

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

Beginning of the financial year	1 January 2016
End of reporting period	30 June 2016
Name of the company	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 Omnitel, financial data of Teo Group for the second quarter and the first half of 2016 presented herein is the consolidated data of TEO LT, AB and its subsidiaries including Omnitel. Comparable data of financial statements for the second quarter and the first half of 2015 is the actual reported data of Teo Group for those periods.

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

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

MANAGEMENT REPORT

Another successful quarter of Teo and Omnitel operating together

Second quarter of 2016*:

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

First half of 2016*:

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

Management comment:

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

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

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

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

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

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

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

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

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

KEY FIGURES OF TEO GROUP*

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

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

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

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

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

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

REVENUE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gain or loss from sale of property, plant and equipment, as well as gain or loss on currency exchange is recorded at net value as **other gain (loss)**.

MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue in the first quarter of 2016 increased by 1 per cent compared with the fourth quarter of 2015, while compared with the first quarter of 2015 increased by 5 per cent, and amounted to EUR 160 million.

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

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

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

OPERATING EXPENSES

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

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

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

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

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

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

EARNINGS

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

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

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

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

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

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

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

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

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

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

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

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

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

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FINANCIAL POSITION AND CASH FLOW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SHARE CAPITAL AND SHAREHOLDERS

From 5 June 2015, the **authorised capital** of the Company amounts to 168,957,810.02 euro and consists of 582,613,138 ordinary registered shares with a nominal value of 0.29 euro each. The number of Teo shares that provide voting rights during the General Meeting is 582,613,138.

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

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

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

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

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

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

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

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

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

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

OTHER MATERIAL INFORMATION

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

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

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

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

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

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

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

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

MEMBERS OF THE MANAGING BODIES

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

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

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

Members of the Board as of 30 June 2016:

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	-
Hannu-Matti Mäkinen	Member of the Board	Telia Company AB (Sweden), General Counsel Region Europe and Head of Legal of Region Europe	-
Inga Skisaker	Member of the Board, member of the Audit Committee	Nordea Bank AB Lithuania Branch (Sweden), General Manager and Head of Banking Baltic Countries	-
Rolandas Viršilas	Member of the Board, member of the Remuneration Committee	UAB Švyturys – Utenos Alus (Lithuania), CEO	75,000 shares or 0.0129% of the total number of Teo shares and votes

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

Management Team as of 30 June 2016:

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

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

Laimonas Devyžis	Head of Finance	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, member of the Board and Head of Finance; AB Baltic Data Center (Lithuania), a subsidiary of TEO LT, AB, member of the Board; UAB LD Corporate Consulting (Lithuania), 100 per cent owner & Director	-
Ramūnas Bagdonas	Head of Human Resources	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Human Resources	-
Giedrė Kaminskaitė-Salters	Head of Legal	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, member of the Board and Head of Legal; AB Baltic Data Center (Lithuania), a subsidiary of TEO LT, AB, member of the Board	-
Audronė Mažeikaitė	Head of Corporate Affairs	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Corporate Affairs	-
Mantas Goštautas	Head of Business Development	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Business Development	-
Andrius Byčkovas	Head of Competitive Customer Operations	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Competitive Customer Operations	-
Vytautas Bučinskas	Head of Risk	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Risk; Member of the Cyber Security Council (Lithuania); Association INFOBALT (Lithuania), Deputy Chairman of Cybersecurity Committee; European Telecommunications Network Operator's (ETNO) Association, Deputy Chairman of Cybersecurity Committee	-

