

**TEO LT, AB**  
**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE TWELVE MONTHS PERIOD ENDED 31 DECEMBER 2013**  
**(UNAUDITED)**

Beginning of the financial year	1 January 2013
End of reporting period	31 December 2013
Name of the company	<b>TEO LT, AB</b> (hereinafter – TEO or “the Company”)
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Code of enterprise	121215434
Name of Register of Legal Entities	State Enterprise Centre of Registers
Registered office	Lvovo str. 25, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 1511
Fax number	+370 5 212 6665
Internet address	<a href="http://www.teo.lt">www.teo.lt</a>
Main activities	Integrated telecommunication, IT and TV services to residential and business customers in Lithuania

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

## MANAGEMENT REPORT

Management's comment on financial results for the twelve months of 2013:

"TEO revenue stream during the fourth quarter of 2013 decreased by 1.4 per cent to LTL 179 million, compared to the third quarter of 2013 (an increase by 0.9 per cent excluding one-time projects). The decrease was mostly driven by the decrease in revenue from voice telephony services. The Company's revenue excluding voice telephony services increased by 0.6 per cent compared to the previous quarter (an increase by 3.9 per cent, y-o-y) mostly driven by increase in revenue from Internet and TV services.

In a declining Lithuanian telecommunications market (during the third quarter of 2013 it fell by 6.6 per cent, y-o-y) TEO revenue for the twelve months of 2013 decreased by 5.2 per cent compared to 2012 due to decrease in revenue from international business. Revenue from within the country provided voice telephony services decline in absolute terms by LTL 22 million (in 2012 by LTL 23 million). However strong cost control allowed the Company to reach record high for the last four years EBITDA margin of 40.6 per cent. In 2013, revenue excluding voice telephony services continued to grow from quarter to quarter. Most of this increase was coming from IPTV (grew by 17.9 per cent) and Internet services (3.7 per cent).

The Company's free cash flow stood at LTL 144 million and free cash flow to sales ratio was 20 per cent – just slightly less than that in 2012, when it amounted to 23 per cent.

During 2013 TEO reached several milestones: its Internet customers' base exceeded 430 thousand and TV customers' base exceeded 170 thousand. The Company continued to fulfil its commitment to the customers by further expanding its next generation fiber-optic network. Thus, in 2013 the number of customers using modern fiber-optic network exceeded the number of customers using copper technologies. At the same time TEO has increased Internet speeds by 100 per cent for most of its DSL technology customers.

During the year TEO introduced "My package" service, that allows to select only those TV channels which are relevant for the customer, possibility to purchase equipment – from TV sets to laptops and tablets, Internet security solutions for businesses and individual customers. The Company also completed Wi-Fi for Schools project providing access to Internet possibility to 450 schools in Lithuania. It also created a new generation Internet TV service for smart devices – "Internet.tv". This service marks new stage in the development of television allowing to watch TV on a PC, smartphone or tablet anywhere in Lithuania wherever Internet connection (including Wi-Fi or 3G) is available."

## KEY FIGURES OF TEO GROUP

Financial figures	January - December		Change (%)
	2013	2012	
Revenue (LTL thousand)	720,589	760,174	(5.2)
EBITDA (LTL thousand)	292,737	307,080	(4.7)
EBITDA margin (%)	40.6	40.4	
Operating profit (LTL thousand)	165,083	176,519	(6.5)
Operating profit margin (%)	22.9	23.2	
Profit before income tax (LTL thousand)	165,572	177,302	(6.6)
Profit before income tax (%)	23.0	23.3	
Profit for the period (LTL thousand)	149,151	159,067	(6.2)
Profit for the period margin (%)	20.7	20.9	
Earnings per share (LTL)	0.192	0.205	
Number of shares (thousand)	776,818	776,818	

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

Financial ratios	31 December 2013	31 December 2012
Return on capital employed (%)	16.4	17.6
Return on average assets (%)	14.7	15.8
Return on shareholders' equity (%)	14.7	15.7
Gearing ratio (%)	(21.4)	(22.2)
Debt to equity ratio (%)	0.2	0.3
Current ratio (%)	348.3	386.8
Rate of turnover of assets (%)	64.1	67.9
Equity to assets ratio (%)	89.5	90.1

Operating figures	31 December 2013	31 December 2012	Change (%)
Number of fixed telephone lines in service	565,327	605,424	(6.6)
Number of broadband Internet connections (FTTH, FTTB, DSL and other excluding Wi-Fi)	356,659	345,434	3.2
Number of TV services customers	172,308	169,285	1.8
Number of personnel (head-counts) at the end of period	3,034	3,257	(6.8)
Number of full-time employees at the end of the period	2,727	2,875	(5.1)

