

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

Beginning of the financial year	1 January 2014
End of reporting period	31 December 2014
Name of the company	TEO LT, AB (hereinafter – TEO or “the Company”)
Legal form	public company (joint-stock company)
Date of registration	6 February 1992
Code of enterprise	121215434
Name of Register of Legal Entities	State Enterprise Centre of Registers
Registered office	Lvovo str. 25, LT-03501 Vilnius, Lithuania
Telephone number	+370 5 262 1511
Fax number	+370 5 212 6665
Internet address	www.teo.lt
Main activities	Integrated telecommunication, IT and TV services to residential and business customers in Lithuania

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

MANAGEMENT REPORT

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

"The fourth quarter of 2014 was a successful quarter, showing both revenue as well as EBITDA growth and also a record high net intake of new customers and on the same time a growth in our customer satisfaction index. Operating expenses, excluding cost of goods and services, were down by 16 per cent in the fourth quarter comparing with the previous year, and EBITDA margin, excluding non-recurring items, for the year 2014 ended up at 41.1 per cent, almost at the same level as in previous year.

During the fourth quarter net sales increased by 3.2 per cent, being the first quarter during the last two years that shows growth in net sales. Expenses were stable and EBITDA, excluding non-recurring items, increased by 3.5 per cent in the fourth quarter. Net sales from non-voice services increased by 5 per cent and the share of non-voice services in the fourth quarter amounted to 61.2 per cent of total revenue. Number of new IPTV customers increased by 7.6 thousand, the best quarterly result since service launch. Number of broadband Internet subscriptions (excluding Wi-Fi) showed a growth of 5.7 thousand during the fourth quarter, all of them were fiber-optic connections. Focus on our voice services with bundling offers, resulted in the lowest quarterly voice disconnections during the last three years.

During the fourth quarter, TEO started to provide a new generation Internet TV service "Interneto.tv" as a separate service. Also „Internet everywhere“, a new product for B2B customers, was launched in cooperation with Omnitel in December. Our service "Smart TEO television" was awarded with Gold Medal during the contest "Lithuanian Product of the Year 2014" and TEO was recognized as one of the best companies in Lithuania for our anti-corruption initiatives and received an award from the Ministry of Economy of the Republic of Lithuania. During the fourth quarter, we also reduced share capital and paid LTL 194 million to the shareholders.

During 2014, TEO reached several milestones: number of Internet subscriptions, including Wi-Fi, exceeded half a million and at the end of 2014 amounted to 517 thousand (371 thousand excl. Wi-Fi). Customers using our modern fiber-optic network reached 201 thousand, an increase by 20 thousands or 11 per cent over the year, while number of IPTV customers was 131 thousand, a record growth of 24 per cent.

In terms of total revenue, the decline in 2014 was by 3.1 per cent: residential customers' segment declined by 1.3 per cent, business customers' by 7 per cent, while Business to Operators showed a growth of 2.2 per cent due to positive development in the transit services. During the year non-voice revenue increased in total by 1.3 per cent, driven by net increase in customer base of broadband Internet and IPTV subscriptions as well as higher sales in IT goods and equipment, and the share of non-voice services for the first time reached over 60 per cent. Negative impact on revenue during 2014 was still from the decrease in revenue from fixed voice telephony (down by 9.1 per cent) as disconnection of telephone lines continues, but in a slower pace than before. During the last twelve months voice subscription base decreased by 7 per cent, outgoing voice traffic generated by residential and business customers decreased by 15.4 and 11.4 per cent, respectively, while total volume of calls to mobile operators' networks increased by 29.6 per cent.

Our efficiency improvement program and the setup of new organization with rather high non-recurring (redundancy) costs during the year resulted that operating expenses were almost the same as in 2013, i.e. lower by 0.1 per cent. Excluding non-recurring items, the operating expenses (excluding cost of goods and services) were down by 10.5 per cent, while cost of goods and services increased by 8.7 per cent due to higher sales of IT goods, customer equipment and transit services. The operating free cash flow in 2014 stood at LTL 139 million, a decrease of 3.8 per cent compared with the previous year. Positive was that bad debts decreased by over 50 per cent with a ratio of only 0.16 per cent of the total revenue. Return on capital employed ended up at 15.2 per cent (16.4 per cent in 2013), while return on shareholders' equity reached 13.8 per cent (14.7 per cent in 2013). During 2014, EBITDA excluding non-recurring items decreased by 3.7 per cent and reached LTL 287 million, while EBITDA margin (excl. non-recurring items) was almost on the same level as in previous year and amounted to 41.1 per cent (41.4 per cent in 2013)."

