

TEO LT, AB
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2016
(UNAUDITED)

Beginning of the financial year	1 January 2016
End of reporting period	31 March 2016
Name of the company	TEO LT, AB (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	www.teo.lt
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 UAB Omnitel, financial statements of Teo Group for the first quarter of 2016 presented herein is consolidated data of TEO LT, AB and its subsidiaries including UAB Omnitel. Comparable data of financial statements for the first quarter of 2015 is actual reported data of Teo Group for that period.

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 for the first quarter of 2015, is a data combined by simple aggregation after elimination of intragroup transactions as if UAB Omnitel was the then a part of Teo Group.

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

MANAGEMENT REPORT

The first successful quarter of Teo and Omnitel operating together

First quarter of 2016*:

- Total consolidated revenue amounted to EUR 82.5 million, up by 2 per cent over the comparable combined revenue of EUR 80.9 million in Q1 2015.
- Consolidated EBITDA, excluding non-recurring items, reached EUR 29.2 million, up by 12.5 per cent over comparable combined EBITDA, excluding non-recurring items, of EUR 26 million in Q1 2015.
- Free cash flow amounted to EUR 3.9 million and was by 8.5 per cent lower than a year ago.

Management comment:

The first three months of operating together following the Omnitel shares' acquisition by Teo on 4 January 2016 already have proved the acquisition to be the right decision, and one which is starting to bring maximum value for our customers.

First quarter revenue growth and continuation of strict cost control together with a focus on synergies and potential savings resulted in an increase of absolute EBITDA and profitability margins.

Combined investments into development of the officially confirmed to be the largest 4G and fiber-optic networks were also higher than a year ago: EUR 5.9 million in 2016 vs EUR 4.9 million in 2015. The most recent measurements performed by the Communications Regulatory Authority (CRA) show that Omnitel customers enjoy the fastest 4G mobile Internet connection in the largest territory of Lithuania. Omnitel 4G network covers 85 per cent of the territory and can be used by 96 per cent of Lithuanian population.

In January, Omnitel won the CRA auction for the right to use 900/1800 spectrum radio frequencies and for EUR 14.3 million secured the licence for further development of mobile network.

Ongoing investments into expansion of fiber-optic access network and service development pays off in a solid intake of FTTH Internet and IPTV customers over the last 12 months:

- Number of FTTH Internet customers was up by 12.2 per cent and reached 231 thousand;
- Number of IPTV users rise by 24.3 per cent and amounted to 172 thousand.

New customers' intake in broadband and post-paid mobile services (up by 40 thousand) in combination with growing usage of mobile data lead to:

- Increase in revenue from both fixed and mobile services by 5.1 per cent;
- Revenue from TV services grew by 21.2 per cent, IT services (excluding IT equipment sale) – by 14.8 per cent and mobile services – by 11.2 per cent.

In February, Omnitel offered its customers traveling in Baltic and Nordic countries to make calls and browse Internet under the same conditions as in Lithuania. As a result, data usage abroad rocketed by 12 times.

The level of financial leverage due to acquisition of Omnitel shares, conservative approach to the debt management and thinking about long-term value creation, lead to the Board's proposal to the Annual General Meeting of Shareholders to approve a 0.01 euro dividend per share for the year 2015.

The results of the first quarter of 2016 lays a solid foundation for accelerated creation of a new generation telecommunications business. Teo shareholders at the forthcoming Annual General Meeting will be asked to approve the preparation of reorganization terms for merger of Omnitel and Baltic Data Center into Teo.

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KEY FIGURES OF TEO GROUP*

Financial figures	January - March			Change to comparable combined
	2016	2015 comparable combined	2015	
Revenue	82,548	80,896	49,954	2.0%
EBITDA	27,635	25,144	18,794	9.9%
EBITDA margin (%)	33.5	31.1	37.6	
EBITDA excluding non-recurring items	29,223	25,967	19,231	12.5%
EBITDA margin excluding non-recurring items (%)	35.4	32.1	38.5	
Operating profit (EBIT)	13,864	11,014	9,614	25.9%
EBIT margin (%)	16.8	13.6	19.2	
Operating profit (EBIT) excluding non-recurring items	15,182	11,837	10,051	28.3
EBIT margin excluding non-recurring items (%)	18.4	14.6	20.1	
Profit before income tax	13,551	10,888	9,404	24.5%
Profit before income tax margin (%)	16.4	13.5	18.8	
Profit for the period	11,742	10,196	8,473	15.2%
Profit for the period margin (%)	14.3	12.6	17.0	
Earnings per share (EUR)	0.020	0.018	0.015	
Number of shares (thousand)	582,613	582,613	582,613	-
Cash flow from operations	22,352		14,530	53.8%
Operating free cash flow	3,915		4,278	(8.5)%