### Breakdown of TEO Group revenue

	October - December		Change	January - December		Change
	2013	2012	(%)	2013	2012	(%)
Voice telephony services	71,317	86,246	(17.3)	303,933	354,880	(14.4)
Internet services	45,075	43,899	2.7	178,268	171,836	3.7
Data communication and network capacity services	21,604	20,862	3.6	84,015	87,424	(3.9)
TV services	15,890	15,444	2.9	61,668	57,059	8.1
IT services	18,784	17,379	8.1	69,930	64,271	8.8
Other services	6,134	5,843	5.0	22,775	24,704	(7.8)
<b>Total</b>	<b>178,804</b>	<b>189,673</b>	<b>(5.7)</b>	<b>720,589</b>	<b>760,174</b>	<b>(5.2)</b>

### REVENUE

During the fourth quarter of 2013 revenue from all areas of activities except voice telephony and particularly networks' interconnection were growing but were not sufficient to offset a decline in voice telephony.

As a result the total consolidated TEO Group's revenue for the fourth quarter of 2013 was LTL 179 million, an decrease by 1.4 per cent over the total revenue of LTL 181 million for the third quarter of 2013 and by 5.7 per cent over the total revenue of LTL 190 million for the fourth quarter of 2012.

Overall, in 2013 revenue from Internet, data communication, TV and IT services continued to grow while revenue from voice telephony, network capacity and other services went down.

The **total revenue** for the twelve months of 2013 was LTL 721 million, a decrease by 5.2 per cent over the total revenue of LTL 760 million for the twelve months of 2012.

Share of revenue from voice telephony services from the total amount of revenue continued to shrink and amounted to 42.2 per cent of the total revenue in 2013 (46.7 per cent in 2012). Share of revenue from

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Internet services increased and was 24.7 per cent, data communication and network capacity services – 11.7 per cent, IT services – 9.7 per cent and television services – 8.6 per cent, while share of revenue from other services remained the same and amounted to 3.2 per cent.

Revenue from **voice telephony services** during the fourth quarter of 2013 were by 17.3 per cent lower than during the fourth quarter of 2012. This was due to lower level of revenue from voice transit services in 2013 and continuation of decline in number of telephone lines in service and consequently lower traffic volume.

Revenue from voice telephony services excluding networks' interconnection services for the fourth quarter of 2013 compared with the fourth quarter of 2012 went down by 10.9 per cent, while revenue from networks' interconnection services alone dropped by 29.5 per cent due to lower volumes of voice transit traffic.

Compared with the twelve months of 2012, revenue from voice telephony services excluding networks' interconnection services for the twelve months of 2013 decreased by 9.6 per cent, while revenue from networks' interconnection services alone were by 23.5 per cent lower than a year ago.

Consequently, revenue from voice telephony services during 2013 went down by 14.4 per cent.

During the fourth quarter of 2013 the total number of main telephone lines in service decreased by 10.5 thousand, while over the twelve months of 2013 – 40 thousand.

Total voice telephony traffic volume generated by residential and business customers during the twelve months of 2013, compared with the year 2012, decreased by 9.2 and 13.8 per cent, respectively, while total volume of calls to mobile operators' networks increased by 65.6 per cent due to continuously reduced national networks' interconnection fees and attractive payment plans for calls to mobile networks.

From July 2013 TEO has substantially reorganized the basic payment plans offered to residential customers. The price level of the offered payment plans remains very similar to the former one, but customers, depending on the terms of chosen plan, will be able to make certain number of calls for 0 cents per minute to all networks of Lithuania – not only fixed-line networks, but mobile ones too.

The Company was the first among Lithuanian fixed-line telephony operators to offer new business subscribers to Internet telephony services the opportunity to try out the High Definition (HD) voice service starting from October 2013.

During October-December 2013 the total number of **broadband Internet access** (excluding Wi-Fi) users increased by 4.4 thousand, while over the twelve months of 2013 – by 11 thousand.

In November 2013, the number of Internet connections over the next-generation fiber-optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies surpassed the number of Internet connections over the copper lines using DSL technology. By the end of 2013, 42 per cent of the total number of TEO broadband Internet access users had fiber-optic access.

Over the year the number of FTTH and FTTB connections increased by 11.2 per cent, while the number of copper DSL connections went down by 3.8 per cent.

At the end of December 2013 out of total 431 thousand broadband connections, 180 thousand were fiber-optic connections, 177 thousand – copper DSL connections and 74 thousand – wireless connections via WiFi network.

In 2013, TEO initiated a project "Wi-Fi for Schools" to promote more active use of technology during studies and by the end of the year TEO Wi-Fi access points for free were installed in 450 schools of Lithuania.

Compared with the twelve months of 2012, revenue from **data communication** services alone increased by

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0.7 per cent, while revenue from **network capacity** services alone decreased by 8.6 per cent.

During 2013 the number of IPTV service users increased by 12 thousand and by the end of December 2013 amounted to 106 thousand, while the number of digital terrestrial television (DVB-T) users eased by 9 thousand and amounted to 66 thousand. Over the year the total number of **television service** customers went up by 3 thousand.

