



TEO LT, AB
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2014
(UNAUDITED)

Beginning of the financial year	1 January 2014
End of reporting period	31 March 2014
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

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

MANAGEMENT REPORT

Management's comment on financial results for the 3 months of 2014:

"The year 2014 the Company started with the number of changes: revision of its organizational structure, simplifying brand portfolio, upgrading of existing and launch of new services.

This year it was decided to consolidate the Company's brands into one TEO brand and, at the same time, offer new generation services, which are more integrated as well as easier and more intuitive to use. With a single name, the Company intends to market its services more clearly to its private and business customers.

In March television GALA became TEO television and from April Internet ZEBRA is called TEO Internet. At the same time TEO changed the graphic user interface (GUI) of IPTV service – the customers are able to use TV content more simply and intuitively, to easier find the programs and video recordings. Exclusive features of IPTV service led to a record (the highest during the last twelve months) increase in number of IPTV customers during the first quarter of 2014. Internet offerings of the Company were also enhanced with additional value added services and increased speed for a part of customers.

Over the year, in terms of revenue residential customers' segment remained almost stable, while business customers' segment declined by 6.3 per cent. Major negative impact on revenue was from operators' business (decrease by 22.6 per cent) due to lower volume of low margin international transit.

In 2014, TEO started its efficiency improvement program and revision of its organizational structure. Up to 130 employees of TEO Group terminated their employment contracts during the first quarter of 2014. The Company incurred a non-recurring redundancy cost of LTL 7.6 million which had a negative impact on the Company's results for this quarter. Nevertheless, the Company will save up to LTL 8 million annually due to reduced number of employees.

In March the Board approved a new organizational structure of the Company which will come into force in June 2014. We believe that new organization will make it possible to understand better and respond faster to the customers' needs and to create solutions and services that are easier to use. In the new Company structure the service development and sales units will be replaced by two new units: Business-to-Consumer (B2C) and Business-to-Business (B2B). The new organization will reduce the number of layers and will increase the span of control."

KEY FIGURES OF TEO GROUP

Financial figures	January – March		Change (%)
	2014	2013	
Revenue (LTL thousand)	169,452	182,666	(7.2)
EBITDA (LTL thousand)	65,716	74,437	(11.7)
EBITDA excluding non-recurring items (LTL thousand)	73,275	74,437	(1.6)
EBITDA margin (%)	38.8	40.8	
EBITDA margin excluding non-recurring items (%)	43.2	40.8	
Operating profit (LTL thousand)	34,829	41,714	(16.5)
Operating profit margin (%)	20.6	22.8	
Profit before income tax (LTL thousand)	34,975	41,908	(16.5)
Profit before income tax margin (%)	20.6	22.9	
Profit for the period (LTL thousand)	31,693	38,252	(17.1)
Profit for the period margin (%)	18.7	20.9	
Cash flow from operations (LTL thousand)	67,237	65,525	2.6
Operating free cash flow (LTL thousand)	34,817	33,245	4.7
Earnings per share (LTL)	0.041	0.049	(17.1)
Number of shares (thousand)	776,818	776,818	

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

Financial ratios	31 March 2014	31 March 2013
Return on capital employed (%)	15.7	17.5
Return on average assets (%)	14.1	15.7
Return on shareholders' equity (%)	14.1	15.8
Operating cash flow to sales (%)	39.7	35.9
Gearing ratio (%)	(24.1)	(24.6)
Debt to equity ratio (%)	0.2	0.3
Current ratio (%)	447.0	537.4
Rate of turnover of assets (%)	63.1	67.0
Equity to assets ratio (%)	91.1	91.8

Operating figures	31 March 2014	31 March 2013	Change (%)
Number of fixed telephone lines in service	552,708	594,437	(7.0)
Number of broadband Internet connections (FTTH, DSL and other excluding Wi-Fi)	358,469	347,052	3.2
Number of TV services customers	173,677	169,410	2.5
Number of personnel (head-counts) at the end of period	2,889	3,151	(8.3)
Number of full-time employees at the end of the period	2,556	2,777	(8.0)

Breakdown of TEO Group revenue	January - March		Change (%)
	2014	2013	
Voice telephony services	67,734	81,944	(17.3)
Internet services	46,355	44,087	5.1
Data communication and network capacity services	19,728	20,796	(5.1)
TV services	15,158	15,412	(1.6)
IT services	14,257	14,252	(0.0)
Other services	6,220	6,175	0.7
Total	169,452	182,666	(7.2)

REVENUE

During the first three months of 2014 revenue from Internet, IPTV and Contact Center services grew while revenue from IT services remained on the same level as a year ago. Revenue from data communication services and network capacity went down while revenue from voice telephony was mainly affected by lower revenue from networks' interconnection services.

