TEO LT, AB

FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL AND INDEPENDENT AUDITOR'S REPORTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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Independent auditor's report

Independent auditor's report (continued)

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

STATEMENT OF COMPREHENSIVE INCOME

Approved by the Annual General Meeting of Shareholders as at ___ April 2013

		Year ended 31 December			
		GROUP		COMPANY	
	Note	2012	2011	2012	2011
Revenue	5	**760,174**	**749,784**	**696,919**	**702,710**
Cost of goods and services	6	(201,572)	(200,961)	(177,991)	(183,287)
Employee related expenses		(170,465)	(156,809)	(124,213)	(114,800)
Other operating expenses	8	(83,216)	(91,458)	(112,933)	(122,042)
Other income	7	994	881	6,375	8,178
Other gain/ (loss) - net	9	1,166	850	1,054	750
Depreciation, amortisation and impairment of fixed assets	14	(130,562)	(132,453)	(118,564)	(124,920)
Operating profit		**176,519**	**169,834**	**170,647**	**166,589**
Finance income		1,317	2,218	1,289	2,196
Finance costs		(534)	(39)	(469)	(16)
Finance income/ costs - net	10	783	2,179	820	2,180
Profit before income tax		**177,302**	**172,013**	**171,467**	**168,769**
Income tax	11	(18,235)	(17,527)	(16,598)	(15,929)
Profit for the year		**159,067**	**154,486**	**154,869**	**152,840**
Other comprehensive income:					
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**159,067**	**154,486**	**154,869**	**152,840**
Profit and comprehensive income attributable to:					
Owners of the Parent		**159,067**	**154,486**	**154,869**	**152,840**
Minority interests		-	-	-	-
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (expressed in Litas per share)	12	0.205	0.199	0.199	0.197

The notes on pages 10 to 50 form an integral part of these financial statements.

The financial statements on pages 5 to 50 have been approved for issue by the Board of Directors as at 13 March 2013 and signed on their behalf by the General Manager and the Chief Financial Officer:

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer

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

BALANCE SHEET

Approved by the Annual General Meeting of Shareholders as at ___ April 2013

	Note	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
		As at 31 December			
ASSETS					
Non-current assets					
Property, plant and equipment	14	755,137	734,926	715,547	699,126
Intangible assets	15	41,797	42,922	26,085	26,210
Investment property	16	10,794	10,794	-	-
Investments in subsidiaries	17	-	-	43,527	43,527
Trade and other receivables	19	2,322	6,407	6,784	10,877
Deferred tax assets	26	364	583	-	-
		810,414	**795,632**	**791,943**	**779,740**
Current assets					
Inventories		4,073	3,353	4,044	3,300
Trade and other receivables	19	109,160	111,834	100,612	103,319
Current income tax receivable		52	8,096	-	7,873
Held-to-maturity investments	20	60,045	30,186	60,045	30,186
Cash and cash equivalents	21	175,598	188,589	159,736	176,791
		348,928	**342,058**	**324,437**	**321,469**
Total assets		**1,159,342**	**1,137,690**	**1,116,380**	**1,101,209**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	22	776,818	776,818	776,818	776,818
Legal reserve	23	77,682	77,682	77,682	77,682
Retained earnings		190,300	186,597	160,668	161,163
Total equity		**1,044,800**	**1,041,097**	**1,015,168**	**1,015,663**
LIABILITIES					
Non-current liabilities					
Borrowings	25	2,282	3,259	2,282	3,259
Deferred tax liabilities	26	18,581	13,993	15,333	10,686
Deferred revenue and accrued liabilities	24	3,463	3,628	3,275	3,347
		24,326	**20,880**	**20,890**	**17,292**
Current liabilities					
Trade, other payables and accrued liabilities	24	88,647	74,739	79,167	67,314
Current income tax liabilities		592	-	178	-
Borrowings	25	977	974	977	940
		90,216	**75,713**	**80,322**	**68,254**
Total liabilities		**114,542**	**96,593**	**101,212**	**85,546**
Total equity and liabilities		**1,159,342**	**1,137,690**	**1,116,380**	**1,101,209**

The notes on pages 10 to 50 form an integral part of these financial statements.

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer

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

STATEMENT OF CHANGES IN EQUITY

Approved by the Annual General Meeting of Shareholders as at ___ April 2013

GROUP	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2011		**776,818**	**81,499**	**168,121**	**1,026,438**
Net profit		-	-	154,486	154,486
Total comprehensive income for the 2011		**-**	**-**	**154,486**	**154,486**
Dividends paid for 2010	13	-	-	(139,827)	(139,827)
Reduction of legal reserve		-	(3,817)	3,817	-
Balance at 31 December 2011		**776,818**	**77,682**	**186,597**	**1,041,097**
Balance at 1 January 2012		**776,818**	**77,682**	**186,597**	**1,041,097**
Net profit		-	-	159,067	159,067
Total comprehensive income for the 2012		**-**	**-**	**159,067**	**159,067**
Dividends paid for 2011	13	-	-	(155,364)	(155,364)
Balance at 31 December 2012		**776,818**	**77,682**	**190,300**	**1,044,800**

COMPANY	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2011		**776,818**	**81,499**	**144,333**	**1,002,650**
Net profit		-	-	152,840	152,840
Total comprehensive income for the 2011		**-**	**-**	**152,840**	**152,840**
Dividends paid for 2010	13	-	-	(139,827)	(139,827)
Reduction of legal reserve		-	(3,817)	3,817	-
Balance at 31 December 2011		**776,818**	**77,682**	**161,163**	**1,015,663**
Balance at 1 January 2012		**776,818**	**77,682**	**161,163**	**1,015,663**
Net profit		-	-	154,869	154,869
Total comprehensive income for the 2012		**-**	**-**	**154,869**	**154,869**
Dividends paid for 2011	13	-	-	(155,364)	(155,364)
Balance at 31 December 2012		**776,818**	**77,682**	**160,668**	**1,015,168**

The notes on pages 10 to 50 form an integral part of these financial statements.

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer

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

STATEMENT OF CASH FLOWS

Approved by the Annual General Meeting of Shareholders as at ___ April 2013

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2012	2011	2012	2011
Operating activities					
Profit for the year		159,067	154,486	154,869	152,840
Income tax	11	18,235	17,527	16,598	15,929
Depreciation, amortisation and impairment charge	14	130,562	132,453	118,564	124,920
Dividends received from subsidiaries	7	-	-	(4,800)	(7,000)
Other gains and losses	9	(1,166)	(850)	(1,054)	(750)
Write off of property, plant and equipment and intangible assets		643	538	633	542
Interest income	7,10	(2,311)	(3,099)	(2,864)	(3,374)
Interest expenses		206	195	155	170
Other non-cash transactions		539	707	406	527
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):					
Inventories		(720)	2,738	(744)	2,697
Trade and other receivables		2,043	13,017	4,085	15,447
Trade, other payables and accrued liabilities		4,141	(19,152)	1,978	(19,352)
Cash generated from operations		311,239	298,560	287,826	282,596
Interest paid		(206)	(195)	(155)	(170)
Interest received		2,447	3,099	3,003	3,378
Tax paid		(4,991)	(2,897)	(3,900)	(1,400)
Net cash from operating activities		**308,489**	**298,567**	**286,774**	**284,404**

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

STATEMENT OF CASH FLOW (CONTINUED)

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2012	2011	2012	2011
Investing activities					
Purchase of property, plant and equipment (PPE) and intangible assets		(136,213)	(199,771)	(121,330)	(194,393)
Proceeds from disposal of PPE and intangible assets		1,071	1,288	1,005	1,286
Acquisition of held-to-maturity investments		(196,068)	(100,000)	(194,569)	(100,000)
Disposal of held-to-maturity investments		166,068	109,995	164,569	108,499
Loans granted	29	-	-	(12,000)	(4,470)
Loans repaid	29	-	-	10,000	9,500
Dividends received	7	-	-	4,800	7,000
Net cash used in investing activities		**(165,142)**	**(188,488)**	**(147,525)**	**(172,578)**
Financing activities					
Repayment of borrowings		(974)	(1,189)	(940)	(904)
Dividends paid to shareholders of the Company	13	(155,364)	(139,827)	(155,364)	(139,827)
Net cash used in financing activities		**(156,338)**	**(141,016)**	**(156,304)**	**(140,731)**
Increase (decrease) in cash and cash equivalents		**(12,991)**	**(30,937)**	**(17,055)**	**(28,905)**
Movement in cash and cash equivalents					
At the beginning of the year		188,589	219,526	176,791	205,696
Increase (decrease) in cash and cash equivalents		(12,991)	(30,937)	(17,055)	(28,905)
At the end of the year	21	**175,598**	**188,589**	**159,736**	**176,791**

The notes on pages 10 to 50 form an integral part of these financial statements.

