

**TEO LT, AB  
CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND  
FOR THE TWELVE MONTHS' PERIOD ENDED 31 DECEMBER 2016  
(UNAUDITED)**

Beginning of the financial year	1 January 2016
End of reporting period	31 December 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 fourth quarter and the twelve months of 2016 presented herein is the consolidated data of TEO LT, AB and its subsidiaries including Omnitel. Comparable data of financial statements for the fourth quarter and the twelve months 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 fourth quarter and the twelve months 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**

### **The first year of Teo and Omnitel operating together – a year of profitable growth**

#### **Fourth quarter of 2016\*:**

- Total consolidated revenue amounted to EUR 92.4 million, up by 0.8 per cent over the comparable combined revenue of EUR 91.6 million in Q4 2015. This is the best quarterly result in 2016.
- Consolidated EBITDA, excluding non-recurring items, reached EUR 28.5 million, down by 2 per cent over the comparable combined EBITDA, excluding non-recurring items), of EUR 29 million in Q4 2015.

#### **Full year 2016\*:**

- Total consolidated revenue amounted to EUR 345.9 million, up by 2.5 per cent over the comparable combined revenue of EUR 337.6 million for the 12 months of 2015.
- Consolidated EBITDA, excluding non-recurring items, reached EUR 117.1 million, up by 5.9 per cent over the comparable combined EBITDA, excluding non-recurring items, of EUR 110.6 million in 2015.
- Free cash flow amounted to EUR 44.2 million and was 1.5 times higher than a year ago.

#### **Management comment:**

Today we could firmly say that our joint efforts in 2016 paid off and we are at the final stage of Teo and Omnitel integration. Our customers could already feel that they are dealing with a single company. By the year-end, we have completed the integration of Teo and Omnitel retail outlets, introduced joint phone numbers for customer care and offered new Internet solutions. In addition, our leadership in 4G development in Lithuania was officially confirmed by CRA: our network covers 99% territory of the country and offers the highest speed.

Thanks to two companies' integration, the total revenue in 2016 continuously grew quarter by quarter and peaked in Q4. The last quarter of 2016 was marked with increased sale of equipment, especially mobile devices and domestic appliances. During the year, growth of revenue from TV (particularly from IPTV service by 28.1%), broadband Internet and mobile services came from the continued intake of new customers.

Over the year the number of:

- IPTV (purposely substituting DVB-T) users increased by 15.8% and reached 191 thousand,
- fiber optic Internet connections grew by 9.3% and amounted to 246 thousand,
- Post-paid subscriptions increased by 3.7% and exceeded 1 million.

Consolidated operating expenses (excl. non-recurring items) were under control and combined with an increase in the total revenue resulted in an annual EBITDA margin (excl. non-recurring items) of 33.9% (32.7% for 2015).

In Q4 2016, the Company completed Omnitel's purchase price allocation. As a result, an additional depreciation and amortisation charge of EUR 5.1 million has been booked for 2016 and thus negatively affecting profitability.

During 2016, more than 600 new 4G base stations were installed and according to the latest data of the CRA Omnitel 4G connectivity now covers 99%, i.e. almost all populated territory of Lithuania. Over the year, capital investments into mobile network amounted to EUR 13.5 million and into fixed network – EUR 26.6 million.

Teo and Omnitel cooperation has allowed us to offer solutions for both business and residential customers that had no access to fiber-optic network – an unlimited high-speed 4G mobile Internet at fixed location for a flat monthly fee. In October, Omnitel increased the data bundle in all mobile connection payment plans for residential customers and reduced the average price of its data by up to 40%.

With customer experience in mind, we integrated 70 Teo and Omnitel retail outlets. This has made it possible for more people all over the country to get acquainted with both mobile and broadband services as well as to test and acquire smart devices, TV sets or other IT equipment. In addition, joint short phone numbers for customer care serve residential and business customers of both companies.

In December, Teo shareholders approved merger of Omnitel and BDC into Teo and decided that the company that will carry on the activities of Teo, Omnitel and BDC after the reorganisation will be called Telia Lietuva, AB.

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

## KEY FIGURES OF TEO GROUP\*

Financial figures	January-December			Change to comparable combined
	2016	2015 comparable combined	2015	
Revenue	345,906	337,612	204,598	2.5%
EBITDA excluding non-recurring items	117,118	110,550	80,765	5.9%
EBITDA margin excluding non-recurring items (%)	33.9	32.7	39.5	
EBITDA	111,457	107,931	76,469	3.3%
EBITDA margin (%)	32.2	32.0	37.4	
Operating profit (EBIT) excluding non-recurring items	54,276	51,853	42,835	4.7%
EBIT margin excluding non-recurring items (%)	15.7	15.4	20.9	
Operating profit (EBIT)	48,615	49,234	38,539	(1.3)%
EBIT margin (%)	14.1	14.6	18.8	
Profit before income tax	47,545	49,249	38,279	(3.5)%
Profit before income tax margin (%)	13.7	14.6	20.6	
Profit for the period	41,903	44,336	34,176	(5.5)%
Profit for the period margin (%)	12.1	13.1	16.7	
Earnings per share (EUR)	0.072	0.076	0.059	
Number of shares (thousand)	582,613	582,613	582,613	-
Cash flow from operations	112,429		62,408	80.2%
Operating free cash flow	44,176		28,543	54.8%