Operating figures	31-03-2016	31-03-2015 comparable combined	31-03-2015	Change to comparable combined
	Fixed telephone lines in service (thousand)	492	519	
Broadband Internet connections (FTTB, FTTH, DSL and other excluding Wi-Fi) (thousand)	395	375	375	5.4%
TV services customers (thousand)	217	191	191	13.6%
Post-paid mobile service subscriptions (thousand)	986	946	-	4.2%
Pre-paid mobile service subscriptions (thousand)	332	381	-	(12.9)%
Number of personnel (head-counts)	3,100	3,189	2,599	(2.8)%
Number of full-time employees	2,747	2,856	2,324	(3.8)%

Financial ratios	31-03-2016	31-03-2015
	Return on capital employed (%)	11.7
Return on average assets (%)	10.2	13.9
Return on shareholders' equity (%)	19.2	14.4
Operating cash flow to sales (%)	27.0	29.1
Gearing ratio (%)	84.9	(4.4)
Debt to equity ratio (%)	95.4	4.1
Current ratio (%)	75.8	181.5
Rate of turnover of assets (%)	60.6	67.2
Equity to assets ratio (%)	45.2	86.8

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Breakdown of Teo Group revenue by services	January - March			Change to comparable combined
	2016	2015 comparable combined	2015	
Fixed services	47,087	46,084	47,046	2.2%
Voice telephony services	18,310	19,409	19,814	(5.7)%
Internet services	14,016	13,370	13,435	4.8%
Data communication and network capacity	5,222	5,234	5,422	(0.2)%
TV services	5,888	4,860	4,860	21.2%
IT services	2,789	2,430	2,634	14.8%
Other services	862	781	881	10.4%
Mobile services	24,776	22,282	-	11.2%
Billed services	19,849	18,227	-	8.9%
Other mobile service	4,927	4,055	-	21.5%
Equipment	10,685	12,530	2,908	(14.7)%
Total	82,548	80,896	49,954	2.0%

REVENUE

The **total consolidated revenue** of Teo Group (including Omnitel) in January-March of 2016 was EUR 82.5 million, an increase by 2 per cent over the total comparable combined revenue (including Omnitel) of EUR 80.9 million in the first three months of 2015.

During the first three months of 2016 revenue from fixed Internet, television and IT services as well as mobile communication continued to grow while revenue from equipment sale contracted.

The total **revenue from** both fixed and mobile **services** during January-March 2016 was up by 5.1 per cent, compared with the same period a year ago, while **revenue from equipment sale** to both fixed and mobile communication customers went down by 14.7 per cent due to stricter clients' credibility check in 2016.

Share of revenue from fixed and mobile services amounted to 57 and 30 per cent, respectively, from the total amount of the Group revenue. Share of revenue from equipment sale was 13 per cent.

During the first quarter of 2016, revenue from retail fixed **voice telephony** services decreased by 9 per cent due to over the year by 26 thousand contracted number of fixed telephone lines in services and accordingly by 9.7 per cent declined total traffic. Revenue from Teo fixed network interconnection (mainly voice transit) services was by 0.5 per cent lower than a year ago.

During the first quarter of 2016, the total number of fixed **broadband Internet access** (excluding Wi-Fi) users increased by 4.1 thousand, while over the last twelve months – by 20.2 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 231 thousand at the end of March 2016, while the number of copper DSL connections eased by 2.9 per cent to 164 thousand. By the end of March 2016, the number of Internet connections over the fiber-optic access network amounted to 58.4 per cent of all 395 thousand broadband Internet connections (including Wi-Fi).

To promote safe surfing on the Internet, the Company has developed a solution "Antivirus Plus", which allows to protect up to three different devices (computers, smart phones and tablet computers) from malicious software and harmful content. The security solution based on the platform developed by F-Secure was launched in February 2016.

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Compared with the first quarter of 2015, revenue from **data communication** services alone increased by 0.6 per cent, while revenue from **network capacity** services alone declined by 1.3 per cent.