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

	Note	30 June 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	2	282,468	214,882
Intangible assets	2	123,674	12,370
Investment property		3,126	3,126
Trade and other receivables		10,208	7,768
		419,476	238,146
Current assets			
Inventories		6,785	1,371
Trade and other receivables		85,196	33,568
Current income tax receivable		436	902
Cash and cash equivalents		33,220	12,898
		125,637	48,739
Total assets		545,113	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		66,621	48,804
Total equity		252,475	234,658
LIABILITIES			
Non-current liabilities			
Borrowings		120,000	-
Deferred tax liabilities		11,315	8,922
Deferred revenue and accrued liabilities		424	424
Provisions	5	5,181	-
		136,920	9,346
Current liabilities			
Trade, other payables and accrued liabilities		48,367	26,861
Current income tax liabilities		20	119
Borrowings		107,000	15,061
Provisions	5	331	840
		155,718	42,881
Total liabilities		292,638	52,227
Total equity and liabilities		545,113	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	-	-	16,257	16,257
Total comprehensive income for the period	-	-	16,257	16,257
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	-
Balance at 30 June 2015	168,958	16,896	30,885	216,739
Balance at 1 January 2016	168,958	16,896	48,804	234,658
Net profit	-	-	23,643	23,643
Total comprehensive income for the period	-	-	23,643	23,643
Dividends paid for 2015	-	-	(5,826)	(5,826)
Balance at 30 June 2016	168,958	16,896	66,621	252,475

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

CONSOLIDATED STATEMENT OF CASH FLOW

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The consolidated interim financial statements for the six months period ending 30 June 2016 are prepared in accordance with the International Financial Accounting Standards, as adopted by the European Union, includes IAS 34. In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2015.

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

Financial statements for the period ended 30 June 2016 are not audited. Financial statements for the year ended 31 December 2015 are audited by the external auditor UAB Deloitte Lietuva.

2 Property, plant and equipment and intangible assets

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

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

3 Investments in subsidiaries and associates

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

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

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

4 Share capital

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

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

5 Provisions

Provisions movement during January-June 2016:

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

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

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

6 Income tax

Tax expenses for the period comprise current and deferred tax.

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

According to amendments to the Law on Corporate Profit Tax which provides tax relief for investments in new technologies the Company's calculated profit tax relief in 2016 amounted to EUR 1.5 million (2015: EUR 1.0 million).

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

7 Earnings per share

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

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

8 Dividends per share

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

9 Business combination

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

Goodwill arising on acquisition

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

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

Assets acquired and liabilities recognised at the date of acquisition

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

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

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

Net cash outflow on acquisition of subsidiaries

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

10 Related party transactions

The Group is controlled by Telia Company AB (until 13 April 2016 called TeliaSonera AB) which as of 30 June 2016 owned 88.15 per cent (88.15 per cent a year ago) of the Company's shares. The following transactions were carried out with related parties:

Sales and purchases from Telia Company AB and its subsidiaries:

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

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

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

The total amount of annual payments (tantiemes) assigned to two members of the Board of the Company for the year 2015 during January-June 2016 amounted to EUR 31 thousand (2015: for six members – EUR 94 thousand). As of 30 June 2016, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010, was not paid to one member of the Board.

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

MANAGEMENT CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, CEO of TEO LT, AB, and Laimonas Devyžis, Head of Finance of TEO LT, AB, hereby confirm that, to the best of our knowledge, the not audited TEO LT, AB Interim Consolidated Financial Statements for the six months period ended 30 June 2016, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, profit and cash flow of TEO LT, AB and the Group of undertakings.

Kęstutis Šliužas
CEO

Laimonas Devyžis
Head of Finance

Vilnius, 19 July 2016

INTERIM CONSOLIDATED REPORT

Approved by the Board
as at 19 July 2016

Reporting period

January-June 2016

Issuer and its contact details

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

Main activities of the Group

TEO LT, AB Group is an information and communication technology company, providing integrated telecommunication, IT and television services to residents and businesses in Lithuania as well as services to national and international telecommunication operators. Teo Group is a part of Telia Company Group, a telecommunication services provider in the Nordic and Baltic countries, and some markets of Eurasia.

The Company’s **vision** is to be the best partner in communicating with the constantly changing world. By constantly introducing the most advanced technologies, we aim at enabling our customers to reach people, knowledge and entertainment simply and easily. The Company’s **mission** is to create value for shareholders and customers by providing professional, high quality and easy to use telecommunications, television and IT services.

