

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

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

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

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

MANAGEMENT REPORT

Teo and Omnitel synergy leads to continued revenue growth

Third quarter of 2016*:

- Total consolidated revenue amounted to EUR 86.8 million, up by 3.6 per cent over the comparable combined revenue of EUR 83.8 million in Q3 2015. This is the best quarterly result of Teo and Omnitel operating together.
- Consolidated EBITDA, excluding non-recurring items, reached EUR 30.3 million, up by 4.7 per cent over the comparable combined EBITDA, excluding non-recurring items, of EUR 29 million in Q3 2015.

First nine months of 2016*:

- Total consolidated revenue amounted to EUR 253.5 million, up by 3.1 per cent over the comparable combined revenue of EUR 246 million for 9 months of 2015.
- Consolidated EBITDA, excluding non-recurring items, reached EUR 88.6 million, up by 8.8 per cent over comparable combined EBITDA, excluding non-recurring items, of EUR 81.5 million for 9 months of 2015.
- Free cash flow amounted to EUR 36.7 million and was 1.7 times higher than a year ago.

Management comment:

The third quarter of 2016 was marked with accelerating Teo and Omnitel integration, implementation of big IT projects, continued investments into network development and preparation of new offers to customers.

Continued intake of new customers has led to two milestones:

- number of fixed broadband Internet customers exceeded 400 thousand,
- number of post-paid mobile service subscriptions exceeded 1 million.

Number of IPTV customers shows a yearly double-digit growth (19.4%) as well as revenue from TV services (20.2%), followed by revenue from IT services (7.8%), mobile services (9.2%) and Internet services (5.5%).

Revenue growth combined with lower operating expenses (excl. non-recurring items) resulted in 35% EBITDA margin (excl. non-recurring items) for the first 9 months of 2016.

As a next step in the Teo and Omnitel integration, in August a joint retail outlet of a new concept was opened in Kaunas and from September the integration and optimization of customer care retail outlets started.

In July, Teo successfully completed consolidation of IT infrastructure of Lietuvos Draudimas and companies belonging to PZU Group in the Baltic States at the two data centers of Teo. During the migration, more than 250 servers were moved from five data centers in Latvia, Estonia and Sweden to Lithuania.

The first contract involving Teo and Telia Group companies in Latvia and Estonia for providing pan-Baltic IT system support and telecommunication services was signed with Coca-Cola Hellenic Bottling Company Baltic.

Omnitel continued expansion of its 4G network and was the first in Lithuania to implement a next-generation voice transmission technology VoLTE (Voice over LTE) in its 4G network. An amount of EUR 9.7 million was allocated to the development of the mobile network, while the total combined investments amounted to EUR 36.6 million during the first 9 months of 2016 (EUR 30.9 million in 2015).

Development of fiber-optic access network allowed Teo to offer new Internet payment plans of higher browsing speed to business customers. New plans also have an integrated IT system protection.

As a contribution to the development of digital society, Teo together with its partners installed 10 smart classrooms in Kaunas at the start of the new school year. In addition, Teo and Omnitel have provided connectivity for the Internet of things e-health project CARRE implemented by Vilnius University Hospital Santariškių Klinikos.

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

KEY FIGURES OF TEO GROUP*

Financial figures	January-September			Change to comparable combined
	2016	2015 comparable combined	2015	
Revenue	253,528	245,965	150,433	3.1%
EBITDA excluding non-recurring items	88,645	81,503	58,347	8.8%
EBITDA margin excluding non-recurring items (%)	35.0	33.1	38.8	
EBITDA	84,346	78,531	55,902	7.4%
EBITDA margin (%)	33.3	31.9	37.2	
Operating profit (EBIT) excluding non-recurring items	45,042	39,089	30,583	15.2%
EBIT margin excluding non-recurring items (%)	17.8	15.9	20.3	
Operating profit (EBIT)	40,743	36,117	28,138	12.8%
EBIT margin (%)	16.1	14.7	18.7	
Profit before income tax	39,721	36,073	27,893	10.1%
Profit before income tax margin (%)	15.7	14.7	18.5	
Profit for the period	34,696	32,389	24,874	7.1%
Profit for the period margin (%)	13.7	13.2	16.5	
Earnings per share (EUR)	0.060	0.055	0.043	
Number of shares (thousand)	582,613	582,613	582,613	-
Cash flow from operations	83,352		46,668	78.6%
Operating free cash flow	36,681		22,184	65.3%