During January-March 2016, the number of IPTV (including "Interneto.tv") service users increased by 6.6 thousand, while over the year by 33.6 thousand and by the end of March 2016 amounted to 172 thousand. During the last twelve months number of digital terrestrial television (DVB-T) users decreased by 7.5 thousand and amounted to 45 thousand. Over the year, the total number of **television** service customers went up by 26.1 thousand.

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

High level of IT management and security was confirmed by Inspecta, the largest certification company in the Nordic region. The Company has been granted with ISO certificates in IT Services (ISO 20000) and Information Security (ISO 27001) Management Systems.

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**.

Revenue from **other services** consists of the following non-telecommunication services: Contact Center services of UAB Lintel to external customers, lease of premises, discounts' refund and other.

Billed revenue from **mobile services** (post-paid and pre-paid) in the first quarter of 2016 was by 8.9 per cent higher than a year ago due to increase in revenue from data usage and by 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 31 March 2016 amounted to 1,317 thousand, while a year ago it was 1,327 thousand, a decline by 0.7 per cent. Nevertheless, the growing data usage resulted in a higher ARPU per one mobile customer and higher total revenue from mobile services.

From February 2016, Omnitel customers while travelling in Baltic and Nordic states are able to make phone calls and browse the Internet under the same conditions as in Lithuania. The new roaming pricing offer includes practically everything: phone calls within any of these countries and to Lithuania, all incoming calls, SMS and mobile data usage. 4G roaming is already available in all these countries, therefore while traveling abroad Omnitel customers can use the high-speed and high-quality 4G Internet access.

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 fourth quarter of 2015 increased by 2.5 per cent to EUR 159 million, compared with the same period a year ago. During the year 2015 the total market revenue increased by 3.2 per cent to EUR 626 million, compared with EUR 607 million for the year 2014.

In 2015, Teo remained the largest telecommunication market player in Lithuania. Its market share in terms of revenue was 26.6 per cent (28 per cent in 2014) while Omnitel with the market share of 15.4 per cent was the third.

On 31 December 2015, Internet penetration per 100 residents of Lithuania was 41.1 per cent (in 2014 – 38

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per cent): penetration of broadband Internet using fixed connection was 28.8 per cent (27.4 per cent a year ago), while penetration of broadband Internet using mobile connection was 12.2 per cent (10.6 per cent a year ago). Pay-TV penetration per 100 households was 56.7 per cent (in 2014 – 55.7 per cent). The penetration of active mobile communication users per 100 residents was 144.8 per cent (146.1 per cent a year ago) and penetration of phone fixed voice telephony lines per 100 residents – 19.2 per cent (19.7 per cent a year ago).

	Teo market share in terms of customers (%)		Teo market share in terms of revenue (%)	
	Q4 2015	Q4 2014	Q4 2015	Q4 2014
Fixed voice telephony services	89.0	89.6	94.1	93.5
Fixed Internet access services	46.7	46.0	55.8	55.8
Internet access services (total)	32.8	33.2	45.3	46.9
Pay-TV services	29.3	25.9	36.7	30.6
Network interconnection services	n/a	n/a	20.9	26.7
Data communication services	n/a	n/a	84.4	61.3
Leased line services	n/a	n/a	55.2	59.1

	Omnitel market share in terms of customers (%)		Omnitel market share in terms of revenue (%)	
	Q4 2015	Q4 2014	Q4 2015	Q4 2014
Mobile services	30.6	34.4	31.1	30.1
Mobile Internet access services	52.4	56.5	49.3	56.3
Internet access services (total)	15.6	13.9	9.3	8.1
Network interconnection services	n/a	n/a	12.2	11.8

OPERATING EXPENSES

During January-March of 2015, consolidated **cost of goods and services** went down by 4.3 per cent over the comparable combined cost of goods and services for the same period a year ago, mainly due to lower equipment sales and savings in network capacity.

Consolidated **operating expenses** (excluding cost of goods and services, and non-recurring items) for the first quarter of 2016 were by 1.5 per cent lower than comparable combined operating expenses in January-March 2015.

Consolidated **employee-related expenses** (excluding one-time redundancy pay-outs) for the first three months of 2016 eased by 0.4 per cent over comparable combined employee-related expenses (excluding one-time redundancy pay-outs) for the first three months of 2015. During the first quarter of 2016, the Company had non-recurring redundancy charge that amounted to EUR 1.3 million (EUR 874 thousand a year ago).