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

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

Since 4 January 2016, the Company owns a 100 per cent stake in Lithuanian mobile operator Omnitel, therefore Teo is considered as SMP on the market of voice call termination on the mobile network of Omnitel.

As of 30 June 2016, **Teo Group** consisted of the parent company, TEO LT, AB, (registered on 6 February 1992, code 121215434, name of the Register of Legal Entities: State Enterprise Center of Registers; address: Lvovo str. 25, LT-03501 Vilnius tel.: +370 5 262 1511; fax: +370 5 212 6665; internet address: www.teo.lt), subsidiaries and associates.

The following companies are **subsidiaries and associates** of TEO LT, AB:

Name of the company	Date of registration, code, name of the Register of Legal Entities	Contact details	Teo share in the share capital of the company (%)	Teo share of votes (%)
AB Omnitel	26 November 1991, code 110305282, State Enterprise Center of Registers	T. Ševčenkos str. 25, LT-03503 Vilnius, Lithuania tel. +370 698 63333, fax. +370 5 274 5574, www.omnitel.lt	100.00	100.00
AB Baltic Data Center	17 December 2001, code 125830791, State Enterprise Center of Registers	Žirmūnų str. 141, LT-09128 Vilnius, Lithuania tel. +370 5 274 8360, fax. +370 5 278 3399, www.bdc.lt	100.00	100.00
UAB Lintel	27 July 1992, code 110401957, State Enterprise Center of Registers	Ukmergės str. 223, LT-07156 Vilnius, Lithuania tel. +370 5 236 8301, fax. +370 5 278 3322, www.lintel.lt	100.00	100.00
UAB Kompetencijos Ugdymo Centras	5 July 1995, code 134517169, State Enterprise Center of Registers	Palangos str. 4, 3rd Floor LT-01117 Vilnius, Lithuania	100.00	100.00
UAB Verslo Investicijos	13 November 2008, code 302247778, State Enterprise Center of Registers	Jogailos str. 9A/A.Smetonos str. 1, LT-01116, Vilnius, Lithuania tel. + 370 5 236 7330, fax. +370 5 278 3613	100.00	100.00
VŠĮ Numerio Perkėlimas	5 September 2014, code 303386211, State Enterprise Center of Registers	Jogailos str. 9, LT- 01116 Vilnius, Lithuania	-	50.00

TEO LT, AB, the **parent company** of the Group, offers to residential and business customers in Lithuania fixed voice telephony, Internet access, data communication, television, IT and telecommunications network services.

On 4 January 2016, the Company acquired a 100 per cent stake in **Omnitel** from Telia Company AB (then known as TeliaSonera AB), which also owns 88.15 per cent of the Company shares, for EUR 220 million on a cash and debt free basis. Omnitel provides mobile telecommunications services to residential and business customers in Lithuania.

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

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

Lintel is the largest, in terms of business volumes, and the most modern, in terms of technologies and management, Call Center service provider in Lithuania. For residential customers Lintel provides Directory Inquiry Service 118, and for business customers – telemarketing and remote customer care services.

Kompetencijos Ugdymo Centras is a dormant subsidiary of the Company and **Verslo Investicijos** was acquired in 2008 for the implementation of an investment project.

Numerio Perkélimas, a joint not for profit organization, established by the four Lithuanian telecommunication companies Bité Lietuva, Omnitel, Tele2 and Teo (enterprises hold a 25 per cent stake each), from 1 January 2016 together with UAB Mediafon administers the central database to ensure telephone number portability.

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. VŠĮ Ryšių Istorijos Muziejus, a not-for-profit organisation, was established in 2010 for the management of the Communications History Museum in Kaunas funded by the Company. Teo was a sole founder and owner of VŠĮ Ryšių Istorijos Muziejus.

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 a professional volunteering project "Kam to reikia?!" ("Who needs it?!").

TEO LT, AB has no branches or representative offices.