  

Operating figures	31-12-2015 comparable combined			Change to comparable combined
	31-12-2016	31-12-2015	31-12-2015	
Fixed telephone lines in service (thousand)	466	500	500	(6.9)%
Broadband Internet connections (thousand)	404	391	391	3.4%
TV services customers (thousand)	229	212	212	8.1%
Post-paid mobile service subscriptions (thousand)	1,012	976	-	3.7%
Pre-paid mobile service subscriptions (thousand)	446	514	-	(13.2)%
Number of personnel (head-counts)	3,146	3,200	2,603	(1.7)%
Number of full-time employees	2,819	2,851	2,309	(1.1)%

  

Financial ratios	31-12-2015	
	31-12-2016	31-12-2015
Return on capital employed (%)	10.3	14.1
Return on average assets (%)	8.7	13.6
Return on shareholders' equity (%)	16.2	15.0
Operating cash flow to sales (%)	32.5	30.5
Gearing ratio (%)	62.9	0.9
Debt to equity ratio (%)	83.8	6.4
Current ratio (%)	87.1	113.7
Rate of turnover of assets (%)	61.7	72.4
Equity to assets ratio (%)	45.8	81.8

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Breakdown of Teo Group revenue by services	October-December			Change to comparable combined
	2016	2015 comparable combined	2015	
<b>Fixed services</b>	<b>47,669</b>	<b>45,940</b>	<b>47,210</b>	<b>3.8%</b>
Voice telephony services	17,860	17,521	17,976	1.9%
Internet services	14,608	13,894	13,966	5.1%
Data communication and network capacity	4,935	5,424	5,611	(9.0)%
TV services	6,369	5,582	5,582	14.1%
IT services	3,105	2,769	2,980	12.1%
Other services	792	750	1,095	5.6%
<b>Mobile services</b>	<b>24,921</b>	<b>27,324</b>	<b>-</b>	<b>(8.8)%</b>
Billed services	20,414	21,279	-	(4.1)%
Other mobile service	4,507	6,045**	-	(25.4)%
<b>Equipment</b>	<b>19,787</b>	<b>18,383</b>	<b>6,955</b>	<b>7.6%</b>
<b>Total</b>	<b>92,377</b>	<b>91,647</b>	<b>54,165</b>	<b>0.8%</b>

\*\* In the fourth quarter of 2015, Omnitel recorded an amount of EUR 1.6 million of revenue from roaming services that accumulated over the full year 2015.

Breakdown of Teo Group revenue by services	January-December			Change to comparable combined
	2016	2015 comparable combined	2015	
<b>Fixed services</b>	<b>187,981</b>	<b>181,436</b>	<b>185,887</b>	<b>3.6%</b>
Voice telephony services	71,234	72,197	73,871	(1.3)%
Internet services	57,320	54,376	54,641	5.4%
Data communication and network capacity	20,381	21,005	21,753	(3.0)%
TV services	24,473	20,648	20,648	18.5%
IT services	11,030	10,123	10,947	9.0%
Other services	3,543	3,087	4,027	14.8%
<b>Mobile services</b>	<b>101,467</b>	<b>97,390</b>	<b>-</b>	<b>4.2%</b>
Billed services	81,247	78,221	-	3.9%
Other mobile service	20,220	19,169	-	5.5%
<b>Equipment</b>	<b>56,458</b>	<b>58,786</b>	<b>18,711</b>	<b>(4.0)%</b>
<b>Total</b>	<b>345,906</b>	<b>337,612</b>	<b>204,598</b>	<b>2.5%</b>

## REVENUE

The **total consolidated revenue** of Teo Group (including Omnitel) during the fourth quarter of 2016 amounted to EUR 92.4 million and increased by 0.8 per cent over the total comparable combined revenue (including Omnitel) of EUR 91.6 million during the fourth quarter of 2015. Compared with the first, second and third quarters of 2016 revenue for the fourth quarter of 2016 was higher by 11.9, 9.8 and 6.4 per cent, respectively.

During October-December 2016, in addition to continuously growing revenue from broadband Internet, TV and IT services, higher revenue from sale of equipment and voice transit had a positive impact on the total revenue while revenue from billed mobile services was somewhat lower than during the fourth quarter of 2015.

The total **revenue from fixed and mobile services** during the fourth quarter of 2016 was down by 0.9, while

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**revenue from the sale of equipment** to fixed and mobile communication customers was up 7.6 per cent, compared with the same quarter a year ago. Majority of equipment sold to private customers contain deferred payments, thus the discounting effect this quarter was EUR 0.6 million higher compared to the same period last year, negatively affecting EBITDA and equipment sales values.

The total revenue for the twelve months of 2016 was EUR 345.9 million, an increase of 2.5 per cent over the total comparable combined revenue of EUR 337.6 million a year ago.

During 2016, revenue from all services was growing except the continuously declining revenue from retail voice telephony, data communication and network capacity services.

Nevertheless, the total revenue from fixed and mobile services during 2016 increased by 3.8 per cent, while the revenue from sale of equipment in 2016 was lower by 4 per cent than a year ago.

Share of revenue from fixed and mobile services amounted to 54.4 and 29.3 per cent, respectively, from the total amount of the Group revenue for the year 2016. Share of revenue from sale of equipment was 16.3 per cent.