In November 2013, the Company launched a new generation internet TV service for smart devices – "Interneto.tv". TEO customers are able to watch TV on a PC, smartphone or tablet PC anywhere in Lithuania where Internet connection is available. Users of the new online TV service are offered about 20 channels and their records.

Consolidated TEO Group revenue from **IT services** was mainly generated by the Company's subsidiary UAB Baltic Data Center (BDC) that provides data center and information system management services to local and multinational enterprises. Revenue was also generated from the web-hosting services provided by UAB Hostex and the IT services of TEO LT, AB.

In the second half of 2013 TEO together with the partners was providing communication, network installation, computer and office equipment rent and maintenance services during the events of Lithuania's Presidency of the Council of the EU. Reliable connection was ensured via high-speed 2 Gbps next-generation fiber-optic lines.

On 1 July 2013, BDC handed over 6 TB capacity data storages for use to the Ministry of Foreign Affairs of the Republic of Lithuania. BDC was the official Information Technology partner of Lithuania's Presidency of the Council of the EU. During the whole Presidency period, BDC provided the data storage and backup copying services free of charge.

Excluding one-off sales of IT equipment by BDC and revenue from provision of services during the events of Lithuania's Presidency of the Council of the EU in the second half of 2013, underlying revenue from IT services during 2013 grew by 11.5 per cent.

TEO Group revenue from **other services** consists of the following non-telecommunication services: Contact Center services of UAB Lintel, lease of premises, discounts' refund to the Company and other.

Over the year revenue from Contact Center services went down by 6.7 per cent and from other non-core business services – by 9.1 per cent.

In December 2013, TEO offered a new integrated CCTV service which is tailored to the needs of small and medium-sized businesses, as well as small organizations. The service includes an entire video surveillance system, starting from its design and installation down to its maintenance.

TEO Group's **other income** consists of interest income from held-to-maturity investments. 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 third quarter of 2013 increased by 0.2 per cent compared with the second quarter of 2013, but was down by 6.6 per cent compared with the same period a year ago, and amounted to LTL 538 million. During the nine months of 2013 the total revenue of the market amounted to LTL 1,616 million, a decrease by 5.5 per cent over the nine months of 2012.

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

	TEO market share (%)			
	in terms of customers		in terms of revenue	
	Q3 2013	Q3 2012	Q3 2013	Q3 2012
Fixed voice telephony services	90.2	89.8	94.4	93.9
Fixed Internet access services	50.8	50.0	55.5	54.5
Internet access services (total)	37.0	36.7	43.3	43.3
Digital pay-TV services	41.7	43.1	42.1	44.1
Pay-TV services (total)	23.5	23.8	28.8	29.7
Network interconnection services	n/a	n/a	28.0	35.3
Data communication services	n/a	n/a	56.7	58.2
Leased line services	n/a	n/a	60.0	67.5

On 30 September 2013 broadband Internet penetration per 100 residents of Lithuania was 38.1 per cent (34.6 per cent a year ago), while the penetration of broadband Internet using fixed connection was 27.8 per cent (25.4 per cent a year ago). Digital pay-TV penetration per 100 households was 31.3 per cent (27.4 per cent a year ago), and the penetration of fixed voice telephony lines per 100 residents – 21.2 per cent (22.4 per cent a year ago).

## OPERATING EXPENSES

**Total operating expenses** of the Group for the fourth quarter of 2013 were by 4.5 per cent lower than a year ago. Total operating expenses for the twelve months of 2013 were by 5.7 per cent lower than total operating expenses in 2012.

During the fourth quarter of 2013 **cost of goods sold** was down by 13 per cent, compared with the same period a year ago. For the twelve months of 2013 cost of goods sold was lower by 13.6 per cent than in 2012. This was mainly due to lower volume of transit traffic in 2013.

**Employee-related expenses** for the fourth quarter of 2013 were by 1 per cent higher than a year ago. Employee-related expenses for the full year of 2013 were on the same level as a year ago in spite of that at the beginning of the second quarter of 2013 the Company implemented salary adjustment applicable for the major part of the Company's employees.

During the fourth quarter of 2013, the total number of employees (headcount) decreased by 19 (mainly in TEO). Over the year the total number of employees in TEO Group decreased by 223 (mainly in Lintel) from 3,257 to 3,034. In terms of full-time employees, the net total number of employees in TEO Group during October-December 2013 increased by 22 (mainly in Lintel, while in TEO – decreased), while over the year the number decreased by 149 from 2,875 to 2,727.

**Other expenses** for the fourth quarter and the twelve months of 2013 slightly increased by 3.4 and 2 per cent, respectively due to higher electricity tariffs and higher IT costs.

