

Results for the first 9 months of 2016

21-10-2016

teo

teo.lt

Teo and **Omnitel** Group provides integrated telecommunication, IT and TV services to residents and businesses in Lithuania and develops cutting-edge data communication solutions

Our purpose: bringing the world closer – on the customer's terms

Highlights of Q3 2016

- Number of broadband Internet users exceeded **400 thousand**, and number of post-paid service users exceeded **1 million**
- A joint customer care **retail outlet of a new concept** was opened in Kaunas
- In September started **integration of Teo and Omnitel** customer care **retail outlets**
- Omnitel was the first in Lithuania to implement a **next generation** voice transmission technology **VoLTE** in its 4G network
- Teo together with the partners installed **10 smart classrooms** in Kaunas
- **IT infrastructure** of Lietuvos Draudimo (Lithuanian Insurance) and PZU Group companies in the Baltic countries was **consolidated at Teo data centers**

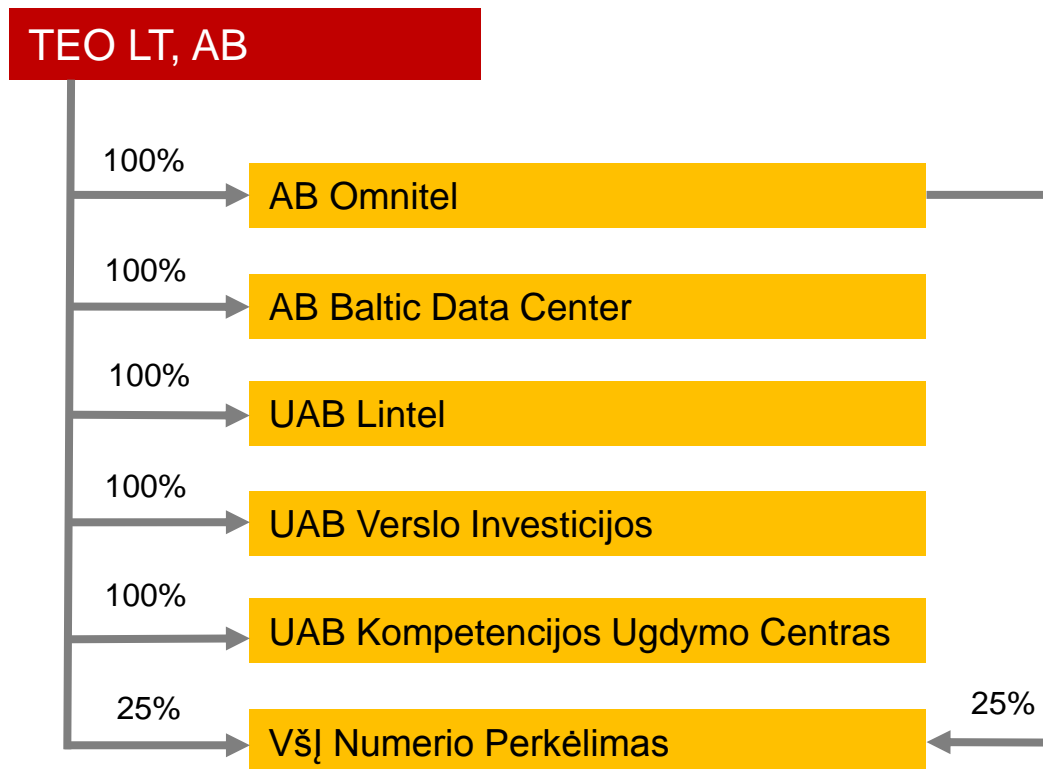


New services

- In September, Teo offered **4 new fiber-optic Internet payment plans** to business customers. Plans also includes IT systems protection packages
- Omnitel offered a new service “**Antivirus Plus**”, that protects from cyber threats up to 5 different devices
- Teo together with Telia Group companies in Latvia and Estonia started provisioning of **IT systems support and telco services** to Coca-Cola HBC Baltic
- Lietuvos Geležinkeliai (Lithuanian Railways) **trains** between Vilnius and Kaunas were **equipped with wireless Wi-Fi Internet**

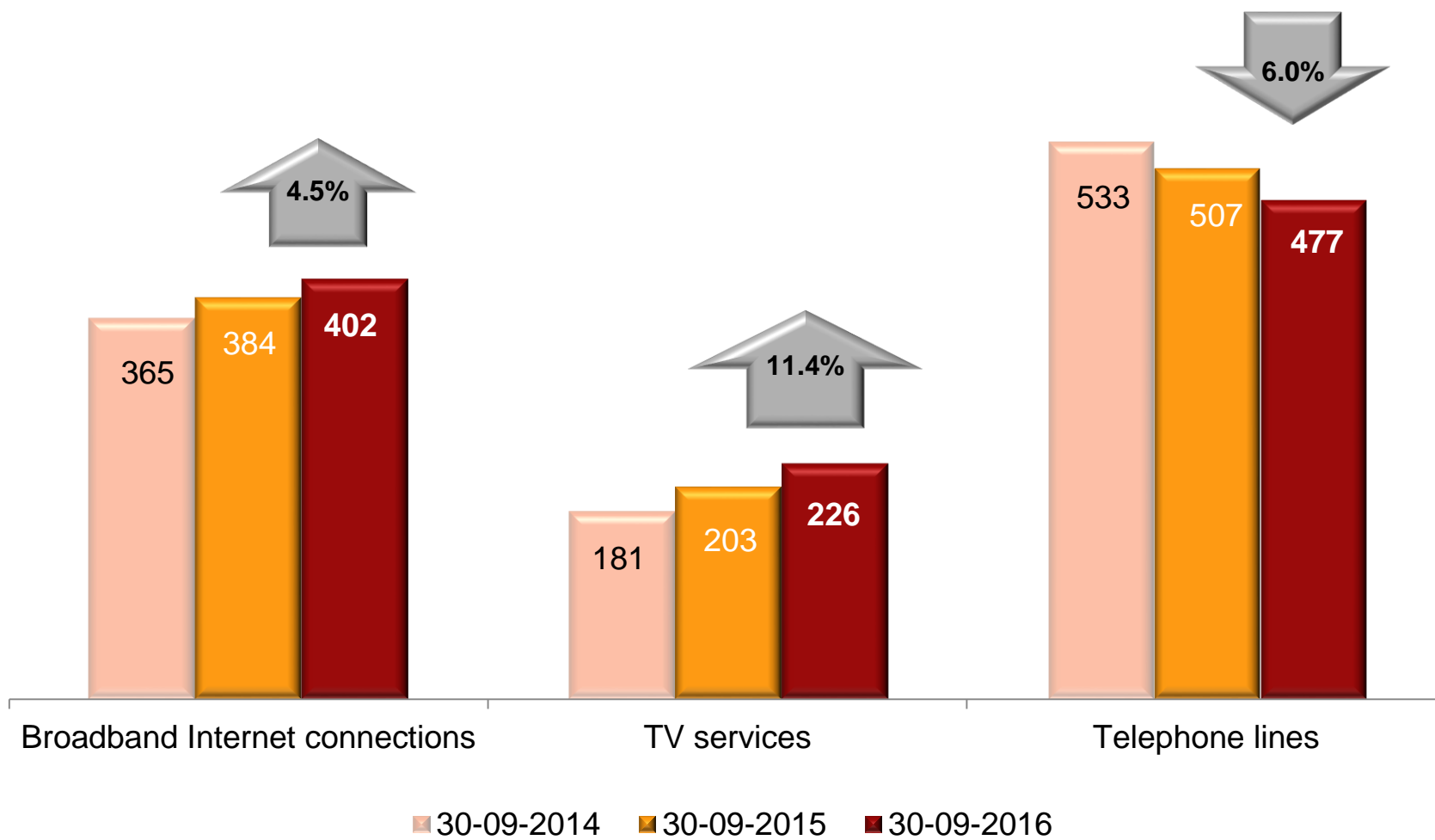


Teo Group

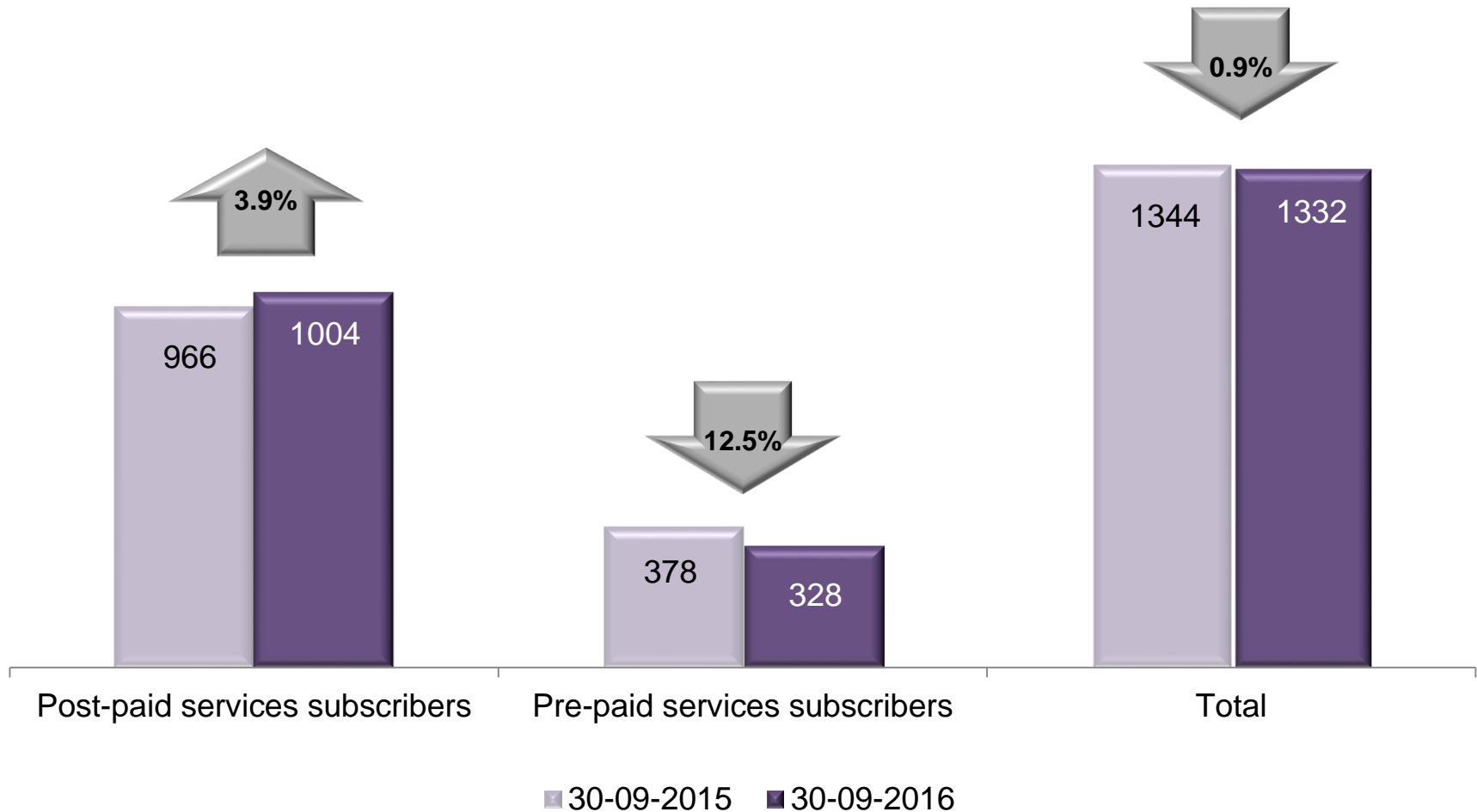


- On 4 January 2016, Teo **acquired a 100% stake in Omnitel**
- In January, Baltic Data Center SIA, a subsidiary of Baltic Data Center (BDC) in Latvia, was **liquidated**
- In April, Teo **transferred its owners' rights** in VšĮ Ryšių Istorijos Muziejus (The Communications History Museum) to Kaunas Municipality free of charge
- In June, Omnitel and BDC **changed their legal status** into joint-stock (AB) company, and **Terms of Merger** for Omnitel and BDC merger into Teo were announced
- In July, Omnitel **transferred its owners' rights (50%)** in VšĮ SOS Projektai to Swedbank AB, Lithuania, free of charge

Main broadband communications operating figures (thousands)



Main mobile communications operating figures (thousands)