Operating figures	30-09-2015 comparable combined			Change to comparable combined
	30-09-2016	30-09-2015	30-09-2015	
Fixed telephone lines in service (thousand)	477	507	507	(6.0)%
Broadband Internet connections (thousand)	402	384	384	4.5%
TV services customers (thousand)	226	203	203	11.4%
Post-paid mobile service subscriptions (thousand)	1,004	966	-	3.9%
Pre-paid mobile service subscriptions (thousand)	328	378	-	(12.5)%
Number of personnel (head-counts)	3,099	3,192	2,592	(2.9)%
Number of full-time employees	2,762	2,826	2,290	(2.3)%

Financial ratios	30-09-2016	30-09-2015
Return on capital employed (%)	11.7	13.8
Return on average assets (%)	9.7	13.4
Return on shareholders' equity (%)	17.6	14.9
Operating cash flow to sales (%)	32.9	31.0
Gearing ratio (%)	67.4	4.8
Debt to equity ratio (%)	86.1	11.2
Current ratio (%)	69.9	82.5
Rate of turnover of assets (%)	60.3	71.4
Equity to assets ratio (%)	47.0	80.2

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Breakdown of Teo Group revenue by services	July-September			Change to comparable combined
	2016	2015 comparable combined	2015	
Fixed services	46,608	44,779	45,931	4.1%
Voice telephony services	17,382	17,675	18,048	(1.7)%
Internet services	14,438	13,610	13,674	6.1%
Data communication and network capacity	5,080	5,163	5,349	(1.6)%
TV services	6,224	5,194	5,195	19.8%
IT services	2,577	2,426	2,631	6.2%
Other services	907	711	1,034	27.6%
Mobile services	26,285	24,431	-	7.6%
Billed services	20,737	19,942	-	4.0%
Other mobile service	5,548	4,489	-	23.6%
Equipment	13,923	14,626	5,137	(4.8)%
Total	86,816	83,836	51,068	3.6%

Breakdown of Teo Group revenue by services	January-September			Change to comparable combined
	2016	2015 comparable combined	2015	
Fixed services	140,311	135,496	138,677	3.6%
Voice telephony services	53,374	54,676	55,895	(2.4)%
Internet services	42,712	40,481	40,675	5.5%
Data communication and network capacity	15,446	15,581	16,142	(0.9)%
TV services	18,103	15,066	15,066	20.2%
IT services	7,925	7,354	7,967	7.8%
Other services	2,751	2,338	2,932	17.7%
Mobile services	76,546	70,066	-	9.2%
Billed services	60,834	56,942	-	6.8%
Other mobile service	15,712	13,124	-	19.7%
Equipment	36,671	40,403	11,756	(9.2)%
Total	253,528	245,965	150,433	3.1%

REVENUE

The **total consolidated revenue** of Teo Group (including Omnitel) during the third quarter of 2016 amounted to EUR 86.8 million and increased by 3.6 per cent over the total comparable combined revenue (including Omnitel) of EUR 83.8 million during the thirds quarter of 2015. Compared with the first and second quarters of 2016 revenue for the third quarter of 2016 was higher by 5.2 and 3.2 per cent, respectively.

During July-September 2016, the growth in total revenue was driven by continuous increase in revenue from broadband Internet, TV, IT and mobile communication services.

The total revenue for the first nine months of 2016 was EUR 253.5 million, an increase by 3.1 per cent over the total comparable combined revenue of EUR 246 million a year ago.

During January-September 2016, revenue from all services continued to grow except revenue from retail voice telephony, data communication and network capacity services as well as equipment sales.

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The total **revenue from fixed and mobile services** during the third quarter and the first nine months of 2016 were up by 5.3 and 5.5 per cent, respectively compared with the same periods in 2015. **Revenue from equipment sales** to fixed and mobile communication customers in 2016 were lower by 4.8 and 9.2 per cent than in respective periods a year ago.

Share of revenue from fixed and mobile services amounted to 55.3 and 30.2 per cent, respectively, from the total amount of the Group revenue for the first nine months of 2016. Share of revenue from equipment sales was 14.5 per cent.