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

KEY FIGURES OF TEO GROUP

Financial figures	January - December		Change (%)
	2014	2013	
Revenue (LTL thousand)	698,450	720,589	(3.1)
EBITDA (LTL thousand)	271,052	292,737	(7.4)
EBITDA margin (%)	38.8	40.6	
EBITDA excluding non-recurring items (LTL thousand)	287,081	297,999	(3.7)
EBITDA margin excluding non-recurring items (%)	41.1	41.4	
Operating profit (LTL thousand)	146,269	165,083	(11.4)
Operating profit margin (%)	20.9	22.9	
Profit before income tax (LTL thousand)	146,520	165,572	(11.5)
Profit before income tax (%)	21.0	23.0	
Profit for the period (LTL thousand)	131,465	149,151	(11.9)
Profit for the period margin (%)	18.8	20.7	
Earnings per share (LTL)	0.226	0.192	
Number of shares (thousand)	582,613	776,818	(25.0)
Cash flow from operations (LTL thousand)	248,045	292,177	(15.1)
Operating free cash flow (LTL thousand)	138,652	144,148	(3.8)

Financial ratios

	31 December 2014	31 December 2013
Return on capital employed (%)	15.2	16.4
Return on average assets (%)	13.4	14.7
Return on shareholders' equity (%)	13.8	14.7
Gearing ratio (%)	(2.7)	(21.4)
Debt to equity ratio (%)	4.3	0.2
Current ratio (%)	128.7	348.3
Rate of turnover of assets (%)	64.2	64.1
Equity to assets ratio (%)	84.1	89.5

Operating figures

	31 December 2014	31 December 2013	Change (%)
Number of fixed telephone lines in service	525,879	565,327	(7.0)
Number of broadband Internet connections (FTTH, FTTB, DSL and other excluding Wi-Fi)	370,598	356,659	3.9
Number of TV services customers	186,935	172,308	8.5
Number of personnel (head-counts) at the end of period	2,631	3,034	(13.3)
Number of full-time employees at the end of the period	2,381	2,727	(12.7)

Breakdown of TEO Group revenue by customers

	October - December		Change (%)	January - December		Change (%)
	2014	2013		2014	2013	
Business to Consumer	83,380	81,502	2.3	321,620	325,981	(1.3)
Business to Business	68,308	72,830	(6.2)	266,180	286,317	(7.0)
Business to Operators	32,817	24,472	34.1	110,650	108,291	2.2
Total	184,505	178,804	3.2	698,450	720,589	(3.1)

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

Breakdown of TEO Group revenue by services	October - December		Change (%)	January - December		Change (%)
	2014	2013		2014	2013	
Voice telephony services	71,606	71,317	0.4	276,347	303,933	(9.1)
Internet services	46,299	45,075	2.7	184,597	178,268	3.6
Data communication and network capacity services	19,566	21,604	(9.4)	78,580	84,015	(6.5)
TV services	16,196	15,890	1.9	62,613	61,668	1.5
IT services	27,596	18,784	46.9	77,074	69,930	10.2
Other services	3,242	6,134	(47.1)	19,239	22,775	(15.5)
Total	184,505	178,804	3.2	698,450	720,589	(3.1)

REVENUE

During the fourth quarter of 2014 revenue from voice transit, Internet, TV services and equipment sales services grow while revenue from data communication and network capacity as well as other services went down.

As a result, the total consolidated TEO Group's revenue for the fourth quarter of 2014 was LTL 185 million, an increase by 3.2 per cent over the total revenue of LTL 179 million for the fourth quarter of 2013. The **total revenue** for the twelve months of 2014 was LTL 698 million, a decrease by 3.1 per cent over the total revenue of LTL 721 million for the twelve months of 2013.

Share of revenue from voice telephony services from the total amount of revenue continued to shrink and amounted to 39.6 per cent of the total revenue in 2014 (42.2 per cent in 2013). Share of revenue from Internet services further increased and was 26.4 per cent, IT services – 11 per cent and television services – 9 per cent, while share of revenue from data communication and network capacity services eased to 11.3 per cent and other services to 2.7 per cent.

During the fourth quarter, revenue from voice transit services increased by 43.1 per cent and resulted in an increase of 0.4 per cent of total revenue from **voice telephony services** in spite of continued decline in number of telephone lines in service and consequently lower traffic volume.

Over the year, revenue from voice transit services increased by 4.2 per cent but that was not enough to offset a continuous decline of revenue from retail voice telephony services. During 2014, the revenue from retail voice telephony excluding networks' interconnection services went down by 14.6 per cent.

During the fourth quarter of 2014, the total number of main telephone lines in service decreased by 7.5 thousand, while over the twelve months of 2014 – 39 thousand.

Total volume of voice telephony traffic generated by residential and business customers during the twelve months of 2014, compared with the year 2013, decreased by 15.4 and 11.4 per cent, respectively, while total volume of calls to mobile operators' networks increased by 29.6 per cent due to attractive payment plans for calls to mobile networks.

During October-December 2014 the total number of **broadband Internet access** (excluding Wi-Fi) users increased by 5.7 thousand, while over the twelve months of 2014 – by 14 thousand.

Over the year the number of Internet connections over the next-generation fiber-optic network using FTTH (Fiber to the home) and FTTB (Fiber to the building) technologies increased by 11.3 per cent and exceeded 201 thousand at the end of December 2014, while the number of copper DSL connections eased by 3.7 per cent to 170 thousand. During the last twelve months, the number of TEO Wi-Fi connections almost doubled and amounted to 147 thousand as of 31 December 2014.

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By the end of 2014, the number Internet connection over the fiber-optic access network amounted to 38.8 per cent of all 517 thousand TEO broadband Internet connections (including Wi-Fi).