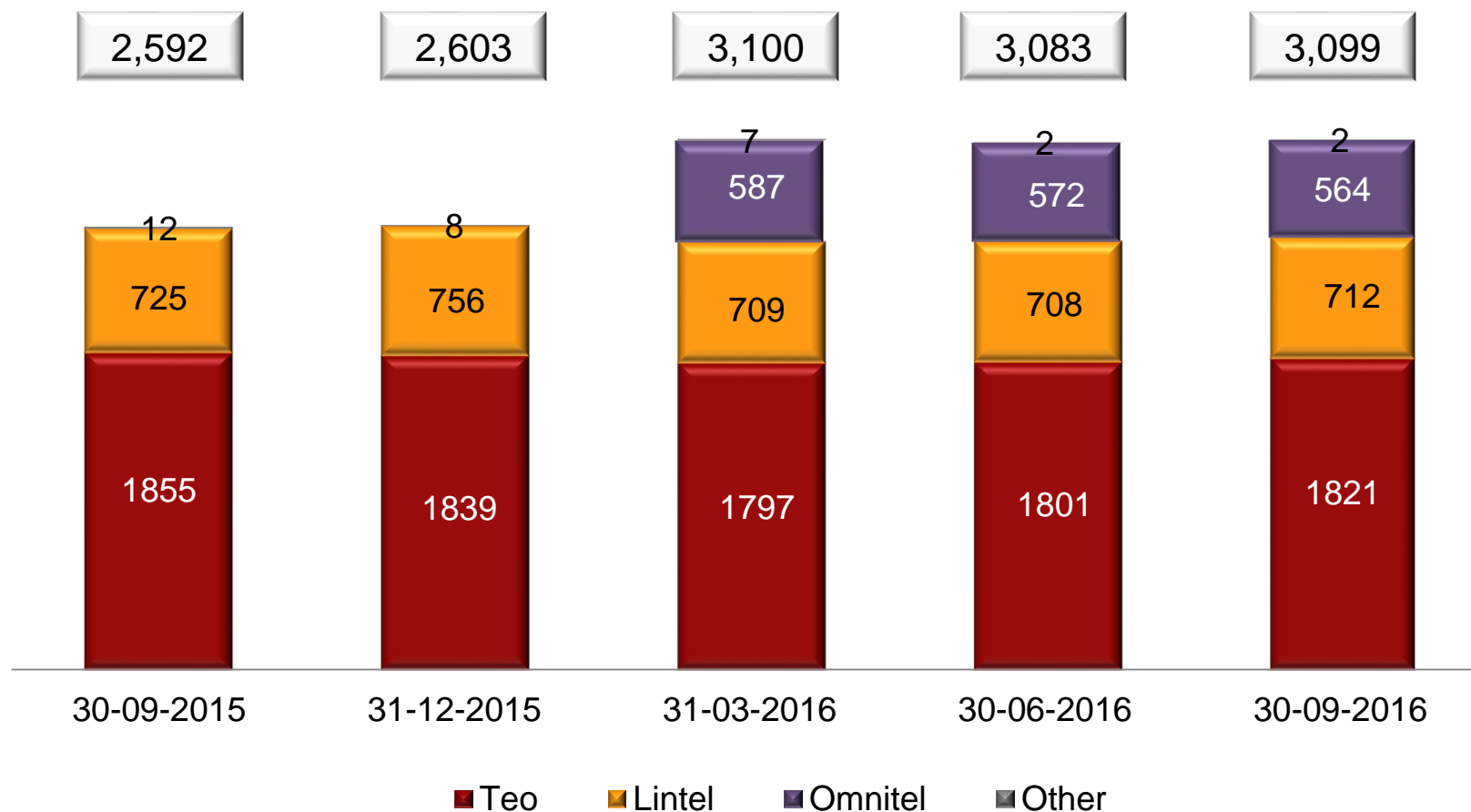


Main operating figures

(thousands)

	30-09-2016	30-09-2015	Change (%)
Number of broadband Internet accesses, in total:	402	384	4.5
- via fiber-optic lines	241	218	10.8
- via copper lines	161	166	(3.6)
Number of TV services users, in total:	226	203	11.4
- IPTV	184	154	19.4
- DVB-T	42	49	(13.7)
Number of fixed telephone lines	477	507	(6.0)
Number of mobile services' subscriber, in total:	1,344	1,332	(0.9)
- Post-paid services	1,004	966	3.9
- Pre-paid services	328	378	(12.5)

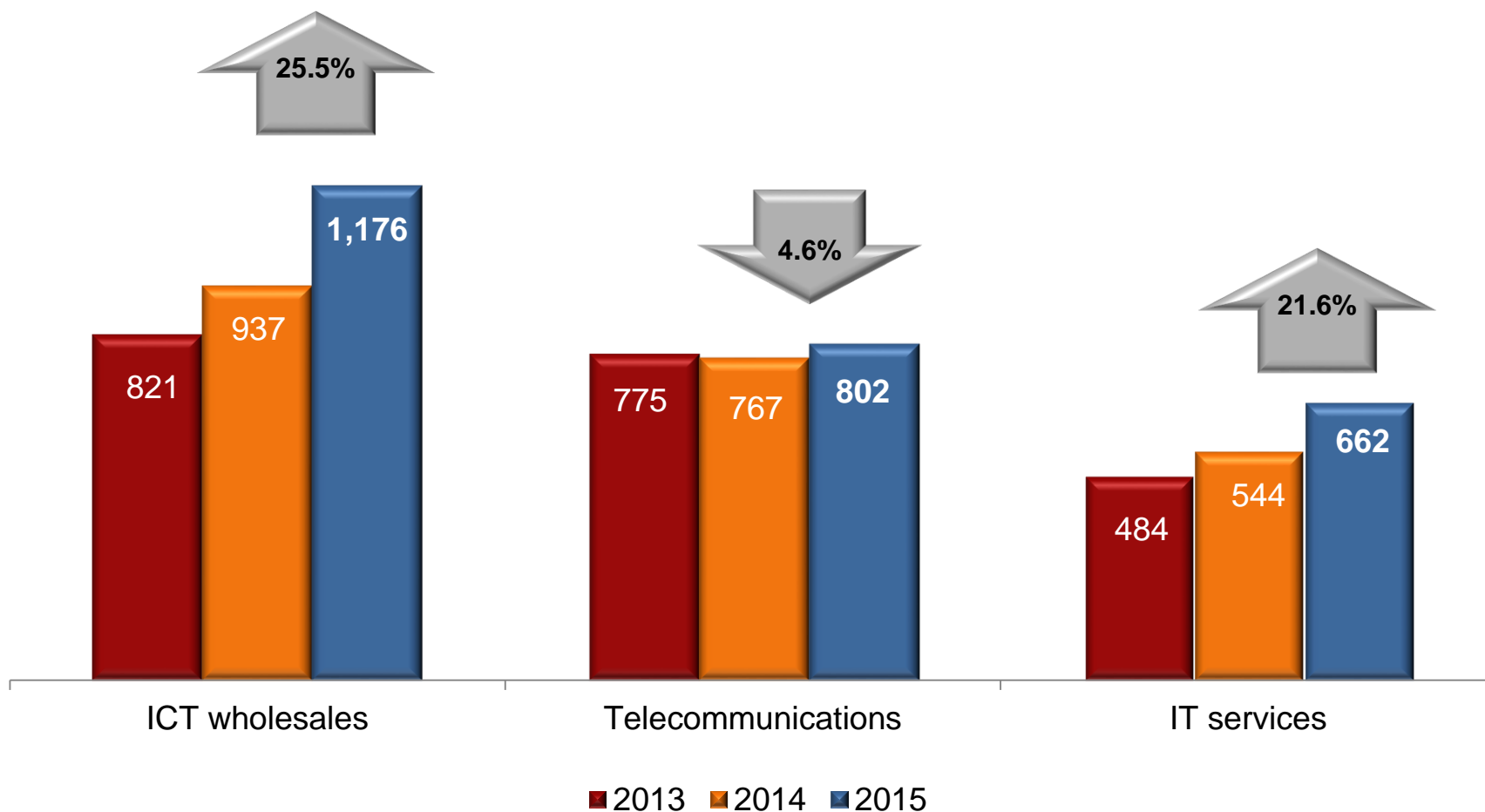
Employees of Teo Group



Electronic communications market of Lithuania

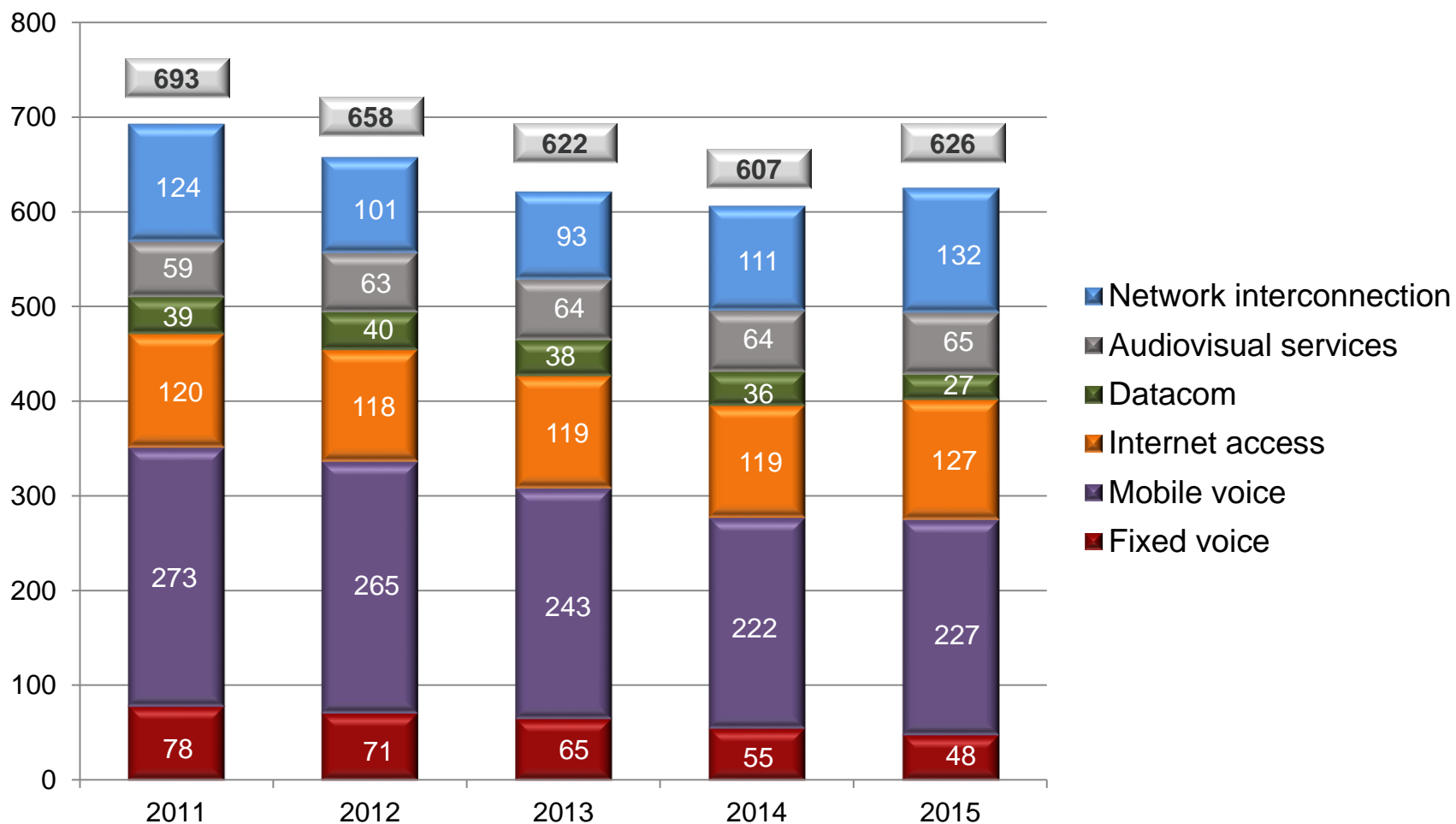
Lithuanian ICT market revenue trends

(EUR million)



Telecommunication market in Lithuania

(EUR million)