During the fourth quarter of 2016, the revenue from fixed network interconnection (mainly voice transit) services was higher by 22.7 per cent and thus fully offset the decline in revenue from retail telephony services by 10.2 per cent. This resulted in an increase in revenue from fixed **voice telephony** services by 1.9 per cent, compared with the fourth quarter of 2015.

During 2016, the number of fixed telephone lines in services decreased by 34 thousand and the total retail fixed voice telephony traffic decreased by 11 per cent. As a result, the revenue from retail telephony services for the twelve months of 2016 went down by 9.5 per cent, while the revenue from voice transit services went up by 12.8 per cent. In 2016, revenue from fixed voice telephony services were by 1.3 per cent lower than a year ago.

During January-December 2016, the total number of fixed **broadband Internet access** users increased by 13 thousand. Over the year the number of fixed Internet connections over the fiber-optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies increased by 9.3 per cent and reached 246 thousand at the end of 2016, while the number of copper DSL connections eased by 4.7 per cent to 158 thousand. By the end of 2016, the number of Internet connections over the fiber-optic access network amounted to 61 per cent of all 404 thousand broadband Internet connections.

Compared with the same periods in 2015, revenue from **data communication** services alone during the fourth quarter and the twelve months of 2016 decreased by 13.5 and 4.2 per cent, and revenue from **network capacity** services alone declined by 2.6 and 1.3 per cent, respectively.

The Company is optimising its digital terrestrial **television** (DVB-T) network and is actively encouraging its DVB-T users to migrate to the more advanced IPTV platform. During January-December 2016, the number of IPTV (including "Interneto.tv") service users increased by 26 thousand and by the end of 2016 amounted to 191 thousand. Over the year the number of DVB-T users decreased by 9 thousand and amounted to 38 thousand. Over the year, the total number of television service customers went up by 17 thousand.

In October 2016, following the parents and their children wishes Teo created a separate "Kids Corner" at its IPTV platform. In a special, child-friendly environment, the kids will be provided with content that is suitable for them, including educational programs, talking fairy-tales and songs.

Consolidated 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

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services and together with revenue from equipment sale to Omnitel customers formed a separate group of revenue from **equipment sales**.

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. During 2016, revenue from Contact Center services eased by 6.9 per cent, while revenue from other non-core business services increased by 36.3 per cent.

Lintel is planning to cease the provision of services to external customers and instead will focus all of its efforts on improvement of the Group's customer experience and quality of service. The 118 service, a paid inquiry service, will continue to be provided and developed through new web channels.

During 2016, the migration of customers from pre-paid to post-paid **mobile communication services** continued. Over the year, the number of post-paid subscription increased by 36 thousand, while the number of pre-paid subscriptions went down by 68 thousand. The total number of active mobile subscriptions as of 31 December 2016 amounted to 1,458 thousand, a decline by 2.1 per cent over the number of active subscriptions of 1,490 thousand a year ago.

The lower number of pre-paid service subscription had a negative impact on the total billed revenue from mobile services for the fourth quarter of 2016 – down by 4.1 per cent. Nevertheless, for the twelve months of 2016 the total billed revenue was by 3.9 per cent higher than a year ago, mainly due to the higher number and higher revenue from post-paid service users as customers are enjoying 4G services and consequently using more data.

In October 2016, Omnitel increased the data packages in all the mobile connection payment plans for residential customers and reduced the average price of its data by up to 40 per cent. Together with the new payment plans, Omnitel customers received additional benefits: access to the Lithuanian e-book reader "Milžinas" ("The Giant"), mobile phone insurance, a mobile signature, Spotify Premium, as well as the possibility to surf the Internet in the Nordic and Baltic countries under the same conditions as applied in Lithuania.

The system of the new mobile payment plans is very simple: customers can choose from two basic plans: START (EUR 3 per month) and SMART (EUR 7 per month), and then, according to their needs, they can get an additional mobile data package containing 50 MB (EUR 0 per month), 2 GB (EUR 2.95 per month), 4GB (EUR 5.95 per month), 8GB (EUR 8.95 per month) or 16 GB (EUR 12.95 per month) of mobile data. All data payment plans (except the 50 MB plan) provide an unlimited access to Teo Wi-Fi hot spots all over Lithuania.

In addition, Omnitel have introduced a new mobile Internet payment plan for the home, Home Connect, with an unlimited amount of data. For a monthly fee of EUR 19, customers are able to use unlimited mobile Internet over 4G network at a fixed location. The plan Connect 200 providing 200 GB of data for EUR 19.90 per month allows customers to use the Internet anywhere in Lithuania.

For business customers Omnitel also offered the Internet solutions in areas where there is no access to fiber optic Internet network. A Huawei router and outside antenna installed in the office ensure a high speed of mobile Internet and for EUR 25 per month provide an unlimited amount of data.

According to official data of the Communications Regulatory Authority, Omnitel has the fastest and broadest 4G network in Lithuania. During 2016, the share of transmitted 4G data in Omnitel network alone increased by a third and in December accounted for 77 per cent. Over the year the number of active 4G customers increased by 42 percent to 280 thousand, while the average amount of actually used 4G data per month per customer increased by almost a fifth – to 6.06 gigabytes (GB).