During the first quarter of 2016, the total number of employees (headcount) decreased by 100: in Teo – by 42, in Lintel – by 47, in Omnitel – by 10 and by one in Baltic Data Center. Over the year, the total number of employees in Group (including Omnitel) decreased by 89 – from 3,189 to 3,100.

In terms of full-time employees, the total number of employees in Group during January-March of 2016 contracted by 104, while over the last twelve months (including Omnitel) – by 109 from 2,856 to 2,747.

Consolidated **other expenses** were under control and during the first quarter of 2016 decreased by 0.5 per cent.

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EARNINGS

Consolidated **EBITDA** (excluding non-recurring items) for the first three months of 2016 increased by 12.5 per cent, compared with comparable combined EBITDA of EUR 26 million for the first three months of 2015, and amounted to EUR 29.2 million. Consolidated EBITDA (excluding non-recurring items) margin amounted to 35.4 per cent, while a year ago comparable combined EBITDA (excluding non-recurring items) was 32.1 per cent.

Consolidated EBITDA (including non-recurring items) in January-March of 2016 was EUR 27.6 million, an increase by 9.9 per cent over comparable combined EBITDA (including non-recurring items) of EUR 25.1 million for the same period in 2015. Consolidated EBITDA (including non-recurring items) margin in the first quarter of 2016 stood at 33.5 per cent (comparable combined margin of 31.1 per cent in 2015).

Consolidated **depreciation, amortisation and impairment charges** decreased by 2.5 per cent and in January-March of 2016 amounted to 16.7 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 first quarter of 2016 was by 28.3 per cent higher than comparable combined operating profit (EBIT) (excluding non-recurring items) for the same period in 2015 and the operating profit (excluding non-recurring items) margin reached 18.4 per cent (comparable combined margin of 14.6 per cent in 2015).

Consolidated operating profit (EBIT) (including non-recurring items) for the first three months of 2016 was by 25.9 per cent higher than comparable combined operating profit (EBIT) (including non-recurring items) for the same period a year ago. Operating profit (including non-recurring items) margin was 16.8 per cent (comparable combined margin of 13.6 per cent a year ago).

Consolidated **net financial income** in January-March of 2016 was negative and amounted to EUR 313 thousand (comparable combined net financial income a year ago was negative and amounted to EUR 126 thousand).

Consolidated **profit before income tax** in the first three months of 2016 went up by 24.5 per cent and amounted to EUR 13.6 million (comparable combined profit before income tax a year ago was EUR 10.9 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 quarter of 2016 amounted to EUR 498 thousand (EUR 521 thousand in 2015). Consolidated **income tax expenses** for the first three months of 2016 were by 2.6 times higher than comparable combined income tax expenses a year ago.

Consolidated **profit for the period** in January-March 2016 amounted to EUR 11.8 million, an increase by 15.8 per cent over comparable combined profit of EUR 10.2 million for January-March 2015. The consolidated profit margin stood at 14.3 per cent while comparable combined profit margin a year ago was at 12.6 per cent.

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 UAB Omnitel for EUR 220 million on a cash and debt free basis.

During the first quarter 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 77.5 per cent of total assets. Total

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current assets increased by 2.5 times and amounted to 22.5 per cent of total assets, whereof cash alone represented 4.8 per cent of total assets.

During the first three months of 2016, **shareholders' equity** increased by 5 per cent and amounted to 45.2 per cent of total assets.

The Board of the Company proposed to the Annual General Meeting of Shareholders that will be held on 26 April 2016 to pay a **dividend** of EUR 0.01 per share (in total EUR 5.8 million) for the year 2015.

Dividends paid to legal entities (residents and non-residents) will be subject to withholding Corporate income tax of 15 per cent and dividends paid to natural persons (residents and non-residents) will be subject to withholding Personal income tax of 15 per cent.

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 March 2016, total amount of **borrowings** (loans and financial liabilities related to financial leasing of premises) amounted to EUR 235 million. An amount of EUR 77 million represents borrowings of acquired subsidiary.

Net **cash flow from operating activities** in the first three months of 2016 was by 53.8 per cent higher than that for same period in 2015. **Operating free cash flow** (operating cash flow excluding capital investments) in January-March 2016 was by 8.5 per cent lower than a year ago.