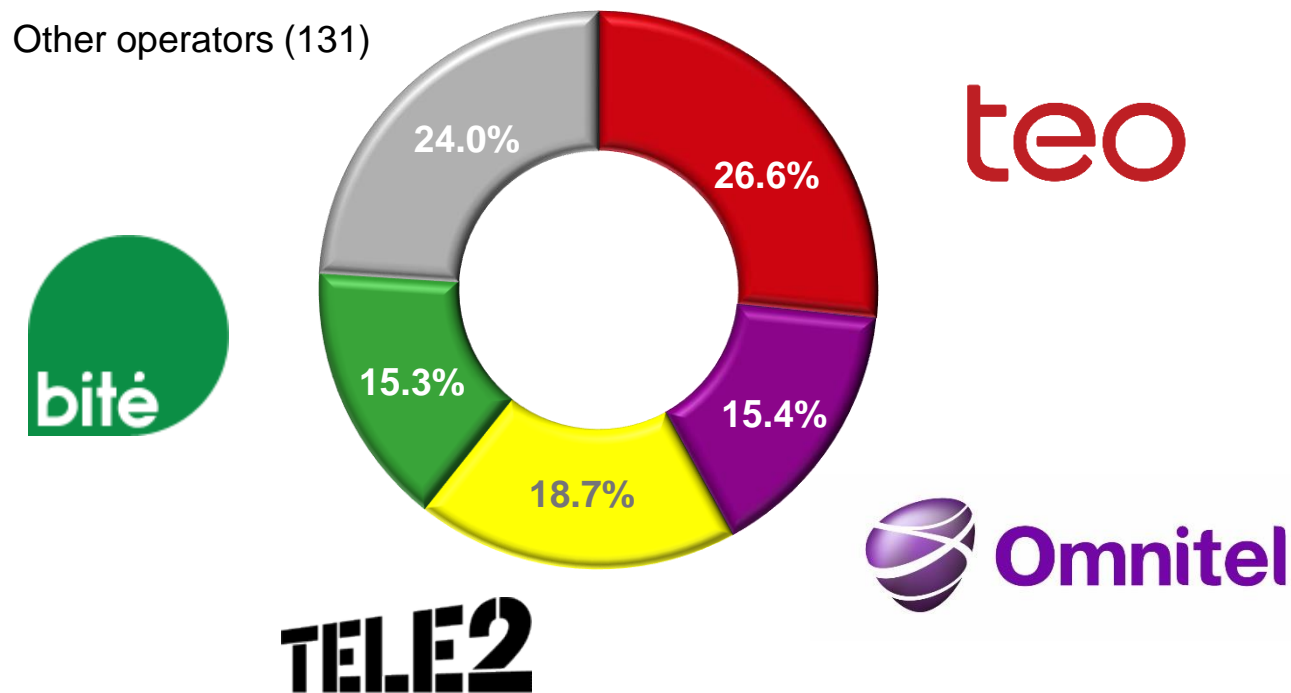


Source: Report of the Communications Regulatory Authority

Main market figures

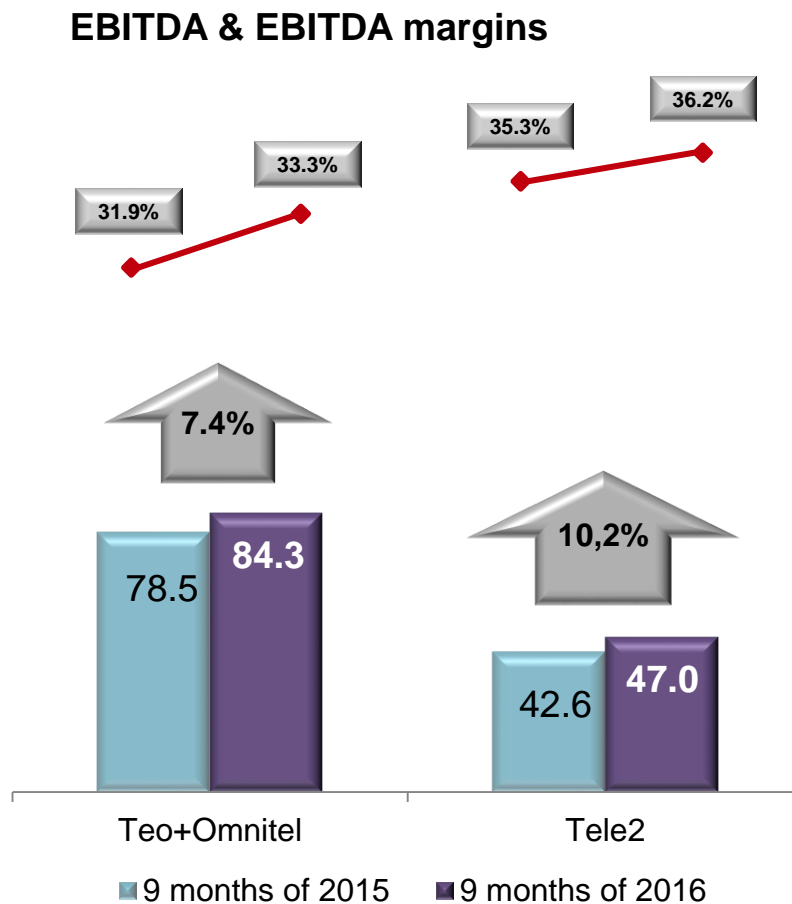
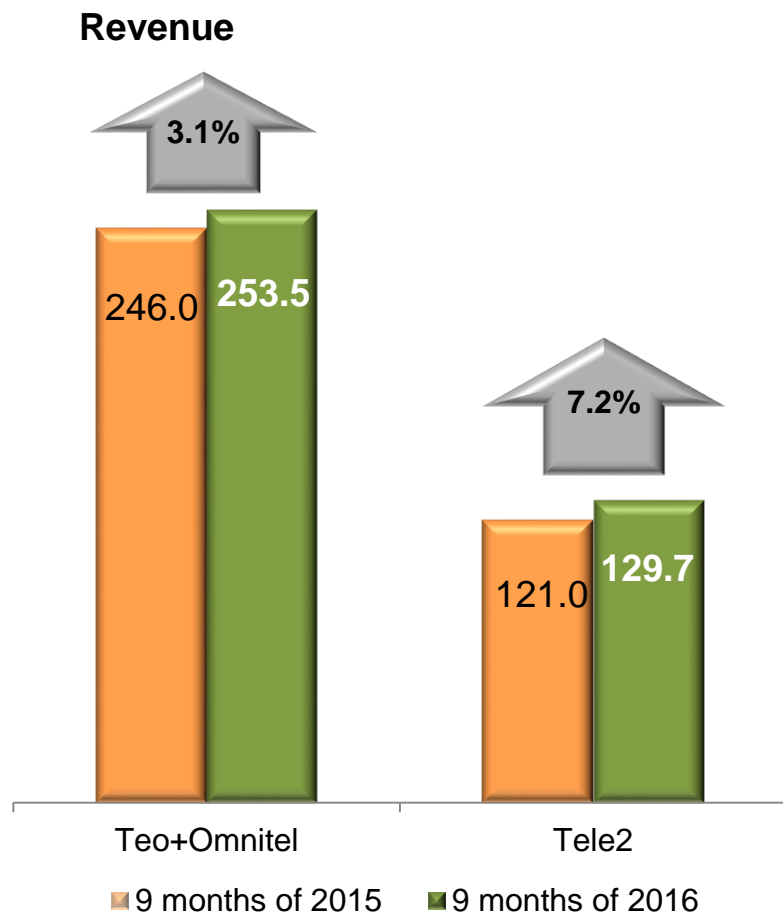
	30-06-2016	30-06-2015	Change (%)
Total market revenue (EUR million)	321.5	308.6	4.2
Number of mobile services subscribers	4,182,532	4,184,154	(0.04)
Number of mobile services subscribers per 100 inhabitants	145.7	144.1	
Number of telephone lines per 100 inhabitants	18.9	19.3	
Number of Internet access subscribers	1,229,049	1,142,301	7.6
Number of broadband Internet access subscribers per 100 inhabitants	42.8	39.4	
Number of fixed Internet access subscribers per 100 inhabitants	29.5	28.0	
Number of pay-TV subscribers	712,979	718,506	(0.8)
Number of pay-TV subscribers per 100 households	55.7	55.7	
Total market investments (EUR million)	64.5	40.4	59.7

Breakdown of the telecommunications market revenue in 2015 by operators

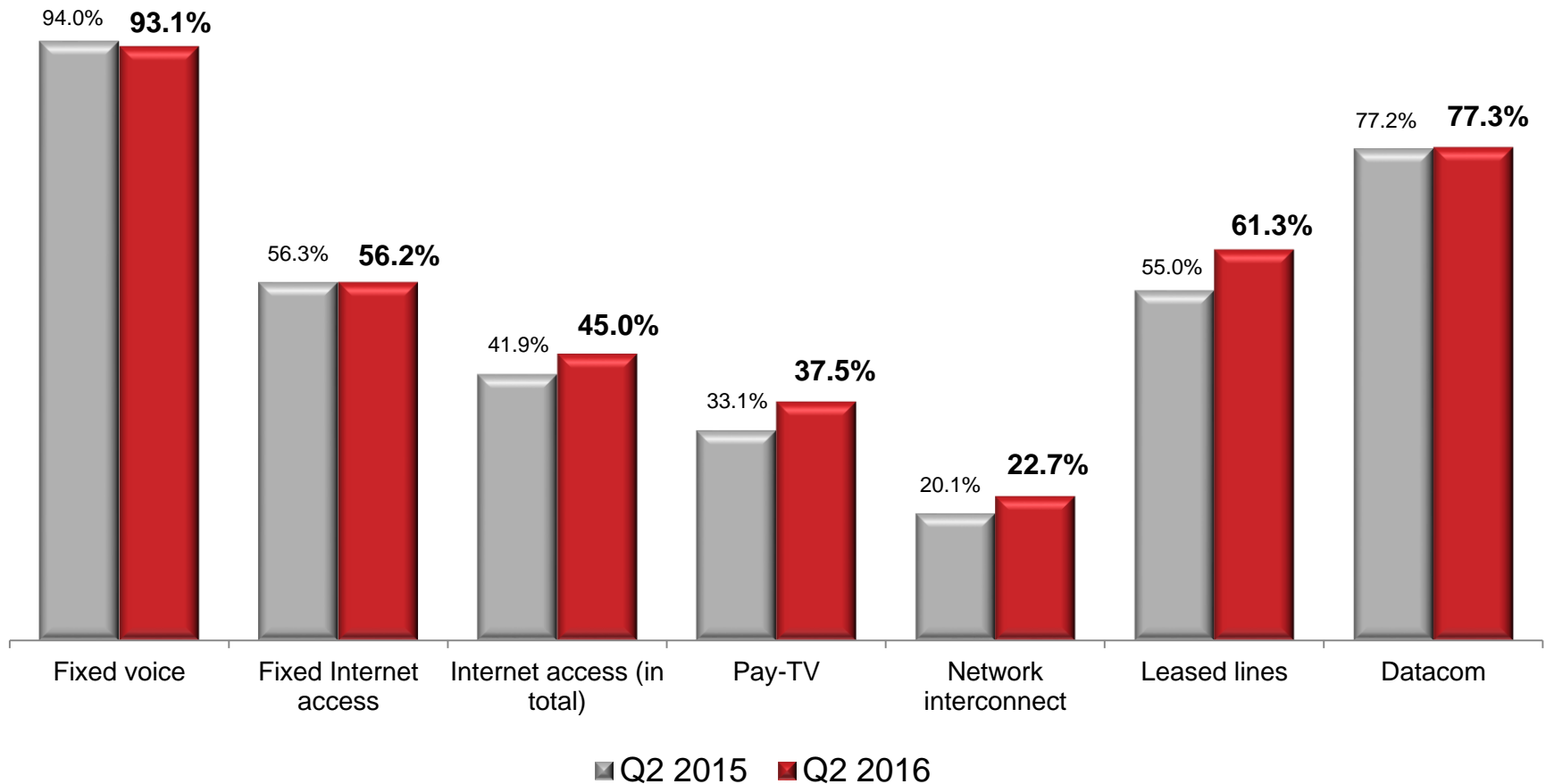


Main market players' revenue and EBITDA changes

(EUR million)