Agreements with intermediaries of public trading in securities

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

Data about securities traded on regulated market

The following securities of TEO LT, AB are included into the Main List of Nasdaq Vilnius stock exchange (code: TEO1L) as of 30 June 2016:

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

On 20 October 2014, following the decision of the Annual General Meeting of Shareholders held on 29 April 2014, the authorised capital of the Company was reduced from 776,817,518 litas to 582,613,138 litas and, accordingly, the number of the Company's shares included into Main List of Nasdaq Vilnius stock exchange was reduced from 776,817,518 to 582,613,138. Nasdaq Vilnius stock exchange is a home market for Teo shares.

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

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

Information about results of the Company's activities

As on 4 January 2016, TEO LT, AB acquired a 100 per cent stake in Omnitel, financial data of Teo Group for the second quarter and the first half of 2016 presented herein is the consolidated data of TEO LT, AB and its subsidiaries including Omnitel. Comparable data of financial statements for the second quarter and the first half of 2015 is the actual reported data of Teo Group for those periods. In order to present an approximate measure of the performance of the combined group, the comparable combined data of comprehensive income statement, as it is used in the Management Report of Consolidated Financial Statements for the second quarter and the first half of 2015, is data combined by simple aggregation after elimination of intragroup transactions as if Omnitel was at the time part of the Teo Group.

Total consolidated revenue in the second quarter of 2016 amounted to EUR 84.2 million, up by 3.6 per cent over the comparable combined revenue of EUR 81.2 million in the second quarter of 2015. Consolidated EBITDA, excluding non-recurring items, in the second quarter of 2016 reached EUR 29.1 million, up by 11.1 per cent over comparable combined EBITDA, excluding non-recurring items, of EUR 26.2 million in the second quarter of 2015.

Total consolidated revenue in the first half of 2016 amounted to EUR 166.7 million, up by 2.8 per cent over the comparable combined revenue of EUR 162.1 million in the first half of 2015. Consolidated EBITDA, excluding non-recurring items, in the first half of 2016 reached EUR 58.3 million, up by 11 per cent over comparable combined EBITDA, excluding non-

recurring items, of EUR 52.6 million in the first half of 2015. During the first six months of 2016, free cash flow amounted to EUR 20.8 million and was by 1.4 times higher than a year ago.

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

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

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

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

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

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

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

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

More information about the Company's activities and financial results for the first six months of 2016 is provided in TEO LT, AB Consolidated Interim Financial Statements for the period of six months ended 30 June 2016.

Information about related party transactions

Information about related party transactions is provided in Note 10 of TEO LT, AB Consolidated Interim Financial Statements for the six months period ended 30 June 2016.

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

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

Teo and Teo Group through its largest shareholder, Telia Company AB, are related to Telia Company Group that provides telecommunication services in Nordic and Baltic countries, and some markets of Eurasia. The main buyers and providers of telecommunications services to Teo Group are Telia Carrier (Sweden), Telia Eesti AS (Estonia), LMT (Latvia),

TeliaSonera Finland Oyj (Finland). As of 30 June 2016, Telia Company AB had an outstanding loan of EUR 77 million granted to Omnitel.

Risk management

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

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

On 18 December 2015, the Company signed an agreement with SEB Bank and Danske Bank for a long-term loan of EUR 150 million to finance an acquisition of Omnitel shares. As of 30 June 2016, the total amount of borrowings amounted to EUR 227 million, while cash amounted to EUR 33.2 million.

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

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

Information about the Company's financial risk management is provided in Note 3 of TEO LT, AB Financial Statements for the year ended 31 December 2015.

Plans and forecasts

Year 2016 is a year of a new generation telco, combining fixed and mobile communications as well as content and IT services, creation. Integration of Teo and Omnitel activities shall ensure creation of the value to existing and potential customers, and secure consistent revenue growth. Technological leadership and convergence will create new customer experience through higher value services. Consistent customer's experience at any contact point and consistency in all channels is another strategic priority of a new business.