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

During the first three months of 2016, the total **capital investments** of Teo and Omnitel amounted to EUR 8.1 million (EUR 6.2 million a year ago). The majority of capital investments (EUR 4.4 million) went to expansion of the core fixed network and development of the next-generation fiber-optic access network. An amount of EUR 1.5 million was invested into development of mobile network and EUR 1.9 million – into development of IT systems of both companies.

By the end of March 2016, Teo had 858 thousand households passed (837 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, Omnitel was the first in the Baltic countries and one of the first in the world to implement the latest mobile technology 4.5G / LTE Advanced PRO. In an actually operating network, Omnitel has demonstrated a data download speed of 750 Mbps. According to the latest data of the Communications Regulatory Authority, Omnitel offers the widest and fastest 4G network connectivity in Lithuania, which covers 85 per cent of the territory of Lithuania and is available to more than 96 percent of Lithuania's population. Omnitel customers can also use faster 4G+ network connectivity as well as 4G++ network connectivity with download speeds of up to 375 Mbps that was enabled in major cities last year.

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

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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 period of the first three months of 2016 increased by EUR 13 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.

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 stock exchange 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-March of 2016:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	1.010	1.030	0.927	1.030	0.999	952,420	951,568.47

Teo market capitalisation as on 31 March 2016 was EUR 600 million while a year ago it amounted to EUR 635 million.

The number of **shareholders** on the shareholders registration day (22 April 2015) for the Annual General Meeting of Shareholders, which was held on 29 April 2015, was 11,624.

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

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, Stureplan 8, Stockholm, SE-106 63, Sweden, code 556103-4249	513,594,774	88.15	88.15	-
Other shareholders	69,018,364	11.85	11.85	-
TOTAL:	582,613,138	100.00	100.00	-

OTHER MATERIAL INFORMATION

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

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From 1 July 2016, Teo renounces services of the second network of Lithuanian Radio and Television Center (LRTC-2) and surrenders the license for rebroadcasting of TV channels using that network. At the same time, Teo increases capacity of its digital terrestrial broadcasting (DVB-T) network. Implementation of new technologies will allow up to 30 per cent more efficiently use digital flow and to transfer majority of TV channels from LRTC-2 network to Teo network. On 23 March 2016, Lithuanian Radio and Television Commission approved the surrender of the license for rebroadcasting using LRTC-2 network and changes to rebroadcasting conditions as agreement of Lithuanian Radio and Television Center was received. Digital terrestrial television programs that are available all over Lithuania are rebroadcasted using 4 networks: Teo and Lithuanian Radio and Television Center owns 2 networks each.

On 31 March 2016, the Board of Teo decided to convoke the Annual General Meeting of Shareholders of the Company on 26 April 2016. The Board approved the audited annual consolidated and separate financial statements of the Company for the year 2015, prepared according to the International Financial Reporting Standards, and to propose to the Company's Annual General Meeting of Shareholders to approve them. The Board approved the draft of the Company's profit allocation for the year 2015 and to propose for the Annual General Meeting of Shareholders to allocate 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 Board proposed to the Annual General Meeting of Shareholders to approve the preparation of reorganisation terms, under which the Company's subsidiaries UAB Omnitel and UAB Baltic Data Center would be merged into TEO LT, AB.

In addition, the Board allowed the transfer of the ownership rights of VšĮ Ryšių Istorijos Muziejus (The Communications History Museum) to Kaunas City Municipality free of charge. Teo is a sole founder and owner of a not-for-profit organisation, VšĮ Ryšių Istorijos Muziejus.

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 General Manager. The Company does not have a Supervisory Council.

Members of the Board as of 31 March 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	-
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	-
Tiia Tuovinen	Member of the Board, member of the Audit Committee	Telia Company AB (Sweden), Global Services and Operations (GSO), General Counsel	-
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

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

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.

On 23 March 2016, Teo received notifications from Tiia Tuovinen about her resignation from the Board of the Company as of 25 April 2016. Telia Company AB, as a shareholder of Teo proposed to the Annual General Meeting of Shareholders to be held on 26 April 2016 to elect Mr 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.

