<u>January - June</u>	
	<u>2016</u>	<u>2015</u>
<b>Net profit</b>	<b>23,643</b>	<b>16,257</b>
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613
<b>Earnings per share (EUR)</b>	<b>0.041</b>	<b>0.028</b>

## 8 Dividends per share

A dividend that relates to the period to 31 December 2015 was approved the Annual General Meeting of Shareholders on 26 April 2016. The total amount of allocated dividend, that was paid off in May 2016 was EUR 5,826 thousand or EUR 0.01 per ordinary share.

## 9 Business combination

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

Goodwill arising on acquisition

Purchase consideration	<u>144,107</u>
Fair value of net assets acquired	<u>(63,254)</u>
<b>Goodwill</b>	<b><u>80,853</u></b>

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

*Assets acquired and liabilities recognised at the date of acquisition*

	<u>Fair value</u>	<u>Acquirer's carrying amount</u>
Cash and cash equivalents	14,489	14,489
Property, plant and equipment	71,564	71,564
Intangible assets	16,453	16,453
Inventories	4,473	4,473
Trade and other receivables	59,712	59,712
Trade and other payables	(25,209)	(25,209)
Deferred tax liability	(1,228)	(1,228)
Borrowings	(77,000)	(77,000)
<b>Net assets acquired</b>	<b><u>(63,254)</u></b>	<b><u>(63,254)</u></b>

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

The initial accounting for the acquisition has only been provisionally determined at the date of acquisition. At the date of finalisation of these financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the management's best estimate of the likely fair value values.

*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>

## 10 Related party transactions

The Group is controlled by Telia Company AB (until 13 April 2016 called TeliaSonera AB) which as of 30 June 2016 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:

	<u>January - June</u>	
	2016	2015
Sales of telecommunication and other services	3,497	4,528
<b>Total sales of telecommunication and other services</b>	<b>3,497</b>	<b>4,528</b>
Purchases of services	4,301	2,156
Purchase of shares (Note 9)	144,107	-
Purchases of assets	258	-
<b>Total purchases of services and assets:</b>	<b>148,666</b>	<b>2,156</b>

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

	<u>As at 30 June</u>	
	2016	2015
Long-term receivables from related parties	279	307
Receivables from related parties	1,552	678
Accrued revenue from related parties	593	623
<b>Total receivables and accrued revenue from related parties</b>	<b>2,424</b>	<b>1,608</b>
Short-term borrowings from related parties	77,000	35,000
Payables to related parties	1,285	211
Accrued expenses to related parties	222	14
<b>Total payables and accrued expenses to related parties</b>	<b>78,507</b>	<b>32,225</b>

The total amount of annual payments (tantiemes) assigned to two members of the Board of the Company for the year 2015 during January-June 2016 amounted to EUR 31 thousand (2015: for six members – EUR 94 thousand). As of 30 June 2016, 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 TEO LT, AB, and Laimonas Devyžis, Head of Finance of TEO LT, AB, hereby confirm that, to the best of our knowledge, the not audited TEO LT, AB Interim Consolidated Financial Statements for the six months period ended 30 June 2016, 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 flow of TEO LT, AB and the Group of undertakings.

Kęstutis Šliužas  
CEO

Laimonas Devyžis  
Head of Finance

Vilnius, 19 July 2016