The Company will continue business transformation program that was launched in 2015 to simplify processes and service portfolio as well as upgrade of business support systems. The speed of decision making and implementation remains of high priority, as well as corporate culture oriented towards satisfaction of customer needs. Eventually customer is interested only in the ultimate result: services easily available anywhere, anytime and on any device.

In terms of business customers, we are seeking for long-term partnership and by offering the best information and communication technology (ICT) solution we provide them with opportunity to concentrate on doing their own business. We are seeking to be the best IT advisor to our customers.

Through value based and result oriented leadership we are seeking to create a digital ecosystem in Lithuania that would make proud our customers and all residents of the country.

Research and development activities

There were no major research and development projects undertaken during 2016, except of the on-going development and improvement of the Company's services.

Share capital

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.

Information about treasury stocks

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

Shareholders

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

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

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

Shareholders' rights

None of the shareholders of the Company have any special controlling rights. Rights of all shareholders are equal. As of 30 June 2016, the number of TEO LT, AB shares that provide voting rights during the General Meeting of Shareholders amounted to 582,613,138. One ordinary registered share of TEO LT, AB gives one vote in the General Meeting of Shareholders.

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

Dividends

On 24 May 2016, the Company paid out to the shareholders EUR 5.8 million of dividends or EUR 0.01 per share for the year 2015. Following the Law, dividends were paid to the shareholders who on the dividend record day, 10 May 2016, i.e. the tenth business day after the Annual General Meeting of Shareholders, were on the Shareholders' List of the Company. Dividends to all shareholders were paid in cash.

Other material events during the reporting period

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.

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

Personnel

Number of Teo Group employees:

	30 June 2016	30 June 2015	Change (%)
Number of personnel (headcounts)	3,083	2,609	18.2
Number of full time employees	2,750	2,352	16.9

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

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

Name of the company	30 June 2016	30 June 2015	Change
TEO LT, AB	1,801	1,903	(102)
AB Omnitel	572	-	572
AB Baltic Data Center	2	4	(2)
UAB Lintel	708	694	14
UAB Hostex	-	3	(3)
VšĮ Ryšių Istorijos Muziejus	-	5	(5)
	3,083	2,609	474

In January 2016, the Company acquire Omnitel, while in December 2015 Hostex was merged into Baltic Data Center and in April 2016 Ryšių Istorijos Muziejus (Communications History Museum) was handed over to Kaunas City Municipality.

The currently valid Collective Bargaining Agreement between TEO LT, AB, as the employer, and employees of TEO LT, AB, represented by joint representation of Trade Unions, came into force from 25 April 2007.

This Collective Bargaining Agreement applies only to employees of TEO LT, AB. If provisions of the Collective Bargaining Agreement are more favourable than the same provisions of individual labour agreements, then provisions of the Agreement shall apply. If provisions of the Agreement are more favourable than new legislation imposed during the period of the Agreement validity, provisions of the Agreement shall apply. More detailed information about the Collective Bargaining Agreement is provided in TEO LT, AB Consolidated Annual Report for the year ended 31 December 2015.

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. The Board of the Company represents the shareholders and performs supervision and control functions.

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

The members of the Board serving on the Board of the Company are acting jointly as a governing body of the Company. The Board consist of six members. The members of the Board are elected for a term of two years. The Chairman of the Board is elected by the Board from its members for two years. The members of the Board are elected by the General

Meeting in accordance with the procedure established by the Law on Companies of the Republic of Lithuania. The Board institutes two Committees: Audit and Remuneration. Three members of the Board comprise each committee.

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

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.