Revenue from **other mobile services** include revenue from Omnitel mobile network interconnections and other network services. In the fourth quarter of 2015, Omnitel recorded an amount of EUR 1.6 million of revenue from roaming services that related to the full year 2015.



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Gain or loss from the sale of property, plant and equipment, as well as gain or loss on currency exchange is recorded at net value as **other gain (loss)**. In December 2015, Teo Group sold the buildings in the Old Town of Kaunas, in which the Communications History Museum, supported by the Company, was located. In March 2016, the Museum ceased its activities and in April, Teo transferred its ownership rights in the not-for-profit organisation that was established for management of the Museum to Kaunas City Municipality free of charge.

## MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue during the third quarter of 2016 increased by 3.6 per cent over the second quarter of 2016, and was up by 4.7 per cent compared with the third quarter of 2015, amounting to EUR 166 million. During the nine months of 2016, the total revenue of the market amounted to EUR 480 million, an increase by 2.8 per cent over the nine months of 2015.

	Teo market share in terms of customers (%)		Teo market share in terms of revenue (%)	
	Q3 2016	Q3 2015	Q3 2016	Q3 2015
Fixed voice telephony services	88.0	89.9	92.7	94.0
Fixed Internet access services	46.8	46.4	56.8	56.3
Internet access services (total)	32.0	32.8	45.0	45.8
Pay-TV services	31.6	28.0	38.3	34.5
Network interconnection services	n/a	n/a	21.7	19.6
Data communication services	n/a	n/a	83.9	82.8
Leased line services	n/a	n/a	61.2	53.5
	Omnitel market share in terms of customers (%)		Omnitel market share in terms of revenue (%)	
	Q3 2016	Q3 2015	Q3 2016	Q3 2015
Mobile services	30.1	30.7	30.1	31.2
Mobile Internet access services	48.6	53.7	44.3	51.9
Internet access services (total)	15.4	15.7	9.3	9.7
Network interconnection services	n/a	n/a	14.1	12.1

On 30 September 2016, broadband Internet penetration per 100 residents of Lithuania was 43.7 per cent (a year ago – 40.3 per cent): penetration of broadband Internet using fixed connection was 29.9 per cent (28.5 per cent a year ago), while penetration of the Internet using mobile connection was 13.8 per cent (11.8 per cent a year ago). Pay-TV penetration per 100 households was 55.5 per cent, while a year ago it was 56.2 per cent. The penetration of active mobile communication users per 100 residents was 148.2 per cent (146.3 per cent a year ago) and penetration of phone fixed voice telephony lines per 100 residents – 18.6 per cent (19.1 per cent a year ago).

## OPERATING EXPENSES

During October-December of 2016, consolidated **cost of goods and services** was 0.7 per cent lower than for the same period a year ago, although the volume of sale of equipment and voice transit traffic were higher. Cost of goods and services for the twelve months of 2016 was 1.2 per cent higher than a year ago.

Consolidated **operating expenses** (excluding cost of goods and services, and non-recurring items) for the fourth quarter of 2016 were by 4.8 per cent higher than comparable combined operating expenses in October-December of 2015 due to the higher marketing and other expenses at the year-end. Nevertheless, operating expenses in January-December of 2016 were by 0.5 per cent lower than a year ago.

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Consolidated **employee-related expenses** (excluding one-time redundancy pay-outs) for the fourth quarter of 2016 increased by 1.4 per cent over the comparable combined employee-related expenses (excluding one-time redundancy pay-outs) for the fourth quarter of 2015. Employee-related expenses for the twelve months of 2016 were by 0.5 per cent lower than a year ago. During the fourth quarter and the twelve months of 2016, the Company had a non-recurring redundancy charge that amounted to EUR 0.8 million and EUR 3.1 million, respectively.

During October-December of 2016, the total number of employees (headcount) increased by 47: in Lintel it increased by 74, while in Teo it decreased by 15 and in Omnitel – by 12. Over the year, the total number of employees in Group (including Omnitel) decreased by 54 – from 3,200 to 3,146. During 2016 number of employees in Teo went down by 33, in Omnitel – by 45, in other subsidiaries – by 6, while in Lintel it increased by 30 (mainly during the fourth quarter of 2016).

In terms of full-time employees, the total number of employees in the Group during the fourth quarter 2016 went up by 57 (mainly due to Lintel), while over the twelve months (including Omnitel) it went down by 32 from 2,851 to 2,819.

Consolidated **other expenses** (excluding non-recurring expenses) in the fourth quarter of 2016 were higher by 9.3 per cent than a year ago due to higher marketing expenses. Nevertheless, other expenses (excluding non-recurring expenses) for the year 2016 compared with year 2015 were down by 0.4 per cent. Non-recurring expenses during January-December of 2016 amounted to EUR 2.6 million.

## EARNINGS

Consolidated **EBITDA** (excluding non-recurring items) for the fourth quarter of 2016 went down by 2 per cent, compared with comparable combined EBITDA (excluding non-recurring items) of EUR 29 million for the fourth quarter of 2015, and amounted to EUR 28.5 million. Consolidated EBITDA (excluding non-recurring items) margin for the fourth quarter of 2016 was 30.8 per cent, while a year ago comparable combined EBITDA (excluding non-recurring items) was 31.7 per cent.