During the third quarter of 2016, revenue from fixed **voice telephony** services decreased by 1.7 per cent. Revenue from transit voice services, which was by 12.6 per cent higher than a year ago, did not offset a decline of 9.7 per cent in revenue from retail voice services.

During January-September 2016, the number of fixed telephone lines in services decreased by 24 thousand and over the last 12 months – by 30.2 thousand. Over the year, the total retail fixed voice telephony traffic decreased by 10.8 per cent. As a result, revenue from retail telephony services for the nine months of 2016 went down by 9.3 per cent, while revenue from fixed network interconnection (mainly voice transit) services went up by 9.6 per cent.

During the first nine months of 2016, the total number of fixed **broadband Internet access** users increased by 10.8 thousand, while over the last twelve months – by 17.4 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 10.8 per cent and reached 241 thousand at the end of September 2016, while the number of copper DSL connections eased by 3.6 per cent to 161 thousand. By the end of September 2016, the number of Internet connections over the fiber-optic access network amounted to 60 per cent of all 402 thousand broadband Internet connections.

From July 2016, passengers traveling between Vilnius and Kaunas by Lietuvos Geležinkeliai train can enjoy free access to the Internet without any limitations on speed or amount of data. The highest quality wireless Internet (Wi-Fi) connection, installed on all wagons of the train, operates on the basis of 4G Internet of Omnitel.

In September, Teo presented 4 new fiber-optic Internet payment plans for business and a possibility to have the Internet installed in one day. All new plans have an integrated IT system protection, which protects the enterprise's network and sensitive data from theft or damage, hacking, viruses, malicious Internet links and spam. In addition to the fastest plan of 600 Mb/s "Business XL", Teo also provides a possibility to choose from plans "Business S", "Business M" and "Business L", which allow browsing the net at the speed of 40 Mb/s, 100 Mb/s and 300 Mb/s. Along with its new plans for business, Teo also allows companies to use a 4G+ modem until the fiber-optic Internet is installed.

Compared with the same periods in 2015, revenue from **data communication** services alone during the third quarter and the first nine months of 2016 decreased by 1.8 and 0.8 per cent, and revenue from **network capacity** services alone declined by 1.4 and 0.9 per cent, respectively.

During January-September 2016, the number of IPTV (including "Interneto.tv") service users increased by 18.8 thousand, while over the year by 29.8 thousand and by the end of September 2016 amounted to 184 thousand. During the last twelve months the number of digital terrestrial television (DVB-T) users decreased by 6.7 thousand and amounted to 42.5 thousand. Over the year, the total number of **television** service customers went up by 23.1 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,

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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.

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

From July, all IT infrastructure of non-life insurance company Lietuvos Draudimas and companies of the PZU Group in the Baltic States are managed by Teo IT professionals and maintained at the two data centers of Teo. During the migration of the IT infrastructure of the four companies (including their branches), more than 250 servers were moved from five data centers in Latvia, Estonia and Sweden to Lithuania. The total amount of migrated data was more than 100 TB. The migration of all systems, including the installation of telephone lines, the ordering of required hardware and software and the preparation of the platform, took 9 months.

During the third quarter of 2016, Teo in cooperation with the companies of the Telia Group in Latvia and Estonia started to provide IT system support and telecommunication services in all Baltic countries. Coca-Cola Hellenic Bottling Company Baltic is the first company to sign a contract with Teo and its partners on the maintenance of IT systems and the provision of telecommunication services.

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 sales**.

Revenue from **other services** consists of the following non-telecommunication services: Contact Center services of UAB Lintel to external customers, lease of premises, discount refund and other. Over the year, revenue from Contact Center services for the first nine months of 2016 eased by 0.5 per cent, while those from other non-core business services increased by 33.6 per cent.

In September, Teo together with its partners TAMO Group, Microsoft Lietuva and BMK installed 10 smart classrooms in Kaunas. One smart classroom consists of a smart board, 30 Hewlett-Packard (HP) tablets with class management software, Microsoft software, TAMO Group electronic teaching/learning content and e-diary, and Teo wireless network connecting all those items.

Billed revenue from **mobile services** (post-paid and pre-paid) for the third quarter of 2016 went up by 4 per cent and for the first nine months of 2016 was 6.8 per cent higher than a year ago. More customers are enjoying 4G services and consequently using more data. Over the year, the number of post-paid customers increased by 38 thousand and mobile data traffic increased by 72 per cent. Also, continued customers' migration from pre-paid to post-paid service. The total number of active mobile subscriptions as of 30 September 2016 amounted to 1,332 thousand, while a year ago it was 1,344 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.