Management Team as of 31 March 2016:

Name, surname	Position in the Company	Current Board Assignments	Ownership of Teo shares
Kęstutis Šliužas	CEO	UAB Omnitel (Lithuania), a subsidiary of TEO LT, AB, CEO; Association INFOBALT (Lithuania), member of the Board; Kaunas Technology University (Lithuania), member of the Business Council	-
Petteri Ahonen	Head of Business to Business	UAB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Business to Business	-
Norbertas Žioba	Head of Business to Consumer	UAB 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	UAB 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	UAB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Finance; UAB LD Corporate Consulting (Lithuania), 100 per cent owner & Director	-
Ramūnas Bagdonas	Head of Human Resources	UAB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Human Resources	-
Giedrė Kaminskaitė-Salters	Head of Legal	UAB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Legal	-
Audronė Mažeikaitė	Head of Corporate Affairs	UAB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Corporate Affairs	-
Mantas Goštautas	Head of Business Development	UAB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Business Development	-
Andrius Byčkovas	Head of Competitive Customer Operations	UAB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Competitive Customer Operations	-
Vytautas Bučinskas	Head of Risk	UAB 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 COMPREHENSIVE INCOME

	Note	January - March	
		2016	2015
Revenue		82,548	49,954
Cost of goods and services		(28,427)	(14,781)
Employee-related expenses		(15,829)	(11,713)
Other expenses		(10,621)	(4,738)
Other gain/ (loss) – net		(36)	72
Depreciation, amortisation and impairment of fixed assets	2	(13,771)	(9,180)
Operating profit		13,864	9,614
Finance income		220	32
Finance costs		(533)	(242)
Finance income/ costs – net		(313)	(210)
Profit before income tax		13,551	9,404
Income tax	6	(1,809)	(931)
Profit for the period		11,742	8,473
Other comprehensive income:			
Other comprehensive income for the period		-	-
Total comprehensive income for the period		11,742	8,473
Profit and comprehensive income attributable to:			
Owners of the Parent		11,742	8,473
Minority interests		-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in euro per share)	7	0.020	0.015

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 March 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	2	283,266	214,882
Intangible assets	2	123,979	12,370
Investment property		3,126	3,126
Trade and other receivables		11,813	7,768
		422,184	238,146
Current assets			
Inventories		7,318	1,371
Trade and other receivables		87,794	33,568
Current income tax receivable		1,771	902
Cash and cash equivalents		25,918	12,898
		122,801	48,739
Total assets		544,985	286,885
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	4	168,958	168,958
Legal reserve		16,896	16,896
Retained earnings		60,546	48,804
Total equity		246,400	234,658
LIABILITIES			
Non-current liabilities			
Borrowings		120,000	-
Deferred tax liabilities		10,931	8,922
Deferred revenue and accrued liabilities		424	424
Provisions	5	5,191	-
		136,546	9,346
Current liabilities			
Trade, other payables and accrued liabilities		46,426	26,861
Current income tax liabilities		52	119
Borrowings		115,031	15,061
Provisions	5	530	840
		162,039	42,881
Total liabilities		298,585	52,227
Total equity and liabilities		544,985	286,885

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2015	168,736	22,498	48,643	239,877
Net profit	-	-	8,473	8,473
Total comprehensive income for the period	-	-	8,473	8,473
Balance at 31 March 2015	168,736	22,498	57,116	248,350
Balance at 1 January 2016	168,958	16,896	48,804	234,658
Net profit	-	-	11,742	11,742
Total comprehensive income for the period	-	-	11,742	11,742
Balance at 31 March 2016	168,958	16,896	60,546	246,400

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January - March	
	2016	2015
Operating activities		
Profit for the period	11,742	8,473
Income tax	1,809	931
Depreciation, amortisation and impairment of fixed assets	13,771	9,180
Other gains and losses	36	(72)
Interest income	(56)	(32)
Interest expenses	498	21
Other non-cash transactions	26	89
Changes in working capital:		
Inventories	(1,474)	(162)
Trade and other receivables	5,164	(1,341)
Trade, other payables and accrued liabilities	(7,745)	(1,806)
Cash generated from operations	23,771	15,281
Interest paid	(89)	(3)
Interest received	56	32
Tax paid	(1,386)	(780)
Net cash from operating activities	22,352	14,530
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(18,437)	(10,252)
Proceeds from disposal of PPE and intangible assets	53	41
Acquisition of subsidiaries	(133,918)	-
Net cash used in investing activities	(152,302)	(10,211)
Financing activities		
Repayment of borrowings	(7,030)	(75)
Borrowings	150,000	-
Net cash used in financing activities	142,970	(75)
Increase (decrease) in cash and cash equivalents	13,020	4,244
Movement in cash and cash equivalents		
At the beginning of the year	12,898	16,862
Increase (decrease) in cash and cash equivalents	13,020	4,244
At the end of the period	25,918	21,106