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS

1 General information

TEO LT, AB (hereinafter 'the Company') is a joint stock company incorporated as at 16 June 1997. On 5 May 2006 former company name AB Lietuvos Telekomas was changed to TEO LT, AB. The Company is domiciled in Vilnius, the capital of Lithuania. Address of its registered office is Lvovo str. 25, LT-03501, Vilnius, Lithuania.

The Company's shares are traded on NASDAQ OMX Vilnius stock exchange as from 16 June 2000. NASDAQ OMX Vilnius stock exchange is a home market for the Company's shares. From January 2011, TEO shares are included into the trading lists of the Berlin Stock Exchange, the Frankfurt Stock Exchange, the Munich Stock Exchange and the Stuttgart Stock Exchange.

The shareholders' structure of the Company as at 31 December 2012 was as follows:

	Number of shares	%
TeliaSonera AB (Sweden)	684,791,575	88.15
Other shareholders	92,025,943	11.85
	776,817,518	**100.00**

In June 2011 TeliaSonera AB took over from its subsidiary Amber Teleholding A/S the controlling interest in the Company (62.94 per cent of shares and votes). Before the transaction TeliaSonera AB directly held 5.14 per cent of the Company's shares and votes. Also TeliaSonera AB additionally acquired 0.21 per cent of the total number of share and increased its holding up to 68.29 per cent.

On 10 May 2012, TeliaSonera AB acquired from the funds managed by East Capital Asset Management AB and East Capital AB, and Coneglen Limited in total 61,129,044 shares of TEO (i.e. 7.87 per cent of all the shares of the Company) paying EUR 0.637 (equivalent in LTL 2.20) per one share and crossed the threshold of 75 per cent of votes at General Meeting of TEO shareholders.

In connection to that acquisition TeliaSonera AB announced its intension to launch the voluntary takeover bid to buy up the remaining shares of the Company for the price of EUR 0.637 per share. TeliaSonera AB also placed an order to NASDAQ OMX Vilnius stock exchange to buy shares of the Company for the price of EUR 0.637 per share.

On 30 May 2012 the Bank of Lithuania approved TeliaSonera's circular of the non-competitive voluntary takeover bid to buy up the remaining shares of the Company for the price of EUR 0.637 per share. The implementation of the takeover bid commenced on 5 June 2012 and terminated on 29 June 2012.

During takeover bid sell orders for 12,719,908 shares of the Company were placed. In addition, TeliaSonera during the period from 8 May to 29 June 2012 acquired 80,437,785 shares of the Company in the open market.

The Company's principal activity is the provision of fixed voice, internet access, data communication, digital television, IT and telecommunications network services to both business and residential customers in the Republic of Lithuania.

The Communication Regulatory Authority (CRA) of Lithuania has designated the Company together with its related legal entities as an operator with significant market power (SMP) in 15 telecommunications markets. The Company and UAB Omnitel as members of TeliaSonera Group are

regarded as related entities in Lithuania, therefore the Company is considered as SMP in the market of voice call termination in public mobile network of UAB Omnitel.

The number of full time staff employed by the Group at the end of 2012 amounted to 2,875 (2011: 2,928). The number of full time staff employed by the Company at the end of 2012 amounted to 1,881 (2011: 1,983).

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

		Ownership interest in %		
Subsidiary/ associate	**Country of incorporation**	**31 December 2012**	**31 December 2011**	**Profile**
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%	100%	The web hosting services providing subsidiary of UAB Hostex to be merged into UAB Hostex
UAB Hosting	Lithuania	100%	100%	Webhosting services providing dormant subsidiary of UAB Interdata.
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 that used to provide training and consultancy services.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of the investment project.
VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	100%	A not for profit organisation established by the Company for management of the Company's Communications History Museum.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and emended standards and interpretations adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

(b) Standards, amendments and interpretations to existing standards effective in 2012 but not relevant to the Group:

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. This amendment did not have any impact on the Group's financial statements.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

IFRS 10, Consolidated Financial Statements *(effective for annual periods beginning on or after 1 January 2014),* replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 11, Joint Arrangements, *(effective for annual periods beginning on or after 1 January 2014),* replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group does not expect this standard to have any material effect on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, *(effective for annual periods beginning on or after 1 January 2014),* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to

evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 13, Fair value measurement, *(effective for annual periods beginning on or after 1 January 2013),* aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

IAS 27, Separate Financial Statements, *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2014).* The objective of the revised standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2014).* The standard was revised following the issue of IFRS 11 and it now includes the requirements for joint ventures, as well as associates, to be equity accounted. The Group does not expect this standard to have any material effect on its financial statements.

Amended IAS 19, Employee Benefits**,** *(effective for annual periods beginning on or after 1 January 2013,.* makes significant changes (i) to the recognition and measurement of defined benefit pension expense and termination benefits, and (ii) to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the standard on its financial statements.

Presentation of Items of Other Comprehensive Income, amendments to IAS 1, *(effective for annual periods beginning on or after 1 July 2012).* The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2013). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The Group does not expect the amendments to have any material effect on its financial statements.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 *(effective for annual periods beginning on or after 1 January 2014).* The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group does not expect the amendments to have any material effect on its financial statements.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 *(effective for annual periods beginning on or after 1 January 2013).* The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group

2.2 Group accounting

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances, income and expenses on transaction between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities as well as the consolidated financial statements are presented in Lithuanian Litas (LTL), which is the functional currency of Company and all subsidiaries.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gain/ (loss) – net'.

2.4 Property, plant and equipment

Property, plant and equipment is carried at its historical cost less any accumulated depreciation and any accumulated impairment loss. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful life, as follows:

Buildings	10 – 50 years
Plant and machinery	3 – 10 years
Switches, lines and related telecommunication equipment	3 – 30 years
Computers and computer network	3 – 20 years
Motor vehicles	2 – 10 years
Other tangible fixed assets	5 – 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Construction in progress is transferred to appropriate groups of fixed assets when it is completed and ready for its intended use.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included within 'Other gain/ (loss) - net' in the statement of comprehensive income.

2.5 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Other intangible assets

Intangible assets expected to provide economic benefit to the Group and the Company in future periods have finite useful life and are valued at acquisition cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line method to allocate the cost of intangible asset over estimated benefit period as follows:

Licences	3 - 10 years
Software	3 – 5 years
Other intangible fixed assets	5 years

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date.

Contractual customer relationships acquired in the business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using straight-line method over the expected life of the customer relationship

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:
- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- There is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable cost that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.6 Investment property

Properties that are held for undetermined use and that are not occupied by the entities in the consolidated Group, are classified as investment properties. Investment properties comprise construction in progress.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Group and the cost can be measured reliably. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Investment properties of the Group are stated at cost less accumulated depreciation and any accumulated impairment losses. Transaction costs are included on initial measurement. The fair values of investment properties are disclosed in the Note 16. These are assessed using method of residual value.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not yet available for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets into the following measurement categories: at fair value through profit or loss, available-for-sale, held to maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During the current period the Group and the Company did not hold any investments in available-for-sale and at fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's and the Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

Held to maturity investments

Held to maturity classification includes non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturities that the Group and the Company has both the intention and ability to hold to maturity.

Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group or the Company fails to keep these investments to maturity other than for certain specific circumstances – for example, selling more than an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group or the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group

or the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method. Held to maturity investments are carried at amortised cost using the effective interest method, net of a provision for incurred impairment losses.

2.8.3 Impairment of financial assets

The Group and the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence that the Group or the Company will not be able to collect all amounts due according to the original terms of receivables, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the loans and receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'other operating expenses'. When a loans and receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'other operating expenses' in the statement of comprehensive income.

2.9 Investments in subsidiaries and associates in the separate financial statements of the Company

Investments in subsidiaries that are included in the separate financial statements of the Company are accounted at cost less impairment provision. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group and the Company from the tax authorities), transport, handling and other costs directly attributable to the acquisition of inventories. Net realisable value is the estimate of the selling price in the ordinary course of business, less the applicable selling expenses. All inventories held by the Group attribute to the materials category.