The Board's activities

During January-June 2016, four ordinary and two extraordinary meetings of the Board were held. Three ordinary meetings were convened according to the preliminary approved schedule of the Board meetings, the date of one ordinary meeting for approval of audited annual financial results was changed and two extraordinary meeting were convened following the procedure provided by the Regulation of the Company's Board Activities for convocation of extraordinary meetings. During all Board meetings there was quorum prescribed by legal acts: all member of the Board participated in three meetings whereas one member of the Board did not attend one meeting and another member of the Board was missing at two other meetings. The Board approved financial statements for the 12 months of 2015 and 3 months of 2016, financial statements and the consolidated annual report for the year ended 31 December 2015, convoked the Annual General Meetings of Shareholders and proposed to the Annual General Meeting to allocate profit for the year 2015. The Board also approved Terms of Merger of Teo, Omnitel and BDC by the way of merger of Omnitel and BDC into Teo, and handing over of ownerships rights in VšĮ Ryšių Istorijos Muziejus and VšĮ SOS Projektai. The Board followed up implementation of the business and investment plans for the year 2016.

During the first half of 2016 two meeting of the Remuneration Committee were held. The following issues were considered during the meetings: approval of Teo Group Remuneration Policy, approval of the annual variable payout for 2015 to the top management of Teo, approval of the Annual Variable Pay Instructions, labour and salary market trends, update on pension plan „Save with Teo“. One member of the Committee was missing at the first meeting, whereas all members attended the second meeting of the Committee. The Chairman of the Committee chaired meetings.

During January-June 2016, two meetings of the Audit Committee were held, during which the following issues were considered: report and conclusions by external auditors regarding the financial statements for the year 2015, results of legal due diligence of Omnitel, internal audit report of the year 2015 and beginning of 2016 and internal audit plan for the year 2016. In addition, there were reviewed identified risks and action plans related to them, internal fraud cases and whistle blowing reports. One member of the Committee was missing at both meetings. The meetings were chaired by the Chairman of the Committee.

Three members of the Board – Robert Andersson, Stefan Block and Claes Nycander – and nominee for election to the Board, Hannu-Matti Mäkinen, as well as CEO of the Company participated at the Annual General Meeting of Shareholders on 26 April 2016.

On 26 April 2016, the shareholders resolved to assign the amount of EUR 31,280 for tantiems for the year 2015 just to independent members of the Board – Inga Skisaker and Rolandas Viršilas, i.e. EUR 15,640 per one member of the Board. As of 30 June 2016, the amount of EUR 15.6 thousand of tantiemes assigned for the year 2010 was not paid to the then member of the Board who had not provided written requests to the Company.