From July until the end of summer, Omnitel customers travelling in the United States were able to use mobile Internet under the same conditions as when traveling in the European Union countries.

In September, Omnitel offered a new service "Antivirusas plus" ("Antivirus Plus") which protects from cyber threats up to five different devices: a smartphone, a tablet or a computer. The security solution, developed on the basis of the platform of F-Secure, a Finland-based and globally operating antivirus software developer, not only ensures secure Internet browsing and protects devices against malware, but also prevents collection of private data. It is also convenient for parents with school-age children, as it gives the opportunity to manage the content accessible to children and applications on their smartphones.

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

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

MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue during the second quarter of 2016 remained on the same level as during the first quarter of 2016, while for the first half of 2016 it increased by 4.2 per cent compared with the first half of 2015, and amounted to EUR 322 million.

	Teo market share in terms of customers (%)		Teo market share in terms of revenue (%)	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015
Fixed voice telephony services	88.5	90.1	93.1	94.0
Fixed Internet access services	46.9	46.3	56.2	56.3
Internet access services (total)	32.3	33.0	45.0	41.9
Pay-TV services	30.8	27.1	37.5	33.1
Network interconnection services	n/a	n/a	22.7	20.1
Data communication services	n/a	n/a	77.3	77.2
Leased line services	n/a	n/a	61.3	55.0

	Omnitel market share in terms of customers (%)		Omnitel market share in terms of revenue (%)	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015
Mobile services	30.2	30.9	30.6	30.1
Mobile Internet access services	49.3	54.9	46.5	53.2
Internet access services (total)	15.4	15.8	9.2	8.4
Network interconnection services	n/a	n/a	14.5	13.3

On 30 June 2016, broadband Internet penetration per 100 residents of Lithuania was 42.8 per cent (a year ago – 39.4 per cent): penetration of broadband Internet using fixed connection was 29.5 per cent (28 per cent a year ago), while penetration of Internet using mobile connection was 13.4 per cent (11.3 per cent a year ago). Pay-TV penetration per 100 households was 55.7 per cent – the same as in 2015. The penetration of active mobile communication users per 100 residents was 145.7 per cent (144.1 per cent a year ago) and penetration of phone fixed voice telephony lines per 100 residents – 18.9 per cent (19.3 per cent a year ago).

OPERATING EXPENSES

During July-September of 2016, consolidated **cost of goods and services** increased by 6.2 per cent over the comparable combined cost of goods and services for July-September of 2015. Cost of goods and services for the first nine months of 2016 were by 2 per cent higher than costs for the same period a year ago. During the third quarter of 2016, an increase in the cost of goods and services was mainly related to the higher number of TV services users and accordingly higher expenses for TV content.

Consolidated **operating expenses** (excluding cost of goods and services, and non-recurring items) for the third quarter of 2016 were by 2 per cent lower than comparable combined operating expenses in July-September 2015. Operating expenses in January-September of 2016 were 2.2 per cent lower than a year ago.

Consolidated **employee-related expenses** (excluding one-time redundancy pay-outs) for the third quarter of 2016 declined by 0.2 per cent over comparable combined employee-related expenses (excluding one-time redundancy pay-outs) for the third quarter of 2015. Employee-related expenses for the first nine months of 2016 were by 1.2 per cent lower than a year ago. During the third quarter and the first nine months of 2016, the

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Company had non-recurring redundancy charge that amounted to EUR 444 thousand and EUR 2.3 million, respectively.

During January-September 2016, the total number of employees (headcount) decreased by 101: in Teo – by 18, in Lintel – by 44, in Omnitel – by 33 and in other subsidiaries – by 6. Over the year, the total number of employees in Group (including Omnitel) decreased by 93 – from 3,192 to 3,099.

In terms of full-time employees, the total number of employees in Group during the first nine months of 2016 contracted by 90, while over the last twelve months (including Omnitel) – by 64 from 2,826 to 2,762.

Consolidated **other expenses** (excluding non-recurring expenses) were under control and during the third quarter and the first nine months of 2016 decreased by 4.1 and 3.5 per cent, respectively. Non-recurring expenses during January-September 2016 amounted to EUR 2 million.