2.11 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or service performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets, if not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Interconnection receivables and payables to the same counterparty are stated net, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

2.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Trade payables

Trade payable are obligations to pay for goods or services that have been acquired in ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 month after the balance sheet date.

2.16 Accounting for leases – where the Group or the Company is the lessee

Finance lease

Where the Group or the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group or the Company is classified as finance lease. The assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the statement of comprehensive income over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term if the Group or the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

If sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not recognised immediately and is deferred and amortised over the lease term. The deferred amount is carried as deferred income included in line 'Deferred revenue and accrued liabilities' in the balance sheet.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately. If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for

by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

2.17 Accounting for leases – where the Group or the Company is the lessor

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments received under operating leases (net of any incentives provided to the lessee) are credited to the statement of comprehensive income on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of asset.

2.18 Income tax

The tax expenses for the period comprise current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to item recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Profit for 2012 is taxable at a rate of 15% (2011: 15%) in accordance with Lithuanian regulatory legislation on taxation.

Income tax expense is calculated and accrued for in the financial statements on the basis of information available at the moment of the preparation of the financial statements, and estimates of income tax performed by the management in accordance with Lithuanian regulatory legislation on taxation.

Deferred income tax assets are recognised only to the extent that is probable that future taxable profit will be available against which the temporary differences and unused tax losses can be utilised.

According to Lithuanian legislation, tax losses accumulated as of 31 December 2012 are carried forward indefinitely.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

2.19 Revenue recognition

Sales of services and goods

Telecommunications services' revenue is recognised when the services are rendered based on usage of the network and facilities net of value added tax and price discounts directly related to the sales. Other revenues are recognised when products are delivered or services are rendered to customers. At the end of each accounting period a revenue accrual is performed to record amounts not yet billed.

Revenue from interconnection is accrued at the end of each accounting period based on the actual traffic of incoming calls from different carriers. Accrued revenue is adjusted to actual after reconciliation with the carrier is performed.

Service activation fees are recognised as income and related costs are expensed at the moment of activating the service.

The Company used customer loyalty programme till December 2011. Under the Company's customer loyalty programmes, customers were entitled to certain discounts relating to the Company's services and goods supplied by third parties. The volume of the customer's accumulated discount for the period depended on invoice amount paid by the customer and other certain customer actions. Accumulated customer's discounts were valid for the two years period. At the end of each reporting period the Company estimated the fair value of the services and goods that can be granted in exchange of accumulated discounts, considering also the proportion of discounts that are not expected to be used by customers, based on the historical statistical usage of discounts. This amount was recognised as deferred income. In the statement of comprehensive income these deferred income were treated as a deduction from revenues. The Company's Loyalty program was terminated as of December 2011. The fair value of accumulated and not used customer's discounts was recognised as revenue in the statement of comprehensive income in 2011.

Multiple element arrangements

The Company offers certain arrangements whereby, together with a defined period of servicing agreement, customer is offered goods or services free of charge or at a price significantly below market price of these goods or services. When such multiple element agreements exits, the amount recognised as revenue upon the sale of the goods is the fair value of the offered goods in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement, is recognised over service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.. When there is no objective and reliable evidence of the fair value of the delivered element, the fair value of undelivered element is used as a basis. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such manner as to reflect fair value of the elements.

Arrangements of discounts

The Company offers certain arrangements whereby, together with a defined period of servicing agreement, customer is offered discount for the services for a certain period. When such discount exits, such discount is allocated over defined period of servicing.

2.20 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group and the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Interest income on held-to-maturity investments and loans granted are classified into 'other income', while interest income on cash and cash equivalents are classified into 'finance income'.

2.21 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.22 Employee benefits

Social security contributions

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group and the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions amounting to LTL 39.1 million for the Group and LTL 28.6 million for the Company (2011: LTL 37.6 million for the Group and LTL 27.8 million for the Company) are recognised as an expense on an accrual basis and are included within employee related expenses.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date per mutual agreement or employers will. The Group and the Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of mutual agreement. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Bonus plans

The Group and the Company recognises a liability and an expense for bonuses based on predefined targets. The Group and the Company recognises related liability where contractually obliged or where there is a past practice that has created a constructive obligation.

Supplementary health insurance

The Company pays supplementary health insurance contributions to the insurance company on behalf of its employees. Supplementary health insurance for employees is the possibility to get health care and health improvement services in a selected health care institution. The supplementary health insurance contributions are recognized as expenses when incurred.

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

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the company's shareholders.

Withholding tax on dividends paid to legal entities amounts to 15% (2011: 15%). According to statutory law, participation exemption (i.e. no withholding tax on dividends) could be applied when shareholder holds more than 10% of share capital and retains the holding for more than one year. There is also withholding tax exemption on dividends paid to pension and investment funds.

2.24 Segment information

The Company's TOP management consisting of General Manager and 5 Chief Officers considers the business from Group 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, which is measured using the same accounting policies than used in preparation of these consolidated financial statements.

The Company's activity is the operating 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 voice telephony, data communication and network capacity, internet, IT and TV services and other services.

The Company's subsidiaries do not meet the quantitative thresholds required by IFRS 8. The results of subsidiaries are combined and disclosed in the 'other segment' column. The profile of each subsidiary is described in Note 1.

	Broadband segment		Other segment		Eliminations		Total Group	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Segment revenue	696,919	702,710	110,196	96,818	(46,941)	(49,744)	760,174	749,784
Inter-segment revenue	(10,933)	(10,498)	(36,008)	(39,246)	46,941	49,744	-	-
Revenue from external customers	**685,986**	**692,212**	**74,188**	**57,572**	**-**	**-**	**760,174**	**749,784**
Depreciation and amortisation	(118,564)	(124,920)	(12,045)	(7,485)	47	(48)	(130,562)	(132,453)
Income tax	(16,598)	(15,929)	(1,637)	(1,598)	-	-	(18,235)	(17,527)
Profit for the year	154,869	152,840	8,998	8,609	(4,800)	(6,963)	159,067	154,486

The Group is domiciled in Lithuania. The result of its revenue from external customers in the Lithuania is LTL 598.7 million (2011: LTL 604.1 million), and the total of revenue from external customers from other countries is LTL 161.5 million (2011: LTL 145.7 million).

Eliminations between segments comprise related party transactions, carried out at arm's length and other adjustments relating to consolidation.

All non-current assets are located in the Group's country of domicile.

For the Group's and the Company's revenue specification by products see Note 5.

3 Financial risk management

The Group's and the Company's activities expose it to financial risks: market risk (including foreign exchange risk, and fair value interest rate risk), credit risk, liquidity risk. The Group's Policy for Treasury Management putting the main guidelines for financial risk management and seeks to minimise potential adverse effects of the financial performance of the Group.

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

Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euro (EUR), US Dollar (USD) and Special Drawing Rights (XDR). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. Substantially all the Group's trade payables and trade receivables are short-term and in addition revenues and expenses in foreign currencies are insignificant as compared to those in Lithuanian Litas. The Group manages foreign exchange risk by minimising the net exposure to open foreign currency position. Further exposure to foreign exchange risk is disclosed in Notes 19, 20, 21 and 24.

From February 2002 the exchange rate of Lithuanian Litas has been pegged to the Euro at a rate of Lithuanian Litas 3.4528 = Euro 1.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Held-to-maturity investments carry fixed interest rates, therefore they are not subject to cash flow or fair value interest rate risk.

The most significant interest bearing asset is bonds issued by the Lithuanian banks amounting to LTL 60,045 thousand for the Group and the same amount for the Company (2011: LTL 30,186 thousand for the Group and the same amount for the Company). For further information on held-to-maturity investments see Note 20.

Credit risk

The financial assets exposed to credit risk represent cash deposits and held-to-maturity investments with banks and trade receivables. The Group has no significant concentrations of credit risk, except that as at 31 December 2012 all held-to-maturity investments are held in the one Lithuanian commercial bank (Note 20). These held-to-maturity investments are made within the frames of TEO Group Treasury policy, approved by the Board of directors. Credit risks or the risks of counter-parties defaulting, are controlled by the application of credit terms and monitoring procedures.