The **total revenue** of TEO Group in January-March of 2014 was LTL 169 million, a decrease by 7.2 per cent over the total revenue of LTL 183 million in the first three months of 2013, but excluding revenue from continuously declining voice telephony revenue grew by 1 per cent.

Revenue from services provided to residential customers during the first quarter of 2014, compared with the same revenue a year ago, were almost at the same level – a slight decline by 1.8 per cent. Revenue from services provided to business customers were lower by 6.3 per cent, while revenue from services provided to other telecommunication operators went down by 22.6 per cent.

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Share of revenue from Internet, television and IT services continued to grow and from total amount of revenue amounted to 27.4, 8.9 and 8.4 per cent, respectively. Share of revenue from voice telephony services continued to shrink and amounted to 40 per cent (44.9 per cent in 2013) of the total revenue. Revenue from data communications services and network capacity sales amounted to 11.6 per cent and other services – 3.7 per cent of total revenue for the first quarter of 2014.

Revenue from **voice telephony services** decreased due to lower level of revenue from voice transit services and continuation of decline in number of telephone lines in service and consequently lower traffic volume. During the first three months of 2014 revenue from networks' interconnection services dropped by 24.3 per cent, while revenue from voice telephony services excluding networks' interconnection services went down by 14 per cent.

During January-March 2014, the total number of main telephone lines in service decreased by 12.6 thousand, while over the last twelve months – by 41.7 thousand lines.

Total voice telephony traffic volume generated by residential and business customers during the first quarter of 2014, compared with the fourth quarter of 2013, eased by just 1.5 and 0.9 per cent, respectively, while compared with the first quarter of 2013, decreased by 16.7 and 14.4 per cent, respectively. Nevertheless, total volume of calls to mobile operators' networks increased by 19.7 per cent due to reduced national networks' interconnection fees and attractive TEO payment plans for calls to mobile networks.

During January-March 2014, the total number of **broadband Internet access** (excluding Wi-Fi) users increased by 1.8 thousand, while over the last twelve months – by 11.4 thousand.

Over the year 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 increased by 10.8 per cent and reached 184 thousand at the end of March 2014, while the number of copper DSL connections eased by 3.6 per cent to 175 thousand. During the last twelve months the number of TEO Wi-Fi connections almost doubled and amounted to 83 thousand as of 31 March 2014.

By the end of March 2014 the number Internet connection over the fiber-optic access network amounted to 42 per cent of all 442 thousand TEO broadband Internet connections (including Wi-Fi).

Starting from April 2014, Internet speed was increased for some TEO customers, also the bundles, that offer medium and the fastest Internet speed, were supplemented with more value added services. The services "TEO Wi-Fi", "Saugykla" ("Storage") and "Interneto Apsauga" ("Internet Security") were added to TEO Internet service bundles without any additional fees. These additional services are provided depending on the bundle customers' have chosen.

Compared with the first quarter of 2013, revenue from **data communication** services alone decreased by 4.8 per cent, while revenue from **network capacity** services alone decreased by 5.6 per cent.

During January-March 2014, the number of IPTV services users increased by 4.5 thousand, while over the year by 13.6 thousand and by the end of March 2014 amounted to 111 thousand. During the last twelve months number of digital terrestrial television (DVB-T) users eased by 9.3 thousand and amounted to 63 thousand. Over the year the total number of **television** service customers went up by 4.3 thousand.

Revenue from IPTV, DVB-T and TV signals transmission services comprise revenue from TV services group. During the first quarter of 2014 revenue from growing IPTV services did not offset decrease in revenue from declining DVB-T and TV signals transmission services.