## EARNINGS

**EBITDA** for the twelve months of 2013 decreased by 4.7 per cent to LTL 293 million over LTL 307 million for the same period year ago. EBITDA margin amounted to 40.6 per cent (40.4 per cent in 2012). EBITDA for October-December of 2013 went down by 8.1 per cent to LTL 65 million over LTL 71 million in October-December of 2012. EBITDA margin amounted to 36.4 per cent (37.4 per cent in 2012).

**Depreciation and amortisation charges** went down by 6 and 2.2 per cent during the fourth quarter and the full year of 2013, respectively, and in 2013 amounted to 17.7 per cent of total revenue (17.2 a year ago).

**Operating profit (EBIT)** for the fourth quarter of 2013 decreased by 10 per cent and for the twelve months of



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2013 – by 6.5 per cent. Operating profit margin for the fourth quarter of 2013 was 19.1 per cent (20 per cent a year ago) and for the full year of 2013 – 22.9 per cent (23.2 per cent in 2012).

**Net financial income** in 2013 was by 37.6 per cent lower than a year ago.

**Profit before income tax** for the twelve months of 2013 went down by 6.6 per cent and amounted to LTL 166 million (LTL 177 million a year ago). Profit before income tax for the fourth quarter of 2013 was down by 9.8 per cent and amounted to LTL 34 million (LTL 38 million a year ago).

Since 1 January 2010 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 twelve months of 2013 amounted to LTL 10.2 million (LTL 10.9 million in 2012). **Income tax expenses** in 2013 were by 9.9 per cent lower than a year ago.

**Profit for the period** in January-December 2013 amounted to LTL 149 million, a decrease by 6.2 per cent over the profit of LTL 159 million for the same period year ago. The profit margin was 20.7 per cent (20.9 per cent a year ago). Profit for the period in October-December 2013 amounted to LTL 31 million, while a year ago it was LTL 36 million, an decrease by 12.9 per cent. The profit margin was 17.3 per cent (18.7 per cent a year ago).

## BALANCE SHEET AND CASH FLOW

The amount of **total assets** of TEO Group at the end of 2013 was the same as at the end of 2012. During 2013 total assets slightly increased by 0.1 per cent.

Total **non-current assets** increased by 3.3 per cent due to increased property, plant and equipment, and amounted to 72.2 per cent of total assets. In May 2013, following the resolution of the Annual General Meeting of Shareholders, dividend of the total amount of LTL 155 million or LTL 0.20 per share for the year 2012 were paid to the shareholders of the Company. Therefore, total **current assets** decreased by 7.4 per cent and amounted to 27.8 per cent of the total assets, whereof cash and held-to-maturity investments alone represented 19.4 per cent of total assets.

During 2013 **shareholders' equity** slightly decreased by 0.6 per cent and amounted to 89.5 per cent of the total assets.

As of 31 December 2013 consolidated **retained earnings** of TEO Group amounted to LTL 184 million, while retained earnings of the Parent company amounted to LTL 150 million or LTL 0.193 per share. According to the provisions of the Law of the Republic of Lithuania on Companies, dividends should be paid from retained earnings of the Parent company.

At the end of December 2013 total amount of **borrowings** included mainly financial liabilities related to financial leasing of premises and amounted to LTL 2.3 million (LTL 3.3 million in 2012), while cash and held-to-maturity investments amounted to LTL 225 million.

**Net cash flow from operating activities** in 2013 was by 5.3 per cent lower than a year ago.

The part of cash (LTL 15.4 million) spent during 2013 for capital investments was payments for investments made in 2012. As of 31 December 2012 this amount was recorded in the balance sheet as current liabilities.

During the twelve months of 2013 **capital investments** amounted to LTL 154 million (LTL 151 million a year ago). The majority of capital investments (79 per cent or LTL 122 million) went to expansion of the core network and development of the next-generation fiber-optic access network. The remaining part was invested into IT systems (LTL 27 million), transportation (LTL 4 million) and other.

As a result by the end of 2013, TEO had 804 thousand households passed (764 thousand at the end of 2012), or 67 per cent of the country's households, by the FTTH network.

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

Due to capital investments and dividend payment, **cash and cash equivalents** during January-December 2013 decreased by LTL 31 million.

## SHARE CAPITAL AND SHAREHOLDERS

The **share capital** of the Company amounts to 776,817,518 litas and consists of 776,817,518 ordinary registered shares with a nominal value of 1 litas each. It was reduced from 814,912,760 litas to 776,817,518 litas in September 2010 by cancelling 38,095,242 treasury stocks. The number of TEO shares that provide voting rights during the General Meeting is 776,817,518.

776,817,518 ordinary registered shares of TEO LT, AB (ISIN code LT0000123911) are listed on the Main List of NASDAQ OMX Vilnius stock exchange (code: TEO1L). NASDAQ OMX Vilnius stock exchange is a home market for TEO shares.

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

The number of **shareholders** on the shareholders registration day (18 April 2013) for the Annual General Meeting of Shareholders, which was held on 25 April 2013, was 11,997.