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

In December, TEO together with Omnitel, provider of mobile communication services, introduced to business customers a new service called "Internetas visur" ("Internet Everywhere"). This the first in Lithuania solution for business, when one provider offers both fixed-line and mobile Internet access. TEO business customers, who subscribe to the service, will be able to use both fixed Internet access and the largest in Lithuania Omnitel's 3G and 4G mobile Internet access on their computers.

Compared with the twelve months of 2013, revenue from **data communication** services alone eased by 1.6 per cent and revenue from **network capacity** services alone decreased by 12 per cent.

During the fourth quarter of 2014, the number of IPTV services users increased by 7.6 thousand, while over the year by 25.3 thousand or 23.8 per cent, and by the end of 2014 amounted to 131 thousand. During the last twelve months number of digital terrestrial television (DVB-T) users contracted by 10.6 thousand and amounted to 55 thousand. Over the year, the total number of **television** service customers went up by 14.6 thousand.

In 2014, TEO introduced a new more easily managed interface of IPTV service, offered to customers of "Smart TEO television" new Lithuanian High Definition TV channels – LRT HD and "Sport 1 HD", and made it possible to access photos, video and audio recordings files kept in the "Storage" through TV menu.

In December, the Company stated to provide a new generation Internet TV service, "Inteneto.tv", as a separate service. Initially, in 2013 service was provided just to TEO IPTV service customers. From June 2014, it became available to some customers of Omnitel. Now anyone may subscribe to the service regardless of which Internet providers' service is used. It allows subscribers to watch TV on a PC, smartphone or tablet anywhere in Lithuania where Internet access is available. Updated "Inteneto.tv" service features 25 TV channels. Recordings of most of the TV shows are available for three days after their broadcast.

Consolidated TEO Group revenue from **IT services** are generated from data center, information system management and web-hosting services provided to local and multinational enterprises by subsidiaries UAB Baltic Data Center (BDC) and UAB Hostex, and equipment sales and IT services provided by the Company.

In 2014, BDC entered into a new three-year agreement with DNB bank to support information technology (IT) infrastructure in Lithuania, Latvia and Estonia. BDC has been supporting DNB's IT infrastructure since 2007. During six years of partnership, BDC continuously managed to provide DNB with high quality services in all three Baltic States.

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

Over the year TEO Group revenue from electronic equipment sales more than tripled.

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

Over the year revenue from other non-core business services eased by 0.7 per cent, while revenue from Contact Center services went down by 27.9 per cent due to termination of some projects.

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In April and May, during the Presidential Elections and Elections to the European Parliament, Contact Center of Lintel was providing information to the voters by short number.

During the fourth quarter 2014, TEO upgraded and installed new video surveillance (CCTV) systems in Akmenė and Trakai districts.

TEO Group's **other income** consists of interest income from held-to-maturity investments. Gain or loss from sale of property, plant and equipment, as well as gain or loss on currency exchange is recorded at net value as **other gain (loss)**.

MARKET INFORMATION

According to the Reports of the Communications Regulatory Authority (CRA), the Lithuanian electronic communications market in terms of revenue in the third quarter of 2014 decreased by 1.1 per cent compared with the second quarter of 2014, and was down by 2.7 per cent compared with the third quarter of 2013, and amounted to LTL 524 million. During the nine months of 2014, the total revenue of the market amounted to LTL 1,562 million, a decrease by 3.4 per cent over the nine months of 2013.

	TEO market share (%)			
	in terms of customers		in terms of revenue	
	Q3 2014	Q3 2013	Q3 2014	Q3 2013
Fixed voice telephony services	90.1	90.2	94.2	94.4
Fixed Internet access services	53.4	50.8	54.9	55.5
Internet access services (total)	40.1	37.0	46.3	43.3
Digital pay-TV services	42.6	41.7	44.0	42.1
Pay-TV services (total)	25.2	23.5	30.1	28.8
Network interconnection services	n/a	n/a	22.9	28.0
Data communication services	n/a	n/a	55.5	56.7
Leased line services	n/a	n/a	55.9	60.0

On 30 September 2014, broadband Internet penetration per 100 residents of Lithuania was 41.7 per cent (38.1 per cent a year ago), while the penetration of broadband Internet using fixed connection was 31.3 per cent (27.8 per cent a year ago). Digital pay-TV penetration per 100 households was 32.7 per cent (31.3 per cent a year ago), and the penetration of fixed voice telephony lines per 100 residents – 19.8 per cent (21.2 per cent a year ago).

OPERATING EXPENSES

Total operating expenses of the Group for the fourth quarter of 2014 were by 3.6 per cent higher than a year ago, while total operating expenses for the twelve months of 2014 were almost the same as in 2013, i.e. lower by 0.1 per cent, in spite of non-recurring redundancy charge in 2014.

During the fourth quarter of 2014 **cost of goods and services** increased by 34.3 per cent, compared with the fourth quarter of 2013, mainly due to higher volumes of transit traffic, and for the twelve months of 2014 they increased by 8.7 per cent, compared with 2013.

Employee-related expenses for the fourth quarter of 2014 were by 11.6 per cent lower than a year ago. Employee-related expenses for the full year of 2014 were slightly by 3.3 per cent lower than in 2013 in spite of non-recurring redundancy charge in 2014.