In March 2014, TEO introduced a new more easily managed interface of IPTV service and a High Definition TV channel of Lithuanian Radio and Television – LRT HD. Only TEO IPTV users had the opportunity to watch the 22nd Winter Olympic Games on "Lietuvos rytas TV HD", the HD version of the "Lietuvos rytas TV" channel.

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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.

BDC entered into a new three-year agreement with DNB bank to support information technology (IT) infrastructure in Lithuania, Latvia and Estonia. BDC has been supporting DNB's IT infrastructure since 2007. During six years of partnership, BDC continuously managed to provide DNB with high quality services in all three Baltic States.

In March 2014, TEO opened an e-shop of household electronic equipment for the convenience of its customers. From now on by paying a monthly fee TEO customers are able to buy not only TVs and computers, but printers, cameras and game computers in the online shop. By opening its online shop, TEO expanded the range of products by four times. The items available in the e-shop www.teo.lt/parduotuve include nearly fifty TVs, laptops and tablet computers as well as printers, cameras and game computers from the world's best-known manufacturers (Acer, HP Compaq, Dell, etc.) selected by TEO specialists.

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 increased by 13.3 per cent, while from other non-core business services decreased by 10.1 per cent.

During the first quarter of 2014, the Company upgraded video surveillance (CCTV) systems in Mažeikiai and installed a CCTV system in Ariogala.

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 fourth quarter of 2013 decreased by 6.1 per cent to LTL 528 million, compared with the same period a year ago, while during the 12 months of 2013 it went down by 5.6 per cent to LTL 2,145 million.

	TEO market share in terms of customers (%)		TEO market share in terms of revenue (%)	
	Q4 2013	Q4 2012	Q4 2013	Q4 2012
Fixed voice telephony services	90.3	89.5	93.9	92.8
Fixed Internet access services	51.2	49.8	55.4	54.9
Internet access services (total)	37.8	36.5	43.4	42.2
Digital pay-TV services	41.5	42.4	42.9	44.9
Pay-TV services (total)	23.6	23.4	29.6	30.1
Network interconnection services	n/a	n/a	27.2	33.4
Data communication services	n/a	n/a	56.5	58.1
Leased line services	n/a	n/a	59.4	62.0

On 31 December 2013 Internet penetration per 100 residents of Lithuania was 38.5 per cent (in 2012 – 35.4 per cent), while the penetration of broadband Internet using fixed connection was 28.5 per cent (25.9 per cent a year ago). Digital pay-TV penetration per 100 households was 31.7 per cent (in 2012 – 32.1 per cent), and

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the penetration of fixed voice telephony lines per 100 residents – 20.9 per cent (22.1 per cent a year ago).

OPERATING EXPENSES

Total operating expenses of the Group for the first quarter of 2014 were by 3.9 per cent lower than a year even though the Company had non-recurring redundancy charge during the quarter. Over the year total operating expenses excluding non-recurring items went down by 10.9 per cent compared to revenue drop of 7.2 per cent.

Cost of goods and services went down by 11 per cent mainly due to lower volume of transit traffic.

Employee-related expenses increased by 2.2 per cent, because in 2014 the Company started its efficiency improvement program under which up to 130 employees of TEO Group terminated 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 amounted to LTL 7.6 million. Employee-related expenses excluding one-time redundancy pay-outs during the first quarter of 2014 were by 14.3 per cent lower than a year ago.

During the first quarter of 2014, the total number of employees (headcount) decreased by 145 (mainly in TEO). Over the year, the total number of employees in TEO Group decreased by 262 – from 3,151 to 2,889. In terms of full-time employees, the total number of employees in TEO Group during January-March of 2014 went down by 171 (mainly in TEO), while over the last twelve months – by 221 from 2,777 to 2,556.

Other expenses were under control and decreased by 2.7 per cent in spite of higher marketing expenses during the first quarter of 2014.

EARNINGS

Due to redundancy charge **EBITDA** for the first three months of 2014 went down by 11.7 per cent and amounted to LTL 66 million. EBITDA margin amounted to 38.8 per cent, while a year ago it was 40.8 per cent. Over the year EBITDA excluding non-recurring items declined by just 1.6 per cent while EBITDA margin excluding non-recurring items stood at 43.2 per cent.

Depreciation and amortisation charges went down by 5.6 per cent and in January-March of 2014 amounted to 18.2 per cent of total revenue (17.9 per cent a year ago).