EARNINGS

Consolidated **EBITDA** (excluding non-recurring items) for the third quarter of 2016 increased by 4.7 per cent, compared with comparable combined EBITDA (excluding non-recurring items) of EUR 29 million for the third quarter of 2015, and amounted to EUR 30.3 million. Consolidated EBITDA (excluding non-recurring items) margin for the third quarter of 2016 reached 34.9 per cent, while a year ago comparable combined EBITDA (excluding non-recurring items) was 34.5 per cent.

Consolidated EBITDA (excluding non-recurring items) for the first nine months of 2016 went up by 8.8 per cent to EUR 88.6 million over comparable combined EBITDA (excluding non-recurring items) of EUR 81.5 million for the same period a year ago. Consolidated EBITDA (excluding non-recurring items) margin for the first nine months of 2016 amounted to 35 per cent (33.1 per cent in 2015).

Consolidated EBITDA (including non-recurring items) for the third quarter of 2016 increased by 4.2 per cent to EUR 28.7 million over comparable combined EBITDA (including non-recurring items) of EUR 27.6 million in the third quarter of 2015. Consolidated EBITDA (including non-recurring items) margin for the third quarter of 2016 amounted to 33.1 per cent, while a year ago comparable combined EBITDA (including non-recurring items) was 32.9 per cent.

Consolidated EBITDA (including non-recurring items) for the first nine months of 2016 was up by 7.4 per cent to EUR 84.3 million over comparable combined EBITDA (including non-recurring items) of EUR 78.5 million for the same period a year ago. Consolidated EBITDA (including non-recurring items) margin for the first nine months of 2016 amounted to 33.3 per cent (31.9 per cent in 2015).

Consolidated **depreciation, amortisation and impairment charges** for the third quarter and the first nine months of 2016 were by 13.7 and 2.8 per cent higher than comparable combined depreciation, amortisation and impairment charges during the respective periods a year ago. In January-September 2016 depreciation, amortisation and impairment charges amounted to 17.2 per cent of the total revenue (comparable combined 17.2 per cent a year ago).

Consolidated **operating profit (EBIT)** (excluding non-recurring items) for the third quarter of 2016 was by 3.8 per cent lower than comparable combined operating profit (EBIT) (excluding non-recurring items) for the third quarter in 2015, nevertheless EBIT (excluding non-recurring items) for the first nine months of 2016 was by 15.2 per cent higher than a year ago. Operating profit (excluding non-recurring items) margin for the third quarter and the first nine months of 2016 was 16.6 and 17.8 per cent, respectively (comparable combined margins in 2015 were 17.8 and 15.9 per cent, respectively).

Consolidated operating profit (EBIT) (including non-recurring items) for the third quarter of 2016 was by 5.7 per cent lower than comparable combined operating profit (EBIT) (including non-recurring items) for the same period a year ago, nevertheless EBIT (including non-recurring items) for the first nine months of 2016 was by 12.8 per cent higher than a year ago. Operating profit (including non-recurring items) margin for the third quarter

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and the first nine months of 2016 was 14.8 and 16.1 per cent, respectively (a year ago comparable combined margins were 16.2 and 14.7 per cent, respectively).

Consolidated **net financial income** in January-September 2016 was negative and amounted to EUR 1 million (comparable combined net financial income a year ago was negative and amounted to EUR 44 thousand).

Consolidated **profit before income tax** in the third quarter of 2016 went down by 8.3 per cent and amounted to EUR 12.5 million (comparable combined profit before income tax a year ago was EUR 13.6 million). Consolidated profit before income tax in the first nine months of 2016 increased by 10.1 per cent and amounted to EUR 39.7 million (comparable combined profit before income tax in 2015 was EUR 36.1 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 nine months of 2016 amounted to EUR 2.4 million (EUR 1.4 million in 2015). Consolidated **income tax expenses** for the first nine months of 2016 were by 36.4 per cent higher than comparable combined income tax expenses a year ago.

Consolidated **profit for the period** of July-September 2016 amounted to EUR 11.1 million, a decrease by 8.8 per cent over comparable combined profit of EUR 12.1 million for July-September 2015. The consolidated profit margin for the third quarter of 2016 was 12.7 per cent while comparable combined profit margin a year ago stood at 14.5 per cent.