During the first quarter of 2014, the Company implemented efficiency improvement program under which up to 130 employees of TEO Group terminated their employment contracts on the base of mutual agreement. During

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the second quarter of 2014, a new organisational structure of the Company was introduced and majority of employees of Baltic Data Center was moved into TEO. The total cost of redundancy pay-outs during 2014 amounted to LTL 16 million.

During the fourth quarter of 2014, the total number of employees (headcount) decreased by 20 (mainly in TEO). Over the year the total number of employees in TEO Group decreased by 403 (whereof 261 in Lintel due to termination of some projects) from 3,034 to 2,631. In terms of full-time employees, the total number of employees in TEO Group during 2014 decreased by 345 (mainly in Lintel) from 2,727 to 2,381.

Other expenses for the fourth quarter and the twelve months of 2014 decreased by 24.6 and 11.6 per cent, respectively.

EARNINGS

EBITDA for the fourth quarter of 2014 was up 2.3 per cent to LTL 67 million over LTL 65 million in the fourth quarter of 2013. EBITDA margin amounted to 36.1 per cent (36.4 per cent in 2013).

EBITDA for the twelve months of 2014 was down by 7.4 per cent to LTL 271 million over LTL 293 million for the same period year ago. EBITDA margin declined and amounted 38.8 per cent (40.6 per cent in 2013). EBITDA excluding non-recurring items over the year went down by 3.7 per cent while EBITDA margin excluding non-recurring items stood at 41.1 per cent.

Depreciation and amortisation charges during the fourth quarter of 2014 increased by 1.3, but during the twelve months of 2014 it went down by 2.2 per cent, and in 2014 amounted to 17.9 per cent of total revenue (17.7 a year ago).

Operating profit (EBIT) for the fourth quarter of 2014 increased by 3.3 per cent, while for the twelve months of 2014 went down by 11.4 per cent. Operating profit margin for the fourth quarter of 2014 was 19.1 per cent (19.1 per cent a year ago) and for the full year of 2014 – 20.9 per cent (22.9 per cent in 2013). Operating profit excluding non-recurring items in 2014 was by 4.7 per cent lower than in 2013, and operating profit margin excluding non-recurring items was 23.2 per cent.

Net financial income in 2014 was by 48.7 per cent lower than a year ago.

Profit before income tax for the fourth quarter of 2014 was up by 2.9 per cent and amounted to LTL 35 million (LTL 34 million a year ago). Profit before income tax for the twelve months of 2014 was down by 11.5 per cent and amounted to LTL 147 million (LTL 166 million a year ago). Profit before income tax excluding non-recurring items was by 4.8 per cent lower than in 2013.

The profit tax rate in Lithuania is 15 per cent. Following the provisions of the Law on Corporate Profit Tax regarding tax relief for investments in new technologies, the profit tax relief for the twelve months of 2014 amounted to LTL 7.8 million (LTL 10.2 million in 2013). **Income tax expenses** in 2014 were by 8.3 per cent lower than a year ago.

Profit for the period in October-December 2014 amounted to LTL 32 million, while a year ago it was LTL 31 million, an increase by 3.8 per cent. The profit margin was 17.4 per cent (17.3 per cent a year ago). Profit for the period in January-December 2014 amounted to LTL 131 million, a decrease by 11.9 per cent over the profit of LTL 149 million for the same period year ago. The profit margin was 18.8 per cent (20.7 per cent a year ago). Profit for the period excluding non-recurring items in 2014 was by 4.5 per cent lower than in 2013 and profit margin excluding non-recurring items was 21.1 per cent.

BALANCE SHEET AND CASH FLOW

During the fourth quarter of 2014, following the decision of the Annual General Meeting of Shareholders as of 29 April 2014, TEO reduced its authorized capital by LTL 194.2 million (or 25 per cent) and paid out the shareholders LTL 194.2 million. As a result, the amount of **total assets** of TEO Group at the end of 2014 was by 15.1 per cent less than a year ago.

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During 2014, the total **non-current assets** declined by 1.7 per cent and amounted to 83.6 per cent of total assets. Following the resolutions of the Annual General Meeting of Shareholders of 29 April 2014, in May, the total amount of LTL 147.6 million or LTL 0.19 per share of dividends for the year 2013, and in November, the total amount of LTL 194.2 million or LTL 0.25 per share of funds due to authorized capital reduction were paid to the shareholders of the Company. Therefore, total **current assets** decreased by 50 per cent and amounted to 16.4 per cent of the total assets. At the end of 2014, cash represented 5.9 per cent of total assets (19.4 per cent a year ago).

During 2014, **shareholders' equity** decreased by 20.3 per cent due to authorized capital reduction and amounted to 84.1 per cent of the total assets.

As of 31 December 2014, consolidated **retained earnings** of TEO Group amounted to LTL 168 million, while retained earnings of the Parent company amounted to LTL 138 million or LTL 0.236 per share. According to the provisions of the Law of the Republic of Lithuania on Companies, dividends should be paid from retained earnings of the Parent company.

During the fourth quarter of 2014, the Company borrowed LTL 34.5 million and at the end of 2014 total amount of **borrowings** (loan and financial liabilities related to financial leasing of premises) amounted to LTL 35.8 million (LTL 2.3 million in 2013), while cash amounted to LTL 58.2 million.