Consolidated EBITDA (excluding non-recurring items) for the year 2016 went up by 5.9 per cent to EUR 117.1 million over the comparable combined EBITDA (excluding non-recurring items) of EUR 110.6 million for the year 2015. Consolidated EBITDA (excluding non-recurring items) margin for the year 2016 amounted to 33.9 per cent (32.7 per cent in 2015).

Consolidated EBITDA (including non-recurring items) for the fourth quarter of 2016 decreased by 7.8 per cent to EUR 27.1 million over comparable combined EBITDA (including non-recurring items) of EUR 29.4 million in the fourth quarter of 2015. Consolidated EBITDA (including non-recurring items) margin for the fourth quarter of 2016 amounted to 29.3 per cent, while a year ago comparable combined EBITDA (including non-recurring items) was 32.1 per cent.

Consolidated EBITDA (including non-recurring items) for the twelve months of 2016 was up by 3.3 per cent to EUR 111.5 million over comparable combined EBITDA (including non-recurring items) of EUR 107.9 million for the year 2015. Consolidated EBITDA (including non-recurring items) margin for the year 2016 amounted to 32.2 per cent (32 per cent in 2015).

In the fourth quarter of 2016, the Company completed Omnitel's purchase price allocation: part of purchase price exceeding net asset value at the date of transaction was attributed to existing assets as well as new types of assets (e.g., client base, trademarks). As a result, the Company booked an additional depreciation and amortisation charge of EUR 5.1 million. This additional depreciation and amortisation charge was allocated into respective quarter of 2016 and consequently had an effect on earlier reported operating profit (EBIT), profit before income tax, income tax and profit for the period for the first, second and third quarters of 2016, which are restated below.

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

### Restated financial figures

	Q1 2016	Q2 2016	H1 2016	Q3 2016	9 months of 2016
Depreciation, amortisation and impairment of fixed assets	15,057	15,191	30,248	17,211	47,459
Operating profit (EBIT)	12,579	12,773	25,352	11,535	36,887
Finance activity, net	(313)	(416)	(729)	(398)	(1,127)
Profit before income tax	12,266	12,357	24,623	11,137	35,760
Income tax	1,617	1,602	3,219	1,228	4,447
Profit for the period	10,649	10,755	21,404	9,909	31,313
Earnings per share (EUR)	0.018	0.018	0.037	0.017	0.054

Consolidated **depreciation, amortisation and impairment charges** for the fourth quarter was 5.5 per cent lower, while for the twelve months of 2016 they were 7.1 per cent higher than the comparable combined depreciation, amortisation and impairment charges during the respective periods a year ago. In 2016 depreciation, amortisation and impairment charges amounted to 18.2 per cent of the total revenue (comparable combined 17.4 per cent a year ago).

Consolidated **operating profit (EBIT)** (excluding non-recurring items) for the fourth quarter of 2016 was 2.6 per cent higher than the comparable combined operating profit (EBIT) (excluding non-recurring items) for the fourth quarter of 2015. EBIT (excluding non-recurring items) for the year 2016 was 4.7 per cent higher than in 2015. Operating profit (excluding non-recurring items) margin for the fourth quarter and the twelve months of 2016 was 14.2 and 15.7 per cent, respectively (comparable combined margins in 2015 were 13.9 and 15.4 per cent, respectively).

Consolidated operating profit (EBIT) (including non-recurring items) for the fourth quarter of 2016 was 10.6 per cent lower than comparable combined operating profit (EBIT) (including non-recurring items) for the same period a year ago. EBIT (including non-recurring items) for the twelve months of 2016 was 1.3 per cent lower than a year ago. Operating profit (including non-recurring items) margin for the fourth quarter and the twelve months of 2016 was 12.7 and 14.1 per cent, respectively (a year ago comparable combined margins were 14.3 and 14.6 per cent, respectively).

Consolidated **net financial income** in October-December of 2016 amounted to EUR 57 thousand, but for the twelve months of 2016 was negative and amounted to EUR 1.1 million (comparable combined net financial income in 2015 amounted to EUR 16 thousand).

Consolidated **profit before income tax** for the fourth quarter of 2016 went down by 10.6 per cent and amounted to EUR 11.8 million (comparable combined profit before income tax a year ago was EUR 13.2 million). Consolidated profit before income tax for the twelve months of 2016 decreased by 3.5 per cent and amounted to EUR 47.5 million (comparable combined profit before income tax in 2015 was EUR 49.3 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 year 2016 amounted to EUR 2.9 million (EUR 2 million in 2015). Consolidated **income tax expenses** for the year 2016 were 14.8 per cent higher than comparable combined income tax expenses in 2015.

Consolidated **profit for the period** of October-December of 2016 amounted to EUR 10.6 million, a decrease of 11.4 per cent over comparable combined profit of EUR 11.9 million for October-December of 2015. The consolidated profit margin for the fourth quarter of 2016 was 11.5 per cent while the comparable combined profit margin a year ago stood at 13 per cent.

Consolidated profit for the period of January-December of 2016 amounted to EUR 41.9 million, while a year ago it was EUR 44.3 million, a decrease by 5.5 per cent. The profit margin for the year 2016 was 12.1 per cent (13.1 per cent a year ago).