Consolidated profit for the period of January-September 2016 amounted to EUR 34.7 million, while a year ago it was EUR 32.4 million, an increase by 7.1 per cent. The profit margin for the first nine months of 2016 was 13.7 per cent (13.2 per cent a year ago).

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 nine months of 2016, **total assets** of the Group increase by almost 2 times due to acquisition of Omnitel.

Total **non-current assets** increased by 1.7 times and amounted to 74.3 per cent of total assets. Total **current assets** increased by almost 3 times and amounted to 25.7 per cent of total assets, whereof cash alone represented 8.8 per cent of total assets.

During January-September 2016, **shareholders' equity** increased by 12.3 per cent and amounted to 47 per cent of the total assets.

On 26 April 2016, the Annual General Meeting of Shareholders decided to pay a **dividend** of EUR 0.01 per share (in total EUR 5.8 million) for the year 2015, while an amount of distributable profit of EUR 34.1 million was carried forward to the next financial year. In May, dividends for the year 2015 were paid in cash 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 September 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 nine months of 2016 was 1.8 times higher than that for same period in 2015. **Operating free cash flow** (operating cash flow excluding capital investments) in January-September 2016 was by 1.7 times higher than a year ago.

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

During the January-September 2016, the total **capital investments** of Teo and Omnitel amounted to EUR 36.6 million (comparable combined capital investments was EUR 30.9 million a year ago). The majority of capital investments (EUR 16.4 million) went to expansion of the core fixed network and development of the next-generation fiber-optic access network. Investments into the development of mobile network amounted to EUR 9.7 million and EUR 10 million was invested into the development of IT systems of both companies. Other investments amounted to EUR 0.4 million.

On 27 January 2016, Omnitel was recognised as 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 2016, Teo completed the network digitization process, which had lasted for more than a decade, and turned off the last analogue network exchange. During the final phase of modernisation of the voice telephony network, in total more than 800 analogue exchanges were replaced throughout Lithuania, while investment in the digitization of analogue exchanges during this phase amounted to EUR 6 million.

During the first nine months of 2016, the Company has invested EUR 6.2 million into expansion of fiber-optic access network and as a result, by the end of September, there were 865 thousand households passed (849 thousand a year ago), or 71 per cent of the country's households, by Teo FTTH network.

During 2016, Omnitel installed and launched more than 400 new LTE 4G base stations and already has more than 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 September, Omnitel was the first in Lithuania to implement a next-generation voice transmission technology VoLTE (Voice over LTE) in its 4G network. This technology ensures a high data transfer rate, which does not decrease while simultaneously making or receiving a call and surfing the Internet. It also improves call quality and speeds up the call connection process. The VoLTE technology used by Omnitel is implemented in the cloud-based IMS (IP Multimedia Subsystem) platform, which combines mobile and fixed-line communication technologies.

In August, the first joint retail outlet of Teo and Omnitel of a new concept, where services of both companies are offered together, was opened in Kaunas. Starting from the mid of September till the end of the year fixed and mobile communication services as well as equipment will become available in both brand marked retail outlets all over the Lithuania.

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 nine months of 2016 increased by EUR 36.4 million.

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

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 September 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-September of 2016:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
EUR	1.010	1.030	0.875	0.925	0.943	4,252,544	4,010,343

Teo **market capitalisation** as on 30 September 2016 was EUR 538.9 million while a year ago it amounted to EUR 588 million.

OTHER MATERIAL INFORMATION

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

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

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

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?!").

On 13 October 2016, the Bank of Lithuania decided to grant a limited electronic money institution licence to TEO LT, AB. The licence grants the right to issue electronic money and provide payment services as set out in Article 5 of the Payments Law of the Republic of Lithuania. The purpose of obtaining this licence is twofold: firstly, it will enable TEO LT, AB to carry out restricted payment activities currently carried out by AB Omnitel; secondly, it will facilitate the provision of instant payment services as detailed in the Memorandum of Understanding on the enhancement of the functionality of the Bank of Lithuania retail payment system, prepared by the Bank of Lithuania as of 1 July 2016 and joined by TEO LT, AB as of 5 July 2016.

On 19 October 2016, the Supervisory Authority of the Bank of Lithuania approved the reorganisation of AB Omnitel by way of merger into TEO LT, AB.