Net **cash flow from operating activities** in 2014 was by 15.1 per cent lower than a year ago. **Operating free cash flow** (operating cash flow excluding capital investments) in 2014 was by 3.8 per cent less than a year ago.

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

During 2014, **capital investments** amounted to LTL 103.1 million (LTL 154.3 million a year ago). The majority of capital investments (88 per cent or LTL 90.6 million) went to development of the next generation fiber-optic access network and expansion of the core network. The total amount of LTL 5.3 million was invested into IT systems, LTL 4.6 million into transport and LTL 2.6 million – other investments.

As a result by the end of 2014, TEO had 836 thousand households passed (804 thousand a year ago), or more than two thirds of the country's households, by the FTTH network.

During 2014 **cash and cash equivalents** mainly due to reduction of the authorized capital decreased by LTL 86.7 million.

SHARE CAPITAL AND SHAREHOLDERS

From 20 October 2014 the **share capital** of the Company amounts to 582,613,138 litas and consists of 582,613,138 ordinary registered shares with a nominal value of 1 litas (0.29 euro) each. It was reduced from 776,817,518 litas to 582,613,138 litas by cancelling 194,204,380 shares. From 20 October 2014, the number of TEO shares that provide voting rights during the General Meeting is 582,613,138.

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

582,613,138 ordinary registered shares of TEO LT, AB (ISIN code LT0000123911) are listed on the Main List of NASDAQ OMX Vilnius stock exchange (code: TEO1L). NASDAQ OMX Vilnius stock exchange is a home market for TEO shares.

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

The number of **shareholders** on the shareholders registration day (22 April 2014) for the Annual General Meeting of Shareholders, which was held on 29 April 2014, was 11,913.

Shareholders, holding more than 5 per cent of the share capital and votes, as on 31 December 2014:

Name of the shareholder (name of the enterprise, type and registered office address, code in the Register of Enterprises)	Number of ordinary registered shares owned by the shareholder	Share of the share capital (%)	Share of votes given by the shares owned by the right of ownership (%)	Share of votes held together with persons acting in concert (%)
TeliaSonera AB, Stureplan 8, Stockholm, SE-106 63, Sweden, code 556103-4249	513,594,138	88.15	88.15	-
Other shareholders	69,018,364	11.85	11.85	-
TOTAL:	582,613,138	100.00	100.00	-

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

Currency	Opening price	Highest price	Lowest price	Last price	Average price	Turnover (units)	Turnover
LTL	2.666	3.625	2.417	3.422	2.812	9,654,486	27,143,664
EUR	0.772	1.050	0.700	0.991	0.814	9,654,486	7,861,349

TEO market capitalisation as on 31 December 2014 was LTL 1,994 million (EUR 577 million) while a year ago it amounted to was LTL 2,057 million (EUR 596 million).

OTHER MATERIAL INFORMATION

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

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

On 7 April 2014, the Board appointed the managers of the units in the new Company's structure, which took effect in June 2014. The Business to Consumer Division is led by Nerijus Ivanauskas, who was Chief Marketing Officer. The Head of the Business to Business Division is Aleksandras Samuchovas, who is also a Director of Baltic Data Center, a subsidiary of the Company. Giedrė Tarbūnienė joined the management team and leads the Process Division. In the new governing structure the Human Resources Division is led by Ramūnas Bagdonas, Legal Affairs – by Eglė Gudelytė-Harvey, Corporate Affairs – by Antanas Bubnelis, Risk Management – by Vytautas Bučinskis, Internal Audit – by Kastytis Kmitas. In the new structure instead of Finance Division, the Finance and Strategic Planning Division was formed. On 21 May 2014, the Board appointed Lars Bolin as Head of Finance and Strategic Planning from 23 June 2014 and Andrius Šemeškevičius as Head of Technology and IT from 18 August 2014.

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

Darius Didžgalvis, Chief Technology Officer of the Company, left the Company on 8 April 2014 and Vytautas Bučinskis, Director of Risk Management Unit, was appointed as acting Chief Technology Officer. Eglutė Bivainienė, Chief Operational Officer of Company, left the Company on 30 May 2014.

The Annual General Meeting of shareholders, held on 29 April 2014, decided to approve the audited annual consolidated financial statements of the Company for the year 2013 and to allocate the Company's profit for the year 2013 as follows: from the Company's distributable profit of LTL 150,145 thousand to allocate LTL 147,595 thousand for the dividend payment for the year 2013 or LTL 0.19 dividend per share. For annual payments (tantiemes) to six members of the Board for the year 2013 to allocate LTL 324 thousand, i.e. LTL 54 thousand per one member of the Board. Shareholders upon resignation of Malin Frenning, Jens Lööw and Mats Lillienberg from the Board of the Company elected Robert Andersson, Stefan Block and Claes Nycander (all proposed by TeliaSonera AB) to the Board of the Company for the current term of the Board. The General Meeting also elected UAB „Deloitte Lietuva” as the Company's audit enterprise to perform the audit of the annual consolidated financial statements of the Company for the year 2014 and to make the assessment of the consolidated annual report of the Company for the year 2014.