(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 three months period ending 31 March 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 March 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

	Property, plant and equipment	Intangible assets
Three months ended 31 March 2015		
Opening net book amount as at 31 December 2014	218,761	12,744
Additions	4,230	68
Disposals and retirements	(36)	-
Reclassification	219	(247)
Depreciation and amortisation charge	(8,428)	(752)
Closing net book amount as at 31 March 2015	214,746	11,813
Three months ended 31 March 2016		
Opening net book amount as at 31 December 2015	214,882	12,370
Additions	9,056	96,807
Acquisition of subsidiaries	71,563	16,452
Disposals and retirements	(74)	-
Reclassification	2	(42)
Depreciation and amortisation charge	(12,163)	(1,608)
Closing net book amount as at 31 March 2016	283,266	123,979

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

3 Investments in subsidiaries and associates

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

Name	Country of incorporation	Ownership interest in %		Profile
		31 March 2016	31 December 2015	
UAB Omnitel	Lithuania	100%	-	The subsidiary that provides mobile communications services was acquired by the Company in January 2016.
UAB Lintel	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and Contact Center services.
UAB Baltic Data Center	Lithuania	100%	100%	The subsidiary provides information technology infrastructure services to the Group and third parties.
UAB Hostex	Lithuania	-	100%	The web hosting and data center services providing subsidiary of UAB Baltic Data Center was merged into UAB Baltic Data Center in December 2015.
UAB Hosting	Lithuania	-	100%	The dormant subsidiary of UAB Hostex was merged into UAB Baltic Data Center in December 2015.
Baltic Data Center SIA	Latvia	-	100%	The dormant subsidiary of UAB 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%	100%	A not-for-profit organisation established and owned by the Company for management of the Communications History Museum.
VšĮ Numerio Perkėlimas	Lithuania	50%	25%	A non-profit organisation established by four Lithuanian telecommunications operators (TEO LT, AB and UAB 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 UAB Omnitel and Swedbank AB (Lithuania) for implementation of professional volunteering project.

(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 - March 2016:

	Provision for restructuring	Assets retirement obligation	Total
Opening net book amount at 31 December 2015	840	-	840
Acquisition of subsidiaries	200	5,191	5,391
Additions	490	-	
Used provisions	(1,000)	-	
Closing net book amount at 31 March 2016	530	5,191	5,721

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

The 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 498 thousand (2015: EUR 521 thousand).

(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.

	January – March	
	2016	2015
Net profit	11,742	8,473
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613
Earnings per share (euro)	0.020	0.015

8 Dividends per share

A dividend that relates to the period to 31 December 2015 was proposed by the Board on 31 March 2016. The total proposed amount is 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 UAB 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	148,407
Purchase consideration adjustment per agreement clause*	(4,300)
Total purchase consideration	144,107
Fair value of net assets acquired	(63,254)
Goodwill	80,853

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

	Fair value	Acquirer's carrying amount
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)
Net assets acquired	(63,254)	(63,254)

(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	148,407
Cash and cash equivalents in subsidiaries acquired	<u>(14,489)</u>
Cash outflow on acquisition*	<u>133,918</u>

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

10 Related party transactions

The Group is controlled by Telia Company AB (till 13 April 2016 called TeliaSonera AB) which as of 31 March 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 – March</u>	
	2016	2015
Sales of telecommunication and other services	1,847	2,281
Total sales of telecommunication and other services	1,847	2,281
Purchases of services	2,100	1,079
Purchase of shares (Note 9)	144,107	-
Purchases of assets	291	-
Total purchases of services and assets:	146,498	1,079

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

	<u>As at 31 March</u>	
	2016	2015
Long-term receivables from related parties	279	307
Receivables from related parties	1,476	652
Receivables from related party due to purchase consideration adjustment (Note 9)	4,300	-
Accrued revenue from related parties	645	736
Total receivables and accrued revenue from related parties	6,700	1,695
Short-term borrowings from related parties	85,000	10,000
Payables to related parties	1,293	14
Accrued expenses to related parties	86	26
Total borrowings, payables and accrued expenses to related parties	86,379	10,040

As of 31 March 2016 the amount of EUR 16 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 three months period ended 31 March 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 flows of TEO LT, AB and the Group of undertakings.

Kęstutis Šliužas
CEO

Laimonas Devyžis
Head of Finance

Vilnius, 19 April 2016