All the new customers (corporate and private) are investigated for creditworthiness before contract signing. Customer bill payment control consists of a number of various reminders regarding bill payment term expiration, and consequently services are limited after 10-15 days since the last reminder for all indebted customers, and after further 30-35 days provision of services is fully terminated. After sending additional reminding letters bad debts are handed over to external bad debt collection agencies for debt recovery.

Impairment provision for trade receivables is calculated on a monthly basis according to the Group's internal policy for trade receivable impairment. Estimation of impairment provision is based on classification of trade receivables into categories according to the payment overdue period and application of certain impairment rates to each category. The impairment rates and the Group's internal policy for trade receivable impairment estimation are updated on half yearly basis.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Liquidity risk

Liquidity risk relates to the availability of sufficient funds for debt service, capital expenditure and working capital requirement and dividend payment. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The Group's short-term assets significantly exceed short term liabilities and therefore liquidity risk is considered to be very low. Accordingly the Group's management implemented formal procedures for liquidity risk management, where minimum required liquidity position (calculated as cash and cash equivalents plus undrawn committed credit facilities) should at any time exceed the level of 2.5% of planned annual turnover.

The Group's and the Company's short term liabilities do not involve any interest and payment of them is due within one year, therefore undiscounted cash flows table was not prepared for them. For the analysis of the undiscounted cash flows of the Group's and the Company's borrowings, into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date see Note 25.

Capital risk management

The group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders and issue new shares. Capital is calculated as 'Equity' as shown in the balance sheet.

Pursuant to the Lithuanian Law on Companies the authorised share capital of a joint stock company must be not less than LTL 100,000, and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2012 and as at 31 December 2011 the Company complied with these requirements.

The Group's operations are financed mostly by the shareholders' capital. The Company did not have any borrowings, except finance lease liabilities during 2012 and 2011.

Fair value estimation

The fair value of financial instruments that are not traded in an active market for the disclosure purpose is estimated by discounting the cash flows from the financial instrument. The fair value of the held-to-maturity investments traded in active market is based on quoted market prices at the balance sheet date.

The carrying value less impairment losses of trade receivables and carrying value of payables are assumed to approximate their fair value.

4 Critical Accounting Estimates

Property, plant and equipment

Estimates concerning useful lives of property, plant and equipment due to constant technology advances – useful lives are disclosed above and depreciation charge for the year is disclosed in Note 14. Increasing an asset's expected useful life or its residual value would result in a reduced depreciation charge. The useful lives of property, plant and equipment are determined by management at the time the asset is acquired and reviewed on an annual basis for appropriateness. The lives are based on historical experiences with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Furthermore, network infrastructure cannot be depreciated over a period that extends beyond the expiry of the associated licence under which services are provided.

Impairment provision for accounts receivable

Impairment provision for accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the Company could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

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

5 Revenue

	GROUP		COMPANY	
	2012	2011	2012	2011
Voice telephony services	354,880	374,435	351,668	371,674
Internet services	171,836	160,697	172,186	160,923
Data communication and network capacity services	87,424	92,258	89,258	93,934
TV services	57,059	47,503	57,059	47,505
IT services	64,271	47,535	9,332	10,996
Other services	24,704	27,356	17,416	17,678
Total	**760,174**	**749,784**	**696,919**	**702,710**

6 Cost of goods and services

	GROUP		COMPANY	
	2012	2011	2012	2011
Costs of goods and services purchased	48,473	48,177	25,103	30,557
Network's interconnection	112,852	108,620	112,852	108,620
Network capacity costs	40,247	44,164	40,036	44,110
Total	**201,572**	**200,961**	**177,991**	**183,287**

To better reflect the nature of the business, in 2012, the Group and the Company changed the grouping of operating expenses: costs of goods and services purchased and network capacity costs (2011: LTL 92,341 thousand for the Group and LTL 74,667 thousand for the Company) were moved from 'other operating expenses' and together with former separate 'interconnection expenses' formed a new group of 'cost of goods and services'.

7 Other income

	GROUP		COMPANY	
	2012	2011	2012	2011
Interests income on held –to – maturity investments	994	881	1,575	1,178
Income from dividends	-	-	4,800	7,000
	994	**881**	**6,375**	**8,178**

8 Other operating expenses

	GROUP		COMPANY	
	2012	2011	2012	2011
Maintenance and other services	16,755	17,873	48,802	50,627
Energy, premises and transport costs	42,208	42,559	41,094	41,702
Marketing expenses	9,982	13,938	9,626	13,425
Impairment of accounts receivable	1,592	3,440	1,562	3,458
Other expenses	12,679	13,648	11,849	12,830
	83,216	**91,458**	**112,933**	**122,042**

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

9 Other gain/loss – net

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Gain on sales of property, plant and equipment	1,212	945	1,109	842
Loss on sales of property, plant and equipment	(132)	(78)	(132)	(78)
Other gain (loss)	86	(17)	77	(14)
	1,166	**850**	**1,054**	**750**

10 Finance income and costs

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Interest income on cash and cash equivalents	853	1,689	827	1,672
Other finance income	464	529	462	524
Finance income	**1,317**	**2,218**	**1,289**	**2,196**
Interest expenses	(147)	(188)	(147)	(182)
Foreign exchange gain (loss) on financing activities	(187)	287	(173)	303
Other finance costs	(200)	(138)	(149)	(137)
Finance costs	**(534)**	**(39)**	**(469)**	**(16)**
Finance income/costs– net	**783**	**2,179**	**820**	**2,180**

11 Income tax

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Current tax	13,428	13,696	11,951	12,175
Deferred tax (Note 25)	4,807	3,831	4,647	3,754
Income tax expense	**18,235**	**17,527**	**16,598**	**15,929**

As of 1 January 2009 amendments to Law on Corporate Profit Tax came into effect which provides tax relief for investments in new technologies. As a result the Company's calculated profit tax relief amounts to LTL 10.9 million (2011: 10.3 million). Investments in new technologies are capitalised as property, plant and equipment, and their depreciation is deductible for tax purposes, therefore, the tax relief does not create any deferred tax liability.

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. The Group's and the Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

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

11 Income tax (continued)

The tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Profit before income tax	**177,302**	**172,013**	**171,467**	**168,769**
Tax calculated at a tax rate of 15% (2011: 15%)	26,595	25,801	25,720	25,315
Non-taxable dividends received	-	-	(720)	(1,050)
Income not subject to tax (-) and expenses not deductible for tax purposes (+)	1,582	266	1,427	201
Tax relief	(10,928)	(10,335)	(10,890)	(10,335)
Other	986	1,795	1,061	1,798
Tax charge	**18,235**	**17,527**	**16,598**	**15,929**

12 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.

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Net profit	**159,067**	**154,486**	**154,869**	**152,840**
Weighted average number of ordinary shares in issue (thousands)	776,818	776,818	776,818	776,818
Basic earnings per share (LTL)	**0.205**	**0.199**	**0.199**	**0.197**

13 Dividends per share

The dividends per share declared in respect of 2011 and 2010 and paid in 2012 and 2011 were LTL 0.20 and LTL 0.18 respectively. As at the date of approval of these financial statements dividends amounting to LTL 155,364 thousand are proposed in respect of 2012.

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

14 Property, plant and equipment

The depreciation and amortisation charge in the statement of comprehensive income consists of the following items:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Depreciation of property, plant and equipment	121,603	122,670	111,837	117,172
Amortisation of intangible assets (Note 15)	8,959	9,783	6,727	7,748
	130,562	**132,453**	**118,564**	**124,920**

In 2012 the Company revised the useful lives of its property, plant and equipment. After the above revision the useful lives of particular items in telecommunication equipment group mostly were prolonged, whereby the depreciation charge for 2012 for the telecommunication equipment group decreased by LTL 1.6 million as compared to previously used useful lives for property, plant and equipment. Useful live for intangible assets was also revised in 2012, the amortisation charge for intangible assets decreased by LTL 0.4 million. The effect of the revision of the useful lives will result in the increased depreciation and amortisation charge by LTL 1.8 million in 2013.