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.

On 19 July 2016, the Board elected member of the Board Hannu-Matti Mäkinen as the member of the Company's Audit Committee for the current term of the Audit Committee Board (but in any case not longer than

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

until the term of his membership in the Board). Member of the Board Stefan Block (Chairman of the Committee) and independent member of the Board Inga Skisaker are members of the Audit Committee too.

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

Members of the Board as of 30 September 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; member of the Audit Committee	Telia Company AB (Sweden), General Counsel Region Europe and Head of Legal of Region Europe	-
Inga Skisaker	Member of the Board, member of the Audit Committee	Nordea Bank AB Lithuania Branch (Sweden), General Manager and Head of Banking Baltic Countries	-
Rolandas Viršilas	Member of the Board, member of the Remuneration Committee	UAB Švyturys – Utenos Alus (Lithuania), CEO	75,000 shares or 0.0129% of the total number of Teo shares and votes

Following 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 September 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	-

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

Norbertas Žioba	Head of Business to Consumer	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Business to Consumer; UAB BIOD Laboratorija (Lithuania), an independent member of the Board	3,601 share or 0.0006% of the total number of Teo shares and votes
Andrius Šemeškevičius	Head of Technology	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Technology	8,761 share or 0.0015% of the total number of Teo shares and votes
Laimonas Devyžis	Head of Finance	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, member of the Board and Head of Finance; AB Baltic Data Center (Lithuania), a subsidiary of TEO LT, AB, member of the Board; UAB LD Corporate Consulting (Lithuania), 100 per cent owner & Director	-
Ramūnas Bagdonas	Head of Human Resources	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Human Resources	-
Giedrė Kaminskaitė-Salters	Head of Legal	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, member of the Board and Head of Legal; AB Baltic Data Center (Lithuania), a subsidiary of TEO LT, AB, member of the Board	-
Audronė Mažeikaitė	Head of Corporate Affairs	AB Omnitel (Lithuania), a subsidiary of TEO LT, AB, Head of Corporate Affairs	-
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	July-September		January-September	
		2016	2015	2016	2015
Revenue		86,817	51,068	253,528	150,433
Cost of goods sold		(32,116)	(15,157)	(91,235)	(43,849)
Employee-related expenses		(14,178)	(12,164)	(44,107)	(35,985)
Other expenses		(11,728)	(5,093)	(33,874)	(14,997)
Other gain/ (loss) - net		(48)	150	34	300
Depreciation, amortisation and impairment of fixed assets	2	(15,926)	(9,191)	(43,603)	(27,764)
Operating profit		12,821	9,613	40,743	28,138
Finance income		273	37	739	101
Finance costs		(619)	(64)	(1,761)	(346)
Finance income/ costs - net		(346)	(27)	(1,022)	(245)
Profit before income tax		12,475	9,586	39,721	27,893
Income tax	6	(1,421)	(969)	(5,025)	(3,019)
Profit for the period		11,054	8,617	34,696	24,874
Other comprehensive income:					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		11,054	8,617	34,696	24,874
Profit and comprehensive income attributable to:					
Owners of the Parent		11,054	8,617	34,696	24,874
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in euro per share)	7	0.019	0.015	0.060	0.043

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

	Note	30 September 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	2	281,914	214,882
Intangible assets	2	124,114	12,370
Investment property		931	3,126
Trade and other receivables		9,112	7,768
		416,071	238,146
Current assets			
Inventories		7,309	1,371
Trade and other receivables		87,290	33,568
Current income tax receivable		171	902
Cash and cash equivalents		49,298	12,898
		144,068	48,739
Total assets		560,139	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		77,674	48,804
Total equity		263,528	234,658
LIABILITIES			
Non-current liabilities			
Borrowings		105,000	-
Deferred tax liabilities		10,541	8,922
Deferred revenue and accrued liabilities		424	424
Provisions	5	6,108	-
		122,073	9,346
Current liabilities			
Trade, other payables and accrued liabilities		51,511	26,861
Current income tax liabilities		866	119
Borrowings		122,000	15,061
Provisions	5	161	840
		174,538	42,881
Total liabilities		296,611	52,227
Total equity and liabilities		560,139	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	-	-	24,874	24,874
Total comprehensive income for the period	-	-	24,874	24,874
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 September 2015	168,958	16,896	39,502	225,356
Balance at 1 January 2016	168,958	16,896	48,804	234,658
Net profit	-	-	34,696	34,696
Total comprehensive income for the period	-	-	34,696	34,696
Dividends paid for 2015	-	-	(5,826)	(5,826)
Balance at 30 September 2016	168,958	16,896	77,674	263,528