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

Members of the Board as of 30 June 2016

Robert Andersson (born in 1960) – Chairman of the Board, member of the Board since 29 April 2014, re-elected for the two-year term on 29 April 2015 (nominated by Telia Company AB), Chairman of the Remuneration Committee. Education: George Washington University, Washington DC, (U.S.A.), Master of Business Administration, International Business, and Swedish School of Economics and Business Administration, Helsinki (Finland), Master of Science, Accounting/Finance. Employment – Telia Company AB (Sweden), Executive Vice President and Head of Region Europe. Current Board Assignments: TeliaSonera Finland Oyj (Finland), Chairman of the Board; Telia Norge AS (Norway), Chairman of the Board; Telia Eesti AS (Estonia), Chairman of the Supervisory Council; Xfera Móviles S.A. (Spain), member of the Board, and Enea AB (Sweden), member of the Board. Telia Company AB (Sweden) that nominated Robert Andersson to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Robert Andersson has no direct interest in the share capital of Teo. He owns 10,000 shares of Telia Company AB. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Stefan Block (born in 1967) – member of the Board since 29 April 2014, re-elected for the two-year term on 29 April 2015 (nominated by Telia Company AB), Chairman of the Audit Committee. Education – University of Stockholm (Sweden), Bachelor of Science in Business and Administration. Employment – Telia Company AB (Sweden), Chief Financial Officer of Region Europe. Current Board Assignments: Telia Danmark A/S (Denmark), Chairman of the Board; Síminn Denmark A/S (Denmark), member of the Board; Telia Finance AB (Sweden), member of the Board; Telia Norge AS (Norway), member of the Board; Xfera Móviles S.A. (Spain), member of the Board; LMT SIA (Latvia), member of the Supervisory Council; Telia Eesti AS (Estonia), member of the Supervisory Council. Telia Company AB (Sweden) that nominated Stefan Block to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Stefan Block has no direct interest in the share capital of Teo. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Claes Nycander (born in 1963) – member of the Board since 29 April 2014, re-elected for the two-year term on 29 April 2015 (nominated by Telia Company AB), member of the Remuneration Committee. Education: Uppsala University (Sweden), Master of Business and Administration; Stanford University Palo Alto (U.S.A.), Master of Science in Electrical Engineering; Institute of Technology at University of Linköping (Sweden), Master of Science in Electrical Engineering and University of Linköping (Sweden), Bachelor of Science in Mathematics. Employment – Telia Company AB (Sweden), Chief Technology Officer of Region Europe. Current Board Assignments: TT Nätverket A/S (Denmark), Chairman of the Board; Systecon AB (Sweden), member of the Board; Svenska UMTS-Nät AB (Sweden), member of the Board; LMT SIA (Latvia), Chairman of Supervisory Council. Telia Company AB (Sweden) that nominated Claes Nycander to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Claes Nycander has no direct interest in the share capital of Teo. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Hannu-Matti Mäkinen (born in 1970) – member of the Board since 26 April 2016 (nominated by Telia Company AB). Education: University of Arizona (U.S.A), College of Law, LL.M (Masters of Laws) in International Trade Law, and University of Lapland (Finland), School of Law, LL.B (Bachelor of Laws) and LL.M (Masters of Laws) in Finnish and EU-Law. Employment – Telia Company AB (Sweden), General Counsel Region Europe and Head of Legal of Region Europe. Current Board Assignments: TeliaSonera Finland Oyj (Finland), member of the Board; Telia Danmark A/S (Denmark), member of the Board; Tiltis Communications A/S (Denmark), member of the Board; Telia Norge AS (Norway), member of the Board; Telia Eesti AS (Estonia), member of the Supervisory Council; Latt telecom SIA (Latvia), member of the Supervisory Council. Telia Company AB (Sweden), that nominated Hannu-Matti Mäkinen to the Board of TEO LT, AB, has 88.15 per cent of TEO LT, AB share capital and votes. Hannu-Matti Mäkinen has no direct interest in the share capital of Teo. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Inga Skisaker (born in 1971) – member of the Board since 28 April 2011, re-elected for the two-year term on 29 April 2015 (nominated by Telia Company AB), member of the Audit Committee. Education – Vilnius University (Lithuania), Master of International Business Administration. Employment – Nordea Bank AB Lithuania Branch (Sweden), General Manager and Head of Banking Baltic Countries. Current Board assignments: Baltic Management Institute (Lithuania), member of the Board, and Investors Forum (Lithuania), member of the Board. Telia Company AB (Sweden) that nominated Inga Skisaker as independent candidate to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Inga Skisaker has no direct interest in the share capital of Teo. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Rolandas Viršilas (born in 1963) – member of the Board since 25 April 2013, re-elected for the two-year term on 29 April 2015 (nominated by Telia Company AB), member of the Remuneration Committee. Education – Vilnius University (Lithuania), Faculty of Mathematics, Master's degree. Employment – UAB Švyturys-Utenos Alus (Lithuania), CEO. Current Board assignments: Lithuanian Brewers' Guild (Lithuania), Chairman of the Council, and VŠĮ Užstato Sistemos Administratorius, member of the Board. Telia Company AB (Sweden) that nominated Rolandas Viršilas as independent

candidate to the Board of Teo has 88.15 per cent of the share capital and votes of the Company. Rolandas Viršilas has 75,000 shares of Teo that accounts to 0.0129 per cent of the total number of the Company's shares and votes. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Members of the Management Team as of 30 June 2016