GROUP	**Land and buildings**	**Ducts and telecommu-nication equipment**	**Other tangible fixed assets**	**Construction in progress**	**Total**
At 31 December 2010					
Cost	122,506	2,580,512	80,962	41,376	2,825,356
Accumulated depreciation	(48,177)	(2,010,082)	(60,667)	-	(2,118,926)
Net book amount	**74,329**	**570,430**	**20,295**	**41,376**	**706,430**
Year ended 31 December 2011					
Opening net book amount	**74,329**	**570,430**	**20,295**	**41,376**	**706,430**
Additions	-	4,413	379	148,217	153 009
Reclassifications	(407)	(29)	(395)	(207)	(1,038)
Disposals and retirements	(9)	(657)	(129)	(10)	(805)
Transfers from construction in progress	200	154,541	8,853	(163,594)	-
Depreciation charge	(4,393)	(109,241)	(9,036)	-	(122,670)
Closing net book amount	**69,720**	**619,457**	**19,967**	**25,782**	**734,926**

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

14 Property, plant and equipment (continued)

At 31 December 2011					
Cost	122,484	2,639,113	85,072	25,782	2,872,451
Accumulated depreciation	(52,764)	(2,019,656)	(65,105)	-	(2,137,525)
Net book amount	**69,720**	**619,457**	**19,967**	**25,782**	**734,926**
Year ended 31 December 2012					
Opening net book amount	**69,720**	**619,457**	**19,967**	**25,782**	**734,926**
Additions	-	11,065	746	131,075	142,886
Reclassifications	(405)	49	187	1	(168)
Disposals and retirements	(38)	(850)	(16)	-	(904)
Transfers from construction in progress	3,007	132,205	3,584	(138,796)	-
Depreciation charge	(4,228)	(109,471)	(7,904)	-	(121,603)
Closing net book amount	**68,056**	**652,455**	**16,564**	**18,062**	**755,137**
At 31 December 2012					
Cost	125,276	2,687,391	77,402	18,062	2,908,131
Accumulated depreciation	(57,220)	(2,034,936)	(60,838)	-	(2,152,994)
Net book amount	**68,056**	**652,455**	**16,564**	**18,062**	**755,137**

COMPANY	**Land and buildings**	**Ducts and telecommu-nication equipment**	**Other tangible fixed assets**	**Construction in progress**	**Total**
At 31 December 2010					
Cost	85,668	2,549,635	70,888	41,376	2,747,567
Accumulated depreciation	(39,632)	(1,985,668)	(52,369)	-	(2,077,669)
Net book amount	**46,036**	**563,967**	**18,519**	**41,376**	**669,898**
Year ended 31 December 2011					
Opening net book amount	**46,036**	**563,967**	**18,519**	**41,376**	**669,898**
Additions	-	-	-	148,217	148,217
Disposals and write-offs	(7)	(654)	(104)	(12)	(777)
Reclassifications	(407)	20	(446)	(207)	(1,040)
Transfers from construction in progress	200	154,541	8,854	(163,595)	-
Depreciation charge	(3,437)	(105,271)	(8,464)	-	(117,172)
Closing net book amount	**42,385**	**612,603**	**18,359**	**25,779**	**699,126**
At 31 December 2011					
Cost	85,733	2,607,614	75,066	25,779	2,794,192
Accumulated depreciation	(43,348)	(1,995,011)	(56,707)	-	(2,095,066)
Net book amount	**42,385**	**612,603**	**18,359**	**25,779**	**699,126**

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

14 Property, plant and equipment (continued)

	Land and buildings	Ducts and telecommu-nication equipment	Other tangible fixed assets	Construction in progress	Total
Year ended 31 December 2012					
Opening net book amount	**42,385**	**612,603**	**18,359**	**25,779**	**699,126**
Additions	-	-	284	128,947	129,231
Disposals and write-offs	(38)	(753)	(16)	-	(807)
Reclassifications	(406)	(5)	230	15	(166)
Transfers from construction in progress	3,007	130,089	3,584	(136,680)	-
Depreciation charge	(3,272)	(101,096)	(7,469)	-	(111,837)
Closing net book amount	**41,676**	**640,838**	**14,972**	**18,061**	**715,547**
At 31 December 2012					
Cost	88,526	2,643,139	67,170	18,061	2,816,896
Accumulated depreciation	(46,850)	(2,002,301)	(52,196)	-	(2,101,349)
Net book amount	**41,676**	**640,838**	**14,972**	**18,061**	**715,547**

The category 'Ducts and telecommunication equipment' includes terminal equipment leased by the group to third parties under operating leases with the following carrying amounts:

	As at 31 December			
	GROUP		COMPANY	
	2012	2011	2012	2011
Cost	18,857	19,747	18,857	19,747
Accumulated depreciation at 1 January	(2,182)	(2,659)	(2,182)	(2,659)
Depreciation charge for the year	(2,990)	(3,196)	(2,990)	(3,196)
Net book amount	**13,685**	**13,892**	**13,685**	**13,892**

15 Intangible assets

GROUP	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction*	Total
At 31 December 2010						
Cost	17,843	183,937	10,833	13,591	7,773	233,977
Accumulated amortisation	(5,326)	(168,264)	-	(11,046)	-	(184,636)
Net book amount	**12,517**	**15,673**	**10,833**	**2,545**	**7,773**	**49,341**

15 Intangible assets (continued)

	Licences	Software	Goodwill	Other intangible assets	Assets in the course of construction*	Total
Year ended 31 December 2011						
Opening net book amount	**12,517**	**15,673**	**10,833**	**2,545**	**7,773**	**49,341**
Additions	-	205	-	169	2,814	3,188
Disposals and write-offs	-	(5)	-	-	-	(5)
Reclassification	-	42	-	(39)	178	181
Transfer from assets in the course of construction	-	1,623	-	7,480	(9,103)	-
Amortisation charge	(1,771)	(6,803)	-	(1,209)	-	(9,783)
Closing net book amount	**10,746**	**10,735**	**10,833**	**8,946**	**1,662**	**42,922**
At 31 December 2011						
Cost	17,843	169,819	10,833	20,190	1,662	220,347
Accumulated amortisation	(7,097)	(159,084)	-	(11,244)	-	(177,425)
Net book amount	**10,746**	**10,735**	**10,833**	**8,946**	**1,662**	**42,922**
Year ended 31 December 2012						
Opening net book amount	**10,746**	**10,735**	**10,833**	**8,946**	**1,662**	**42,922**
Additions	-	206	-	44	7,594	7,844
Disposals and write-offs	-	-	-	-	-	-
Reclassification	-	(80)	-	-	70	(10)
Transfer from assets in the course of construction	-	3,377	-	150	(3,527)	-
Amortisation charge	(1,767)	(5,033)	-	(2,159)	-	(8,959)
Closing net book amount	**8,979**	**9,205**	**10,833**	**6,981**	**5,799**	**41,797**
At 31 December 2012						
Cost	17,843	169,145	10,833	18,797	5,799	222,417
Accumulated amortisation	(8,864)	(159,940)	-	(11,816)	-	(180,620)
Net book amount	**8,979**	**9,205**	**10,833**	**6,981**	**5,799**	**41,797**

* Assets in the course of construction comprise intangible assets developed for internal use and provision of services, are expected to be completed within 2013.

Goodwill was tested for impairment at 31 December 2012. For the purposes of impairment testing, goodwill is allocated to group's cash-generating units (CGUs). As of 31 December 2012, there were 2 cash generating units identified (with the goodwill amount allocated to them): UAB Baltic Data Center (LTL 2,658 thousand) and UAB Hostex (LTL 8,175 thousand) which comprise also goodwill from UAB Interdata acquisition, company to be merged into UAB Hostex (2011: 3 cash generating units identified (with the goodwill amount allocated to them): UAB Baltic Data Center (LTL 2,658 thousand), UAB Interdata (LTL 3,741 thousand), and UAB Hostex (LTL 4,434 thousand)). The Recoverable amount of all CGUs has been determined based on value-in-use calculations. These calculations use post-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated bellow.

15 Intangible assets (continued)

The key assumptions used for value-in-use calculations are as follows for the each CGUs:

	2012	2011
Growth rate in 2013-2017, %	5	5
Growth rate perpetuity, %	2	2
Discount rate, %	12	12

Management determined budgeted profit after tax based on past performance and its expectations of market development. The weighted average growth rates are consistent with the forecasts for IT industry. The discount rates used are post- tax and reflect specific risks relating to the relevant operating segments. Based on analysis performed, the management concluded that no impairment loss is needed as at 31 December 2012 (2011: no impairment loss).