Operating profit (EBIT) for the first quarter of 2014 was by 16.5 per cent lower than for the same period in 2013 and the operating profit margin was 20.6 per cent (22.8 per cent a year ago). Operating profit excluding non-recurring items in January-March 2014 was by 1.6 per cent higher than for the same period in 2013. Accordingly, operating profit margin excluding non-recurring items was 25 per cent.

Net financial income in January-March of 2014 was by 24.4 per cent lower than year ago.

Profit before income tax in the first three months of 2014 went down by 16.5 per cent and amounted to LTL 35 million (LTL 42 million a year ago). Profit before income tax excluding non-recurring items was by 1.5 per cent higher than during the first quarter of 2013.

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the first quarter of 2014 amounted to LTL 2.1 million (LTL 2.9 million in 2013). **Income tax expenses** for the first three months of 2014 were by 10.2 per cent lower than a year ago.

Due to redundancy charge **profit for the period** amounted to LTL 32 million, a decrease by 17.1 per cent over the profit of LTL 38 million for the same period year ago. The profit margin was 18.7 per cent while a year ago it was 20.9 per cent. Profit for the period excluding non-recurring items was by 2.6 per cent higher than in January-March 2013 and profit margin excluding non-recurring items was 23.2 per cent.

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BALANCE SHEET AND CASH FLOW

During January–March 2014 **total assets** of TEO Group increased by 1.3 per cent.

Total **non-current assets** decreased by 2.1 per cent due amortisation and depreciation of the assets, and amounted to 69.7 per cent of total assets. Total **current assets** increased by 10 per cent and amounted to 30.3 per cent of total assets, whereof cash and held-to-maturity investments alone represented 22 per cent of total assets.

Shareholders' equity increased by 3.1 per cent and amounted to 91.1 per cent of total assets.

The Board of the Company proposed to the Annual General Meeting of Shareholders that will be held on 29 April 2014 to pay **dividend** of LTL 0.19 per share (in total LTL 148 million) for the year 2013. The Board also proposed to reduced authorised share capital of the Company by LTL 194.2 million (i.e. by 25 per cent) by cancelling 194.2 million shares and paying out to the shareholders LTL 194.2 million pro rata to shareholders' holding (i.e. LTL 0.25 per share).

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

At the end of March 2014 the total amount of **borrowings** (financial liabilities related to financial leasing of premises) amounted to LTL 2 million while cash and held-to-maturity investments amounted to LTL 260 million.

Net **cash flow from operating activities** in the first three months of 2014 was by 2.6 per cent higher than that for same period of 2013. **Operating free cash flow** (operating cash flow excluding capital investments) in January–March 2014 was by 4.7 per cent higher than a year ago.

The part of cash (LTL 19.3 million) spent during January–March of 2014 for capital investments was payments for investments made in 2013. As of 31 December 2013 this amount was recorded in the balance sheet as current liabilities.

During the first three months of 2014 **capital investments** amounted to LTL 13 million (LTL 17 million a year ago). The majority of capital investments (LTL 12 million) went to expansion of the core network and development of the next-generation fiber-optic access network. An amount of roughly LTL 1 million (LTL 2 million a year ago) was invested into IT systems.

By the end of March 2014, TEO had 808 thousand households passed (764 thousand a year ago), or 67 per cent of the country's households, by the FTTH network.

Cash and cash equivalents during the period of the first three months of 2014 increased by LTL 35 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.

The Board proposed for the Annual General Meeting of Shareholders, which will be held on 29 April 2014, to reduce the Company's authorised capital by 194,204,380 litas from 776,817,518 litas to LTL 582,613,138 litas. The purpose of reduction of the Company's authorised capital – payment of the Company's funds to all shareholders in proportion to the nominal value of shares owned by the property right by the shareholder. The Company's authorised capital shall be reduced by way of cancelling of the Company's shares with the

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nominal value equal to the reduction amount, i.e. 194,204,380 litas.

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.

Information about **trading in TEO shares** on NASDAQ OMX Vilnius stock exchange in January-March of 2014:

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
LTL	2.666	2.900	2.666	2.866	2.777	3,198,875	8,884,772
EUR	0.772	0.840	0.772	0.830	0.804	3,198,875	2,573,208

TEO market capitalisation as on 31 March 2014 was LTL 2,226 million (EUR 645 million) while a year ago it amounted to LTL 2,154 million (EUR 624 million).