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 2013:

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 (%)
TeliaSonera AB, Stureplan 8, Stockholm, SE-106 63, Sweden, code 556103-4249	684,791,575	88.15	88.15	-
Other shareholders	92,025,943	11.85	11.85	-
<b>TOTAL:</b>	<b>776,817,518</b>	<b>100.00</b>	<b>100.00</b>	<b>-</b>

Information about trading in TEO shares on NASDAQ OMX Vilnius stock exchange in January-December of 2013:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
LTL	2.655	2.904	2.555	2.648	2.690	13,187,454	35,478,881
EUR	0.769	0.841	0.740	0.767	0.779	13,187,454	10,275,394

TEO market capitalisation as on 31 December 2013 was LTL 2,060 million (EUR 597 million).

## OTHER MATERIAL INFORMATION

On 29 January 2013, the Board of the Company decided to appoint Edis Kasperavičius, who used to work as Director of Human Resources Unit of the Company, to the position of Chief Sales Officer from 14 February 2013. Darius Gudačiauskas left the position of Chief Sales Officer from 1 February 2013.

As of 22 February 2013 Arūnas Šikšta, General Manager of the Company, resigned. The Board accepted his resignation and appointed Giedrius Vegys, Chief Financial Officer of the Company, as acting General Manager. Antanas Poška, Director of Accounting Department, was temporarily appointed to the position of Chief Financial Officer.

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

The Board appointed Bertil Abrahamsson as acting Director of Human Resources Unit of the Company from 8 March 2013. Bertil Abrahamsson occupied this position until 1 January 2014 when a new Director of Human Resources Unit was appointed.

In April 2013, UAB Interdata was merged into its parent company, UAB Hostex, and UAB Hostex took over all the assets and liabilities as well as the rights and obligations of UAB Interdata. UAB Interdata had a subsidiary, UAB Hosting, which became a subsidiary of UAB Hostex.

The Annual General Meeting of shareholders, held on 25 April 2013, decided to approve the audited annual consolidated financial statements of the Company for the year 2012 and to allocate the Company's profit for the year 2012 as follows: from the Company's distributable profit of LTL 160,668 thousand to allocate LTL 155,364 thousand for the dividend payment for the year 2012 or LTL 0.20 dividend per share. For annual payments (tantiemes) to six members of the Board for the year 2012 to allocate LTL 324 thousand, i.e. LTL 54 thousand per one member of the Board. Shareholders upon termination of the two-year term of the Board elected Malin Frenning, Tiia Tuovinen, Inga Skisaker, Jens Lööw, Mats Lillienberg and Rolandas Viršilas (all proposed by TeliaSonera AB) to the Board of the Company for new two-year term of the Board.

Following the Order of Director of Communications Regulatory Authority, TEO was recognized as undertaking having significant market power on wholesale broadband access market and on 1 June 2013 had to publish Public Offer to provide wholesale broadband access.

On 13 June 2013, during the first meeting of the newly elected Company's Board, the Board re-elected Malin Frenning as Chairwoman of the Board and elected members of the Audit and Remuneration Committees.

On 17 June 2013 Martynas Špokas, Head of Sales Unit of UAB Baltic Data Center, took the position of Director of UAB Hostex. Pranas Slušnys, former Director of UAB Hostex, has decided to withdraw from TEO Group.

Following the Order of Director of Communications Regulatory Authority of the Republic of Lithuania, starting from 1 January 2014 TEO will cease to be recognized as undertaking having significant market power on markets of National calls' services provided for residential customers, International calls' services provided for residential customers, National calls' services provided for non-residential customers and International calls' services provided for non-residential customers.

From 1 November 2013, Kęstutis Šliužas took the position of the General Manager of TEO LT, AB.

From 1 January 2014, Ramūnas Bagdonas took the position of Director of Human Resources Unit of the Company.

## MEMBERS OF THE MANAGING BODIES

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

**Members of the Board** as of 31 December 2013:

Name, surname	Position in the Board	Employment	Ownership of TEO shares
Malin Frenning	Chairwoman of the Board, Chairwoman of the Remuneration Committee	TeliaSonera AB (Sweden), President of Business Area Broadband Services	-
Tiia Tuovinen	Member of the Board, member of the Audit Committee	TeliaSonera Finland Oyj (Finland), General Counsel for Broadband Services and Vice President for Real Estates and Property Planning in Finland	-

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

Inga Skisaker	Member of the Board, member of the Audit Committee	Nordea Bank Finland Plc Lithuania Branch, General Manager; Nordea Bank Finland Plc, Head of Banking Baltic Countries	-
Jens Lööw	Member of the Board, Chairman of the Audit Committee	TeliaSonera AB (Sweden), Chief Financial Officer of Business Area Broadband Services	-
Mats Lillienberg	Member of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), Head of Broadband Technology Solutions	-
Rolandas Viršilas	Member of the Board, member of the Remuneration Committee	UAB Švyturys – Utenos Alus (Lithuania), CEO	100,000 shares or 0.0129 per cent of the total number of TEO shares and votes