A fall in growth rate by 1 percentage point or a rise in discount rate by 1 percentage point would not result to any impairment for each CGUs.

COMPANY	Licences	Software	Other intangible assets	Assets in the course of construction	Total
At 31 December 2010					
Cost	17,843	154,766	3,579	7,686	183,874
Accumulated amortisation	(5,322)	(143,829)	(3,579)	-	(152,730)
Net book amount	**12,521**	**10,937**	**-**	**7,686**	**31,144**
Year ended 31 December 2011					
Opening net book amount	**12,521**	**10,937**	**-**	**7,686**	**31,144**
Additions	-	111	-	2,490	2,601
Reclassifications	-	(9)	-	222	213
Transfer from assets in the course of construction	-	1,323	7,480	(8,803)	-
Amortisation charge	(1,767)	(4,859)	(1,122)	-	(7,748)
Closing net book amount	**10,754**	**7,503**	**6,358**	**1,595**	**26,210**
At 31 December 2011					
Cost	17,843	143,162	11,057	1,595	173,657
Accumulated amortisation	(7,089)	(135,659)	(4,699)	-	(147,447)
Net book amount	**10,754**	**7,503**	**6,358**	**1,595**	**26,210**
Year ended 31 December 2012					
Opening net book amount	**10,754**	**7,503**	**6,358**	**1,595**	**26,210**
Additions	-	-	-	6,617	6,617
Reclassifications	-	-	-	(15)	(15)
Transfer from assets in the course of construction	-	2,422	-	(2,422)	-
Amortisation charge	(1,767)	(3,464)	(1,496)	-	(6,727)
Closing net book amount	**8,987**	**6,461**	**4,862**	**5,775**	**26,085**

15 Intangible assets (continued)

At 31 December 2012					
Cost	17,843	143,856	11,057	5,775	178,531
Accumulated amortisation	(8,856)	(137,395)	(6,195)	-	(152,446)
Net book amount	**8,987**	**6,461**	**4,862**	**5,775**	**26,085**

In Lithuania provision of fixed, long distance and international telecommunication services (including data transmission) is not subject to licensing.

16 Investment property

As at 31 December 2012 the Group as investment property accounted construction in progress (2011: construction in progress).

At 31 December 2012 and 2011 the fair value of the investment property approximates the carrying value. The investment properties were externally valued as at 30 December 2011 by Re&Solution, by using method of residual value. By Management assessment there have been no significant changes in situation in the market and the economy as a whole during 2012; therefore the fair value of the property has not changed significantly since 31 December 2011. No valuation of the investment property was performed by external valuator at the end of Year 2012.

Management applied judgment in determining the classification of the construction in progress as investment property and, based on past experience, considered that, since the future use of the asset is undetermined, it is appropriate to classify it as investment property. Possible outcomes of the future use are selling the asset or completing it and using it by the Group as an office building.

17 Investments in subsidiaries

As at 31 December 2012 the investments accounted by the Company under Investments in subsidiaries amounted to LTL 43,527 thousand (2011: LTL 43,527 thousand). During 2012 there were no movements in balance of the investments accounted under Investments in subsidiaries by the Company.

18 Financial instruments by category

The accounting policies for the financial instruments have been applied to the line item below:

GROUP	Loans and receivables	Held-to-maturity investments	Total
31 December 2012			
Assets as per balance sheet			
Trade and other receivables	100,434	-	100,434
Held-to-maturity investment	-	60,045	60,045
Cash and cash equivalents	175,598	-	175,598
Total	**276,032**	**60,045**	**336,077**

	Loans and receivables	Held-to-maturity investments	Total
31 December 2011			
Assets as per balance sheet			
Trade and other receivables	103,508	-	103,508
Held-to-maturity investment	-	30,186	30,186
Cash and cash equivalents	188,589	-	188,589
Total	**292,097**	**30,186**	**322,283**

COMPANY	Loans and receivables	Held-to-maturity investments	Total
31 December 2012			
Assets as per balance sheet			
Trade and other receivables	100,153	-	100,153
Held-to-maturity investment	-	60,045	60,045
Cash and cash equivalents	159,736	-	159,736
Total	**259,889**	**60,045**	**319,934**

	Loans and receivables	Held-to-maturity investments	Total
31 December 2011			
Assets as per balance sheet			
Trade and other receivables	101,001	-	101,001
Held-to-maturity investment	-	30,186	30,186
Cash and cash equivalents	176,791	-	176,791
Total	**277,792**	**30,186**	**307,978**

All financial liabilities of the Group amounting to LTL 61,152 thousand (2011: LTL 55,531 thousand) and of the Company amounting to LTL 63,235 thousand (2011: LTL 55,806 thousand) fell under the category of other financial liabilities, there are no liabilities at fair value through profit and loss.

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

19 Trade and other receivables

	GROUP		COMPANY	
	2012	2011	2012	2011
Trade receivables from business customers and residents	102,356	106,484	94,410	97,963
Trade receivables from other operators	14,295	14,653	13,049	14,652
Total trade receivables	**116,651**	**121,137**	**107,459**	**112,615**
Less: provision for impairment of receivables	(25,378)	(25,619)	(25,285)	(25,500)
Trade receivables - net	**91,273**	**95,518**	**82,174**	**87,115**
Receivables from companies collecting payments for telecommunication services	2,110	1,296	2,110	1,296
Prepaid expenses and other receivables	10,482	9,226	7,242	8,480
Receivables from related parties (Note 29)	7,617	12,201	7,373	10,806
Loans to related parties (Note 29)	-	-	8,497	6,499
	111,482	**118,241**	**107,396**	**114,196**
Less non-current portion	(2,322)	(6,407)	(6,784)	(10,877)
Current portion	**109,160**	**111,834**	**100,612**	**103,319**

All non-current receivables are due within two years from balance sheet date.

The fair values of trade and other receivables are approximate to their carrying values.

The maximum exposure to credit risk at the reporting date is the carrying value of receivables mentioned above. The group does not hold any collateral as security.

Trade receivables that are not overdue are considered as fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2012, the Group's trade receivables of LTL 9,300 thousand (2011: LTL 11,409 thousand) and the Company's trade receivables of LTL 6,840 thousand (2011: LTL 9,985 thousand) were past due but not impaired.

As of 31 December 2012, the Group's trade receivables of LTL 26,602 thousand (2011: LTL 26,659 thousand) and the Company's trade receivable of LTL 26,530 thousand (2011: LTL 26,587 thousand) were impaired and provided for. The amount of the Group's provision was LTL 25,378 thousand as of 31 December 2012 (2011: LTL 25,619 thousand) and the amount of the Company's provision was LTL 25,285 thousand as of 31 December 2012 (2011: LTL 25,500 thousand). Impairment allowance by major part has been recognised on a collective basis, based on the impairment rates used by management.

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

19 Trade and other receivables (continued)

The ageing of these receivables is as follows:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Trade receivable total	**116,651**	**121,137**	**107,459**	**112,615**
Of which not overdue	80,749	83,069	74,089	76,043
Overdue up to 3 months	9,300	11,409	6,840	9,985
4 to 6 months	2,090	2,266	2,057	2,242
7 to 12 months	2,040	3,106	2,024	3,101
Over 12 months	22,472	21,287	22,449	21,244

The carrying amounts of the trade and other receivables are denominated in the following currencies:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Currency				
LTL	81,508	88,983	83,827	89,351
EUR	25,698	28,361	20,359	23,948
XDR	29	57	29	57
Other currency	4,247	840	3,181	840
	111,482	**118,241**	**107,396**	**114,196**

Movements of impairment for trade receivables are as follows:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
At the beginning of year	**25,619**	**24,083**	**25,500**	**23,864**
Receivables written off during the year as uncollectible	(1,818)	(1,830)	(1,795)	(1,830)
Provision for receivables impairment/ Unused amount reversed (-)	1,577	3,366	1,580	3,466
At the end of year	**25,378**	**25,619**	**25,285**	**25,500**

The creation and release of provision for impaired receivables have been included in 'Other operating expenses' in the Statement of comprehensive income (Note 8).

The other classes within trade and other receivable do not contain impaired assets.

20 Held-to-maturity investments

Held-to-maturity investments accounted by the Group and the Company consist of short-term bonds issued by the Lithuanian commercial bank with Fitch long-term credit rating A, denominated in EUR (2011: in EUR). The effective interest rate on the bonds was 0.56% (2011: 2.03%). As of 31 December 2012, average maturity of bonds is 177 days (2011: 182 days). Fair value of bonds approximate to their carrying values.