On 21 May 2014, the Board elected Robert Andersson as the Chairman of the Company's Board for the current term of the Board, i.e. till 25 April 2015. The Board elected member of the Board Stefan Block as the member and the Chairman of the Audit Committee for the current term of the Committee, and elected the following members of the Board as the members of the Remuneration Committee for the term of one year (until 21 May 2015): Robert Andersson, Claes Nycander and Rolandas Viršilas (independent member of the Board).

From 1 June 2014 a new governing structure of TEO LT, AB came into effect. The two new Business to Consumer and Business to Business Divisions, responsible for development of services and provision of customer care, were formed instead of Service Development and Sales Divisions. Along with these changes, the activities of the specialists of TEO Group companies – UAB Lintel and UAB Baltic Data Center (BDC) – are be more and more integrated into these Divisions.

From 1 June 2014, Renaldas Radvila, who is responsible for remote customer care of TEO private customers, was appointed as a new General Manager of UAB Lintel, a subsidiary of the Company. In the position of General Manager of Lintel he replaced Laurynas Šeškevičius, who became responsible for TEO private customer care in the regions.

Following the Order of Director of Communications Regulatory Authority of the Republic of Lithuania, TEO ceased to be recognized as undertaking having significant market power on the markets of National transit services in fixed public telephone network and International transit services in fixed public telephone network.

In August 2014, Lithuanian Court of Appeal decided to retain in force the decision of Vilnius District Court, confirming that the land lot at 21A Lvovo str. is lawfully used by TEO Group. The appeal to the Court was concerning the agreement on lease of the state owned land, located at 21A Lvovo str. in Vilnius. Until 2007 on this land lot there were buildings owned by TEO Group, most of which were demolished in preparation for construction of the Company's new headquarters building. From 2006 due to the judicial processes the Company could not carry out activities on this land lot leased from the municipality. Currently TEO is considering further possibilities for the use of this site.

In September 2014, four Lithuanian telecommunication companies Bitė Lietuva, Omnitel, Tele2 and TEO have established a joint not for profit organization “Numerio perkėlimas” (“Number portability”). This not for profit organization together with UAB Mediafon from 1 January 2016 will administer central database to ensure telephone number portability.

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

MEMBERS OF THE MANAGING BODIES

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

Members of the Board as of 31 December 2014:

Name, surname	Position in the Board	Employment	Ownership of TEO shares
Robert Andersson	Chairman of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), Executive Vice President and Head of Region Europe	-
Tiia Tuovinen	Member of the Board, member of the Audit Committee	TeliaSonera AB (Sweden), Group Legal Affairs, Senior Legal Counsel for Competition and Corporate Governance	-
Inga Skisaker	Member of the Board, member of the Audit Committee	Nordea Bank AB Lithuania Branch (Sweden), General Manager and Head of Banking Baltic Countries	-
Stefan Block	Member of the Board, Chairman of the Audit Committee	TeliaSonera AB (Sweden), Chief Financial Officer of Region Europe	-
Claes Nycander	Member of the Board, member of the Remuneration Committee	TeliaSonera AB (Sweden), Chief Technology Officer of Region Europe	-
Rolandas Viršilas	Member of the Board, member of the Remuneration Committee	UAB Švyturys – Utenos Alus (Lithuania), CEO	75,000 shares or 0.0129% of the total number of TEO shares and votes

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

Management team:

Name, surname	Position in the Company	Current Board Assignments	Ownership of TEO shares
Kęstutis Šliužas	General Manager (CEO)	-	-
Aleksandras Samuchovas	Head of Business to Business	UAB Baltic Data Center, a subsidiary of TEO LT, AB, General Manager	-
Nerijus Ivanauskas	Head of Business to Consumer	UAB Lietuvos Monetų Kalykla (Lithuanian Mint), member of the Board	-
Andrius Šemeškevičius	Head of Technology and IT	-	8,761 shares or 0.0015% of the total number of TEO shares and votes
Lars Bolin	Head of Finance and Strategic Planning	-	-
Ramūnas Bagdonas	Head of Human Recourses	-	-

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

Eglė Gudelytė-Harvey	Head of Legal Affairs	Vilnius International School, Chairwoman of the Council	-
Antanas Bubnelis	Head of Corporate Affairs	BMI Alumni Association (Lithuania), member of the Council	-
Giedrė Tarbūnienė	Head of Process	BMI Alumni Association (Lithuania), member of the Council	-
Vytautas Bučinskis	Head of Risk Management	-	-
Kastytis Kmitas	Head of Internal Audit	-	4,202 shares or 0.0007% of the total number of TEO shares and votes