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

Petteri Ahonen (born in 1970) – Head of B2B at Teo from 1 January 2016. Education: Swedish School of Economics and Business Administration (Helsinki, Finland), Master of Science in Economics; Espoo Commercial College (Espoo, Finland), Commercial Diploma. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of B2B. Petteri Ahonen has no direct interest in the share capital of Teo. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Norbertas Žioba (born in 1973) – Head of B2C at Teo from 1 January 2016. Education: Durham University (United Kingdom), Business School, Master in Business Administration (MBA); Vytautas Magnus University (Lithuania), Faculty of Social Sciences, Student for Master in Business Law; Vytautas Magnus University (Lithuania), Faculty of Business and Management, Bachelor of Science in Business Administration and Management. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of B2C. Norbertas Žioba has 3601 share of TEO LT, AB that accounts to 0.0006% per cent of the total number of the Company's shares and votes. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Andrius Šemeškevičius (born in 1976) – Head of Technology at Teo from 18 August 2014. Education – Vilnius Gediminas Technical University (Lithuania), Bachelor's degree in Engineering Informatics and Master's degree in Engineering Informatics. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of Technology. Andrius Šemeškevičius has 8,761 share of Teo that accounts to 0.0015 per cent of the total number of the Company's shares and votes. He has no shareholdings that exceed 5 per cent of the share capital of any company.

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

Ramūnas Bagdonas (born in 1974) – Head of Human Resources at Teo from 1 June 2014. Education: Vytautas Magnus University (Lithuania), Master of Business Administration; Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of Human Resources. Ramūnas Bagdonas has no direct interest in the share capital of Teo. He has 450 shares of Telia Company AB (Sweden). He has no shareholdings that exceed 5 per cent of the share capital of any company.

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

Audronė Mažeikaitė (born in 1970) – Head of Corporate Affairs at Teo from 1 January 2016. Education: Lugano University (Switzerland), Executive Master of Science in Communications Management; Durham University (United Kingdom), Master of Business Administration; Vilnius University (Lithuania), Diploma in Economic Analysis. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of Corporate Affairs. Audronė Mažeikaitė has no direct interest in the share capital of Teo. She has no shareholdings that exceed 5 per cent of the share capital of any company.

Mantas Goštautas (born in 1981) – Head of Business Development at Teo from 17 August 2015. Education: Baltic Management Institute (BMI) (Lithuania), Executive Master of Business Administration; CIMA (Chartered Institute of Management Accounting) (London, UK), Certificate in Business Accounting; Stockholm School of Economics in Riga (Latvia), Bachelor in Economics and Business Administration. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of Business Development. Mantas Goštautas has no direct interest in the share capital of Teo. He has no shareholdings that exceed 5 per cent of the share capital of any company.

Andrius Byčkovas (born in 1977) – Head of Competitive Customer Operations at Teo from 1 January 2016. Education – Vilnius University (Lithuania), Master's Degree in Management and Business Administration. Involvement in activities of other entities – AB Omnitel (Lithuania), Head of Competitive Customer Operations. Andrius Byčkovas has no direct interest in the share capital of Teo. He has no shareholdings that exceed 5 per cent of the share capital of any company.

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

During January–June 2016, there were no loans, guarantees or sponsorship granted to the members of the Board or members of the Management Team by the Company as well as none of subsidiaries paid salaries or other payouts to the members of the Board or members of the Management Team of the Company for being members of their managing bodies.

Information about compliance with the Governance Code

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

Following the Governance Code, all members of the Board are considered non-executive directors, whereby two out of six members are independent members of the Board. Current members of the Audit Committee for the two years' term and members of the Remuneration Committee for a one year term were elected in June 2015. Two members of the Audit Committee have financial background and one of them is an independent member of the Board.

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, CEO of TEO LT, AB, and Laimonas Devyžis, Head of Finance of TEO LT, AB, hereby confirm that, to the best of our knowledge, TEO LT, AB Consolidated Interim Report for the six months period ended 30 June 2016 includes a fair review of the development and performance of the business and the position of the Company and the Group of undertakings in relation to the description of the main risks and contingencies faced thereby.

Kęstutis Šliužas
CEO

Laimonas Devyžis
Head of Finance