The number of **shareholders** on the shareholders registration day (18 April 2013) for the last 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 March 2014:

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	-
TOTAL:	776,817,518	100.00	100.00	-

OTHER MATERIAL INFORMATION

The Company renewed its Internet and TV services, which are now provided under common single TEO brand. Starting from 5 March 2014 television GALA became TEO television and from April Internet ZEBRA is called TEO Internet.

Chairwoman of the Board Malin Frenning and members of the Board Jens Löw and Mats Lillienberg will resign from the Board of the Company as of 28 April 2014.

On 20 March 2014 the Board of the Company decided to convoke the Annual General Meeting of Shareholders on 29 April 2014.

The Board proposed for the Annual General Meeting of Shareholders from the Company's distributable profit of LTL 150,145 thousand to allocate LTL 147,595 thousand for the dividend payment for the year 2013 or LTL 0.19 dividend per share. For annual payments (tantiemes) to six members of the Board for the year 2013 to allocate LTL 324 thousand, i.e. LTL 54 thousand per one member of the Board.

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Also the Board proposed to elect UAB „Deloitte Lietuva” as the Company’s audit enterprise to perform the audit of the annual consolidated financial statements of the Company for the year 2014 and to make the assessment of the consolidated annual report of the Company for the year 2014.

On 20 March 2014, the Board approved a new governing structure of Company, which will take effect in June 2014. The Board also approved the termination of labour relations with Giedrius Vegys, Chief Financial Officer of the Company, and Edis Kasperavičius, Chief Sales Officer of the Company. Starting from 21 March 2014 Giedrius Vegys is not performing functions of Chief Financial Officer and will terminate his work in the Company on 22 May 2014. Edis Kasperavičius will be acting Chief Sales Officer until July 2014.

On 7 April 2014 the Board appointed the managers of the units in the new Company’s structure, which will take effect in June 2014. The Business to Consumer Division will be led by Nerijus Ivanauskas, who is currently Chief Marketing Officer. The Head of the Business to Business Division will be Aleksandras Samuchovas, who is Director of Baltic Data Center, a subsidiary of the Company. Giedrė Tarbūnienė will join the management team and will lead the Process Division. In the new governing structure the Human Resources Division will be led by Ramūnas Bagdonas, Legal Affairs – by Eglė Gudelytė-Harvey, Corporate Affairs – by Antanas Bubnelis, Risk Management – by Vytautas Bučinskas, Internal Audit – by Kastytis Kmitas. In the new structure instead of Finance Division, the Finance and Strategic Planning Division will be formed. Currently all the rights, duties and powers of the chief accountant are vested to Antanas Poška, Director of Accounting Department.

Darius Didžgalvis, Chief Technology Officer of the Company, left the company on 8 April 2014 and Vytautas Bučinskas, Director of Risk Management Unit, was appointed as acting Chief Technology Officer and temporarily will lead Network Technology Division.

Eglutė Bivainienė, Chief Operational Officer of Company, will leave TEO at the end of May 2014.

TeliaSonera AB, as the shareholder having 88.15 per cent of shares and votes, proposed instead of the resigning member of the Board to elect Robert Andersson, Stefan Block and Claes Nycander to the Board of the Company for the current term of the Board at the Annual General Meeting of Shareholders on 29 April 2014. Following provisions of The Governance Code for the Companies Listed on the NASDAQ OMX Vilnius stock exchange nominees upon election would be regarded as non-executive member of the Board.

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 1 April 2014:

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), Region Sweden, Head of Region	-
Tiia Tuovinen	Member of the Board, member of the Audit Committee	TeliaSonera AB (Sweden), Group Legal Affairs, Senior Legal Counsel for Competition and Corporate Governance	-
Inga Skisaker	Member of the Board, member of the Audit Committee	Nordea Bank AB (Sweden) Lithuania Branch, General Manager; Nordea Bank AB (Sweden), Head of Banking Baltic Countries	-
Jens Lööw	Member of the Board, Chairman of the Audit Committee	TeliaSonera AB (Sweden), Region Sweden, Chief Financial Officer	-

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Mats Lillienberg	Member of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), Region Sweden, Chief Technology Officer	-
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.