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

## 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 twelve months of 2016, **total assets** of the Group increased by more than 2 times due to acquisition of Omnitel.

Total **non-current assets** increased by 1.8 times and amounted to 72.5 per cent of total assets. Total **current assets** increased by 3.3 times and amounted to 27.5 per cent of total assets, whereof cash alone represented 9.6 per cent of total assets.

During 2016, **shareholders' equity** increased by 15.4 per cent and amounted to 45.8 per cent of the 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 2016, dividends for the year 2015 were paid in cash to the shareholders of the Company.

As of 31 December 2016, consolidated **retained earnings** of Teo Group amounted to EUR 84.9 million, while retained earnings of the Parent company amounted to EUR 68.1 million. According to the provisions of the Law of the Republic of Lithuania on Companies, dividends should be paid from retained earnings of the Parent 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 the acquisition of Omnitel.

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

Net **cash flow from operating activities** in 2016 was 1.8 times higher than that in 2015. **Operating free cash flow** (operating cash flow excluding capital investments) in January-December of 2016 was 1.5 times higher than a year ago.

The cash amount (EUR 11.4 million) spent during 2016 for capital investments was payments for investments made in 2015.

During 2016, the total **capital investments** of Teo and Omnitel amounted to EUR 57.7 million (comparable combined capital investments was EUR 50.8 million a year ago). The majority of capital investments (EUR 26.6 million) went to the expansion of the core fixed network and development of the fiber-optic access network. Investments into the development of mobile network amounted to EUR 13.5 million and EUR 16.7 million was invested into the development of IT systems of both companies. Other investments amounted to EUR 0.9 million.

On 27 January 2016, Omnitel was recognised as the winner of the 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 2016, Teo completed the network digitization process, which had lasted for more than a decade, and

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

turned off the last analogue network exchange. During the final phase of modernisation of the voice telephony network, in total more than 800 analogue exchanges were replaced throughout Lithuania, while investment in the digitization of analogue exchanges during this phase amounted to EUR 6 million.

During 2016, the Company invested EUR 9.8 million into expansion of fiber-optic access network and as a result, by the end of December, there were 870 thousand households passed (854 thousand a year ago), or 71 per cent of the country's households, by Teo FTTH network.

Over the year, Omnitel installed and launched more than 600 new LTE 4G base stations and now has more than 1,500 4G base stations across Lithuania. According to the latest data of CRA, Omnitel 4G connectivity has covered 99 per cent of the populated territory of Lithuania and remains the fastest in the country. The highest levels of 4G coverage were achieved because of intensive development of base stations in the most sparsely populated areas along the Lithuanian state border with Belarus and in the Panemunė region. Lithuania is a leader in Europe and one of the world's leaders in terms of the coverage and availability of 4G connectivity.

In September 2016, Omnitel was the first in Lithuania to implement a next-generation voice transmission technology VoLTE (Voice over LTE) in its 4G network. This technology ensures a high data transfer rate, which does not decrease while simultaneously making or receiving a call and surfing the Internet. It also improves call quality and speeds up the call connection process. The VoLTE technology used by Omnitel is implemented in the cloud-based IMS (IP Multimedia Subsystem) platform, which combines mobile and fixed-line communication technologies.

In August, the first joint customer care unit of Teo and Omnitel of a new concept, where services of both companies are offered together, was opened in Kaunas. In December, fixed and mobile communication services as well as equipment became available in 70 retail outlets all over Lithuania marked with both brands.

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 January-December of 2016 increased by EUR 43.8 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 its 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 (8 December 2016) for the Extraordinary General Meeting of Shareholders, which was held on 15 December 2016, was 11,396.



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

**Shareholders**, holding more than 5 per cent of the share capital and votes, as on 31 December 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-December of 2016:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	1.010	1.030	0.875	0.933	0.936	5,731,176	5,366,840

Teo **market capitalisation** as on 31 December 2016 was EUR 543.6 million while a year ago it amounted to EUR 588 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. The 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 the 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 them will terminate their activities as legal entities after the merger)

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

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?!").

On 13 October 2016, the Bank of Lithuania decided to grant a limited activity electronic money institution licence to TEO LT, AB. The licence grants the right to issue electronic money and provide payment services set in the Article 5 of the Payments Law of the Republic of Lithuania. The purpose of obtaining this licence is the intended takeover of payment activities of AB Omnitel and intended provision of instant payment services according to the provisions of the Memorandum of Understanding on the enhancement of the functionality of the Bank of Lithuania retail payment system, prepared by the Bank of Lithuania as of 1 July 2016 and joined by Teo on 5 July 2016.

In October 2016, the Supervisory Authority of the Bank of Lithuania upon the requests regarding the reorganisation by Omnitel, a holder of the licence of Limited activities payments institution issued on 28 July 2011, and Teo, a holder of the licence of Limited activities electronic money institution issued on 13 October 2016, approved the reorganisation of Omnitel by way of merger into Teo.

In November 2016, Teo announced that its subsidiary UAB Lintel is planning to cease provision of service to external customers and instead will focus all of its efforts on improvement of Teo Group's customer experience and quality of service. The 118 service, a paid inquiry service in Lithuania, will continue to be provided and developed through new web channels. In addition, it is planned to change the name of Lintel to Telia Customer Service LT, UAB.