All held-to-maturity investments amounting to LTL 60,045 thousand will be redeemed in 2013 after the date of approval of these financial statements (2011: all held-to-maturity investments amounting to LTL 30,186 thousand were redeemed till June 2012).

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as held-to-maturity investments.

21 Cash and cash equivalents

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Cash in hand and at bank	49,056	43,524	33,194	33,226
Short term bank deposits	126,542	145,065	126,542	143,565
	175,598	**188,589**	**159,736**	**176,791**

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Currency				
LTL	156,205	179,839	145,903	169,882
EUR	19,126	5,821	13,764	4,068
USD	198	2,861	69	2,841
Other currencies	69	68	-	-
	175,598	**188,589**	**159,736**	**176,791**

The effective interest rate on the Group's and the Company's short-term bank deposits held with Lithuanian banks was 0.46% (2011: 1.95%).

The credit quality of cash in hand and at bank can be assessed by reference to Fitch long-term credit ratings (or equivalent by Standart & Poor's):

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
AA-	75,246	50,726	75,240	50,670
A+	55,555	82,016	42,134	72,267
A	44,389	55,726	42,191	53,767
Other	408	121	171	87
	175,598	**188,589**	**159,736**	**176,791**

21 Cash and cash equivalents (continued)

As of the date of approval of these financial statements deposits amounting to LTL 86.5 million have matured and were repaid to the Company. Company's deposits amounting to LTL 40.0 million will be repaid in 2013 after the date of approval of these financial statements

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents classified as cash and cash equivalents.

22 Share capital

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 one litas each. All shares are fully paid up.

23 Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, is compulsory until the reserve including share premium reaches 10% of the share capital. The legal reserve can be used to cover the accumulated losses. The amount of the legal reserve surplus which exceeds the size of legal reserve required by the legislation can be added to retaining earnings for the profit distributing purpose.

As a result of cancelling of treasury shares in 2010 and following the decision of the Annual General Meeting of Shareholders held on 28 April 2011 the Company's obligatory reserve was decreased by LTL 3,817 thousand and this amount was reallocated to the Company's retained earnings.

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

24 Trade, other payables and accrued liabilities

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Trade payables	38,527	29,512	34,698	24,817
Trade payables to operators	7,160	7,718	7,160	7,718
Taxes, salaries and social security payable	26,574	21,751	19,469	16,651
Accruals to operators	8,626	8,591	8,626	8,591
Accrued liabilities	2,043	3,730	1,478	3,092
Other payables and deferred revenue	8,462	6,052	3,765	3,113
Amounts payable to related parties (Note 29)	718	1,013	7,246	6,679
	92,110	**78,367**	**82,442**	**70,661**
Less non-current portion	(3,463)	(3,628)	(3,275)	(3,347)
Current portion	**88,647**	**74,739**	**79,167**	**67,314**

The carrying amounts of the trade and other payables are denominated in the following currencies:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Currency				
LTL	73,944	57,449	64,338	50,461
EUR	14,851	18,555	14,845	17,882
XDR	410	449	410	449
Other currency	2,905	1,914	2,849	1,869
	92,110	**78,367**	**82,442**	**70,661**

25 Borrowings

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Current				
Bank borrowings	-	34	-	-
Finance lease liabilities	977	940	977	940
	977	**974**	**977**	**940**
Non-current				
Finance lease liabilities	2,282	3,259	2,282	3,259
	2,282	**3,259**	**2,282**	**3,259**
Total borrowings	**3,259**	**4,233**	**3,259**	**4,199**

Fair value of borrowings approximate to their carrying values.

25 Borrowings (continued)

In 2005 the Company concluded an agreement with a third party for sales and leaseback of certain technical and administrative premises. Leaseback of three administrative premises in substance qualified as a finance lease, whereas leaseback of other premises is accounted for as operating lease. All technical premises rented for 10 year period, at end of which all mentioned contracts could be renewed for an additional 10 years at agreed rent fee. If agreements are cancelled before the end of rent as stated in agreements, the forfeit should be paid.

Group’s and Company’s minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2011	1,086	3,471	-	4,557
Less future finance charges	(146)	(212)	-	(358)
Present value of minimum lease payments at 31 December 2011	940	3,259	-	4,199
Minimum lease payments at 31 December 2012	1,086	2,384	-	3,470
Less future finance charges	(109)	(102)	-	(211)
Present value of minimum lease payments at 31 December 2012	977	2,282	-	3,259

Net carrying amount of assets owned by the Group and the Company under the finance leases is as follows:

	As at 31 December			
	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Premises	2,873	3,771	2,873	3,771
	2,873	**3,771**	**2,873**	**3,771**

26 Deferred income taxes

The gross movement on the deferred income tax liabilities and deferred tax assets accounts is as follows:

	GROUP		COMPANY	
Deferred tax liabilities	**2012**	**2011**	**2012**	**2011**
At the beginning of year	13,993	10,290	10,686	6,932
Charged/ (credited) to statement of comprehensive income (Note 11)	4,588	3,703	4,647	3,754
At the end of year	**18,581**	**13,993**	**15,333**	**10,686**

	GROUP		COMPANY	
Deferred tax assets	**2012**	**2011**	**2012**	**2011**
At the beginning of year	(583)	(711)	-	-
Charged/ (credited) to statement of comprehensive income (Note 11)	219	128	-	-
At the end of year	**(364)**	**(583)**	**-**	**-**

The analysis of deferred tax assets and deferred tax liabilities is as the follows:

	GROUP		COMPANY	
Deferred tax liabilities	**2012**	**2011**	**2012**	**2011**
Deferred income tax asset to be recovered / liability settled after more than 12 months	18,511	16,557	15,339	13,318
Deferred income tax asset to be recovered / liability settled (-) within 12 months	70	(2,564)	(6)	(2,632)
	18,581	**13,993**	**15,333**	**10,686**

	GROUP		COMPANY	
Deferred tax assets	**2012**	**2011**	**2011**	**2011**
Deferred income tax asset to be recovered / liability settled after more than 12 months	(59)	(293)	-	-
Deferred income tax asset to be recovered / liability settled (-) within 12 months	(305)	(290)	-	-
	(364)	**(583)**	**-**	**-**

According to Lithuanian tax legislation, investments of the Company in subsidiaries qualify for participation exemption, therefore deferred income tax liabilities have not been established on the unremitted earnings of subsidiaries.

26 Deferred income taxes (continued)

The movement in deferred tax assets and liabilities of the Group (prior to offsetting of balances) during the period is as follows:

GROUP– deferred tax liabilities	Investment relief[1]	Other	Total
At 31 December 2011	**24,301**	**1,657**	**25,958**
Charged/ (credited) to statement of comprehensive income	(3,042)	(364)	(3,406)
At 31 December 2012	**21,259**	**1,293**	**22,552**

GROUP – deferred tax assets	Difference in useful lives [2]	Tax losses	Other	Total
At 31 December 2011	**(10,624)**	(456)	**(1,468)**	**(12,548)**
Charged/ (credited) to statement of comprehensive income	7,847	260	106	8,213
At 31 December 2012	**(2,777)**	**(196)**	**(1,362)**	**(4,335)**

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of insignificant amount of losses that can be carried forward without expiry against future taxable income.

The movement in deferred tax assets and liabilities of the Company (prior to offsetting of balances) during the period is as follows:

COMPANY – deferred tax liabilities	Investment relief[1]	Other	Total
At 31 December 2011	**21,343**	**1,258**	**22,601**
Charged/ (credited) to statement of comprehensive income	(2,911)	(403)	(3,314)
At 31 December 2012	**18,432**	**855**	**19,287**

COMPANY – deferred tax assets	Difference in useful lives[2]	Tax losses	Other	Total
At 31 December 2011	**(10,625)**	**-**	**(1,290)**	**(11,915)**
Charged/ (credited) to statement of comprehensive income	7,847	-	114	7,961
At 31 December 2012	**(2,778)**	**-**	**(1,176)**	**(3,954)**

[1] under investments relief applied till year 2001, value of assets invested was deducted for income tax purpose in the year of investment. Further depreciation expenses of these assets are not tax-deductable therefore deferred tax liability was created. It will be fully utilized during useful lives of these assets.