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

#### Members of Administration:

Name, surname	Position in the Company	Current Board Assignments	Ownership of TEO shares
Kęstutis Šliužas	General Manager (CEO)	-	-
Edis Kasperavičius	Chief Sales Officer	UAB Lintel, a subsidiary of TEO LT, AB, member of the Board; UAB Kompetencijos Ugdymo Centras, a subsidiary of TEO LT, AB, Chairman of the Board and Director; Baltic Management Institute (Lithuania), member of the Board	-
Nerijus Ivanauskas	Chief Marketing Officer and Deputy General Manager	-	-
Darius Didžgalvis	Chief Technology Officer and Deputy General Manager	UAB Baltic Data Center, a subsidiary of TEO LT, AB, Chairman of the Board	-
Eglutė Bivainienė	Chief Operational Officer	UAB Lintel, a subsidiary of TEO LT, AB, Chairwoman of the Board	-
Giedrius Vegys	Chief Financial Officer	UAB Baltic Data Center, a subsidiary of TEO LT, AB, member of the Board; UAB Lintel, a subsidiary of TEO LT, AB, member of the Board	-

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		October - December		January - December	
	Note	2013	2012	2013	2012
<b>Revenue</b>		<b>178,803</b>	<b>189,672</b>	<b>720,589</b>	<b>760,174</b>
Cost of goods sold		(44,765)	(51,462)	(174,249)	(201,572)
Employee related expenses		(44,697)	(44,236)	(170,194)	(170,465)
Other expenses		(24,577)	(23,761)	(84,863)	(83,216)
Other income		99	111	361	994
Other gain/ (loss) - net		267	557	1,093	1,166
Depreciation, amortisation and impairment of fixed assets	3	(30,936)	(32,899)	(127,654)	(130,562)
<b>Operating profit</b>		<b>34,194</b>	<b>37,982</b>	<b>165,083</b>	<b>176,519</b>
Finance income		235	247	865	1,317
Finance costs		(60)	(120)	(376)	(534)
Finance income/ costs - net		175	127	489	783
<b>Profit before income tax</b>		<b>34,369</b>	<b>38,109</b>	<b>165,572</b>	<b>177,302</b>
Income tax	6	(3,448)	(2,593)	(16,421)	(18,235)
<b>Profit for the period</b>		<b>30,921</b>	<b>35,516</b>	<b>149,151</b>	<b>159,067</b>
<b>Other comprehensive income:</b>					
Other comprehensive income for the period		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>30,921</b>	<b>35,516</b>	<b>149,151</b>	<b>159,067</b>
Profit and comprehensive income attributable to:					
Owners of the Parent		<b>30,921</b>	<b>35,516</b>	<b>149,151</b>	<b>159,067</b>
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in litas per share)	7	0.040	0.046	0.192	0.205

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

## CONSOLIDATED BALANCE SHEET

	Note	31 December 2013	31 December 2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	771,895	755,137
Intangible assets	3	50,259	41,797
Investment property		10,794	10,794
Trade and other receivables		3,987	2,322
Deferred tax assets		236	364
		<b>837,171</b>	<b>810,414</b>
<b>Current assets</b>			
Inventories		2,203	4,073
Trade and other receivables		96,174	109,160
Current income tax receivable		166	52
Held-to-maturity investments		79,698	60,045
Cash and cash equivalents		144,891	175,598
		<b>323,132</b>	<b>348,928</b>
<b>Total assets</b>		<b>1,160,303</b>	<b>1,159,342</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	5	776,818	776,818
Legal reserve		77,682	77,682
Retained earnings		184,087	190,300
<b>Total equity</b>		<b>1,038,587</b>	<b>1,044,800</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		1,266	2,282
Deferred tax liabilities		22,183	18,581
Deferred revenue and accrued liabilities		5,479	3,463
		<b>28,928</b>	<b>24,326</b>
<b>Current liabilities</b>			
Trade, other payables and accrued liabilities		91,700	88,647
Current income tax liabilities		72	592
Borrowings		1,016	977
		<b>92,788</b>	<b>90,216</b>
<b>Total liabilities</b>		<b>121,716</b>	<b>114,542</b>
<b>Total equity and liabilities</b>		<b>1,160,303</b>	<b>1,159,342</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP	Share capital	Treasury shares	Legal reserve	Retained earnings	Total equity
<b>Balance at 1 January 2012</b>	<b>776,818</b>	-	<b>77,682</b>	<b>186,597</b>	<b>1,041,097</b>
Net profit	-	-	-	159,067	159,067
<b>Total comprehensive income for the period</b>	-	-	-	<b>159,067</b>	<b>159,067</b>
Dividends paid for 2011	-	-	-	(155,364)	(155,364)
<b>Balance at 31 December 2012</b>	<b>776,818</b>	-	<b>77,682</b>	<b>190,300</b>	<b>1,044,800</b>
<b>Balance at 1 January 2013</b>	<b>776,818</b>	-	<b>77,682</b>	<b>190,300</b>	<b>1,044,800</b>
Net profit	-	-	-	149,151	149,151
<b>Total comprehensive income for the period</b>	-	-	-	<b>149,151</b>	<b>149,151</b>
Dividends paid for 2012	-	-	-	(155,364)	(155,364)
<b>Balance at 31 December 2013</b>	<b>776,818</b>	-	<b>77,682</b>	<b>184,087</b>	<b>1,038,587</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOW