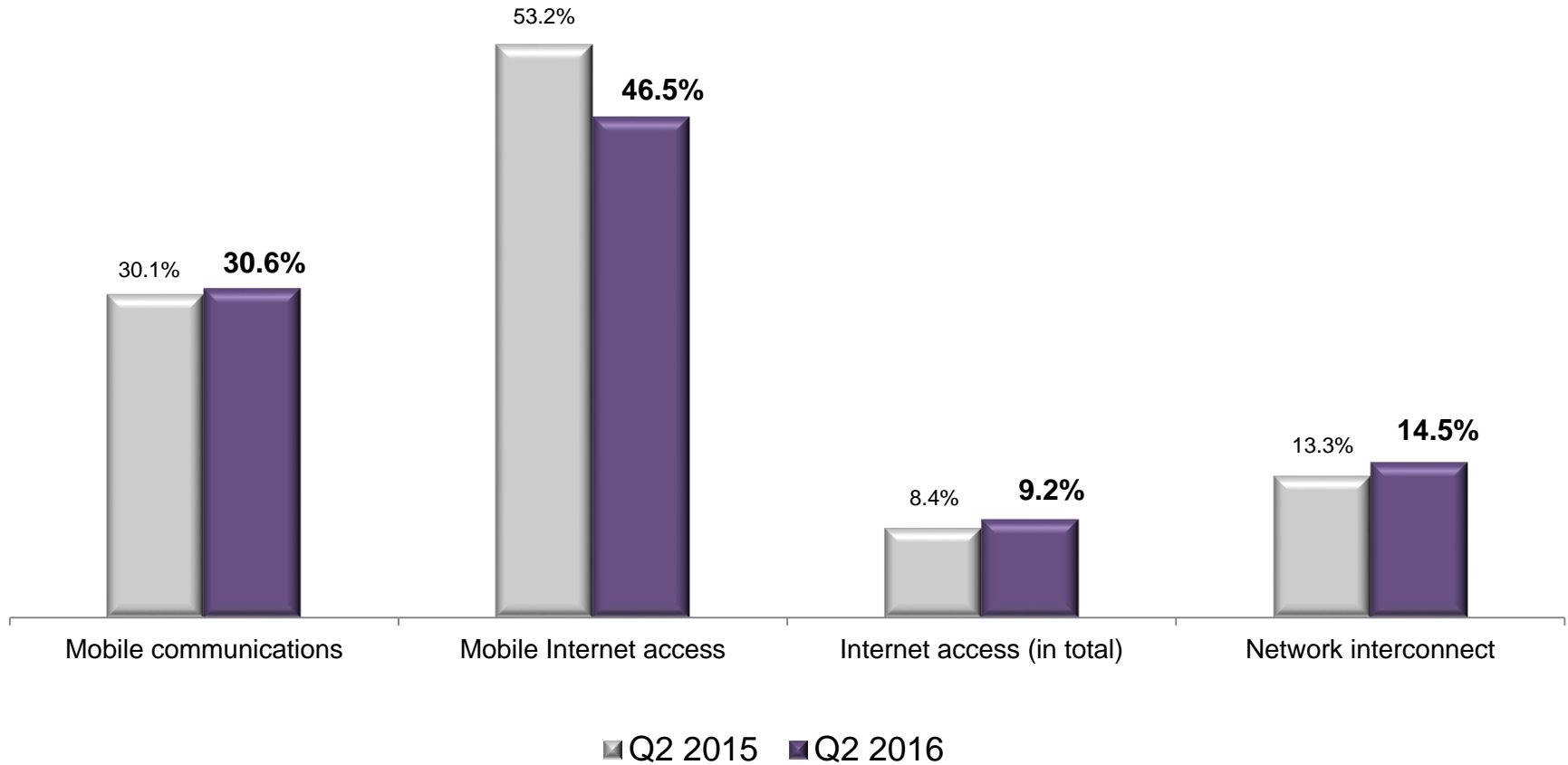


Teo market share in terms of revenue



Source: Report of the Communications Regulatory Authority

Omnitel market share in terms of revenue



Source: Report of the Communications Regulatory Authority

Market revenue by services

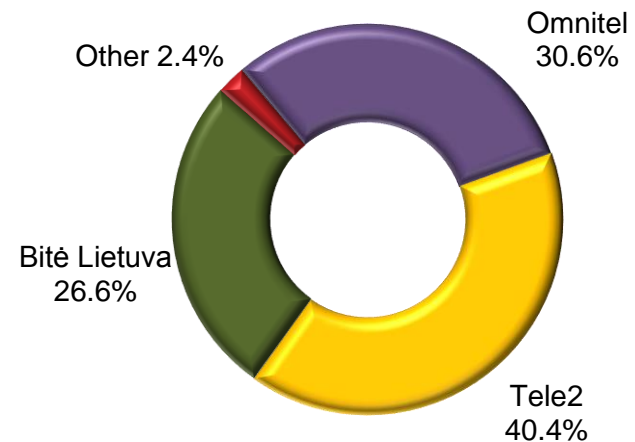
Market	Revenue in H1 2016 (EUR million)	Change from H1 2015 (%)	Number of market players
Mobile voice	118.1	7.2	3+13
Internet access	64.3	1.5	103
Network interconnection	68.9	6.9	14
Pay-TV	31.8	5.6	41
Fixed voice	22.8	(7.8)	42
Data communication	8.6	(0.7)	16
Leased lines	1.8	(18.4)	8
Dark fiber	2.7	(2.9)	15
TV and radio program transmission	2.5	19.5	4

Mobile voice market in Lithuania

(Q2 2016)

- Mobile voice services are provided by **3 operators** (Omnitel, Tele2 and Bitė Lietuva), **5 other service providers** and **8 services' resellers**
- Number of other service providers' subscribers: **82,1 thousand** or **2%** of total subscribers' number
- **47.5%** of voice traffic was initiated in Tele2, **26.7%** in Omnitel, **23%** in Bitė Lietuva and **2.7%** in other service providers' networks
- **57%** of all initiated calls' duration where calls within own network, **38.9%** – calls to other mobile networks of Lithuania, **3.5%** – calls to fixed networks and **0.6%** – international calls

Q2 2016 revenue breakdown by service providers



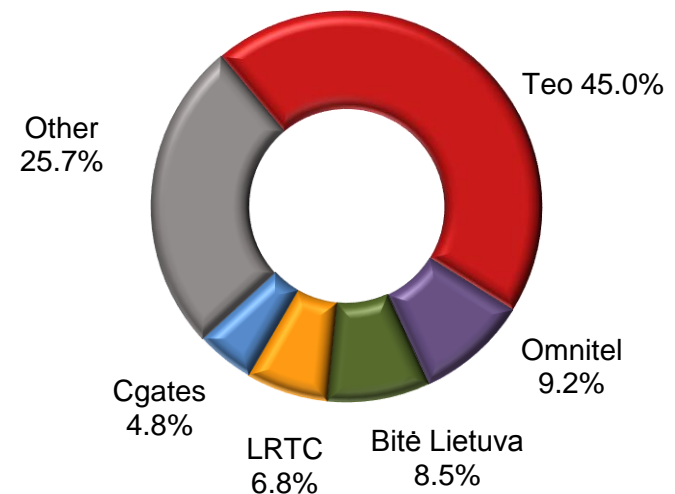
Source: Report of the Communications Regulatory Authority

Internet access market in Lithuania

(Q2 2016)

Access type	Number of users ('000)	Change, y-o-y (%)
Fiber-optic	531	7.9
Via mobile network	384	16.6
DSL	162	(3.4)
Wireless	112	5.0
Via CATV network	30	(13.8)
Via LAN	10	(14.5)
Total:	1,229	7.6

Q2 2016 revenue by service providers



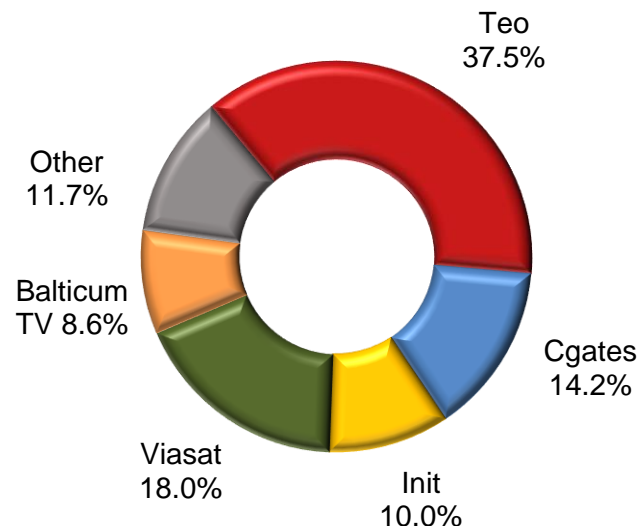
Source: Report of the Communications Regulatory Authority

Pay TV market in Lithuania

(Q2 2016)

Access type	Number of users ('000)	Change, y-o-y (%)
Analogue CATV	234	(16.4)
Digital CATV	152	21.5
IPTV	193	20.8
Satellite	77	(12.8)
DVB-T	45	(13.8)
MVDS	12	(9.2)
Total:	713	(0.8)

Q2 2016 revenue breakdown by service providers



Source: Report of the Communications Regulatory Authority

Fixed voice telephony market in Lithuania (Q2 2016)

- **42 companies** are providing fixed voice services:
 - 35 provide retail,
 - 7 only wholesales (transit) services
- 32 companies are using **IP network**
- Number of alternative operators' subscribers: **65,8 thousand** or 12% of total subscribers' number

Teo market share (Q2 2016) in terms of:	(%)
Total number of customers	88.5
Total traffic	91.7
Revenue from local calls	100.0
Revenue from domestic long distance calls	89.1
Revenue from international calls	69.0

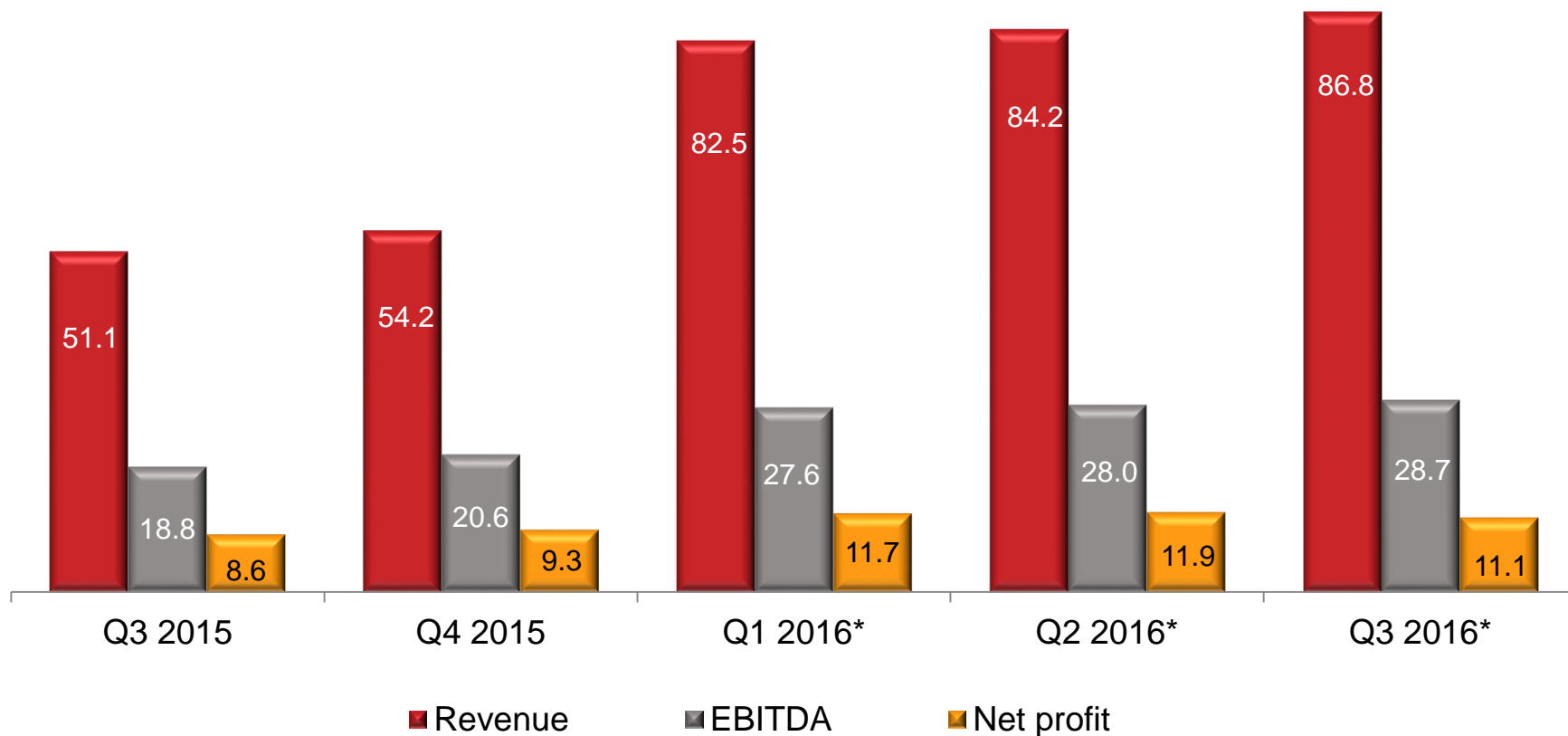
Source: Report of the Communications Regulatory Authority

Financial results

teo

Revenue, EBITDA & Net profit

(EUR million)