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January-September	
	2016	2015
Operating activities		
Profit for the period	34,696	24,874
Income tax	5,025	3,018
Depreciation, amortisation and impairment of fixed assets	43,603	27,764
Other gains and losses	(34)	(184)
Interest income	(96)	(101)
Interest expenses	1,195	74
Share capital value adjustment due to conversion to euro	4	222
Other non-cash transactions	2,841	181
Changes in working capital:		
Inventories	(1,465)	(274)
Trade and other receivables	4,069	(5,763)
Trade, other payables and accrued liabilities	(2,810)	(1,374)
Cash generated from operations	87,024	48,437
Interest paid	(506)	(64)
Interest received	96	101
Tax paid	(3,262)	(1,806)
Net cash from operating activities	83,352	46,668
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(46,671)	(24,484)
Proceeds from disposal of PPE and intangible assets	224	223
Acquisition of subsidiaries	(129,618)	-
Net cash used in investing activities	(176,065)	(24,261)
Financing activities		
Repayment of borrowings	(15,061)	(20,228)
Borrowings	150,000	35,000
Dividends paid to shareholders of the Company	(5,826)	(39,618)
Net cash used in financing activities	129,113	(24,846)
Increase (decrease) in cash and cash equivalents	36,400	(2,439)
Movement in cash and cash equivalents		
At the beginning of the year	12,898	16,862
Increase (decrease) in cash and cash equivalents	36,400	(2,439)
At the end of the period	49,298	14,423

(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 first nine months period ending 30 September 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 September 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
Nine months ended 30 September 2015		
Opening net book amount as at 31 December 2014	218,761	12,744
Additions	17,867	2,653
Disposals and retirements	(136)	-
Reclassification	161	(249)
Depreciation and amortisation charge	(25,469)	(2,295)
Closing net book amount as at 30 September 2015	211,184	12,853
Nine months ended 30 September 2016		
Opening net book amount as at 31 December 2015	214,882	12,370
Additions	32,611	100,074
Acquisition of subsidiaries	71,563	16,452
Disposals and retirements	(506)	-
Reclassification	(16)	-
Depreciation and amortisation charge	(36,620)	(4,782)
Closing net book amount as at 30 September 2016	281,914	124,114

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

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

4 Share capital

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

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

5 Provisions

Provisions movement during January-September 2016:

	Provision for restructuring	Assets retirement obligation	Total
Opening net book amount at 31 December 2015	840	-	840
Acquisition of subsidiaries	200	6,119	6,319
Additions	2,036	-	2,036
Used provisions	(2,915)	(11)	(2,926)
Closing net book amount at 30 June 2016	161	6,108	6,269

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 2,4 million (2015: EUR 1,4 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-September</u>	
	<u>2016</u>	<u>2015</u>
Net profit	34,696	24,874
Weighted average number of ordinary shares in issue (thousands)	582,613	582,613
Earnings per share (EUR)	0.060	0.043

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	<u>(77,000)</u>	<u>(77,000)</u>
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 September 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-September</u>	
	2016	2015
Sales of telecommunication and other services	4,967	6,971
Total sales of telecommunication and other services	4,967	6,971
Purchases of services	6,315	3,259
Purchase of shares (Note 9)	144,107	-
Total purchases of services and assets:	150,422	3,259

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

	<u>As at 30 September</u>	
	2016	2015
Long-term receivables from related parties	279	307
Receivables from related parties	1,391	741
Accrued revenue from related parties	708	671
Total receivables and accrued revenue from related parties	2,378	1,719
Short-term borrowings from related parties	77,000	25,000
Payables to related parties	912	118
Accrued expenses to related parties	395	10
Total payables and accrued expenses to related parties	78,307	25,128

The total amount of annual payments (tantiemes) assigned to two members of the Board of the Company for the year 2015 during January-September 2016 amounted to EUR 31 thousand (2015: for six members – EUR 94 thousand). As of 30 September 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 nine months period ended 30 September 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, 20 October 2016