	January - December	
	2013	2012
<b>Operating activities</b>		
Profit for the period	149,151	159,067
Income tax	16,421	18,235
Depreciation, amortisation and impairment of fixed assets	127,654	130,562
Other gains and losses	(1,093)	(1,166)
Interest income	(865)	(2,159)
Interest expenses	118	297
Other non-cash transactions	1,018	1,177
Changes in working capital:		
Inventories	1,870	(720)
Trade and other receivables	11,321	2,043
Trade, other payables and accrued liabilities	(1,170)	4,141
<b>Cash generated from operations</b>	<b>304,425</b>	<b>311,477</b>
Interest paid	(118)	(297)
Interest received	1,196	2,300
Tax paid	(13,326)	(4,991)
<b>Net cash from operating activities</b>	<b>292,177</b>	<b>308,489</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment (PPE) and intangible assets	(148,029)	(136,213)
Proceeds from disposal of PPE and intangible assets	1,110	1,071
Acquisition of held-to-maturity investments	(144,802)	(196,068)
Disposal of held-to-maturity investments	125,178	166,068
<b>Net cash used in investing activities</b>	<b>(166,543)</b>	<b>(165,142)</b>
<b>Financing activities</b>		
Repayment of borrowings	(977)	(974)
Dividends paid to shareholders of the Company	(155,364)	(155,364)
<b>Net cash used in financing activities</b>	<b>(156,341)</b>	<b>(156,338)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(30,707)</b>	<b>(12,991)</b>
<b>Movement in cash and cash equivalents</b>		
At the beginning of the year	175,598	188,589
Increase (decrease) in cash and cash equivalents	(30,707)	(12,991)
At the end of the period	<b>144,891</b>	<b>175,598</b>



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

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Accounting policies

The consolidated interim financial statements for the twelve months period ending 31 December 2013 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 2012.

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

Financial statements for the period ended 31 December 2013 are not audited. Financial statements for the year ended 31 December 2012 are audited by the external auditor UAB PricewaterhouseCoopers.

### 2 Segment information

The Company's management considers the business from the Group's perspective and considers the performance of the Company and each subsidiary separately. The management assesses the performance of the Company and its subsidiaries based on measure of Net profit.

The Company's activity is the segment that meets the quantitative thresholds required by IFRS 8 and it is reported as Broadband segment. This segment uses the national fixed telecommunications network to provide fixed voice, broadband and data communications, TV broadcasting services and related value-added services.

The Company's subsidiaries do not meet the quantitative thresholds required by IFRS 8. The results of the subsidiaries are combined and disclosed in the 'other segment' column. The profile of each subsidiary is described in Note 4.

	<b>Broadband segment</b>		<b>Other segment</b>		<b>Eliminations</b>		<b>Total Group</b>	
	<b>January - December</b>		<b>January - December</b>		<b>January - December</b>		<b>January - December</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Segment revenue	671,983	696,919	92,077	110,196	(43,471)	(46,941)	720,589	760,174
Inter-segment revenue	(10,922)	(10,933)	(32,549)	(36,008)	43,471	46,941	-	-
Revenue from external customers	<b>661,061</b>	<b>685,986</b>	<b>59,528</b>	<b>74,188</b>	-	-	<b>720,589</b>	<b>760,174</b>
Profit for the period	144,841	154,869	7,402	8,998	(3,092)	(4,800)	149,151	159,067

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

### 3 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
<b>Year ended 31 December 2012</b>		
<b>Opening net book amount as at 31 December 2011</b>	<b>734,926</b>	<b>42,922</b>
Additions	142,886	7,844
Disposals and retirements	(904)	-
Reclassification	(168)	(10)
Depreciation and amortisation charge	(121,603)	(8,959)
<b>Closing net book amount as at 31 December 2012</b>	<b>755,137</b>	<b>41,797</b>
<b>Year ended 31 December 2013</b>		
<b>Opening net book amount as at 31 December 2012</b>	<b>755,137</b>	<b>41,797</b>
Additions	137,205	17,064
Disposals and retirements	(970)	(5)
Reclassification	(988)	568
Depreciation and amortisation charge	(118,489)	(9,165)
<b>Closing net book amount as at 31 December 2013</b>	<b>771,895</b>	<b>50,259</b>