[2] depreciation is accelerated for accounting purposes, as useful lives set by tax laws are longer than normal wear-and-tear rates.

26 Deferred income taxes (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	As at 31 December			
	GROUP		COMPANY	
	2012	2011	2012	2011
Deferred tax assets	(4,335)	(12,548)	(3,954)	(11,915)
Deferred tax liabilities	22,552	25,958	19,287	22,601
	18,217	**13,410**	**15,333**	**10,686**

27 Contingent liabilities and contingent assets

Guarantees

As at 31 December 2012 the aggregate of bank guarantees (obligations guaranteed under tender, agreement performance arrangements) provided by AB SEB bankas on behalf of the Company and the Group amounts to LTL 5.18 million (2011: LTL 4.48 million).

Minimum lease payments receivable

The future minimum lease payments to be received under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2012	2011	2012	2011
Not later than 1 year	19,332	17,332	19,332	17,332
Later than 1 year but not later than 5 years	13,048	11,938	13,048	11,938
Later than 5 years	-	-	-	-
	32,380	**29,270**	**32,380**	**29,270**

Minimum lease payments recognised in the statement of comprehensive income during 2012 were LTL 20,615 thousand (2011: LTL 25,928 thousand).

The Company lease terminal telecommunication equipment under various agreements which terminate in 2015.

28 Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognized in the financial statements is as follows:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Property, plant and equipment	13,582	10,590	13,582	10,590
	13.582	**10,590**	**13.582**	**10,590**

Operating lease commitments – where the Group is the lessee

The Group and the Company leases passenger cars, IT equipment and premises under operating lease agreements.

As discussed in Note 25, the Company leases technical premises under operating lease agreements for 10 years. In December 2012 the rent of administrative premises at Galvydžio 7/Žygio 97 was terminated. In addition, the Company in 2008 prolonged rent of administrative premises in Žirmūnų 141 for 8 years.

In addition, the Group rents other premises. In 2011 a new mid-term lease agreement was signed for the rent of premises Savanorių ave. 18 for second customer care centre in Vilnius.

The operating lease expenditure charged to the statement of comprehensive income are as follows:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Minimum lease payments	15,319	16,314	8,631	8,863

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Not later than 1 year	7,380	7,824	6,696	7,163
Later than 1 year but not later than 5 years	12,514	16,046	11,580	14,959
Later than 5 years	1,269	2,270	1,268	2,251
	21,163	**26,140**	**19,544**	**24,373**

29 Related party transactions

The Group is controlled by TeliaSonera AB (Sweden) which owns 88.15% of the Company's shares and votes. Majority shareholders of TeliaSonera AB are Governments of Sweden and Finland. The following transactions were carried out with related parties:

Sales of telecommunication and other services to:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
TeliaSonera AB and its subsidiaries	47,330	44,275	39,743	35,259
Subsidiaries of the Company	-	-	10,971	10,509
Total sales of telecommunication and other services	**47,330**	**44,275**	**50,714**	**45,768**

Purchases of assets and services:

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Purchases of assets from:				
TeliaSonera AB and its subsidiaries	4,715	268	4,715	268
Subsidiaries of the Company	-	-	420	423
	4,715	**268**	**5,135**	**691**

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Purchases of services from:				
TeliaSonera AB and its subsidiaries	19,983	23,824	13,778	11,048
Subsidiaries of the Company	-	-	35,576	38,818
	19,983	23,824	49,354	49,866
Total purchases of assets and services	**24,698**	**24,092**	**54,489**	**50,557**

Year-end balances arising from sales/purchase of assets/services:

Receivables and accrued revenue from related parties

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Receivables from related parties:				
TeliaSonera AB and its subsidiaries	4,787	4,359	3,748	2,464
Subsidiaries of the Company	-	-	1,362	1,288
	4,787	**4,359**	**5,110**	**3,752**

	GROUP		COMPANY	
	2012	**2011**	**2012**	**2011**
Prepayments to related parties:				
TeliaSonera AB and its subsidiaries	-	4,715	-	4,715
	-	**4,715**	**-**	**4,715**

29 Related party transactions (continued)

	GROUP		COMPANY	
	2012	2011	2012	2011
Accrued revenue from related parties:				
TeliaSonera AB and its subsidiaries	2,830	3,127	2,264	2,339
	2,830	**3,127**	**2,264**	**2,339**
Total receivables and accrued revenue from related parties	**7,617**	**12,201**	**7,374**	**10,806**

The receivables from related parties arise mainly from sale transactions and due one month after the date of sale. The receivables are unsecured in nature and bear no interest. No provision are held against receivables from related parties (2011: nil)

Payables and accrued expenses to related parties

	GROUP		COMPANY	
	2012	2011	2012	2011
Payables to related parties:				
TeliaSonera AB and its subsidiaries	718	1,013	651	777
Subsidiaries of the Company	-	-	6,558	5,902
	718	**1,013**	**7,209**	**6,679**

	GROUP		COMPANY	
	2012	2011	2012	2011
Accrued expenses to related parties:				
Subsidiaries of the Company	-	-	37	-
	-	**-**	**37**	**-**
Total payables and accrued expenses to related parties:	**718**	**1,013**	**7,246**	**6,679**

The payable to related parties arise mainly from purchase transactions and are due one month after date of purchase. The payables bear no interest.

For the period ended 31 December 2012 amount of LTL 147 thousand (2011: LTL 306 thousand) of interest income was accounted in the Statement of Comprehensive Income as Finance income. The base for calculating interest income was the prepayment to a related party which was due on 21 September 2012.

Loans to related parties:

	GROUP		COMPANY	
	2012	2011	2012	2011
Beginning of the year	-	-	6,499	11,526
Loans advanced during year	-	-	12,000	4,470
Loan repayments received (in cash)	-	-	(10,000)	(9,500)
Interest charged (including VAT)	-	-	705	365
Interest received (including VAT)	-	-	(707)	(362)
End of the year	-	-	8,497	6,499

29 Related party transactions (continued)

The loans advanced to related parties have the following terms and conditions:

Name of the related party	Date of agreement	Original currency of agreement	Outstanding balance	Maturity	Interest rate
Year ended 31 December 2012					
UAB Baltic Data Center	20 July 2007	LTL	4,000	due on 21 Jun 2013	1.89%
UAB Hostex	19 April 2011	LTL	4,470	due on 19 April 2016	4.43%
Year ended 31 December 2011					
UAB Baltic Data Center	20 July 2007	LTL	2,000	due on 21 Jun 2012	4.29%
UAB Hostex	19 April 2011	LTL	4,470	due on 19 April 2016	4.43%

All transactions with related parties are carried out based on an arm's length principle.

During 2012 dividends paid out to TeliaSonera AB amounted to LTL 106,101 thousand. During 2011 dividends paid out to the then subsidiary of TeliaSonera AB, Amber Teleholding A/S, amounted to LTL 88,011 thousand, and dividends paid out directly to TeliaSonera AB amounted to LTL 7,181 thousand.

Remuneration of the Group's and the Company's key management

	2012	2011
Remuneration of key management personnel	8,924	9,308
Social security contributions on remuneration	2,764	2,883
Total remuneration	11,688	12,191

Key management includes General Manager, Chief Officers, and Directors of main units, departments and regional centers. The total number of top management personnel employed as of 31 December 2012 was 29 (as of 31 December 2011: 31).

The total amount of annual compensations (tantiems) assigned to the six members of the Board of the Company during 2012 amounted to LTL 324 thousand (2011: LTL 378 thousand). As of 31 December 2012 the amount of LTL 54 thousand of tantiemes assigned for the year 2010 was not paid (2011: LTL 216 thousand).

30 Events after balance sheet day

On 29 January 2013, the Board of the Company approved that administration of the Company upon receipt of invitation from Kaunas Municipality shall enter into negotiations regarding sale of premises of Communications History Museum in Kaunas.

As of 22 February 2013 Arūnas Šikšta, General Manager of the Company, has 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)

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Giedrius Vegys, acting General Manager of TEO LT, AB, and Antanas Poška, acting Chief Financial Officer of TEO LT, AB, hereby confirm that, to the best of our knowledge, TEO LT, AB Financial Statements as of and for the year ended 31 December 2012 as set out on above are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group of undertakings.

Giedrius Vegys
Acting General Manager

Antanas Poška
Acting Chief Financial Officer