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		October - December		January - December	
	Note	2014	2013	2014	2013
Revenue		184,505	178,803	698,450	720,589
Cost of goods and services		(60,122)	(44,765)	(189,425)	(174,249)
Employee related expenses		(39,514)	(44,697)	(164,615)	(170,194)
Other expenses		(18,535)	(24,577)	(75,028)	(84,863)
Other income		14	99	278	361
Other gain/ (loss) - net		308	267	1,392	1,093
Depreciation, amortisation and impairment of fixed assets	3	(31,335)	(30,936)	(124,783)	(127,654)
Operating profit		35,321	34,194	146,269	165,083
Finance income		170	235	774	865
Finance costs		(131)	(60)	(523)	(376)
Finance income/ costs - net		39	175	251	489
Profit before income tax		35,360	34,369	146,520	165,572
Income tax	6	(3,268)	(3,448)	(15,055)	(16,421)
Profit for the period		32,092	30,921	131,465	149,151
Other comprehensive income:					
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		32,092	30,921	131,465	149,151
Profit and comprehensive income attributable to:					
Owners of the Parent		32,092	30,921	131,465	149,151
Minority interests		-	-	-	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in litas per share)	7	0.055	0.040	0.226	0.192

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

CONSOLIDATED BALANCE SHEET

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	3	755,338	771,895
Intangible assets	3	44,003	50,259
Investment property		10,794	10,794
Investments in associates and subsidiaries	4	3	-
Trade and other receivables		13,040	3,987
Deferred tax assets		127	236
		823,305	837,171
Current assets			
Inventories		2,579	2,203
Trade and other receivables		96,929	96,174
Current income tax receivable		3,678	166
Held-to-maturity investments		-	79,698
Cash and cash equivalents		58,220	144,891
		161,406	323,132
Total assets		984,711	1,160,303
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	5	582,613	776,818
Legal reserve		77,682	77,682
Retained earnings		167,957	184,087
Total equity		828,252	1,038,587
LIABILITIES			
Non-current liabilities			
Borrowings		210	1,266
Deferred tax liabilities		27,011	22,183
Deferred revenue and accrued liabilities		3,790	5,479
		31,011	28,928
Current liabilities			
Trade, other payables and accrued liabilities		89,792	91,700
Current income tax liabilities		72	72
Borrowings		35,584	1,016
		125,448	92,788
Total liabilities		156,459	121,716
Total equity and liabilities		984,711	1,160,303

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2013	776,818	77,682	190,300	1,044,800
Net profit	-	-	149,151	149,151
Total comprehensive income for the period	-	-	149,151	149,151
Dividends paid for 2012	-	-	(155,364)	(155,364)
Balance at 31 December 2013	776,818	77,682	184,087	1,038,587
Balance at 1 January 2014	776,818	77,682	184,087	1,038,587
Net profit	-	-	131,465	131,465
Total comprehensive income for the period	-	-	131,465	131,465
Reduction of share capital	(194,205)	-	-	(194,205)
Dividends paid for 2013	-	-	(147,595)	(147,595)
Balance at 31 December 2014	582,613	77,682	167,957	828,252

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

CONSOLIDATED STATEMENT OF CASH FLOW

	January - December	
	2014	2013
Operating activities		
Profit for the period	131,465	149,151
Income tax	15,055	16,421
Depreciation, amortisation and impairment of fixed assets	124,782	127,654
Other gains and losses	(1,392)	(1,093)
Interest income	(764)	(865)
Interest expenses	270	118
Other non-cash transactions	906	1,018
Changes in working capital:		
Inventories	(377)	1,870
Trade and other receivables	(9,808)	11,321
Trade, other payables and accrued liabilities	670	(1,170)
Cash generated from operations	260,807	304,425
Interest paid	(249)	(118)
Interest received	1,117	1,196
Tax paid	(13,630)	(13,326)
Net cash from operating activities	248,045	292,177
Investing activities		
Purchase of property, plant and equipment (PPE) and intangible assets	(107,393)	(148,029)
Proceeds from disposal of PPE and intangible assets	1,342	1,110
Acquisition of held-to-maturity investments	(60,000)	(144,802)
Disposal of held-to-maturity investments	139,623	125,178
Net cash used in investing activities	(26,428)	(166,543)
Financing activities		
Repayment of borrowings	(1,016)	(977)
Borrowings	34,528	-
Dividends paid to shareholders of the Company	(147,595)	(155,364)
Pay out to shareholders due to reduction of share capital	(194,205)	-
Net cash used in financing activities	(308,288)	(156,341)
Increase (decrease) in cash and cash equivalents	(86,671)	(30,707)
Movement in cash and cash equivalents		
At the beginning of the year	144,891	175,598
Increase (decrease) in cash and cash equivalents	(86,671)	(30,707)
At the end of the period	58,220	144,891

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The consolidated interim financial statements for the twelve months period ending 31 December 2014 are prepared in accordance with the International Financial Accounting Standards, as adopted by the European Union, includes IAS 34. In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2013.

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

Financial statements for the period ended 31 December 2014 are not audited. Financial statements for the year ended 31 December 2013 are audited by the external auditor UAB PricewaterhouseCoopers.