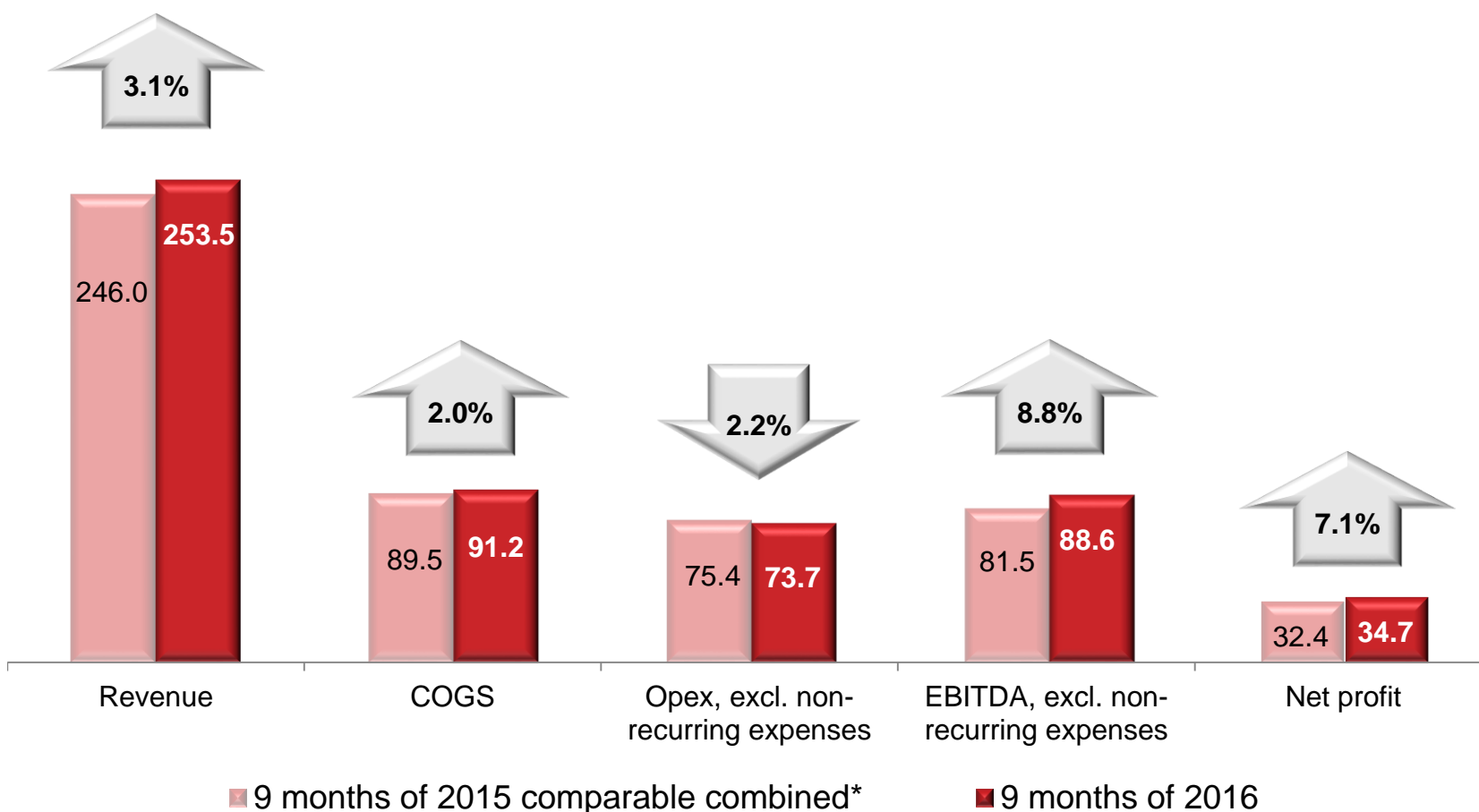


Major financial indicators

(thousand EUR)	9 months of 2016	9 months of 2015 comparable combined*	Change (%)	9 months of 2015
Revenue	253,528	245,965	3.1	150,433
EBITDA	84,346	78,531	7.4	55,902
EBITDA margin	33.3%	31.9%		37.2%
EBITDA (excluding non-recurring expenses)	88,645	87,215	8.8	58,347
EBITDA (excluding non-recurring expenses) margin	35.0%	33.1%		38.8%
Operating profit (EBIT)	40,743	36,117	12.8	28,138
Operating profit margin	16.1%	14.7%		18.7%
Profit before income tax	39,721	36,073	10.1	27,893
Profit before income tax margin	15.7%	14.7%		18.5%
Net profit	34,696	32,389	7.1	24,874
Net profit margin	13.7%	13.2%		16.5%
Earnings per share (EUR)	0.060	0.055		0.043
Average number of shares (thousands)	582,613	582,613		582,613

Dynamics of main financial indicators

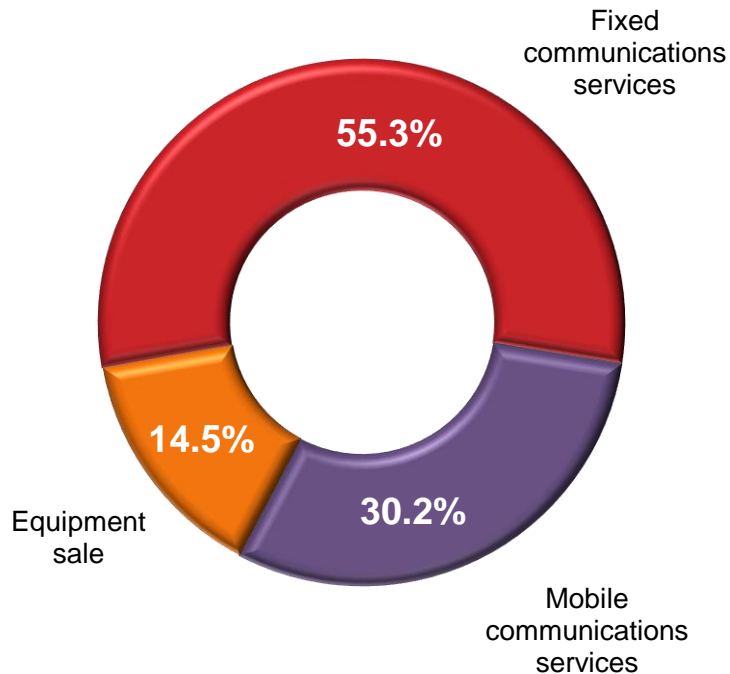
(EUR million)



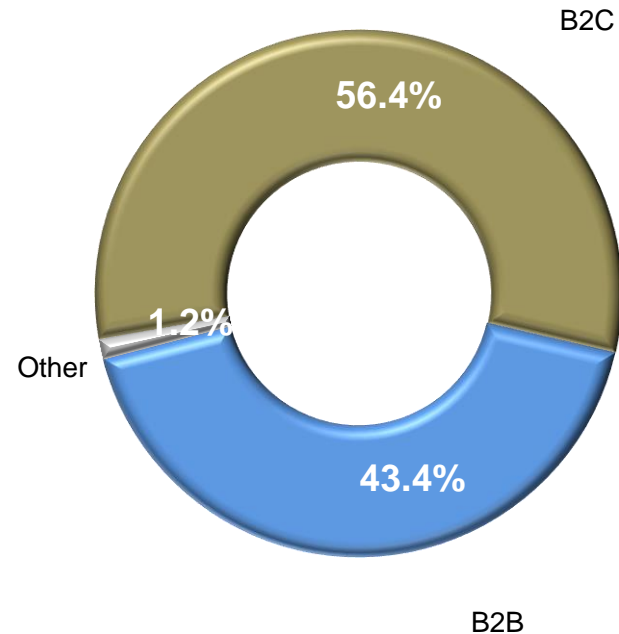
Revenue breakdown

(9 months of 2016)

By group of services

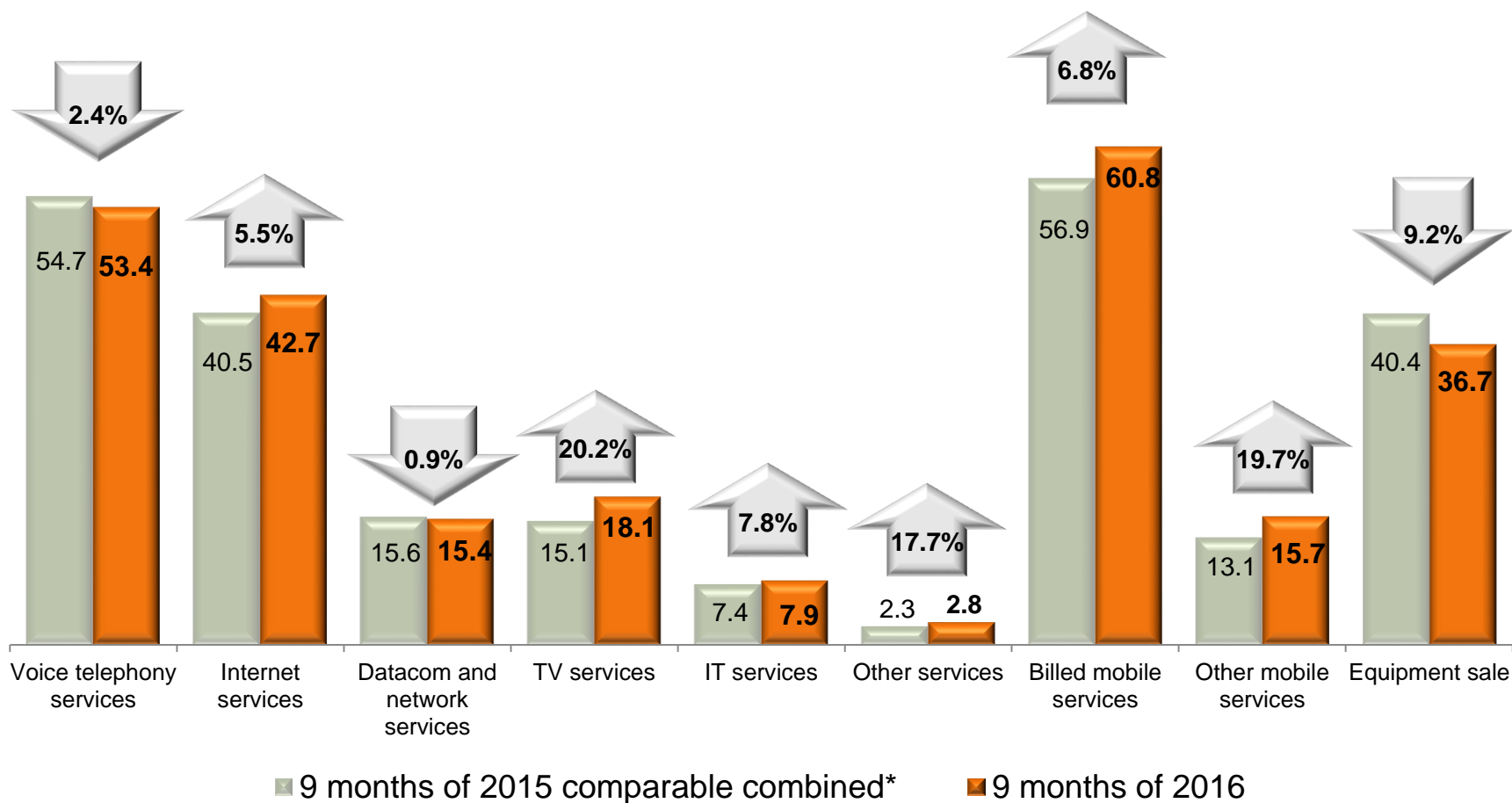


By segments



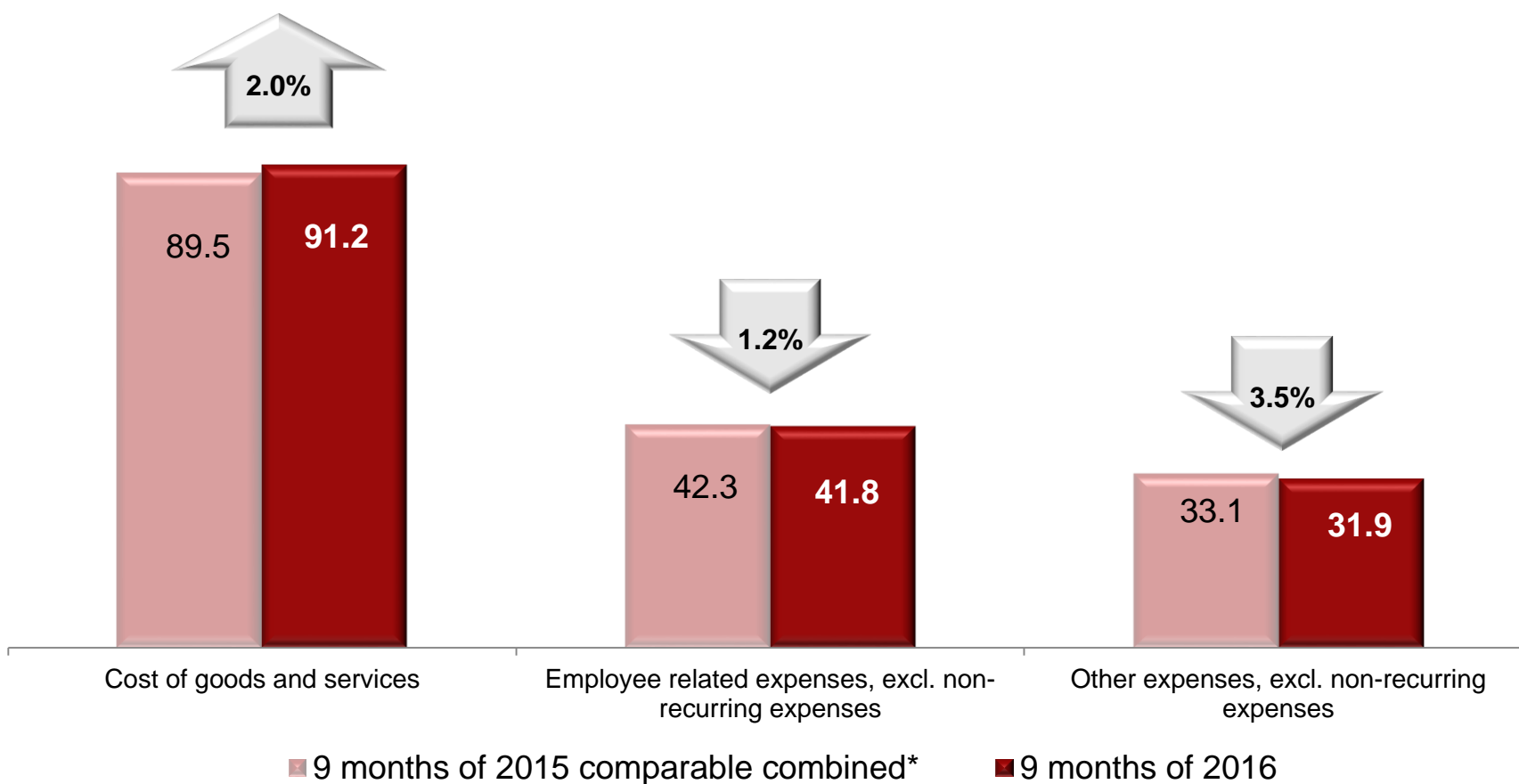
Revenue by services

(EUR million)