Members of Administration as of 8 April 2014:

Name, surname	Position in the Company	Current Board Assignments	Ownership of TEO shares
Kęstutis Šliužas	General Manager	-	-
Edis Kasperavičius	Acting Chief Sales Officer	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	UAB Lintel, a subsidiary of TEO LT, AB, Chairman of the Board; UAB Lietuvos Monetų Kalykla (Lithuania), member of the Board	-
Vytautas Bučinskas	Acting Chief Technology Officer, Director of Risk Management Unit	-	-
Eglutė Bivainienė	Chief Operational Officer	UAB Lintel, a subsidiary of TEO LT, AB, member of the Board	-
Antanas Poška	Director of Accounting Department	-	-

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	January - March	
		2014	2013
Revenue		169,452	182,666
Cost of goods and services		(38,162)	(42,900)
Employee-related expenses		(47,015)	(46,013)
Other expenses		(18,983)	(19,511)
Other income		104	97
Other gain/ (loss) - net		320	97
Depreciation, amortisation and impairment of fixed assets	3	(30,887)	(32,722)
Operating profit		34,829	41,714
Finance income		205	245
Finance costs		(59)	(51)
Finance income/ costs - net		146	194
Profit before income tax		34,975	41,908
Income tax	6	(3,282)	(3,656)
Profit for the period		31,693	38,252
Other comprehensive income:			
Other comprehensive income for the period		-	-
Total comprehensive income for the period		31,693	38,252
Profit and comprehensive income attributable to:			
Owners of the Parent		31,693	38,252
Minority interests		-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in litas per share)	7	0.04	0.05

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CONSOLIDATED BALANCE SHEET

	Note	31 March 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	3	756,146	771,895
Intangible assets	3	48,015	50,259
Investment property		10,794	10,794
Trade and other receivables		4,323	3,987
Deferred tax assets		160	236
		819,438	837,171
Current assets			
Inventories		2,604	2,203
Trade and other receivables		92,468	96,174
Current income tax receivable		837	166
Held-to-maturity investments		79,747	79,698
Cash and cash equivalents		179,788	144,891
		355,444	323,132
Total assets		1,174,882	1,160,303
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	5	776,818	776,818
Legal reserve		77,682	77,682
Retained earnings		215,781	184,087
Total equity		1,070,281	1,038,587
LIABILITIES			
Non-current liabilities			
Borrowings		1,006	1,266
Deferred tax liabilities		23,042	22,183
Deferred revenue and accrued liabilities		5,057	5,479
		29,105	28,928
Current liabilities			
Trade, other payables and accrued liabilities		74,457	91,700
Current income tax liabilities		13	72
Borrowings		1,026	1,016
		75,496	92,788
Total liabilities		104,601	121,716
Total equity and liabilities		1,174,882	1,160,303

(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
Balance at 1 January 2013	776,818	-	77,682	190,300	1,044,800
Net profit	-	-	-	38,252	38,252
Total comprehensive income for the period	-	-	-	38,252	38,252
Balance at 31 March 2013	776,818	-	77,682	228,552	1,083,052
Balance at 1 January 2014	776,818	-	77,682	184,087	1,038,587
Net profit	-	-	-	31,694	31,694
Total comprehensive income for the period	-	-	-	31,694	31,694
Balance at 31 March 2013	776,818	-	77,682	215,781	1,070,281

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January - March	
	2014	2013
Operating activities		
Profit for the period	31,693	38,252
Income tax	3,282	3,656
Depreciation, amortisation and impairment of fixed assets	30,887	32,722
Other gains and losses	(319)	(98)
Interest income	(204)	(244)
Interest expenses	22	34
Other non-cash transactions	76	(96)
Changes in working capital:		
Inventories	(401)	(1,568)
Trade and other receivables	3,371	(1,085)
Trade, other payables and accrued liabilities	1,670	(3,532)
Cash generated from operations	70,077	68,041
Interest paid	(22)	(34)
Interest received	259	264
Tax paid	(3,077)	(2,745)
Net cash from operating activities	67,237	65,526
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(32,420)	(32,280)
Proceeds from disposal of PPE and intangible assets	330	290
Acquisition of held-to-maturity investments	(20,000)	(25,179)
Disposal of held-to-maturity investments	20,000	4,999
Net cash used in investing activities	(32,090)	(52,170)
Financing activities		
Repayment of borrowings	(250)	(241)
Net cash used in financing activities	(250)	(241)
Increase (decrease) in cash and cash equivalents	34,897	13,115
Movement in cash and cash equivalents		
At the beginning of the year	144,891	175,598
Increase (decrease) in cash and cash equivalents	34,897	13,115
At the end of the period	179,788	188,713

(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 three months period ending 31 March 2014 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 2013.