### 4 Investments in subsidiaries and associates

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

Subsidiary	Country of incorporation	Ownership interest in %		Profile
		31 December 2013	31 December 2012	
UAB Lintel	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and Contact Center services.
UAB Baltic Data Center	Lithuania	100%	100%	The subsidiary provides information technology infrastructure services to the Group and third parties.
UAB Hostex	Lithuania	100%	100%	The web hosting and data center services providing subsidiary of UAB Baltic Data Center.
UAB Interdata	Lithuania	-	100%	The web hosting services providing subsidiary of UAB Hostex in April 2013 was merged into UAB Hostex.
UAB Hosting	Lithuania	100%	100%	In April 2013 became a dormant subsidiary of UAB Hostex. Before that was a dormant subsidiary of UAB Interdata.
Baltic Data Center SIA	Latvia	100%	100%	The dormant subsidiary of UAB Baltic Data Center.

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

UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary of the Company.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of an investment project.
VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	100%	A non-profit organisation established by the Company for management of the Company's Communications History Museum.

## 5 Share capital

The authorised share capital comprises 776,817,518 ordinary shares of LTL 1 par value each. All shares are fully paid up.

## 6 Income tax

Tax expenses for the period comprise current and deferred tax.

Profit for 2013 is taxable at a rate of 15 per cent in accordance with Lithuanian regulatory legislation on taxation (2012: 15 per cent).

According to amendments to Law on Corporate Profit Tax which provides tax relief for investments in new technologies the Company's calculated profit tax relief in 2013 amounted to LTL 10.2 million (2012: LTL 10.9 million).

## 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 and for the both reporting periods amounted to 776,818.

	January - December	
	2013	2012
<b>Net profit</b>	<b>149,151</b>	159,067
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818
<b>Earnings per share (LTL)</b>	<b>0.192</b>	0.205

## 8 Dividends per share

A dividend that relates to the period to 31 December 2012 was approved the Annual General Meeting of Shareholders on 25 April 2013. The total amount of allocated dividend, that was paid off in May 2013 was 155,364 thousand litas or 0.20 litas per ordinary share.

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

## 9 Related party transactions

The Group is controlled by TeliaSonera AB (Sweden) which as of 31 December 2013 owned 88.15 per cent (88.15 per cent a year ago) of the Company's shares.

The Group carried out the following transactions with related parties:

Sales and purchases from TeliaSonera AB and its subsidiaries:

	<b>January - December</b>	
	<b>2013</b>	<b>2012</b>
Sales of telecommunication and other services	32,473	47,330
<b>Total sales of telecommunication and other services</b>	<b>32,473</b>	<b>47,330</b>
Purchases of assets	-	4,715
Purchases of services	14,998	19,983
<b>Total purchases of assets and services</b>	<b>14,998</b>	<b>24,698</b>

Balances arising from sales/purchase of assets/services to/from TeliaSonera AB and its subsidiaries:

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
Long-term receivables from related parties	1,157	1,253
Receivables from related parties	2,686	3,534
Accrued revenue from related parties	1,391	2,830
<b>Total receivables and accrued revenue from related parties</b>	<b>5,234</b>	<b>7,617</b>
Payables to related parties	630	718
Accrued expenses to related parties	10	-
<b>Total payables and accrued expenses to related parties</b>	<b>640</b>	<b>718</b>

The total amount of annual payments (tantiemes) assigned to the six members of the Board of the Company for the year 2012 during 2013 amounted to LTL 324 thousand (2012: LTL 324 thousand). As of 31 December 2013 the amount of LTL 54 thousand of tantiemes assigned for the year 2010 was not paid.

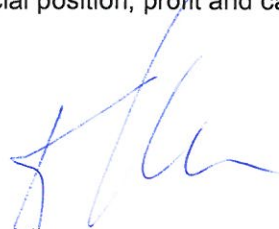
## 10 Events after balance sheet day

On January 8, 2014 the Company started its efficiency improvement program under which up to 130 employees of TEO Group will terminate their employment contracts on the base of mutual agreement. This will allow the Company to save up to LTL 8 million annually. The cost of redundancy pay-outs is estimated to be LTL 6.8 million. This charge will be reflected in year 2014 year accounts.

*(All tabular amounts are in LTL '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 Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, General Manager of TEO LT, AB, and Giedrius Vegys, Chief Financial Officer of TEO LT, AB, hereby confirm that, to the best of our knowledge, the not audited TEO LT, AB Consolidated Interim Financial Statements for the twelve months period ended 31 December 2013, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, profit and cash flows of TEO LT, AB and the Group of undertakings.

A handwritten signature in blue ink, appearing to be 'K. Šliužas', written over a light blue horizontal line.

Kęstutis Šliužas  
General Manager

A handwritten signature in blue ink, appearing to be 'G. Vegys', written over a light blue horizontal line.

Giedrius Vegys  
Chief Financial Officer

Vilnius, 28 January 2014