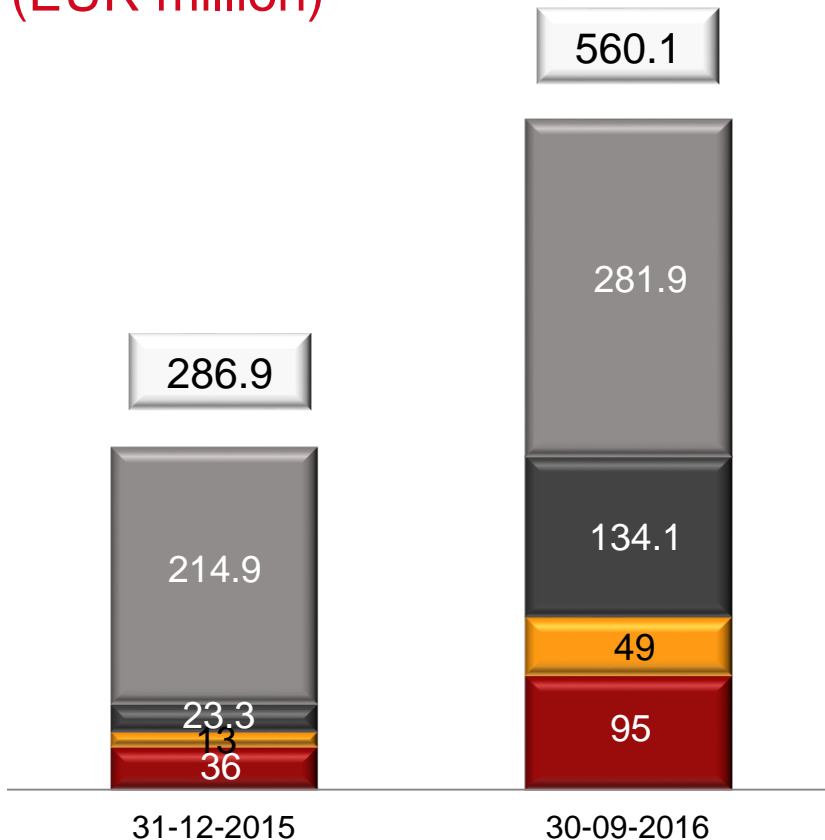
Operating expenses

(EUR million)



Assets

(EUR million)

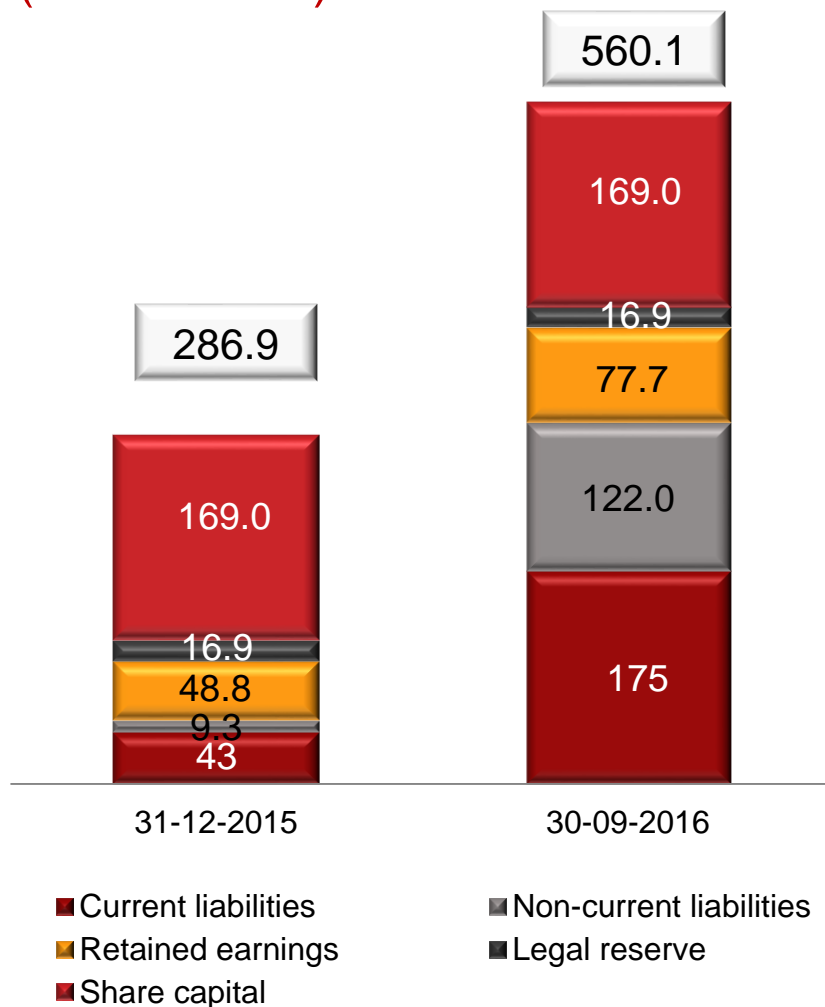


■ Property, plant and equipment ■ Other non-current assets
■ Cash and investments ■ Other current assets

- **Assets increased by almost 2 times** due to acquisition of Omnitel
- **Non-current assets** amounted to 74.3% of total assets (30-09-2016)
- **Cash** alone amounted to 8.8%
- **Return on capital employed:** 11.7%
- **Return on average assets:** 9.7%

Equity and liabilities

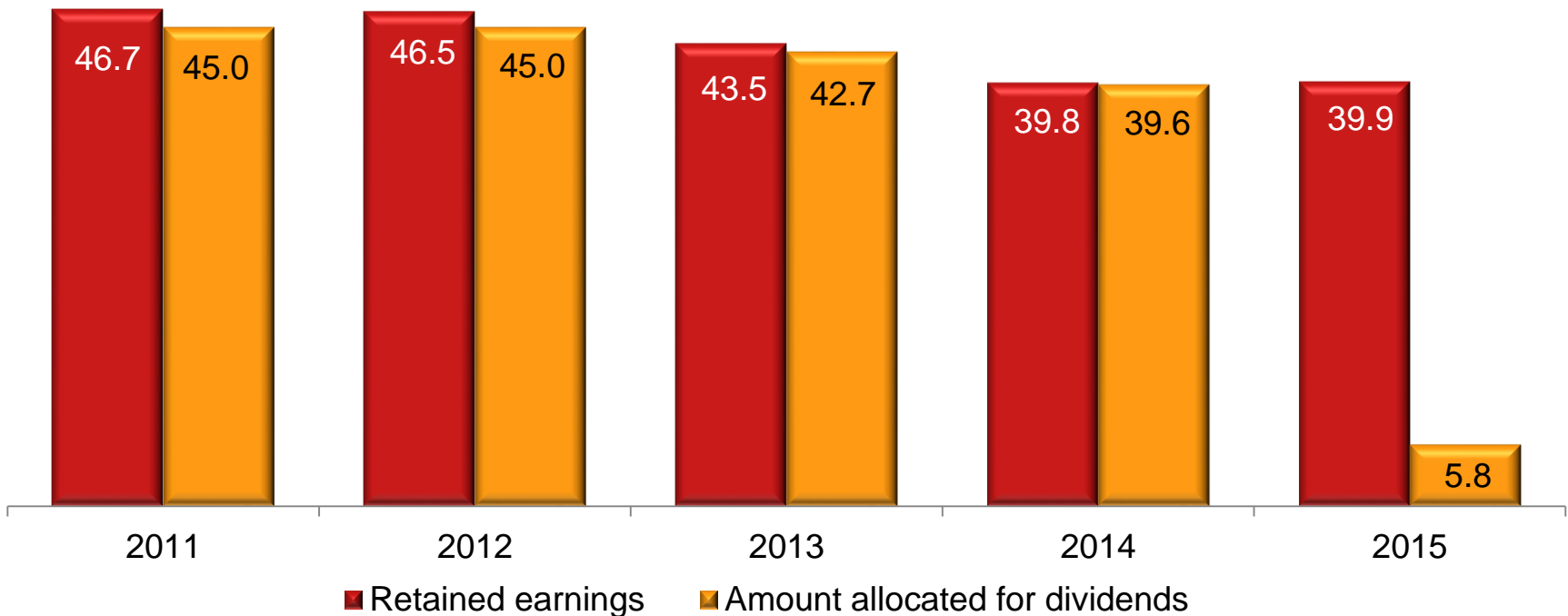
(EUR million)



- **Shareholders' equity** amounted to 47% of the total assets (30-09-2016)
- To finance Omnitel acquisition Teo took a **long-term loan of EUR 150 million**
- At acquisition Omnitel had outstanding **loans amounting to EUR 77 million**
- **Total borrowings** amounted to EUR 227 million (30-09-2016)
- **Gearing ration:** 67.4%
- **Debt to equity:** 86.1%
- **Return on equity:** 17.6%
- On 26 April 2016 shareholders decided to **allocate the profit for the year 2015: EUR 5.8 million** was allocated for dividends and **EUR 34 million** as not distributed profit was carried forwards to the next financial year

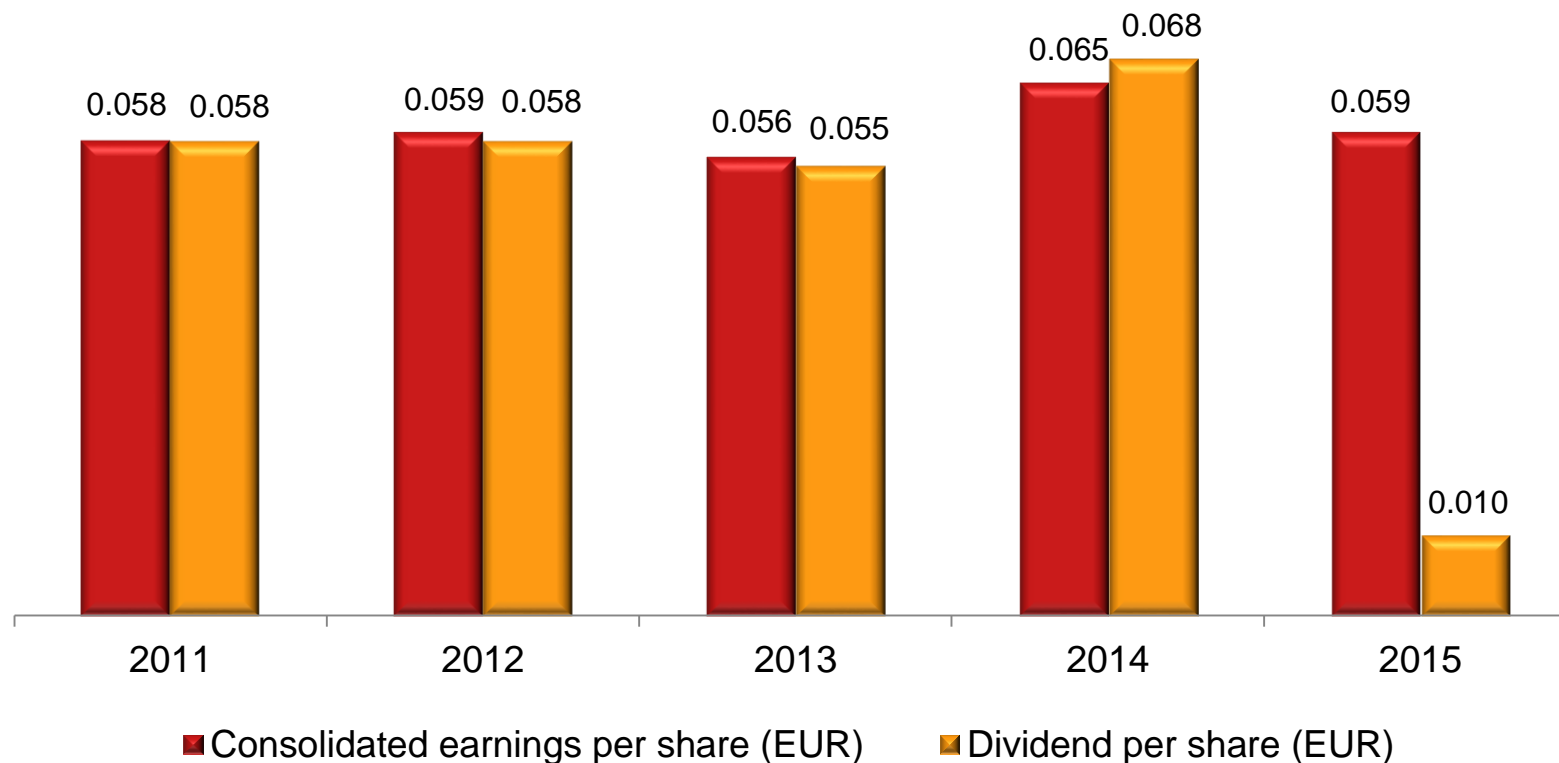
Teo retained earnings vs dividends

(EUR million)