The Extraordinary General Meeting of Teo shareholders held on 15 December 2016 decided to reorganize Teo, Omnitel and Baltic Data Center pursuant to Part 3 of Article 2.97 of the Civil Code of the Republic of Lithuania by way of merging Omnitel and Baltic Data Center (both of them, after the reorganization, will cease their activities as a legal entity) into Teo according to the approved Terms of Merger.

The shareholders of the Company decided to change the Company's name from TEO LT, AB to Telia Lietuva, AB as of the date of registration of new By-laws of the Company that will continue its business activities after the reorganization of Teo, Omnitel and Baltic Data Center within the Register of Legal Entities of the Republic of Lithuania.

The shareholders also decided to elect UAB Deloitte Lietuva as the Company's audit enterprise to perform the audit of the annual consolidated and separate financial statements of the Company for the year 2016 and to assess the consolidated annual report of the Company for the year 2016. To authorize the CEO of the Company to conclude the agreement for audit services, establishing the payment for services as agreed between the parties but in any case not more than 110,000 (one hundred ten thousand) euro (VAT excluded) for the audit of the Company's annual consolidated and separate financial statements for the year 2016 and the assessment of the consolidated annual report.

## **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.

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

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.

On 19 July 2016, the Board elected member of the Board Hannu-Matti Mäkinen as the member of the Company's Audit Committee for the current term of the Audit Committee Board (but in any case not longer than until the term of his membership in the Board). Member of the Board Stefan Block (Chairman of the Committee) and independent member of the Board Inga Skisaker are members of the Audit Committee too.

On 19 July 2016, The Board also re-elected the following members of the Board as members of the Remuneration Committee for the new term of one year (but in any case not longer than until their term of the membership in the Board): Robert Andersson (Chairman of the Board), Claes Nycander and Rolandas Viršilas (independent member of the Board).

#### Members of the Board as of 31 December 2016:

Name, surname	Position in the Board	Employment	Ownership of Teo shares
Robert Andersson	Chairman of the Board, member of the Remuneration Committee	Telia Company AB (Sweden), Executive Vice President and Head of Region Europe (until 31 December 2016), Senior Vice President and Head of Corporate Holdings (from 1 January 2017)	-
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; member of the Audit Committee	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 the 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).

After the expiry of employment contract Petteri Ahonen, Head of Business to Business, has finished his career at Teo and Omnitel as of 31 December 2016. Kęstutis Šliužas, CEO of Teo and Omnitel, will temporary lead a Unit of Business Customers until the appointment of a new manager is announced.



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

**Management Team** as of 31 December 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 (until 31 December 2016)	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; UAB BOK Laboratorija (Lithuania), an independent member of the Board	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
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; Human Rights Monitoring Institute (Lithuania), member of the Council	-
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	October-December		January-December	
		2016	2015	2016	2015
<b>Revenue</b>		92,377	54,165	345,906	204,598
Cost of goods sold		(37,643)	(17,783)	(128,878)	(61,632)
Employee-related expenses		(15,339)	(12,279)	(59,445)	(48,264)
Other expenses		(12,258)	(5,328)	(46,135)	(20,325)
Other gain/ (loss) – net		(26)	1,791	9	2,091
Depreciation, amortisation and impairment of fixed assets	2	(15,383)	(10,165)	(62,842)	(37,929)
<b>Operating profit</b>		11,728	10,401	48,615	38,539
Finance income		708	34	1,447	135
Finance costs		(651)	(48)	2,517	(395)
Finance income/ costs – net		57	(14)	(1,070)	(260)
<b>Profit before income tax</b>		11,785	10,387	(47,545)	38,279
Income tax	6	(1,195)	(1,085)	(5,642)	(4,103)
Profit for the period		10,590	9,302	41,903	34,176
<b>Other comprehensive income:</b>					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		10,590	9,302	41,903	34,176
Profit and comprehensive income attributable to:					
Owners of the Parent		10,590	9,302	41,903	34,176
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in euro per share)	7	0.018	0.016	0.072	0.059

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	295,281	214,882
Intangible assets	2	121,352	12,370
Investment property		931	3,126
Trade and other receivables		10,944	7,768
		<b>428,508</b>	<b>238,146</b>
<b>Current assets</b>			
Inventories		10,135	1,371
Trade and other receivables		94,661	33,568
Current income tax receivable		722	902
Cash and cash equivalents		56,650	12,898
		<b>162,168</b>	<b>48,739</b>
<b>Total assets</b>		<b>590,676</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		84,881	48,804
<b>Total equity</b>		<b>270,735</b>	<b>234,658</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		97,500	-
Deferred tax liabilities		19,832	8,922
Deferred revenue and accrued liabilities		9,897	424
Provisions	5	6,627	-
		<b>133,856</b>	<b>9,346</b>
<b>Current liabilities</b>			
Trade, other payables and accrued liabilities		55,114	26,861
Current income tax liabilities		1,068	119
Borrowings		129,500	15,061
Provisions	5	403	840
		<b>186,085</b>	<b>42,881</b>
<b>Total liabilities</b>		<b>319,941</b>	<b>52,227</b>
<b>Total equity and liabilities</b>		<b>590,676</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	-	-	34,176	34,176
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>34,176</b>	<b>34,176</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 31 December 2015</b>	<b>168,958</b>	<b>16,896</b>	<b>48,804</b>	<b>234,658</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	-	-	41,903	41,903
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>41,903</b>	<b>41,903</b>
Dividends paid for 2015	-	-	(5,826)	(5,826)
<b>Balance at 31 December 2016</b>	<b>168,958</b>	<b>16,896</b>	<b>84,881</b>	<b>270,735</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOW

	January-December	
	2016	2015
<b>Operating activities</b>		
Profit for the period	41,903	34,176
Income tax	5,642	4,103
Depreciation, amortisation and impairment of fixed assets	62,842	37,929
Other gains / (losses) – net	(9)	(2,090)
Write off of property, plant and equipment and intangible assets		342
Interest income	(174)	(135)
Interest expenses	2,310	88
Other non-cash transactions	(131)	503
Changes in working capital:		
Inventories	(4,291)	(624)
Trade and other receivables	(5,135)	(9,487)
Trade, other payables and accrued liabilities	15,856	(583)
Provisions		840
<b>Cash generated from operations</b>	<b>118,813</b>	<b>65,062</b>
Interest paid	(1,961)	(82)
Interest received	174	134
Tax paid	(4,597)	(2,706)
<b>Net cash from operating activities</b>	<b>112,429</b>	<b>62,408</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment (PPE) and intangible assets	(68,253)	(33,865)
Proceeds from disposal of PPE and intangible assets	81	2,416
Acquisition of subsidiaries	(129,618)	-
<b>Net cash used in investing activities</b>	<b>(197,790)</b>	<b>(31,449)</b>
<b>Financing activities</b>		
Repayment of borrowings	(15,061)	(30,306)
Borrowings	150,000	35,000
Dividends paid to shareholders of the Company	(5,826)	(39,617)
<b>Net cash used in financing activities</b>	<b>129,113</b>	<b>(34,923)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>43,752</b>	<b>(3,964)</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	43,752	(3,964)
<b>At the end of the period</b>	<b>56,650</b>	<b>12,898</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 twelve months period ending 31 December 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 31 December 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>Year ended 31 December 2015</b>		
<b>Opening net book amount as at 31 December 2014</b>	<b>218,761</b>	<b>12,744</b>
Additions	30,771	3,853
Disposals and retirements	(831)	-
Reclassification	(120)	3
Depreciation and amortisation charge	(33,699)	(4,230)
<b>Closing net book amount as at 31 December 2015</b>	<b>214,882</b>	<b>12,370</b>
<b>Year ended 31 December 2016</b>		
<b>Opening net book amount as at 31 December 2015</b>	<b>214,882</b>	<b>12,370</b>
Additions	58,707	103,723
Acquisition of subsidiaries	71,563	16,452
Disposals and retirements	(659)	(271)
Reclassification	515	(3)
Depreciation and amortisation charge	(49,727)	(10,919)
<b>Closing net book amount as at 31 December 2016</b>	<b>295,281</b>	<b>121,352</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
		31 December 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	-	-	A non-profit organisation established by Omnitel and Swedbank (Lithuania) for implementation of professional volunteering project. Omnitel handed over its 50% 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-December 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	6,627	6,827
Additions	2,731	-	2,731
Used provisions	(3,368)	-	(3,368)
<b>Closing net book amount at 31 December 2016</b>	<b>403</b>	<b>6,627</b>	<b>7,030</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 2017.

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 2.9 million (2015: EUR 2 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-December</u>	
	<u>2016</u>	<u>2015</u>
<b>Net profit</b>	<b>41,903</b>	<b>34,176</b>
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613
<b>Earnings per share (EUR)</b>	<b>0.072</b>	<b>0.059</b>

## 8 Dividends per share

A dividend that relates to the period to 31 December 2015 was approved by 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>(117,564)</u>
<b>Goodwill</b>	<b><u>26,543</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>Acquirer's carrying amount</u>	<u>Fair value</u>
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	(77,000)	(77,000)
<b>Net assets acquired</b>	<b><u>62,873</u></b>	<b><u>117,564</u></b>

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

*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 which as of 31 December 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:

	<b>January-December</b>	
	<b>2016</b>	<b>2015</b>
Sales of telecommunication and other services	8,143	9,715
<b>Total sales of telecommunication and other services</b>	<b>8,143</b>	<b>9,715</b>
Purchases of services	11,695	4,407
Purchase of shares (Note 9)	144,107	-
<b>Total purchases of services and assets:</b>	<b>155,802</b>	<b>4,407</b>

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

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
Long-term receivables from related parties	251	279
Receivables from related parties	2,506	1,035
Accrued revenue from related parties	548	976
<b>Total receivables and accrued revenue from related parties</b>	<b>3,305</b>	<b>2,290</b>
Short-term borrowings from related parties	77,000	15,000
Payables to related parties	3,743	203
Accrued expenses to related parties	35	6
<b>Total payables and accrued expenses to related parties</b>	<b>80,778</b>	<b>15,209</b>

The total amount of annual payments (tantiemes) assigned to two members of the Board of the Company for the year 2015 during 2016 amounted to EUR 31 thousand (2015: for six members – EUR 94 thousand). As of 31 December 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 twelve months period ended 31 December 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, 26 January 2017