2 Segment information

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

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

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

	Broadband segment		Other segment		Eliminations		Total Group	
	January - December		January - December		January - December		January - December	
	2014	2013	2014	2013	2014	2013	2014	2013
Segment revenue	665,779	671,983	73,365	92,077	(40,694)	(43,471)	698,450	720,589
Inter-segment revenue	(15,909)	(10,922)	(24,785)	(32,549)	40,694	43,471	-	-
Revenue from external customers	649,870	661,061	48,580	59,528	-	-	698,450	720,589
Profit for the period	135,170	144,841	6,238	7,402	(9,943)	(3,092)	131,465	149,151

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

3 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
Year ended 31 December 2013		
Opening net book amount as at 31 December 2012	755,137	41,797
Additions	137,205	17,064
Disposals and retirements	(970)	(5)
Reclassification	(988)	568
Depreciation and amortisation charge	(118,489)	(9,165)
Closing net book amount as at 31 December 2013	771,895	50,259
Year ended 31 December 2014		
Opening net book amount as at 31 December 2013	771,895	50,259
Additions	99,351	3,755
Disposals and retirements	(729)	(24)
Reclassification	(380)	(3)
Depreciation and amortisation charge	(114,799)	(9,984)
Closing net book amount as at 31 December 2014	755,338	44,003

4 Investments in subsidiaries and associates

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

Subsidiary	Country of incorporation	Ownership interest in %		Profile
		31 December 2014	31 December 2013	
UAB Lintel	Lithuania	100%	100%	The subsidiary provides Directory Inquiry Service 118 and Contact Center services.
UAB Baltic Data Center	Lithuania	100%	100%	The subsidiary provides information technology infrastructure services to the Group and third parties.
UAB Hostex	Lithuania	100%	100%	The web hosting and data center services providing subsidiary of UAB Baltic Data Center.
UAB Hosting	Lithuania	100%	100%	The dormant subsidiary of UAB Hostex.
Baltic Data Center SIA	Latvia	100%	100%	The dormant subsidiary of UAB Baltic Data Center.
UAB Kompetencijos Ugdyimo Centras	Lithuania	100%	100%	The dormant subsidiary of the Company.
UAB Verslo Investicijos	Lithuania	100%	100%	The subsidiary for implementation of an investment project.

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

VšĮ Ryšių Istorijos Muziejus	Lithuania	100%	100%	A non-profit organisation established by the Company for management of the Company's Communications History Museum.
VšĮ Numerio Perkėlimas	Lithuania	25%	-	A not-for-profit organisation established together with three Lithuanian mobile operators from 1 January 2016 will administer central database to ensure telephone number portability.

5 Share capital

From 20 October 2014 the authorised share capital comprises 582,613,138 ordinary shares of LTL 1 par value each. Until 20 October 2014, the authorised share capital was comprised of 776,817,518 ordinary shares of LTL 1 par value each. The authorised share capital was reduced by cancelling 194,204,380 ordinary shares of LTL 1 par value. All shares are fully paid up.

6 Income tax

Tax expenses for the period comprise current and deferred tax.

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

According to amendments to Law on Corporate Profit Tax which provides tax relief for investments in new technologies the Company's calculated profit tax relief in 2014 amounted to LTL 7.8 million (2013: LTL 10.2 million).

7 Earnings per share

Basic earnings per share are calculated by dividing the net profit (loss) for the period by the weighted average number of ordinary shares in issue during the period. The Group has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as basic earnings per share.

The weighted average number of shares for 2013 amounted to 776,818 thousand and for 2014 to 738,509 thousand.

	January - December	
	2014	2013
Net profit	131,465	149,151
Weighted average number of ordinary shares in issue (thousands)	738,509	776,818
Earnings per share (LTL)	0.178	0.192

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

8 Dividends per share

A dividend that relates to the period to 31 December 2013 was approved by the Annual General Meeting of Shareholders on 29 April 2014. The total amount of allocated dividend, that was paid off in May 2014 was 147,595 thousand litas or 0.19 litas per ordinary share.

9 Related party transactions

The Group is controlled by TeliaSonera AB (Sweden) which as of 31 December 2014 owned 88.15 per cent (88.15 per cent a year ago) of the Company's shares.

The Group carried out the following transactions with related parties:

Sales and purchases from TeliaSonera AB and its subsidiaries:

	January - December	
	2014	2013
Sales of telecommunication and other services	31,804	32,473
Total sales of telecommunication and other services	31,804	32,473
Purchases of services	13,819	14,998
Total purchases of assets and services	13,819	14,998

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

	As at 31 December	
	2014	2013
Long-term receivables from related parties	1,060	1,157
Receivables from related parties	1,728	2,686
Accrued revenue from related parties	2,407	1,391
Total receivables and accrued revenue from related parties	5,195	5,234
Short-term borrowings from related parties	34,528	-
Payables to related parties	1,089	630
Accrued expenses to related parties	83	10
Total borrowings, payables and accrued expenses to related parties	35,700	640

The total amount of annual payments (tantiemes) assigned to the six members of the Board of the Company for the year 2013 during 2014 amounted to LTL 324 thousand (2013: LTL 324 thousand). As of 31 December 2014 the amount of LTL 54 thousand of tantiemes assigned for the year 2010 was not paid.

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

MANAGEMENT CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Following Article 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Kęstutis Šliužas, General Manager of TEO LT, AB, and Lars Bolin, Head of Finance and Strategic Planning of TEO LT, AB, hereby confirm that, to the best of our knowledge, the not audited TEO LT, AB Consolidated Interim Financial Statements for the twelve months period ended 31 December 2014, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, profit and cash flows of TEO LT, AB and the Group of undertakings.

Kęstutis Šliužas
General Manager

Lars Bolin
Head of Finance and
Strategic Planning

Vilnius, 28 January 2015