- Following the Lithuanian Law on Company dividends shall be paid **from the Parent company's retained earnings**
- On 26 April 2016 shareholders decided to **allocate the profit for the year 2015: EUR 5.8 million** was allocated for dividends and **EUR 34 million** as not distributed profit was carried forwards to the next financial year

Dividend payout



- Earnings and dividends till 2014 are allocated to 776,817,518 shares, from 2014 – to 582,613,138 shares
- On 17 November 2014 shareholders got **0.072 euro per share payment due to reduction of authorized capital**

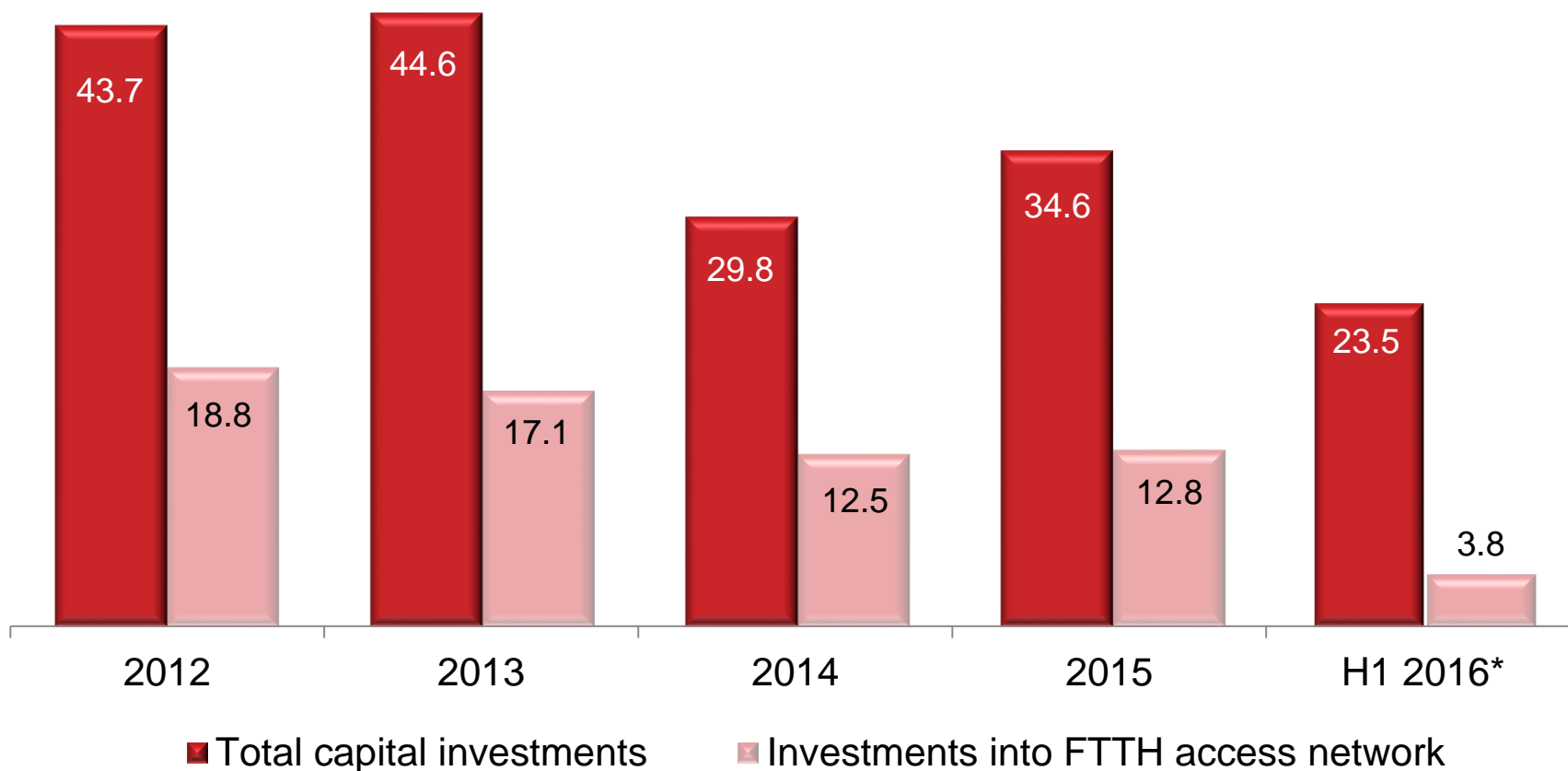
Cash flow

(thousand EUR)	9 months of 2016	9 months of 2015
Net cash from operating activities	83,352	46,668
Net cash used in investing activities	(176,065)	(24,261)
Net cash used in financing activities	129,113	(24,846)
Increase in cash and cash equivalents	36,400	(2,439)

- **Free Cash Flow** during 9 months of 2016 was EUR 36.7 million or by 1.4 times higher than a year ago
- **Investments** during 9 months of 2016 amounted to EUR 36.6 million (EUR 30.6 million a year ago)
- EUR 16.4 million went to expansion of the **core and fiber-optic access network**
- EUR 9.7 million invested into **development of mobile network** and EUR 10 million into **IT systems**
- To finance acquisition of Omnitel's shares Teo took a **long-term loan of EUR 150 million**

Teo investments

(EUR million)



Shares and shareholders

Shareholders of Teo

- **Telia Company AB** (till 13 April 2016 called TeliaSonera AB) (Sweden) is the largest shareholder of TEO LT, AB
- In **1998**, Telia AB and Sonera Oy together acquired 60% of the Company's shares during the privatization
- In **1999**, employees acquired 5% of shares as part of the privatization process
- In **2000**, during the IPO 25% of shares were sold to private and institutional investors
- During **2003-2011**, the State of Lithuania distributed 10% of the Company's shares as compensation to citizens of Lithuania
- In **2009**, TeliaSonera during the tender offer increased its holding by 5%
- In **2012**, TeliaSonera increased its holding up to 88.15% through direct deals, on an open market and by launching a takeover bid

Shareholders as of 30 September 2016

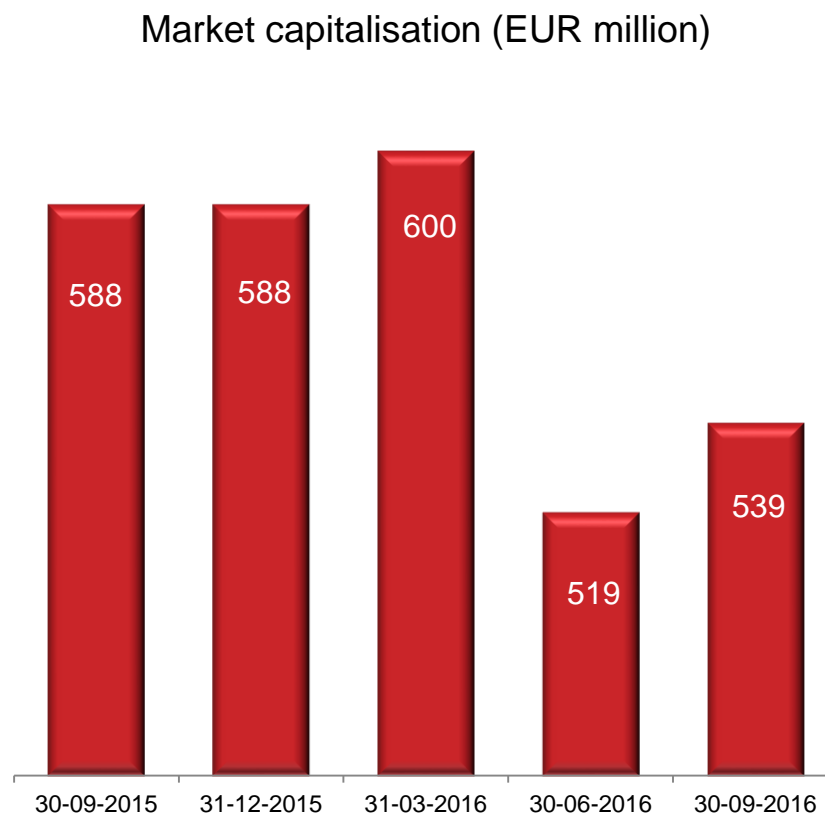
	Part of shares and votes
Telia Company AB	88.15%
Others	11.85%

- On **24 October 2014**, authorized **capital was reduced** by LTL 194 million and accordingly **number of voting shares** was reduced from 776,817,518 to **582,613,138**

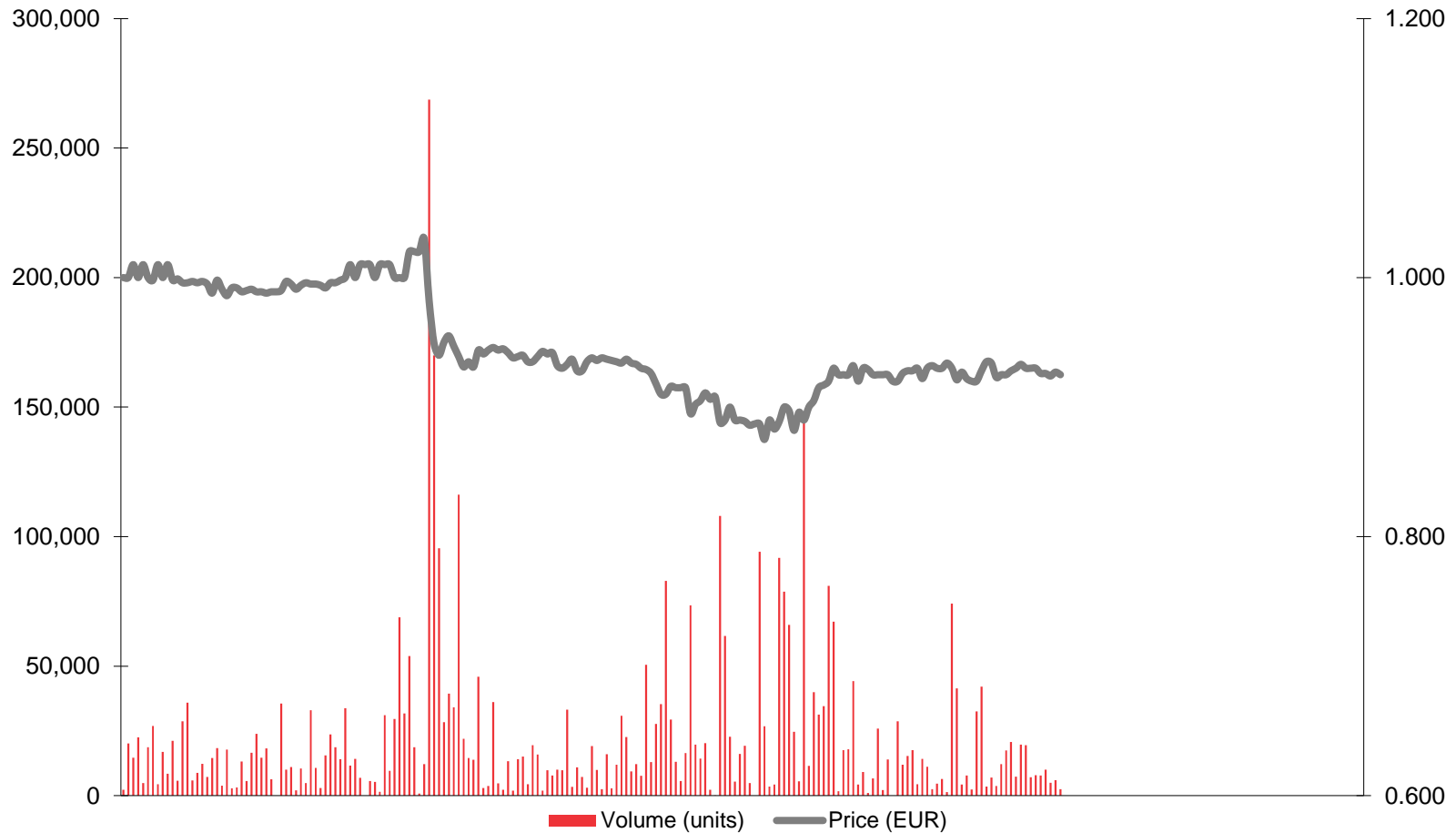
Teo shares

- Since June 2000, Teo shares are listed on **Nasdaq Vilnius** stock exchange (ticker: TEO1L)
- Since January 2011, Teo shares were included into the trading lists of a few **German stock exchanges** (ticker: ZWS)
- **Turnover** on Nasdaq Vilnius stock exchange during January-September 2016: 4.2 million of shares or EUR 4 million
- Share **price** on Nasdaq Vilnius:

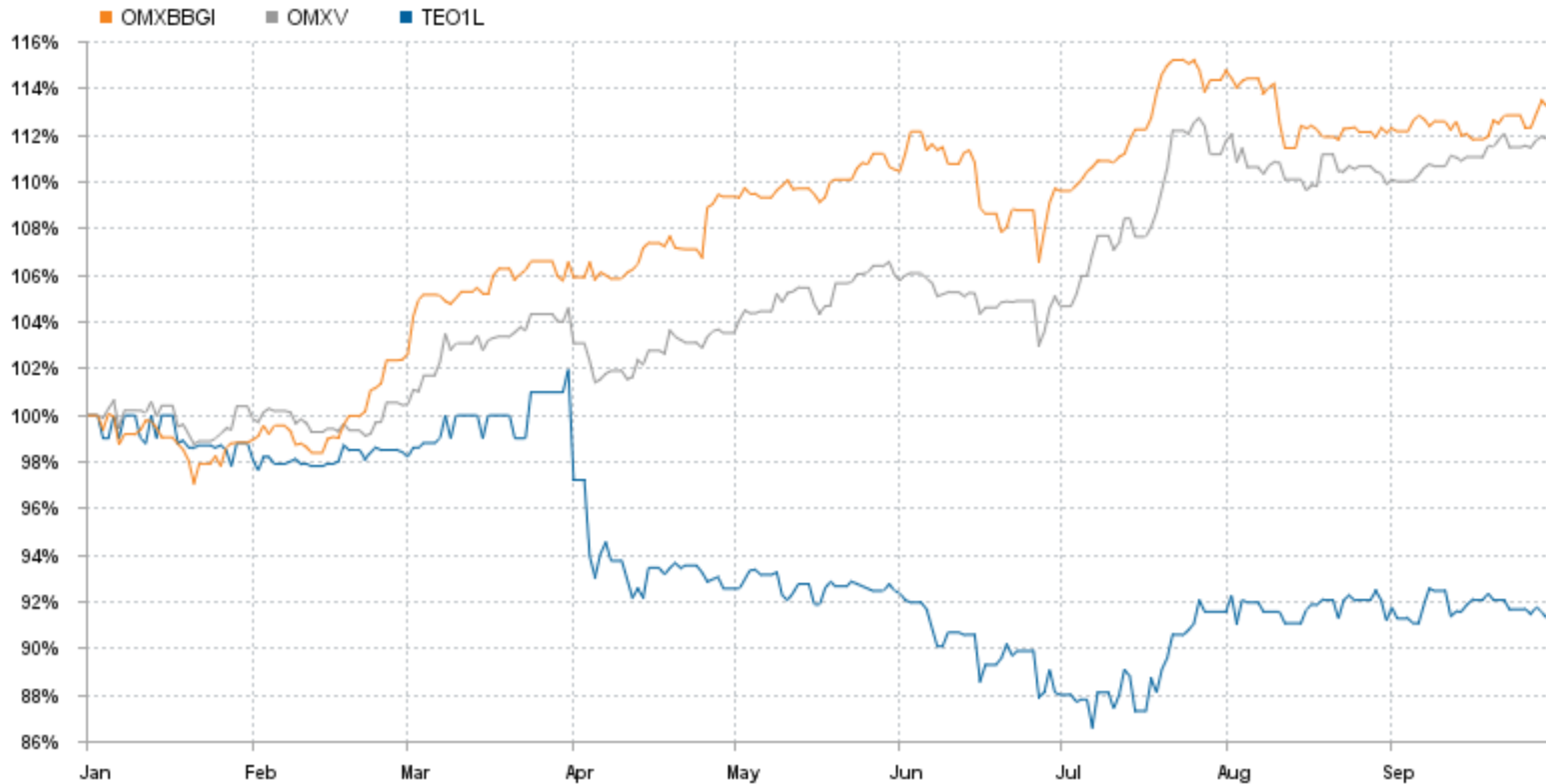
	EUR
01-01-2016	1.010
High	1.030
Low	0.875
30-09-2016	0.925



Trading in Teo shares on Nasdaq Vilnius stock exchange in 2016



Teo share price and Nasdaq Vilnius indexes comparison



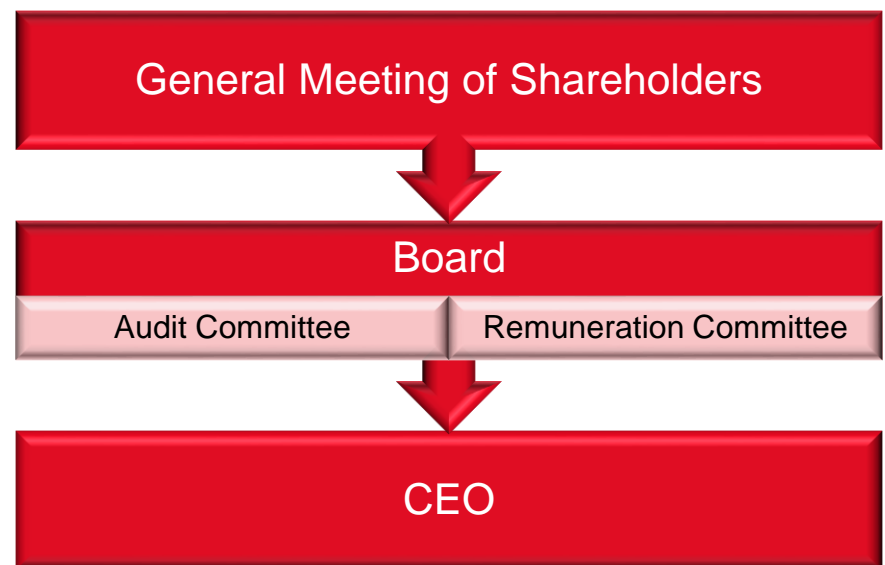
Source: Nasdaq Vilnius

Corporate governance

teo

Governing bodies

- The **Annual General Meeting** of Shareholders was held on 26 April 2016
- The **Board** consist of 6 members elected for the 2 year term
- Instead of Tiia Tuovinen who resigns from the Board as of 25 April 2016, shareholders **elected Hannu-Matti Mäkinen** to the Board
- 3 members of the Board comprise **Audit** and **Remuneration Committees**
- **UAB Deloitte Lietuva** was the Company's independent auditor for the year 2015
- The Board elects and recalls **CEO**



Teo Board



Robert Andersson (born in 1960),
Chairman of the Board,
represents Telia Company AB,
Chairman of the Remuneration
Committee



Hannu-Matti Mäkinen (born in 1970)
Member of the Board,
represents Telia Company AB,
Member of the Audit Committee



Stefan Block (born in 1967),
Member of the Board,
represents Telia Company AB,
Chairman of the Audit Committee



Inga Skisaker (born in 1971),
Independent member of the
Board,
Member of the Audit Committee



Claes Nycander (born in 1963),
Member of the Board,
represents Telia Company AB,
Member of the Audit Committee

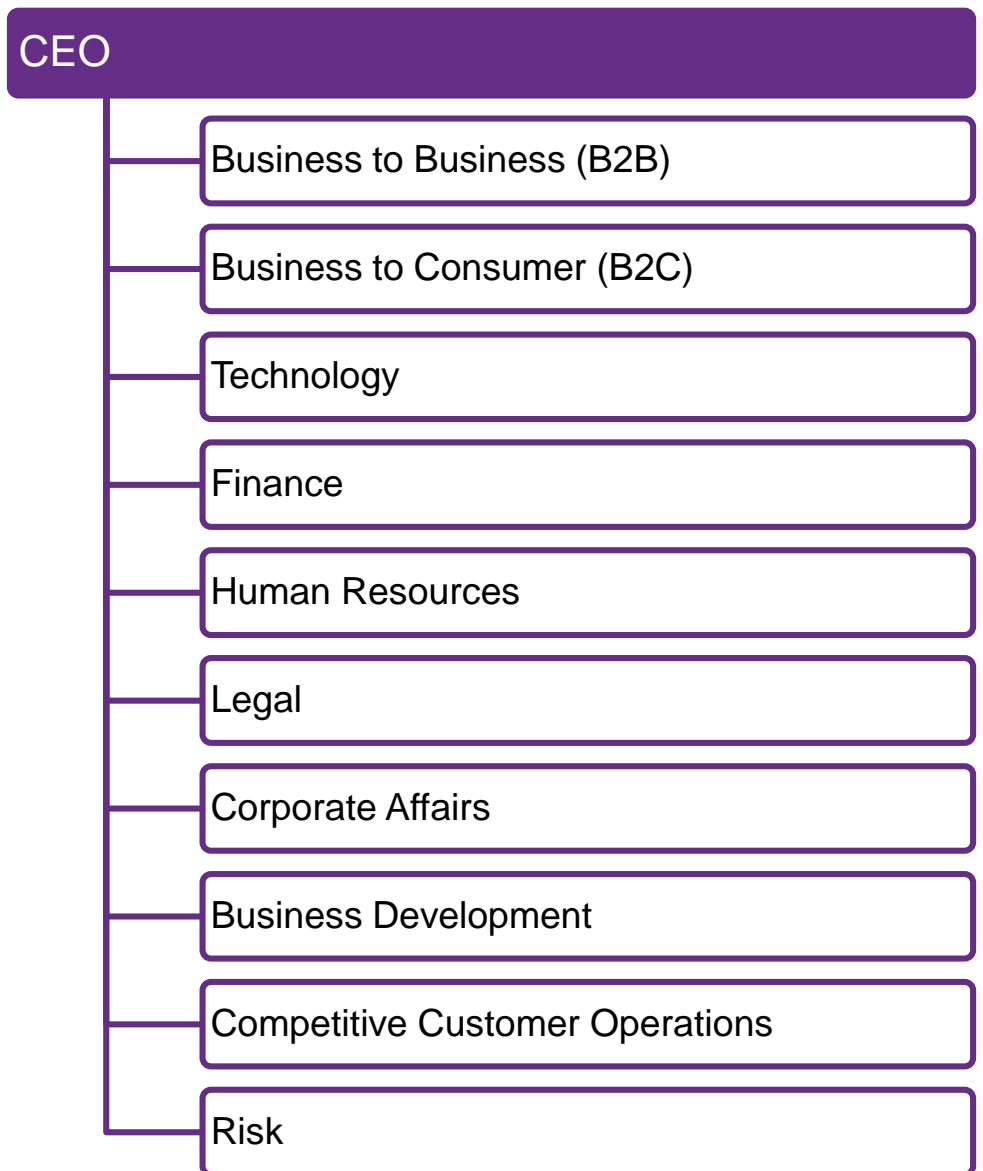


Rolandas Viršilas (born in 1963)
Independent member of the
Board,
Member of the Remuneration
Committee

- Rolandas Viršilas has 75,000 shares of Teo, other members of the Board have no direct interest in the share capital of Teo

Governing structure

from 1 January 2016



Management team



Kęstutis Šliužas,
(born in 1972),
CEO



Petteri Ahonen,
(born in 1970),
Head of Business to
Business



Norbertas Žioba,
(born in 1973),
Head of Business to
Consumer



Andrius Šemeškevičius,
(born in 1976),
Head of Technology



Laimonas Devyžis,
(born in 1982),
Head of Finance



Ramūnas Bagdonas,
(born in 1974),
Head of Human
Resources



**Giedrė Kaminskaitė-
Salters,**
(born in 1978),
Head of Legal Affairs



Audronė Mažeikaitė,
(born in 1970),
Head of Corporate Affairs



Mantas Goštautas,
(born in 1981),
Head of Business
Development



Andrius Byčkovas,
(born in 1977),
Head of Competitive
Customer Operations



Vytautas Bučinskas,
(born in 1974),
Head of Risk

- Norbertas Žioba owns 3601, Andrius Šemeškevičius – 8,761 shares of Teo. Other managers do not own any shares of the Company

Teo – socially responsible company

- In 2005, the Company joined the UN **Global Compact**
- Since 2007 Teo annually issues its **Social Corporate Responsibility Reports**
- **Teo acts** in an ethical, fair and transparent manner towards the market, environment protection, society and employees
- In its activities, Teo uses only the **most innovative means and the most modern technological processes** that meet all ecological standards and help reduce the negative impact on the environment
- Teo responsibility priorities are: **cyber data security and privacy, freedom of expression, safety of children in cyberspace, business transparency and anti-corruption**



The background is a solid red color with several overlapping, semi-transparent geometric shapes in various shades of red. These shapes create a layered, abstract effect. The shapes include a large triangle on the left, a parallelogram in the center, and several other polygons that overlap each other, creating a sense of depth and movement.

Thank you!