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 March 2014 are not audited. Financial statements for the year ended 31 December 2013 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.

	Broadband segment		Other segment		Eliminations		Total Group	
	January-March		January-March		January-March		January-March	
	2014	2013	2014	2013	2014	2013	2014	2013
Segment revenue	157,783	170,173	21,646	23,504	(9,977)	(11,011)	169,452	182,666
Inter-segment revenue	(2,615)	(2,779)	(7,362)	(8,232)	9,977	11,011	-	-
Revenue from external customers	155,168	167,394	14,284	15,272	-	-	169,452	182,666
Profit for the period	30,062	36,928	1,631	1,324	-	-	31,693	38,252

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

3 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
Three months ended 31 March 2013		
Opening net book amount as at 31 December 2012	755,137	41,797
Additions	16,483	385
Disposals and retirements	(89)	(5)
Reclassification	(197)	99
Depreciation and amortisation charge	(30,613)	(2,109)
Closing net book amount as at 31 March 2013	740,721	40,167
Three months ended 31 March 2014		
Opening net book amount as at 31 December 2013	771,895	50,259
Additions	12,847	238
Disposals and retirements	(95)	-
Reclassification	(93)	(3)
Depreciation and amortisation charge	(28,408)	(2,479)
Closing net book amount as at 31 March 2014	756,146	48,015

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 March 2014	31 December 2013	
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 Hosting	Lithuania	100%	100%	The dormant subsidiary of UAB Hostex.
Baltic Data Center SIA	Latvia	100%	100%	The dormant subsidiary of UAB Baltic Data Center.
UAB Kompetencijos Ugdymo Centras	Lithuania	100%	100%	The dormant subsidiary of the Company.

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

UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of the investment project.
VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	100%	A non-profit organisation established and owned by the Company for management of the Communications History Museum.

5 Share capital and treasury shares

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

The tax expenses for the period comprise current and deferred tax.

Profit for 2014 is taxable at a rate of 15% in accordance with Lithuanian regulatory legislation on taxation (2013: 15%).

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 2014 amounted to LTL 2.1 million (2013: LTL 2.9 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 for the both reporting periods amounted to 776,818.

	January – March	
	2014	2013
Net profit	31,693	38,252
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818
Earnings per share (LTL)	0.041	0.049

8 Dividends per share

A dividend that relates to the period to 31 December 2013 was proposed by the Board on 20 March 2014. The total proposed amount is LTL 147,595 thousand or LTL 0.19 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 March 2014 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 TeliaSonera AB and its subsidiaries:

	January - March	
	2014	2013
Sales of telecommunication and other services	7,758	8,825
Total sales of telecommunication and other services	7,758	8,825
Purchases of services	2,913	4,304
Total purchases of services	2,913	4,304

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

	As at 31 March	
	2014	2013
Receivables from related parties	3,300	3,976
Accrued revenue from related parties	2,036	2,287
Total receivables and accrued revenue from related parties	6,263	6,263
Payables to related parties	235	312
Accrued expenses to related parties	77	-
Total payables and accrued expenses to related parties	312	312

As of 31 March 2014 the amount of LTL 54 thousand of tantiemes, assigned for the year 2010, was not paid to one member of the Board.

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, General Manager of TEO LT, AB, and Antanas Poška, Director of Accounting Department of TEO LT, AB, hereby confirm that, to the best of our knowledge, the not audited TEO LT, AB Interim Consolidated Financial Statements for the three months period ended 31 March 2014, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, profit and cash flows of TEO LT, AB and the Group of undertakings.

Kęstutis Šliužas
General Manager

Antanas Poška
Director of Accounting Department

Vilnius, 22 April 2014